



ANNUAL REPORT AND ACCOUNTS 2021

SUMMIT
Properties Ltd

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Westerbach Str. 47, Frankfurt

Management Overview

Summit Properties Limited 2021 Full Year Audited Results

We are pleased to present the audited results for the year ended 31 December 2021 ("the Reporting Period") of the Company and its subsidiaries ("the Group").

The results of the Reporting Period outline in particular the transition of the Group's property portfolio and its operating markets. The successful disposition of the German commercial portfolio¹ by selling part of it at a sale price of ca. €1.0 billion (the "2021 Sale") was accompanied by activity in the US real estate market and acquisition of US properties for €0.9 billion.

These activities resulted in a considerable increase of the Group's cash balance and Portfolio's FFO² rate. Along with the resulting decrease in the net LTV, they enable further substantial growth by way of new acquisitions, as well as by the development of building rights of existing properties.

Financial Review

Profits

- Net profit of €122.9 million (FY 2020: €97.8 million)
- Profit Before Tax (PBT) of €154.9 million (FY 2020: €116.4 million)
- EBITDA of €169.6 million (FY 2020: €130.3 million)
- Revaluation profit of €109.6 million (FY 2020: €72.6 million)
- Gross profit of €61.6 million (FY 2020: €70.9 million)

NAV

- EPRA Net Asset Value (EPRA NAV²) of €1.0 billion (FY 2020: €0.9 billion)
- Group's NAV of €0.9 billion (FY 2020: €0.8 billion)
- Total Assets of €1.8 billion (FY 2020: €1.6 billion)
- Shareholder Equity / Total Assets ratio of 52% (FY 2020: 50%)

The increase in EPRA NAV² was mainly a result of €109.6 million revaluation uplift, supplemented by a €36.7 million FFO² contribution.

¹ For pro-forma financial information, please refer to the respective pro-forma section

² **Alternative performance measures**

The Group prepares its financial statements using IFRS. However, it also uses a number of adjusted measures in assessing and managing performance of the business.

EPRA metrics:

Performance measures used by the Group include those defined by EPRA, are designed to enhance transparency and comparability across the European real estate sector. The Group considers these standard metrics to be the most appropriate method of reporting the value of the business and a reconciliation to IFRS numbers is included in Note 11(c) of the financial statements.

Funds From Operations ('FFO'):

The Group considers this measure to be most appropriate when considering its dividend policy as it is a cash measure and it is familiar to non-property and international investors. Funds From Operations is a measure determined by recurring operating profits, deducted by the Group's interest expenses and excludes other one off expenses or fair value adjustments.

Operational Review

Rent and Operations

- FFO² amounted to €36.7 million (FY 2020: €47.5 million). Following additional acquisitions FFO² run rate of over €80 million.
- Rental income of €77.1 million (FY 2020: €76.4 million)
- New lease agreements and renewals in 2021:
 - German portfolio – signing 99 leases for 213,000 sqm worth ca. €15 million of rental income p.a.; Additional 25,000 sqm worth ca. €4 million in advanced negotiations.
 - US portfolio – signing 87 agreements for 25,000 sqm worth ca. \$3.5 million of rental income p.a.; Additional 35,000 sqm worth ca. \$5 million in advanced negotiations.

Changes in rental income and FFO² are mainly a result of the 2021 Sale and acquisition of US assets during the Reporting Period.

Compared to 2020, the FFO² run rate of the Group's portfolio to date has almost doubled.

Portfolio

- Sale of German commercial assets with a value of €1.0 billion to an international fund in June 2021.
- Commencement of activity in the US real estate market and investment in the residential sector in New York City ("NYC") as well as in commercial properties throughout the US.
- €1.2 billion portfolio as of 31 December 2021 (FY 2020: €1.5 billion) includes:
 - €0.6 billion German Portfolio
 - German commercial properties primarily located in major cities
 - 92% occupancy rate, exc. properties under development
 - Net lettable area of ca. 329,000 sqm on ca. 537,000 sqm of land
 - Net rent of ca. €20 million p.a. expected to increase to €22 million in 2022 as a result of rent commencing under several newly signed leases.
 - €0.6 billion US Portfolio
 - €0.4 billion of defensive residential portfolio in NYC
 - €0.2 billion of high yielding, low capital values retail assets, located across the US, including two NYC hotels near Times Square
 - Further \$250 million of US acquisitions post reporting period: \$115 million of residential buildings and \$137 million of retail assets.
- Including signed deals to date, €0.9 billion of US Portfolio comprised of:
 - 85 residential buildings in NYC with net lettable area of 247,000 sqm
 - 21 US commercial properties with net lettable area of 920,000 sqm
- Substantial further upside potential inherent in the portfolio:
 - German portfolio well located with low capital values compared to replacement costs and 211,000 sqm of additional building rights
 - German properties are 30% under-rented compared to ERV
 - US portfolio with stable rental growth acquired at low capital value rates
 - US portfolio includes over \$100 million of identified salable outparcels; \$16 million sold to date and \$25 million in various stages of negotiations.

Financing

- Group's net LTV of 15% (FY 2020: 33%) with an average interest rate of 2.9% p.a. and average duration of more than 4 years.
- €410 million of cash available for acquisitions
- Balanced and secured financing structure with nearly no financing on German portfolio and no financial covenants in most of US loans.
- Ongoing refinancing activity of current US bank debt to further enhance financing performance.

Main Risks and Uncertainties

The Group is exposed to risks arising from the sector and economic environment, in which it operates.

Macro-economic risk factors

- A. the Covid-19 outbreak and the uncertainty as to its spread and following repercussions, including financial slowdown and possible global financial crisis. The pandemic outbreak and steps taken to contain it might have a significant negative influence on the real-estate sector and on the activity of the Group in Germany and the US, due to, among other things, possible decrease in demand for office, logistic and commercial spaces, harm to the financial strength and liquidity of the tenants in the Group's properties and harm their ability to pay rent, which will lead to decrease in Group's revenue, cash flow, occupancy rates and property value. Furthermore, the Group's development projects might not meet its expected costs and schedule projections.
- B. The war in Ukraine and the uncertainty as to its following consequences, among which there are already eminent exchange rate decreases in the world's leading capital markets and sharp increase in the cost of goods and oil. The war could impact macro-economic variables such as inflation, interest, and world growth rates.
- C. Risks arising from the countries in which the Group operates – recession in and deterioration of global economy and the Eurozone in general, and the German or US economy in particular.
- D. Risks arising from the countries in which the Group operates – increase in interest rates, mainly due to inflation pressure in the local economies, in which the Group operates, might impact the value of the properties and could impact Group results in case of refinancing of loans.
- E. Risks relating to changes in foreign exchange rates – the Group operates in Euro in the German market and in US Dollars in the US market. A rise in the US Dollar exchange rate will increase Company's capital, while a decline will decrease it.

Sectorial risk factors

- A. Availability and cost of financing in Germany and the US – a decline in availability of financing sources and a rise in financing costs exposes the Group to an increase in finance expenses. The Group strive on an ongoing basis to extend the loans ahead of their maturity and also maintains a variety of financing channels.
- B. Financial covenants compliance - banking facilities include various covenant requirements. A failure to meet loan covenants could result in possible default or penalties. The Group regularly monitors compliance with covenants and addresses any issue that may arise.
- C. Residential rent control – the Group's US residential properties are subject to regulations, which hold the Group, as property owner, liable to it and include, among other, the control over the level of rent chargeable in the properties. Such regulation exposes the Group to impacts of regulatory changes related to rent control and the liability of the property owner towards its tenants.

- D. Anchor tenant vacating US commercial leased areas – vacating of areas by several anchor tenants in the US commercial centres might have a negative impact on Group's income and the related property value and might harm the overall attractiveness of the commercial property. Furthermore, such action taken by an anchor tenant might affect other tenants' activity in the property and cause them also to vacate. However, Group's management believes that given the nature and geographical spread of its properties, as well as the diversity of its tenants, the departure of an anchor tenant will not have significant impact on the Group's results and financial strength.

