

ARGO PROPERTIES NV
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2022

UNAUDITED

IN THOUSANDS OF EUROS

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Auditor Review Report to the Shareholders of Argo Properties NV

Introduction

We have reviewed the accompanying financial information of Argo Properties NV and its subsidiaries (hereinafter – the Group), which includes the condensed consolidated statement of financial position as of March 31, 2022 and the condensed consolidated statements of profit or loss and other comprehensive income, changes of equity and cash flows for the three-month period ending that date. The Board of Directors and Management are responsible for preparing and presenting financial information for this interim period in accordance with IAS 34, Interim Financial Reporting, and are responsible for preparing financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express our conclusions with regard to the financial information for these interim periods, based on our review.

Scope of the Review

We conducted our review in accordance with Review Standard 2410 (Israel) of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of financial information for interim periods consists of inquiries, mainly from people responsible for finances and accounting, and of the application of analytical and other reviewing procedures. A review is significantly limited in scope relative to an audit conducted according to generally accepted Israeli auditing standards, and therefore does not allow us to achieve assurance that we have been made aware of all material issues that might have been identified in an audit. Accordingly, we are not expressing an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the above financial information has not been prepared, in all material aspects, in accordance with IAS 34.

In addition to the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the above financial information does not comply, in all material respects, with disclosure provisions according to Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

בריטמן אלמגור זהר ושות'

רואי חשבון

A Firm in the Deloitte Global Network

Tel Aviv, May 12 2022

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31,		December 31,
	2022	2021	2021
	(Unaudited)		(Audited)
	€ in thousands		
<u>Current Assets</u>			
Cash and cash equivalents	60,688	18,627	35,076
Financial assets	553	1,796	-
Accounts receivable	4,157	4,482	7,043
	65,398	24,905	42,119
<u>Non-Current Assets</u>			
Investment property	570,788	337,107	493,291
Deferred taxes	729	1,005	819
	571,517	338,112	494,110
	636,915	363,017	536,229

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>March 31,</u>		<u>December 31,</u>
	<u>2022</u>	<u>2021</u>	<u>2021</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>€ in thousands</u>		
<u>Current Liabilities</u>			
Current maturities of loans from banks	4,436	3,002	4,142
Accounts payable	9,248	2,618	9,911
	<u>13,684</u>	<u>5,620</u>	<u>14,053</u>
<u>Non-Current Liabilities</u>			
Loans from banks and financial institutions	240,330	106,868	157,746
Other financial liabilities	24	46	24
Deferred taxes	25,276	13,195	22,381
	<u>265,630</u>	<u>120,109</u>	<u>180,151</u>
<u>Equity Attributable to Company Shareholders</u>			
Share capital	181	151	181
Premium on shares	221,012	171,076	221,012
Statutory capital reserve	125,438	59,295	110,652
Share based payment reserve	2,140	328	1,650
Retained earnings	8,830	6,438	8,530
Total equity attributable to Company shareholders	<u>357,601</u>	<u>237,288</u>	<u>342,025</u>
<u>Total equity</u>	<u>357,601</u>	<u>237,288</u>	<u>342,025</u>
	<u>636,915</u>	<u>363,017</u>	<u>536,229</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

May 12 2022

Date of approval of
the financial statements

Ofir Rahamim
Joint CEO

Guy Priel
CFO

Ron Tira
Chairman of the Board
of Directors

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Three months ended		Year ended
	March 31,		December 31,
	2022	2021	2021
	(Unaudited)		(Audited)
	€ in thousands		
Revenues from rental of properties	3,626	2,365	11,328
Revenues from property management and others	1,893	892	3,596
Property management expenses	(1,893)	(892)	(3,596)
Cost of maintenance of rental properties	(686)	(381)	(2,041)
Profit from property rental	2,940	1,984	9,287
General and administrative expenses	(1,314)	(440)	(4,209)
Operating profit before changes in fair value of investment property, net	1,626	1,544	5,078
Changes in fair value of investment property, net	17,566	4,387	63,744
Operating profit	19,192	5,931	68,811
Financial expenses	(1,118)	(387)	(2,080)
Change in fair value of financial assets and exchange rate differences	12	921	2,335
	(1,106)	534	(255)
Income before taxes on income	18,086	6,465	69,077
Taxes on income	(3,000)	(1,082)	(10,245)
Net income	15,086	5,383	58,832
Other comprehensive income	-	-	-
Net and comprehensive income attributable to equity holders of the Company	15,086	5,383	58,832
Basic earnings per share	0.83	0.36	3.46
Diluted earnings per share	0.77	0.35	3.15

