NORATIS

Annual Report 2018

abridged version [1]

Main group figures (Commercial code)

	2015	2016	2017	2018
Revenues (Mio. Euro)	23.8	44.6	68.0	56.1
EBIT (Mio. Euro)	3.8	9.9	15.2	15.6
EBT (Mio. Euro)	1.5	6.0	12.2	12.8
Consolidated net income (Mio. Euro)	1.1	4.2	8.7	9.3
Earnings per share (undiluted)	239.27*	841.04*	2.97*	2.57*
Total assets	92.7	87.5	127.8	214.1
Units sold	249	593	587	294
Existing units	1,465**	1,008**	1,194**	1,791**
Rental space of the property portfolio (rounded, m²)	93,000	69,000	80,000	123,000

* based on the outstanding shares respectively the company shares as of 31th December (2015: 4,500, 2016: 5,000, 2017: 2,920,000, 2018: 3.601.897)

** including commerial units

[1] only the German version of the annual report is relevant concerning the reporting standards of the Noratis AG

Dear shareholders,

Noratis AG can look back at another highly successful financial year 2018. We significantly expanded our real estate portfolio, worked to enhance the value of our holdings and sold developed properties. By further expanding our corporate structure, we also strengthened our foundation for future growth.

With an operating profit before interest and taxes (EBIT) of EUR 15.6 million, we were able to slightly exceed the strong prior-year figure of EUR 15.2 million. At EUR 9.3 million, our consolidated net income was also higher than the previous year's figure of EUR 8.7 million. In short, we met our guidance for 2018.

It is important to note that we continued to report in accordance with the German Commercial Code (HGB) in 2018. This means, for example, that increases in value caused by rising market prices are not included in our bottom line. Instead, these result in hidden reserves on the balance sheet and are only recognised through profit or loss when we sell properties.

We sold 294 apartments in the past financial year. Although this figure was considerably lower than the 587 apartments we sold in 2017, we were nonetheless able to increase Noratis earnings, thus demonstrating the quality of our portfolio acquisitions and the success of our asset management activities in recent years. Rental income from the significantly expanded property portfolio also contributed to this result. Gross rental income rose by around 30 percent to EUR 7.9 million in 2018.

We expanded our property portfolio to 1,791 apartments in 2018 by acquiring a total of 893 units. This represents a rise of 597 units or 50 percent compared to the previous year. This significant increase shows that we can continue to acquire interesting properties even in the current environment thanks to our focus on secondary locations.

Igor Christian Bugarski
CEO

André Speth
CFO

The network we have built up in the real estate industry over many years helps us in pursuing this strategy. Due to our good liquidity and our standing with our financing partners, we are also well positioned to complete real estate transactions in the short term. The capital increase implemented in May 2018 with gross proceeds of around EUR 15.3 million improved this situation further.

The significant expansion of our property portfolio to a carrying amount of around EUR 176.1 million as of the end of 2018, a rise of approximately 78 percent compared to the previous year, provides the basis for the successful future development of Noratis AG. We are keen to make optimal use of our portfolio and of the potential our market offers for further attractive acquisitions.

The aim of our company policy is to develop investment properties in a way that adds value. We want to acquire and create attractive, affordable living space for our tenants. Our tenants are our customers and, as such, they receive special attention from us. At the same time, of course, we also want to enhance value for the shareholders of Noratis AG. Our aim is that these increases in value are also reflected in the development of the share price in the medium to long term.

We also want to enable our shareholders to participate directly in the Company's success by paying dividends. According to our dividend policy, approximately half of our consolidated net income should be distributed to shareholders each year.

We would like to expressly thank our employees for their tireless commitment. Our thanks also go to our business partners for their excellent collaboration. Finally, we would like to thank you, our shareholders, for placing your trust in us. We will continue to devote all of our efforts to the positive development of Noratis AG.

Kind regards,

Igor Christian Bugarski

André Speth

Interview with the Management Board of Noratis AG, CEO Igor Christian Bugarski and CFO André Speth

Noratis is very pleased with the performance of its business in 2018. What were the drivers of this positive development?

Igor Christian Bugarski: All of our core areas – acquisitions, asset management and sales – contributed to this strong performance. The investments in our corporate structures and platform paid off in this regard. Owing to our comprehensive network we have established over many years means, we were offered attractive properties, which enabled us to acquire a significantly higher number of units – 893 – than in previous years. Our strong earnings show how good our past acquisitions were and how successful our asset management activities are. Despite a lower number of apartment sales, we managed to increase our earnings after taxes to EUR 9.3 million. In short, 2018 was simply a good year for Noratis AG.

Why do you actively sell properties rather than leaving them in your portfolio?

André Speth: We have positioned Noratis AG as a portfolio developer because by doing this we can combine stable rental income with the attractive returns of property development without being exposed to the full risk of a project developer. After all, our properties have already been standing for a while and have long since proven their economic viability. We realise these returns from development activities through sales and can use the resulting earnings contributions to acquire new properties. However, we decide on a case-by-case basis whether we see additional value potential through asset management and thus the attractive rental yields within the portfolio or realise the development returns.

You see your tenants as partners. Can you explain this to us in more detail?