Pro-Forma Financial Information

Consolidated Profit and Loss Pro-Forma

	For the twelve months period ended on 31 December					
	2021			2020		
	As previously reported	Adjustments	Pro-forma financial information	As previously reported	Adjustments	Pro-forma financial information
	Thousands Euro			Thousands Euro		
	(Unaudited)			(Unaudited)		
Rental income	77,143	(26,708)	50,435	76,376	(55,246)	21,130
Revenue from sale of apartments	-		-	4,473	-	4,473
Total Revenue	77,143		50,435	80,849		25,603
Operational expenses	15,547	(2,382)	13,166	5,981	(4,469)	1,512
Cost of apartments	-		-	3,993	-	3,993
Total Operational expenses	15,547		13,166	9,974		5,505
Profit from operations	61,596		37,269	70,876		20,098
General and administration expenses	11,348	(2,119)	9,229	10,151	(4,006)	6,144
Profit before finance expenses	50,258		28,041	60,725		13,954
Financial expenses - net	14,538	(4,317)	10,221	13,646	(7,686)	5,960
Profit (Loss) before tax	35,710		17,819	47,079		7,994
Income tax - (income) expense	31,919	(1,783)	30,137	18,529	(11,541)	6,988
Profit (Loss) from ordinary activities after tax	3,790		(12,317)	28,551		1,007
Other (income) expense	(119,143)	5,953	(113,190)	(69,271)	46,104	(23,167)
Profit before minority interest	122,933		100,873	97,822		24,174
Non-controlling interests	26,510	(484)	26,026	7,414	(3,804)	3,610
Net Profit (loss)	96,423		74,847	90,408		20,564

Notes

- Management prepared the pro-forma financial information under pro-forma assumptions detailed below.
- The pro-forma event is a disposal transaction detailed in Note 5d2 of the Group reporting.
- The pro-forma financial information should be read in conjunction with the Group reporting as of 31 December 2021, which comprises the management discussion and analysis and the financial statements for the twelve-month period ended that date.
- When preparing this pro forma financial information, management applied same accounting policies as in its annual financial statements as of 31 December 2021.
- The pro-forma financial information, has been prepared under the following assumptions:
 - The profit and loss have been prepared under the assumption that the sale transaction detailed in Note 5d2 has been completed as at the earliest period presented in the pro-forma financial information.
 - The profit and loss and statements do not reflect the Group's profit from the pro-forma event because of its one-time nature.
 - General and Administrative Expenses and Finance Expenses have been presented excluding portion of such expenses that is attributable to the sold assets.



North wales, Philadelphia, Pennsylvania

Financial statements



INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Summit Properties Limited

Opinion

We have audited the consolidated financial statements of Summit Properties Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Brightman Almagor Zohar & Co.

Certified Public Accountants

A Firm in the Deloitte Global Network

Haifa, April 13, 2022

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SUMMIT PROPERTIES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December		2021	2020
	<i>Note</i>	<i>Euro (in thousands)</i>	
ASSETS			
NON-CURRENT ASSETS:			
Investment properties	5	1,236,791	1,457,729
Other long-term assets	6	43,789	25,472
Investment in equity securities		775	-
Properties for development	21	13,502	9,188
Total non-current assets		1,294,857	1,492,389
CURRENT ASSETS:			
Prepaid expenses and other current assets	9	19,570	10,914
Receivables from related parties	13	38,798	73
Trade receivables, net	8	2,008	3,167
Investment property held for sale		-	20,750
Cash and cash equivalents	10	410,186	109,785
Total current assets		470,562	144,689
Total assets		1,765,419	1,637,078

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

SUMMIT PROPERTIES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December		2021	2020
	Note	Euro (in thousands)	
EQUITY AND LIABILITIES			
EQUITY:	11		
Share capital			
Other reserve		161,317	154,890
Retained gain		749,961	658,551
Equity attributable to the owners of the Company		911,278	813,441
Non-controlling interests		106,847	67,153
Total equity		1,018,125	880,594
NON-CURRENT LIABILITIES:			
Interest-bearing loans and borrowings	7	585,035	525,937
Other long-term financial liabilities	6	6,243	3,166
Derivative financial liabilities	18	-	2,190
Deferred tax liability	17	113,565	128,236
Total non-current liabilities		704,843	659,529
CURRENT LIABILITIES:			
Interest-bearing loans and borrowings	7	4,534	67,916
Payables to related parties	13	1,831	4,665
Current tax liabilities		2,901	1,144
Trade and other payables	14	33,185	23,230
Total current liabilities		42,451	96,955
Total liabilities		747,294	756,484
Total equity and liabilities		1,765,419	1,637,078
NAV/Share (cent)	11	283.25	252.83
EPRA NAV/Share (cent)	11	318.55	293.37

13 April 2022

Date of approval of the
financial statements

Zohar Levy
Managing Director

Itay Barlev
Finance Director

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

SUMMIT PROPERTIES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year ended 31 December		2021	2020
	Note	Euro (in thousands)	
Rental income		77,143	76,376
Revenues from sale of apartments		-	4,473
Operating expenses		(15,547)	(5,981)
Cost of sale of apartments		-	(3,993)
Gross profit		61,596	70,875
General and administrative expenses	15	(11,348)	(10,151)
Fair value adjustments of investment properties	5	109,594	72,584
Other income (expenses)		9,549	(3,313)
Operating profit		169,391	129,995
Financial income	16	1,214	1,679
Financial expenses	16	(15,753)	(15,323)
Total financial expenses		(14,539)	(13,644)
Profit before taxes on income		154,852	116,351
Tax expenses	17	(31,919)	(18,529)
Profit for the year		122,933	97,822
Other comprehensive income and expenses:			
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange differences on translation of foreign operations		5,972	-
Changes in hedging instruments entered into for cash flow hedges		-	(144)
Cumulative gain arising in hedging instruments reclassified to profit or loss		432	-
		6,404	(144)
Items that will not be reclassified subsequently to profit or loss:			
Net gain arising on revaluation of financial assets through Other Comprehensive Income ("OCI")		30	269
		6,434	125
Total comprehensive income for the year		129,367	97,947
Profit for the year attributable to:			
Owners of the Company		96,423	90,408
Non-controlling interests		26,510	7,414
		122,933	97,822
Total comprehensive income attributable to:			
Owners of the Company		102,850	90,572
Non-controlling interests		26,517	7,375
		129,367	97,947
Earnings Per Share:			
Basic (Euro per share)	12	0.300	0.264
Diluted (Euro per share)		0.300	0.264

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

SUMMIT PROPERTIES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital (note 11)	Other Reserves (note 11)	Retained Earnings	Total equity attributable to owners of the parent Company	Non- Controlling interests	Total equity
	<i>Euro (in thousands)</i>					
Balance at 1 January 2020	(*) -	334,585	559,915	894,500	69,934	964,434
Profit for the year	-	-	90,408	90,408	7,414	97,822
Other comprehensive profit (loss) for the year, net of income tax	-	164	-	164	(39)	125
Total comprehensive profit	(*) -	164	90,408	90,572	7,375	97,947
Dividend distribution	-	-	-	-	(42)	(42)
Buy back of shares (note 11D)	-	(179,859)	-	(179,859)	-	(179,859)
Transaction with non-controlling interests (note 11E)	-	-	8,228	8,228	(10,114)	(1,886)
Balance at 31 December 2020	(*) -	154,890	658,551	813,441	67,153	880,594
Profit for the year	-	-	96,423	96,423	26,510	122,933
Other comprehensive profit for the year, net of income tax	-	6,427	-	6,427	7	6,434
Total comprehensive profit	(*) -	6,427	96,423	102,850	26,517	129,367
Transaction with non-controlling interests (note 11E)	-	-	(5,013)	(5,013)	13,177	8,164
Balance at 31 December 2021	(*) -	161,317	749,961	911,278	106,847	1,018,125

(*) No par value.