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Three months ended March 31, 2022 (unaudited)

Equity Attributable to Company Shareholders

	Share Capital	Premium on shares	Statutory capital reserve (1)	Share based payment reserve	Retained earnings	Total equity attributable to Company shareholders
<u>Balance as of January 1, 2022</u>	181	221,012	110,652	1,650	8,530	342,025
Total net and comprehensive income	-	-	-	-	15,086	15,086
Classification in accordance with Dutch law	-	-	14,786	-	(14,786)	-
Cost of share based payment	-	-	-	490	-	490
<u>Balance as of March 31, 2022 (unaudited)</u>	<u>181</u>	<u>221,012</u>	<u>125,438</u>	<u>2,140</u>	<u>8,830</u>	<u>357,601</u>

Three months ended March 31, 2021 (unaudited)

Equity Attributable to Company Shareholders

	Share Capital	Premium on shares	Statutory capital reserve (1)	Share based payment reserve	Retained earnings	Total equity attributable to Company shareholders
<u>Balance as of January 1, 2021</u>	151	171,076	55,602	263	4,748	231,840
Total net and comprehensive income	-	-	-	-	5,383	5,383
Classification in accordance with Dutch law	-	-	3,693	-	(3,693)	-
Cost of share based payment	-	-	-	65	-	65
<u>Balance as of March 31, 2021 (unaudited)</u>	<u>151</u>	<u>171,076</u>	<u>59,295</u>	<u>328</u>	<u>6,438</u>	<u>237,288</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Year ended December 31, 2021 (Audited)					
	Equity Attributable to Company Shareholders					
	Share Capital	Share premium	Statutory capital reserve (1)	Share based payment reserve	Retained earnings	Total equity attributable to Company shareholders
<u>Balance as of January 1, 2021</u>	151	171,076	55,602	263	4,748	231,840
Issuance of shares, net	30	49,936	-	-	-	49,966
Total net and comprehensive income	-	-	-	-	58,832	58,832
Classification in accordance with Dutch law	-	-	55,050	-	(55,050)	-
Cost of share based payment	-	-	-	1,387	-	1,387
<u>Balance as of December 31, 2021</u>	<u>181</u>	<u>221,012</u>	<u>110,652</u>	<u>1,650</u>	<u>8,530</u>	<u>342,025</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2022	2021	2021
	(Unaudited)		(Audited)
	€ in thousands		
<u>Cash flows from operating activities:</u>			
Net income	15,086	5,383	58,832
Adjustments required to present net cash provided by operating activities:			
<u>Adjustments to profit or loss:</u>			
Finance expenses, net	1,082	(534)	(265)
Changes in fair value of investment property, net	(17,566)	(4,387)	(63,744)
Cost of share based payment	490	65	1,387
Deferred taxes, net	2,985	1,088	10,460
Cash flows from operating activities before changes in asset and liability items	2,077	1,615	6,670
<u>Changes in assets and liabilities items:</u>			
Other receivables	(579)	283	910
Increase in accounts payable	(20)	(367)	(133)
Net cash flows provided by operating activities	1,478	1,531	7,447
<u>Cash flows from investing activities:</u>			
Purchase of investment property	(60,184)	(29,602)	(117,591)
Additions in respect of investment property	(924)	(550)	(2,991)
Loans to employees	-	-	366
Realization of financial assets	1,850	-	1,640
Placement of restricted deposits and prepaid transaction costs, net	3,579	869	(3,112)
Net cash used in investing activities	(55,679)	(29,283)	(121,688)

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2022	2021	2021
	(Unaudited)		(Audited)
	€ in thousands		
<u>Cash flows from financing activities:</u>			
Interest paid	(634)	(332)	(1,762)
Receipt of long-term loans, net	106,715	11,170	67,375
Repayment of long-term loans	(26,125)	(750)	(5,228)
Issuance of shares, net	-	-	50,871
Net cash provided by financing activities	<u>79,956</u>	<u>10,088</u>	<u>111,256</u>
Change in cash and cash equivalents	25,755	(17,664)	(2,985)
Effect of changes in exchange rates	(143)	-	1,770
Balance of cash and cash equivalents at the beginning of the period	<u>35,076</u>	<u>36,291</u>	<u>36,291</u>
Balance of cash and cash equivalents at the end of the period	<u><u>60,688</u></u>	<u><u>18,627</u></u>	<u><u>35,076</u></u>
 (a) <u>Non cash transactions</u>			
Purchase of real estate (*)	<u>(356)</u>	<u>(871)</u>	<u>(1,690)</u>
Payables in respect of investing activities	<u>(1,433)</u>	<u>-</u>	<u>4,369</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: - General

ARGO Properties N.V. ("the Company") was incorporated in January 2018 and commenced its operations in July 2018 and is a Dutch-based real estate company engaging via investees in the acquisition and management of investment properties in Germany in the area of income generating real estate under development and income-generating residential real estate. In May 2021, the Company issued shares under an IPO in Israel.

