Consolidated financial statements

Consolidated statement of comprehensive income

for the period 1 January to 31 December 2016

€ '000

	Note	2016	2015
Revenues	4.1	**210,654**	**186,911**
Germany		**134,150**	120,354
International Business		**76,504**	66,557
Other own work capitalised	5.1	**5,692**	4,396
Other operating income	4.2	**6,567**	8,388
Cost of materials	4.3	**32,570**	22,658
Staff costs	4.4	**111,015**	106,239
Depreciation/amortisation		**10,223**	9,940
Other operating expenses	4.5	**34,142**	33,409
Other taxes		**719**	592
EBIT (earnings before interest and taxes)		**34,244**	**26,857**
Net financial income/expense	4.6	**- 35**	- 173
EBT (Earnings before taxes)		**34,209**	**26,684**
Income taxes	4.7	**10,111**	6,016
Consolidated net profit		**24,098**	**20,668**
Of which attributable to:			
Shareholders of the parent company		**22,613**	19,194
Non-controlling interests		**1,485**	1,474
Other comprehensive income (OCI)		**- 228**	**- 508**
Items not recycled to profit and loss		**- 228**	**- 508**
Actuarial losses from defined benefit plans		**- 328**	- 737
Income tax on actuarial losses from defined benefit plans		**100**	229
Comprehensive income		**23,870**	**20,160**
Of which attributable to:			
Shareholders of the parent company		**22,385**	18,686
Non-controlling interests		**1,485**	1,474

Consolidated balance sheet

as at 31 December 2016

Assets – **€ '000**

	Note	31 Dec. 2016	31 Dec. 2015
Non-current assets			
Intangible assets	5.1	**118,432**	119,018
Property, plant and equipment	5.2	**11,882**	12,578
Financial assets[1]	5.3	**5,909**	5,935
Non-current income tax receivables	5.5	**0**	321
Deferred tax assets	5.6	**5,899**	5,790
		142,122	143,642
Current assets			
Inventories		**368**	326
Trade receivables	5.7	**47,452**	39,670
Other current assets	5.8	**3,918**	3,787
Current income tax receivables	5.5	**4,301**	7,015
Securities		**0**	297
Cash and cash equivalents	5.9	**28,792**	24,971
		84,831	76,066
		226,953	219,708

Equity and liabilities – **€ '000**

	Note	31 Dec. 2016	31 Dec. 2015
Equity			
Equity attributable to shareholders			119,473
Non-controlling interests	5.13	**1,563**	1,552
		123,836	121,025
Non-current liabilities			
Provisions for pensions and similar obligations	5.14	**33,858**	33,841
Other non-current provisions	5.15	**2,000**	1,974
Deferred tax liabilities	5.6	**7,892**	7,573
Non-current purchase price liabilities	5.16	**1,620**	3,187
Other financial liabilities	5.18	**0**	51
		45,370	46,626
Current liabilities			
Liabilities to banks		**0**	955
Other current provisions	5.15	**13,123**	12,093
Current income tax liabilities		**2,535**	1,554
Trade payables	5.17	**10,140**	6,735
Current purchase price liabilities	5.16	**980**	2,167
Other liabilities	5.18	**30,969**	28,553
		57,747	52,057
		226,953	219,708

1—Prior-year figures adjusted

Consolidated statement of changes in equity

for the period 1 January 2015 to 31 December 2016

€ '000

	Equity attributable to shareholders				Total before non-controlling interests	Non-controlling interests		Total
	Subscribed capital	Share premium	Currency translation differences	Accumulated group earnings and profits		Subscribed capital	Accumulated group earnings and profits	
1 January 2015	**25,000**	**26,400**	**- 1,305**	**49,109**	**99,204**	**79**	**1,751**	**101,034**
Dividend	0	0	0	0	0	0	- 1,399	- 1,399
Consolidated net profit	0	0	0	19,194	19,194	0	1,474	20,668
Other comprehensive income (OCI)	0	0	0	- 508	- 508	0	0	- 508
Acquisition of non-controlling interests	0	0	0	- 148	- 148	- 15	- 338	- 501
Other changes	0	0	1,729	2	1,731	0	0	1,731
31 December 2015	**25,000**	**26,400**	**424**	**67,649**	**119,473**	**64**	**1,488**	**121,025**
1 January 2016	**25,000**	**26,400**	**424**	**67,649**	**119,473**	**64**	**1,488**	**121,025**
Dividend	0	0	0	- 31,500	- 31,500	0	- 1,474	- 32,974
Consolidated net profit	0	0	0	22,613	22,613	0	1,485	24,098
Other comprehensive income (OCI)	0	0	0	- 228	- 228	0	0	- 228
Capital increase	0	15,500	0	0	15,500	0	0	15,500
Other changes	0	0	- 3,585	0	- 3,585	0	0	- 3,585
31 December 2016	**25,000**	**41,900**	**- 3,161**	**58,534**	**122,273**	**64**	**1,499**	**123,836**

Consolidated statement of cash flows

for fiscal 2016

€ '000	2016	2015
EBIT (earnings before interest and taxes)	**34,244**	**26,857**
Depreciation and amortisation	**10,223**	9,940
Write-up from the measurement of financial assets	**- 1,352**	0
Income taxes paid and income tax refunds received	**- 8,712**	- 10,950
Interest received	**216**	261
Interest paid	**- 157**	- 55
Increase (-)/decrease (+) from changes in assets	**1,538**	- 7,007
Increase (+)/decrease (-) from changes in liabilities	**4,893**	2,987
Cash flow from operating activities	**40,893**	**22,033**
Net payments for investments in non-current assets	**- 8,861**	- 11,860
Payments for the purchase of consolidated companies and other business units (less cash in hand acquired)	**- 2,790**	- 11,511
Exchange-rate-related changes in non-current assets	**- 3,179**	1,400
Cash flow from investing activities	**- 14,830**	**- 21,971**
Payments made/received for working capital loan	**- 955**	955
Dividend distribution	**- 31,500**	0
Capital increase	**15,500**	0
Payments to non-controlling interests	**- 1,474**	- 1,399
Other changes in capital	**- 3,813**	1,221
Cash flow from financing activities	**- 22,242**	**777**
Cash change in cash and cash equivalents	**4,590**	577
Exchange-rate-related changes in cash and cash equivalents	**- 769**	262
Total change in cash and cash equivalents	**3,821**	**839**
Cash funds at the beginning of the period	**24,971**	24,132
Cash funds at the end of the period	**28,792**	**24,971**

Notes to the consolidated financial statements

01 General disclosures

01.1 Compliance with legal requirements

The consolidated financial statements of Aareon AG, Isaac-Fulda-Allee 6, 55124 Mainz, Germany, for fiscal 2016 were prepared voluntarily in accordance with International Financial Reporting Standards (IFRS), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the interpretations of the former Standing Interpretations Committee (SIC) as applicable in the EU, as well as with the applicable provisions of Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). All of the International Financial Reporting Standards that must be applied for the consolidated financial statements as at 31 December 2016 were taken into account. The financial statements give a true and fair view of the net assets, financial situation and earnings of the Aareon Group. The consolidated financial statements have been prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (€ ’000 or € k).

For the sake of enhanced clarity and transparency, all information on individual items in the balance sheet/statement of comprehensive income that is provided in accordance with statutory provisions and that may be shown either in the balance sheet/statement of comprehensive income or in the Notes section is given in the Notes. Where individual items are summarised in the balance sheet and the statement of comprehensive income, they are broken down in the Notes. Aareon AG is a wholly owned subsidiary of Aareal Bank AG, Paulinenstraße 15, 65189 Wiesbaden, Germany. It is included in the consolidated financial statements of Aareal Bank AG pursuant to the provisions concerning consolidation.

