Consolidated financial statements

Consolidated statement of comprehensive income

For the period 1 January to 31 December

€ '000	Note	2021	2020
Revenues	04.1	**269,327**	258,055
DACH		**164,208**	163,893
International Business		**105,119**	94,162
Other own work capitalised	05.1	**14,244**	8,177
Other income	04.2	**5,888**	4,750
Cost of materials	04.3	**48,434**	45,248
Staff costs	04.4	**160,712**	142,658
Other expenses	04.5	**37,533**	29,766
EBITDA (earnings before interest, taxes, depreciation and amortisation)		**42,780**	**53,310**
Depreciation/amortisation and impairments		**30,785**	24,321
EBIT (earnings before interest and taxes)		**11,995**	**28,989**
Financial income	04.6	**78**	116
Financing expenses	04.6	**–6,553**	–1,339
Net income from equity-accounted investments	05.3	**–501**	–473
EBT (earnings before taxes)		**5,019**	**27,293**
Income taxes	04.7	**5,625**	9,435
Consolidated net profit		**–606**	**17,858**
Of which attributable to:			
Shareholders of the parent company		**–2,737**	15,823
Non-controlling interests		**2,131**	2,035
Other comprehensive income (OCI)		**6,549**	**–1,966**
Items recycled to profit and loss		**3,137**	**–92**
Currency translation differences from international business operations		**3,137**	–92
Items not recycled to profit and loss		**3,412**	**–1,874**
Fair-value remeasurement gains on financial instruments	05.3	**1,000**	0
Actuarial gains/losses from defined benefit plans	05.14	**3,508**	–2,662
Income tax on actuarial gains and losses from defined benefit plans	05.14	**–1,096**	788
Comprehensive income		**5,943**	**15,892**
Of which attributable to:			
Shareholders of the parent company		**3,812**	13,857
Non-controlling interests		**2,131**	2,035

Consolidated balance sheet

As at 31 December

Assets – € '000

	Note	31 Dec. 2021	31 Dec. 2020
Non-current assets			
Intangible assets	05.1	**361,348**	173,436
Property, plant and equipment		**14,387**	14,625
Right-of-use assets	05.2	**54,753**	55,175
Financial assets	05.3/05.4	**11,448**	14,176
Other non-current assets	05.2	**1,677**	2,056
Deferred tax assets	05.6	**4,592**	5,202
		448,205	**264,670**
Current assets			
Inventories		**290**	424
Contract assets*	05.7	**19,954**	18,425
Receivables from customers*	05.7	**29,477**	33,487
Other current assets	05.8	**6,558**	7,492
Current income tax receivables		**9,047**	5,146
Securities		**53**	0
Cash and cash equivalents	05.9	**32,548**	50,385
		97,927	**115,359**
		546,132	**380,029**

Equity and liabilities – € '000

	Note	31 Dec. 2021	31 Dec. 2020
Equity			
Equity attributable to shareholders	05.10/11/12	**206,656**	198,791
Non-controlling interests	05.13	**2,326**	2,225
		208,982	**201,016**
Non-current liabilities			
Provisions for pensions and similar obligations	05.14	**33,412**	37,713
Other non-current provisions	05.15	**1,417**	1,451
Non-current lease liabilities	05.2	**53,210**	54,413
Deferred tax liabilities	05.5	**19,118**	10,498
Non-current purchase price liabilities	05.16	**4,220**	1,975
Financing liabilities	06.2	**134,687**	0
		246,064	**106,050**
Current liabilities			
Other current provisions	05.15	**19,009**	14,908
Income tax liabilities		**1,126**	361
Current purchase price liabilities	05.16	**3,630**	276
Trade payables	05.17	**13,585**	11,173
Contract liabilities	05.18	**23,591**	19,888
Current lease liabilities	05.2	**8,495**	8,038
Other liabilities	05.19	**21,650**	18,319
		91,086	**72,963**
		546,132	**380,029**

* Prior-year figure restated

Consolidated statement of changes in equity

For the period 1 January 2020 to 31 December 2021

€ '000	Equity attributable to shareholders				Total before non-controlling interests	Non-controlling interests		Total
	Subscribed capital	Share premium	Currency translation differences	Accumulated group earnings and profits		Subscribed capital	Accumulated group earnings and profits	
1 January 2020	**25,000**	**41,900**	**–5,004**	**123,038**	**184,934**	**84**	**2,041**	**187,059**
Dividend	0	0	0	0	0	0	–1,948	–1,948
Changes in scope of consolidation	0	0	0	0	0	0	13	13
Total net income for the period	0	0	–92	13,949	13,857	0	2,035	15,892
Consolidated net profit	0	0	0	15,823	15,823	0	2,035	17,858
Other comprehensive income (OCI)	0	0	–92	–1,874	–1,966	0	0	–1,966
31 December 2020	**25,000**	**41,900**	**–5,096**	**136,987**	**198,791**	**84**	**2,141**	**201,016**
1 January 2021	**25,000**	**41,900**	**–5,096**	**136,987**	**198,791**	**84**	**2,141**	**201,016**
Capital increase	48	1,614	0	0	1,662	0	0	1,662
Dividend	0	0	0	0	0	0	–2,029	–2,029
Derecognition of equity instruments and transfer to retained earnings	0	0	0	2,391	2,391	0	0	2,391
Total net income for the period	0	0	3,137	675	3,812	0	2,131	5,943
Consolidated net loss/profit for the year	0	0	0	–2,737	–2,737	0	2,131	–606
Other comprehensive income (OCI)	0	0	3,137	3,412	6,549	0	0	6,549
31 December 2021	**25,048**	**43,514**	**–1,959**	**140,053**	**206,656**	**84**	**2,243**	**208,983**

Consolidated statement of cash flows

For the period 1 January to 31 December

€ '000	2021	2020
EBIT (earnings before interest and taxes)	**11,995**	**28,989**
Depreciation/amortisation and impairments of non-current intangible assets and property, plant and equipment	**30,785**	24,321
Income taxes paid and income tax refunds received	**–10,264**	–13,227
Other non-cash expenses/income*	**–2,162**	–1,863
Payments from lease receivables*	**485**	470
Increase (–)/decrease (+) from changes in assets	**5,408**	7,493
Increase (+)/decrease (–) from changes in liabilities*	**–97**	9,451
Cash flow from operating activities	**36,150**	**55,634**
Net payments for investments in non-current assets	**–28,163**	–19,277
Payments for the purchase of consolidated companies (less cash and cash equivalents acquired)	**–148,554**	–22,207
Capital increases for other business units	**–990**	0
Payments from the sale of Immomio GmbH	**4,150**	0
Payments made/received for loans	**0**	–3,950
Cash flow from investing activities	**–173,557**	**–45,434**
Drawdown of non-current liabilities to banks	**137,500**	0
Fees paid in advance for loans granted	**–3,750**	0
Repayment and interest components of lease payments	**–10,159**	–9,866
Interest received*	**8**	4
Interest paid*	**–3,062**	–145
Payments to non-controlling interests	**–2,029**	–1,948
Capital increases/repayments and other equity transactions*	**1,062**	222
Cash flow from financing activities	**119,570**	**–11,733**
Cash change in cash and cash equivalents	**–18,056**	–1,475
Exchange-rate-related changes in cash and cash equivalents	**219**	–58
Total change in cash and cash equivalents	**–17,837**	**–1,533**
Cash funds at the beginning of the period	**50,385**	51,918
Cash funds at the end of the period	**32,548**	**50,385**

* Prior-year figure restated

Notes to the consolidated financial statements

01 General disclosures

The 2021 consolidated financial statements of Aareon AG, Isaac-Fulda-Allee 6, 55124 Mainz, Germany – entered in the commercial register of the Local Court in Mainz (HR B No. 7713) – were prepared in accordance with International Financial Reporting Standards (IFRS), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the interpretations of the former Standing Interpretations Committee (SIC) as applicable in the EU, as well as with the applicable provisions of Section 315e (3) in combination with Section 315e (1) of the German Commercial Code (Handelsgesetzbuch – HGB). All of the International Financial Reporting Standards that must be applied for the consolidated financial statements as at 31 December 2021 were taken into account. The financial statements give a true and fair view of the net assets, financial situation and earnings of the Aareon Group. The consolidated financial statements have been prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (€ ’000 or €k).

For the sake of enhanced clarity and transparency, all information on individual items in the balance sheet or statement of comprehensive income that is provided in accordance with statutory provisions and that may be shown in either the balance sheet or statement of comprehensive income or in the Notes section is given in the Notes. Where individual items are summarised in the balance sheet and the statement of comprehensive income, they are broken down in the Notes.

Aareon AG is a majority-owned subsidiary of Aareal Bank AG, Paulinenstraße 15, 65189 Wiesbaden, Germany. AI Houses (Luxembourg) S.à r.l., 2–4 rue Beck, 1222 Luxembourg – a company owned by Advent International Corporation, 800 Boylston Street, Boston, USA – has a material non-controlling interest in Aareon. The ownership shares are as follows: 58.7% Aareal Bank AG, Wiesbaden, Germany; 25.1% AI Houses (Luxembourg) S.à. r.l., Luxembourg; 16% Houses 2021 MEP Beteiligungs GmbH, Wiesbaden, Germany; 0.2% Houses Nominee Ltd., UK. Aareal Bank AG prepares consolidated financial statements for the lowest and highest consolidation levels. Aareon AG is included in the consolidated financial statements of Aareal Bank AG pursuant to the pertinent provisions concerning consolidation. The financial statements are published in Germany’s Federal Gazette (Bundesanzeiger).

02 Information on accounting policies and consolidation methods

02.1 Accounting principles

In order to ensure the comparability of the financial statements of different periods, a general continuity is preserved in the methods of presentation used and the accounting policies applied.

The principle of materiality is observed when disclosing information. For arithmetical reasons, rounding differences of up to one unit in either direction may occur in tables. The statement of comprehensive income has been prepared using the total cost method. All assets and liabilities with maturities of less than one year are recognised as current assets.