These financial statements have been prepared in a condensed format as of March 31, 2022 and for the three-month period then ended (hereinafter – the Consolidated Interim Financial Statements). These statements should be read in conjunction with the annual financial statements as of December 31, 2021 and for the year then ended and the accompanying notes (the consolidated annual financial statements).

Note 2: - Significant accounting policies**a. Preparation format of the Interim Consolidated Financial Statements**

The Consolidated Interim Financial Statements are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and in accordance with the provisions of disclosure pursuant to Chapter D of the Securities (Immediate and Periodic Reports) Regulations, 1970.

b. The significant accounting policies implemented in preparing the Interim Consolidated Financial Statements are consistent with those implemented in preparing the consolidated annual Financial Statements other than section c below.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**Note 3: - Financial instruments**

a. Financial instruments not measured at fair value

Management has estimated that the balance of cash, short term deposits, trade receivables, trade payables, overdrafts and other current liabilities and bank loans presented at amortized cost approximates their fair value.

b. Financial instruments measured at fair value

The table below presents the financial assets and the financial liabilities of the group according to fair value:

	Carrying value			Fair value		
	March 31	December 31		March 31	December 31	
	2022	2021	2021	2022	2021	2021
	EUR in thousands					
Financial derivatives	553	1,796	-	553	1,796	-
Financial liabilities	(24)	(46)	-	(24)	(46)	24
	529	1,750	-	529	1,750	24

The fair value of financial instruments not traded in active market is determined using a valuation technique. Valuation techniques specific to financial instruments include:

- The fair value of interest swap contracts and SWAP agreements is based on calculating the present value of the estimated future cash flows using observable return curves.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Note 4: - Operating Segments

For description of the Company's operating segments see note 16 of the consolidated financial statements as of December 31, 2021.

	Income- generating residential real estate	Income- generating real estate for development	Total
Euros in thousands			
For the period of three months ended March 31, 2022 (unaudited)			
Revenues from property rental	3,465	161	3,626
Revenues from property management and others	1,873	20	1,893
Property management expenses	(1,873)	(20)	(1,893)
Rental property maintenance expenses	(656)	(30)	(686)
Gross profit	<u>2,809</u>	<u>131</u>	<u>2,940</u>
General and administrative expenses			(1,314)
Changes in fair value of investment property, net	<u>17,612</u>	<u>(46)</u>	<u>17,566</u>
Financial expenses, net			<u>(1,106)</u>
Income before taxes on income			<u><u>18,086</u></u>

	Income- generating residential real estate	Income- generating real estate for development	Total
Euros in thousands			
For the period of three months ended March 31, 2021 (unaudited)			
Revenues from property rental	2,192	173	2,365
Revenues from property management and others	872	20	892
Property management expenses	(872)	(20)	(892)
Rental property maintenance expenses	(347)	(34)	(381)
Gross profit	<u>1,845</u>	<u>139</u>	<u>1,984</u>
General and administrative expenses			(440)
Changes in fair value of investment property, net	<u>4,464</u>	<u>(77)</u>	<u>4,387</u>
Financial expenses, net			<u>534</u>
Income before taxes on income			<u><u>6,465</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 4: - Operating Segments (Cont.)

