

Group management report

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Group business fundamentals

Aareon is the leading provider of SaaS solutions for the European property industry. 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 the company's knowledge and expertise converge with the needs and requirements of its customers. 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, France, the Netherlands, Scandinavia and the United Kingdom.

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, Massachusetts, USA – has a material non-controlling interest in Aareon.

Aareon's portfolio

With its Smart World portfolio, Aareon offers its customers enterprise resource planning (ERP) systems and digital solutions that help connect property management companies with their stakeholders and their buildings. The majority of this software is offered via the software-as-a-service (SaaS) business model, which allows the company to generate a high proportion of its sales as recurring revenues. The ERP systems Aareon offers in its respective national markets form the core of this product portfolio. They assist customers of the property industry with their diverse business processes, helping them to enhance process efficiency and quality as well as the way they manage their business and risks. These ERP systems enable customers to organise not only their core processes more efficiently, but also their key customer and supplier relationships, and portfolio management processes, e.g. contract and receivables management as

well as reporting solutions for commercial-property providers. With its constantly evolving ERP systems, Aareon aims to secure its customer base and generate a stable business volume that is robust over the long term. In many cases, Aareon's customer relationships have been in place for decades.

Software as a service, Aareon's main operating model, offers customers the advantage of not having to bother about updates or maintenance. But Aareon also provides a software hosting service from its certified data centre in Mainz. Hosting is provided either in the exclusive Aareon Cloud or "in-house", meaning on the customers' own premises.

Aareon increasingly favours the subscription payment model, though customers can also purchase software licences. Aareon uses the term subscription when the customer opts for hosting in the Aareon Cloud in combination with the subscription payment model. If the customer operates the software in-house in combination with the licensing model, Aareon generally provides service via a fee-based model that comprises not only maintenance and ongoing development, but also regular software support.

ERP systems portfolio

In Germany, Austria and Switzerland – the DACH region – Aareon markets ERP products for the housing industry and commercial property sector. In the case of the housing industry, the relevant products are Aareon Wodis Yuneo / Aareon Wodis Sigma, immotion® and Aareon's SAP® solutions (including Blue Eagle). Aareon also offers the ERP product Aareon RELion to the commercial property sector and to companies that manage both commercial-property and residential-housing portfolios. In the DACH region, this range of services is complemented by Aareon Cloud services and the BauSecura insurance management solution.

In its international markets, Aareon offers country-specific ERP products. In the Netherlands, Aareon Nederland offers the social-housing industry the SaaS solution

Aareon Tobias 365 (based on Microsoft® Dynamics® 365) and the ERP software Twinq, designed for the management of shared-ownership property by the country's home owners' associations. Aareon Nederland sells the ERP solution Aareon REMS in the commercial-property market. In France, the range of ERP products comprises Aareon Prem'Habitat and Aareon Portallmmo. In the United Kingdom, Aareon UK markets the ERP product Aareon QL, with its new iteration Aareon QL Yuneo. In addition, the British subsidiary Arthur Online Ltd offers an SaaS property management solution that links up property managers, owners, tenants and contractors on a single platform. In Scandinavia, the company markets the Momentum property management SaaS package, which is produced by the Swedish-based Momentum Software Group AB that Aareon acquired in June 2022.

Digital solutions portfolio

The digital solutions Aareon offers include WRM (workforce relationship management), CRM (customer relationship management), SRM (supplier relationship management), BRM (building relationship management) and Digital Office.

WRM products offer property companies greater process efficiency and help simplify their employees' day-to-day work. Mobile solutions, for example, 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 their customers self-services, so that the latter can access documents like rental agreements online. What is more, tenants are able to submit damage reports, check the status of tickets and find out to what extent their issue has already been processed. The digital solution of Aareon's subsidiary wohnungshelden allows housing

companies to digitalise their entire rental process. Since the full takeover of OSRE B.V. in December 2022 and the acquisition of CubicEyes B.V. in October 2022, Aareon has been able to offer digital solutions that automate the property transaction process, e.g. the marketing of properties.

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 quickly online – without reams of paperwork. The integrated use of data from CRM and ERP solutions allows property companies to place digital commissions directly with partner companies. This enables maintenance processes, for example, to be managed digitally and transparently. Customers from both the property and energy industries can profit from this integrated portfolio. At the interface between SRM and CRM solutions, Aareon also offers its customers in Germany – through the interaction of vacancy management and the CRM portal/app – an EED-compliant application that satisfies the property industry's information obligations towards tenants.

BRM products support professional 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. The data gathered is useful in managing property portfolios. A further advantage of these digital applications is that employees on site at a property can access all the data they require via a tablet or smartphone and therefore have at their fingertips precise information about the property's equipment, features, condition and maintenance cycles. In addition, they can update the inventory data in real time. BRM solutions also help property companies upgrade their existing properties to meet new energy-saving requirements. A case in point is the AiBATROS® software solution of Aareon's subsidiary CalCon: by means of a 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 helps asset managers manage their cash holdings and draft business plans.

Last but not least, Digital Office comprises solutions like Archiv kompakt or ShareWorX, which ensure the audit-proof archiving and retrieval of documents.

Market environment

With its portfolio of products and services, Aareon competes with other companies, both in its home market of Germany and abroad. Aareon's competitors include providers of proprietary industry products, SAP® partners and, increasingly, PropTech companies offering individual digital solutions. Aareon can boast a comprehensive portfolio of offerings, the majority of which are available via the software-as-a-service operating model.