The presentation of the consolidated financial statements is subject both to the recognition and measurement methods used to prepare those statements and to the uncertainty of the assumptions and estimates made in respect of future events. Where assumptions and estimates are required for accounting and measurement purposes, they are made in accordance with the relevant accounting standards. The estimates and assumptions are based on historical experience and other metrics such as planning figures. The estimates and assessments used, as well as the underlying assessment factors and estimation methods, are regularly reviewed and compared with the events that actually occur. With regard to the estimates and assumptions made for the purposes of accounting and measurement, we refer to the disclosures made for each item in the following sections. In our opinion, the parameters used are both suitable and reasonable, even when the current Covid-19 pandemic is taken into account.

02.2 Consolidation principles

In accordance with IFRS, the separate financial statements of the individual subsidiaries are included in the consolidated financial statements by uniformly applying the accounting policies defined by Aareon AG. The consolidated subsidiaries' historical cost, calculated in accordance with the purchase method, is offset against their proportionate equity, measured at fair value, on their respective dates of acquisition. Any goodwill remaining is recognised under intangible assets.

All receivables and liabilities as well as revenues, income or expenses resulting from transactions between the consolidated companies have been eliminated. Balancing items for non-controlling interests were created for any shares in consolidated subsidiaries not held by the parent company.

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

02.3 Currency translation

The companies belonging to the Aareon Group are independent sub-units. Financial statements prepared in currencies other than the euro are translated into euros using the functional currency method. The items in the statement of comprehensive income are translated using the average exchange rate; all monetary and non-monetary assets and liabilities are translated into euros on the reporting date. Both the average and reporting-date rates are calculated using the European Central Bank's reference rate. Currency translation gains/losses – arising from the above transactions as well as from the conversion of foreign currencies – are recognised in profit or loss. Differences affecting equity are disclosed in other comprehensive income until disposal of the subsidiary. This also applies to any deviations between the unappropriated surplus, which is converted using the closing rate at the reporting date, and the results shown in the consolidated statement of comprehensive income, which are based on average exchange rates. The components of equity to be consolidated as capital are translated using historical exchange rates.

The following rates were used for currency translation:

€ 1 =		Balance sheet		Statement of comprehensive income	
		Closing rate		Average exchange rate	
		2021	2020	2021	2020
United Kingdom	GBP	**0.8403**	0.8990	**0.8596**	0.8892
Sweden	SEK	**10.2503**	10.0343	**10.1465**	10.4881
Norway	NOK	**9.9888**	10.4703	**10.1633**	10.7248
Romania	RON	**4.9490**	4.8683	**4.9215**	4.8380
Switzerland	CHF	**1.0331**	1.0802	**1.0811**	1.0703

The EUR-CHF exchange rate is included because Aareon RELion GmbH has a branch office in Switzerland.

02.4 Scope of consolidation

The group of consolidated companies includes Aareon AG as well as all subsidiaries in which Aareon AG either directly or indirectly holds the majority of voting rights or has the right to appoint the majority of the Supervisory Board members, or which it has gained control over in some other way (see Note 5.5).

In view of the large number of business combinations in 2021, these are summarised in tabular form and broken down by region into the UK, the Netherlands and DACH.

In the UK, Aareon had already signed a contract on 23 December 2020 to purchase a 100-percent stake in Arthur Online Ltd. ("Arthur"), London. The acquisition took effect on 29 January 2021 and marked Aareon's entry into a new market segment in the UK: SMEs. The acquisition of all the shares in Tactile Ltd. (Fixflo), London, on 21 May 2021 enabled Aareon to add property repair and maintenance software to its UK product range. This was followed on 2 July 2021 by the acquisition of RentPro Ltd. and Curo Software Ltd., both based in Warrenpoint and operating under the name Tilt Property Software (Tilt). The goodwill arising from the acquisitions made in the UK represents the opportunities they offer Aareon to enter the SME market. Arthur's platform model promises Aareon high margins and its customers comprehensive services. The goodwill also includes synergy effects from cross-selling Tactile Ltd.'s digital solution Fixflo to customers of Arthur Online Ltd., as well as opportunities to significantly increase revenues, especially from the migration of Tilt customers to the Arthur platform. In order to manage the new acquisitions efficiently, Aareon SMB Hub UK Ltd. was established on 22 November 2021. The acquired companies will be sold to the latter in an intra-Group transaction in the course of this year.

In the Netherlands, on 7 May 2021, the company acquired a 100% stake in BriqVest B.V., Oosterhout, along with four further subsidiaries (Twinq). This acquisition marks Aareon's entry into the market for shared ownership property management in the Netherlands. The resulting goodwill represents the opportunities offered by entry into this niche market, one in which Aareon Nederland was previously not involved. The acquisition offers significant potential for cross-selling of Aareon Smart World.

In the DACH region, Aareon acquired all the shares in the start-up wohnungshelden GmbH, Munich, on 10 August 2021. The latter's digital solution allows housing companies to digitalise their entire rental process. Thus, Aareon's new Immoblue Pro solution complements the existing product portfolio for rental processes. On 17 August 2021, Aareon acquired the remaining shares in office rental PropTech OFI Group GmbH, Frankfurt am Main, making it that company's sole owner. Aareon previously held just under 36% of the shares in this online platform for office rentals (see also Note 4.2). On 29 October 2021, Aareon acquired a 100% stake in GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH, Bremen, as well as in one of its subsidiaries (GAP-Group). GAP-Group is a long-standing provider of a mature ERP solution in the German market. The goodwill resulting from these acquisitions in the DACH segment, especially that of GAP-Group, represents opportunities to grow market share. The business combination can help Aareon tap synergies such as the cross-selling of digital solutions from Aareon Smart World.

Business combinations in € ’000 (preliminary figures)

	Arthur Online	Tactile	Twinq
Fair value of consideration			
Cash and cash equivalents	17,662	41,199	32,813
Equity shares in Aareon AG	1,663	0	0
Amounts recognised for acquired assets and liabilities			
Goodwill	14,626	35,527	24,345
Purchased software and other intangible assets	3,122	1,953	5,605
Customer relations	1,041	3,649	9,405
Brand rights	651	301	278
Property, plant and equipment, and right-of-use assets	243	18	721
Trade receivables	179	199	812
Other assets	334	191	337
Cash and cash equivalents	394	927	1,878
Trade payables	214	99	962
Financial and lease liabilities	214	0	0
Other liabilities	360	905	6,157
Deferred tax liabilities	476	563	3,447
Net assets acquired	**19,326**	**41,198**	**32,813**
Other disclosures			
Associated acquisition costs	1,210	1,024	400
Revenues since acquisition date	2,314	3,545	2,131
Profit/loss since acquisition date	–1,115	617	702
Revenues assuming purchase on 1 January (estimate)	2,524	5,318	5,524
Profit/loss assuming purchase on 1 January (estimate)	–1,217	926	1,053

Business combinations in € ’000 (preliminary figures)

	GAP-Group	Other aggregated business combinations
Fair value of consideration		
Cash and cash equivalents	53,132	13,910
Addition from consolidation of OFI Group GmbH	0	1,005
Contingent consideration		
Amount recognised	0	3,976
Estimation of the range of results (not discounted)	0	0–7,782
Amounts recognised for acquired assets and liabilities		
Goodwill	43,322	16,526
Purchased software and other intangible assets	4,533	1,478
Customer relations	8,425	2,774
Brand rights	408	152
Property, plant and equipment, and right-of-use assets	1,267	21
Trade receivables	280	102
Other assets	213	866
Cash and cash equivalents	2,575	1,702
Trade payables	160	49
Financial and lease liabilities	1,102	2,955
Other liabilities	2,434	406
Deferred tax liabilities	4,194	1,320
Net assets acquired	**53,132**	**18,890**
Other disclosures		
Associated acquisition costs	1,512	800
Revenues since acquisition date	1,387	807
Profit/loss since acquisition date	529	121
Revenues assuming purchase on 1 January (estimate)	8,320	1,904
Profit/loss assuming purchase on 1 January (estimate)	3,175	342

The column “Other aggregated business combinations” comprises the acquisitions of Tilt, wohnungshelden and OFI Group, which are not material when viewed individually. Trade receivables do not include amounts likely to be irretrievable and thus materially impaired. No contingent liabilities exist, nor any goodwill that is deductible for tax purposes. Contingent purchase prices arose from the acquisition of Tilt (in relation to the migration of Tilt customers to Arthur Online) and from the acquisition of wohnungshelden. The contingent purchase prices from the latter depend on the increase in recurring revenues. All associated acquisition costs are recognized under “Other expenses”.

02.5 Changes in accounting policies

The following IFRSs, which must be applied in accounting periods beginning on or after 1 January 2021, had no effect on Aareon’s accounting practices. These include in particular:

- Interest rate benchmark reform (IBOR reform) – Phase 2: Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Disclosure and Measurement, IFRS 7, Financial Instruments: Disclosures, IFRS 4, Insurance Contracts and IFRS 16, Leases, all of which are from August 2020 – amendments in connection with implementation of the IBOR Reform and questions arising from the replacement of one interest rate benchmark with another.

Future new or amended IFRS standards are to be taken into account as follows:

- As from 1 April 2021: Covid-19-Related Rent Concessions after 30 June 2021 (Amendment to IFRS 16)
- As from 1 January 2022: Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37), Annual Improvements to IFRSs, 2018–2020 Cycle, Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16), Reference to the Conceptual Framework (Amendments to IFRS 3)
- As from 1 January 2023: Classification of Liabilities as Current or Non-current (Amendments to IAS 1), Insurance Contracts (Amendments to IFRS 17), Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2), Definition of Accounting Estimates (Amendments to IAS 8), Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

From the 2021 reporting period onwards, contract assets and trade receivables are recognised separately in the consolidated balance sheet in accordance with IAS 1.54h. The prior-year figures were restated accordingly. Further adjustments in disclosures that did not provide any additional information were made in the consolidated statement of comprehensive income, in the statement of changes in equity and in the consolidated statement of cash flows. The nature of the company’s financing expenses changed following the conclusion of debt financing in 2021. These expenses are now recognised under cash flow from financing activities. The prior-year figures were also restated accordingly.