01.2 Disclosures on operating activities

Aareon is a European provider of consulting, software and services for the property industry. The Company has a presence at 28 locations: nine of these are in Germany, while the rest are spread across France, the UK, the Netherlands, Norway and Sweden. As at 31 December 2016, Aareon had 1,400 employees (previous year: 1,376). Its head office is located in Mainz, Germany.

Aareon’s customers include private housing companies, co-operatives, municipal and church-run housing organisations, property management companies, home owners’ associations, insurance companies, property investment funds, companies with property holdings (corporate real estate), commercial property operators as well as utilities and providers of heat-metering services.

02 Information on accounting policies and consolidation methods

02.1 Accounting principles

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

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

The presentation of the consolidated financial statements is subject both to the recognition and measurement methods used to prepare those statements and to the uncertainty of the assumptions and estimates made in respect of future events. Where assumptions and estimates are required for accounting and measurement purposes, they are made in accordance with the relevant accounting standards. The estimates and assumptions are based on historical experience and other metrics such as planning figures. The estimates and assessments used, as well as the underlying assessment factors and estimation methods, are regularly reviewed and compared with the events that actually occur. In our opinion, the parameters used are both suitable and reasonable.

The main assumptions concerning the future and other sources of estimation uncertainty giving rise to a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year concern, in particular, the calculation of pension obligations and of provisions, and the measurement of intangible assets and of tax assets and liabilities.

02.2 Consolidation principles

In accordance with IFRS, the separate financial statements of the individual subsidiaries are included in the consolidated financial statements by uniformly applying the accounting policies defined by Aareon AG. The historical cost of the subsidiaries included in consolidation is offset against their proportionate equity on their respective dates of acquisition in accordance with the purchase method. Any goodwill remaining is recognised under intangible assets.
All receivables and liabilities as well as revenues, income or expenses resulting from transactions between the consolidated companies have been eliminated. Balancing items for non-controlling interests were created for any shares in consolidated subsidiaries not held by the parent company. These non-controlling interests are affected by any consolidation measures recognised in profit and loss.

02.3 Currency translation

The international companies belonging to the Aareon Group are independent sub-units, whose financial statements are translated into euros using the functional currency method. The items in the statement of comprehensive income are translated using the average exchange rate; all monetary and non-monetary assets and liabilities are translated into euros using the European Central Bank's reference rate on the reporting date. Differences affecting equity are disclosed directly in a separate equity item until disposal of the subsidiary. This also applies to any deviations between the unappropriated surplus, which is converted using the closing rate at the reporting date, and the results shown in the consolidated statement of comprehensive income, which are based on average exchange rates. The components of equity to be consolidated as capital are translated using historical exchange rates.
The following rates were used for currency translation:

1 € =		Balance sheet Closing rate		Statement of comprehensive income Average exchange rate	
		2016	2015	2016	2015
United Kingdom	GBP	**0.8562**	0.7340	**0.8195**	0.7258
Sweden	SEK	**9.5525**	9.1895	**9.4689**	9.3535
Norway	NOK	**9.0863**	9.6030	**9.2906**	8.9496

02.4 Scope of consolidation

The group of consolidated companies includes Aareon AG as well as all subsidiaries in which Aareon AG either directly or indirectly holds the majority of voting rights or has the right to appoint the majority of the Supervisory Board members. Please see Note 5.4 for a list of all subsidiaries included in the consolidated financial statements.
As at 27 December 2016, Aareon AG acquired 50 % of the shares in SG2ALL B.V., Huizen, for a cash payment of € 1,780 k and is now the company's sole owner. This company was previously accounted for as a joint venture using the equity method.
IFRS 3 requires that the value calculated using the equity method be completely reversed and that the entire equity interest in the company be remeasured at fair value on initial consolidation. The difference of € 1,500 k between the value of the former equity interest (calculated using the equity method) and its fair value is recognised in profit and loss. The-pro rata fair value of the assets and liabilities is € 1,581 k.

The acquired assets and liabilities were recognised in the following amounts:

SG2ALL B.V.
in € ’000

	Carrying amount prior to takeover	Fair value on initial consolidation
Customer relations	0	1,370
Receivables	144	144
Cash and cash equivalents	583	583
Other assets	78	78
Non-financial liabilities	246	246
Deferred tax liabilities	0	349
Net assets acquired	**559**	**1,580**

The takeover resulted in goodwill in the amount of € 1,700 k, which includes significant potential benefit from the strengthening of Aareon's international outsourcing expertise. The business combination also offers opportunities to widen the Company's target customer group. No goodwill exists that could be expected to qualify as a tax deduction.
On the assumption that the acquisition had taken place on 1 January 2016, SG2ALL's revenues and net profit for the year would have amounted to € 1,511 k and € 190 k respectively.
As at 21 July 2016, Aareon International Solutions GmbH was established in Mainz, Germany, with share capital of € 25 k.

02.5 Changes in accounting policies

The following accounting and reporting standards (IAS/IFRS) were applied for the first time in the reporting period:

— IAS 19, Defined Benefit Plans: Employee Contributions
The amendments to IAS 19 clarify the recognition of contributions made by the employees themselves for units of benefit entitlement under defined benefit plans. Contributions made by employees or third parties reduce the ultimate cost of a pension commitment and are therefore accounted for in accordance with the accounting principles for pension commitments.

— Annual Improvements Cycle 2010–2012
Clarifications and minor amendments to existing standards were made as part of the IASB's Annual Improvements Cycle 2010–2012. In this context, the main amendment made to IFRS 2 concerns clarification of the term "vesting condition" through the introduction of additional definitions for the terms "service condition" and "performance condition" in Appendix A. IFRS 3 was adapted such that the classification of a contingent consideration as debt or equity in accordance with IFRS 3.40 now relates only to contingent considerations in connection with a business combination and that meet the definition of a financial instrument. Further, the reference to "other applicable IFRSs" was deleted. If the contingent consideration is a financial liability, it must be recognised at fair value and all resulting effects must be posted in profit and loss. Clarifications were made to IFRS 8 concerning the aggregation of operating segments and the reconciliation of the reportable segments' assets to the entity's assets. A further clarification stated that the issuing of IFRS 13 and the amendment of IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial. Another amendment clarified how accumulated depreciation is to be calculated at the measurement

date when the revaluation method is applied in accordance with IAS 16 and IAS 38. The amendment to IAS 24 extends the definition of "related parties" to include entities providing, either directly or via a group company, key management personnel services to the reporting entity or to the parent of the reporting entity without there being any other sort of relationship between the two entities within the meaning of IAS 24 (management entities).

— IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation
  The amendments provide guidance for determining an acceptable method of depreciation/amortisation. It was clarified that a depreciation method for property, plant and equipment based on revenue that is generated by an activity that includes the use of an asset is not appropriate. In addition, guidance was introduced into both standards to explain that expected future reductions in selling prices for goods and services could be indicative of the latter's economic obsolescence and of a higher rate of consumption of the future economic benefits embodied in an asset.
— Annual Improvements Cycle 2012–2014
— Clarifications and minor amendments to existing standards were made as part of the IASB's Annual Improvements Cycle 2012–2014. Specific guidance has been added to IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution. A direct reclassification does not mean that the recognition and measurement requirements of IFRS 5 no longer apply. A further amendment concerns IFRS 7. It clarifies whether a servicing contract in which the entity selling the receivables retains a share in the opportunities and risks attached to those receivables represents continuing involvement in a transferred asset within the meaning of IFRS 7. Another clarification states that the additional disclosure on offsetting financial assets and financial liabilities required by amendments to IFRS 7 is not required in condensed interim financial statements. The amendment made to IAS 19 concerns the interest rate used to discount defined benefit obligations. It clarifies that the depth of the market for high-quality corporate bonds must be assessed on a "currency basis". In the case of the eurozone, for example, this means that corporate bonds from across the entire currency area must be taken into account. The clarification of IAS 34 concerns disclosures made "elsewhere in the interim financial report". Such disclosures may be made either at another point in the interim financial report itself or in other documents referenced by it.
— Amendments to IAS 1, Disclosure Initiative
  The amendments concern clarifications as regards materiality in the presentation of line items in the balance sheet, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity as well as in the notes to the financial statements. No information should be provided that is considered immaterial. This applies even if other standards explicitly require the provision of such information. Further, the amendments clarify existing requirements in IAS 1 and introduce new requirements concerning the presentation of subtotals in the financial statements, the structure of the notes, and the information disclosed in the accounting policies.
— Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception
  The amendments clarify various issues. Firstly, the exemption as per IFRS 10.4(a) from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity. Secondly, a parent investment entity with a subsidiary that itself meets the requirements of an investment entity must recognise that subsidiary at fair value even if the subsidiary provides investment-related services.

Under the Disclosure Initiative for IAS 1, Presentation of Financial Statements, line items in the balance sheet, the statement of comprehensive income and the statement of cash flows were aggregated and corresponding disclosures made solely in the notes to the financial statements. It was decided that no immaterial information should be provided. The other changes to the accounting and reporting standards have no effect on the consolidated financial statements of Aareon AG.

Up until 31 December 2016, the following accounting and reporting standards (IAS/IFRS) and interpretations (IFRIC), which are to be applied in future financial years, had been issued by the International Accounting Standards Board (IASB) and endorsed by the European Union:

New standards/interpretations	**Issued**	**Endorsed**	**Effective date**
IFRS 16, Leases	January 2016		Accounting periods beginning on or after 1 January 2019
IFRS 15, Revenue from Contracts with Customers Effective Date of IFRS 15	May 2014 September 2015	September 2015	Accounting periods beginning on or after 1 January 2019
IFRS 9, Financial Instruments	July 2014	November 2016	Accounting periods beginning on or after 1 January 2018

Revised standards	**Issued**	**Endorsed**	**Effective date**
IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4	September 2016		Dependent on date of first-time application of IFRS 9
IFRS 2, Classification and Measurement of Share-based Payment Transactions	June 2016		Accounting periods beginning on or after 1 January 2018
IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture Effective date of amendments to IFRS 10 and IAS 28	September 2014 December 2015		Date of first-time application postponed indefinitely
IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses	January 2016		Accounting periods beginning on or after 1 January 2017
IAS 7, Disclosure Initiative	January 2016		Accounting periods beginning on or after 1 January 2017
IFRS 15, Revenue from Contracts with Customers	April 2016		Accounting periods beginning on or after 1 January 2018

— IFRS 15, Revenue from Contracts with Customers
  IFRS 15 provides a single model to be applied to all contracts with customers. It replaces the current provisions on revenue recognition in IAS 11, IAS 18 and the associated interpretations. IFRS 15 is to be applied by all companies that conclude contracts with customers for the delivery of goods or the provision of services, unless those contracts fall within the scope of other standards. For instance, financial instruments and other contractual rights or obligations falling within the scope of IAS 39 or IFRS 9 are excluded from IFRS 15. The core principle of the new standard is that an entity will recognise revenue once or as it satisfies the performance obligations it has assumed, i.e. when control of the goods or services has passed to the customer. The amount of revenue recognised corresponds to the consideration that the entity is likely to receive in exchange for these goods or services. IFRS 15 contains a five-step model that is used to determine in what amount and at what point in time or over what period of time the revenue is recognised. The standard requires additional disclosures, e.g. on a breakdown of the total revenues, on performance obligations, on the reconciliation of the opening and closing balances of the contract assets and liabilities as well as on key discretionary decisions and estimates made. With the publication of Effective Date of IFRS 15 in September 2015, the IASB postponed the first-time application of IFRS 15 to accounting periods beginning on or after 1 January 2018. In July 2015, additional amendments and clarifications to the standard were proposed, which were the result of discussions within the Transition Resource Group (TRG). The TRG is a joint advisory body set up by the IASB and FASB to deal with matters related to the implementation of IFRS 15. Aareon is currently examining the effects of the new standard on its consolidated financial statements. It has analysed its existing standard contracts and largely identified the possible consequences. On the basis of this analysis, it does not expect the standard to have any major impact on the Group as a whole.
— IFRS 9, Financial Instruments
  IFRS 9 revises the recognition of financial instruments in the financial statements and completely replaces IAS 39, Financial Instruments: Recognition and Measurement. The development of IFRS 9 was divided into three phases: classification and measurement, impairment, and hedge accounting. The definitive provisions of IFRS 9 were published in July 2014 and must be applied for the first time as of 1 January 2018. After finalisation of the standard, the European Financial Reporting Advisory Group (EFRAG) began the endorsement process in September 2014, publishing its final endorsement advice for the European Commission on 15 September 2015. Endorsement was expected in the fourth quarter of 2016.
— IFRS 16, Leases
  The new IFRS 16 standard covering the accounting of leases will replace IAS 17 and the associated interpretations IFRIC 4, SIC 15 and SIC 7. It introduces a single accounting model for lessees. As a result, lessees are obliged to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The lessee recognises an asset representing its right of use of the underlying leased object. It also recognises a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The classifications in IFRS 16 use the same criteria as in IAS 17. IFRS 16 also includes a number of other provisions on recognition, disclosures in the notes and sale-and-lease-back transactions.
— Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses
  The IASB's amendments to IAS 12 clarify that unrealised losses (arising from changes in market interest rates) on debt instruments measured at fair value give rise to deductible temporary differences. The IASB also clarified that an entity must carry out a combined assessment of all its deductible

temporary differences when determining whether there are likely to be sufficient taxable profits in future to utilise, and thus recognise, the temporary differences. The entity may make individual assessments only insofar as, and to the extent that, the applicable tax law distinguishes between different types of taxable profit. What is more, rules and examples were added to IAS 12 to clarify how to determine future taxable profits when recognising deferred tax assets.

— Amendments to IAS 7, Disclosure Initiative
As part of the disclosure initiative, amendments to IAS 7, Statement of Cash Flows were published. The aim of these amendments is to improve the disclosures made on changes in liabilities arising from financing activities. In future, an entity must disclose changes in those liabilities for which cash flows were or will be classified in the statement of cash flows as cash flows from financing activities. The corresponding financial assets (e.g. assets from hedging transactions) must also be included in the disclosures. The IASB proposes that the disclosures be made in the form of a reconciliation between the opening and closing balances in the balance sheet, but allows alternative forms of presentation.
— Clarifications to IFRS 15, Revenue from Contracts with Customers
In April 2016, the IASB published its final clarifications to IFRS 15. The amendments include both clarifications of the provisions of IFRS 15 and simplifications as regards transition to the new standard. The clarifications concern identifying contract performance obligations, assessing whether an entity is the principal or agent in a business transaction, and assessing whether income from a licence granted is to be recognised at a point in time or over time. One simplification concerns options as regards the restatement of contracts that are either completed at the beginning of the earliest period presented or were changed before the beginning of the earliest period presented. The intention here is to reduce the complexity and cost of transitioning to the new standard.
— Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions
In June 2016, the IASB published amendments to IFRS 2 that clarify the classification and measurement of share-based payment transactions. The amendments concern the following areas: (i) the accounting for cash-settled share-based payment transactions that include a performance condition; (ii) the classification of share-based payment transactions with net settlement features; and (iii) the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

In fiscal 2016, Aareon did not make use of the option of the early application of standards applicable in future accounting periods. Aareon is currently assessing the effects of the implementation of the new and amended accounting and reporting standards on its consolidated financial statements.