	Income- generating residential real estate	Income- generating real estate for development	Total
	Euros in thousands		
Year ended December 31, 2021			
Revenues from property rental	10,672	656	11,328
Revenues from property management and others	3,518	78	3,596
Property management expenses	(3,518)	(78)	(3,596)
Rental property maintenance expenses	<u>(1,916)</u>	<u>(125)</u>	<u>(2,041)</u>
Profit from property rental	<u>8,756</u>	<u>531</u>	9,287
General and administrative expenses			(4,209)
Changes in fair value of investment property, net	<u>66,167</u>	<u>(2,423)</u>	63,744
Financial expenses, net			<u>255</u>
Income before taxes on income			<u><u>69,077</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 5: MATERIAL EVENTS IN THE REPORTED PERIOD AND THEREAFTER

- a. During the period, the Company completed (via subsidiaries and sub-subsidiaries) the purchase of 232 apartments in 20 buildings for a total consideration of EUR 31,460 thousand. In addition, the Company entered into additional transactions (including agreements after the report date) for the purchase of 322 apartments in a total consideration of EUR 55 million, of which the Company completed after the report date, the purchase of 45 apartments in a total consideration of EUR 7.5 million.
- b. In the fourth quarter of 2021, the Company entered into three non-recourse loan agreements with a German bank for five years for a total amount of approximately EUR 7.5 million. The loans bear a fixed interest rate of 0.97% per annum. The loans were drawn down fully in February 2022.
- c. In the fourth quarter of 2021, the Company entered into a framework agreement with a German banking corporation (the "Banking Corporation") to draw down loans totaling up to EUR 30 million (the "Framework") to be provided to sub-subsidiaries of the Company (the "Asset Companies") for the purpose of financing the acquisition of new properties in Leipzig and Dresden, Germany. The loans to be drawn down from the framework (as long as they continue) will not be subject to the approval of the Bank's Credit Committee. Such loans will be subject to due diligence and preparation of loan documents to the satisfaction of the banking corporation. For further details, see Note 5(g)(2) to the Company's annual financial statements. Out of the framework, as of the report signing date, the Company entered into 2 non-recourse loan agreements in the amount of EUR 4 million and EUR 4.7 million. The loans bear fixed interest rate of 1.55% and 1.6% per annum, respectively, and their final repayment date was set to March 2027. The loans were drawn down fully on April 29, 2022.
- d. In the fourth quarter of 2021, the Company entered into an MOU following which a loan agreement was signed in January 2022 and on February 15, 2022 completed a refinancing process for fixed-rate loans taken as part of the acquisition of a portfolio of residential properties which includes 404 residential units in 39 buildings in Leipzig, Dresden and Magdeburg purchased in various transactions in 2018 and 2019, and as part of the refinancing, the Company replaced a loans in the amount of EUR 23.9 million with a new loan in the amount of EUR 40 million (an increase of 42%) for a period of 5 years. The loans are of non-recourse type bearing fixed interest rate of 2.09% per annum. The loans are subject to meeting the following financial covenants: maximum LTV ratio of 75% (as of the date of signing this report this ratio is 56%) and the return on debt ratio (80% of the total annual rental income divided by the loan amount) is above 3.5% (as of the date of signing the report, this ratio is approximately 4.6%).
- e. In the first quarter of 2022, the Company entered into two non-recourse loan agreements with a German bank, for a period of 5 years totaling EUR 10.5 million, the are loans bearing fixed interest rate of 1.29% per annum. The loans were drawn down fully during April 2022.
- f. On January 18, 2022, the Company entered into a loan agreement denominated in NIS with a third party, which is an Israeli institutional entity at a total amount of EUR 60 million for a period of 18 years. The loan principal is due in one installment at the end of the loan period (Bullet). The Company may carry out early repayment of the loan at no additional cost, on December 31, 2028, 2031, 2034 and 2037.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 5: MATERIAL EVENTS IN THE REPORTED PERIOD AND THEREAFTER (Cont.)

The loan bears:

- a. Fixed annual interest rate of 3.69% per annum ("the basic interest rate"). The basic interest rate will be added 1% per annum if the loan is not repaid on December 31, 2028, and 0.5% per annum at each additional exit if the loan is not repaid in full by that date.
- b. Additional interest so that at the end of each interest period the interest rate will increase by 50% of Company's equity increase rate ("additional interest").
- c. Additional payment, in addition to the basic interest rate and the additional interest rate, if the cumulative equity increase (in percent) on the final repayment date is 100% or more, an additional one-time payment equal to EUR 6.3 million will be paid to the lender on the final repayment date.
- d. The loan is subject to the following financial covenants: a) the net debt to CAP net (as those are defined in the loan agreement) shall not exceed 75% (34% as of the signature date); b) the value of a single asset shall not exceed 15% from the consolidate gross asset value of the company assets (5% as of the signing date). The loan is secured by a negative lien on its assets (other than real estate), and is subject to change of control stipulation, various powers and structure. In addition, interest rate adjustment mechanisms and grounds for early repayment have been established as acceptable in such loans. The loan was drawn down fully on January 20, 2022.