Research and development (R&D)

Collaborative research and development activities focusing on adding value for customers and partner companies form the basis for the continuous technological evolution and expansion of Aareon's portfolio. Aareon works closely with its customers, adopting a co-creation approach in combination

with design-thinking methods. On top of that, Aareon leverages its potential as an international Group, drawing on the country-specific expertise of its employees in its R&D activities. Aareon takes an agile approach to development, enabling it to perform intensive testing at an early stage and transition as quickly as possible from initial idea to prototype. 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. in bodies such as customer advisory councils – and by conducting regular Group-wide customer surveys.

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 € 59.3 million in 2022 (2021: € 52.4 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 34%. Amortisation of internally generated software amounted to € 12.6 million. Aareon utilises the services of third parties for the purposes of R&D.

Economic report

General economic and industry environment

General economic environment

Overall, 2022 was a difficult year for the global economy. The Ukraine war that erupted at the beginning of the year and the sanctions imposed by the West on Russia and vice versa had a strong negative impact, especially on European economies, causing energy and foodstuff prices to surge and at times also aggravating existing supply-chain problems. At a global level, too, both the economic situation and business confidence deteriorated in the course of the year, particularly in the second half. In many countries, high inflation rates dampened both private consumption and the positive catch-up effects following the Covid-19 pandemic. Another retarding factor for economic growth was the adoption by central banks of tighter monetary policy to combat high inflation rates. While many countries benefited from the easing of contact restrictions, China's zero-Covid policy continued to impact its economy. Growing inflation pressure also influenced financial market trends, with bond market yields rising markedly as a result of monetary tightening and some stock markets suffering sharp drops as well.

Economic growth

In the eurozone, real GDP rose by 3.3% year on year in 2022 – a rather subdued economic recovery from the Covid-19 pandemic. In spring, the easing of Covid-related contact restrictions initially led to a rise in consumer spending, especially on services. But, starting in February, Russia's war of aggression on Ukraine caused energy prices to surge and aggravated existing supply chain problems, affecting industry in particular. Although the war dampened demand and fuelled inflation worldwide, the eurozone was especially impacted due to its geographical proximity and its reliance on Russian energy. As a result, the eurozone economy slowed increasingly during the year on the back of high levels of

uncertainty, high energy costs, the declining purchasing power of private households, weakening terms of foreign trade and tighter financing conditions. The full-year economic growth figures for the major eurozone economies in 2022 were: Spain: 5.3%; Italy: 3.8%; France: 2.5%; and Germany: 1.7%.

Economic growth was also uneven in those European Union countries that are not eurozone members. Sweden, for instance, posted economic growth of 2.9% year on year in 2022 and the Czech Republic 2.5%. Poland's economy, by comparison, grew at a much stronger rate of 5.7%.

In the UK, economic activity was dynamic across all sectors at the beginning of the year, with close-contact services in particular profiting from the easing of Covid restrictions. Industry, however, was increasingly impacted by price rises for input products, supply bottlenecks and a shortage of workers, causing the rate of economic growth to slow from the second quarter onwards. In the second half of the year, consumer-related services suffered from a slump in consumer confidence attributable to high inflation rates and a decline in real incomes. In autumn, comprehensive tax cuts were announced, most of which were dropped, however, in the wake of the financial market turbulence that cost the Prime Minister her job. Economic output reached 4.1% in 2022 compared with 2021.

Despite the overall challenging environment, labour markets in many countries performed well, continuing their recovery from the Covid-19 pandemic. The service sector, in particular, continued to raise employment levels, though hobbled by a pronounced shortage of workers in some areas. At 6.6%, the eurozone unemployment rate hit a historic low at year end. The same went for the USA, where the previous year's strong increase in the workforce continued, pushing employment levels to new record highs in August. At year end, the unemployment rate stood at 3.5%.

Annual real GDP growth rate in %	2022 ¹⁾	2021 ²⁾
Austria	4.8	4.6
Eurozone	3.5	5.3
Finland	1.8	3.0
France	2.6	6.8
Germany	1.9	2.6
Netherlands	4.2	4.9
Norway	3.4	4.0
Sweden	2.8	5.1
Switzerland	2.0	4.2
United Kingdom	4.1	7.6

(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 is still in progress. Driven especially by the higher energy prices in the wake of the Ukraine war, companies in this industry increasingly need to use digital solutions to reduce energy consumption. The digitalisation of standard processes can also help counter the shortage of skilled workers. It is increasingly important for enterprises to set up their own company-specific digital ecosystems with integrated software solutions. 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. Technologies like artificial intelligence and Big Data offer new ways to reduce the workload of property company employees and aid their decision-making. In addition to connecting property companies with their business partners, tenants and property owners, the focus is now shifting towards linking up with

the buildings themselves and the technical equipment in them – especially for the purposes of managing energy consumption and reducing carbon emissions. 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 homes.

Key performance indicators

Revenue and adjusted EBITDA – the latter a customary metric across the software industry – are the key financial performance indicators used by Aareon to manage its business operations. Adjusted EBITDA factors out items of an exceptional or non-recurring nature, which usually means acquisition-related expenses, such as due diligence costs or the cost of legal disputes, for example. Capital expenditures on new Aareon products and non-recurring personnel costs are also factored out.