Igor Christian Bugarski: Our tenants are our customers. If our tenants are satisfied and happy to live in one of our properties, that results in a high occupancy rate, stable rental income and careful treatment of our properties. As a result, we aim to improve the substance of our portfolio through focused investments while enhancing the quality of our housing in an affordable way. Instead of undertaking luxury renovations, we acquire and create affordable living space.

You report your financial results in accordance with the German Commercial Code (HGB). What does this mean?

André Speth: That means that we prepare our financial statements in accordance with national accounting standards. By contrast, many listed real estate companies report their figures in accordance with international accounting standards. The differences in earnings may be significant between the different accounting standards. As this can make comparability difficult, we explicitly draw attention to this fact. Here is a simplified example. A surveyor determines that an apartment within your portfolio is now worth EUR 10,000 more due to general price increases. While this means you now report EUR 10,000 more in profit under international accounting standards, your profit remains unchanged under HGB. Only when you sell the apartment can you report such price increases as profits under HGB accounting standards.

Can you continue to acquire properties at favourable prices in 2019?

Igor Christian Bugarski: We are still in acquisition mode, and are continuing to acquire attractive properties through our network. We have two particular advantages when it comes to our positioning. Firstly, we can buy in small lots, which can even include individual properties or smaller portfolios. According to our analysis, this market is more stable than the market for larger transactions. Secondly, we specialise in secondary locations. Our analysis shows that these locations generally exhibit more stable prices than prime locations, which also makes our business performance less dependent on much-discussed cycles.

How important are interest rate trends for you?

André Speth: We typically achieve much higher returns from our sales than traditional portfolio holders. As a result, interest is not as crucial for our earnings performance, while we also use derivatives to hedge the majority of our liabilities. Although rising interest rates are very likely to have a negative impact on achievable sales prices, they also mean we can acquire properties on more favourable terms. In this respect, we should benefit from the so-called average cost effect over a longer period as we are constantly acquiring and reselling properties. With economic momentum subsiding in 2018 and remaining subdued in early 2019, however, I do not believe that the conditions are right for a significant rise in interest rates.

Noratis AG on the capital markets in 2018

Share price

While Noratis AG shares significantly outperformed the overall market in 2018, they ultimately also posted losses over the year. With a Xetra year-end price of EUR 22.00 on 28 December 2018, the shares finished the year around 10 percent below the previous year's closing price of EUR 24.33. Share price movements were subjected to considerable volatility over the course of the year. Most notably, the share price rose sharply after the 2017 financials were announced in March with the proposal of a dividend of EUR 1.50 per share. The share price then fell back to EUR 22.50 in the wake of the dividend payment and the capital increase implemented in May. The shares recovered once more after the announcements concerning the successful expansion of the property portfolio at the end of June and July to reach more than EUR 26 per share.

Noratis share in 2018 (Xetra)

Closing price on 29 December 2017 (last trading day of 2017)	EUR 24.33
Closing price on 28 December 2018 (last trading day of 2018)	EUR 22.00
Annual high on 27 April 2018	EUR 29.20
Annual low on 6 February 2018	EUR 20.20

In 2018, equity markets suffered from a volatile market environment dominated by uncertainty about the trade dispute between the USA and China, ongoing Brexit negotiations and the European Central Bank's interest rate policy. The DAX shed around 18 percent of its value in 2018, its biggest loss since the financial crisis in 2008. The MDAX and SDAX indexes also suffered considerable losses in 2018, falling by 18 percent and 20 percent respectively. The FTSE EPRA Nareit Germany Index, which includes various listed real estate companies, also exhibited volatile performance during 2018. The index rose by around 1 percent over the course of the year.

Trading volumes

In 2018, a daily average of 3,842 Noratis shares were traded on the Deutsche Börse's electronic trading system, Xetra. The average combined daily trading volume on all stock exchanges was 7,299 shares, which meant that 53 percent of the daily trading of Noratis shares was attributable to Xetra. ICF BANK AG continued to act as the designated sponsor and, as such, ensured the liquidity of the shares with binding bid and ask prices.

Capital increase

In May 2018, Noratis AG carried out a capital increase with pre-emptive rights and a public offer. A total of 681,897 new shares were placed at an issue price of EUR 22.50 per share. The gross proceeds amounted to EUR 15.3 million.

Annual General Meeting

Noratis AG held its first Annual General Meeting as a listed company in Eschborn on 3 May 2018. All of the agenda items were adopted by a large majority. These items included a dividend payment of EUR 1.50 per share.

Analyst coverage

Analysts from Independent Research and SMC Research regularly publish reports on Noratis AG and provide estimates on the prospects of the business. In its most recent report on 3 December 2018, Independent Research issued a "buy" recommendation for Noratis shares with a target price of EUR 34.00. On 26 October 2018, SMC released its latest report on the Company with a "buy" recommendation and a target price of EUR 33.80. In addition to the two aforementioned research firms, Edison Noratis has also covered Noratis since its listing in the Scale segment of the Frankfurt Stock Exchange.

Bank	Most recent update	Recommendation	Target price
Independent Research	3 Dec 2018	Buy	EUR 34.00
SMC Research	26 Oct 2018	Buy	EUR 33.80

Investor Relations activities

As a result of its listing in the Scale segment of the Frankfurt Stock Exchange, Noratis AG is subject to specific transparency requirements. The Company publishes half-yearly and annual reports, and keeps the capital markets informed about the latest news at Noratis AG via regular corporate press releases and ad-hoc-releases. The corporate website provides all interested parties with comprehensive information about the Company and its shares.