03 Accounting principles

03.1 Intangible assets

The goodwill of every cash-generating unit (CGU) is tested annually for impairment on 31 December. Aareon distinguishes six CGUs: Aareon DACH, SMB UK, Aareon Netherlands, Aareon France, Aareon Nordics and Aareon UK. Given the CGUs’ similar business models, the same assumptions and methods are applied when testing for impairment. The goodwill’s value is measured on the basis of the present value of future cash flows (value in use), which is determined using medium-term planning figures. This entails using the projected cash flows from the three-year plan adopted by Aareon AG’s Management Board and approved by its Supervisory Board. Thus, the revenue and expense items are planned individually over this three-year period. The values assigned to the main assumptions are based on internal and external factors as well as on past experience. The previous year’s planning figures also play a central role. Revenue planning is based mainly on assumptions regarding new business as well as renewals of contracts and additional business with existing customers. These assumptions also represent the main sources of estimation uncertainty. Regular revenues from existing customers, such as fees from licensing and maintenance contracts, are not generally subject to any major estimation uncertainty. The cost of materials is planned on the basis of planned revenues. Personnel numbers and salary growth are the main factors determining the personnel budget. Other costs are generally projected on the basis of prior-year figures, taking into account known non-recurring effects. On the expenses side, estimation uncertainty arises as a result of unplanned price increases and unpredictable non-recurring effects. The more forward-looking the assumptions, the higher the estimation uncertainty. As a rule, cash flows after the four-year time horizon are measured taking the perpetual annuity into account. We expect EBITDA at all CGUs to increase – mainly due to the cross-selling push with digital solutions, to the upswing in consulting revenues, and to the acquisitions made (applies to Aareon DACH and Aareon Netherlands). The present value of future cash flows is determined on the basis of a Group-wide risk-adjusted discount rate of 7.50% after tax. The discount rate is calculated as the sum of a risk-free base interest rate of 0.07% plus a company-specific risk loading of 7.50% multiplied by a beta factor of 0.99. In view of the uncertain nature of planning beyond three years, we take a cautious view of the market environment and assume a growth rate of 2%. With the exception of the CGU Nordics – that part of the International Business segment covered by Sweden, Norway and Finland – the recoverable amounts are well in excess of the carrying amounts. The impairment loss on goodwill for the CGU Nordics came to € 3,000k in the reporting period. In the case of all other CGUs, even if there is a significant change in one of the main assumptions described above – such as an increase of 1% in the risk-adjusted discount rate, a reduction of 5% in the EBITDA included in cash flow or a drop in the growth rate to 1% – no impairment is recognised, all else being equal. The recoverable amount for the CGU Nordics is derived from the value in use and is equivalent to € 17,000k. The main assumption with regard to EBITDA is that it will be equivalent to € 0k after the first investment year in 2022 and will increase to the equivalent of € 1,800–2,200k between 2023 and 2025; in subsequent reporting periods it will grow by around 2% annually. In order to achieve the recoverable amounts, EBITDA would have to increase by around 10%.

Goodwill for the CGU Nordics had to be impaired owing to the shift to a business model involving software that requires less consulting. Previously, the large number of adjustments required by each customer meant that projects could not always be implemented to the customers' complete satisfaction. This will result in a significant decline in consulting revenues compared with previous years, which will gradually lead to lower costs. Further capital expenditure will be required in the coming years to remain in a position to offer a state-of-the-art SaaS-capable ERP solution. As a result, overall cash flows will be lower than previously planned.

Purchased intangible assets – primarily software, customer relations and brands – and internally generated software are capitalised at cost. They are subject to straight-line amortisation in accordance with their customary useful lives. The amortisation methods and useful lives are reviewed annually.

Useful lives of intangible assets

Internally generated intangible assets	3–10 years
Acquired intangible assets (software, customer relations and brands)	3–25 years

Aareon offers its customers acquired and internally generated software in the form of ERP systems and digital solutions. Aareon's country-specific ERP systems provide support for the business processes of our property-industry customers, e.g. to achieve process efficiency and quality, and assist in business management and risk management. These systems enable customers to organise not only their core processes, but all their key portfolio management processes, e.g. contract and receivables management as well as reporting solutions for providers of commercial property. The latter can be linked to digital solutions via the digital platform.

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

03.2 Property, plant and equipment

Items of property, plant and equipment are measured at cost, including restoration obligations that are required to be capitalised under IAS 16. Insofar as the items are wasting assets, they are subject to straight-line depreciation in accordance with the expected useful lives of the components. The depreciation methods and useful lives are reviewed annually. The useful lives of the principal components are presented below:

Useful lives of property, plant and equipment

Buildings	40 years
Tenant's improvements	8–15 years
Other equipment and office furniture/equipment	3–23 years

An impairment loss within the meaning of IAS 36 is recognised if it is compulsory to carry the asset at a lower value, i.e. if the net realisable value or the value in use of the asset in question is lower than its carrying amount.

03.3 Leases

In accordance with IFRS 16, Aareon recognises in the balance sheet all leases – with the exception of those for intangible assets as described in IFRS 16.4 – and all associated assets and liabilities, with a term of 12 months or more, unless the underlying asset is of low value (under € 4,000). Where Aareon is the lessee, an asset is recognised representing Aareon's right of use of the underlying leased object. In addition, a lease liability is recognised representing Aareon's obligation to make lease payments. In order to calculate their present value, the lease payments are discounted at the rate determined on the basis of the marginal borrowing rate for the corresponding maturity band in the corresponding currency. The terms of the leases are determined based on the underlying non-cancellable term, taking into account the lessee's extension and termination options, provided it is sufficiently certain they will be exercised. Where Aareon is the lessor, the leases are classified either as finance leases or operating leases. Subsequent recognition of leases is at amortised cost. The right-of-use assets are amortised on a straight-line basis for the duration of each lease. Where contracts contain both non-lease and lease components, Aareon elects, in line with the practical expedient granted under IFRS 16.15, not to separate these components. The right-of-use assets are subjected to an annual impairment test. The method used is fundamentally the same as that applied when testing goodwill for impairment (Note 3.1). No impairment was required here either in the reporting period.

03.4 Financial assets and financial liabilities

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

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

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

Aareon classifies trade receivables, contract assets, lease receivables and other financial assets as well as financial liabilities as held-to-collect. Trade receivables are amounts owed by customers for goods sold and services rendered in normal business operations. Financial assets are initially recognised in the amount of the non-contingent consideration. Subsequent recognition is at amortised cost. Financial liabilities are likewise recognised at amortised cost. Aareon does not exercise its option to recognise them at fair value. Any transaction costs incurred are offset against the corresponding financial liabilities and amortised over the term of the underlying liability using the effective-interest method. This category includes, in particular, financial liabilities, trade payables and non-derivative other current and non-current liabilities.

The risk of default inherent in financial assets is considered to be low. The business environment – i.e. the property sector – is deemed to be fundamentally robust. This has been particularly apparent during the Covid-19 pandemic. As the majority of customers are state-owned, there is little or no risk of default. What is more, the roughly 8,000-strong customer base is diversified and does not display any material cluster risk. The assessment of the sector given above is stable and also applies to the future, provided there is no change in the risk assessment. Potential risks are countered by means of loss allowances. These are calculated in accordance with the simplified approach permissible under IFRS 9, i.e. on the basis of the lifetime expected credit losses. Depending on the customer's situation and the maturity structure, both collective and individual assessments may be made when determining loss allowances. Where collective assessments are made, the following calculation method is applied:

Receivable from customer past-due for	Collective loss allowance
0–90 days	0%
91–180 days	50%
181–360 days	80%
over 360 days	100%

In addition to individual and collective methods based on the maturity structure, a further collective loss allowance of 0.5% is applied to all receivables due from customers and to contract assets. Impaired receivables are pursued through a dunning procedure. The first step is generally to speak directly with the customer in order to effect payment. If the receivable is material, the final step may entail legal proceedings against the debtor.

At Group level, financial risks are assessed via the risk management system. Risks are assessed in two separate dimensions, namely in terms of their impact and their probability of occurrence. Individual risk reports from the corporate departments 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. Risk reporting comprises financial and market risks, management and organisational risks, risks from incidental and ambient conditions, and production risks. Financial risks comprise liquidity, cost and revenue risks. No loan commitments or financial guarantees are in place.

Foreign-currency receivables are converted into euros using the closing rate at the reporting date.

Contract assets in connection with service contracts not yet satisfied as of the reporting date are recognised based on their percentage of completion (input method). The percentage of completion is calculated based on a comparison of the order costs already incurred with the expected total order costs. Other unfinished customer orders are recognised in the amount of the order costs incurred, insofar as it is probable that these will be covered by income.

With equity instruments, Aareon decides on a case-by-case basis whether to exercise its option to recognise an instrument through other comprehensive income. Changes in fair value are recognised in other comprehensive income (OCI). When equity instruments are derecognised, they are transferred to retained earnings. If derivatives are held, they too are recognised at fair value through profit or loss.

03.5 Inventories

Inventories are recognised at cost. Financing costs are not taken into account. Inventories are measured at the reporting date at cost or net realisable value, whichever is lower.

03.6 Deferred taxes

Deferred taxes are recognised in line with IAS 12 for all temporary differences between the carrying amounts in the tax base and those in the consolidated balance sheet (temporary difference approach). Deferred taxes also have to be recognised for losses carried forward. The liability method is used to calculate deferred taxes. The deferred amounts recognised reflect the assumed tax burden or relief in future accounting periods based on the applicable tax rate at the time of realisation. Deferred taxes are determined using country-specific tax rates that are either already in effect or have been announced at the reporting date. Deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the temporary differences and unused tax loss carryforwards can be offset. The carrying amounts are reviewed at each reporting date and adjusted where necessary. They are reduced accordingly if it is no longer probable that sufficient taxable profit will be available for offset.

No deferred taxes are recognised if income from subsidiaries is tax-free due to specific local tax regulations and it is unclear what tax effects will result from removal of the temporary tax exemption.

03.7 Provisions for pensions and similar obligations

Provisions for pension obligations are primarily recognised for commitments arising out of pension plans, i.e. retirement pensions, disability pensions and benefits for surviving dependants. The actuarial measurement of pension provisions is based on the projected unit credit method prescribed for pension commitments in IAS 19. As a rule, these are defined benefit commitments, i.e. the pension promised to the respective employees depends on the development of their salaries and the number of years of service they achieve (defined benefit obligation). This method takes future increases in salaries and pensions into account as well as the pensions and commitments known at the reporting date. The amount recognised as the provision is the present value of the entitlement to pension benefits that the eligible employees have earned. Any plan assets offset against the provision are recognised at fair value.

03.8 Income tax liabilities

Provisions for taxes include obligations in connection with current income taxes. Deferred taxes are disclosed under a separate balance sheet item and in the tax reconciliation statement.

