ARGO PROPERTIES NV

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2023

UNAUDITED

IN THOUSANDS OF EUROS

Table of Contents

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Auditor Review Report to the Shareholders of Argo Properties NV

Introduction

We have conducted a review of the accompanying financial information of Argo Properties NV and its subsidiaries (hereinafter – the Group), which comprises the condensed consolidated statement of financial position as of March 31, 2023 and the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-months period ending on 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 this interim period , 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.

Brightman Zohar Almagor & Co
CPAs
A Firm in the Deloitte Global Network

Tel Aviv, May 22 2023

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	€ in thousands		
Current Assets			
Cash and cash equivalents	34,089	60,688	27,352
Bank deposit	-	-	10,000
Financial assets	2,279	553	2,111
Accounts receivable	9,815	4,157	5,970
	46,183	65,398	45,433
Non-Current Assets			
Investment property	668,096	570,788	654,683
Investment property – buildings rights	9,431	553	8,897
Accounts receivable	972	-	2,518
Deferred taxes	-	729	-
	678,499	571,517	666,098
	724,682	636,915	711,531

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)		(Audited)
	€ in thousands		
Current Liabilities			
Current maturities of loans from banks	12,624	4,436	12,398
Accounts payable	5,851	9,248	6,794
	18,475	13,684	19,192
Non-Current Liabilities			
Loans from banks and financial institutions	323,585	240,330	294,344
Other financial liabilities	-	24	-
Deferred taxes	23,791	25,276	26,708
	347,376	265,630	321,052
Equity Attributable to Company Shareholders			
Share capital	181	181	181
Share premium	221,012	221,012	221,012
Statutory capital reserve	116,163	125,438	131,727
Share based payment capital reserve	4,127	2,140	3,637
Retained earnings	17,348	8,830	14,730
Total equity attributable to Company shareholders	358,831	357,601	371,287
Total equity	358,791	357,601	371,287
	724,682	636,915	711,531

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

May 22 2023			
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 March 31,		Year ended December 31,
	2023	2022	2022
	(Unaudited)		(Audited)
	€ in thousands		
Revenues from rental of properties	4,831	3,626	16,600
Revenues from property management and others	2,826	1,893	6,095
Property management expenses	(2,826)	(1,893)	(6,095)
Cost of maintenance of rental properties	(1,010)	(686)	(3,261)
Gross profit	3,821	2,940	13,339
General and administrative expenses	(1,617)	(1,314)	(5,653)
Operating income before changes in fair value of investment property, net	2,204	1,626	7,686
Changes in fair value of investment property, net (excluding the effect of a one-time change f Real estate Transfer Tax)	(7,019)	17,566	27,022
Changes in fair value of investment property, due to a one-time change of Real estate Transfer Tax	(11,471)	-	-
Operating income (loss)	(16,286)	19,192	34,708
Finance expenses, net	(1,767)	(1,118)	(5,523)
Change in fair value of financial assets and exchange rate differences	2,237	12	3,215
	470	(1,106)	2,308
Income (loss) before taxes on income	(15,816)	18,086	32,400
Taxes on income	2,870	(3,000)	(5,125)
Net income (loss)	(12,946)	15,086	27,275
Other comprehensive income (loss)	-	-	-
Total net and comprehensive income (loss) attributable to Company shareholders	(12,946)	15,086	27,275
Basic earnings (loss) per share	(0.72)	0.83	1.51
Diluted earnings (loss) per share	(0.72)	0.77	1.47

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, 2023 (unaudited)					
	Equity Attributable to Company Shareholders					
	Share capital	**Share premium**	**Statutory capital reserve (1)**	**Share based payment capital reserve**	**Retained earnings**	**Total equity attributable to Company shareholders**
Balance as of January 1, 2023	181	221,012	131,727	3,637	14,730	371,287
Changes in equity during this period:						
Total net and comprehensive income	-	-	-	-	(12,946)	(12,946)
Classification in accordance with Dutch law	-	-	(15,564)	-	15,564	-
Cost of share based payment	-	-	-	490	-	490
Balance as of March 31, 2023 (unaudited)	181	221,012	116,163	4,127	17,348	358,831