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

SUMMIT PROPERTIES LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year ended 31 December	2021	2020
	<i>Euro (in thousands)</i>	
Cash flows from operating activities:		
Profit for the year	122,933	97,822
Adjustments for:		
Deferred taxes	31,615	17,210
Financial expenses, net	14,538	13,644
Fair value adjustment of investment properties	(109,594)	(72,584)
Profit from sale of subsidiaries	(10,836)	-
Depreciation of property, plant and equipment	242	279
Amortisation and impairment of intangible assets	7	29
Other long-term Assets	581	321
	<u>(73,447)</u>	<u>(41,101)</u>
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	4,773	(22)
Increase (decrease) in trade and other payables	1,002	(2,269)
Increase (decrease) in payables to related parties and shareholders	(9,960)	1,167
Increase in inventories of buildings under construction	(4,314)	(2,688)
Increase (decrease) in prepaid expenses and other current assets	2,272	(144)
Increase in other non-current liabilities	130	233
	<u>(6,099)</u>	<u>(3,723)</u>
Net cash flows from operating activities	<u>43,389</u>	<u>52,998</u>
Cash flows from investing activities:		
Short-term loan to related parties	(35,000)	-
Payment in respect to acquisition of assets and liabilities	(266,291)	-
Proceeds on disposal of subsidiaries	571,116	-
Change in deposits and designated cash	(4,528)	(2,292)
Change in loans to third party	(401)	6,765
Additions to investment properties	(13,274)	(13,163)
Proceeds from sale of investment property	28,634	1,493
Net cash flows from (used in) investing activities	<u>280,256</u>	<u>(7,197)</u>
Cash flows from financing activities:		
Proceeds from borrowings from banks	4,925	8,181
Repayment of borrowings	(17,255)	(13,066)
Interest expense paid	(14,079)	(13,316)
Buy back of shares	-	(179,859)
Transaction with non-Controlling interest	3,165	(42)
Net cash flows used in financing activities	<u>(23,244)</u>	<u>(198,102)</u>
 (Decrease) increase in cash and cash equivalents	 300,401	 (152,301)
Cash and cash equivalents at beginning of the year	109,785	262,086
Cash and cash equivalents at end of the year	<u>410,186</u>	<u>109,785</u>

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

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 1: GENERAL

Summit Properties Ltd. (the "Company") and its subsidiaries (together: the "Group") is a property specialist company. The Company was incorporated and registered in Guernsey on 19 April, 2006. The parent company of the Group is Summit Real Estate Holdings Ltd (hereinafter: "SHL"), a company registered in Israel.

The Group owns, enhances and operates commercial real estate assets in Germany including office buildings, logistic centres and others, which are leased to numerous commercial and industrial tenants. In addition, the Group commenced activity in the US real estate market, as further described in Note 5.

The Group invests primarily in such properties that provide substantial income flows and potential for value increase through asset management. The Group does not acquire properties for speculative purposes.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of the investment properties and certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

The principal accounting policies adopted are set out below.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Basis of accounting (Cont.)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For further information regarding the reportable segments see note 22.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Basis of consolidation:

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- Has the power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Basis of consolidation (Cont.):

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Business combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenue recognition:

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product or service to a customer. The following specific recognition criteria must also be met before revenue is recognised:

Rental income (*The Group as lessor*):

The Group enters into lease agreements as a lessor with respect to its investment properties. Such leases are classified as operating leases in accordance with IFRS 16.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Revenues from the sale of apartments:

The Group constructs and sells residential properties under long-term contracts with customers. Such contracts are entered into before construction of the residential properties begins. Under the terms of the contracts, the Group is contractually restricted from redirecting the properties to another customer and has an enforceable right to payment for work done. Revenue from construction of residential properties is therefore recognised over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The Group considers that this method is an appropriate measure of the progress towards completion of these performance obligations under IFRS 15.

The Group becomes entitled to invoice customers for construction of residential properties based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is always less than one year.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Leases:

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The incremental borrowing rate depends on the term, currency and start date of the lease and is determined based on a series of inputs including: the risk-free rate based on government bond rates; a country-specific risk adjustment; a credit risk adjustment based on bond yields; and an entity-specific adjustment when the risk profile of the entity that enters into the lease is different to that of the Group and the lease does not benefit from a guarantee from the Group.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Leases: (Cont.)

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Foreign currencies:

In preparing the financial statements of the Group entities, transactions in currencies other than the entity's functional currency, which is Euro, are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Taxation:

The income tax expense represents the sum of tax currently payable and deferred tax.

Current Taxes:

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Taxation: (Cont.)

Deferred tax:

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Current tax and deferred tax for the year:

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (ii) below);
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iii) below).

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial instruments (Cont.)

Financial assets (Cont.)

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

(ii) Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial instruments (Cont.)

Financial assets (Cont.)

(ii) Equity instruments designated as at FVTOCI (cont.)

Dividends from these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

A financial asset is held for trading if either:

- It has been acquired principally for the purpose of selling it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking;
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

The Group has designated all investments in equity instruments that are not held for trading as FVTOCI on initial application of IFRS 9.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost - trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date.

The Group recognises lifetime expected credit losses (ECL) for trade receivables and contract assets. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and the economic environment. This is further enhanced with specific provisions where this is deemed appropriate by management.

For other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial instruments (Cont.)

Financial assets (Cont.)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial instruments (Cont.)

Financial liabilities and equity (Cont.)

Financial liabilities

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

All of the Group financial liabilities are presented and measured at amortised cost.

Financial liabilities are initially recognised at fair value less transaction costs. After initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, including options and interest rate swaps.

Further details of derivative financial instruments are disclosed in note 18.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Other derivatives are presented as current assets or current liabilities.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'Other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Inventory of buildings under construction and properties for development:

Inventory of buildings under construction and properties for development are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated selling costs. Cost of inventories of apartments under construction and inventories of real estate comprises identifiable direct costs of land such as taxes, fees and duties and construction costs.

Impairment of assets:

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

Cash and cash equivalents:

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Provisions:

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Group's accounting policies, which are described in Note 2 above, management is required to make judgements that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty:

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

- **Valuation of investment properties:**

The Group carries its investment properties at fair value, with changes in fair values being recognised in the profit or loss. The Group engages independent valuation specialists to determine fair value of investment properties at least on an annual basis. The valuation technique used to determine fair value of investment properties is based on a discounted cash flow model as well as comparable market data.

The determined fair value of the investment properties is sensitive to the estimated yield as well as market rents and the long-term vacancy rate. The key assumptions used to determine the fair value of the investment properties are further explained in Note 5.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)

Key sources of estimation uncertainty (Cont.):

- **Taxation**

Uncertainties might exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the Group's international business relationships and the nature of contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Deferred taxes

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. (See also Note 17).

Critical accounting judgements:

The following are the critical judgements that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

- **Business combination or acquisition of assets**

In each transaction for purchasing an investment property, the Group Management review the characteristics of the transactions in accordance with the requirements of IFRS 3. When reaching a conclusion regarding applying appropriate accounting treatment, the Management consider obtaining control over the purchased entities, the characteristic of the purchased entities and the existence of business processes inherent in these entities considering acquisition a set of activities and assets that include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 4: ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS:

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Annual Improvements to IFRS Standards 2018–2021

IFRS 9 Financial Instruments

The amendment clarifies that in applying the ‘10 per cent’ test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The Board has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4: ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (Cont.):

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The Board added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The Board has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

NOTE 5: INVESTMENT PROPERTIES

A. Changes in years 2020 and 2021

	Euro in thousands
Balance at 1 January 2020	1,393,889
Additions for the year (C)	13,499
Reclassification to property held for sale (D)	(20,750)
Disposals during the year (D)	(1,493)
Fair value adjustments during the year	72,584
Balance at 31 December 2020	<u>1,457,729</u>
Additions for the year (C)	575,234
Disposals during the year (D)	(916,379)
Foreign currency translation reserve	6,908
Fair value adjustments during the year	109,594
Other	3,705
Balance at 31 December 2021	<u>1,236,791</u>

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 5: INVESTMENT PROPERTIES (Cont.)