03 Accounting principles

03.1 Intangible assets

As a rule, goodwill is tested for impairment in the fourth quarter of each year. Its value is measured on the basis of the present value of future cash flows (value in use), which are determined using medium-term planning figures. This entails using the projected pre-tax cash flows from the three-year plan adopted by the Management Board of Aareon AG and approved by the Supervisory Board. Thus, the revenue and expense items are planned individually over this three-year period. The values assigned to the main assumptions are based on internal and external factors as well as on past experience. The previous year's planning figures also play a central role. Revenue planning is based mainly on assumptions regarding migration projects and new business as well as renewals of contracts and additional business with existing customers. These assumptions also represent the main sources of estimation uncertainty. Regular revenues from existing customers, such as fees from licensing and maintenance contracts, are not generally subject to any major estimation uncertainty. The cost of materials is planned on the basis of planned revenues. Personnel numbers and salary growth are the main factors determining the personnel budget. Other costs are generally projected on the basis of prior-year figures, taking into account known non-recurring effects. On the expenses side, estimation uncertainty arises as a result of unplanned price increases and unpredictable non-recurring effects. The more forward-looking the assumptions, the higher the estimation uncertainty. Cash flows after the three-year time horizon are measured taking the perpetual annuity into account. The present value of future cash flows is determined on the basis of a Group-wide risk-adjusted discount rate of 5.16 % before tax. The discount rate is calculated as the sum of a risk-free base interest rate of 0.77 % plus a company-specific risk loading of 6 % multiplied by a beta factor of 0.73. Owing to the uncertain nature of planning beyond three years, we take a cautious view of the market environment and assume constant values, i.e. no further growth. As the recoverable amounts are well in excess of the carrying amounts, we do not consider a shortfall to be a possibility, even if there were to be a serious change in the assumptions described above. Consequently, even an increase of 1.0 % in the risk-adjusted discount rate or a reduction of 5.0 % in the EBIT included in cash flow, both of which are potentially possible, would not lead to an impairment charge. There was no need for any impairment charges in the reporting period.

Purchased intangible assets, primarily software, are capitalised at cost and subject to straight-line amortisation in accordance with their customary useful lives. The amortisation methods and useful lives are reviewed annually. Any adjustments are made in accordance with IAS 8.

Useful lives of intangible assets

Internally generated intangible assets	10 years
Acquired intangible assets	3 – 10 years
Customer relations	5 – 20 years
Brands	20 years

Research costs are treated as current expense in accordance with IAS 38. Development costs for internally generated software are capitalised if the prerequisites for capitalisation in accordance with IAS 38 are met.

03.2 Property, plant and equipment

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

The depreciation methods and useful lives are reviewed annually. Any adjustments are made in accordance with IAS 8. The useful lives of the principal components are presented below:

Useful lives of property, plant and equipment

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

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

03.3 Leases

The finance lease requirements of IAS 17 are fulfilled for the use of leased property, plant or equipment if all of the major opportunities and risks associated with ownership are transferred to the lessee. In this case, the respective assets are capitalised at the present value of the minimum lease payments and depreciated using the straight-line method over the asset's useful life or the duration of the lease, whichever is shorter. The obligations from future lease payments are discounted and carried as a liability. The provisions of IFRIC 4 were observed when applying IAS 17.
After expiry of the lease period, the lessee generally has the option of concluding a follow-on lease, purchasing the asset at its respective residual value or having it transferred to the lessee so that it can be scrapped. The discount factor equals the assumed interest rate underlying the lease.

03.4 Financial assets and financial liabilities

IAS 39 divides financial assets into the following categories:
— Financial assets held for trading
— Held-to-maturity investments
— Loans and receivables
— Available-for-sale financial assets

The financial assets held by Aareon are recognised as loans and receivables. Financial assets are not treated as held-to-maturity investments. Aareon does not acquire financial assets held for trading. The "available-for-sale financial assets" category comprises financial assets that are not assigned to any of the other categories and that are held for an indefinite period or can be sold if liquidity is required or there is a change in market conditions. Insofar as the Group acquires securities, they are generally treated as available-for-sale financial assets. The financial instruments disclosed are not subject to any interest rate risk.
We refer to the risk report, which forms part of the management report, for information regarding the Group-wide system in place at Aareon AG to measure, limit and control risks as well as for information provided in accordance with IFRS 7 concerning the description and scope of the risks arising out of financial instruments.
Loans and receivables are measured at amortised cost or fair value, whichever is lower. This category includes in particular:
— Non-current loans
— Trade payables and trade receivables
— Receivables from unbilled services
— Other current receivables and assets as well as liabilities.

Owing to the predominantly short maturities of these financial instruments, their fair value is assumed to equal their carrying amount.
Impairments of trade receivables are recognised to the extent required – as a rule by means of individual fixed percentages that take account of the maturity structure. Low-interest-bearing receivables are carried at their discounted amount, taking into account appropriate interest.
Foreign-currency receivables are converted into euros using the closing rate at the reporting date.
Receivables from service contracts that have not been completed at the reporting date are recognised using the percentage-of-completion (PoC) method. The percentage of completion is calculated based on a comparison of the order costs already incurred with the expected total order costs. Other unfinished customer orders are recognised in the amount of the order costs incurred, insofar as it is probable that these will be covered by income.

03.5 Inventories

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

03.6 Deferred taxes

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

03.7 Provisions for pensions and similar obligations

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

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

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

03.10 Liabilities
Liabilities are recognised at their repayment or settlement amount. Liabilities from finance leases and purchase price liabilities are recognised at their present value.

03.11 Recognition of income and expenses
Revenues and other operating income are not recognised until the service has been performed or the goods or products have been delivered, i.e. the risk has been transferred to the customer.

The Company generates its revenues mainly through
— Licensing and maintenance contracts
— Consulting and training projects
— Hosting solutions (SaaS and ASP) from the exclusive Aareon Cloud
— Digital solutions such as Mareon, Aareon invoicing service, Aareon Immoblue Plus, Mobile Services, Aareon CRM (tenants portal) and Aareon Archiv kompakt.
— Add-on products such as the BauSecura insurance management solution and add-on services for IT outsourcing, services for the utiliy sector and integrated payment transactions

Software licence revenue is recognised if a contract has been signed by both parties with no rights of withdrawal, the product has been delivered in full, the licence fee has been determined and payment is probable.
Maintenance services are realised proportionately over the contractual performance period.
Consulting and training services are recognised in profit and loss when the service has been performed. The Group also provides implementation services as part of its project work. In such cases, revenue is recognised according to the percentage-of-completion method. The percentage of completion of a project is calculated based on a comparison of the order costs already incurred with the total order costs expected. Provisions are recognised for impending losses from this type of service in the period in which the losses were caused, insofar as no asset item exists.
Hosting solutions (SaaS and ASP) are billed monthly and recognised as revenues.
Operating expenses are recognised in profit and loss when the service is utilised or when the expenses are incurred in economic terms. Interest income and expense are recognised on an accrual basis.