	Three months ended March 31, 2022 (unaudited)					
	Equity Attributable to Company Shareholders					
	Share Capital	**Share premium**	**Statutory capital reserve (1)**	**Share based payment capital reserve**	**Retained earnings**	**Total equity attributable to Company shareholders**
Balance as of January 1, 2022	181	221,012	110,652	1,650	8,530	342,025
Changes in equity during this period:						
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
Balance as of March 31, 2022 (unaudited)	181	221,012	125,438	2,140	8,830	357,601

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, 2022 (Audited)					
	Equity Attributable to Company Shareholders					
	Share Capital	Share premium	Statutory capital reserve (1)	Share based payment Capital reserve	Retained earnings	Total equity attributable to Company shareholders
Balance as of January 1, 2022	181	221,012	110,652	1,650	8,530	342,025
Changes in equity during this period:						
Total net and comprehensive income	-	-	-	-	27,275	27,275
Classification in accordance with Dutch law	-	-	21,075	-	(21,075)	-
Cost of share based payment	-	-	-	1,987	-	1,987
Balance as of December 31, 2022	181	221,012	131,727	3,637	14,730	371,287

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2023	2022	2022
	(Unaudited)		(Audited)
	€ in thousands		
Cash flows from operating activities:			
Net income (loss)	(12,946)	15,086	27,275
Adjustments required to present net cash flows from operating activities:			
Adjustments to profit and loss items:			
Finance expenses, net	(267)	1,082	2,308
Changes in fair value of investment property, net	18,490	(17,566)	(27,022)
Cost of share based payment	490	490	1,987
Deferred taxes, net	(2,917)	2,985	5,146
Cash flows from operating activities before changes in operating assets and liability items	2,850	2,077	9,694
Changes in operating assets and liabilities items:			
Other accounts receivables	(1,068)	(579)	(1,098)
Increase in accounts payable	1,272	(20)	246
Net cash derived from operating activities	3,054	1,478	8,842
Cash flows from investing activities:			
Purchase of investment property	(33,966)	(60,184)	(143,371)
Additions in respect of investment property	(1,084)	(924)	(3,714)
Realization (purchase) of financial assets	-	1,850	1,850
Depositing restricted deposits restricted deposits and prepaid transaction costs, net	8,769	3,579	(10,234)
Net cash used in investing activities	(26,281)	(55,679)	(155,469)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2023	2023	2022
	(Unaudited)		(Audited)
	€ in thousands		
Cash flows from financing activities:			
Interest paid	(1,256)	(634)	(4,762)
Receipt of long-term loans, net	19,339	106,715	130,657
Repayment of long-term loans and associated costs	(1,699)	(26,125)	(4,871)
Receipt of long-term loans under refinancing	14,250	-	45,000
Repayment of long-term loans under refinancing	-	-	(25,001)
Purchase of interest cap fixing transactions (CAP)	(485)	-	(1,728)
Net cash derived from (used for) financing activities	30,149	79,956	139,295
Change in cash and cash equivalents	6,922	25,755	(7,332)
Effect of changes in exchange rates	(185)	(143)	(392)
Balance of cash and cash equivalents at the beginning of the period	27,352	35,076	35,076
Balance of cash and cash equivalents at the end of the period	34,089	60,688	27,352

(a) Non-cash transactions

Purchase of real estate	36	(356)	362
Payables in respect of investing activities	2,039	(1,433)	(3,902)

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 residential real estate and income-generating development 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, 2023 and for the three-months 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, 2022 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.