Business performance

Fiscal 2022 saw the reorganisation of Aareon’s Management Board. Hartmut Thomsen has been Chair of the Management Board of Aareon AG since 1 April 2022. Further new members joined the Management Board on 1 July 2022: Dr Ernesto Marinelli in the newly created position of Chief People Officer (CPO) and – as successor to Sabine Fischer – Rummyana Trencheva as Chief Revenue Officer (CRO). During 2022, the new Management Board members launched key strategic initiatives in support of Aareon’s growth strategy. These aim to enhance profitability and also generate value added for customers. Continuing on the path of inorganic growth, Aareon strengthened its position by acquiring Momentum Software Group, a Swedish provider of SaaS property-management and energy-monitoring solutions, in June 2022.

Aareon is well on track to becoming a Rule-of-40 SaaS company. In 2022, the sum of revenue growth and adjusted EBITDA margin already equalled 39% (previous year: 29%) and was thus almost at the target level. The transformation process towards SaaS and subscription solutions continued according to plan, with growth of 25%. With the SaaS model, customers benefit from being easily able to utilise software from the cloud. As a result of the growth in SaaS, the share of recurring revenues in total revenues rose to 74% (previous year: 71%).

The Aareon Group reports on two segments: DACH and International Business, with the DACH segment comprising business operations in Germany (D), Austria (A) and Switzerland (CH).

DACH segment

Revenues in the DACH segment were significantly higher year on year. As part of Aareon's transformation into an SaaS company, the SaaS campaign for the new-generation Wodis Yuneo progressed. At the same time, Aareon continued to offer its customers process-oriented product packages that are tailored to their individual requirements and streamline the product range. As a result, revenues from Wodis Yuneo/Wodis Sigma, RELion, the ERP system for the commercial property market, and SAP® solutions (including Blue Eagle) increased markedly year on year. immotion®, the ERP system of the GAP-Group, which Aareon acquired last year, made a major contribution to revenue growth.

In the field of digital solutions, demand for the BRM solution AiBATROS®/epiqr®, which meets the requirements for sustainable portfolio management, was stronger year on year. As for CRM solutions, that of wohnungshelden, the company Aareon took over in 2021, was a positive revenue driver. Customer portal revenues rose year on year. Revenue from SRM solutions also increased, with Mareon, the service

portal for coordinating tradespeople, and the vacancy management solution in particular boosting revenue. Since 2021, the vacancy management solution has been successfully deployed in combination with the CRM portal and app. This solution, which is compliant with the EU's Energy Efficiency Directive (EED), is for managing the property industry's information obligations towards tenants. Revenues from Archiv kompakt, a digital archiving solution belonging to the Digital Office product group, were also up compared with the previous year.

BauSecura's insurance activities performed well. Revenues generated with Aareon Cloud services were down slightly year on year, but still at a high level.

International Business segment

Aareon posted significant year-on-year revenue growth in the International Business segment as well. In ERP systems, Tobias (Netherlands), Arthur (UK) and the Dutch product Twinq for the shared-ownership property management sector were all revenue growth drivers. The SaaS property management system Momentum also helped increase revenues. Revenues from Xpand, Aareon's former ERP solution in the Scandinavian market, from the French ERP systems Prem'Habitat and Portalimmo, from REMS, the ERP system for the commercial property industry in the Netherlands, and from the British ERP system QL, with the new product generation QL Yuneo, were all roughly on a par with the previous year. In the Netherlands, there was also strong demand for Aareon Cloud services.

Digital solutions were a strong revenue driver in the International Business segment, especially the BRM solution of UK company Tactile Ltd. (now Fixflo), which Aareon acquired in 2021. Facilitor, a facility management solution, and Trace & Treasury, a solution for financial and asset management in the Netherlands, generated higher revenues. Momentum Software Group's energy-monitoring solution also contributed

to revenue growth. Demand for CRM solutions was higher year on year in almost all markets. Overall, revenues from WRM solutions, comprising Aareon's mobile solutions, were up.

Economic situation

Earnings

Aareon grew its consolidated revenues in 2022 by 14.5% to € 308.5 million (2021: € 269.3 million). Recurring-revenue business grew by 18.9% year on year. Licensing revenue decreased by 9.5%, in line with expectations, reflecting the shift to subscription and SaaS models. Consulting revenues grew by 8.2% year on year. At € 75.3 million, Aareon's adjusted EBITDA was 12.8% higher year on year (2021: € 66.8 million). As a result, Aareon was within the range it had projected for 2022 – both for revenue (€ 305–325 million) and adjusted EBITDA (€ 73–78 million).

In addition to enhancing operations in its DACH and International Business segments in the fiscal year, Aareon placed special emphasis on its strategic focus areas. The company moved forward with its M&A Roadmap by completing a total of five transactions.

The non-recurring effects factored out of adjusted EBITDA amounted to € 22.2 million in the reporting year, roughly on a par with 2021 (€ 24.0 million). The adjustments concern: € 10.3 million for one-off personnel costs and the Value Creation Program (VCP) (previous year: € 10.9 million); € 6.8 million for the cost of corporate acquisitions (previous year: € 6.4 million); and € 5.2 million for capital spending on new products (previous year: € 6.7 million).