In addition, the Management Board actively carries out Investor Relations activities. This involves regularly presenting the Company's business model and development to investors, analysts and media representatives at capital markets conferences. In 2018, Noratis AG was represented at events including the German Equity Forum, the Spring Conference and a Prior Capital Markets Conference. The Management Board members were also available for discussions with shareholders and interested investors at investor roadshows as well as in numerous investor meetings and conference calls.

Additional information

ISIN / WKN / Ticker symbol	DE000A2E4MK4 / A2E4MK / NUVA
Type of shares	3,601,897 ordinary bearer shares without par value (no-par value shares)
Market capitalisation on 31 December 2018	approx. EUR 79 million
Share capital	EUR 3,601,897
Initial listing	30 June 2017
Trading segment	Scale
Designated sponsor	ICF BANK AG


RIEDSTADT

Consolidated financial statements

as at 31 December 2018

Consolidated balance sheet

as at 31 December 2018

ASSETS

in EUR		Financial year	Previous year
A. Fixed assets			
I. Intangible fixed assets			
1. Purchased concessions, industrial and similar rights and assets, licences in such rights and assets		50,893.00	68,154.00
II. Tangible fixed assets			
1. Land and land rights with residential buildings	10,094.00		10,575.00
2. Other equipment, operating and office equipment	448,871.00		367,135.00
		458,965.00	377,710.00
B. Current assets			
I. Land held for sale and other inventories			
1. Land and land rights with finished buildings	176,138,047.45		99,206,762.56
2. Prepayments	532,835.63		0.00
		176,670,883.08	99,206,762.56
II. Receivables and other assets			
1. Trade receivables	24,051,178.90		1,671,033.41
2. Other assets	449,357.40		3,947,469.60
		24,500,536.30	5,618,503.01
III. Securities			
1. Other securities		1,808,560.00	3,927,565.48
IV. Cash-in-hand, central bank balances, bank balances and cheques		7,850,726.00	17,892,085.23
C. Prepaid expenses		2,725,155.90	747,644.88
		214,065,719.28	**127,838,425.16**

EQUITY AND LIABILITIES

in EUR		Financial year	Previous year
A. Equity			
I. Subscribed capital	3,601,897.00		2,920,000.00
II. Capital reserves	31,490,785.50		16,830,000.00
III. Net retained profits	14,149,651.11		9,284,851.49
IV. Non-controlling interests	218,492.37		239,657.37
		49,460,825.98	29,274,508.86
B. Provisions			
1. Tax provisions	2,793,164.37		4,355,931.63
2. Other provisions	2,641,933.99		2,917,557.16
		5,435,098.36	7,273,488.79
C. Liabilities			
1. Bonds	5,928,000.00		5,946,115.07
2. Liabilities to banks	149,088,142.41		80,250,007.14
3. Payments received on account of orders	7,200.00		107,500.00
4. Trade payables	1,914,839.77		818,495.70
5. Other liabilities	649,509.44		3,082,476.81
- of which taxes EUR 274 thousand (EUR 2,518 thousand)		157,587,691.62	90,204,594.72
- of which relating to social security EUR 9 thousand (EUR 0 thousand)			
D. Deferred income		209,963.84	134,021.46
E. Deferred tax liabilities		1,372,139.48	951,811.33
		214,065,719.28	**127,838,425.16**

Consolidated income statement

for the period from 1 January to 31 December 2018

in EUR			Financial year	Previous year
1.	Revenue		56,120,576.74	67,988,655.87
2.	Increase or decrease in land held for sale with finished and unfinished buildings and unfinished services		76,915,791.75	1,760,522.94
3.	Other operating income		698,387.26	169,513.78
4.	Cost of materials			
	a) Expenses for land held for sale	-107,784,194.57		-45,934,404.69
	b) Expenses for other services	-3,636,413.93		-2,291,390.42
			-111,420,608.50	-48,225,795.11
5.	Personnel expenses			
	a) Wages and salaries	-3,147,233.25		-2,137,823.98
	b) Social security, post-employment and other employee benefit costs	-379,481.82		-242,256.54
			-3,526,715.07	-2,380,080.52
6.	Depreciation, amortisation and write-downs			
	a) of intangible and tangible fixed assets		-170,746.40	-95,810.97
7.	Other operating expenses		-3,072,149.49	-3,994,386.97
8.	Other interest and similar income		208,232.51	150,241.34
9.	Interest and similar expenses		-2,979,498.48	-3,133,592.96
10.	Taxes on income		-3,504,232.86	-3,564,463.40
11.	**Earnings after taxes**		**9,269,037.46**	**8,674,804.00**
12.	Other taxes		-3,072.84	-2,825.00
13.	**Net income for the period**		**9,265,964.62**	**8,671,979.00**
14.	Profit attributable to non-controlling		-21,165.00	-7,611.83
15.	**Net income from the current year attributable to Group companies**		**9,244,799.62**	**8,664,367.17**
16.	Retained profits brought forward		4,904,851.49	620,484.32
17.	**Net retained profits**		**14,149,651.11**	**9,284,851.49**

ZWEIBRÜCKEN

Notes on the Cash flow statement

Noratis AG defines the term „cash funds“ as the „cash in hand and bank balances“ item shown in the consolidated balance sheet. This balance sheet item includes cash and cash equivalents of EUR 0 thousand (previous year: EUR 7,599 thousand), the use of which is restricted for the Group.

