

Group management report

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Group business fundamentals

Aareon is a provider of ERP software and digital solutions for the European property industry and its partners. The company is digitalising the property industry by offering user-oriented software solutions that simplify and automate processes, support sustainable and energy-efficient operations and interconnect all process participants. In its research and development activities, Aareon pursues a collaborative approach in which its knowledge and expertise converge with the needs and requirements of its clients. This results in solutions that help make people's lives and work easier and enable companies to realise new value-creation potential. The Aareon Group is an international company with offices in the DACH region (i.e. Germany, Austria and Switzerland) and in Finland, France, the United Kingdom, the Netherlands, Norway and Sweden. In addition, Aareon operates its own development company in Romania.

Aareon AG is a majority-owned subsidiary of Aareal Bank AG, Wiesbaden. AI Houses (Luxembourg) S.à r.l., Luxembourg – a company owned by Advent International Corporation, Boston, USA – has a key non-controlling interest in Aareon.

Aareon's portfolio

The enterprise resource planning (ERP) systems marketed in each of its footprint countries form the linchpin of Aareon's digital ecosystem, Aareon Smart World. Aareon's 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 customer relationship and portfolio management processes, e.g. contract and receivables management as well as reporting solutions for providers of commercial property. With its ERP systems, Aareon aims to safeguard its customer base and to generate a stable volume of business in the long term, resulting in recurring revenues – also from the cross-selling of digital

solutions. In many cases, Aareon's customer relationships have been in place for decades. The ERP systems are subject to constant technological refinement. Within Aareon Smart World, these systems can be linked to the ever-expanding portfolio of digital solutions via the digital platform. New and existing customers utilise these integrated digital solutions to interconnect with stakeholders and employees (WRM – workforce relationship management), with their own customers (CRM – customer relationship management) and with suppliers (SRM – supplier relationship management) as well as with technical devices in apartments and buildings (BRM – building relationship management). That makes it possible to redesign and optimise processes.

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

In both the DACH and International Business segments, Aareon offers software solutions that can be accessed in different modes: on the one hand, software as a service (SaaS) and hosting from the exclusive Aareon Cloud and, on the other, in-house hosting on the customer's premises. The trend towards SaaS remains unbroken. With both SaaS and hosting from the Aareon Cloud, the customer data is stored in Aareon's certified Data Centre in Mainz, guaranteeing both data security and data protection (see section "Quality and security standards", p. 28). With in-house hosting, the customer is granted a licence to use the software after a thorough consultation phase. Further assistance is generally provided under a fee model that includes not only maintenance and ongoing software development, but also regular software support. This generates ongoing revenues over the contract term.

In the DACH segment, Aareon markets ERP products for the housing industry and commercial-property sector. Products deployed in the housing industry include, in particular, Wodis Yuneo – the new product generation of Wodis Sigma –

and Aareon's SAP® solutions (including Blue Eagle). With its acquisition of GAP-Group in October 2021, Aareon added that company's immotion® ERP system to its ERP product portfolio in Germany. In the commercial-property sector, and with customers who manage both commercial-property and residential-housing assets, Aareon has a particular presence with its ERP product RELion. In addition, the company offers Aareon Cloud Services and the BauSecura insurance management solution in the DACH region.

In the International Business segment, Aareon's subsidiaries each offer their own country-specific ERP products. In the Netherlands, Aareon Nederland markets products to the social-housing industry, such as the SaaS solution Tobias 365 (based on Microsoft® Dynamics® 365), the new product generation of Tobias AX. BriqVest B.V. (Twinq), which Aareon acquired in May 2021, offers ERP software for the Dutch shared ownership property management sector. Aareon Nederland sells the ERP solution REMS in the commercial-property market. This solution has also been offered as the Microsoft-based REMS 365 package since 2021. The ERP products Prem'Habitat and PortalImmo Habitat are marketed by Aareon France. In the UK, Aareon UK markets the ERP product Aareon QL, with its new iteration QL Next Generation. In January 2021, the company acquired Arthur Online Ltd., which offers an SaaS property management solution that unites property managers, owners, tenants and contractors on a single platform. In July 2021, Arthur Online Ltd. in turn acquired RentPro Ltd. and Curo Software Ltd., which operate in the UK property market under the brand name Tilt Property Software. The migration of these companies' customers to Arthur Online's SaaS solution has been in progress since Q4 2021. In Scandinavia, Aareon Sverige and its subsidiaries Aareon Norge and Aareon Finland market the ERP product Aareon Incit Xpand with an integrated BIM (building information modelling) solution. Aareon Sverige also provides its customers with fact books – reference works containing standard information on operating and maintenance costs.

Overview of acquisitions in 2021

Product	Company
Arthur Online	Arthur Online Ltd.
Fixflo	Tactile Ltd.
Tilt	RentPro Ltd.
	Curo Software Ltd.
Twinq	BriqVest B.V.
	Twinq Holding B.V.
	Twinq Facilitair B.V.
	Twinq Uitwijk en Escrow B.V.
	Twinq Verkoop en Service B.V.
wohnungshelden	wohnungshelden GmbH
GAP	Gesellschaft für Anwenderprogramme und Organisationsberatung mbH
	Alexander Quien Nova GmbH
	ImmoProConsult GmbH

Aareon also acquired the remaining shares in office rental PropTech OFI Group GmbH, based in 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.

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

WRM products offer property companies greater process efficiency and help simplify their employees' day-to-day work. Mobile solutions make it easier for field staff to handle commissioning, safety checks, apartment handovers and portfolio data maintenance, and to process customer transactions.

CRM solutions support and simplify processes between tenants or property owners on the one hand and property companies on the other – from searching for a place to live and moving in through to service enquiries and changes of residence. Aareon's CRM solutions enable property companies to offer self-services to their customers, so that they can access documents such as rental agreements and applications to keep pets and utility bills as well as viewing contract data and printing out tenant certificates for the registration authorities. Furthermore, tenants are able to submit damage reports, check the status of tickets and find out to what extent their issue has already been processed. Neela, an AI-based virtual assistant, communicates autonomously with tenants, answers standard questions and can liberate resources previously tied up with routine tasks. The digital solution marketed by wohnungshelden GmbH, the company Aareon acquired in August 2021, enables housing companies to digitalise their entire rental process. Thus, Aareon's new ImmoBlue Pro solution complements its existing product portfolio for rental processes.

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

profit from this integrated portfolio. Through the interplay of vacancy management and the CRM app/portal – at the interface between SRM and CRM solutions – Aareon also offers its customers an EED-compliant application that satisfies the property industry's new information obligations towards tenants in Germany.

The purpose of BRM products is to professionalise building management. These solutions enable property companies to record and analyse all their property-related data in a uniform manner and leverage it in order to optimise their processes. That data can help them to manage their portfolios more easily and to plan for the future. A further advantage of digital apps is that employees on site at a property can access all the data they require via a tablet or smartphone and therefore have precise information about the property's equipment, features, condition and maintenance cycles at their fingertips. They can also update the portfolio data in real time. In May 2021, Aareon expanded its BRM product portfolio in the UK by acquiring Tactile Ltd., which markets the Fixflo software package for property repairs and maintenance. Fixflo offers a best-in-class SaaS solution that brings together property management companies, owners, tenants and contractors on a dedicated SaaS platform to deal with property repairs and maintenance, and that optimises business processes across the board. In September 2021, CalCon Germany launched its new digital solution AiBATROS® Energy and CO₂ Analytics. With the aid of its mobile data-capture app, the solution makes it possible to perform standardised assessments of the current structural status of vacant units and to generate and cost different maintenance options.

In the Netherlands, Aareon Nederland deploys the Trace & Treasury product, which can be used to manage cash and draft business plans when managing assets.

At Aareon, development is focused not only on the individual business segments, but also on new products. One example is Digital Agency, which was developed with cooperation partners. This solution maps, in fully digital form, the CRM housing (search) processes along the tenant life cycle. PrediMa, a new BRM solution for predictive maintenance and repairs, is another product developed together with cooperation partners. It utilises portfolio data, sensors and artificial intelligence to automatically identify and report damage to a property's exterior and interior, and to take preventive action. PrediMa can, for instance, make recommendations that help the property management company make decisions on what repairs or maintenance are needed and when. Where necessary, it can also trigger the right processes of its own accord.

Aareon's ERP systems, digital solutions and cloud services compete with those of other companies, both in national and international markets. Aareon's competitors include providers of proprietary industry products, SAP® partners and, increasingly, PropTech companies offering individual digital solutions. Aareon's marketing strategy focuses on Aareon Smart World, its integrated product portfolio, and accompanying consulting services. Aareon Smart World brings together property companies' stakeholders and makes for end-to-end processes.

Goals and strategies

Aareon pursues an international growth strategy, the objective of which is to transform Aareon into an SaaS company that fulfils the Rule-of-40 criteria by 2025. The Rule of 40 is a metric common in the technology sector, where it is used to measure performance and to assess the quality of the

business model, which upon achieving the Rule-of-40 threshold, shall reflect a higher valuation. The metric is calculated based on revenue growth and the EBITDA margin. This combined figure should be 40% to reflect an even balance between growth and profitability.

In order to become a Rule-of-40 company by 2025, the Value Creation Program (VCP) was developed in late 2020 to supplement the company's existing growth strategy for operating business. The objective of the VCP is to optimise Aareon's business model and associated processes. The VCP comprises several components:

- Go-to-market strategy: optimising the market launch of products, with a focus on new customers and cross-selling/upselling, and expanding the range of value-added package solutions for customers – while simultaneously supporting the digitalisation of the industry.
- Accelerating the transformation into an SaaS company: ongoing expansion of the existing SaaS portfolio that is convenient for the customers. That will also further increase the share of recurring revenues in the portfolio.
- Efficiency in software implementation: highly efficient software implementation can speed up growth.
- Operational excellence: identifying and utilising potential organisational value drivers that can support growth.
- 360One: improving reporting by establishing what is known as a "data lake". Similarly, increased automation and standardisation should help enhance back-office performance.