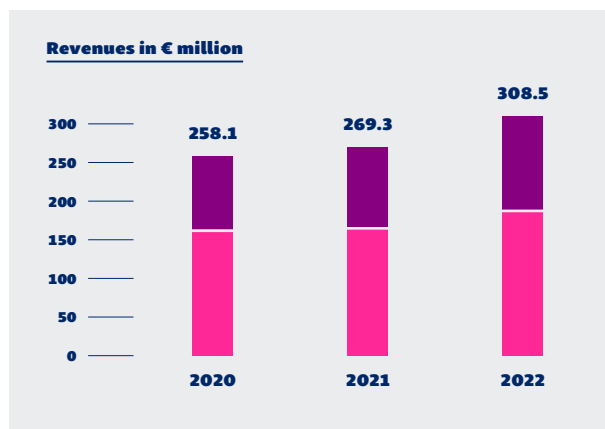
After the high level of capital spending on the product Wodis Yuneo in the DACH region in 2021 (€ 14.2 million), the figure

for 2022 was lower at € 11.7 million. Total expenditure on R&D came to € 59.3 million in 2022 (2021: € 52.4 million).

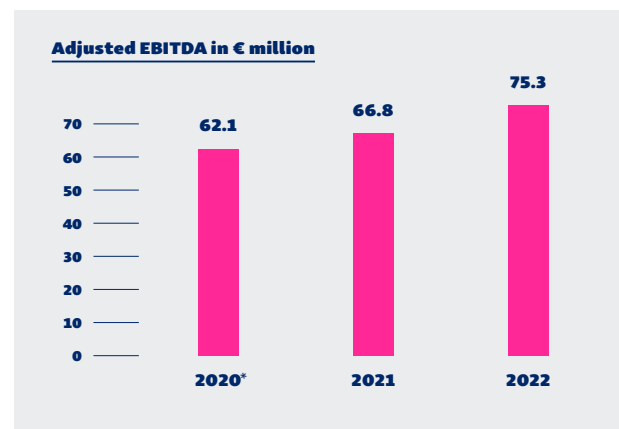
Other operating income amounted to € 7.8 million (2021: € 5.9 million) and included fees paid by participants in customer events, income from the release of purchase price liabilities and measurement effects from the transition of equity-accounted entities to consolidation.

The cost of materials rose by 16.9% to € 56.6 million (2021: € 48.4 million) due to revenue growth. The increase of 10.1% in staff costs to € 177.0 million (2021: € 160.7 million) was chiefly attributable to the increase in personnel numbers resulting from organic growth and to the integration of the employees of acquired companies. Other expenses also increased by 10.1% to € 41.3 million (2021: € 37.5 million).

At € 186.7 million, Aareon's revenues in the DACH segment were 13.7% higher year on year (2021: € 164.2 million). The original forecast figure of € 195.0–205.0 million could not be reached because consulting revenues were lower than expected. That was due mainly to the delayed completion of product releases and to weaker customer demand attributable to a lack of major projects. Recurring revenues, on the other hand, were significantly higher for all products amid the shift from licensing contracts to SaaS and subscription contracts. This was achieved largely through organic growth with the products Wodis Sigma/Wodis Yuneo and vacancy management, and through the inorganic effects of the acquisition of GAP mbH during 2021. Despite increased SaaS/subscription offerings, licensing business remained on a par with the previous year. Several contracts were concluded with major customers for SAP® solutions (including Blue Eagle) and AiBATROS®. The increase in costs is related to higher revenues and, in particular, to growth in the workforce. The latter was considerably lower than forecast and able to roughly offset lower consulting revenues. As a result,



■ International
 ■ DACH



* Restated

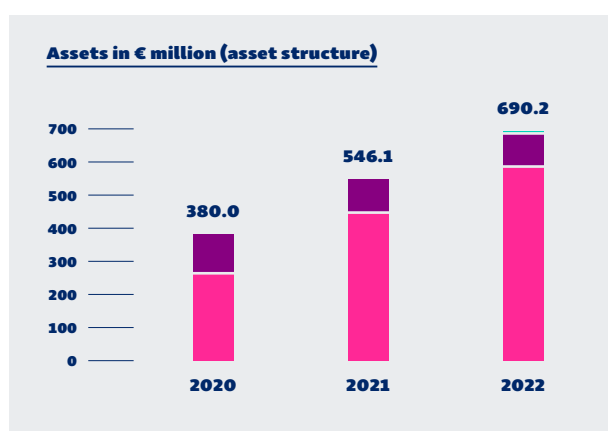
adjusted EBITDA in the DACH segment was higher year on year at € 47.5 million (2021: € 45.4 million), but marginally lower than the forecast range of € 48.0–51.0 million).

Revenues in the International Business segment were up by 15.8% to € 121.8 million (2021: € 105.1 million). The original forecast range of € 110.0–120.0 million was exceeded chiefly due to the acquisition of Momentum on 30 June 2022. Recurring revenues were also the main driver of growth in the International Business segment. Business in the Netherlands and France, and with small and medium-sized property managers in the UK, were the main contributors to organic growth. There was a correspondingly substantial reduction in revenues from licensing business. High customer satisfaction levels with project implementation led to an increase in consulting business in the Netherlands, though overall growth in this area was lower than expected. Cost increases were relatively moderate. Growth in staff costs, for instance,

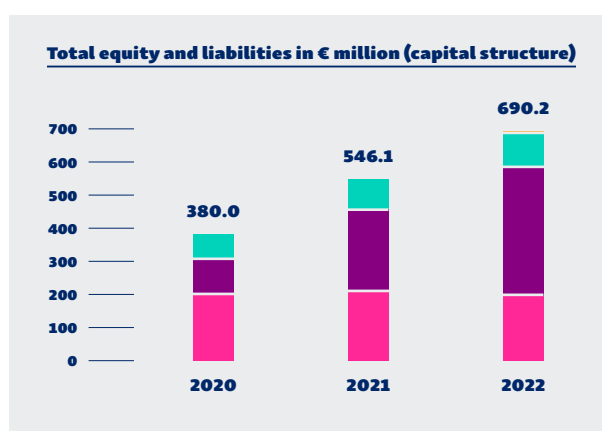
was only in the high-single-digit percentage range. At € 27.7 million, adjusted EBITDA was up year on year (2021: € 21.4 million) and also exceeded the forecast range (€ 25.0–27.0 million).