B. Fair value measurement of investment properties (Level 3 classification)

1. The fair value of investment property is determined at least once a year or when indications of value changes arise, based on a valuation performed by independent reputable experts. This valuation has been conducted in the form of a full Valuation Report (hereinafter referred to as "Valuation Report") for the determination of Market Value carried out by Savills Advisory Services Germany GmbH & Co. KG. The valuation is in accordance with the RICS Valuation - Global Standards (July 2017) of the Royal Institution of Chartered Surveyors ("Red Book") and the International Standards for the Valuation of Real Estate for Investment Purposes ("International Valuation Standards").

The valuation is performed using the income capitalisation method, which is a valuation model based on the present value of expected Net Operating Income per property. Real estate valuations are based on the net annual cash flows after capitalisation on discounted rates that reflect the specific risks inherent in property activity.

The valuations consider the profile of the tenants, which are legally committed to lease agreements, and the remaining economic life of the asset. The market rents used in the valuation vary per location, uses and condition of the property, age and level of finishing of various assets, even in the same building. Average rent in respect of office spaces can range from €5-22 per month per square meter (2020: €5-20); for retail properties, between €4-57 per month per square meter (2020: €4-19); for logistics properties between €2-15 per month per square meter (2020: €2-13); for residential properties between €9-32 per month per square meter. For office, commercial, residential and logistics properties, discount rates range between 3.0 % - 7.5% (2020: 3.3% - 8.8%).

In estimating the fair value of the properties, the highest and the best use of the properties is their current use.

A number of factors contribute to the value of retail properties, such as national and local economic development, investment demand created by property investors, and interest rates.

While changes in the fair value of investment properties have an effect on the Group's profit for the financial year, they do not have an immediate impact on cash flow.

The significant unobservable inputs used in the fair value measurement of the entity's investment properties are rents achieved at market (when these increase, an increase in properties value may occur), discount rates (when these increase, a decrease in properties value may occur) and occupancy rates (when these increase, an increase in property values may occur). Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Sensitivity to change in the properties' fair value, or the risk associated with fair value, can be tested by altering the above key parameters. Furthermore, the effect of the change in each parameter is not necessarily similar – as such, changes in the rents and discount rates might have a more significant effect on the properties' value than similar change of the occupancy rates. In addition, it is noted that changes in different parameters might occur simultaneously. For example, a change in occupancy may connect to a change in market rents when they impact fair value simultaneously.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 5: INVESTMENT PROPERTIES (Cont.)

B. Fair value measurement of investment properties (level 3 classification) (cont.)

2. Supplemental information

Lettable area

	As 31 December 2021						As 31 December 2020			
	Offices	Logistic	Retail	Residential	Other	Total	Offices	Logistic	Retail	Total
	Sqm						Sqm			
	160,823	148,475	623,794	181,371	27,827	1,142,290	612,076	319,160	57,356	988,592
Percent of total assets	14%	13%	55%	16%	2%	100%	62%	32%	6%	100%

Fair value – analysis by use

	As 31 December 2021						As 31 December 2020			
	Offices(*)	Logistic	Retail	Residential	Other	Total	Offices(*)	Logistic	Retail	Total
	Euro in thousands						Euro in thousands			
	356,239	167,350	330,276	363,220	19,706	1,236,791	1,076,039	325,040	77,400	1,478,479
Percent of total assets	29%	14%	27%	29%	1%	100%	73%	22%	5%	100%

(*) Including fair value of associated building rights.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5: INVESTMENT PROPERTIES (Cont.)

B. Fair value measurement of investment properties in Level 3 (Cont.)

2. Supplemental information (Cont.)

NOI – analysis by use

	As 31 December 2021					As 31 December 2020			
	Offices	Logistic	Retail	Residential	Total	Offices	Logistic	Retail	Total
	Euro in thousands					Euro in thousands			
	20,248	16,544	20,440	4,364	61,596	51,217	14,715	4,463	70,395
Percent of total assets	33%	27%	33%	7%	100%	73%	21%	6%	100%

Adjustment to fair value – analysis by use

	As 31 December 2021					As 31 December 2020			
	Offices	Logistic	Retail	Residential	Total	Offices	Logistic	Retail	Total
	Euro in thousands					Euro in thousands			
	6,994	2,276	105,437	(5,113)	109,594	43,939	27,574	1,071	72,584
Percent of total assets	6%	2%	97%	(5%)	100%	61%	38%	1%	100%

Average rent

	Offices		Logistic		Residential		Retail	
	As 31 December							
	2021	2020	2021	2020	2021	2020	2021	2020
€/sqm/month	8.5	8.7	5.2	5.2	17	-	9.0	8.1
Range €	(5.3 – 22.1)	(5.0-20.0)	(2.4 – 14.6)	(2.1-13.4)	(8.8 – 31.5)	-	(4.2 – 57.4)	(4.2-19.4)

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 5: INVESTMENT PROPERTIES (Cont.)

C. Additions

1) Additions in Germany

During April 2020, a subsidiary of the company completed the purchase of an office building of 4,700 sqm in Hannover for total acquisition cost of ca. €6.5 million. The acquisition was financed by a new secured debt facility (Note 7B) and Group's own resources. Rest of the additions were capital expenditures on properties.

2) Additions in USA during the period

a. Purchase of residential buildings:

During May 2021, a subsidiary of the Company reached an agreement with a partner in the US specializing in the acquisition, management and maintenance of residential buildings in New York City (the "Local Partner") for acquisition of residential properties for rent in New York City.

Property acquisitions are carried out through special purpose companies, which are controlled by the Company, while the local partner is responsible for the ongoing operation of the properties and the special purpose companies. The Company will fund 85% -95% of the capital required for each transaction, and the local partner will fund the remaining 5% -15% of required capital. The available cash flow of the asset companies will be distributed between the parties in proportion to their capital investment until returns of each partner's capital investment plus minimal agreed IRR beyond which the local partner shall be entitled to success fees as customary in similar transactions.

During the reporting period, transactions were completed for the purchase of 2,240 housing units for rent in New York for approximately \$ 400 million. The residential buildings purchased include an area for rent of approximately 181 thousand square meters. The expected net return on these transactions is approximately 5.15%. The acquisition was financed from the company's own resources and bank financing.

Total bank financing amounted to approximately \$ 281 million at an average fixed annual interest rate of approximately 2.98%, without principal repayments in the first three years and without financial criteria.

As of the date of publication of the report, the Company has entered into contracts for the purchase of approximately 85 residential buildings in New York City, including approximately 3,000 housing units with a total lettable area of approximately 247 thousand square meters and expected annual income from them, based on existing contracts, net of operating expenses of \$ 26.5 million.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 5: INVESTMENT PROPERTIES (Cont.):

C. Additions (Cont.):

2) Additions in USA during the period (Cont.)

b. During the reporting period a subsidiary of the Company acquired 14 commercial properties:

1. During February 2021, a subsidiary of the Company acquired 3 commercial properties in the state of Michigan in the United States, for a total consideration of approximately \$ 17.5 million. At the time of acquisition, the average occupancy rate of the assets was approximately 51% and the annual income from them, based on existing contracts, net of operating expenses, amounted to \$ 4-5 million. And about \$ 9 million in external credit. The subsidiary entered into the transaction through a US subsidiary under its control (the "US Subsidiary"), which is held together with a local asset manager, who is not affiliated with the company and / or its controlling shareholders (the "local manager"). Under the agreement with the local manager, he will be responsible for the day-to-day operation of the properties and will work to locate investments in similar real estate properties. The company will provide approximately 90% of the equity required for the transaction, and the local manager will provide approximately 10% of the required equity. The positive cash flow of the property companies will be divided between the parties according to the equity investment ratio until the return on investment plus 12% per annum. Thereafter, all the surplus of the property companies will be distributed in such a way that 50% of the surplus will be distributed among the shareholders in the US Subsidiary while 50% will be paid as success fees to the local manager related entity, until the US Subsidiary shareholders enjoy an IRR of 20% on their investment. Any excess surplus will be divided in such a way as to ensure that the total cumulative divisions from the property companies will be divided equally between a party related to the local manager and the shareholders in the US Subsidiary. The US Subsidiary has an option to purchase about 42% of the holdings of the local manager. Also, during the reporting period, a subsidiary of the Company in an agreement with a local partner acquired the lease rights in two hotels that include 514 rooms in central locations in Manhattan, New York. The hotels in an area of about 27 thousand square meters are built on leased land for a period of 25-90 years.
2. During July 2021, a subsidiary of the Company acquired 8 commercial properties throughout the United States for a total consideration of approximately \$ 66 million. The said properties include an area for rent of approximately 287 thousand sqm. At the time of acquisition, the average occupancy rate of the assets was approximately 64% and the annual income from them, based on existing net contracts less operating expenses, amounted to \$ 18 million.
The subsidiary entered into the transaction through a US subsidiary under its control, which is held together with the local manager, in a format similar to that described in section 1 above.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 5: INVESTMENT PROPERTIES (Cont.):