Further mergers and acquisitions will help unlock additional growth potential beyond the Rule of 40. In this context, Aareon will also benefit from its M&A network and the expertise of its minority shareholder Advent International to accelerate the company's growth and enhance its value.

Consequently, the Aareon growth strategy, which is mapped out in the Aareon Flight Plan along with its strategic action areas, is based on

- expanding operational business
- implementing the VCP
- achieving inorganic growth through mergers and acquisitions

Expanding operations

ERP solutions form the core of Aareon's portfolio. Aareon invests in the ongoing technological evolution of its ERP systems. The Aareon Group's aim is to ensure its future ERP product generations are cloud-enabled and available as software as a service. What is more, these products need to be compatible with leading-edge technologies (business intelligence, artificial intelligence, machine learning, robotics), user-oriented and capable of offering new – e.g. self-learning – functionalities. To this end, a Group-wide project (ERP 2025) was set up back in 2019. As part of this project, the new ERP product generation Tobias 365 was launched in the Netherlands in the same year. September 2020 saw the launch in Germany of the new product generation Wodis Yuneo, marketing of which was ramped up further in 2021, e.g. with the launch of process-oriented product packages that are tailored to customers' individual requirements and simplify customer-side offerings. On the marketing front, the focus was also shifted to SaaS and subscriptions (see section "Business performance", p. 31). Another component of the corporate strategy is the gradual transition of the licensing model with the subscription model, which will lead to an ever greater share of recurring revenues. Further ERP product generations are under development. On top of that, regular new releases will be provided for existing product generations in all countries.

The growth strategy also aims to achieve greater penetration of the commercial real estate (CRE) market. Aareon already

has a presence in this market with its ERP solutions REMS and RELion as well as its digital solutions Trace & Treasury, Facilitor and AiBATROS®. Aareon did further groundwork in this segment in autumn 2021, creating a CRE Competence Centre along with the role of CRE Market Officer. This puts a special focus on this market segment that will leverage further market potential.

ERP systems offer potential for cross-selling. After all, customers often supplement their ERP systems with further digital solutions step by step, thus building up their own proprietary digital ecosystems. The company is investing to broaden its portfolio of digital solutions in order to fully exploit the potential offered by the digital transformation. Dedicated in-house R&D teams are expanding these solutions so that knowledge can be transferred across the Group – as already happens with the ongoing development of ERP systems. In this context, Aareon has also launched a user-centric form of collaboration with its customers and partners (see section "Aareon's portfolio", p. 22). Further products – e.g. Digital Agency, PrediMa and AiBATROS® Energy and CO₂ Analytics – were developed and marketed in 2021, and will help the company implement its digital growth strategy going forward (see section "Aareon's portfolio", p. 22).

Partnerships with start-ups are another way of growing the company's digital portfolio. Aareon has collaborative partnerships with PropTechs and enjoys close connections with the PropTech scene via its subsidiary Ampolon (AV Management Gesellschaft mbH). It is also the co-founder of joint ventures such as Refurbio GmbH, Berlin, with its digital interior design consultancy foxxbee, and Ecaria GmbH, Berlin, whose product of the same name provides digital support for people caring for family members. In addition, with its API marketplace Ampolon Connect, Ampolon enables innovative start-ups, grown-ups and property industry companies to integrate their solutions into the property industry's IT ecosystems faster, more easily and with greater scalability.

APIs are application programming interfaces for the technical integration of different software systems. Ampolon also launched the pan-European Decarbonize Real Estate Challenge in 2021, the aim of which is to find start-ups whose digital solutions help make the property industry more sustainable.

In the Netherlands, Aareon holds a direct stake in OSRE B.V. (a digital platform for property transactions). The non-controlling interest in PropTech Immomio (a digital rental platform) was sold in autumn 2021 to W&W brandpool GmbH, Stuttgart, as part of the realignment of the company's product portfolio in relation to digital rental processes. Aareon also holds shares in its strategic partners blackprint Booster and blackprint Booster International, which support future-oriented start-ups in the property environment.

Implementing the VCP

One point of focus of the Value Creation Program (VCP) in 2021 was on offering customers process-oriented ERP product packages or packages of digital solutions that are tailored to their individual requirements and simplify customer-side offerings. At the same time, emphasis was placed on the shift to SaaS and subscription models, which increase the share of recurring revenues. An associated marketing campaign was launched in Q2 2021, initially in Germany, for the new ERP product generation Wodis Yuneo. Even in the initial months of the campaign, Aareon succeeded in convincing a number of customers of the benefits of the product packages. In Q3 2021, the campaign was extended to selected customers in the Netherlands and France. Another point of focus of the VCP was on optimising the operational processes of software development. Nearshoring options were analysed and taken up. The key project in 2021 involved optimising market access and market organisation (go-to-market project). The goal here was to win over new customers, tap new markets and promote both upselling and cross-selling. As part of the go-to-market project, an in-depth analy-

sis of the status quo of sales and marketing processes was conducted in 2021 – also with the aid of external specialists. Various action points were identified, including making Aareon's sales and marketing processes more automated and data-based in future. The analysis also resulted in the creation of the CRE Competence Centre and the position of CRE Market Officer in 2021.

Achieving growth through mergers and acquisitions

A key part of the growth strategy lies in exploiting the potential for inorganic growth. That is why Aareon's management is constantly performing a thorough analysis of potential acquisition targets and identifying opportunities. Such opportunities are pursued in a systematic manner so as to be able to add more value for customers through an expanded product portfolio. Working closely with the relevant specialist departments, the Transactions & Corporate Development and Post Merger Integration teams are responsible for successful mergers and acquisitions, and for integrating the acquired companies into the Aareon Group. As a result, Aareon completed several acquisitions in 2021.

In the UK, Aareon tapped into a new segment, the SMB (small and medium-sized businesses) market, through three acquisitions: after the contract signing in December 2020, the deal to take over Arthur Online Ltd., London, was closed in January 2021. The company offers a best-in-class SaaS ERP solution for property management that brings together property managers, owners, tenants and contractors on a single platform. The full acquisition of UK-based Tactile Ltd. (Fixflo), London, in May 2021 enabled Aareon to add property repair and maintenance software to its UK product range. Fixflo offers a best-in-class SaaS solution that brings together property management companies, owners, tenants and contractors on a dedicated SaaS platform to handle property repairs and maintenance and that optimises business processes across the board. In early July came the announcement of the acquisition of RentPro Ltd. and Curo Software Ltd.,

both based in Warrenpoint and operating under the name Tilt Property Software (Tilt). Tilt's customers are being migrated to Arthur Online's ERP solution.

In the Netherlands, in May 2021, Aareon tapped into the market segment for shared ownership property management with the full acquisition of BriqVest B.V. (Twinq), Oosterhout. Twinq offers a variety of state-of-the-art, web-based customer portals, including portals for owners, collection services and contractors. These help customers reduce the administrative effort of property management. This acquisition offers cross-selling potential in relation to Aareon Smart World.

In the DACH segment, Aareon took over wohnungshelden GmbH, Munich, in August 2021. This company has a software solution that allows housing companies to digitalise their entire letting process, from marketing a property and managing prospective tenants and appointments all the way to contract conclusion. In October 2021, Aareon added the ERP system immotion® to its ERP product portfolio with the acquisition of GAP Gesellschaft für Anwenderprogramme and Organisationsberatung mbH (GAP-Group), Bremen. These recent acquisitions have helped Aareon strengthen its market position in Germany and expand its cross-selling potential. Aareon also acquired the remaining shares in office rental PropTech OFI Group GmbH, based in 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.

Quality and security standards

Data security and data protection are pivotal at Aareon. Numerous clients in Germany and abroad make use of Aareon solutions as a service from the exclusive Aareon Cloud – meaning that their data is stored solely in the Aareon Data Centre and at a backup location in Germany. Aareon IT Service Centre operations are regularly audited for compliance with the PS 951 nF auditing standard of the Institute of Public Auditors in Germany (IDW). The TÜV Saarland Group, a technical inspection agency, re-certified the Aareon Data Centre until the end of 2022 ("Certified Computer Centre Network – Fail-Safe Level 4"). Since 2010, Aareon has voluntarily submitted to regular external data-protection audits in accordance with Section 9a of Germany's Federal Data Protection Act (BDSG). In 2019, the corresponding re-certification process was performed by the technical inspection agency TÜV Rheinland i-sec GmbH; the certificate it issued is valid until 2022. TÜV Rheinland i-sec GmbH recognised Aareon as a "service provider with audited data protection management". Aareon's system of information security management complies with the internationally recognised ISO/IEC 27001:2013 standard. Following a re-audit in 2017, the certification was extended until December 2023.

Research and development (R&D)

Collaborative R&D activities form the foundation for the ongoing expansion and technological evolution of the Aareon Smart World digital ecosystem. These activities are designed to be user-centric, with the focus on adding value for

customers and business partners alike. Aareon adopts the co-creation approach and takes design-thinking methods into account. In addition, Aareon's international reach means its R&D benefits from specific points of focus for digitalisation in different countries and from the associated expertise of its subsidiaries in these areas. Aareon adopts an agile approach to development in order to carry out intensive testing at an early stage and take the step from idea to prototype as quickly as possible. Its international development teams take social, legal, economic and technical factors into consideration, integrating them into new and existing solutions.

What is more, information gained from the day-to-day dialogue with customers is fed back into the company's R&D activities. Aareon constantly gauges the requirements of its customers by talking to them – e.g. by means of institutions such as customer advisory councils as well as through regular Group-wide customer surveys.