Of the dividends paid shown in the cash flow statement EUR 4,380 thousand (previous year: EUR 3,516 thousand) is attributable to the shareholders of Noratis AG and EUR 21 thousand (previous year: EUR 0 thousand) to the minority shareholders of Noratis Living GmbH.

Cash flow statement

for financial year 2018

	In EUR thousand	Financial year 2018	Financial year 2017
	Net income for the period	9,266	8,672
+/-	Depreciation, amortisation and write-downs of fixes assets / reversals of write-downs of fixed assets	171	96
+/-	Increase / decrease in provisions	-276	1,177
+/-	Other non-cash expenses / income	23	-186
-/+	Increase / decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	-99,824	-3,624
+/-	Increase / decrease in trade payables and other liabilities not attributable to investing or financing activities	-1,283	544
-/+	Gain / loss on disposal of fixed assets	0	-3
+/-	Interest expense / interest income	2,771	2,984
-	Other investment income	0	0
+/-	Expenditure for / income of exceptional size or incidence	791	1,505
+/-	Income tax expense / income	3,504	3,564
+	Cash receipts relating to income of exceptional size or incidence	0	0
-	Cash payments relating to expenditure of exceptional size or incidence	0	0
-/+	Income taxes paid	-1,062	-1,866
=	**Cash flows from operating activities**	**-85,919**	**12,863**
+	Proceeds from disposal of intangible fixed assets	0	0

Cash flow statement (continued)

-	Payments to acquire intangible fixed assets	-1	-83
+	Proceeds from disposal of tangible fixed assets	0	0
-	Payments to acquire tangible fixed assets	-234	-377
+	Proceeds from disposal of long-term financial assets	0	0
-	Payments to acquire long-term financial assets	0	0
+	Payments from disposals of entities included in the basis of consolidation	0	0
-	Payments to acquire entities included in the basis of consolidation	0	-3,650
+	Cash payments from the investment of cash funds for short-term cash management	0	0
-	Cash payments for the investment of cash funds for short-term cash management	0	0
+	Cash receipts relating to income of exceptional size or incidence	0	0
-	Cash payments relating to expenditure of exceptional size or incidence	0	0
+	Interest received	208	0
+	Dividends received	0	0
=	**Cash flows from investing activities**	**-27**	**-4,110**
+	Proceeds from capital contributions by shareholders of the parent entity	14,552	15,745
+	Proceeds from capital contributions by minority shareholders	0	232
-	Cash payments to shareholders of the parent entity from the redemption of shares	0	0
-	Cash payments to minority shareholders from the redemption of shares	0	0
+	Proceeds from the issuance of bonds and from borrowings	79,646	51,378
-	Cash repayments of bonds and borrowings	-10,866	-57,827
+	Proceeds from grants / subsidies received	0	0
+	Cash receipts relating to income of exceptional size or incidence	0	0
-	Cash payments relating to expenditure of exceptional size or incidence	0	0
-	Interest paid	-3,026	-2,715
-	Dividends paid to shareholders of the parent entity	-4,380	-3,516
-	Dividends paid to minority shareholders	-21	0
=	**Cash flows from financing activities**	**75,905**	**3,297**
=	**Net change in cash funds**	**-10,041**	**12,050**
+/-	Effect on cash funds of exchange rate movements and remeasurements	0	0
+/-	Effect on cash funds of changes in the basis of consolidation	0	81
+	Cash funds at beginning of period	17,892	5,761
=	**Cash funds at end of period**	**7,851**	**17,892**

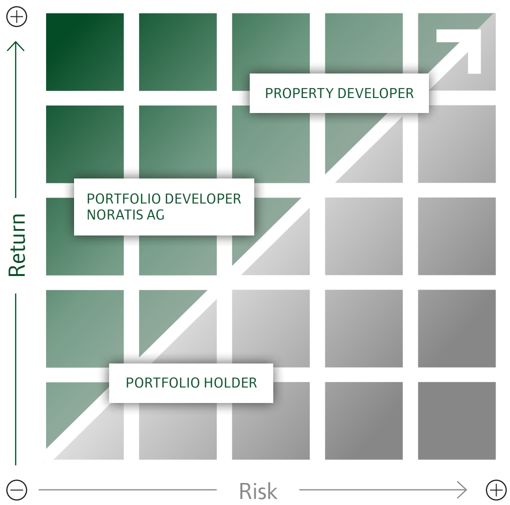
Group management report

for financial year 2018

1. Fundamental Information about the Group

1.1. Overview

The Noratis Group specialises in the development of residential property portfolios. This focus allows the Group to combine the stability of a property portfolio with the attractive returns generated by property development. Regular rental income from the portfolio ensures continuous monthly cash flows and stable contributions to earnings. The returns from developer activity generate additional earnings potential in the portfolio that is realised by active sales of properties.



The Noratis Group operates throughout Germany, focusing on residential properties with potential for development. These are mostly employee housing, neighbourhoods or housing estates. Here, the Group prefers to invest in cities with more than 10,000 inhabitants or on the outskirts of large urban areas.