Note 3: - Investment Property

The following table presents significant assumptions (based on weighted averages) that were used in the valuation of investment property:

Income-generating residential property (real estate)	March 31, 2023	December 31, 2022
Discount rate (%) (*)	4.24%	4.14%
Growth Rate for the first 10 years	1.79%	1.79%
Terminal growth rate	1.07%	1.06%
Long-term vacancy rate (%)	1.36%	1.63%
Representative monthly rental fees per sqm. (in Euros)	10.26	10.2

During the first quarter of 2023 one-time devaluation amounting to EUR 11.5 million have been recognized in all the company's properties in Leipzig and Dresden due to increase in Real Estate Transfer Taxes which is reflected in the fair value of the properties.

Note 4: - Financial instruments

a. Financial instruments not measured at fair value:

Management has estimated that the balance of cash, short term deposits, accounts (trade) receivable(s), accounts (trade) payable(s), overdrafts, bank loans and other current liabilities presented at amortized cost approximates their fair value. The valuation of loans from banks and financial institutions as of March 31, 2023 that bear a fixed interest rate and are presented at amortized cost, is lower by approximately Eur 26.1 Million than their value in the financial statements.

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:

	Book value			Fair value		
	March 31		December 31	March 31		December 31
	2023	2022	2022	2023	2022	2022
	(Unaudited)		(Audited)	(Unaudited)		(Audited)
	EUR in thousands					
Financial derivatives	2,279	553	2,111	2,279	553	2,111
Financial liabilities	-	(24)	-	-	(24)	-
	2,279	529	2,111	2,279	529	2,111

The fair value of financial instruments that are not traded in active markets is determined using valuation techniques. Valuation techniques specific to financial instruments include:

- The fair value of interest swap agreements (SWAP) is based on a calculation of the present value of the estimated future cash flows using observable return curves of Euribor.

Note 5: - **Operating Market Segments**

a. General

For the description of the Company's operating market segments see note 16 of the consolidated financial statements as of December 31, 2022.

b. Operating segment revenue and results analysis

	Income-generating residential real estate	Income-generating real estate for development	Total
	Euros in thousands		
For the period of three months ended March 31, 2023 (unaudited)			
Revenues from property rental	4,657	174	4,831
Revenues from property management and others	2,806	20	2,826
Property management expenses	(2,806)	(20)	(2,826)
Rental property maintenance expenses	(987)	(23)	(1,010)
Gross (profit)	3,670	151	3,821
General and administrative expenses			(1,617)
Changes in fair value of investment property, net	(18,490)	-	(18,490)
Financial expenses, net			470
Loss before taxes on income			(15,816)

Note 5: - Operating Market Segments (Cont.)

	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)	2,809	131	2,940
General and administrative expenses			(1,314)
Changes in fair value of investment property, net	17,612	(46)	17,566
Financial expenses, net			(1,106)
Income before taxes on income			18,086

	Income-generating residential real estate	Income-generating real estate for development	Total
	Euros in thousands		
Year ended December 31, 2022 (audited)			
Revenues from property rental	15,919	681	16,600
Revenues from property management and others	6,013	82	6,095
Property management expenses	(6,013)	(82)	(6,095)
Rental property maintenance expenses	(3,163)	(98)	(3,261)
Gross profit	12,756	583	13,339
General and administrative expenses			(5,653)
Changes in fair value of investment property, net	31,489	(4,467)	27,022
Financial expenses, net			(2,308)
Income before taxes on income			32,400

Note 6: - <u>Material Events In The Reported Period And Thereafter</u>

a. During the reported period, the Company completed (via subsidiaries and sub-subsidiaries) the purchase of 255 apartments in 24 buildings for a total consideration of approximately EUR 32,705 thousand. In addition, the Company engaged in further transactions (including agreements after the report date) for the purchase of 114 apartments in a total consideration of approximately EUR 20,884 million, of which the Company completed after the report date, the purchase of 45 apartments in a total consideration of approximately EUR 4.1 million.

b. <u>Refinancing as a result of property value enhancement:</u>

- During October 2022, the Company entered into refinancing agreements with two German financial institutions (hereinafter: the "Banks") for a total amount of approximately EUR 79 million which embodies an LTV of approximately 42.7% (upon the book value of the pledged assets), which would increase by approximately EUR 23 million the remaining balance of current five loans of a total amount of approximately EUR 56 million (hereinafter: the "Current Loans"), which the Company's subsidiaries have drawn during the years of 2019 and 2020 from the abovementioned Banks (hereinafter: the "New Loans").