03.9 Other provisions

Other provisions are recognised if Aareon has a present obligation arising from a past event, the settlement of which is expected to result in an outflow of resources. The amount of the provision corresponds to the best possible estimate at the reporting date of the amount required to settle the present obligation. Provisions that will not already lead to an outflow of resources in the following year are recognised at their settlement value if no material impact on interest would result. The settlement value also comprises any cost increases to be taken into account at the reporting date. Provisions in foreign currencies are translated using the closing rate at the reporting date.

03.10 Liabilities

Liabilities are recognized at amortised cost. Liabilities from leases and purchase price liabilities are recognised at fair value.

03.11 Recognition of income and expenses

Revenues and other income are recognised when the performance obligation is satisfied or when the customer obtains control of the goods or services.

Aareon generates its revenues mainly through

- Licensing agreements
- Maintenance, subscription and SaaS contracts
- Consultancy contracts

Contracts are offered individually and also in combination. For example, a maintenance contract is generally offered together with a licensing contract. In economic terms, these are viewed as forming a unit. The transaction price is allocated to the performance obligation in accordance with the price quoted in the market.

Revenue from licensing agreements concerns, in particular, the granting of rights of use for software products operated by customers in accordance with the in-house model. “In-house model” means the customers run Aareon’s software on their own servers and are responsible for ensuring its functionality. In this context, the solutions developed by Aareon run on databases from third-party providers such as SAP®, Oracle® and Microsoft®. In the majority of these cases, Aareon acts on its own account in marketing these third-party licences and bears the implementation risk itself. Only in cases of minor importance does Aareon act as an agent and is paid commission for brokering the third-party licence. In the majority of cases, the right of use is granted for an indefinite period. In the case of Tobias AX, the right of use is granted for a limited time period, with the result that the customer has to pay for regular licence renewals. The software products are technical solutions that help property-industry customers to organise their business processes and, for example, to manage and control their property portfolios. Aareon’s performance obligation towards the customer consists in granting the latter a right to use the software products. Revenue from licensing agreements is recognised when a contract has been signed by both parties with no rights of withdrawal, the product has been delivered in full (e.g. through provision of the licence key) and the licence fee has been determined. This means the customer has obtained control of the right of use granted to it. Payment is generally made after conclusion of the licence agreement or after successful implementation of the software; the deadline for payment can be up to 45 days.

Maintenance contracts are concluded when customers enter into a licensing agreement in accordance with the above-mentioned in-house model (i.e. the customers run the software on their own servers and are thus responsible for ensuring its functionality). Under maintenance contracts, services include the provision of regular updates and support services for ongoing operation of the software.

Since 2021, Aareon has also offered subscription contracts (rental software). In the DACH segment, Aareon undertakes to deliver new material functionalities to its customers at very short intervals. The customer, in turn, is required to load these new functionalities and versions promptly, as Aareon’s maintenance and support are restricted to these. Unlike with a licensing contract, Aareon must ensure the rental software is fully functional at all times. The customer is obliged to return the software undamaged at the end of the subscription period.

In the case of SaaS (software-as-a-service) contracts, the customers do not operate the software in-house, i.e. on their own. Instead, the customers are granted access to Aareon’s server, and the software functions are provided via that server. Aareon’s performance consists in providing a right of access and, as is the case with maintenance contracts, executing regular updates and providing support services.

Revenues from maintenance and subscription contracts for Wodis Yuneo and from SaaS services are recognised pro rata temporis, i.e. over the contractually agreed service provision period. The latter commences on the go-live date. The customers pay their fees monthly or in advance for a certain period (at most one year). That portion of the advance payment covering the performance obligation not yet satisfied is recognised as a contract liability and reversed in profit or loss in proportion to future performance. The customer derives benefit from the service and, at the same time, makes use of the service as it is being rendered.

Consulting services include, for example, product customisation requests from customers, training provided in the use of the software (modules) and implementation services for migration projects. Revenue is recognised once the service has been rendered. In this context, assets are also generated or improved over which the customer has gained control. Revenue and contract assets are recognised in accordance with the percentage of completion, which is based on an input method. Under this method, a project's percentage of completion is calculated based on a comparison of the order costs already incurred – essentially for the personnel or external consultants deployed – with the total order costs expected. Customers make advance payments for the services Aareon provides. These are either netted against the corresponding contract assets, or recognised as contract liabilities insofar as the advance payment received exceeds the value of the contract asset.

In many cases Aareon's contracts contain a single performance obligation, with the result that it is not necessary to divide up the transaction price. In cases where several contracts are combined or a contract contains several performance obligations, the amounts invoiced separately correspond to the relative stand-alone selling prices. In a few cases where the invoicing does not match the corresponding stand-alone selling prices, accounting allocations and balance-sheet accruals are performed in accordance with the adjusted market assessment approach.

Operating expenses and interest income/expense are recognised in profit or loss when the service is utilised or when the expenses are incurred in economic terms.

In addition to country-specific ERP business for the property and energy supply industries, Aareon offers digital solutions – some of them internationally – in areas such as CRM (customer relationship management), WRM (workforce relationship management), SRM (supplier relationship management) and BRM (building relationship management). Aareon also has other products and services in its portfolio, such as the BauSecura insurance management solution and Aareon Cloud Services (hosting). Since 2021, these products have also been marketed in packages, i.e. an ERP product together with several digital solutions.

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

04.1 Revenues

Revenues by business segment in € '000

	2021	2020
DACH	**164,208**	163,893
International Business	**105,119**	94,162
Total	**269,327**	**258,055**

Revenues by product group in € '000

	2021	2020
ERP products	**199,650**	197,415
Digital solutions	**69,677**	60,640
Total	**269,327**	**258,055**

Revenues by category in € '000

	2021	2020
Licensing revenues	**18,983**	21,217
Consulting revenues	**58,607**	63,887
Maintenance revenues	**67,110**	65,209
SaaS and fees	**124,627**	107,742
Total	**269,327**	**258,055**

Revenues were higher year on year in both the **DACH** and **International Business** segments, up € 315k and € 10,957k respectively. The International Business segment accounted for 39.0% of consolidated revenues (previous year: 36.5%). Growth in the International Business segment was driven in particular by the acquisitions made in the course of the year. **Licensing revenues** were slightly lower than the previous year despite growth in the SaaS business model. **Consulting revenues** were lower amid the Covid-19 pandemic and the subdued demand from many customers who were preparing to change over to the new product generation Wodis Yuneo. **ERP product** revenues were influenced in particular by increases in recurring revenues (**maintenance revenues, SaaS and fees**). In the **digital solutions** segment, penetration of the customer base with further digital solutions is progressing.

All revenue was from contracts with customers and reflects that portion of the total transaction price for which the performance obligation has been satisfied. In the reporting period, revenues in the amount of € 1,539k were recognised for performance obligations satisfied (in full or in part) in earlier periods (changes in the transaction price).

04.2 Other income

Other income in € '000

	2021	2020
Non-cash income	**1,569**	1,599
Measurement of purchase price liabilities	**1,286**	1,863
Fair-value remeasurement gain from at equity to full consolidation	**875**	0
Income from insurance compensation	**510**	0
Research grants	**385**	185
Income from the reversal or reduction of individual impairment losses	**349**	122
Income from affiliated companies outside the Aareon Group	**290**	369
Other income	**624**	612
Total	**5,888**	**4,750**

See Note 5.16 for information on the effect on income from the adjustment of purchase price liabilities. The fair-value remeasurement gain from the consolidation of equity interests (step acquisitions) came to € 875k (see also Note 5.4).

04.3 Cost of materials

Cost of materials in € '000

	2021	2020
Software and hardware costs	**3,840**	3,855
Cost of services purchased	**44,594**	41,393
Total	**48,434**	**45,248**

In 2021, the cost of materials was € 3,186k higher year on year due to acquisitions.

04.4 Staff costs/employees

Staff costs in € '000

	2021	2020
Salaries	**132,770**	117,463
Social security costs	**27,942**	25,195
of which: for post-employment benefits	**4,889**	4,537
Total	**160,712**	**142,658**

Staff costs increased by € 18,054k compared with the previous year, chiefly due to the addition of personnel at acquired companies and further planned recruitment to meet corporate growth.

On 31 December 2021, the number of employees at Aareon – excluding temporary staff, trainees and interns – was as follows:

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

	2021	2020
Employees	**1,837**	1,605
Executive managers	**96**	94
Total	**1,933**	**1,699**
of which: part-time employees	**377**	344

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

	2021	2020
Employees	**1,735**	1,561
Executive managers	**97**	90
Total	**1,833**	**1,651**
of which: part-time employees	**356**	345

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

	2021	2020
DACH	**1,020**	949
International Business	**813**	702
Total	**1,833**	**1,651**

04.5 Other expenses

Other expenses in € '000

	2021	2020
Legal and consultation expenses/auditing costs	**16,092**	9,284
Software maintenance	**3,748**	2,539
Advertising/marketing/entertainment	**2,823**	2,067
Occupancy expenses	**2,808**	3,483
Other staff costs and temporary staff	**2,485**	2,632
Motor vehicle expenses	**1,866**	1,907
Communication costs	**1,076**	1,002
Travel expenses	**1,027**	1,843
Further training	**899**	694
Impairments of receivables	**802**	638
Technology costs	**769**	674
Other taxes	**681**	821
Insurance costs	**553**	498
Contributions and bank fees	**518**	550
Compensation for Supervisory Board and Advisory Board	**229**	121
Office material	**220**	194
Foreign-currency translation	**207**	322
Losses from the disposal of assets	**171**	101
Sundry other expenses	**559**	394
Total	**37,533**	**29,766**

Other expenses increased year on year, in particular due to higher consulting costs in connection with the Value Creation Program. Amid the Covid-19 pandemic, travel and advertising expenses declined further. All impairment losses stem from contracts with customers.

04.6 Financial income and financing expenses

Net financial income/expense in € '000

	2021	2020
Financial income	**78**	116
of which: with affiliated companies	**-36**	-63
Financing expenses	**6,554**	1,339
of which: with affiliated companies	**5,288**	60
Total	**-6,476**	**-1,223**

Financial income and **financing expenses** comprise only interest components. Financing expenses included interest cost of € 1,159k for lease liabilities. Financing expenses at affiliated companies include interest on loans granted by Aareal Bank.