The properties purchased are upgraded so that they also deliver value for money for low- or middle-income tenants. In doing so, the Noratis Group creates and maintains attractive, affordable living space. The properties in the portfolio are held and developed until they are sold individually or in blocks. Proceeds from the sales are mainly reinvested in property purchases.

The Noratis Group's team of 44 employees as at 31 December 2018 (including marginal employment) performs the core tasks throughout the entire value chain. Thanks to this internal expertise, the existing network in the industry and the experience gained from the projects it implements, the Group has the flexibility to react quickly whenever opportunities arise in the market. Since 2014 alone, the Group has sold around 1,900 apartments with a volume in excess of EUR 175 million. The current project development portfolio as at 31 December 2018 comprises nearly 1,800 units with an area of around 123,000 sqm

1.2. Strategy

The Noratis Group pursues a strategy of achieving sustainable growth in its residential property portfolio with stable cash flows from rental income. The lion's share of its revenue is generated from the continuous sale of properties that have already been developed. Notwithstanding the sales, real estate assets and the share of revenue accounted for by rental income are expected to rise steadily due to an above-average increase in property purchases.

1.3. Group structure

All of the Group companies pursue the same corporate strategy and operate in the same business segment. The parent company Noratis AG, which is listed in Deutsche Börse's Scale segment, acts as the management holding company, in which capacity it performs tasks for the entire Group on a Group-wide basis. Noratis AG holds all interests in the subsidiaries Noratis Wohnen GmbH and Noratis Residential GmbH, both established in financial year 2015, and in Zweite HeBa Immobilien UG (haftungsbeschränkt), as well as a 94% stake in Noratis Living GmbH, acquired at the end of June 2017. August 2018 saw the foundation of Noratis Habitat GmbH, a subsidiary wholly owned by Noratis AG.

1.4. Corporate management

The Group-wide planning and management system is aligned with the Group's strategy and structured accordingly. The key operating indicators used by the Management Board mainly include the volume of purchases and sales realised, the scheduled implementation of refurbishments within budget and profits from the management of the individual portfolios. Key performance indicators in this context are the proceeds of sales realised, earnings before interest and taxes (EBIT) and earnings before taxes (EBT). The Group's loan to value (LTV) ratio is also regularly monitored. Regular reporting of these key indicators enables the Management Board to assess the Group's economic performance on an ongoing basis and develop appropriate countermeasures whenever negative trends arise.

2. Economic position

2.1. Macroeconomic situation

Preliminary calculations by the Federal Statistical Office show that the inflation-adjusted gross domestic product rose by 1.5 percent in 2018. Germany's economic upswing therefore continued in 2018. However, at 0.8 percent the increase in GDP is below the projection for 2018 published in the federal government's spring forecast. The weaker pace of growth that emerged in the course of 2018 was partly attributable to the fact that the global economy lost momentum primarily as a result of existing international trade disputes. According to the report by the federal government, special factors in the automotive sector continue to weigh on demand in German industry. Nevertheless, the upswing in incoming orders that lasted until the end of 2018 and the greater optimism reflected in the Ifo Business Climate Index were able to compensate for the slowdown in industrial activity.

The situation in the German labour market continued to improve in 2018. Figures released by the Federal Statistical Office show that the number of people in gainful employment increased by 562,000, or 1.3 percent.

According to information published by the Federal Employment Agency, unemployment (in terms of the entire civilian working population) stood at 4.9 percent in December 2018, making Germany one of the countries in Europe with the lowest rates of unemployment.

While demand for labour remains very high, companies in some sectors of the economy are reporting recruitment problems. The moving average length of time that positions remained vacant in the annual period increased by 13 to 112 days year-on-year, and the number of vacancies reported is at a record high of 796,000 on average for the year (source: Federal Employment Agency). The Federal Employment Agency believes that while it cannot be said that there is a general shortage of workers or skilled workers, clear pressures and bottlenecks have built up in a number of technical occupations, in construction professions and in health and nursing professions.

2.2. Situation in the German property and residential property market

According to the research and consulting company empirica, the rate of increase in residential rents in Germany's top seven cities was 4.2 percent in 2018 (2017: 5.9 percent), declining for the first time since 2014. The increases range from 1.3 percent in Hamburg (previous year: 4.3 percent) to 6.4 percent in Berlin (previous year: 7.8 percent). On the supply side, empirica maintains this should be considered a stage victory for increasing new construction activity. However, empirica says that the demand side has also responded, because young families and low-income earners are fleeing further and further into the surrounding region and students are flocking to secondary cities such as Magdeburg, Chemnitz, Kassel and Heilbronn.

Contrary to the trend in rental prices, the rise in purchase prices for commonhold apartments in Germany's top seven cities has gained further momentum. Across Germany, purchase prices in all building age groups also rose significantly faster than rents in 2018. For the first time since the financial crisis, prices for owner-occupied homes in particular rose slightly faster in 2018 than those for commonhold apartments (9.1 percent versus 9.0 percent). empirica believes this is a reflection of the risks and side effects of suburbanisation and the increasing shortage of building land around those cities that are seeing a high rate of influx from young people in particular.

Figures published by Savills Research show that properties valued at almost EUR 15.1 billion changed hands in the German residential investment market in 2018. Despite a slight decline in revenue of 3 percent compared with 2017, this was the third-highest level in the past ten years.