Net assets

Aareon's total assets amounted to € 690.2 million in 2022, up 26.4% year on year (2021: € 546.1 million). At € 583.8 million, non-current assets rose by 30.3% on the previous year (2021: € 448.2 million), mainly due to the increase in intangible assets from the acquisition of companies in the software industry. The decrease in rights of use was due to derecognition of the extension option in the lease for the headquarters building in Mainz. Current assets rose by 1.7% year on year to € 99.6 million (2021: € 97.9 million). Due to the planned sale of phi-Consulting GmbH at the end of Q1 2023, liabilities in the amount of € 6.8 million were reclassified as "held for sale" in accordance with IFRS 5.



- Non-current assets held for sale
- Current assets
- Non-current assets



- Liabilities attributable to held for sale non-current asset
- Current liabilities
- Non-current liabilities
- Equity

Financial situation

Capital structure

Compared with the previous year, equity decreased by 6.6%, from € 209.0 million to € 195.3 million, mainly due to currency translation differences of € 12.0 million and the consolidated net loss for the year of € 5.0 million.

Non-current liabilities rose by 57.5% to € 387.5 million (2021: € 246.1 million). This increase was driven by the drawdown of further loan tranches to finance acquisitions. The decline in non-current lease liabilities results from derecognition of the extension option in the lease agreement for the headquarters building in Mainz. At € 106.3 million, current liabilities were up by 16.7% year on year (2021: € 91.1 million), chiefly due to the drawdown of current overdraft lines. Due to the planned sale of phi-Consulting GmbH at the end of Q1 2023,

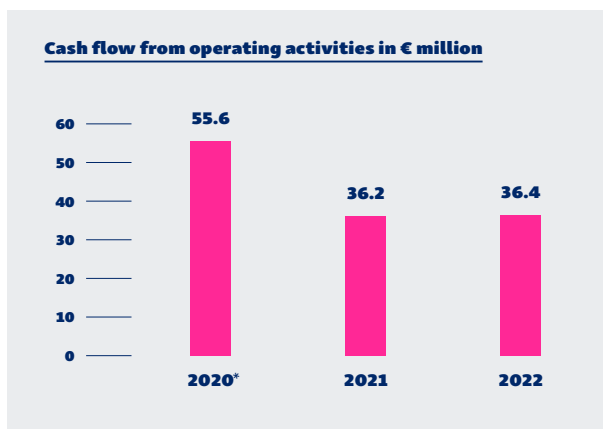
its liabilities of € 1.1 million were reclassified as “held for sale” in accordance with IFRS 5.

Liquidity

The statement of cash flows is the key to analysing Group liquidity. Cash and cash equivalents amounted to € 21.9 million in 2022 (previous year: € 32.5 million).

At € 36.4 million, cash flow from operating activities was on a par with the prior year (€ 36.2 million). EBITDA rose substantially year on year, to € 53.1 million (2021: 42.8 million). Owing to the high levels of business activity in the final quarter, a large volume of receivables was unpaid as at 31 December 2022, leading to a stronger increase in assets and thus lower cash inflows of € -8.1 million (2021: € +5.4 million).

Our staff ¹⁾



* Restated

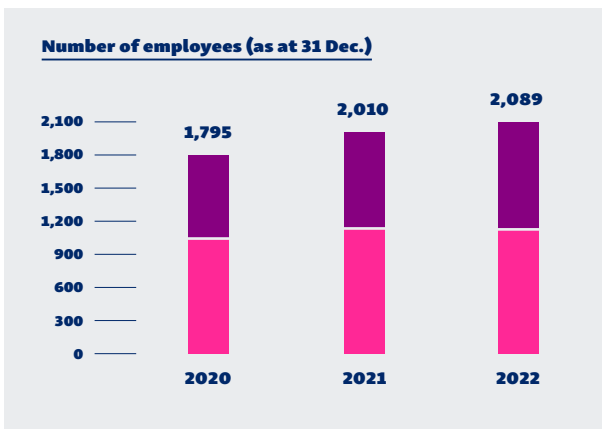
At € -206.2 million, cash flow from investing activities increased year on year (2021: € -173.6 million), due primarily to payments of € -168.0 million to acquire consolidated companies (2021: € -148.6 million). In 2022, this applied in particular to the acquisition of Momentum in Sweden, for the squeeze-out of which an advance payment of € -7.8 million was deposited.

Cash flow from financing activities came in at € 159.7 million (2021: € 119.6 million) and was mainly attributable to cash inflows from the drawdown of further loan tranches in the amount of € 180.0 million (2021: € 137.5 million) to finance acquisitions. In this context, interest paid increased to € 13.1 million (2021: € 3.1 million). The yet-to-be utilised line of credit approved by Aareal Bank amounted to € 32.5 million.