Researchers take new technologies and their integratability into account where such technologies could be of benefit to the property industry. April 2021 saw the market launch of PrediMa, the new BRM solution for predictive maintenance. In June 2021, the company began marketing Digital Agency, which integrates a wide variety of CRM sub-processes into a solution covering the entire tenant life cycle. Prior to that, in late 2020, Aareon had commissioned InWIS Forschung & Beratung GmbH, a property industry research institute, to conduct a representative study of predictive maintenance products in the German housing industry. In September 2021, CalCon began marketing its new digital solution AiBATROS®

Energy and CO₂ Analytics. (For more information on new products, see the section "Aareon's portfolio", p. 22). In addition, the Centre of Competence for Business Intelligence in ERP Systems was set up in 2021 as part of the ERP 2025 project. The goal is to develop new solutions to optimise data usage.

R&D expenses can be broken down into the development of new product generations, updates, the maintenance and upkeep of existing functions as well as the ongoing development of new functions and the creation of new products. Total expenditure of the R&D teams came to € 52.4 million in 2021 (2020: € 41.9 million). Some of the capital spent on developing new functions and products for our customers had to be recognised in the balance sheet. The capitalisation rate as a percentage of total expenditure was 44%. Amortisation of internally generated software amounted to € 6.5 million. Aareon utilises the services of third parties for the purposes of R&D.

Economic report

General economic and industry environment

General economic environment

The course of the Covid-19 pandemic continued to impact global economic growth in 2021. Influenced both by the vaccination campaigns launched at the start of the year and by the monetary and fiscal measures adopted, many countries' economies began to recover, some of them quite quickly. The main driver of this recovery was the loosening of pandemic restrictions, which revived private consumption and led, in particular, to rising revenues in the service sector. However, the global economy began to run out of steam again in the second half of the year. Supply chain disruptions and the spread of coronavirus variants put the brakes on economic output again in a number of countries. What is more, supply-demand imbalances in connection with the economic recovery triggered a substantial increase in inflation.

Economic growth

In the eurozone, real GDP rose by 5.1% year on year in 2021. At the beginning of the year, regional lockdowns and measures taken to contain infections slowed economic growth. Then, in line with the improving pandemic situation, an economic upswing set in from the second quarter onwards, especially in the high-contact service sector. With utilisation levels remaining high in the manufacturing sector, rising capital spending and robust private consumption meant that economic output at the end of the third quarter was only 0.3 percentage points below its pre-pandemic level. Owing to an array of negative factors in the fourth quarter, however, the economy managed to grow by only 0.3% quarter on quarter. Among other things, pronounced supply-chain problems made it difficult for the manufacturing sector to work off its large order backlog. In addition, weak exports coupled with a deteriorating situation on the pandemic front amid renewed high infection rates put a heavy strain on the economy, especially the service sector. The full-year economic growth

figures for the major eurozone economies in 2021 were: France: 6.7%; Italy: 6.3%, Spain: 4.9%; and Germany: 2.5%.

The EU member states continued to provide businesses and employees with fiscal support in 2021. In addition to liquidity and capital injections for companies, some countries provided income support or debt relief and relaxed contractual restrictions. While individual measures expired in the course of the year, other programmes – such as easier access to furloughs in Germany – were extended until the end of March 2022. At European level, the temporary economic recovery package Next Generation EU (NGEU) began to raise funds in June 2021 by issuing bonds in the capital markets. The NGEU's main goal is to combat the negative effects of the pandemic through targeted investments that promote the digital transformation, decarbonisation and cohesion within the EU.

Some EU countries that are not eurozone members experienced a less pronounced economic upswing than the average of those that use the common currency. Sweden, for example, achieved economic growth of 4.7% in 2021.

The UK economy continued to experience the effects of Brexit, with exports weak despite the trade agreement with the EU and with the departure of foreign workers leading to labour shortages. Other factors, by contrast, had a stimulating effect on the economy: the rapid progress made with the vaccination campaign meant that pandemic restrictions could be lifted earlier than in many European countries, which boosted private consumption. In addition, an expansionary fiscal policy lent impetus to the economic recovery. During the second half of the year, however, negative factors such as supply-chain problems and a renewed deterioration in the public health situation became an increasing burden, prompting both consumers and companies to use more caution. Overall, economic output reached 7.2% in 2021 compared with 2020.

Labour markets in many countries were buoyed by state aid programmes, either temporarily or throughout the entire year. The service sector, in particular, profited in the course of the year from the reopening of customer- and consumer-oriented segments, recording a strong upswing in employment. At the end of 2021, the eurozone unemployment rate was 7.3% and thus back at its pre-crisis level of year-end 2019. In the USA, the unemployment rate at year-end 2021 was 3.9%, only marginally higher than the pre-pandemic rate and considerably lower than the 6.7% recorded at the end of 2020.

Annual real GDP growth rate in %

	2021 ¹⁾	2020 ²⁾
Eurozone	5.1	-6.5
Germany	2.5	-4.9
Finland	3.6	-2.9
France	6.7	-8.0
United Kingdom	7.2	-9.4
Netherlands	4.6	-3.8
Norway	4.1	-1.3
Austria	4.6	-6.8
Sweden	4.7	-3.1
Switzerland	3.6	-2.5

(Source: Oxford Economics) 1) Preliminary figures; 2) Adjusted to reflect final figures

Industry trend

In the national markets of relevance to Aareon, the digital transformation process in the property industry continues unabated. Since 2020, the Covid-19 pandemic has been a key factor accelerating digitalisation of the working world. More and more companies are setting up their own digital ecosystems. The trend towards sourcing software as a service (SaaS) from the cloud is ongoing. Under this business model, property companies outsource the operation, maintenance and servicing of software to IT service providers. More and more, the focus is shifting from connecting property companies

with their business partners, to the integration of buildings and technical equipment. New technologies such as artificial intelligence (AI) and big data are creating future opportunities for Aareon. Climate change is prompting the property industry to focus more and more on digital solutions that help reduce both CO₂ emissions and energy consumption. People’s growing desire to retain their independence in old age is boosting demand for digital solutions that enable them to continue living to a ripe old age in their own four walls.

Key performance indicators

The key financial performance indicators used by Aareon to measure and manage business performance are revenue and adjusted EBITDA, the latter a customary metric across the software industry. Adjustments incorporate items of an exceptional or non-recurring nature, which usually means acquisition-related expenses, such as due diligence costs or the cost of legal disputes. It also factors out investments for the Value Creation Program, for new products and for Aareon’s venture activities.

Business performance

As was the case in 2020, the Covid-19 pandemic was the main influencing factor in 2021. At times, almost all of Aareon’s employees worked from home and continued to keep the company’s business operations going. The pandemic had a particular impact on Aareon’s consulting activities, one that could not be entirely made up for by “Green Consulting”. A number of projects were either cancelled or delayed, and access restrictions often ruled out on-site consulting altogether. The number of “Green Consulting” days, i.e. person-days for consulting not performed on the customers’ premises, came in at more than 31,000 and was thus stable year on year.

Amid the pandemic, Aareon still succeeded in maintaining its levels of service, thus enabling its customers to keep up their digital business operations throughout the crisis. Customers whose business was already highly digitalised had an edge here. Most customer functions and larger events like Aareon Live, a key get-together in Germany with more than 1,000 participants, were held online. On the whole, the Covid-19 pandemic has further increased the importance of digitalising the property industry.

Despite the pandemic, Aareon remains committed to its goal of becoming a Rule-of-40 company by 2025. In 2021, the company's Rule of 40, i.e. the sum of the revenue growth rate and adjusted EBITDA margin, was 29%.

DACH segment

In the DACH segment, revenues in 2021 were unchanged year on year. With consulting revenues lower due to the pandemic, overall revenues from ERP business declined year on year. Revenues from Wodis Sigma decreased for the same reason. As part of its Value Creation Program, Aareon launched a campaign in June 2021 for its new product generation Wodis Yuneo, the aim being to strengthen the focus on the SaaS trend and, as a consequence, on Aareon's transformation into an SaaS company. During the campaign, Aareon offered its customers process-oriented product packages that are tailored to their individual requirements and simplify customer-side offerings. The share of recurring revenues rose as a result (see also section "Goals and strategies", p. 25). Lower consulting revenues also meant overall revenues from the ERP software SAP® solutions/Blue Eagle and from the commercial-property package RELion remained at the same levels as in the prior year. In October 2021, Aareon added the ERP system immotion® to its range of ERP products through the acquisition of GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH (GAP-Group), Bremen (see also section "Goals and strategies", p. 25), creating further potential for cross-selling of digital solutions. BauSecura's insurance activities performed well.

In the DACH segment, Aareon was once again able to increase the volume of its digital solutions in 2021. Demand was particularly strong for digital solutions in the areas of WRM (workforce relationship management) and CRM (customer relationship management). Since the market launch of Digital Agency, Aareon has been able to offer its customers in Germany a platform that maps the entire tenant life cycle, from beginning to end. Together with its cooperation partners and pilot customers, Aareon continued to develop the Neela CRM solution, an AI-based virtual assistant, in 2021. The Mareon service portal for the coordination of tradespeople (SRM) celebrated its 20th anniversary in 2021. For years now, Mareon has been generating reliable revenue flows. Even before the new Heating Costs Ordinance came into force, Aareon was able to offer its customers – through the interplay of vacancy management and CRM app/portal – an EED-compliant application that satisfies the property industry's new information obligations towards tenants. In August 2021, Aareon acquired the German PropTech wohnungshelden GmbH. The latter's CRM software solution allows housing companies to digitalise their entire rental process and fits well with Aareon's existing product portfolio for rental processes. In the field of building relationship management (BRM), Aareon teamed up with cooperation partners to develop PrediMa, a digital solution for predictive maintenance (see section "Aareon's portfolio", p. 22). Reduced demand for consulting services due to the pandemic meant that revenues from the epiqr® and AiBATROS® products were significantly lower year on year.