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

04.1 Revenues

Revenues by business segment in € '000

	2016	2015
Germany	**134,150**	120,354
International Business	**76,504**	66,557
Total	**210,654**	**186,911**

Revenues by product group in € '000

	2016	2015
ERP products	**150,836**	135,676
Digital solutions and services	**31,348**	25,320
Add-on products and services	**28,470**	25,915
Total	**210,654**	**186,911**

Revenues from the **Germany** segment increased compared with the previous year, rising by € 13,796 k. Revenues for ERP products grew substantially, especially due to the increasing migration from GES to Wodis Sigma and to high licensing-fee income for SAP® solutions/Blue Eagle. Revenues from digital solutions rose significantly, too, underscoring their importance as a growth driver. Similarly, the acquisition of phi-Consulting boosted sales of add-on products and services for the utility sector.

Revenues from the **International Business** segment rose by € 9,947 k compared with the previous year. Sales of ERP products grew strongly in the International Business segment, particularly in the Netherlands. Digital-solutions business performed very well in all markets – especially thanks to the acquisition of Square DMS B.V., Grathem, with its case management solution ShareWorX®. The International Business segment accounted for 36.3 % of consolidated revenues (previous year: 35.6 %).

04.2 Other operating income

Other operating income in € '000

	2016	2015
Non-cash income	**1,412**	1,389
Income from write-ups	**1,352**	0
Measurement of purchase price liabilities	**1,269**	4,300
Income from trade fairs	**1,147**	1,174
Services for affiliated companies outside the Aareon Group	**876**	842
Other income	**396**	587
Income from the reversal or reduction of individual fixed-percentage impairments	**115**	96
Total	**6,567**	**8,388**

Income from write-ups was attributable to the remeasurement of the shares in SG2ALL B.V. conducted during transitional consolidation. The growth in income from the adjustment of purchase price liabilities is explained in Note 5.16.

04.3 Cost of materials

Cost of materials in € '000

	2016	2015
Software and hardware costs	**6,330**	2,414
Cost of services purchased	**26,240**	20,244
Total	**32,570**	**22,658**

The cost of materials rose in particular due to the increased use of third-party licences and higher expenses for external consultants in connection with consulting and development services.

04.4 Staff costs/employees

Staff costs in € '000

	2016	2015
Salaries	**90,912**	87,034
Social security costs	**20,103**	19,205
of which: for post-employment benefits	**4,457**	4,457
Total	**111,015**	**106,239**

Staff costs increased by € 4,776 k compared with the previous year. One of the reasons for this increase was consolidation of the subsidiaries Square DMS and phi-Consulting, which had been acquired in the previous year.
The number of employees of Aareon as at 31 December – excluding temporary staff, trainees and interns – was as follows:

Employees (year-end figures)

	2016	2015
Employees	**1,292**	1,268
Executive managers	**78**	76
Total	**1,370**	**1,344**
of which: part-time employees	**247**	225

Employees (annual average figures)

	2016	2015
Employees	**1,283**	1,209
Executive managers	**76**	74
Total	**1,359**	**1,283**
of which: part-time employees	**239**	208

Employees – annual average by business segment

	2016	2015
Germany	**767**	753
International	**592**	530
Total	**1,359**	**1,283**

04.5 Other operating expenses

Other operating expenses in € '000

	2016	2015
Occupancy expenses	**8,624**	8,464
Travel expenses	**4,817**	4,057
Motor vehicle expenses	**4,685**	4,739
Advertising/marketing/entertainment	**3,911**	3,961
Legal and consultation expenses/auditing costs	**3,276**	4,046
Software maintenance	**2,147**	1,989
Other staff costs	**1,582**	1,549
Further training	**949**	746
Communication costs	**924**	905
Insurance costs	**419**	429
Credits for invoices from prior years	**364**	389
Impairments of receivables	**304**	442
Compensation for Supervisory Board and Advisory Board	**300**	327
Leasing/technology	**279**	210
Office material	**248**	245
Miscellaneous other operating expenses	**1,313**	911
Total	**34,142**	**33,409**

Other operating expenses grew by € 733 k year on year, a relatively slight increase that was mainly due to the effect of consulting expenses incurred in 2015 for acquisitions and internal projects.

04.6 Net financial income/expense

Net financial income/expense in € '000

	2016	2015
Other interest and similar income	**121**	65
of which: affiliated companies	**45**	35
Net income from equity-method accounting	**95**	100
Interest and similar expenses	**- 251**	- 338
Total	**- 35**	**- 173**

04.7 Income taxes

Income taxes in € '000

	2016	2015
German income taxes	**7,012**	3,704
Foreign income taxes	**2,773**	2,613
Actual tax expense	**9,785**	**6,317**
Deferred tax expense/income	**326**	- 301
Total	**10,111**	**6,016**

The following table shows the reconciliation statement for the differences between income taxes based on the net income before taxes and the actual income tax reported. In order to calculate the expected tax expense, the Group tax rate of 31.7 % valid in fiscal 2016 (previous year: 31.4 %) was multiplied by earnings before taxes. The increase in the Group tax rate is due to the higher rate of assessment used to calculate trade tax in Germany.

Reconciliation of tax expenses in € ’000

	2016	2015
Earnings before income taxes	**34,209**	**26,684**
Trade tax	**5,431**	4,155
Corporation tax	**5,131**	4,003
Solidarity surcharge	**282**	220
Expected tax expense/income	**10,844**	**8,378**
Reconciliation:		
Non-deductible expenses	**328**	269
Taxes for prior years	**- 43**	227
Differences in tax rates of international subsidiaries	**- 697**	- 424
Other differences	**- 321**	- 2,434
Tax expense reported	**10,111**	**6,016**

The other differences mainly concern a tax-free contribution made by Aareal Bank and higher reversals of earn-out liabilities in the previous year.

05 Notes to the consolidated balance sheet of the Aareon Group

05.1 Intangible assets

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

The amortised goodwill by business segment is as follows:

Carrying amounts in € ’000

	31 Dec. 2015	Additions	Exchange-rate effects	31 Dec. 2016
Germany	28,326	0	0	**28,326**
International Business	47,061	1,700	- 1,249	**47,512**
Total	**75,387**	**1,700**	**- 1,249**	**75,838**

The item “Internally generated intangible assets” relates to internal and external development costs capitalised in accordance with IAS 38. The development costs in each country were capitalised using a standard per-diem rate. The capitalised carrying amounts are as follows:

Carrying amounts in € ’000

	31 Dec. 2016	31 Dec. 2015
Aareon France (mainly PortalImmo, Prem’Habitat)	**2,346**	2,136
Aareon UK (QL.net)	**4,375**	5,126
Aareon Nederland (various software products)	**3,972**	3,337
Wodis Sigma	**2,383**	2,394
Aareon CRM	**2,952**	2,592
Digital platform	**1,919**	0
Miscellaneous	**2,269**	1,974
Total	**20,216**	**17,559**

Internally generated software in the amount of € 13,483 k has already been completed, while internally generated software worth € 6,733 k is still under development. R & D costs totalled € 9,559 k in the reporting period. Internally generated assets amounted to € 5,692 k in the year under review.