C. Additions (Cont.):

2) Additions in USA during the period (Cont.)

b. During the reporting period a subsidiary of the Company acquired 14 commercial properties (Cont.):

3. During November 2021, a subsidiary of the Company entered into transactions for the acquisition of three shopping centres in the United States, for a total of approximately \$ 113 million. At the time of acquisition, the average occupancy rate of the assets was approximately 87% and the annual income based on existing contracts, net of operating expenses, amounted to \$ 26 million.

The subsidiary entered into the transaction through a US subsidiary under its control, which is held together with the local manager, in a format similar to that described in section 1 above.

4. After the reporting period, a subsidiary of the Company entered into transactions for the acquisition of seven commercial centres in the United States, for a total of approximately \$ 137 million. The average occupancy rate of the assets is approximately 81% and the annual income based on existing contracts, net operating expenses, is approximately \$ 20 million.

The subsidiary entered into the transaction through a US subsidiary under its control, which is held together with the local manager, in a format similar to that described in section 1 above.

c. Following is a list of assets and liabilities acquired (in connection with the above acquisitions):

Consideration	266,291
Investment properties	569,626
Other tangible assets	368
Other assets	33,316
Interest bearing loans and borrowings	(278,186)
Other liabilities	(25,148)
Total assets, Net	299,976
Attributable to equity holders of the Company	266,291
Attributable to non-controlling interests	33,685

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 5: INVESTMENT PROPERTIES (Cont.)

D. Disposals:

1. Disposals during 2020

- a. The Company sold two properties for a consideration of €1.49 million, which was similar to their fair value. The transaction was completed during July 2020.
- b. During 2020, the Company signed binding agreements for the disposal of three properties for a consideration of €20.8 million. These properties were classified as held for sale as of 31 December 2020 and the disposal transactions were completed during the reporting period.

2. Disposals during the period

At the end of June 2021, the Company sold part of its portfolio of assets in Germany. As a result of the sale, the Company recognised a profit of approximately €10 million, which was charged to the item other income in the income statement.

Trade receivables and other assets	8,532
Other tangible Assets	43
Investment properties	909,080
Trade accounts and other payables	(11,482)
Interest bearing loans and borrowings	(271,560)
Deferred tax liabilities	(47,581)
Non-controlling interests	(26,753)
Total assets, Net	560,280
Funds received	571,116
Profit from the sale of the subsidiaries	10,836

3. €7.8 million outparcels were sold during the reporting period at their fair value.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 6: OTHER LONG-TERM ASSETS AND LIABILITIES

	31 December	
	2021	2020
	Euro in thousands	
<u>Other long-term financial assets:</u>		
Financial assets measured at fair value through OCI (1)	3,625	4,817
Long-term loans receivable measured at amortised costs (2)	10,671	6,310
Financial assets measured at fair value through profit and loss (3)(4)	26,065	10,140
Other financial assets	757	1,648
Total long term financial assets	<u>41,118</u>	<u>22,915</u>
 <u>Other long-term non-financial assets</u> (5)	 <u>2,671</u>	 <u>2,557</u>
 <u>Other long-term financial liabilities:</u>		
Other financial liabilities (5)	<u>6,243</u>	<u>3,166</u>

(1) Financial assets – through OCI:

This represents investments in ordinary shares of several real estate companies. Group interests in these companies were not accounted for using the equity method because of lack of significant influence (the Group has neither voting rights, nor representation in the management of these companies). The fair value of the investments at the end of the reporting period is based on the market values of the respective companies' investments in real estate.

(2) Long-term loans receivable including loans to third parties.

(3) The Group is engaged in agreements to provide financing to several residential construction projects in Berlin. The projects are for construction of residential units and are at different stages of planning and construction. The loans are secured by liens and guarantees of the construction companies and their shareholders, and will be payable from the projects' proceeds. As of the end of the reporting period, the fair value of the loans is €11.6 million (including an amount of €1.5 million, which is presented in short term assets, in the prepaid expenses and other current assets line item).

(4) In 2021 a subsidiary of the Company acquired a debt of approximately \$21 million secured by a lien on a residential building in New York city, totalling approximately \$19 million. The property, located in Manhattan, includes 56 units in a total area of approximately 46 thousand of square feet.

(5) As of 31 December 2021, the balance is mainly due to the impact of adopting IFRS 16 (€2.1 million) starting from 1 January 2019, whereby a right of use assets has been recognized for the Group's leased office premises, and due to Tenant Security Deposit (€3.2 million).

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 7: INTEREST - BEARING LOANS AND BORROWING

Interest-bearing loans and borrowings (net of cost of raising loans):

			31 December	
	Effective interest rate	Maturity	2021	2020
	%		Euro in thousands	
Current:				
Current maturities of long-term loans	1.75-11	2022	4,534	67,916
Non-current:				
Long term loans and borrowings	1.75-11	2023-2030	585,035	525,937

- A.** In the 2nd quarter of 2020, the company financed €4.8 million debt to facility finance property acquisition (note 5C). The loan is provided for a 10-year term at 1.1% fix interest rate p.a and annual amortization of 3%. The loan was part of the sold portfolio (see Note 5).
- B.** In 2020, a new €3.4 million secured debt facility obtained to refinance a property in Hannover. Loan is provided for a 10-year term at 1.3% fixed interest rate p.a. and annual amortisation of 3.00%. The loan was part of the sold portfolio (see Note 5).
- C.** The outstanding costs of raising loans as of 31 December, 2021 are €5.9 million (2020: €3.9 million). These are presented net of interest-bearing loans and borrowings and amortised over the period of the loans.
- D.** During the reporting period a €5.0 million secured debt facility to refinance existing financing of a property in Hannover; 10-year term at 1.3% fixed interest rate p.a. and 3.00% amortisation p.a.
- E.** During the reporting period, the Company reached an agreement with an existing lender that enables the company to release certain pledged assets for a release price, in consideration of increase of SPL guarantee to the bank. The loan was part of the sold portfolio and the guarantee was released as part of the transaction.
- F.** Some of the financing agreements include a Debt Service Cover Ratio (DSCR) covenant of 125% to 225% or a Debt Yield covenant of 16.5%.

As at 31 December 2021 the borrowing entities comply with all the covenants set in their financing agreements.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 8: TRADE RECEIVABLES

	31 December	
	2021	2020
	Euro in thousands	
Trade receivables	9,882	3,983
Trade receivables from sale of apartments	157	178
Provision for doubtful debts	(8,031)	(994)
	<u>2,008</u>	<u>3,167</u>

Trade receivables are non-interest bearing and are generally 30-90 day terms.