International Business segment

Aareon achieved a substantial year-on-year increase in business volume in its International Business segment. International ERP sales were higher than in the prior year, with Aareon France and Aareon Nederland making particularly big contributions. In the Netherlands, the shift towards an SaaS business model continued. What is more, with its full acquisition of BriqVest B.V. (Twinq), Oosterhout, in May 2021, Aareon tapped into the market segment for shared ownership

property management. Twinq is a provider of software to that sector in the Netherlands. As of 2022, Twinq will be merged into Aareon Nederland. In France, there was strong demand for the new release of Prem'Habitat, which was launched in 2020. In the Nordics, the delayed delivery of the new release of Aareon Incit Xpand and the focus on the core market of Sweden meant the company failed to reach its expected level of revenues. Aareon UK's revenues were on a par with the previous year. In 2021, Aareon acquired Arthur Online and Tilt in the UK, tapping the SMB market for property management. Arthur Online and Tilt have already succeeded in garnering a large number of new units, and the migration of customers from Tilt's software to Arthur Online's is progressing well. In order to manage the new acquisitions efficiently and leverage further synergies, Aareon SMB Hub UK Ltd. was established on 22 November 2021. Arthur Online Ltd. and Tactile Ltd. will be sold to the latter in an intra-Group transaction in the course of this year. Consulting revenues also declined year on year in the International Business segment, a decrease that could not be fully offset by Green Consulting.

There was high demand for digital solutions in the International Business segment in 2021, especially in the Netherlands and France, whereas revenues in the Nordics declined year on year. Demand was particularly strong for solutions in the fields of WRM (workforce relationship management) and CRM (customer relationship management). The BRM solutions of UK-based Tactile Ltd. (Fixflo), which Aareon acquired in May 2021, have already made a significant contribution to revenues. Cross-selling has already commenced in this segment too.

Economic situation

Earnings

Aareon grew its consolidated revenues in 2021 by 4.4% to € 269.3 million (2020: € 258.1 million). Volumes for ERP solutions were up by 1.1% year on year (by 2.9% excluding

consulting revenues). Digital solutions business grew by 14.9% year on year (by 23.3% excluding consulting revenues).

At € 66.8 million, Aareon's adjusted EBITDA was 7.5% higher year on year (2020: € 62.1 million). Due to the pandemic and the business model shift from licensing to SaaS and subscriptions, Aareon only just missed its forecast figure for consolidated revenues (€ 270.0–274 million). Actual revenues in 2021 came in at € 269.3 million. By contrast, Aareon exceeded its forecast for adjusted EBITDA (€ 63.0–65.0 million).

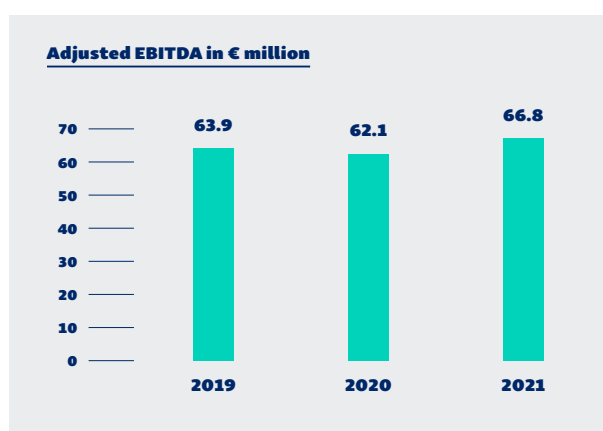
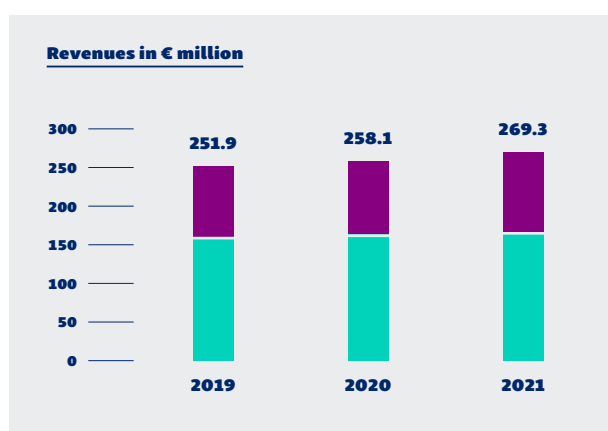
In addition to enhancing operations in its DACH and International Business segments in the fiscal year, Aareon placed special emphasis on implementing its Value Creation Program (VCP). What is more, the company took a big step forward with its M&A Roadmap by completing a total of six transactions.

At € 24.0 million, non-recurring effects in the fiscal year – which are factored out when calculating adjusted EBITDA – were greater than expected. They were primarily due to the VCP and to the corporate acquisitions.

The increased investments in 2021 were due to a higher figure for capitalized own work, at € 14.2 million in 2021 (2020: € 8.2 million). Total R&D expenditure came to € 52.4 million in 2021 (2020: € 41.9 million); (see also section "Research and development", p. 28).

Other operating income amounted to € 5.9 million (2020: € 4.8 million). As in the past, this income was again influenced in 2021 by the measurement of contingent purchase-price liabilities. A further influencing factor was the consolidation of a previously equity-accounted investment.

The cost of materials rose by 7.0% to € 48.4 million (2020: € 45.3 million) due to revenue growth. The increase of 12.7% in staff costs to € 160.7 million (2020: € 142.7 million) was chiefly attributable to the increase in personnel numbers



■ International
■ DACH

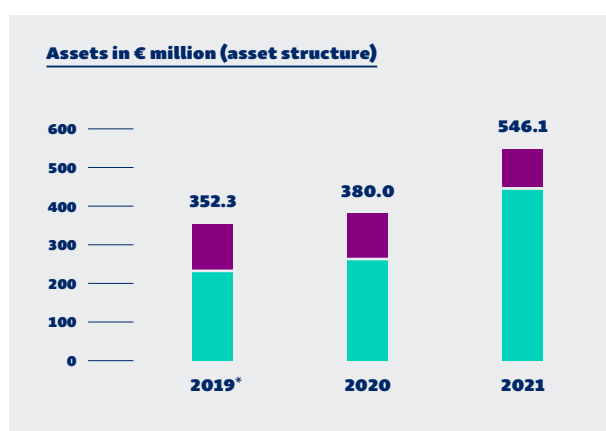
triggered by organic growth and the integration of the employees of the acquired companies. Other expenses increased by 26.1% to € 37.5 million (2020: € 29.8 million). This was due in particular to the consulting services required for the VCP.

At € 164.2 million, Aareon’s revenues in the DACH segment were roughly the same as in the prior year (2020: € 163.9 million). The original forecast figure of € 175.0–177.0 million could not be reached because of the ongoing pandemic. That was due in particular to the year-on-year decrease in consulting revenues. By contrast, recurring revenues were up compared with a year earlier.

In the case of ERP products, the shift from the licensing model to SaaS and subscription contracts caused recurring revenues to grow and licensing revenues to decline. Insurance commission income from BauSecura grew year on year. The newly acquired entities GAP-Group and wohnungshelden contributed to revenue growth. Digital products recorded higher revenues, especially in the shape of recurring revenues for CRM (wohnungshelden), SRM (Mareon) and WRM

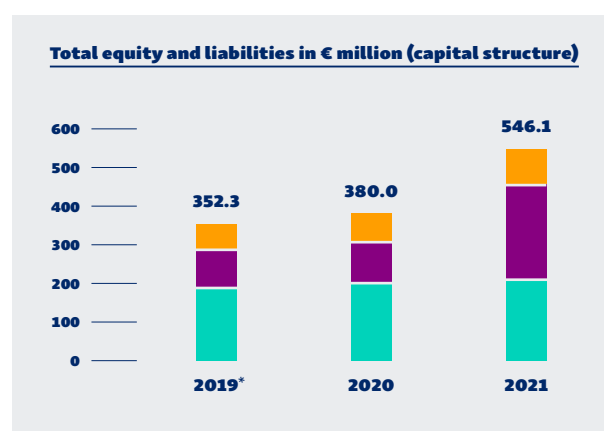
products (Archiv kompakt and mobile solutions). Both ERP and digital products were affected by the decline in consulting, with customers postponing implementation projects because of the pandemic. On the one hand, revenues were unchanged, and travel and marketing expenses were lower. On the other, staff costs were up due to integration of the new acquisitions and the increase in internally generated assets. In combination, this resulted in adjusted EBITDA in the DACH segment of € 45.4 million, which was up year on year (2020: € 40.6 million) and also higher than forecast (€ 42.0–43.0 million).

Revenues in the International Business segment were up 11.6% to € 105.1 million (2020: € 94.2 million). That surpassed the original guidance of € 101.0–103.0 million. Revenues from ERP products were significantly higher year on year, with the acquisitions in the UK (Arthur Online, Tactile, RentPro/Curo Software) and the Netherlands (Twinq) a contributing factor. The Netherlands, in particular, posted strong increases in recurring revenues, which also led to substantially higher adjusted EBITDA. Apart from the acquisitions, this was due



■ Current assets
■ Non-current assets

* Restated



■ Current liabilities
■ Non-current liabilities
■ Equity

* Restated

to the business model shift towards SaaS. In France, consulting revenues were higher year on year. In the Nordics, rollout delays for the new release of Aareon Incit Expand and the focus on the core market of Sweden meant the company fell short of expectations, both for revenues and adjusted EBITDA. Digital products recorded strong growth, with BRM products from Fixflo in the UK and CRM products in France making major contributions. As expected, total adjusted EBITDA came in at € 21.4 million, on a par with the previous year.