05.2 Property, plant and equipment

In accordance with IAS 17, € 36 k was recognised in the reporting year under property, plant and equipment for mainframe computers and associated peripheral devices acquired under finance leases. The payments in connection with finance leases were as follows:

Finance leases in € '000

	2017	2018 – 2021	After 2021
Lease payments	40	0	0
Discount amounts	- 40	0	0
Present values	**0**	**0**	**0**

Operating leases primarily concern rent, motor vehicles, office furniture and equipment, and telecommunications equipment. In 2016, € 8,692 k was recognised in profit and loss for lease payments. The minimum lease payments due to operating leases are as follows:

Operating leases in € '000

	2017	2018 – 2021	After 2021
Lease payments as lessee	9,139	25,916	14,237
Lease receivables as lessor	588	2,226	1,978

05.3 Financial assets

Other loans include time deposits in the amount of € 3,260 k with Landesbank Baden-Württemberg. These deposits relate to the guarantee issued to cover existing and future obligations in connection with membership in two supplementary pension funds. This item also includes rent deposits. Guarantees in the amount of € 1,120 k that were recognised under other non-current assets in the previous year were reclassified as financial assets in the reporting period.

05.4 Shareholdings

Name and registered office of company	Interest held in %
Aareon AG, Mainz	
Aareon Deutschland GmbH, Mainz, Germany	100
Aareon Immobilien Projekt Gesellschaft mbH, Dortmund, Germany	100
BauSecura Versicherungsmakler GmbH, Hamburg, Germany	51
phi-Consulting GmbH, Bochum, Germany	100
Aareon France SAS, Meudon-la-Forêt, France	100
Aareon Nederland B.V., Emmen, Netherlands	100
Aareon UK Ltd., Coventry, UK	100
1st Touch Ltd., Southampton, UK	100
Facilitor B.V., Enschede, Netherlands	100
Incit AB, Mölndal, Sweden	100
Incit AS, Oslo, Norway	100
Incit Nederland B.V., Gorinchem, Netherlands	100
SG2ALL B.V., Huizen, Netherlands	100
Square DMS B.V., Grathem, Netherlands	100
Aareon International Solutions GmbH, Mainz, Germany	100

05.5 Income tax receivables

Income tax receivables in € ’000

	31 Dec. 2016	31 Dec. 2015
Current income tax receivables	**4,301**	7,015
Non-current income tax receivables	**0**	321
Total	**4,301**	**7,336**

05.6 Deferred taxes

Deferred taxes in € ’000

	31 Dec. 2016	31 Dec. 2015
Pension provisions	**5,292**	5,125
Liabilities	**171**	177
Other provisions	**229**	295
Loss carryforwards	**101**	110
Miscellaneous	**106**	83
Total deferred income tax assets	**5,899**	**5,790**
Measurement of assets under construction	**616**	205
Miscellaneous	**0**	0
Current deferred income tax liabilities	**616**	**205**
Intangible assets	**6,254**	6,902
Miscellaneous	**1,022**	466
Non-current deferred income tax liabilities	**7,276**	**7,368**
Total deferred income tax liabilities	**7,892**	**7,573**

In Germany, unused tax loss carryforwards for which no deferred tax assets were recognised amounted to € 4,199 k.

05.7 Trade receivables

Trade receivables in € ’000

	31 Dec. 2016	31 Dec. 2015
Receivables from unbilled services	**16,308**	11,401
Trade receivables	**30,484**	27,759
Receivables from affiliated companies	**660**	510
Total	**47,452**	**39,670**

Receivables from unbilled services comprise advance payments received of € 3,844 k, contract revenues from the reporting period in the amount of € 7,733 k, profits (less recognised losses) of € 3,029 k as well as total expenses incurred in the amount of € 5,531 k.
There are no restrictions on ownership or disposal of the disclosed receivables. Impairments are made to account for the risk of default. Trade receivables were impaired as follows:

Impairments of trade receivables in € ’000

	31 Dec. 2016	31 Dec. 2015
Impaired trade receivables	**3,575**	2,051
Impairments as at 1 January	**1,299**	**1,276**
Additions	**548**	765
Reversals	**331**	399
Utilisation	**337**	343
Total as at 31 December	**1,179**	**1,299**

Overdue but not impaired receivables relate solely to receivables that are overdue by up to 90 days.

05.8 Other assets

Other assets in € '000

	31 Dec. 2016	31 Dec. 2015
Other current financial assets	**873**	706
Other current non-financial assets	**3,045**	3,081
Total	**3,918**	**3,787**

Other non-financial assets mainly comprise deferred advance payments of € 2,949 k for subsequent periods.

05.9 Cash and cash equivalents

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

Cash and cash equivalents in € '000

	31 Dec. 2016	31 Dec. 2015
Cash in hand	**11**	14
Balances held with banks	**28,781**	24,957
of which: with affiliated companiesn	**16,089**	12,729
Funds with maturities of up to three months	**28,792**	**24,971**

05.10 Subscribed capital

The subscribed capital of Aareon AG is fully paid up and at 31 December 2016 was as follows:

Number and class of shares in € '000

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

Each share has a theoretical par value of € 1.00.

05.11 Share premium

In fiscal 2016, € 15,500 k was added to the share premium by way of the capital increase by Aareal Bank AG, Wiesbaden.

05.12 Accumulated group earnings and profits

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

05.13 Non-controlling interests

Non-controlling interests are reported as a separate item in the consolidated statement of changes in equity. They are held solely by BauSecura Versicherungsmakler GmbH, Hamburg.

05.14 Provisions for pensions and similar obligations

Pension obligation trend:

Pension obligation in € ’000

	2016	2015
1. Pension provisions as at 1 January (accrued pension cost)	**33,841**	33,398
2. Net expense for the period		
a) Service cost	**450**	382
b) Interest cost	**754**	669
3. Experience-based adjustments recognised in OCI	**1,463**	1,940
4. Actuarial adjustments recognised in OCI	**- 1,142**	- 1,192
5. Actual utilisation	**1,508**	1,356
Pension provisions as at 31 December	**33,858**	**33,841**

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

Assumptions in %

	31 Dec. 2016	31 Dec. 2015
Interest rate	**1.81**	2.28
Expected inflation rate	**2.00**	2.00
Income trend	**2.00**	2.25
Pension trend	**2.00**	2.00
Fluctuation rate	**3.00**	3.00

Changes in these assumptions would have the following consequences:

Sensitivity analysis 2016

	Sensitivity	Obligation adjusted due to sensitivities, in € ’000
Interest rate (1.81 %)	1.00 %	29,616
Interest rate (1.81 %)	- 1.00 %	39,185
Pension trend (2.00 %)	0.25 %	34,810
Pension trend (2.00 %)	- 0.25 %	32,953
Income trend (2.00 %)	0.50 %	35,348
Income trend (2.00 %)	- 0.50 %	32,568
Life expectancy (Heubeck 2005G)	+ 1 Jahr	35,872
Life expectancy (Heubeck 2005G)	- 1 Jahr	31,844

Sensitivity analysis 2015

	Sensitivity	Obligation adjusted due to sensitivities, in € ’000
Interest rate (2.28 %)	1.00 %	29,544
Interest rate (2.28 %)	- 1.00 %	39,133
Pension trend (2.00 %)	0.25 %	35,726
Pension trend (2.00 %)	- 0.25 %	32,026
Income trend (2.25 %)	0.50 %	35,383
Income trend (2.25 %)	- 0.50 %	32,414
Life expectancy (Heubeck 2005G)	+ 1 Jahr	35,669
Life expectancy (Heubeck 2005G)	- 1 Jahr	31,903

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

Plan participant categories in € ’000

	31 Dec. 2016
Active employees	**264**
Former employees with vested benefits	**27**
Pensioners	**133**
Total	**424**

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

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

2017	1,459
2018	1,500
2019	1,532
2020	1,534
2021	1,532
2022 – 2026	8,039

Service and interest costs are recognised under staff costs. The expense recognised for defined contribution pension plans amounted to € 6,894 k. These plans mainly include employer contributions to the statutory pension scheme. For reasons of materiality, pension provisions are not presented by maturity. Aareon has pension plans in place in Germany and France. The pension plans in Germany have been closed and no further employees are now able to join. All of these plans are defined benefit plans within the meaning of IAS 19. This means that, subject to certain conditions, Aareon guarantees that the beneficiaries will receive a particular benefit amount. Depending on the plan type, the amount of employee benefits varies according to different factors such as eligible salary, period of service, amount of the statutory pension, and benefits paid under individual direct insurance plans.