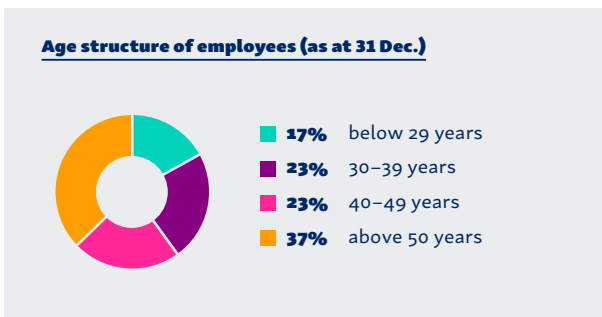
Aareon had 2,089 employees as at 31 December 2022 (2021: 2,010), 46.3% of whom were employed at international subsidiaries (2021: 43.5%). The average period of service with the company was 10.8 years (2021: 10.3 years). The proportion of women in the workforce was 33.7% (2021: 33.9%), while the share of women in management positions was 21.0% (2021: 23.1%). As equal opportunities are an integral part of Aareon's personnel policy, the company is striving to increase these percentages. The intention is to place greater emphasis on gender balance when recruiting talented young employees.

Fostering staff by enabling life-long-learning is important to Aareon because technological progress in particular is constantly transforming the tasks of the workforce. That is why Aareon empowers its staff to keep evolving in their roles and growing with the company – an ever more crucial approach, especially when skilled workers are in short supply. Via the Cornerstone Learning Management System, the company last year offered employees in Germany training courses on housing industry topics from the EBZ Business School Bochum and on leadership, agile project management, soft skills, communication and health from PINKTUM. In the UK, for example, Aareon works together with Udemy, an online learning platform. Other offerings included intercultural training courses, special consulting courses, a digital coaching programme lasting several months, and online language courses. Personalised training for managers is provided, for example, via the Aareon Development Centre for Managers. In addition, the eighth iteration of the Cross-Mentoring Programme was launched. Cross-mentoring is a personnel development tool aimed at encouraging knowledge transfer and involves the systematic sharing of ideas and experiences between employees at different companies. Managers, too, are encouraged to share ideas, with leadership groups at Aareon giving them an opportunity to learn from their peers.

1) Further information on Aareon's staff can be found [here](#).



■ International
■ DACH



Alongside the ongoing development of its staff, the training of new recruits is a key component of Aareon’s strategy to retain skilled workers. Aareon offers trainee programmes, a dual-study programme in Business IT as well as a variety of vocational training courses in office management and IT (the latter as either an application development or systems integration specialist). At year-end 2022, Aareon employed 20 trainees and two dual-study students in Germany. One of Aareon’s trainees came second in the “Azubi-Star 2022” (Star Trainee 2022) regional competition organised by the Rhein-hessen Chamber of Commerce and Industry. In order to foster young talent and promote education, Aareon also 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).

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 and helps Aareon attract and retain highly qualified and dedicated employees. In the annual performance appraisals, employees and their line managers conduct a dialogue to assess to what extent task-related goals have been met. At present, it is still up to each individual Aareon subsidiary to design its own compensation system in line with the Group’s compensation 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.

Internal control system

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. In this connection, Aareon has opted for a risk-based approach.

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

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

The Management Board of Aareon AG is responsible for designing, establishing, applying, refining and reviewing an appropriate system of internal control over financial accounting. At Aareon AG, the processes for (Group) financial accounting are managed by the Corporate Finance unit, which also takes charge of Group financial reporting. All of the company's subsidiaries are included in its consolidated financial statements. 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 Deutschland GmbH, phi-Consulting GmbH, AV Management GmbH, CalCon Deutschland GmbH, wohnungshelden GmbH, Aareon GAP Beteiligungs GmbH, GAP mbH and AQN GmbH. The financial accounts of BauSecura are handled by the Funk Group. Aareon UK, Aareon France, Aareon Nederland and Aareon Sverige each have their own autonomous financial accounting units, and these also enter their respective financial data independently in the Group's SAP® software programme. The financial data reported by all other companies is entered in the Group's software

programme by Finance unit employees in Germany. 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 the dual-control principle, in some cases soon after the bookings are made. 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.

Risk report

Under the internal control system, the units responsible regularly monitor compliance with guidelines and work instructions, and review the control measures in place.

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 department 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.

Aareon's ambitious growth strategy was by far the biggest influencing factor in 2022. Mergers and acquisitions enable Aareon to grow its market share and tap new market segments. At an organisational level, the foundations were laid for a partner ecosystem. In addition, the structures for a revenue marketing organisation were put in place and business cadence reporting rolled out.

In order to fulfil the requirements of the PS 340 nF auditing standard in the area of risk management, a Monte Carlo Simulation module was introduced as part of a software expansion project. That means Aareon can now simulate risk assessments using distribution functions. The new risk values are termed "expected damage" and are not comparable with the "expectancies" previously used. 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. The risk owners assess the impact by selecting a corresponding distribution function from a list. Risks are assessed in both inherent and residual terms, meaning both before and after any risk minimisation measures are taken into account. In the course of the project, a process was developed to identify as early as possible any trends that could threaten the company's going-concern status as well as a methodology for determining the Aareon Group's risk tolerance. This additional information is also provided in the Aareon Group's risk report. 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. As a general principle, no risks are avoided and all are recorded.