Net assets

Aareon's total assets amounted to € 546.1 million in 2021, up 43.7% year on year (2020: € 380.0 million). At € 448.2 million, non-current assets rose by 69.3% on the previous year (2020: € 264.7 million), mainly due to the increase in intangible assets from the acquisition of companies in the software industry. In addition, high investments to enhance our suite of solutions led to an increase in internally generated software. Current assets decreased by 15.1% year on year to € 97.9 million (2020: € 115.4 million).

The completed acquisitions diminished cash and cash equivalents.

Financial situation

Capital structure

Compared with the previous year, equity climbed by 4.0%, from € 201.0 million to € 209.0 million, chiefly due to fair-value remeasurements of financial instruments and to price effects.

Non-current liabilities rose to € 246.1 million (2020: € 106.1 million). The increase was driven by deferred tax liabilities in connection with initial consolidation of the acquired companies and by the loan agreement taken out to finance acquisitions.

At € 91.1 million, current liabilities were up 24.8% year on year (2020: € 73.0 million), primarily due to the increase in contract liabilities from the growth in recurring revenues (maintenance and SaaS) and to the rise in purchase price liabilities in relation to the acquisitions.

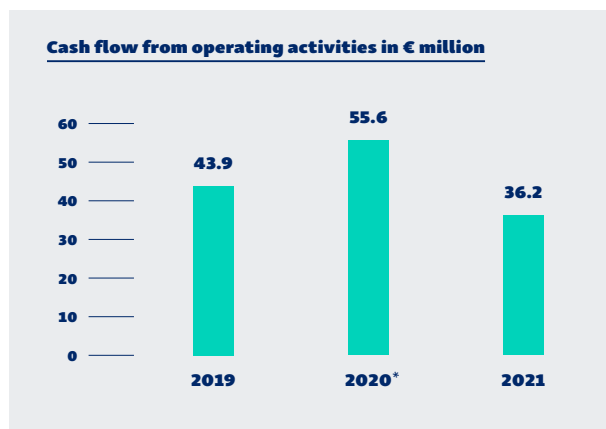
Liquidity

The statement of cash flows is the key to analysing Group liquidity. Cash funds amounted to € 32.5 million in 2021, compared with € 50.4 million in the prior year.

At € 36.2 million, cash flow from operating activities was lower year on year (2020: € 55.6 million). The decrease was driven by reduced EBIT (earnings before interest and taxes), due in part to capital expenditures in the context of the VCP.

At € -173.6 million, cash flow from investing activities increased year on year (2020: € -45.4 million), due primarily to payments of € -148.6 million to acquire consolidated companies (2020: € -22.2 million).

Cash flow from financing activities amounted to € 119.6 million (2020: € -11.7 million) and was chiefly attributable to non-current liabilities (loan agreement, see above) to finance the company's M&A strategy.



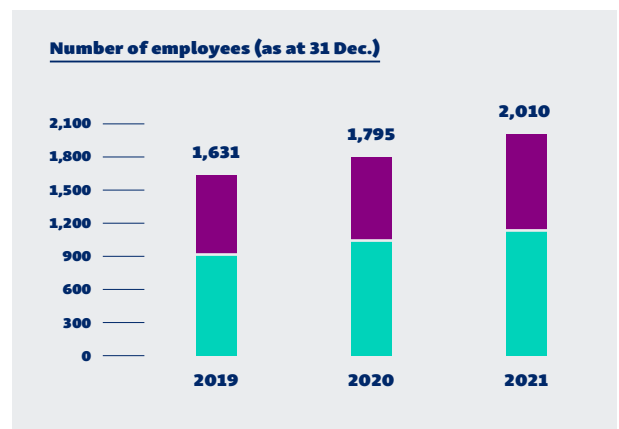
*Restated

Our staff

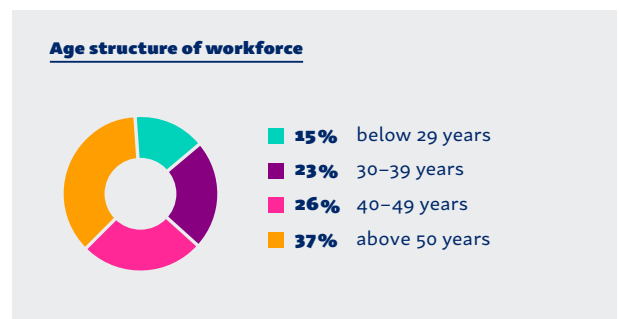
In the digital working world – which the pandemic has made substantially more significant – and in the wake of the digital transformation, it is important to have a human resources policy that focuses on employees as people. Aareon has been pursuing a sustainable, life-phase-oriented personnel policy for a long time now. The policy takes account not only of the employees’ work-life balance – which also encompasses flexibility as regards when and where they perform their work – but also what level of performance can be expected of individuals in the particular phase of life in which they find themselves. Factors such as knowledge and expertise, health, equal opportunities, diversity and each employee’s professional development are an important part of this policy and reflect the changes taking place in society – changes that include the digital transformation, demographic change, higher retirement ages and immigration. Given the ever faster pace of change and technical progress, agility is becoming ever more important. Flexibility and life-long learning are critical success factors, which are encouraged under Aareon’s personnel policy.

For around 20 years now, Aareon has been carrying out anonymised Group-wide employee surveys on an annual basis. They are a tool for gauging the employees’ mood and provide insights into how specific improvement measures are put into practice. The Group-wide response rate of 74% for the employee survey shows that both rank-and-file employees and management consider it important to participate in the future success of the company. General levels of employee satisfaction remain high. Management of the pandemic at Aareon met with very positive feedback. Employees assessed as positive the ability to work from home and the flexibility it granted them.

The ongoing pandemic meant that employees were able to work from home again in 2021. At times, sites were either shut down altogether or the maximum number of employees allowed to be present in the office was capped at 25% of the workforce. What is more, Aareon in Germany offered all



■ International
■ DACH



its staff and their family members vaccinations – an offer many of them took up.

As at 31 December 2021, Aareon had a total of 2,010 employees (2020: 1,795). The average period of service with the company was 10.3 years (2020: 9.9 years). The international subsidiaries accounted for 43.5% of the workforce (2020: 42.0%). Aareon promotes flexible working time models and rolled out a company-wide agreement on off-site working options

in 2019. The agreement grants employees the flexibility to perform some of their work outside the office, including from home. At times during the pandemic, almost all employees worked from home. The proportion of women in the workforce was 33.9% (previous year: 34.4%), while the share of women in management positions was 23.1% (previous year: 25.5%).

Qualification and further training

With the pandemic lasting throughout 2021, personnel development measures in digital form continued as well. Via the Cornerstone Learning Management System, the company offered training courses on housing industry topics from the EBZ Business School Bochum and on leadership, agile project management, soft skills, communication and health from Pink University. Other offerings included intercultural training courses, special consulting courses, a digital coaching programme lasting several months, and online language courses.

The fifth cross-mentoring programme was completed in 2021. Cross-mentoring is a personnel development tool aimed at encouraging knowledge transfer. It involves the systematic sharing of ideas and experiences between employees at different companies. 2021 was exceptional in that two programmes ran in parallel: the sixth round commenced in June 2021 and is ongoing.

Initial training and the promotion of young talent

In addition to trainee programmes, Aareon offers dual-study degrees in Business IT and in Media, IT and Management, as well as a variety of vocational training courses in office management and IT (the latter with a specialisation in either application development or systems integration). At year-end 2021, the Aareon Group employed 15 trainees and three dual-study students in Germany.

As part of its programme to promote young talent, Aareon supported JOBLINGE, an initiative for young people who have had a hard start in life. Three former participants of the JOBLINGE initiative have already completed their vocational training and been given employment by Aareon. Three Aareon employees contribute to the JOBLINGE initiative as volunteer mentors.

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

Forward-looking corporate culture

As an innovative company that is driving the digital transformation in all areas and managing the associated change process for its staff, Aareon had already adopted a range of measures in connection with the work4future project, which was concluded in 2020. In 2019, a company-wide agreement on off-site working options was put in place, further enhancing flexibility for employees in terms of where they perform their work. Back then, a digital collaboration tool was rolled out for internal communications. This has proven its worth since 2020, especially during the pandemic, with employees being able to cooperate closely despite physical distancing. This was supported by various campaigns and regular posts by the Management Board. In 2021, especially against the backdrop of the pandemic, numerous corporate health management measures were taken to support employees in the digital working world. Office space concepts were evolved to meet the requirements of an inspiring, state-of-the-art working world. Boasting a large number of open spaces, niches and meeting pods, the office concepts reflect a new way of working together.

Aareon sets great store by a healthy work-life balance and the company has been awarded a corresponding certificate

Internal control system

in this regard by berufundfamilie, a non-profit organisation. The first certification was first awarded back in in 2008. The company's personnel-related services in this context include making working hours more flexible, partnering with a family service company, and providing parent-child offices as well as crèche and kindergarten places in cooperation with a company based in Mainz. In addition, in September 2021 Aareon was certified as an attractive employer in Germany and France under the Great Place to Work® standard.

Equal opportunities form an integral part of Aareon's personnel policy. Women are represented in various management roles and on the Management Board. Many women also exercise responsibility in projects and sub-projects or play a role as specialists. Aareon's goal is to achieve even greater balance in this area. In this context, targets for the representation of women were set at the subsidiary Aareon Deutschland GmbH in 2018 in accordance with the German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and the Public Sector.

Compensation principles

Aareon's compensation systems are aligned with its strategic goals. The objective is to provide employees with compensation that is attractive and motivating as well as in line with market benchmarks and personal performance. Equal pay for men and women performing the same duties is part of that as well. This policy can help Aareon to attract and retain dedicated, highly qualified employees with high potential. It is up to each individual company within the Group to design its own compensation system in line with these principles. The ultimate responsibility for this rests with local management, who must also take into account the co-determination rights of the bodies representing the employees in each company as well as local statutory regulations. Aareon makes its principles for compensation systems known at every Group company.