  The Current Loans bear a fixed (weighted) annual interest rate of approximately 0.99% and their final repayment date is due in 2025 - 2027. These Current Loans are secured by first-ranking liens on the full rights of the subsidiaries in **81** buildings which comprise of 878 units (with a total area of **56,462** square meters) in the cities of Leipzig, Dresden and Magdeburg in Germany, which their aggregate book value is about EUR 167.2 million (as of the reporting date) (hereinafter: the "Asset Companies" and the "Assets", respectively).

  The refinancing process is enabled due to a value enhancement of these assets on the initial financing date by the abovementioned Banks, close to the date of their acquisition during the second half of 2019 and in the first half of 2020 - as of the loans' underwriting date. It is clarified that the refinancing process was carried out by drawing new loans in addition to the current loans without any change in their terms ("**Top up**").

  As a result:

  1. On November 2022, the Company entered through its sub-subsidiaries into two additional non-recourse loan agreements with a German banking corporation at a total amount of approximately EUR 12.7 million for a period of 5 years. The loans bear a variable interest rate based on a 3 months Euribor rate with an additional margin of 1.29% per annum. The Company entered agreements to fix the Euribor rate cap to a maximum level of 2.5% in return of EUR 505 thousand. An amount of EUR 5 million of the total loans was drawn down in December 2022, the remaining balance of EUR 7.7 million of the loans was drawn down in January 2023. In accordance with the loan agreement between the Company and the German banking corporation, the Company estimates that during 2023 it will be able to draw down approximately EUR 4 million, subject to the continued improvement of the operating parameters.

  2. On December 2022, the Company entered through its sub-subsidiaries into three additional non-recourse loan agreements with a German banking corporation at a total amount of EUR 6.55 million for a period of 5 years. These loans bear a variable interest rate based on a 3 months Euribor rate with an additional margin of 1.51% per annum. The drawing down of the loans was carried out during March 2023. Upon drawing down the loans the Company entered into agreements to fix the Euribor rate cap to a maximum level of 3% in return of EUR 216 thousand.

Note 6: - Material Events In The Reported Period And Thereafter (Cont.)

3. During April 2023, the Company's subsidiaries entered into an additional loan agreement with a German banking corporation which increases the remaining balance of the current loans, that these sub-subsidiaries have taken in the past from a total amount of approximately EUR 19.1 million to a total amount of approximately EUR 21.6 million. The abovementioned increase of the total amount of loans is to be repaid on April 30th of 2026 and bears a fixed rate of 4.61%.

c. Financing of new acquisitions:

1. During December 2022, the Company's sub-subsidiaries entered into two non-recourse loan agreements with a German banking corporation at a total amount of approximately EUR 20 million for a period of 5 years, bearing a fixed interest rate of 3.95%. The drawing down of the loans was carried at the end of March 2023.

2. During April 2023, a Company's sub-subsidiary entered into a non-recourse loan agreement with a German banking corporation at a total amount of approximately EUR 1.8 million for a period of 3 years, bearing a fixed interest rate of 4.19%.

3. During April 2023, the Company's sub-subsidiaries entered into an MOU with a German banking corporation to engage in non-recourse loan agreement at a total amount of approximately EUR 13 million for a period of 5 years. The interest rate of these loans will be determined on loans' underwriting due date and will bear a margin of 1.21% above the Euribor rate.

d. Option plan:

On January 19th 2023, the Company's board of directors approved a new plan for the allocation of options to employees and service providers who are not residents of Israel and are employed by Argo Properties NV group (hereinafter: the "2023 plan") as well as a new plan for the allocation of options to employees who are residents of Israel according to section 102 of the Income Tax Ordinance (new version), 1961 (hereinafter: "the Ordinance"), in the capital gain track (hereinafter: "102/2023 Plan", 2023 Plan and 102/2023 Plan will be referred to collectively hereinafter as: the "New Plans").