04.7 Income taxes

Income taxes in € '000

	2021	2020
German income taxes	**2,096**	4,450
Foreign income taxes	**4,175**	3,563
Actual tax expense	**6,271**	**8,013**
Deferred income tax assets/liabilities	**-646**	1,422
Total	**5,625**	**9,435**

The following table shows the reconciliation statement for the differences between income taxes based on the net income before taxes and the actual income tax reported. In order to calculate the expected tax expense, the Group tax rate of 31.7% applicable in fiscal 2021 (previous year: 31.7%) was multiplied by earnings before taxes.

Reconciliation of tax expenses in € '000

	2021	2020
Earnings before income taxes	**5,019**	27,293
Trade tax	**753**	4,094
Corporation tax	**797**	4,333
Solidarity surcharge	**41**	225
Expected tax expense	**1,591**	**8,652**
Reconciliation:		
Non-deductible expenses	**3,858**	640
Tax-free income	**-330**	-292
Taxes for prior years	**57**	133
Differences in tax rates of international subsidiaries	**645**	-175
Other differences	**-196**	477
Tax expense reported	**5,625**	**9,435**

In the reporting period, non-deductible expenses included interest expense that could not be recognised due to the tax interest barrier. Impairments of goodwill and corporate acquisition costs also remained non-deductible.

05 Notes to the consolidated balance sheet of the Aareon Group

05.1 Intangible assets

Goodwill mainly results from the acquisition of companies in the software industry. It is allocated to the cash generating units that derive benefit from the synergies created through the acquisition and on the basis of which management monitors goodwill for internal control purposes. The cash generating units are grouped together in the business segments.

Consolidated statement of changes in fixed assets 2021

as at 31 December 2021

€ '000	Historical cost							
	1 Jan. 2021	Currency translation differences	Acquisitions through business combinations	Recognised in other comprehensive income	Additions	Disposals	Reclassification	31 Dec. 2021
I. Intangible assets								
1. Goodwill	131,723	1,948	134,346	0	0	92	0	**267,925**
2. Acquired intangible assets	91,304	234	43,824	0	1,609	19,037	224	**118,158**
3. Internally generated intangible assets	76,451	363	0	0	22,765	20,059	-224	**79,296**
	299,478	**2,545**	**178,170**	**0**	**24,374**	**39,188**	**0**	**465,379**
II. Property, plant and equipment								
1. Land, leasehold rights and buildings	9,609	11	48	0	547	77	36	**10,174**
2. Plant and machinery	7,962	0	0	0	0	0	0	**7,962**
3. Other equipment, and office furniture/equipment	18,117	66	1,097	0	3,421	1,884	0	**20,817**
4. Prepayments made	39	0	0	0	38	1	-36	**40**
	35,727	**77**	**1,145**	**0**	**4,006**	**1,962**	**0**	**38,993**
III. Right-of-use assets								
1. Rights of use to land, leaseholds and buildings	60,815	71	1,506	0	5,362	1,430	0	**66,324**
2. Rights of use to other equipment, and office furniture/equipment	8,642	-1	86	0	2,411	2,194	0	**8,944**
	69,457	**70**	**1,592**	**0**	**7,773**	**3,624**	**0**	**75,268**
IV. Financial assets								
1. Investments in associates and joint ventures	308	0	15	0	1,877	1,506	888	**1,582**
2. Other investments	3,548	0	0	3,391	464	4,150	0	**3,253**
3. Other loans	10,812	1	79	0	87	2,986	-888	**7,105**
	14,668	**1**	**94**	**3,391**	**2,428**	**8,642**	**0**	**11,940**
	419,330	**2,693**	**181,001**	**3,391**	**38,581**	**53,416**	**0**	**591,580**

	Accumulated depreciation/amortisation and impairments								Carrying amounts	
	1 Jan. 2021	Currency translation differences	Acquisitions through business combinations	Additions: depreciation/ amortisation	Additions: impairments	Disposals	Reclassi-fication	31 Dec. 2021	31 Dec. 2021	31 Dec. 2020
	33,553	60	0	0	3,092	92	0	**36,613**	**231,312**	98,170
	54,137	472	49	6,910	0	19,037	0	**42,531**	**75,627**	37,167
	38,352	–2	0	6,456	0	19,919	0	**24,887**	**54,409**	38,099
	126,042	**530**	**49**	**13,366**	**3,092**	**39,048**	**0**	**104,031**	**361,348**	**173,436**
	4,278	7	29	508	0	76	0	**4,746**	**5,428**	5,331
	7,574	0	0	210	0	0	0	**7,784**	**178**	388
	9,250	62	151	4,423	0	1,810	0	**12,076**	**8,741**	8,867
	0	0	0	0	0	0	0	**0**	**40**	39
	21,102	**69**	**180**	**5,141**	**0**	**1,886**	**0**	**24,606**	**14,387**	**14,625**
	10,207	21	0	6,050	0	755	0	**15,523**	**50,801**	50,608
	4,075	0	0	3,009	0	2,092	0	**4,992**	**3,952**	4,567
	14,282	**21**	**0**	**9,059**	**0**	**2,847**	**0**	**20,515**	**54,753**	**55,175**
	0	0	0	0		0	0	**0**	**1,582**	308
	11	0	0	0		0	0	**11**	**3,242**	3,537
	481	0	0	0		0	0	**481**	**6,624**	10,331
	492	**0**	**0**	**0**	**0**	**0**	**0**	**492**	**11,448**	**14,176**
	161,918	**620**	**229**	**27,566**	**3,092**	**43,781**	**0**	**149,644**	**441,936**	**257,412**

The amortised goodwill by business segment is as follows:

Carrying amounts in € '000	31 Dec. 2020	Exchange-rate effects	Additions	Impairments	31 Dec. 2021
DACH	**48,299**	**0**	**57,593**	**0**	**105,892**
International Business	**49,871**	**1,889**	**76,753**	**3,093**	**125,420**
SMB UK	0	1,764	52,407	0	**54,171**
Aareon Netherlands	22,979	0	24,345	0	**47,324**
Aareon France	11,557	0	0	93	**11,465**
Aareon Nordics	10,737	–196	0	3,000	**7,541**
Aareon UK	4,598	321	0	0	**4,919**
Total	**98,170**	**1,889**	**134,346**	**3,093**	**231,312**

See Note 3.1 for information on goodwill impairment at the CGU Nordics. Further, a goodwill impairment of € 93k was recognised for a business unit of the CGU France.

The item "Internally generated intangible assets" relates to internal and external development costs capitalised in accordance with IAS 38. The development costs in each subsidiary were capitalised using a standard per-diem rate that is updated every year. The capitalised carrying amounts are as follows:

Carrying amounts of internally generated intangible assets in € '000

	31 Dec. 2021	31 Dec. 2020
ERP solutions	**41,615**	**28,614**
Aareon Wodis Sigma/Wodis Yuneo	**14,221**	7,806
Aareon QL	**9,681**	5,693
Aareon Incit Xpand	**5,957**	4,568
Aareon Tobias/Aareon REMS	**4,746**	5,518
Aareon PortalImmo/Aareon Prem'Habitat	**3,336**	3,329
Aareon RELion	**1,678**	1,700
Arthur Online	**1,157**	0
Fund365	**839**	0
Digital solutions	**12,794**	**9,485**
CRM Solutions by Aareon	**4,135**	3,134
Smart Platform by Aareon	**1,842**	1,608
New products (including Smart Partner by Aareon, PrediMa by Aareon)	**1,745**	579
BRM Solutions by Aareon	**1,627**	665
WRM Solutions by Aareon	**948**	843
SRM Solutions by Aareon	**923**	720
Trace & Treasury by Aareon	**695**	855
Aareon Vacancy Management	**440**	514
Miscellaneous	**439**	567
Total	**54,409**	**38,099**

The increase in the carrying amounts for ERP and digital solutions (see Note 3.1) is primarily attributable to development of the new product generation Wodis Yuneo in the DACH segment and to the Aareon QL and Aareon Incit Xpand solutions in the UK and Sweden, respectively. The remaining amortisation period for these solutions amounts to:

Remaining amortisation period in years

Aareon Wodis Sigma/Wodis Yuneo	8.4
Aareon QL	5.9
Aareon Incit Xpand	4.1

Internally generated software in the amount of € 30,592k was completed in the reporting period, while internally generated software worth € 23,817k was still under development. Research and development costs for the update and maintenance of existing functions, and to create new functions and products totalled € 52,431k in the year under review. Internally generated assets amounted to € 14,244k. Retrospective estimates are applied when calculating the per-diem rate for capitalisation. Externally sourced services in the amount of € 8,521k were also capitalised.

Further, material additions in the year under review result from the customer relations acquired during the acquisition of Twinq (€ 9,405k) and GAP (€ 8,425k). In both cases, the future potential mostly reflects their ability to generate recurring revenues. Customer churn rates are generally low, with the result that customer relations are of a long-term nature. The residual useful lives of Twinq's customer relations are 24.3 years, while those of GAP are 19.8 years.

See the statement of changes in assets for further details of changes in intangible assets in the year under review.

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

Aareon leases, in particular, property and office furniture/equipment. A number of property leases contain extension options of up to ten years. In some cases, recognition of the leases was based on the assumption that the extension options were sufficiently certain, given that long-term lease periods were desirable.

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

	2021	2020
Carrying amounts		
Real estate (rental of office space, parking spots)	**50,801**	50,608
Operating and business equipment (vehicle fleet, servers, etc.)	**3,952**	4,567
Amortisation in the reporting period		
Real estate (rental of office space, parking spots)	**6,050**	5,707
Operating and business equipment (vehicle fleet, servers, etc.)	**3,009**	3,102

Interest expense from lease liabilities came to € 1,159k. Total cash outflows for leases in the period under review amounted to € 10,159k as at the reporting date.

Leases recognised in profit or loss in € '000

	2021	2020
Current leases	**460**	492
Low-value leases	**148**	193

Leases that can be assigned to more than one of the categories in the above table are assigned to the higher category in each case. As all variable leases are both current and of low value, the resulting value is zero.

The following table shows the maturities of the lease liabilities.