For investors, the situation in the residential property market remains positive. BNP Paribas reported that around 77 percent of revenue was generated by domestic buyer groups (by comparison, the share of domestic buyers was around 41 percent for commercial real estate in 2018). Real estate corporations and special real estate funds were once again among the biggest buyer groups (together accounting for around 49 percent), followed by pension funds, property companies, investment/asset managers and open-ended real estate funds.

Despite the large-volume Buwog acquisition (27,180 apartments), the residential investment sector was more fragmented last year. Transactions involving a double- or triple-digit number of apartments accounted for 48 percent of all sales. On the one hand, the smaller lot sizes were a consequence of the huge importance of purchases for property development, which made up approximately 26 percent of the transaction volume. On the other hand, the shortage of large portfolios probably meant that many investors were only able to build up their investment portfolio by purchasing smaller blocks of apartments. Of the buyers known by name in 2018, almost 38 percent only became active as residential investors in Germany during the past ten years. Given this larger investor base, Savills believes that 2019 will again see considerable investment activity.

Figures released by the Federal Statistical Office show that building permits were issued for 315,200 apartments in Germany between January and November 2018. This means that 1,600 more apartments were approved than in the prior-year period, representing an increase of 0.5 percent. The permits were issued for new buildings (around 274,600 permits; an increase of 1.3 percent compared with 2017) as well as for construction projects on existing buildings (around 40,600 permits). The number of building permits for apartments in multi-family houses rose by 4.5 percent. By contrast, the number of building permits for single-family homes fell by 0.5 percent and for two-family homes by 5.2 percent.

In 2018, the laws governing the letting of residential property were amended. From 1 January 2019, landlords in Germany can now pass on 8 percent (previously 11 percent) of refurbishment costs to their tenants. This applies to refurbishments of which tenants were notified by the landlord on or after 1 January 2019. From 2019, a cap of EUR 3 per sqm within six years will also be applied to the allocation of refurbishment costs. If the rent is less than EUR 7 per sqm, it may only increase by EUR 2 within six years as a consequence of refurbishment.

2.3. Course of business

The Noratis Group's operations were positive in a market environment that remained favourable. The anticipated increase in EBIT and EBT was achieved with lower revenue than originally forecast, with the result that the sale of the property in Trier with recognition in profit or loss was postponed until financial year 2019. Consequently, EBIT and EBT increased slightly overall by 3 and 5 percent, respectively, compared with 2017. Better margins from sales proceeds were the main driving force here. This applies to all major sales at the Schwarzenbek, Dormagen, Großkrotzenburg and Frankfurt-Niederrad sites.

The capital increase successfully carried out in May 2018 to implement the growth strategy generated gross issue proceeds of EUR 15.3 million for the Company. The issue of 681,897 shares at a price of EUR 22.50 per share raised issued capital by EUR 682 thousand to EUR 3,602 thousand and additional paid-in capital by EUR 14.7 million to EUR 31.5 million. This increased the free float to just under 46 percent. Despite the significant 67 percent increase in total assets to EUR 214.1 million, the equity ratio improved slightly from 22.9 percent in the previous year to 23.1 percent.

In the course of the financial year, properties were acquired or sold at the following locations:

Acquisitions

Location	Number of units	Sales channel
Celle / Königslutter	345	Block sale
Frankfurt Ginnheim (1)	363	Privatisation
Frankfurt Rödelheim (1)	9	Block sale
Ratingen	156	Block sale
Trier II	20	Block sale
Total	**893**	

(1) Incl. commercial units (Frankfurt Ginnheim: 7, Frankfurt Rödelheim: 2)

The property in Frankfurt Ginnheim was acquired by the newly established subsidiary Noratis Habitat GmbH.

Sales

Location	Number of units	Sales channel
Dormagen	48	Privatisation
Frankfurt Niederrad	100	Block sale
Großkrotzenburg (1)	43	Privatisation
Krefeld	3	Privatisation
Schwarzenbek	99	Block sale
Zweibrücken	1	Privatisation
Total	**294**	

(1) Consolidation of residential units in the context of renovation work

The Group's residential real estate portfolio amounted to 1,791 units at the end of the financial year, spread across the following locations:

Location	Number of units	Sales channel
Celle / Königslutter	345	Block sale
Erlensee	46	Privatisation
Frankfurt Bornheim (1) (2)	60	Block sale
Frankfurt Fechenheim	19	Block sale
Frankfurt Ginnheim (2)	363	Privatisation
Frankfurt Rödelheim (2)	9	Block sale
Gladbeck (2)	32	Block sale
Großkrotzenburg (3)	9	Privatisation
Ratingen	156	Block sale
Ratzeburg/Mölln (2)	355	Block sale
Raum Erfurt	121	Block sale
Riedstadt	24	Privatisation
Rügen (2)	142	Block sale
Trier I	80	Block sale
Trier II	20	Block sale
Zweibrücken	10	Privatisation
Total	**1,791**	

(1) The transaction involved the acquisition of a larger commercial unit that generated around 50% of rental income.
(2) Incl. Commercial units (Frankfurt Bornheim: 1, Frankfurt Ginnheim: 7, Frankfurt Rödelheim: 2, Gladbeck: 3, Ratzeburg/Mölln: 1, Rügen: 3)
(3) Consolidation of residential units in the context of renovation work

With 1,791 units (previous year: 1,194) and a carrying amount of EUR 176.7 million (previous year: EUR 99.2 million), the aggregate property portfolio at the end of 2018 increased year-on-year for both key figures in line with planning. Accordingly, the headcount also climbed significantly in the financial year. Compared with the end of 2017, the number of employees (including marginal employment) rose by 13 to 44.