Aareon's internal control system (ICS) consists of systematic organisational measures and controls that are designed to ensure compliance with its directives and to avert potential losses caused by its own staff or third parties (compliance management). In this connection, Aareon has opted for a risk-based approach.

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

In addition to customers and products, which constitute the company's core processes, the processes in question relate to liquidity, personnel and legal affairs.

The Management Board of Aareon AG is responsible for designing, establishing, applying, refining and reviewing an appropriate system of internal control over financial accounting. At Aareon AG, the processes for (Group) financial accounting are managed by the Corporate Finance unit, which also takes charge of Group financial reporting. All of the company's subsidiaries are included in its consolidated financial statements. The Accounting and Contract Management unit handles some aspects of financial accounting – including preparation of the annual financial statements in the Group's SAP® software programme – for Aareon AG and its subsidiaries Aareon Germany GmbH, phi-Consulting GmbH, Aareon RELion GmbH, AV Management GmbH and CalCon Germany GmbH. The financial accounts of BauSecura are handled by the Funk Group. Aareon UK, Aareon France, Aareon Nederland and the Scandinavian companies of the Group each have their own autonomous financial accounting units, and these also enter their respective financial data independently in the Group's in SAP® software programme. In 2021, employees of the Finance unit in Germany entered the financial data reported by the CalCon companies in Austria

and Romania, by wohnungshelden GmbH, OFI Group GmbH and GAP-Group, and by the international companies Arthur Online Ltd., Tactile Ltd., RentPro Ltd. and Curo Software Ltd. in the Group's software programme. The Financial Accounting unit of Aareon Nederland entered the data of the Twinq companies. After the closing date for the separate financial statements, the reported data is transferred to SAP® EC-CS, the software programme used for consolidation. During the consolidation process, carrying amounts are automatically converted into the functional currency (euro) using the closing rate on the reporting date, while income statement items are converted using the average exchange rate, and added together in the cumulative balance sheet or statement of comprehensive income, respectively. Receivables and liabilities as well as income and expenses between Group entities are eliminated. The carrying amounts of investments and capital are also consolidated, as are unilateral transactions such as dividend payments. Finally, Group postings – such as first-time consolidations and deconsolidations, and the amortisation of assets and deferred taxes from first-time consolidations – are made manually.

Internal guidelines for preparing Aareon's separate financial statements and consolidated financial statements are set out in the Group accounting manual. These guidelines are made available to all Aareon subsidiaries, reviewed on a regular basis and updated as required. During preparation of the financial statements, plausibility checks are carried out in the accounting systems of subsidiaries and key individual items analysed. In addition, a schedule for preparation of the annual financial statements is in place, in accordance with which each subsidiary completes its separate financial statements and submits them to the relevant Group department for preparation of the consolidated financial statements. Control processes are in place to monitor both automated and manual entries. Key accounting procedures are subject to subsequent dual control. An authorisation process is in place to protect the accounting and financial reporting systems

against unauthorised access. Aareon also makes use of external service providers, for instance to assist in measuring pension obligations.

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

Aareon has summarised its core processes in matrix form. It has analysed the relevant objectives of the control process and devised appropriate control activities. Performance of the control activities, and hence the effectiveness of the controls, is documented in a variety of ways.

The Supervisory Board receives quarterly reports on the Group's performance.

Aareon AG's Internal Auditing unit exercises a process-independent supervisory function, reporting directly to the Management Board and providing audit and advisory services that are focused on monitoring the compliance, security and profitability of Aareon's business processes.

Aareon is integrated in the financial processes of its parent company, Aareal Bank AG.

Aareon AG maintains a risk management manual, which describes the main elements of its risk management system. In this context we also refer to the information provided in the risk report.

In accordance with the regulatory requirements, Aareon is not obliged to provide information on either the effectiveness or efficiency of its internal control processes and risk management system in relation to the Group accounting process. Aareon AG has no internal control process or risk management system in place for its Group accounting process. Relevant risks and how they are mapped are discussed in the risk report.

Risk report

Fiscal 2021 was overwhelmingly shaped by two factors: Aareon's ambitious growth strategy and the effects of the Covid-19 pandemic. Mergers and acquisitions enable Aareon to grow its market share and enter new market segments. A new organisational unit called Post-Merger Integration was established to assist with the integration of new companies and their employees into the Aareon Group. The Value Creation Program was developed to further accelerate growth within the Aareon Group. Thus far, Aareon has successfully managed the pandemic thanks to a flexible digital working environment and its digital offering known as Green Consulting. In parallel, the pandemic crisis team continued its work, developing and putting in place measures to protect the company's workers.

With a view to monitoring and controlling corporate risks, a project was set up to roll out the new standard software programme R2C_GRC to replace the previous tool used. The new software is a Group-wide risk management system with an early-warning function. The risk management system enables those responsible for the relevant divisions, investments and projects to regularly record and analyse their respective risks – but not the associated opportunities – as well as to develop proactive risk management measures. Risks are assessed in two separate dimensions, namely in terms of their impact and their probability of occurrence. Only residual risk is assessed and reported, i.e. any risk minimisation measures in place are taken into account. In addition to general corporate risks, special emphasis is placed on information security risks, which are recorded and assessed in a separate information security inventory. Whereas general corporate risks flow directly into the risk management system, information security risks are accounted for in aggregate form.

The resulting risk reports are consolidated by the Group's Legal, Risk Management and Compliance unit and provide the

basis for quarterly risk reporting. This topic is dealt with regularly at board meetings and also forms part of the quarterly reports submitted to the Supervisory Board of Aareon AG. Aareon uses the risk reporting system to shed light on its risk situation and provide management with a basis for deciding what action to take. For each of the ten risks assessed in each quarter as having the highest expectancy (i.e. the product of impact and probability of occurrence), the corresponding measures specified by the risk owners are documented in the risk reports, to the extent that the risk expectancy exceeds a defined threshold. The threshold is currently set at € 100k. At the applicable Q4 reporting date, 12 risks met the criteria for special individual reporting. In addition to documentation of the measures taken in the fourth quarter, the measures taken against risks whose expectancy ranked among the top ten in any of the preceding three quarters are also documented. This juxtaposition of risks and measures serves two purposes: firstly, to aid comprehension of the risk assessments, and secondly, to assess the effectiveness of the measures taken. Over and above this, the Management Board of Aareon AG and the management of the DACH¹⁾ region, the Group's biggest, decide on the measures to be taken against risks whose expectancy exceeds a further defined threshold.

Aareon's Internal Auditing unit carries out reviews of the risk management system. These include checking for compliance with statutory provisions and with the Group-wide guidelines documented in the risk management manual. In addition, a control owner carries out an internal audit in accordance with German auditing standard IDW PS 951 nF to ascertain whether the internal risk management controls in place are effective.

The categories of risk to which Aareon is exposed comprise financial and market risks, management and organisational risks, risks from incidental and ambient conditions, and

1) D = Germany, A = Austria, CH = Switzerland

production risks. Financial risks are considered to encompass liquidity, cost and revenue risks. Market risks include customer and competition risks, risks relating to associations' and advisory councils' opinion leadership, supplier risks and risks arising from inorganic growth. The management and organisational risks category combines risks relating to personnel and internal processes. The incidental and ambient conditions category comprises legal risks and compliance risks. Production risks comprise product and project risks as well as risks relating to information security. Interdependencies exist between individual risks. No overall risk value is calculated at the risk-category level. The planning period at this level is one year.

Having categories and subcategories enables Aareon to draft a harmonised risk atlas and achieve a uniform approach to the examination of risks. The risk atlas summarises the risks and indicators monitored by the individual divisions and Group companies.

If any major changes are decided on at meetings of the corporate bodies as regards organisation, strategy or management policy, the central risk management department adjusts the risk atlas accordingly.

Viewed on average across the quarterly risk assessments, the risks faced by the company in 2021 were deemed to be higher than in the previous year. On the whole, Aareon was not exposed to any risks that threatened its status as a going concern or had a significant impact on its net assets, financial situation or earnings. The following is a description of risks of material interest to the readers of the financial statements.

Financial risks

The Aareon Group's demand for capital is constantly rising due to its strong growth. That demand is met in close co-operation with the Aareal Bank Group. The bilateral line of credit provided by Aareal Bank was used mainly to finance corporate acquisitions.

Liquidity risk is defined as the risk that a company may be unable to meet its financial obligations. Aareon is convinced that its existing credit facilities with Aareal Bank AG and the cash inflows from its ongoing business operations are sufficient to meet the Group's foreseeable liquidity requirements. In order to avoid liquidity risks throughout the entire Aareon Group, risks are monitored and controlled in the DACH region in separate weekly and monthly liquidity planning rounds. Short-term fluctuations in cash flow are monitored on a daily basis and, where necessary, suitable counter-measures are taken. At the international subsidiaries, this liquidity forecast is prepared on a monthly basis. In addition, Aareon AG resolved to carry forward the profits for fiscal 2021.

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

The tax risk rises as a result of inorganic growth and the rising complexity of business transactions. Examples of this risk

include potential claims arising from company audits and losses that do not qualify as loss carryforwards. A tax compliance system was established to counter these rising risks.

The increase in financial risks compared with the previous year was primarily attributable to the higher assessment of tax risks and to external financing of the company's growth strategy.

Market risks

Regular reports to the Management Board on the market situation help Aareon counteract the risk of being unable to achieve its planned prices in the marketplace. The Aareon Group also has to deal with general market risks. These also include indicators such as customer churn and the entry of new competitors into the market. Aareon counters the risk of any deterioration in customer relationships by regularly checking levels of customer satisfaction. In addition, the success of converting contracts to the new SaaS/subscription pricing model is measured on a regular basis.

In view of the ongoing changeover to the new model, market risks were assessed as being higher than in the prior year. Aareon responded to this higher risk by introducing a grace period for customers, allowing them more time for their internal decision-making process.