Movements in the provision for doubtful debts:

	Euro in thousands
At 1 January 2020	578
Released	590
Utilised	(174)
At 31 December 2020	<u>994</u>
Released	28
Utilised	(246)
First exit from consolidation	<u>7,255</u>
At 31 December 2021	<u>8,031</u>

NOTE 9: PREPAID EXPENSES AND OTHER CURRENT ASSETS

	31 December	
	2021	2020
	Euro in thousands	
Prepaid expenses and other	10,787	3,200
Designated cash	8,783	7,714
	<u>19,570</u>	<u>10,914</u>

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 10: CASH AND CASH EQUIVALENTS

	31 December	
	2021	2020
	Euro in thousands	
Cash at banks	<u>410,186</u>	<u>109,785</u>

NOTE 11: SHARE CAPITAL

- A.** The authorised share capital of the Group is represented by an unlimited number of ordinary shares with no par value:

	Issued and outstanding Number of shares
At 1 January 2020	445,235,204
Change in the period (note 11D)	<u>(123,512,832)</u>
At 31 December 2020	321,722,372
Change in the period	-
At 31 December 2021	<u>321,722,372</u>

B. Distributable reserve:

The directors have elected to transfer all premiums arising from the issue of ordinary shares by the Company to a distributable reserve, the balance of which as of 31 December 2021 is €151.2 million (as of 31 December 2020 – €151.2 million). This balance is included in other reserves. In accordance with the Companies (Guernsey) law, 2008, any distribution is subject to a solvency test to determine whether the Company is able to distribute funds to shareholders.

C. NAV and EPRA NAV:

	As of 31 December 2021		As of 31 December 2020	
	€, thousands	€, per share	€, thousands	€, per share
NAV (*)	911,278	2.83	813,426	2.53
Financial derivatives	-		2,190	
Deferred Tax, net	<u>113,565</u>		<u>128,236</u>	
EPRA NAV (**)	1,024,843	3.19	943,852	2.93

(*) Net Asset Value

(**) EPRA NAV is calculated based on the NAV excluding the effect of deferred taxes and the value of hedging instruments.

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 11: SHARE CAPITAL (Cont.)

D. Share buy-back:

On 17 February 2020, The Company announced a proposed tender offer and cancellation of the admission of its Ordinary Shares to trading on AIM, subject to approval by Shareholders. The Tender Offer provides Shareholders with an opportunity to partially realise their investment in the Company by accepting the Tender Offer pursuant to which the Company will, conditionally, offer to purchase, on a pro rata basis, up to 148,275,862 Ordinary Shares (representing 33.3% of the Company's issued share capital) at the Tender Offer Price of €1.45 per Ordinary Share. As of 5 March 2020 following the Tender Offer and the cancellation of the repurchased shares, the Company's share capital in issue is reduced from 445,235,204 Ordinary Shares to 321,722,372 Ordinary Shares (the "Reduced ISC") and the Company does not hold any Ordinary Shares in treasury.

On 17 March 2020 the trading in the Company's ordinary shares on AIM was cancelled.

E. Transaction with non-controlling interests:

During the period, several group entities (which do not hold real estate assets) were deconsolidated. The transaction did not have a significant effect on the Company's net assets.

NOTE 12: EARNINGS PER-SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

		Year ended 31 December	
		2021	2020
		Euro in thousands	
		<hr/>	
		Earnings	
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company		96,423	90,408
		<hr/>	<hr/>
		Year ended 31 December	
		2021	2020
		In thousands	
		<hr/>	
		Number of shares	
Weighted average number of ordinary shares for the purposes of the basic earnings per share		321,722	342,308
		<hr/>	<hr/>

SUMMIT PROPERTIES LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021****NOTE 12: EARNINGS PER-SHARE (Cont.)**

Earnings Per Share:	Year ended 31 December	
	2021	2020
Basic (Euro per share)	0.30	0.26
Diluted (Euro per share)	0.30	0.26

There is no difference in the current year or the previous year between basic and diluted earnings per share.

NOTE 13: BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	Amounts owed by related parties		Amounts owed to related parties	
	31 December		31 December	
	2021	2020	2021	2020
	Euro in thousands		Euro in thousands	
Related parties	38,798	73	1,831	4,665

As of 31 December 2021, Summit Real Estate Holdings Ltd ("SHL") holds approximately 99.02% of the Ordinary shares of Summit Properties limited. SHL is under the control of Mr. Zohar Levy. Summit Management CO S.A. ("SMC"), a company controlled by Zohar Levy, was appointed as an Asset Manager on 19 May 2006.

The balance owed to related parties includes provisions for management fees to SMC and for performance-based compensation of €1,644 thousand, including Special Bonus provision as detailed below (2020: €4,491 thousand).

The balance owed by related party as of 31 December 2021 comprised of a short-term loan to SHL. The loan bears an interest rate of 3-month Libor plus a margin of 1%-1.35% p.a. As at the date of approval of these financial statements the total amount of short-term loan to SHL is 39.2 million Euro.

A. Compensation of key management personnel:

	2021	2020
	Euro in thousands	
Directors' fees	168	264
Management fees	2,066	1,500
Special Bonus (note 13B)	3,558	3,564
Total compensation paid to key management personnel	5,792	5,328

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2021

NOTE 13: BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

B. Terms and conditions of the management agreement

According to the management agreement, SMC is responsible for providing certain corporate and advisory services to the Group and is entitled to an advisory fee equal to €750,000 per annum, payable quarterly, plus the potential to receive a performance-based bonus of up to €750,000 per annum, depending on certain performance criteria.

The performance-based bonus is based on hurdles and is calculated based on the aggregate return to the shareholders of the Company at the end of each accounting year, whether as a result of dividends received and/or an increase in the net asset value of the Group (excluding any increase due to revaluations) (the "Return"). The performance-based bonus is calculated on a pro-rata basis for any increase in the Return up to and including 5.5%.

The annual performance-based bonus entitlement of SMC is capped at a maximum of €750,000 per annum.

As at 31 December 2021 the performance criteria were met and a pro-rata provision in the amount of €1,500,000 was made during the period. The payment of the performance-based bonus is subject to the approval of the board of directors of the Company after the end of the accounting year.

In addition to the performance-based bonus detailed above, SMC shall be entitled to receive a "Special Bonus" if, at any time in the period commencing on 1 January 2017 and ending on the date falling three years thereafter (i.e. 1 January 2020), there is a qualifying sale or series of sales of any properties of the Group. A qualifying sale or series of sales is one, which alone or in aggregate, results in the proceeds received by the Summit Group, (net of any costs and expenses incurred in connection with the relevant sale(s)) and less the value (as stated in the Group's valuation as at 30 June 2016) of the properties sold, being greater than €50 million (the whole of such amount being the "Qualifying Amount"). The Special Bonus shall be an amount equal to five per cent of the Qualifying Amount and is subject to a total aggregate cap of €10 million over the three-year term.

In addition, in the first accounting year in which a Special Bonus is payable, any bonus payable in that same year shall be deducted from the amount of the Special Bonus so payable.

By the end of 2019, it was decided to extend the management agreement with SMC until 31 December 2022. As part of the amendment to the management agreement, it was clarified that the right of the management company to the Special Bonus will remain in effect, provided that the profit from a qualifying sale or series of sales of any properties that will occur during the extension period will be calculated in relation to the value of the company's properties as of 30 June 2019. It was further clarified that the Special Bonus would also apply in relation to a partial sale of properties that would meet the profitability conditions described above.

In addition, by the end of 2019, it was agreed that half of the Special Bonus that accrued until the end of 2019 (including the performance-based bonus), in the amount of €3.5 million, will be paid in 2021, subject to a pre-tax profit of the Group for 2020 not to be less than €70 million. The amount was paid during the reporting period.

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NOTE 13: BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

B. Terms and conditions of the management agreement (Cont.):

Any Bonus which SMC is entitled to receive in any relevant accounting year shall be reduced by an amount equal to any carried interest amount paid to SMC pursuant to the articles of incorporation of Summit Finance Ltd ("SFL") in respect of the same accounting year, provided that any bonus shall not be reduced to less than zero.

The articles of association of SFL ("SFL Articles") contain certain provisions which relate to SMC's carried interest entitlement in respect of their services provided under the initial Portfolio Management Agreement from 2006. SMC holds special B shares in SFL, a Group subsidiary, which will give it the right to receive a carried interest if the Company distributes a cash return on shareholders' equity of at least 8% in any financial year ("the Hurdle").