The positive development of the Noratis Group is reflected in the net assets, financial position and results of operations as described below.

2.4. Results of operations

The consolidated income statement based on the presentation of the Noratis Group's revenue categories of sales and rent as well as attributable costs changed as follows in the 2018 financial year compared with 2017:

EUR million	Financial year 2018	Financial year 2017
Units sold	294	587
Revenue	**56.1**	**68.0**
Revenue, sale	48.2	61.9
Costs of sales (incl. outstanding modernisation costs)	-30.9	-44.2
Gross profit, sale	**17.3**	**17.7**
Revenue, rents	7.9	6.1
Cost of letting	-3.6	-2.3
Gross profit, letting	**4.3**	**3.8**
Gross profit	**21.6**	**21.5**
Other operating income	0.7	0.2
Personnel expenses	-3.5	-2.4
Depreciation, amortisation and write-downs	-0.2	-0.1
Other operating costs	-2.3	-2.5
Extraordinary effect: IPO/capital increase	-0.8	-1.5
EBIT	**15.5**	**15.2**
Net interest expense	-2.8	-3.0
EBT	**12.8**	**12.2**
Taxes	-3.5	-3.6
Consolidated net income	**9.3**	**8.6**

Rounding differences may occur for mathematical reasons.

In financial year 2018, consolidated revenue amounted to EUR 56.1 million. Compared with the previous year, revenue was down EUR 11.9 million to EUR 48.2 million as a result of lower property sales. By contrast, revenue from rentals rose by EUR 1.8 million to EUR 7.9 million due to the larger property portfolio.

In spite of lower revenue, the Group's gross profit was maintained at the prior-year level thanks to a higher margin on sales.

Other operating income includes a provision for rental guarantees of EUR 0.5 million pledged in the previous year as part of a sale which was ultimately not needed. After adjusting for this non-recurring effect, other operating income remained at the previous year's level. The increase in staff costs is largely attributable to the expansion of the workforce as a result of the expanded real estate portfolio as well as to higher performance-related remuneration. By contrast, other operating expenses decreased by EUR 0.2 million from EUR 2.3 million in the previous year. In addition, capital procurement costs in 2018 (capital increase) fell significantly compared with 2017 (IPO).

In spite of the decrease in revenue, earnings before interest and taxes (EBIT) improved by EUR 0.4 million to EUR 15.6 million in the financial year, primarily on the strength of improved sales margins.

Net interest expense (interest expense less interest income) fell by EUR 0.2 million in financial year 2018 to EUR 2.8 million, partly as a result of lower average interest rates. Furthermore, the purchase price payments for acquisitions in 2018 were not due until the fourth quarter, which means that the annual average increase in the lending volume is significantly lower than at the reporting dates.

The Noratis Group lifted earnings before taxes (EBT) by 4.9 percent year-on-year to EUR 12.8 million in 2018 and earnings after taxes by 8.1 percent year-on-year to EUR 9.3 million.

2.5. Financial position

The consolidated cash flow statement developed as follows:

EUR million	**Financial year 2018**	**Financial year 2017**
Cash flows from operating activities	-85,919	12,863
Cash flows from investing activities	-0,027	-4,110
Cash flows from financing activities	75,905	3,297
Net change in cash funds	-10,041	12,050
Cash funds at beginning of period	17,892	5,761
Cash funds at end of period	7,851	17,892

Cash flows from operating activities in financial year 2018 were significantly lower than in the previous year. This is almost exclusively attributable to the increase in net purchases of inventory properties compared with 2017.

Cash flows from investing activities mainly include payments for items of property, plant and equipment and interest received of EUR 0.2 million in each case.

The significant increase in cash flows from financing activities is attributable to the increase in borrowings attributable to the property acquisitions in the financial year. The capital increase also generated gross proceeds of EUR 15.3 million.

Cash funds as at 31 December 2018 amounted to EUR 7.9 million (previous year: EUR 17.9 million). The available liquidity will be used primarily to acquire further inventory properties and to satisfy investment obligations. These include investments of around EUR 1.5 million to complete sales already made, for which corresponding provisions have already been recognised.

At the end of 2018, the Group had unused credit facilities of EUR 10.6 million (previous year: EUR 0.6 million). As in the financial year now ended, management assumes that the Group will again meet its payment obligations in 2019.

2.6. Net assets

Summary of the consolidated balance sheet:

	Financial year 2018		Financial year 2017	
	EUR million	%	EUR million	%
Assets	**214.1**	**100.0**	**127.8**	**100.0**
Fixed assets	0.5	0.2	0.4	0.3
Inventories	176.7	82.5	99.2	77.6
Receivables and other current assets	26.3	12.3	9.6	7.5
Cash	7.9	3.7	17.9	14.0
Prepaid expenses	2.7	1.3	0.7	0.5
Equity and liabilities	**214.1**	**100.0**	**127.8**	**100.0**
Equity	49.5	23.1	29.3	22.9
Provisions	5.4	2.5	7.3	5.7
Liabilities to banks	149.1	69.6	80.2	62.8
Other liabilities	8.5	4.0	10.0	7.8
Deferred income	0.2	0.1	0.1	0.1
Deferred tax liabilities	1.4	0.7	0.9	0.7

Compared with the end of 2017, total assets of the Noratis Group climbed from EUR 127.8 million to EUR 214.1 million. The increase is primarily attributable to higher purchases in financial year 2018 in relation to sales and investments in inventory properties within the Noratis Group, as well as to the capital increase.