Management and organisational risks

In order to meet changing customer requirements, the company must ensure that the requisite personnel resources with the corresponding qualifications are made available in the right place at the right time. The growing shortage of qualified personnel, especially in the IT industry – a shortage

exacerbated by decreased willingness to change jobs during the pandemic – makes it harder and harder to fill vacancies in time and uphold business operations. Aareon is countering this risk with new approaches to recruitment, such as social media marketing and employer branding activities. The company is also testing, or already deploying, substitutes to traditional employment models, including greater use of nearshoring and outsourcing. When Aareon avails itself of the services of external service providers, it is particularly aware of the potential risks of hiring workers illegally and has taken action to reduce such risks.

Relative to the previous year, leadership and organisational risks were assessed as being moderately higher.

Risks from incidental and ambient conditions

At Aareon, the term "incidental and ambient conditions" is used to cover legal, political, regulatory and compliance risks. As an IT service provider, Aareon is particularly exposed to risks arising from breaches of IT-relevant regulations. Such risks are processed in at least one of the management systems in use in the Information Security (IS), Data Protection or Compliance units. These units cooperate closely with each other to counter the risks both effectively and efficiently, and to avoid divergences in how they assess IT-relevant threats. This helps to bring compliance measures into alignment with information security measures.

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

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

The consequences of the EU’s General Data Protection Regulation (GDPR) for Aareon’s established risk management system were taken into account in Aareon’s data protection organisation system, which applies Group-wide. Data protection is an integral part of Aareon’s business. The tasks arising out of this project, namely to preserve and maintain the data protection management system, are constantly being monitored and evolved as well.

Relative to the previous year, the risks associated with incidental and ambient conditions were assessed as being marginally higher.

Production risks

Like any other project, software development harbours the risk that the final product cannot be provided at the targeted cost, in the expected quality, or within the time frame required by the market. That is why such work is carried out using development and management methods based on

internationally recognised standards. Procedures and standards are set down in a uniform international development policy that places particular emphasis on security and data protection, and takes account of both agile and traditional development methods. Development and customer projects are increasingly being implemented using agile methods, enabling risks to be identified early and monitored. Responsibilities for continuous improvement processes for software quality have been assigned within the organisational structure. Particular points of focus in this context are the expansion of cloud services, and capital expenditure on security and on the automation of software testing and operation in order to ensure consistently high quality at lower cost and to achieve a smooth flow of deliveries.

The information security management system is based on the internationally recognised ISO 27001 standard and is subject to a continuous, risk-oriented improvement process. In this context, technical and organisational checks were established in order to ensure a level of protection as regards information processing. This relates not only to the area exposed to attack in public networks per se, but also the appropriate, proactive response to information security threats as regards the protection goals of confidentiality, integrity and availability. As part of the continuous improvement process, uniform standards compliant with ISO security management standard 27001:2013 were rolled out across the Group on the basis of the Aareon security strategy. In addition, processes, guidelines and controls were honed in a risk-oriented manner.

Documented realistic countermeasures are taken to minimise the risk of any serious disruptions during the operation of

customer software. Thus far, we have not experienced any disruptions leading to a prolonged loss of service. In order to minimise the risk of an application being disrupted as a result of unauthorised access or an attack, technical and organisational measures have been taken that are anchored in the internal control system in accordance with German auditing standard IDW PS 951 nF. Appropriate fire-protection and loss- and disaster-prevention measures have also been put in place. Internal redundancies are in place to counter the failure of individual systems or components. Aareon's data centres were built in 2011, are audited by the TÜV technical inspection agency and have been certified as compliant with High-Availability Level 4. Key factors in this certification were the utilisation of state-of-the-art technologies, such as building infrastructure with heat-recovery technology, the mirroring of data between the two data centres, and fibre-optic cabling with cutting-edge encryption technology. Aareon has also established comprehensive data backup processes that allow it to reconstruct lost data in whole or in part within corresponding time frames. Aareon has addressed the issue of liability risk by taking out financial liability insurance for a limited scope and amount. The insurance policy provides cover in the event that Aareon is found liable to a third party for financial losses incurred as a result of its activities as an IT provider.

The increase in production risks compared with the previous year is primarily due to the higher assessment of cyber risks. The company not only organises training courses to raise employees' awareness of these risks, but also conducts regular PEN tests to ensure that data centre infrastructure at its various sites is secure. In addition, a foreign domain has already been moved to the Aareon Data Centre.

In early February 2022, the REMS data centre in the Netherlands became the victim of a professional cyber-attack, which was detected by its own security systems. The data centre was taken off-line immediately and all customers were notified. With the aid of backups in the Aareon Data Centre, the systems went into operation again.

In line with Aareal Bank AG's customary criteria for determining potential reputational damage, the reputational risk stemming from the cyber-attack was assessed as follows, based on the current state of affairs. The reputational risk as regards media impact and loss of customers was assessed as low. By contrast, the reputational risk in relation to individual stakeholders' perceptions of malfunctions and to the number of customer complaints was considered to be of medium magnitude. The legal risk is still being assessed. As things stand at present, Aareon Nederland B.V. has provisionally assessed the legal risk as being low. It is currently not possible to estimate the amount of potential reimbursements for this attack under the company's cyber-insurance policy.

Opportunities

Identifying, creating and utilising opportunities is central to Aareon's corporate strategy of managing the digital transformation process in a purposeful manner. Aareon's own research and development activities play a crucial role here, as do its constant observation and analysis of developments in the property and IT industries, the competitive environment and society as a whole. The insights gained are incorporated into its strategic programme, the Aareon Flight Plan, of which the Value Creation Program has also formed a part since 2021. The opportunities this gives rise to, some of which are correlated with each other, are categorised below. They were largely unchanged compared with the prior year:

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

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

Opportunities from customer focus

Customer focus is pivotal at Aareon. The goal is to use Aareon's portfolio of products and services to add value for customers, also by making their day-to-day work easier. With its ERP systems and digital solutions, Aareon helps the property industry, which is facing a shortage of qualified personnel and rising rents, to work more efficiently. In many cases, Aareon's relationships with its customers, the property industry and their partners have grown over many years. The company is a member of several property industry associations, including the German Federation of Housing and Property Companies (GdW). Beyond that, Aareon systematically maintains a dialogue with its customers – through the Aareon customer advisory councils, at numerous

customer events and in individual talks with them. This proximity to its customers and the industry presents opportunities to identify customer trends, needs and requirements as they arise and to factor them into the ongoing development and expansion of Aareon's portfolio of products and services. In this context, Aareon also makes use of agile development methods like design thinking and collaborates with customers and partners in pilot projects (co-creation). These approaches can help enhance utility for the customer.

Opportunities from pioneering solutions

The digital transformation process in society and the economy is proceeding apace and is characterised by technological innovations. In this context, the Covid-19 pandemic has functioned as an additional catalyst. Aareon is integrating the opportunities offered by the digital transformation into its product strategy. It is constantly expanding the Aareon Smart World digital ecosystem – which centres on the company's ERP systems and also includes innovative, integrated digital and mobile solutions – and also enhancing it with solutions from its PropTech partners. Aareon Smart World connects the partners in the property industry. Our customers can use it to work in a convenient, process-efficient manner using a single database, to expand their own customer service capabilities and to leverage potential for new business models. When solutions are utilised via software as a service (SaaS), the corresponding data is stored in the exclusive Aareon Cloud located in the certified Aareon Data Center. Aareon offers professional consulting services for all its products and services. Aareon consultants help their customers to set a digital agenda and focus on the right products and solutions to optimise their business processes. They also provide them with ongoing support throughout their implementation projects. Companies often want to be able to source their IT services from a single provider because of the high degree of complexity involved. Compared with its competitors, Aareon has opportunities because of its ability

to offer consulting, software and services from a single source. When refining and enhancing existing products and services or developing entirely new ones, Aareon harnesses the growth potential arising out of the new trends and requirements of both customers and the market. Aareon's CRM solutions respond to people's growing desire to continue living to a ripe old age in their own four walls. For example, a tenant app can help organise neighbourhood assistance, such as help with shopping for the less mobile elderly, or could in future be linked to care providers. Our working world is being transformed – not least by the coronavirus pandemic – resulting in growing numbers of employees working from home or from anywhere, but also in the rise of coworking spaces. All this calls for the technical and organisational underpinnings that Aareon's solutions can deliver. A tenant app can be used, for instance, to book desks in coworking spaces and other community rooms. Mobile WRM solutions support property industry staff when working on site in buildings.

At Aareon, research and development have a key role to play in enabling the company to tap the growth potential offered by the digital transformation (see p. 28). When conducting R&D, Aareon also collaborates with property companies in line with the above-mentioned design thinking method (see p. 46). It also works together with PropTech companies and is a strategic partner of blackprint Booster Fonds (see p. 27).

Opportunities from active brand management and quality

Aareon takes an active approach to brand management, In September 2021, for example, it evolved and refined the vision, mission and values that drive the company, thus honing its corporate identity. As this influences customers' purchasing decisions, it is of central importance to Aareon's growth strategy. Aareon aspires to offer every customer the right solution or solution package. Aareon views rigorous implementation as an opportunity to achieve growth. In order to

make good on its claims, Aareon systematically utilises quality management tools such as customer and employee surveys, and commissions regular audits and certifications in a variety of areas. In addition, the IT solutions it develops are reviewed and vetted in multiple quality assurance rounds.

Opportunities from being an international corporate group

Aareon is an international corporate group and pursues a strategy of international growth. The close collaboration between Aareon's international subsidiaries creates diverse potential for synergies: for example, products marketed in one of Aareon's national markets can also be rolled out in others. This applies equally to new products being developed in one national market – all of the Group's customers stand to benefit from them. Digitalisation of the property industry leads to different points of focus in each of the countries in which Aareon operates. This creates opportunities not only for the transfer of knowledge between the Group's international and domestic entities, but also for research and development (see section "Research and development", p. 28). Aareon makes use of these opportunities to expand Aareon Smart World and thus generate additional growth potential. The commitment to add value for Aareon's customers is what unites the company's employees across Europe.