Lease liabilities in € '000

	2022	2023–2026	After 2026
Maturities of lease liabilities	8,495	24,105	29,105
Total	**8,495**	**24,105**	**29,105**

Aareon acts as lessor when renting out real estate. The company has one material rental agreement in place, which is classified as a finance lease. In the reporting period, the financial income from the net investment in the rental agreement came to € 25k. Variable rents on office/business equipment in the amount of € 550k were not included in the measurement of finance leases where Aareon is the lessor. The minimum lease payments amount to € 485k in each of the next three years and to € 243k for the remaining lease period in the fourth year.

05.3 Financial assets

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

Financial assets in € '000

	Interest held (%) 31 Dec. 2021	31 Dec. 2021	31 Dec. 2020
Time deposits		4,210	4,210
Cash deposit (guarantee for a lawsuit)		1,100	1,100
Rent deposits		1,311	1,210
Loans to associates		0	3,809
Other		3	3
Other loans (at amortised cost)		**6,624**	**10,332**
OFI Group GmbH (consolidated [100%] on 31 Dec. 2021; prior year: 35.84%)		0	307
Refurbio GmbH (associated company)	33.39	702	0
Ecaria GmbH (associated company)	35.87	869	0
ImmoProConsult GmbH (joint venture)	50.00	11	0
Investments in associates and joint ventures (accounted for using the equity method)		**1,582**	**307**
blackprint Booster Fonds GmbH & Co. KG	12.49	250	250
blackprint Booster Fonds International GmbH & Co. KG	49.88	420	420
Investments – debt instruments (FVTOCI)		**670**	**670**
OSRE B.V.	18.70	2,403	1,403
Immomio GmbH (sold in 2021; prior year: 14.54%)		0	1,295
MPC Best Select Company Plan GmbH & Co. KG, Germany	<20.00	169	169
Investments – debt instruments (FVTPL)		**2,572**	**2,867**
Financial assets		**11,448**	**14,176**

The time deposits relate to the guarantee issued to cover existing and future obligations in connection with membership in two supplementary pension funds. The increase in the carrying amount of the investment in an OSRE B.V. resulted from remeasurement of the fair value using the discounted cash flow method. The investment in Immomio GmbH was sold in the year under review. The gain of € 2,391k on the sale was recognised in OCI and then recycled to retained earnings. Remeasurement of the fair value of OSRE B.V. resulted in an adjustment of € 1,000k in the carrying amount of the investment, which was recognised in OCI.

05.4 Information on associates and joint ventures

The following tables contain financial figures for the associates Refurbio GmbH and Ecaria GmbH, which were founded in 2020, and on OFI Group GmbH, which was consolidated in 2021 following purchase of the remaining shares in that company. The acquisition of GAP-Group resulted in the addition of the joint venture ImmoProConsult GmbH in 2021.

Associates and joint ventures in 2021 in € '000	**ImmoPro-Consult GmbH 50.0%**	**Refurbio GmbH 33.39%**	**Ecaria GmbH 35.87%**
Non-current assets	1	10	205
Receivables and other assets	36	0	2
Cash and cash equivalents	16	211	382
Liabilities	31	34	31
Net assets/equity	**22**	**187**	**558**
Capital contributions/ acquisitions by Aareon	15	902	993
Aareon's share in net profit for the year (cumulative)	–4	–200	–124
Carrying amount of (equity-accounted) investment in Aareon's consolidated financial statements	**11**	**702**	**869**
Income	427	172	192
Operating expenses	477	743	522
Net financial income/expense	0	–6	–6
Income taxes	–3	0	0
Net profit/loss for the year	**–47**	**–577**	**–336**
Aareon's share in net profit/ loss for the year	**–4**	**–198**	**–121**

Associates in 2020 in € '000	**OFI Group GmbH 35.84%**	**Refurbio GmbH 18.40%**	**Ecaria GmbH 19.99%**
Non-current assets	188	27	45
Receivables and other assets	34	12	9
Cash and cash equivalents	1,800	296	338
Liabilities	2,931	471	488
Net assets/equity	**–909**	**–136**	**–96**
Capital contributions/ acquisitions by Aareon	993	2	2
Aareon's share in net profit for the year (cumulative)	–686	–2	–2
Carrying amount of (equity-accounted) investment in Aareon's consolidated financial statements	**307**	**0**	**0**
Income	190	25	45
Operating expenses	1,390	167	149
Net financial income/expense	–106	–6	–4
Net profit/loss for the year	**–1,306**	**–148**	**–108**
Aareon's share in net profit/ loss for the year	**–468**	**–2**	**–2**

05.5 Shareholdings

Name and registered office of company	Interest held in % (2021)	Interest held in % (2020)
Aareon AG, Mainz		
Consolidated subsidiaries – DACH segment:		
Aareon Deutschland GmbH, Mainz, Germany	**100**	100
Aareon Planungs- und Bestandsentwicklungs GmbH, Mainz, Germany	**100**	100
Aareon RELion GmbH, Mainz, Germany	**100**	100
Alexander Quien Nova GmbH, Bremen, Germany	**100**	0
AV Management GmbH, Mainz, Germany	**100**	100
BauSecura Versicherungsmakler GmbH, Hamburg, Germany	**51**	51
CalCon Austria GmbH, Vienna, Austria	**100**	100
CalCon Deutschland GmbH, Munich, Germany	**100**	100
CalCROM S.R.L., Iasi, Romania	**83.33**	83.33
GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH, Bremen, Germany	**100**	0
OFI Group GmbH, Frankfurt am Main, Germany	**100**	35.84
phi-Consulting GmbH, Bochum, Germany	**100**	100
wohnungshelden GmbH, Munich, Germany	**100**	0
Consolidated subsidiaries – International Business segment:		
Aareon Finland OY, Helsinki, Finland	**100**	100
Aareon France SAS, Meudon-la-Forêt, France	**100**	100
Aareon Holding France SAS, Meudon-la-Forêt, France	**100**	0
Aareon Nederland B.V., Emmen, Netherlands	**100**	100
Aareon Norge AS, Oslo, Norway	**100**	100
Aareon SMB Hub UK Ltd., Kenilworth, United Kingdom	**100**	0
Aareon Sverige AB, Mölndal, Sweden	**100**	100
Aareon UK Ltd., Kenilworth, United Kingdom	**100**	100
Arthur Online Ltd., London, United Kingdom	**100**	0
BriqVest B.V., Oosterhout, Netherlands	**100**	0
Curo Software Ltd., Warrenpoint, United Kingdom	**100**	0
FIRE B.V., Utrecht, Netherlands	**60**	60
RentPro Ltd., Warrenpoint, United Kingdom	**100**	0
Tactile Ltd., London, United Kingdom	**100**	0
Twinq Facilitair B.V., Oosterhout, Netherlands	**100**	0
Twinq Holding B.V., Oosterhout, Netherlands	**100**	0
Twinq Uitwijk en Escrow B.V., Oosterhout, Netherlands	**100**	0
Twinq Verkoop en Service B.V., Oosterhout, Netherlands	**100**	0
Associates and joint ventures		
Ecaria GmbH, Berlin, Germany	**35.87**	19.99
ImmoProConsult GmbH, Leverkusen, Germany	**50**	0
Refurbio GmbH, Berlin, Germany	**33.39**	18.40

05.6 Deferred taxes

Deferred taxes in € '000	31 Dec. 2021	31. Dec. 2020
Pension provisions	**5,582**	6,417
Leases (right-of-use assets less lease liabilities)	**2,151**	1,502
Other provisions	**115**	652
Loss carryforwards	**3,748**	538
Miscellaneous	**32**	0
Total deferred income tax assets before netting	**11,629**	**9,109**
Non-current assets	**7,037**	–3,829
Miscellaneous	**0**	–78
Total deferred income tax assets after netting	**4,592**	**5,202**
Intangible assets	**19,068**	10,453
Miscellaneous	**50**	45
Total deferred income tax liabilities	**19,118**	**10,498**

Deferred income taxes on loss carryforwards are recognised based on the assumption that sufficient future profit will be available for offset. Unused tax loss carryforwards for which no deferred tax assets were recognised amounted to € 4,972k in Germany and € 3,870k abroad. These are utilisable to a limited extent only. Furthermore, the interest barrier rule restricts the amount of deductible interest in Germany. This resulted in non-deductible interest carried forward of € 3,171k. No deferred tax assets were recognised for this, as it is also deemed unlikely that these will be utilised in the foreseeable future. There are no restrictions on the utilisation of interest carried forward. Deferred income taxes on pension provisions in the amount of € 1,096k (previous year: € –788k) were recognised in OCI. All other deferred income taxes from changes in carrying amounts were recognised in profit or loss.

05.7 Contract assets and receivables due from customers

Contract assets and receivables due from customers in € '000

	31 Dec. 2021	31. Dec. 2020
Contract assets (gross)	**20,335**	18,942
Impairment losses on contract assets	**–381**	–517
Contract assets	**19,954**	**18,425**
Trade receivables (gross)	**30,491**	34,383
Receivables from affiliated companies	**721**	1,080
Impairment losses on receivables from customers	**–1,735**	–1,977
Trade receivables	**29,477**	**33,487**

The portion of project performance obligations not yet satisfied amounts to € 6,786k, of which € 6,765k is likely to be realised in 2022 and € 21k in 2023 or thereafter. Aareon does not recognise the unsatisfied portion of performance obligations in connection with maintenance and SaaS contracts, as the customer's consideration corresponds to the performance delivered by Aareon. Contract assets are not subject to any significant changes – except for an acquisition-related increase in value.

Due to the short-term nature of the receivables, their carrying amount equals their fair value. There are no restrictions on ownership or disposal of the disclosed receivables. Impairment losses were recognised for the risk of default. See Note 3.4 for information on the risk of default. Contract assets and trade receivables were impaired as follows:

Impairment losses on contract assets in € '000

	2021	2020
Impairments as at 1 January	**517**	**343**
Additions	**0**	221
Reversals	**166**	35
Exchange-rate effects	**30**	–12
Total as at 31 December	**381**	**517**

Impairment losses on receivables from customers in € '000

	2021	2020
Impaired receivables from customers	**7,251**	7,124
Impairments as at 1 January	**1,977**	**1,768**
Changes in scope of consolidation	**143**	14
Additions	**369**	435
Reversals	**200**	126
Utilisation	**562**	104
Exchange-rate effects	**8**	–10
Total as at 31 December	**1,735**	**1,977**

05.8 Other assets

Other assets in € '000

	31 Dec. 2021	31. Dec. 2020
Other current financial assets	**1,325**	1,679
Other current non-financial assets	**5,233**	5,813
Total	**6,558**	**7,492**

Other current non-financial assets mainly comprise deferred advance payments of € 5,035k for subsequent periods.