As a result of the total of net purchases, land and buildings held for sale increased by EUR 77.5 million to EUR 176.7 million as at 31 December 2018. All of the properties that the Noratis Group holds in its portfolio are held as current assets because the properties are acquired with the intention of being resold after their successful development.

The increase of EUR 16.7 million in receivables and other current assets is primarily attributable to changes in three items. Firstly, trade receivables rose by EUR 22.4 million to EUR 24.1 million. This item includes EUR 23.3 million in purchase price receivables due on 28 February 2019. Secondly, the tax office made payments of EUR 3.4 million for the corporate income tax refund claim that was included in other assets as at 31 December 2017. The third item relates to the decline in other securities, which decreased by EUR 2.1 million to EUR 1.8 million. These securities are bonds issued by Noratis AG which the Company repurchased to optimise its cost of capital and holds in its own portfolio.

On the liabilities side, equity was significantly strengthened by the capital increase and the earnings generated in financial year 2018. The dividend payment to shareholders of EUR 4.4 million had an offsetting effect. Overall, equity improved by EUR 20.2 million to EUR 49.5 million.

The decline in provisions by EUR 1.9 million to EUR 5.4 million at the end of financial year 2018 is attributable to a decrease of EUR 1.6 million in tax provisions and EUR 0.3 million in other provisions. The payments and offsetting of income taxes from prior periods led to lower provisions being required in the financial year. In the case of other provisions, the reversal of a rental guarantee and the change in contractually agreed upkeep payments arising from the sale of properties led to a slight decline in overall obligations.

Liabilities to banks rose by EUR 68.9 million as against the end of 2017 to EUR 149.1 million due to the net addition of properties as at 31 December 2018. A major contributory factor here was the acquisition of the Frankfurt Ginnheim property with 363 residential and commercial units.

Other liabilities decreased by EUR 1.5 million at the end of financial year 2018, primarily due to the investment income tax paid to the tax office in the amount of EUR 2.4 million. This liability had arisen at the end of December 2017 as a result of the interim dividend paid by Noratis Wohnen GmbH to the parent company Noratis AG.

The increase in deferred tax liabilities results from the utilisation of deferred tax assets from loss carry-forwards in the calculation of taxes for the current year in the amount of EUR 0.5 million. In the previous year, deferred taxes were shown as a net figure in the balance sheet under deferred tax liabilities.

3. Report on expected developments

The German economy remains on a growth trajectory for the tenth year in a row. The federal government expects the inflation-adjusted gross domestic product to increase by 1.0 percent in 2019. At the same time, the labour market will continue to develop encouragingly. As a result, private incomes will also continue to rise perceptibly as net wages and salaries per employee are expected to grow by 4.8 percent in 2019.

For the real estate industry, too, the Council of Real Estate Experts predicts in its spring report for the real estate industry that the persistent shortage of supply will further drive up prices in the German residential property market in 2019, especially given that the still favourable interest rate environment alongside rising employment and incomes will continue to boost demand for real estate. It is assumed that the market pressures will increasingly transfer from the core cities to the surrounding regions.

In view of these persistently advantageous conditions in the overall economy and the property sector, the Management Board expects that the Group will be able to sustain its strong performance of recent years in 2019.

Overall, in contrast to financial year 2018, EBIT and EBT for the 2019 financial year will probably be on a level with the two preceding years amid an increase in revenue, because the gross profit margin on sales proceeds is expected to normalise.

As in previous years, the Group plans to further increase the volume of inventory properties compared with 2018 in financial year 2019 through net purchases of properties. To finance this growth, the Group will take out further loans and raise additional capital as needed.

With regard to its non-financial performance indicators, the Group plans to continue its strategy from the previous year of further enhancing its visibility in the market in order to improve access to potential sellers of portfolios beyond what has already been achieved.

As planned, the number of employees was significantly increased in the financial year ended, reflecting the Company's growth to date. The plan for 2019 is to increase the headcount only moderately, depending in particular on the acquisition success achieved and the resulting net increase in inventories of real estate portfolios. Going forward, the focus will remain on the long-term retention and development of employees, as the commitment and specialist knowledge of employees as well as their collaboration are essential prerequisites for the successful achievement of the Company's objectives. In this context, the Company plans to offer the workforce employee shares or a similar instrument.

Noratis AG

Eschborn, 29th March 2019

Igor Christian Bugarski CEO	André Speth CFO

Financial Calendar

7.-8. May 2019	**Munich Capital Markets Conference**
17. June 2019	**Annual General Meeting in Eschborn**
30. September 2019	**Financial report first half-year 2019**
7.-9. October 2019	**EXPO REAL in Munich**
25.-27. November 2019	**Eigenkapitalforum in Frankfurt a. M.**
31. December 2019	**End of the financial year**

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