Opportunities from being a preferred employer

The demographic trend is making competition for qualified workers more intense. It is also essential to manage the transformation to a digital working world and make sure all employees are on board. That is why constantly honing our profile as a preferred employer – one that is capable of attracting new employees – is crucial to our success. Aareon has implemented many measures in recent years and will

continue to build on them. The topics covered include an innovative and inspiring working environment, a healthy work-life balance – also through opportunities to work away from the office – a life-phase-oriented personnel policy, equal opportunities, diversity, knowledge sharing and corporate health management. Binding leadership guidelines and a strong team spirit between line managers and their teams are further components of our employer profile. This creates opportunities for enhancing employee satisfaction and loyalty, and for facilitating the recruitment of new, highly qualified employees. In the race to recruit new workers, Aareon relies, among other things, on employer branding activities – also via social media – that help to establish links to potential employees at a very early stage.

Opportunities from a sustainable business model

Aareon's goal is to entrench environmental, social and governance (ESG) aspects in its value creation processes

and factor them into corporate decision-making. This creates opportunities to ensure its viability in the long term and to cultivate an image of a responsible company with its stakeholders. Since 2012, for example, the Aareal Bank Group – and thus also Aareon – has been accorded Prime Status in the sustainability rankings of ISS-ESG, a well-known rating agency. Key aspects of sustainability at Aareon include: a sustainable, forward-looking business model; Aareon Smart World, which leverages the potential of digitalisation with its customer-centric, high-quality IT solutions; high levels of data protection and security; a responsible, life-phase-oriented personnel policy that exploits the opportunities provided by the digital working world; and systematic resource management. The Aareal Bank Group's annual Sustainability Report also describes the sustainability measures adopted by Aareon. Aareon purchases offsets from the appropriate providers for all CO₂ emissions generated by the company's business travel. Aareon is also a member of Allianz für Klima und Entwicklung, a German government initiative for sustainable development and climate protection.

Outlook

Aareon will accelerate its growth strategy in 2022 in order to become a Rule-of-40 company in the medium term (by 2025). This metric is calculated based on revenue growth and the (adjusted) EBITDA margin. The combined figure should be 40% to reflect an even balance between growth and profitability. In this context, the company will continue implementing the Aareon Flight Plan (see section “Goals and strategies”, p. 25). The Aareon Flight Plan includes capital spending on new and existing products along with the Value Creation Program (VCP) measures, which reached the highpoint in the past fiscal year. This will be complemented by inorganic growth (mergers and acquisitions). The VCP measures include the expansion of sales activities (such as the marketing of process-oriented product packages comprising an ERP product and various digital solutions), the accelerated transition from in-house operations to SaaS and the subscription model respectively, enhanced efficiency through the implementation of software solutions, further optimisation of operational processes (operations excellence) and the expansion of internal reporting processes.

Aareon’s consolidated revenues are likely to rise substantially in 2022, reaching € 305.0–325.0 million (2021: € 269.3 million). This is to be achieved through the expansion of operations and through the contribution made by the companies acquired during 2021. After the significant impact the pandemic had on Aareon’s consulting activities in 2020 and 2021, the company expects to post strong growth in consulting revenues in 2022. Building on that, Aareon expects the long-term growth rate for digital solutions it had previously announced to be significantly higher year on year (2021: 15%). The revenue growth rate for ERP products should be in the low double-digit range. The planned further expansion of the SaaS business, coupled with the subscription model as a payment option, will result in substantially lower licensing revenues. However, recurring revenues should increase significantly in the short-to-medium term. At € 73.0–78.0 million, adjusted EBITDA should be considerably higher than last year (2021: € 66.8 million). Thanks to the initiatives described above,

management considers Aareon to be well placed to achieve its goals between now and 2025. Fiscal year 2022 will contribute to this by achieving the expectations outlined.

DACH segment

We expect revenues in the DACH segment to rise substantially in 2022, to between € 195.0 million and € 205.0 million (2021: € 164.2 million). At between € 48.0 million and € 51.0 million, adjusted EBITDA is also expected to be considerably higher than last year (2021: € 45.4 million).

Aareon expects ERP revenues in the DACH segment to rise strongly in 2022. Consulting business revenues are likely to increase, as we currently expect that the pandemic will have a minor impact, and demand from existing customers for consulting services will increase as the new product generation Wodis Yuneo is rolled out. Launched in September 2020, the ERP system Wodis Yuneo has thus far met with a very positive response from the market. In 2022, it will be offered as a subscription model and in SaaS form, and it is likely to be a revenue driver. Aareon expects the product SAP® solutions/Blue Eagle to generate revenues on a par with last year. Revenues from the ERP solution RELion, which is focused on the commercial-property segment, are expected to be much higher than in 2021, mainly due to the upswing in consulting services. Business volumes for Aareon Cloud Services and the BauSecura insurance management solution will be similar to last year. The ERP system immotion®, which has been part of the product portfolio since the acquisition of GAP-Group, will contribute to the strong rise in ERP revenues in 2022.

Digital solutions will be decisive in helping Aareon realise its growth potential in the DACH segment. Since 2021, some digital solutions have been marketed together with Wodis Yuneo in a variety of process-oriented packages, further enhancing digital-solutions sales. In the case of WRM and CRM

products (for definition see section “Aareon’s portfolio”, p. 22), we expect in particular to see an increase in SaaS revenues as further products go live and wohnungshelden GmbH’s digital solutions are added to the portfolio. Revenues from SRM products (for definition see section “Aareon’s portfolio”, p. 22) should increase as the volume of orders from tradespeople managed via Mareon rise and new customers are acquired for the Vacancy Management solution. Aareon estimates that revenues from CalCon Germany GmbH’s BRM solution will rise significantly in 2022. This estimate is based, in particular, on the assumption that the Covid-19 restrictions will be relaxed in 2022 and that all product consultations will then be able to take place in person again.

Capacity will be added in order to boost business volume and achieve our medium-term goals, resulting in higher material and staff costs. Moreover, the expenses incurred by inorganic growth during the year will add to costs. Other costs will rise in 2022 due to growth in business travel and marketing activities.

International Business segment

Revenues in the International Business segment are expected to increase significantly in 2022, rising to € 110.0–120.0 million (2021: € 105.1 million). In part due to the corporate acquisitions made in 2021, adjusted EBITDA will rise significantly, reaching € 25.0–27.0 million in 2022 (2021: € 21.4 million).

ERP product revenues in the International Business segment are expected to be significantly higher than last year. In 2022, international consulting revenues will gradually approach pre-pandemic levels again. In the Netherlands, the share of business accounted for by SaaS, in particular, will increase

substantially – driven by the acquisition in May 2021 of BriqVest B.V. (Twinq), which opened up a new market segment. In France, we expect to post significant revenue growth. A project for a major customer is slated for implementation in 2022. In the British market, Aareon UK will release an SaaS-capable version of its ERP software QL in 2022, which is expected to trigger a sharp rise in recurring revenues. In the SMB market segment (see section “Goals and strategies”, p.25), the company expects to continue gaining large numbers of new customers. We also expect to see a rise in recurring revenues in the Nordics. The software solution marketed there will be offered as standard software going forward. As a result, consulting revenues will be on a par with last year.

Revenues from digital solutions in the International Business segment are expected to be substantially higher than last year. Key growth drivers will be the digital solutions added through acquisitions in 2021 and the cross-selling of digital solutions to existing customers. Both licensing revenues and recurring revenues from SRM and CRM products (for definition see section “Aareon’s portfolio”, p. 22) should increase. Recurring revenues from WRM products (for definition see section “Aareon’s portfolio”, p. 22) are likely to rise, with the new product generation of Mobile in the UK being one factor in this increase. SaaS revenues from international BRM products (for definition see section “Aareon’s portfolio”, p. 22) should be higher. In the international markets, too, some solutions will be marketed in product packages, which should increase the market penetration of digital solutions.

On the cost side, both the workforce and staff costs will increase as business volume expands to meet the company’s medium-term growth targets. The cost of materials, which also includes the cost of external consultants, will climb as

well. As in the DACH region, other costs should rise considerably – on the assumption that, among other things, business travel picks up again.

Capital spending on new products and inorganic growth

In 2022, Aareon will press ahead with its offensive to develop new products and services. The virtual assistant Neela will be further refined as planned and new functionalities added. The marketing launch has already commenced in all countries. The first pilot customers are already in the launch and test phase, and will go live in the course of 2022. The same goes for the Aareon Smart Platform and Smart Partner solutions, which will also be offered across all national markets in 2022. Further investments on new products is also planned for 2022. For example, the company is working on a solution for predictive repairs and maintenance and to bring customers, landlords and partners together on a digital

platform. In addition, the capacities built up for M&As and post-merger integration will be utilised to continue driving Aareon's inorganic growth in 2022 (see section "Goals and strategies", p. 25) and successfully integrating the acquired companies. To this end, Aareal Bank will provide its subsidiary with an additional € 100 million; the line of credit for acquisitions will thus total € 350 million during the planning period until 2024.

The effect on EBITDA from adjustments – such as capital expenditure on new products, and M&A and post-merger costs – is expected to be between € -13.0 million and € -15.0 million.

All statements made in this Group Management Report that do not pertain to past events should be regarded as forward-looking statements. The company does not accept any responsibility for updating or correcting such forward-looking statements. All forward-looking statements are subject to differing risks and levels of uncertainty. As a result, the actual figures may deviate from expectations. The forward-looking statements reflect the prevailing opinion at the time that they were made.