05.9 Cash and cash equivalents

As in the previous year, this balance sheet item includes cash in hand and balances held with banks.

Cash and cash equivalents in € '000

	31 Dec. 2021	31. Dec. 2020
Cash in hand	**13**	15
Balances held with banks	**32,535**	50,370
of which: with affiliated companies	**11,354**	34,294
Funds with maturities of up to three months	**32,548**	**50,385**

As at 31 December 2021, there were loan liabilities of € 137,500k to Aareal Bank AG (see Note 6.2).

05.10 Subscribed capital

Aareon AG's subscribed capital is fully paid and, as at 31 December 2021, was as follows:

Number and class of shares in € '000

25,048,418 no-par value ordinary shares	25,048

The increase of € 48k in subscribed capital to reach € 25,048k occurred in relation to the acquisition of Arthur Online Ltd. (see Note 2.4).

Each share has a theoretical par value of € 1. Shareholdings in Aareon AG have been as follows since 4 May 2021: 58.7% Aareal Bank AG, Wiesbaden, Germany; 25.1% AI Houses (Luxembourg) S.à r.l., Luxembourg; 16% Houses 2021 MEP Beteiligungs GmbH, Wiesbaden, Germany; and 0.2% Houses Nominee Ltd., UK.

At Aareon AG's annual general meeting of 16 March 2021, it was decided to carry forward the unappropriated profit of € 11,247,174.06 as at 31 December 2020, to distribute € 0.00 to the shareholders and to transfer € 0.00 to retained earnings.

05.11 Share premium

The increase of € 1,614k in the share premium to reach € 43,514k occurred in connection with the purchase of Arthur Online Ltd. (see Note 2.4).

05.12 Accumulated Group earnings and profits

Accumulated Group earnings and profits comprise other retained earnings within the meaning of the disclosures required under German commercial law. Retained earnings include additions from the net profit of the year under review or of previous years as well as currency translation differences from the financial statements of subsidiaries recognised in other comprehensive income. Aareon AG's Memorandum and Articles of Association contain no provisions regarding the formation of reserves.

05.13 Non-controlling interests

Non-controlling interests are reported as a separate item in the consolidated statement of changes in equity. They are held by the other shareholders of: BauSecura Versicherungsmakler GmbH, Hamburg, Germany; FIRE B.V., Utrecht, Netherlands; and CalCROM S.R.L., Iasi, Romania.

05.14 Provisions for pensions and similar obligations

Trend in net defined benefit obligation in € '000	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit obligation
1. Balance as at 1 Jan. 2021	37,998	-285	37,713
2. Changes in scope of consolidation	556	-547	9
3. Net expense for the period			
a) Service cost	467	0	467
b) Interest cost	234	-1	233
4. Payments			
a) Pension benefits paid	-1,508	0	-1,508
b) Employer contributions	0	-17	-17
5. Remeasurement			
a) Due to experienced-based adjustments	-1,320	0	-1,320
b) Due to changes in financial assumptions	-2,165	0	-2,165
c) Difference between actual return and return calculated using the discount rate (plan assets)	0	0	0
Balance as at 31 Dec. 2021	**34,262**	**-850**	**33,412**
1. Balance as at 1 Jan. 2020	36,164	-266	35,898
2. Net expense for the period			
a) Service cost	416	0	416
b) Interest cost	331	-3	328
3. Payments			
a) Pension benefits paid	-1,580	0	-1,580
b) Employer contributions	0	-17	-17
4. Remeasurement			
a) Due to experienced-based adjustments	780	0	780
b) Due to changes in financial assumptions	1,887	0	1,887
c) Difference between actual return and return calculated using the discount rate (plan assets)	0	1	1
Balance as at 31 Dec. 2020	**37,998**	**-285**	**37,713**

The plan assets consist solely of reinsurance policies.

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

Assumptions in %	31 Dec. 2021	31. Dec. 2020
Interest rate	**1.06**	0.61
Expected inflation rate	**1.75**	1.75
Income trend	**2.00**	2.00
Pension trend	**1.75**	1.75
Fluctuation rate	**3.00**	3.00

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

Changes in these assumptions would have the following consequences as regards the present value of the defined benefit obligations (DBO):

Sensitivity analysis 2021	Sensitivity	Obligation adjusted due to sensitivities, in € '000
Interest rate (1.06%)	1.00%	30,085
Interest rate (1.06%)	-1.00%	39,460
Pension trend (1.75%)	0.25%	35,250
Pension trend (1.75%)	-0.25%	33,288
Income trend (2.00%)	0.50%	35,248
Income trend (2.00%)	-0.50%	33,339
Life expectancy (Heubeck 2018 G)	+1 year	36,559
Life expectancy (Heubeck 2018 G)	-1 year	31,958

Sensitivity analysis 2020

	Sensitivity	Obligation adjusted due to sensitivities, in € ’000
Interest rate (0.61%)	1.00%	33,096
Interest rate (0.61%)	–1.00%	44,164
Pension trend (1.75%)	0.25%	39,145
Pension trend (1.75%)	–0.25%	36,870
Income trend (2.00%)	0.50%	39,290
Income trend (2.00%)	–0.50%	36,782
Life expectancy (Heubeck 2018 G)	+1 year	40,636
Life expectancy (Heubeck 2018 G)	–1 year	35,376

The sensitivity analysis is based on changes in a single assumption, with all other assumptions remaining constant. It is unlikely that this would occur in reality, and there could indeed be a correlation between changes in certain assumptions. For this reason, in calculating the sensitivity of the defined benefit obligation to changes in actuarial assumptions, the same method was employed as is used to determine the pension provisions in the balance sheet (see Note 3.7). The types and methods of the assumptions used when preparing sensitivity analyses did not change compared with the previous period. No sensitivity analysis was carried out that factored in changes in the fluctuation rate or expected inflation rate because these rates do not represent material actuarial assumptions.

The defined benefit obligation can be broken down into the following plan participant categories:

Plan participants by category

	31. Dec. 2021
Active employees	287
Former employees with vested benefits	27
Pensioners	143
Total	**457**

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

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

2022	1,555
2023	1,546
2024	1,529
2025	1,522
2026	1,598
2027–2031	8,155

Service and interest costs are recognised under staff costs. The expense recognised for defined contribution pension plans amounted to € 9,666k. It mainly comprised employer contributions to the statutory pension scheme. For reasons of materiality, pension provisions are not presented by maturity.

Aareon has pension plans in place in Germany and France. The pension plans of Aareon AG and Aareon Deutschland GmbH have been closed to new members. All of these plans are defined benefit plans within the meaning of IAS 19. This means that, subject to certain conditions, Aareon guarantees that the beneficiaries will receive a particular benefit amount. Depending on the plan type, the amount of employee benefits varies according to different factors such as eligible salary, period of service, amount of the statutory pension, and benefits paid under individual direct insurance plans.

05.15 Other provisions

Other provisions in € '000

	Balance as at 1 Jan. 2021	Change in scope of consolidation	Additions	Utilisation	Reversals	Balance as at 31 Dec. 2021
Variable salary components	12,237	743	11,858	10,461	134	14,243
Other provisions	4,122	609	3,088	1,543	93	6,183
Total	**16,359**	**1,352**	**14,946**	**12,004**	**227**	**20,426**

Other provisions mainly comprise uncertain obligations arising from employee overtime, termination payments and paid leave as well as from estimated contributions to employers' liability insurance associations and from impending losses. Other provisions are recognised in accordance with IAS 37 for all identifiable risks and uncertain obligations in the amount of their probable occurrence. The interest cost for non-current provisions amounted to € 42k in the reporting period.

The measurement of other provisions is subject to numerous imponderables and often requires management to make considerable estimates in relation to various influencing factors that may later turn out to be inaccurate. The actual final amount of the liabilities may differ from the measurements made during the accounting process. The outcome of individual lawsuits, for example, cannot be predicted with certainty.

If the obligation is not expected to arise in the short term (within 12 months), the provision is recognised at its present value.

Aareon AG makes payments to the members of its Management Board that qualify as cash-settled share-based payments within the meaning of IFRS 2 (see Note 6.3).

Other provisions by maturity:

Other provisions in € '000

	1 Jan. 2021	31 Dec. 2021	1 Jan. 2021	31 Dec. 2021
	< 1 year		> 1 year	
Variable salary components	11,689	13,748	548	495
Other provisions	3,219	5,261	903	922
Total	**14,908**	**19,009**	**1,451**	**1,417**

05.16 Purchase price liabilities

Contingent purchase price liabilities in € '000

	31 Dec. 2021	31. Dec. 2020
Non-current purchase price liabilities	**4,220**	**1,975**
wohnungshelden GmbH	**3,515**	0
CalCon companies	**705**	1,975
Current purchase price liabilities	**3,630**	**276**
wohnungshelden GmbH	**2,669**	0
Arthur Online Ltd.	**685**	0
CalCon companies	**276**	276
Total	**7,850**	**2,251**

Contingent purchase price liabilities developed as follows:

Purchase price liabilities in € '000

	1 Jan. 2021	Additions	Adjustment	Payment	Interest cost	31 Dec. 2021
Non-current purchase price liabilities						
wohnungshelden GmbH	0	3,515	0	0	0	3,515
CalCon Group	1,975	0	–1,286	0	16	705
Current purchase price liabilities						
wohnungshelden GmbH	0	2,669	0	0	0	2,669
Arthur Online Ltd.	0	685	0	0	0	685
CalCon Group	276	0	0	0	0	276
Total	**2,251**	**6,869**	**–1,286**	**0**	**16**	**7,850**

05.17 Trade payables

All trade payables are classified as current. With the exception of customary retention of title and similar rights, liabilities are not collateralised.

05.18 Contract liabilities

Contract liabilities relate to deferred revenues and to projects in which the advance payments received exceed the value of the contract assets. As of 1 January 2021, contract liabilities amounted to € 19,888k, € 17,284k of which was recognised through profit or loss in the year under review. Contract liabilities are not subject to any significant changes – except for an acquisition-related increase in value.