SMC will be entitled to receive 25% of the cash return in that year in excess of the Hurdle after deducting the carried interest entitlement. If the Company has not achieved a cash return on shareholders' equity of at least 8% in any previous year ("a Shortfall"), the carried interest will not be paid until the Shortfall has been made up. Where such fees arise, they are charged to the consolidated statement of comprehensive income. No amounts were ever due in respect of the aforementioned. As of 31 December 2021, the Shortfall is approximately €118.3 million (2020: €99.3 million). Therefore, the likelihood that SMC would be entitled to receive any carried interest is low.

SFL articles were amended so SMC's entitlement to receive any carried interest payable is by virtue of its ownership of B shares in SFL. The SFL Articles and the amended Portfolio Management Agreement provide that the B shares may be held by whoever is the appointed asset manager under the Portfolio Management Agreement or any other asset or portfolio management agreement to which the Group is a party from time to time.

NOTE 14: TRADE AND OTHER PAYABLES

	31 December	
	2021	2020
	Euro in thousands	
Accrued expenses	3,058	7,593
Accrued interest	3,213	2,799
Service charge prepayments	2,227	540
VAT	76	479
Provisions	19,720	8,040
Trade accounts payable	3,887	3,296
Other	1,004	483
	33,185	23,230

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NOTE 15: GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2021	2020
	Euro in thousands	
Management and directors' fees (a)	2,234	1,777
Professional fees (b)	2,442	2,222
Salaries	3,745	4,057
Administration fees	104	151
Office expenses	576	471
Other expenses	2,247	1,473
	<u>11,348</u>	<u>10,151</u>

(a) See note 13 for details of the management agreement.

(b) Professional fees include audit fees in the amount of €263 thousand (2020: €224 thousand).

NOTE 16: FINANCIAL EXPENSES (INCOME)

	Year ended 31 December	
	2021	2020
	Euro in thousands	
Financial expenses:		
Interest on borrowings	13,671	13,345
Amortisation of cost of raising loans	1,715	1,266
Other	367	712
Total financial expenses	<u>15,753</u>	<u>15,323</u>
Financial income:		
Total financial income	<u>1,214</u>	<u>1,679</u>

NOTE 17: TAXATION

A) Taxes on income recognized in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2021	2020
	Euro in thousands	
<u>Current income tax:</u>		
Current income tax charge	304	1,319
<u>Deferred income tax (See C):</u>		
Relating to origination and reversal of temporary differences	<u>31,615</u>	<u>17,210</u>
Income tax expense reported in the statement of comprehensive income	<u>31,919</u>	<u>18,529</u>

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NOTE 17: TAXATION (Cont.)

- B)** The Company is subject to taxation under the laws of Guernsey. The subsidiaries are subject to income taxes in their country of domicile in respect of their income. The ordinary corporate income tax rate in Germany as of 31 December 2021 is 15.825% (31 December 2020: 15.825%). The majority of the Group's subsidiaries are subject to German tax which will include RETT on property transactions, where applicable. Certain Group subsidiaries are taxable in Guernsey at 0%.
- C)** The Company operates in the United States ("U.S.") through a U.S. resident holding company (hereinafter: "Holding Company"), which holds rights in real estate partnerships through partnerships (LLCs) that are considered as transparent for U.S. tax purposes, so the Holding Company is the income taxpayer produced by LLCs. The Group's investments in the Holding Company and the Holding Company's investments in the LLC companies are done by capital investments as well as by interest-bearing inter-company loans. The activity in the U.S. is subject to federal, state, and local government tax (in some cases). The total tax rate ranges from 25% to 29%. Dividend payments outside the U.S. are subject to withholding tax in the U.S. at a rate of 30%, in accordance with U.S. domestic law. However, when such payments are transferred to a German resident company that has an agreement with the U.S., the withholding tax will be at a rate of 5% subject to compliance with the rules of the U.S.– German Tax Treaty. Deduction of interest expenses in the U.S. is subject to the rules of thin financing under U.S. law.

A reconciliation between the tax benefit in the consolidated statement of comprehensive income and the profit before taxes multiplied by the current tax rate can be explained as follows:

	Year ended 31 December	
	2021	2020
	Euro in thousands	
Profit before taxes on income	<u>154,852</u>	<u>116,351</u>
Tax at the statutory tax rate in Germany (15.825%)	24,505	18,412
Increase (decrease) in respect of:		
Losses for which deferred taxes were not recorded	2,917	(2,312)
Effect of different tax rate	9,946	(1,297)
Non-deductible expenses, net	1,055	1,207
Difference between tax and reporting GAAP	(5,509)	3,088
Other	(995)	(569)
Income tax expense	<u>31,919</u>	<u>18,529</u>

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 17: TAXATION (Cont.)

D) Deferred income tax:

	Consolidated statement of financial position	
	2021	2020
	Euro in thousands	
<u>Deferred tax asset (liability)</u>		
Revaluations of investment properties to fair value	(123,201)	(148,203)
Losses carried forward	6,313	20,654
Revaluations of financial instruments	-	194
Provisions	475	457
Other	2,848	(1,338)
Deferred tax liabilities, net	<u>(113,565)</u>	<u>(128,236)</u>

The Group offsets deferred tax assets and liabilities when these are originated by the same tax entity. After offsetting such assets and liabilities, the net balances are:

	Consolidated statement of financial position	
	2021	2020
	Euro in thousands	
Deferred tax asset	-	-
Deferred tax liability	<u>(113,565)</u>	<u>(128,236)</u>

	Consolidated statement of comprehensive loss (income)	
	2021	2020
	Euro in thousands	
<u>Deferred tax expense (income)</u>		
Revaluations of investment properties to fair value	34,146	16,009
Losses carried forward	1,972	(897)
Other	(4,503)	2,098
Increase in deferred tax	<u>31,615</u>	<u>17,210</u>

	Other comprehensive income	
	2021	2020
	Euro in thousands	
<u>Deferred tax income</u>		
Revaluations of foreign currency translation reserve	1,237	-
Revaluations of financial instruments	68	(22)
Increase in deferred tax	<u>1,305</u>	<u>(22)</u>

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 17: TAXATION (Cont.)

- E)** Group's carried forward tax losses in Germany for which deferred taxes were not recognised are approximately €18 million (2020: €43 million). Deferred tax assets on loss carry forward are recognised by the Group according to the applicable tax laws, to the extent that it is probable that taxable profit will be available against which the losses can be utilised.
- F)** Tax liability for the purchase of a real estate property in Germany:
The purchase of a real estate property in Germany is subject to Real Estate Transfer Tax (RETT), usually at a rate of 5.5% to 6.5% of the purchase price. Under German law, the tax burden is imposed on both seller and buyer. The transfer of control of 90% or more of the rights owned by a German entity to third parties within a period of 10 years will be subject to RETT.

NOTE 18: FINANCIAL INSTRUMENTS

The Group's principal financial liabilities, other than derivatives, comprise mainly bank loans, and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Company has various financial assets such as trade receivables, loans to third parties and cash and cash equivalents.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk as summarised below.

Market risk:

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Market prices comprise two types of risks that are relevant to the Company: Interest rate risk and Price risk.

- **Interest rate risk:**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to fix the interest rate of its bank loans by entering into fixed interest rate loan agreements and by entering into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2020 after taking into account the effect of interest rate swaps, the majority of the Group's borrowings are at a fixed rate of interest. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

- **Price risk:**

The Group's financial instruments measured at FVTOCI are susceptible to price risk arising from uncertainties about future values of the investment in those instruments. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. The Company's senior management monitors value and extent of such investments on an ongoing basis.

As of 31 December 2021, the Group does not hold any marketable securities and does not hold significant financial instruments measured at FVTOCI (see note 6).

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18: FINANCIAL INSTRUMENTS (Cont.)

- **Credit risk:**

Credit risk is the risk that counterparty will not meet its obligations, as reflected as of the period end in the Group's financial statements, under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities.