05.15 Other provisions

Other provisions in € ’000

	Amount at 1 Jan. 2016	Additions	Reclassifications	Utilisation	Reversals	Amount at 31 Dec. 2016
Variable salary components	9,606	10,646	0	8,301	100	11,851
(previous year)	(9,131)	(8,933)	(0)	(7,761)	(697)	(9,606)
Other provisions	4,460	1,398	0	2,381	205	3,272
(previous year)	(3,836)	(2,914)	(0)	(2,277)	(13)	(4,460)
Total	**14,066**	**12,044**	**0**	**10,682**	**305**	**15,123**
(previous year)	**(12,967)**	**(11,847)**	**(0)**	**(10,038)**	**(710)**	**(14,066)**

Development in 2016 (prior-year figures in parentheses)

Aareon AG makes payments to the members of its Management Board that qualify as cash-settled share-based payments within the meaning of IFRS 2. The obligations arising out of these **share-based payments** are recognised as staff costs and via corresponding provisions. Claims to the phantom stocks of Aareal Bank AG are paid in cash. The payments are distributed over three or four calendar years from the grant date. Provisions for share-based payment are recognised in full from the commitment date. The provisions are recognised in the amount of the fair value of the obligation in question at the reporting date and adjusted if the share price changes. Provisions for share-based payment (SAR) amounted to € 669 k. At the end of the period under review, 13,668 shares were outstanding at an average price per share of € 29.93 (previous year: 14,934 shares; € 27.69). Of these outstanding shares, 8,209 (previous year: 10,804) were exercisable and 6,540 (previous year: 3,779) were granted. The exercise prices of the outstanding shares range between € 16.41 and € 27.53.

Other provisions are also recognised in accordance with IAS 37 for all identifiable risks and uncertain obligations in the amount of their probable occurrence. The interest cost for non-current provisions amounted to € 51 k in the reporting period.
Other provisions by maturity:

Other provisions in € ’000

	1 Jan. 2016	31 Dec. 2016	1 Jan. 2016	31 Dec. 2016
	< 1 year		> 1 year	
Variable salary components	9,122	11,292	485	559
(previous year)	(8,499)	(9,122)	(633)	(485)
Other provisions	2,971	1,831	1,489	1,441
(previous year)	(2,458)	(2,971)	(1,378)	(1,489)
Total	**12,093**	**13,123**	**1,974**	**2,000**
(previous year)	**(10,957)**	**(12,093)**	**(2,011)**	**(1,974)**

05.16 Purchase price liabilities

Purchase price liabilities in € '000

	31 Dec. 2016	31 Dec. 2015
Non-current purchase price liabilities		
Square DMS	**963**	1,899
phi-Consulting	**657**	1,288
Total	**1,620**	**3,187**
Current purchase price liabilities		
Incit AB	**0**	574
Square DMS	**600**	550
phi-Consulting	**380**	1,043
Total	**980**	**2,167**
Grand total	**2,600**	**5,354**

The interest cost on the non-current purchase price liabilities from the previous year arising out of the acquisition of phi-Consulting amounted to € 44 k. These liabilities were reclassified as current € 675 k in accordance with their maturities.
Of the current purchase price liabilities recognised for phi-Consulting, € 1,043 k was disbursed and € 295 k reversed.
The interest cost on the non-current purchase price liabilities arising out of the acquisition of Square DMS in the previous year amounted to € 64 k. These liabilities were reclassified as current € 1,000 k in accordance with their maturities. Of the current purchase price liabilities recognised for Square DMS, € 550 k was disbursed and € 400 k reversed.
The current purchase price liabilities for Incit AB (€ 574 k) were also reversed.

05.17 Trade payables

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

05.18 Other liabilities

Other liabilities in € '000

	31 Dec. 2016	31 Dec. 2015
Non-current other financial liabilities		
Lease liabilities	**0**	40
Miscellaneous current other financial liabilities	**0**	11
	0	**51**
Current other financial liabilities		
Paid-leave liabilities	**2,954**	3,067
Miscellaneous current other financial liabilities	**4,361**	4,140
	7,315	**7,207**
Current other non-financial liabilities		
Advance payments received from customers	**14,887**	13,903
Other tax liabilities	**8,326**	7,141
Miscellaneous	**441**	302
	23,654	**21,346**
Total	**30,969**	**28,604**

The miscellaneous other financial liabilities mainly comprise liabilities in connection with wages and salaries. The other tax liabilities consist solely of transaction taxes such as value-added tax and income tax liabilities.

Consolidated statement of changes in fixed assets 2016
as at 31 December 2016

	Historical cost						
€ '000	1 Jan. 2016	Currency translation differences	Changes in scope of consolidation	Additions	Disposals	Reclassi-fications	31 Dec. 2016
I. Intangible assets							
1. Goodwill	109,296	- 1,475	1,700	0	0	0	**109,521**
2. Acquired intangible assets	47,934	- 1,686	0	488	698	- 178	**45,860**
3. Internally generated intangible assets	37,701	- 732	0	5,817	29	0	**42,757**
4. Customer relations	9,813	- 166	1,370	0	0	0	**11,017**
5. Brands	1,358	- 37	0	0	0	0	**1,321**
6. Advance payments made	0	0	0	49	0	178	**227**
	206,102	**- 4,096**	**3,070**	**6,354**	**727**	**0**	**210,703**
II. Property, plant and equipment							
1. Land, leasehold rights and buildings	8,823	- 67	0	265	302	1	**8,720**
2. Plant and machinery	10,021	- 106	0	940	133	0	**10,722**
3. Other equipment, and office furniture / equipment	9,199	- 3	0	1,534	1,264	0	**9,466**
4. Advance payments made and assets under construction	1	0	0	0	0	- 1	**0**
	28,044	**- 176**	**0**	**2,739**	**1,699**	**0**	**28,908**
III. Financial assets							
1. Equity investments	64	0	0	95	148	0	**11**
2. Other loans	6,363	0	0	71	44	0	**6,390**
	6,427	**0**	**0**	**166**	**192**	**0**	**6,401**
	240,573	**- 4,272**	**3,070**	**9,259**	**2,618**	**0**	**246,012**