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 expected damage, the corresponding measures specified by the risk owners are documented in the risk reports, to the extent that the expected damage exceeds a defined threshold. The threshold is currently set at € 200k. At the applicable reporting date in the fourth quarter, two 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 expected damage 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 DACH²⁾ 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.

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

The categories of risk to which Aareon is exposed comprise financial and market risks, management and organisational risks, risks from incidental and ambient conditions, and production risks. Financial risks comprise 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 risk 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 risk assessments of the first three quarters, the risks faced by the company in 2022 were deemed to be lower on the whole than in the previous year. As the method of risk assessment was changed in the fourth quarter of 2022, the risk assessments are not comparable with those of 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

Liquidity risk is defined as the risk that the Group companies may be unable to meet their financial obligations, e.g. those arising from loan agreements, leases or trade payables. The Aareon Group's demand for capital is constantly rising due to its strong organic and inorganic growth. That demand is met in close cooperation with Aareal Bank AG. The line of credit of € 350.0 million approved by Aareal Bank is mainly intended to finance corporate acquisitions. Of that figure, € 32.5 million had not already been utilised for loan commitments as at the reporting date. Aareon is convinced that its existing credit facilities with Aareal Bank AG, its optimised corporate structure and the cash inflows from its ongoing business operations are sufficient to meet the Group's foreseeable liquidity requirements.

In order to limit liquidity risks across the entire Aareon Group, the liquidity of each Group company is actively monitored and liquidity is managed at the Group level as well. Where necessary, the liquidity requirements of individual Group companies are met using the available cash of other Group companies via the cash pooling mechanism. In addition, Aareon AG can at any time utilise the line of credit approved by Aareal Bank to cover the Group's needs. This provides the Group with cover that is optimal and always sufficient to finance the needs of its business operations and its local capital expenditures. At the international subsidiaries, this liquidity forecast is prepared on a monthly basis.

Given the international focus of the non-eurozone countries, exchange-rate risks arise in connection with the measurement of foreign-currency payables and receivables, and must be constantly monitored. The financing of its business activities, especially M&A transactions, exposes Aareon not only to exchange-rate risks, but also to interest-rate risks. In order

to limit these risks, the relevant corporate bodies analyse and decide on the use of derivative financial instruments in a series of consultations. The analysis takes account of the geopolitical and economic parameters in the individual countries and the opinions of external experts. Derivative hedging instruments are concluded solely for the purpose of hedging existing risk positions or business transactions that are highly likely to materialise. In this context, Aareon restricts itself to marketable OTC instruments and uses these solely to hedge underlying transactions, and not for trading or speculative purposes. All decisions on the use of derivative financial instruments are made in close cooperation with the Management Board. This ensures the Management Board is always fully informed of all material risks and of the hedging instruments in place.

The tax risk rises as a result of inorganic growth and the increasing 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.

Given the higher levels of liquidity, interest and exchange-rate risks, overall financial risks increased year on year and comprise, in particular, the assessment of tax risks and external financing of the company's growth.

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.

Compared with the previous year, market risks were deemed to be lower.

Management and organisational risks

In order to do justice to the changing market situation and the resulting changes in the product portfolio, it is especially necessary to regularly adapt the company's human resources to the skills required. The tight labour market in the IT industry makes it ever harder to fill vacancies in time and uphold business operations. Aareon counters this risk by enabling employees to change positions within the company and upgrade their skill sets. Aareon has initiated far-reaching changes to its compensation and bonus systems in order to create an attractive environment and enhance retention of talented employees.

Relative to the previous year, management and organisational risks were assessed as being lower.

Risks from incidental and ambient conditions

At Aareon, the term "incidental and ambient conditions" is used to cover legal 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 being constantly monitored and evolved as well.

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

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 accordingly. 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 SaaS/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 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 actual area exposed to attack in public networks, but also to 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 on the basis of the Aareon security strategy. In addition, processes, guidelines and controls were refined and enhanced.

Realistic, documented countermeasures are taken to minimise the risk of any serious disruptions during the operation of customer software. 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.

On the whole, production risks were assessed as being almost unchanged relative to the previous year.

Opportunities

Identifying, creating and utilising opportunities is a decisive component of Aareon's corporate strategy of managing the digital transformation process in a purposeful manner. To this end, Aareon constantly monitors and analyses developments in the property sector, the competitive environment and society at large, as well as IT trends. The insights it gleans from this find their way into the company's strategy. The opportunities this gives rise to, some of which are correlated with each other, are categorised below. They were largely unchanged compared with the previous year:

- Opportunities from customer focus
- Opportunities from a connected product portfolio
- Opportunities from being an attractive employer
- Opportunities from a sustainable business model

Aareon assesses the opposing risk of each opportunity.

Opportunities from customer focus

Aareon is fully focused on its customers. Aareon's goal is to leverage its portfolio of products and services to add value for customers, also by making their day-to-day work easier. Aareon's ERP systems and digital solutions help the property industry – which faces a shortage of qualified personnel and challenges from high energy costs – do business more efficiently. In many cases, Aareon's relationships with its customers, the property industry and their partner companies have grown over many years. Aareon is a member of several property industry associations, including the German Federation of Housing and Property Companies (GdW). Beyond that, Aareon systematically engages in dialogue with its customers – in the Aareon customer advisory councils, at numerous customer events

and in customer meetings. It also conducts regular customer surveys. This proximity to the industry and customers presents opportunities to identify customer trends, needs and requirements as they arise and to factor them into the ongoing development and expansion of Aareon's portfolio of products and services.