05.19 Other liabilities

Other liabilities in € '000

	31 Dec. 2021	31. Dec. 2020
Current other financial liabilities		
Paid-leave liabilities	**4,182**	3,537
Miscellaneous other financial liabilities	**6,541**	4,901
	10,723	**8,438**
Current other non-financial liabilities		
Tax liabilities	**10,200**	9,323
Miscellaneous other non-financial liabilities	**727**	558
	10,927	**9,881**
Total	**21,650**	**18,319**

The miscellaneous other financial liabilities mainly comprise liabilities in connection with wages and salaries. The other tax liabilities consist mainly of value-added tax and payroll tax liabilities.

06 Other explanatory notes

06.1 Other financial obligations

The nominal amounts of the other financial obligations can be broken down by maturity as follows:

Other financial obligations in € ’000

	2022	2023–2026	After 2026
Purchase commitments	20,065	4,443	120
Future leases	158	393	0
Total	**20,223**	**4,836**	**120**

Financial liabilities from purchase commitments mainly comprise supplier contracts received in connection with maintenance and hosting business under third-party licenses, € 3,720k of which will result from the acquisition of intangible assets in 2022.

06.2 Related-party transactions

In addition to the subsidiaries included in its consolidated financial statements, Aareon AG has, in the course of its ordinary activities, direct or indirect relations with subsidiaries of the Aareal Bank Group that are included in the latter’s consolidated financial statements. A large part of Aareon AG’s business relationships are with Aareal Bank.

These primarily relate to service provision and comprise the following:

- Collaboration with Aareal Bank with regard to the fully automated and integrated accounting and payment services for property companies in Germany as implemented in the software systems Wodis Sigma, SAP® solutions/ Blue Eagle and GES
- Provision of data centre services and related implementation services
- Purchase of IT equipment such as mobile phones and workstations

In addition, Aareon AG concluded a loan agreement with Aareal Bank AG on 20 April 2021 for a loan amount of over € 250,000k. The main purpose of this loan is to fund corporate acquisitions in the year under review and subsequent fiscal years. The loan runs for three years and includes two one-year extension options. It can be drawn down in various tranches and currencies on differing terms and conditions. All current tranches are denominated in euros and interest is payable based on the Euribor (0% floor) plus a margin of 4.95%. The liability of € 138,892k was recognised net of transaction costs, which comprised a non-recurring processing fee of 1.5% of the total loan amount. The net transaction fee amounted to € 2,813k as at 31 December 2021.

Furthermore, a provision fee of 1% is payable for amounts not utilised and a fee of 3.95% for the underutilisation of drawdown limits. Aareon AG must also demonstrate to Aareal Bank AG that it has complied with the covenant of a restricted indebtedness of ratio 2.7 and a total net leverage ratio in line with that of the Aareon Group. The total net leverage ratio is calculated by extrapolating the pro-forma adjusted EBITDA of the acquired companies to reflect 12 months of Group affiliation. Currently, the ratio must not exceed 4.0 (see Note 6.6).

In the reporting period, the business transactions with Aareal Bank AG and its subsidiaries (excluding those belonging to the Aareon Group) comprised revenues and other income in the amount of € 18,552k, interest expense of € 5,288k as well as cost of materials and other expenses in the amount of € 404k. As at the reporting date, Aareon had outstanding receivables of € 3,533k, loan liabilities of € 137,500k and other liabilities of € 1,482k in relation to Aareal Bank AG and its subsidiaries (excluding those belonging to the Aareon Group).

Loans totalling € 3,809k were made to equity-accounted companies in the prior year to assist them in establishing and expanding their businesses. Following consolidation of OFI Group, the loan of € 2,809k to that entity, plus interest accrued in 2021, was eliminated through debt consolidation. The loans to Ecaria and Refurbio of € 450k each, including the interest accrued in 2021, were converted into equity in the year under review.

Related parties controlled by Aareon AG, or over which Aareon AG can exert a controlling influence, are included in the consolidated financial statements. They also appear in the list of shareholdings in Note 5.5, along with details of the equity interest held.

All transactions with related parties were conducted on the basis of international price comparison methods in accordance with IAS 24.

The Management Board of Aareon received compensation of € 4,867k in the year under review. The fair value of new stock options granted under the share-based payment plan was € 100k on the grant date. In the year under review, the members of the Supervisory Board did not receive any compensation.

In the Aareon Group, members of the Management Board and the Supervisory Board are defined as members of management in key positions.

The total compensation paid to members of the Management Board amounted to € 4,867k, and included contributions to defined contribution plans in the amount of € 88k. Total expense for share-based payments amounted to € 189k. All compensation is current, except for share-based payments in the amount of € 141k. In the year under review, the members of the Supervisory Board did not receive any compensation.

06.3 Share-based payment plans

The obligations arising out of these share-based payments are recognised as staff costs and via corresponding provisions. Claims to the phantom stocks of Aareal Bank are paid in cash. The payments are distributed over three or five calendar years from the grant date. Provisions for share-based payment are recognised in full from the commitment date. The provisions are recognised in the amount of the fair value of the obligation in question at the reporting date and adjusted if the share price changes. Provisions for share-based payments (SAR) amounted to € 396k. At the end of the period under review, 10,166 shares were outstanding at an average price per share of € 28.36 (previous year: 14,970 shares; € 28.36). Of these outstanding shares, 583 (previous year: 9,207) were exercisable and 4,837 (previous year: 8,503) were granted. The exercise prices of the outstanding shares range between € 22.28 and € 39.10.

In the year under review, Aareal Bank set up a management equity programme (MEP) for Aareon together with Advent International and, in line with its share, transferred Aareon stock with a market value of € 6,000k to a management investment company. Individual members of Aareon's management also took stakes totalling € 2,436k in the management investment company, also at a market value. The remaining shares can be issued at a later date. If Aareon is sold, the programme results in a profit or loss for the participants in the form of Aareon shares (equity-settled), depending on how Aareon's value develops. Entitlements are earned quarterly over a period of five years. The break-even point is around 60% of the growth in value and is increased by a minimum interest rate of 12% p. a. Above the break-even point, management participates in the potential gain on the sale with a lever of 4.5. The programme is measured using the option price model, with an assumed term of over 5 five years and a historic volatility of around 30%. No expense was recognised for equity-based payments, as these were measured at market value.

06.4 Auditors' fees

In the reporting period, € 359k was recognised for auditing of the financial statements, € 0k for tax consultancy services and € 0k for other services.

06.5 Exemption for domestic group companies as per Section 264 (3) of the German Commercial Code (HGB)

Aareon Deutschland GmbH, Mainz, phi-Consulting GmbH, Bochum, and Aareon RELion GmbH, Augsburg, which are included in the consolidated financial statements of Aareon AG, have, with the approval granted by their respective general meetings of shareholders in accordance with Section 264 (3) of the German Commercial Code (HGB), been exempted from the obligation of preparing annual financial statements and a management report in compliance with the corresponding provisions for corporations.

06.6 Capital management

The goal of capital management is to finance Aareon's inorganic growth while simultaneously ensuring the Group remains a going concern that can generate returns for its shareholders and benefit for other stakeholders. The Group may adjust its capital structure by changing the amount of the dividend it pays, repaying capital, issuing new shares or selling assets in order to reduce debt. The Group monitors its capital on the basis of the loan agreement concluded with Aareal Bank AG (see Note 6.2). The total net leverage ratio as at 31 December 2021 was calculated as follows:

Total net leverage ratio

	31 Dec. 2021
Adjusted EBITDA in € '000	66,756
Pro-forma adjustments in € '000	13,232
Total pro-forma adjusted EBITDA in € '000	**79,988**
Financing liability net of transaction costs in € '000	137,500
Current lease liabilities in € '000	8,495
Non-current lease liabilities in € '000	53,210
Cash and cash equivalents in € '000	–32,548
Total net debt in € '000	**166,657**
Total net leverage ratio	**2.1**

06.7 Events after the reporting date

Aareal Bank AG will provide Aareon with a further € 100,000k in 2022 to finance its inorganic growth. Once the loan agreement has been signed, the line of credit for acquisitions will total € 350,000k.

07 Corporate bodies

07.1 Supervisory Board

Jochen Klösges, Chairman
since 16 December 2021
Chairman of the Management Board of
Aareal Bank AG, Wiesbaden

Thomas Ortmanns, Chairman
until 15 December 2021
Former member of the Management Board of
Aareal Bank AG, Wiesbaden

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

Hermann J. Merkens
until 30 April 2021
Former Chairman of the Management Board of
Aareal Bank AG, Wiesbaden

Jeffrey Paduch
Managing Partner,
Advent International Corporation, London, UK

Arnd Zinnhardt
since 31 May 2021
Former member of the Management Board of
Software AG, Darmstadt

07.2 Management Board

Dr. Manfred Alflen
Chairman of the Management Board
Strategy; Group HR; Legal, Risk Management & Compliance; Data Protection & Data Security; Corporate Marketing & Communications; Corporate Affairs & Post-Merger Integration; Audit; Business Development; Transactions & Corporate Development

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

Sabine Fischer
Member of the Management Board
Markets & Countries; Customer Satisfaction; Sales & Consulting; Development of Market Segments; BauSecura

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

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

These consolidated financial statements were released for publication by the Management Board on 2 March 2022. The Management Board may change and republish these consolidated financial statements.

Mainz, 2 March 2022

The Management Board

Dr. Manfred Alflen

Dr. Imad Abdallah

Sabine Fischer

Dr. André Rasquin

Christian M. Schmahl

Independent Auditor's Report

To Aareon AG, Mainz

Opinions
We have audited the consolidated financial statements of Aareon AG, Mainz and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, to December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Aareon AG for the financial year from January 1, to December 31, 2021.

In our opinion, on the basis of the knowledge obtained in the audit,
- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2021, and of its financial performance for the financial year from January 1, to December 31, 2021, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and the group management report.

Basis for the Opinions
We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the German Generally Accepted Standards of Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Other information
The Management Board and/or the Supervisory Board are responsible for the other information.

The other information comprises the information in the annual report. The other information does not include the consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and the Supervisory Board for the consolidated financial statements and the group management report

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board is responsible for such internal control as it has determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management

report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the Management Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Frankfurt am Main, March 2, 2022

KPMG AG
Wirtschaftsprüfungsgesellschaft

Winner	Haider
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]