Accumulated depreciation and amortisation						Carrying amounts	
1 Jan. 2016	Currency translation differences	Additions	Disposals	Reclassi-fications	31 Dec. 2016	31 Dec. 2016	31 Dec. 2015
33,909	- 226	0	0	0	**33,683**	**75,838**	75,387
32,243	- 694	3,660	698	0	**34,511**	**11,349**	15,691
20,142	- 2	2,401	0	0	**22,541**	**20,216**	17,559
665	- 23	707	0	0	**1,349**	**9,668**	9,148
125	- 5	67	0	0	**187**	**1,134**	1,233
0	0	0	0	0	**0**	**227**	0
87,084	**- 950**	**6,835**	**698**	**0**	**92,271**	**118,432**	**119,018**
3,201	- 59	458	198	0	**3,402**	**5,318**	5,622
6,278	- 83	1,201	133	0	**7,263**	**3,459**	3,743
5,987	0	1,565	1,191	0	**6,361**	**3,105**	3,212
0	0	0	0	0	**0**	**0**	1
15,466	**- 142**	**3,224**	**1,522**	**0**	**17,026**	**11,882**	**12,578**
11	0	0	0	0	**11**	**0**	53
481	0	0	0	0	**481**	**5,909**	5,882
492	**0**	**0**	**0**	**0**	**492**	**5,909**	**5,935**
103,042	**- 1,092**	**10,059**	**2,220**	**0**	**109,789**	**136,223**	**137,531**

06 Other explanatory notes

06.1 Other financial obligations

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

Other financial obligations in € '000

	2017	2018 – 2021	After 2021
Lease agreements	8,514	23,450	13,774
Purchase commitments	12,808	6,070	105
Total	**21,322**	**29,520**	**13,879**

06.2 Related-party transactions

In addition to the subsidiaries included in its consolidated financial statements, Aareon AG has, in the course of its ordinary activities, direct or indirect relations with subsidiaries of the Aareal Bank Group that are included in the consolidated financial statements of Aareal Bank AG. The majority of Aareon AG's business relationships are with Aareal Bank AG. These primarily relate to provision of the following services:

— Collaboration with Aareal Bank AG and with regard to the fully automated and integrated accounting and payment services for property companies in Germany as implemented in the Wodis Sigma, SAP® solutions and Blue Eagle as well as GES software systems
— Data centre services and related implementation consulting services
— Co-financing of the Aareon Congress

The business transactions with Aareal Bank AG comprised revenues and other operating income in the amount of € 9,036 k as well as cost of materials and other operating expenses in the amount of € 486 k.

Related parties controlled by Aareon AG, or over which Aareon AG can exert a controlling influence, are included in the consolidated financial statements. They also appear in the list of shareholdings in Note 5.4, with information on the equity interest held and the net profit/loss for the year.

All transactions with related parties were conducted on the basis of international price comparison methods as per IAS 24, on the same conditions that are customary with non-Group third parties (arm's-length transactions).

In the Aareon Group, members of the Management Board and the Supervisory Board as well as members of first- and second-tier management (directors, division managers), regional directors (sales) and members of strategic purchasing are defined as "members of management in key positions".

In the year under review, the total compensation paid to members of management in key positions amounted to € 16,709 k, of which € 16,409 k comprised benefits falling due in the short term, € 76 k concerned compensation paid after termination of employment, and € 224 k concerned benefits paid on termination of employment. The total compensation paid to members of the Management Board amounted to € 2,112 k, and included contributions to defined contribution plans in the amount of € 100 k. The total expenses for share-based payment amounted to € 295 k.

06.3 Auditors' fees

In the reporting period, € 399 k was recognised for auditing of the financial statements, € 50 k for other attestation services, € 16 k for tax consultancy services and € 3 k for other services.

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

Aareon Deutschland GmbH, Mainz, as well as Aareon Immobilien Projekt Gesellschaft mbH, Dortumund, which are included in the consolidated financial statements of Aareon AG, has, with the approval of the General Meeting of Shareholders granted in accordance with Section 264 (3) of the German Commercial Code (HGB), been exempted from the obligation of preparing annual financial statements and a management report in compliance with the corresponding provisions for corporations.

06.5 Events after the reporting date

Aareon Nederland B.V. acquired 100 % of the shares in Incit Nederland B.V. with retroactive effect from 1 January 2017. No other events or business transactions have occurred since the close of the fiscal year that could have an effect on Aareon's net assets, financial situation or earnings as presented in this report.

07 Corporate bodies

07.1 Supervisory Board

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

Hermann J. Merkens, Deputy Chairman
Chairman
Aareal Bank AG, Wiesbaden

Lutz Freitag
Consultant
Hamburg

Dagmar Knopek
Member of the Management Board
Aareal Bank AG, Wiesbaden

The compensation paid to members of the Supervisory Board in the reporting year amounted to € 10 k.

07.2 Management Board

Dr. Manfred Alflen
Chairman of the Management Board
International Business Development; Human Resources & Organisation; Legal, Risk Management & Compliance; Data Protection & Data Security; Internal Audit; Corporate Marketing & Communications; International Business; Chair of the Supervisory Boards of Aareon Deutschland GmbH and BauSecura GmbH

Sabine Fischer
Member of Management Board
Aareon-ERP-systems (Wodis Sigma, SAP® Solutions and Blue Eagle, GES) and Aareon Smart World Digital Solutions; Data, Hosting and IT Services; Consulting Organisation incl. phi-Consulting GmbH

Dr. André Rasquin
Member of Management Board
Central Sales; Regional Sales; Solution Sales & Sales Management; Advisory Board work; Strategic Product Marketing for the BauSecura product

Christian M. Schmahl
Member of Management Board
International Finance; Controlling; Accounting; Contract & Receivables Management; Central Purchasing; Facility Management

08 Concluding remarks

As a rule, Aareon AG is obliged to prepare consolidated financial statements and a group management report. As Aareon AG and its subsidiaries are included in the consolidated financial statements and group management report of Aareal Bank AG, Wiesbaden, the requirements for the Company's exemption pursuant to section 291 (2) of the German Commercial Code (HGB) have been fulfilled. Thus, Aareon AG's preparation of consolidated financial statements and a group management report is entirely voluntary.
Aareal Bank AG also prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been deposited with the Local Court (Amtsgericht) of Wiesbaden.

Mainz, 7 March 2017

The Management Board

Dr. Manfred Alflen   Sabine Fischer

Dr. André Rasquin   Christian M. Schmahl

Auditors' report

We have audited the consolidated financial statements of Aareon AG, Mainz – comprising the balance sheet, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes – as well as the Group management report for the fiscal year 1 January to 31 December 2016. It is the responsibility of the company's Management Board to prepare the consolidated financial statements and the Group management report in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU, and the additional accounting provisions pursuant to Section 315a (1) of the German Commercial Code (HGB). Our responsibility is to express an opinion on the consolidated financial statements and the Group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB), taking into account the accounting principles for the audit of financial statements formulated by the Institute of Public Auditors in Germany (IDW). These require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial situation and earnings in the consolidated financial statements in accordance with the applicable financial reporting principles and in the Group management report are detected with reasonable assurance. Knowledge of the Group's business activities and of its economic and legal environment as well as expectations as to possible misstatements are taken into account when determining the content of the audit. During the audit, the effectiveness of the accounting-related internal control system and the evidence supporting the disclosures made in the consolidated financial statements and Group management report are examined primarily on the basis of random samples. The audit entails assessing the separate financial statements of the companies included in the consolidated financial statements, the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the findings of our audit, the consolidated financial statements comply with IFRS as applicable in the EU and with the supplementary applicable provisions of Section 315a (1) of the German Commercial Code and, in accordance with these provisions, give a true and fair view of the net assets, financial situation and earnings of the Group. The Group management report is consistent with the consolidated financial statements, provides a true picture of the Group's situation and correctly portrays the opportunities and risks associated with its future development.

Frankfurt am Main, 7 March 2017

PricewaterhouseCoopers Gmbh
Wirtschaftsprüfungsgesellschaft

Stefan Palm	ppa. Thomas Körner
German Public Accountant	German Public Accountant