Opportunities from a connected product portfolio

Both the economy and society are characterised by the ongoing digital transformation process. Technological change is accelerating. Aareon integrates the opportunities this offers into its product strategy. It is constantly expanding the Aareon Smart World digital ecosystem – which centres on the company's ERP systems and its innovative integrated mobile digital solutions – and also enhancing it with solutions from its partner companies. The further transformation to software as a service is one point of focus. Our customers can work in a convenient, process-efficient manner using a single database, can expand their own customer service capabilities and leverage potential for new business models. Aareon offers corresponding consulting services for all its products and services to help its customers to set a digital agenda – meaning to focus on the right products and solutions – so that they can achieve their business goals. Companies frequently prefer to source all their products and services from a single provider. That is why, compared with its competitors, Aareon has opportunities from its integrated software offerings in combination with consulting. 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.

Opportunities from being an attractive employer

The demographic trend is making competition for qualified workers more intense, which is why Aareon is constantly honing its profile as an attractive employer. An important step in this context was the establishment in July 2022 of a dedicated Management Board function “People & Culture”. Aspects where Aareon can score points in this regard include an innovative, inspiring and informal working environment in a hybrid working world, a healthy work-life balance, a personnel policy that is geared to the employees’ different life phases, equal opportunities, diversity, and a corporate health management programme with a particular focus on mental well-being. This creates opportunities for enhancing employee motivation and for facilitating the recruitment of new, highly qualified employees. In the race to recruit new qualified 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 enhance Aareon’s future viability and position it, both in the market and with stakeholders, as a company that acts responsibly. 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 with Aareon Smart World, which leverages the potential of digitalisation with its customer-centric, high-quality IT solutions; high levels of data protection and security; and a responsible, life-phase-oriented personnel policy that exploits the opportunities provided by the digital working world. With products like AiBATROS®, Aareon has the potential to fulfil the wishes of many property companies, namely to make their own contribution to sustainability. The Aareal Bank Group’s annual Sustainability Report describes the sustainability measures adopted by Aareon.

Outlook

Aareon will continue to pursue its growth strategy in 2023, with the declared goal of becoming a Rule-of-40 SaaS company.

Aareon's consolidated revenues are likely to rise in 2023, reaching € 325.0–345.0 million (2022: € 308.5 million), driven by recurring revenues from the SaaS, subscription and maintenance contracts the company has been marketing more intensively since 2021. Especially with SaaS products, customers benefit from the added value of cloud solutions. Alongside these, the continual expansion of new business and further cross-selling of digital products to existing customers – so that the latter can expand their digital ecosystems – will contribute to sales growth. As a result, licensing revenues will decline further in 2023 as the trend towards SaaS continues. Organic growth will be complemented by inorganic growth from mergers and acquisitions in line with the corporate strategy. In late December 2022, Aareon exercised its option to acquire the remaining shares in Netherlands-based OSRE B.V. As a result, the latter will contribute to the Group's revenues and earnings in 2023 just like the other acquisitions made during 2022. On the other hand, the shift in focus to core business means that the subsidiary phi-Consulting GmbH, which specialises in consulting services for utilities, will be sold at the end of Q1 2023 as contractually agreed last December. Because of this sale, revenues from professional services will rise only slightly compared with 2022. Thanks to strategic cost-optimisation measures, costs should rise only marginally in 2023, with higher energy costs being the main driver. At € 90.0–100.0 million, adjusted EBITDA should be considerably higher than last year (2022: € 75.3 million). The adjustments should amount to around € 40.0 million and will thus be higher than last year (2022: € 22.2 million). They comprise not only M&A costs, but also a capex budget of around € 35.0 million for measures to enhance efficiency.

The main drivers of ERP revenues will be Wodis Yuneo in the DACH region, Tobias 365 in the Netherlands, Arthur Online in the UK and Momentum in Sweden. The roll-out of the new product generations of Wodis Yuneo and Tobias 365 will continue. New customers and an expanded product portfolio will help boost growth at Arthur Online. The Swedish Momentum Software Group, which was acquired in June 2022, will be included in the 2023 consolidated financial statements for a full 12 months. In addition to that, the migration of Xpand customers to the technologically future-oriented Momentum solution will help Momentum's revenue growth. By the same token, revenues from Xpand will gradually decline. Revenues from the other ERP products – like Aareon's SAP® solutions (including Blue Eagle), RELion and immotion® in the DACH region, Portallmmo and Prem'Habitat in France, QL Yuneo in the UK, and REMS and Twinq in the Netherlands – are expected to be on a par with last year. With digital solutions, too, the trend towards SaaS solutions will continue, with a consequent decline in licensing revenues. Owing to demand for the solutions of acquired companies like CubicEyes B.V., OSRE B.V. and wohnungshelden GmbH, as well as to further penetration of the customer base, revenues from CRM products should rise sharply. SRM products for existing customers are also expected to show strong growth. Revenues from other digital solutions will be on a par with last year. As for the BRM solution AiBATROS®, an increase in recurring revenues will help equal the sales figure of 2022 despite lower licensing revenues in 2023. The same applies to WRM products, where higher licensing revenues in the UK were generated last year by the shift to a new product generation.

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.