On January 19th 2023, the Company's remuneration committee and the board of directors approved, as part of and in accordance with 102/2023 plan and subject to the required approvals (including - without derogating from the generality of the foregoing - the approval of the general meeting of the Company's shareholders) to allocate to each of the messers Ofir Rahamim (hereinafter: "Rahamim) ") and Gal Tenenbaum (hereinafter: "Tenenbaum"), the joint CEOs of the Company, at no consideration, non-marketable options at a total value of NIS 7,675 thousand and NIS 7,849 thousand respectively and in a total value (for both) of about NIS 15,525 thousand (hereinafter: "the private allocation to the joint CEOs"), for a period of three years as of July 1st 2023.

Below are the main conditions of the new plans:

The value of the option plan for all office holders in the Company and for the entire period of the plan - NIS 24.3 million (hereinafter: "value of the option plan");

The exercise price of each warrant is NIS 77.13 (without linkage to any index or currency) and the amount of warrants that can and will be allocated under the plan will amount to 2,048,904 warrants.

Note 6: - Material Events In The Reported Period And Thereafter (Cont.)

The "vesting periods" and "vesting dates" - the warrants will have 3 vesting periods of one, two and three years, respectively, as follows: the first vesting period - from July 1, 2023 to June 30, 2024. Therefore, starting from July 1, 2024 (hereinafter: "the first vesting date") the option holder will be entitled to exercise 33% of his options; The second vesting period - from July 1, 2024 to June 30, 2025. Therefore, starting from July 1, 2025, the option holder will be entitled to exercise an additional 33% of his options (hereinafter: "the second vesting date"); The third vesting period - from July 1, 2025 to June 30, 2026. Therefore, starting from July 1, 2026, the option holder will be entitled to exercise the remaining 34% of his options (hereinafter: "the third vesting date"). It is clarified that starting from the end of the third vesting period (i.e. - starting from the third vesting date) and for a period of 12 months from that date until June 30, 2027 (hereinafter: "the end of the exercise period") the option holder will be entitled to exercise all his options, which have not yet been exercised.

Expiration date - June 30, 2027.

Payment of exercise price - in shares only according to the net exercise mechanism as defined in the option plan. The offeree will not be required to pay the Company the exercise price of the warrants, but only the par value of the Company's shares to be allocated to him.

The fair value of each warrant to be allocated to the joint CEOs, calculated according to the Black and Sholes formula, is approximately NIS 6.55 and a total amount of approximately NIS 8,579 thousand for all warrants. Said fair value was calculated based on the closing price of the share in the stock exchange on the date of the meeting (NIS 54.03), exercise price of NIS 77.13, 3 vesting periods of 12 months each, which entitles to 33.33% of the total number of warrants, an exercise period of 4 years from the date the option was granted, an annual standard deviation of 28 %, and an average risk-free interest rate of 4.12%-4.29%.

On March 9, 2023 (abovementioned: "the date of the meeting"), the general meeting of the Company's shareholders approved the new remuneration policy of the Company and the private placement to the Company's joint CEOs.

It is noted that the total value of the equity remuneration package for the 3-year period that will begin on July 1, 2023 for the joint CEOs and senior office holders in the Company (hereinafter: "the value of the equity remuneration package")[1] according to Black and Sholes model amounted to approximately NIS 13.4 million alone instead of NIS 24.3 million as stated in section 9.2.2 of the Company's remuneration policy.

[1] For the avoidance of doubt, it is clarified and emphasized that a private allocation of options – powered by the New Plan – for all senior office holders in the Company (**excluding** the joint CEOs), **has not been approved yet** by the Company's authorized organs and that the total value of the equity remuneration package was presented according to the parameters of which the valuation of the options that were approved to the joint CEOs had been conducted.