The Group performs ongoing credit evaluations of its lessees and the financial statements include specific allowances for doubtful accounts, which, in management's estimate, adequately reflect the underlying loss of debts whose collection is doubtful.

The Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

The carrying amount of financial assets recognised in financial statements net of impairment losses represents Group's maximum exposure to credit risk, without taking into account collateral or other credit enhancements held.

Collateral and other credit enhancements are obtained in most cases, pursuant to management assessment of the client's credit quality and an assignment of its credit limits. The Group does not invest its cash with banks that have a low credit rating. As such, the group does not have significant credit risk exposure.

- **Foreign currency risk:**

The Group is mainly exposed to the currency of the US Dollar. The foreign currency risk arises from recognized assets and liabilities denominated in a foreign currency other than the Company's operating currency.

Liquidity risk:

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	As at 31 December 2021					Total
	Up to 1 year	1-2 years	2-3 years	3-4 years	> 4 years	
	Euro in thousands					
Interest bearing loans and borrowings	22,430	19,399	44,023	324,180	257,797	667,829
Trade and other payables	13,464	-	-	-	-	13,464
Tenants Security Deposit	-	3,225	-	-	-	3,225
Other liabilities	520	201	192	196	1,910	3,019
Payables to related parties and shareholders	1,831	-	-	-	-	1,831
	<u>38,245</u>	<u>22,825</u>	<u>44,215</u>	<u>324,376</u>	<u>259,707</u>	<u>689,368</u>

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18: FINANCIAL INSTRUMENTS (Cont.)

Liquidity risk: (Cont.)

	As at 31 December 2020					Total
	Up to 1 year	1-2 years	2-3 years	3-4 years	> 4 years	
	Euro in thousands					
Interest bearing loans and borrowings	81,012	56,011	18,920	49,206	447,111	652,260
Trade and other payables	15,191					15,191
Other liabilities	681	253	186	191	4,045	5,356
Payables to related parties and shareholders	4,665	-	-	-	-	4,665
	<u>101,549</u>	<u>56,264</u>	<u>19,106</u>	<u>49,397</u>	<u>451,156</u>	<u>677,472</u>

Capital management:

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and adjusts it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group is not subject to any externally imposed capital requirements.

No changes were made in the objectives, policies or processes during the years ended 31 December 2021 and 31 December 2020.

The gearing ratios at 31 December 2021 and 31 December 2020 were as follows:

	2021	2020
	Euro in thousands	
Non-current interest-bearing loans and borrowings	585,035	528,127
Current loans and borrowings	4,534	67,916
Less cash and cash equivalents	<u>(410,186)</u>	<u>(109,785)</u>
Net debt	<u>179,383</u>	<u>486,258</u>
Equity	<u>1,018,125</u>	<u>880,594</u>
Total capital	<u>1,197,508</u>	<u>1,366,852</u>
Gearing ratio	<u>15%</u>	<u>36%</u>

SUMMIT PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18: FINANCIAL INSTRUMENTS (Cont.)

Fair value of financial instruments and non-financial instruments:

Fair value of financial instruments carried at amortised cost:

The directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

As at 31 December 2021 there are no financial instruments of interest – bearing loans and borrowings (31 December 2020: €486 million carrying amount value.)

Fair value measurements recognised in the statement of financial position:

The financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 2 and 3 based on the degree to which the fair value is observable (see note 2 for definitions applicable to each level).

31 December 2021			
Level 1	Level 2	Level 3	Total
Euro in thousands			
Non - Financial assets:			
Investment properties (note 5)	-	-	1,236,791
Financial assets			
Financial assets measured at fair value through profit and loss (a)(b)	-	-	27,565
Financial assets at FVTOCI	-	-	3,625
Total	-	-	1,267,981

31 December 2020			
Level 1	Level 2	Level 3	Total
Euro in thousands			
Non - Financial assets:			
Investment properties (note 5)	-	20,750	1,457,729
Financial assets			
Financial assets measured at fair value through profit and loss (a)	-	-	11,640
Financial assets at FVTOCI	-	-	4,817
Total	-	20,750	1,474,186
Financial liabilities			
Derivative instruments – swaps (c)	-	(2,190)	-

(a) See note 6(3). Following the adoption of IFRS9 at the beginning of 2018, the Company measures loans given to finance certain residential construction projects in Berlin at fair value through profit and loss.

(b) See note 6(4).

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NOTE 18: FINANCIAL INSTRUMENTS (Cont.)

Fair value measurements recognised in the statement of financial position (Cont.):

(c) Derivative instruments:

The fair value of derivative interest rate contracts (interest rate swap agreements) is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument.

NOTE 19: CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising financing activities including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statements as cash flows from financing activities.

	<u>1 January 2021</u>	<u>Financing cash flows</u>	<u>Acquisition of subsidiary</u>	<u>Fair value adjustments</u>	<u>Other changes</u>	<u>31 December 2021</u>
Interest-bearing loans and borrowings	593,853	(11,891)	278,186	-	(270,579)	589,569
Derivative financial liabilities	2,190	-	-	-	(2,190)	-

	<u>1 January 2020</u>	<u>Financing cash flows</u>	<u>Acquisition of subsidiary</u>	<u>Fair value adjustments</u>	<u>Other changes</u>	<u>31 December 2020</u>
Interest-bearing loans and borrowings	595,346	(2,801)	-	-	1,308	593,853
Derivative financial liabilities	2,052	-	-	138	-	2,190

NOTE 20: OPERATING LEASE

Operating Lease— Group as Lessor

The Group has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have remaining average terms of between 1 and 20 years (the average non-cancellable lease length is approximately 3.4 years). The majority of the leases include a clause to enable upward revision of the rental charge on an annual basis according to the price index or a fixed increase rate.

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NOTE 20: OPERATING LEASE (Cont.)

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	For the year ended 31 December	
	2021	2020
	Euro in thousands	
Within one year	19,412	69,623
After one year but not more than five years	49,359	168,394
More than five years but not more than ten years	17,906	62,825
More than ten years but not more than fifteen years	4,723	10,535
More than fifteen years	333	1,415
	<u>91,733</u>	<u>312,798</u>

NOTE 21: PROPERTIES FOR DEVELOPMENT

The Group is developing 70 residential units on an existing parking lot with 114 parking spaces, of which 96 are underground in its property located in Frankfurt. Most of the units are part of a new building while the remaining units will result from the conversion of currently vacant office space, no effect on the current rent expected from the construction process. As at 31 December 2021, the total of the investments is €13.5 million (31 December 2020: €9.2 million).

NOTE 22: OPERATING SEGMENTS:

A. General

Information reported to management for the purposes of resource allocation and assessment of segment performance is focused on the category of customer for each type of activity. The Group's reportable segments under IFRS 8 are therefore as follows:

Segment A - investment properties - Leasing property for rental income in Germany.

Segment B - commercial investment properties - Leasing property for rental income in the US (see Note 3B).

Segment C - residential investment properties - Leasing property for rental income in the US (see Note 3B).

Segment D - Other.

The segment's assets include all of the operating assets used by the segment.
The segment's assets and liabilities do not include deferred taxes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 22: OPERATING SEGMENTS (Cont.):

B. Analysis of income and results by operating segments:

Segment income and expenses include income and expenses arising from the operating activities of the segments that are directly attributable to business segments.

Year ended December 31, 2021:

	Investment Properties - Germany	Commercial investment properties - USA	Residential investment properties - USA	Other	Total
	Euro in thousands				
Income	45,977	17,791	7,323	6,052	77,143
Segment profit (*)	59,282	114,573	(1,227)	(3,237)	169,391
Expenses not allocated to the segment					-
Operating profit					169,391
Finance expenses, net	(6,239)	(6,612)	(1,688)	-	(14,539)
Profit before taxes on income					154,852
(*) Includes revaluation gain of investment properties	10,900	103,808	(5,114)	-	109,594

Year ended December 31, 2021:

	Investment Properties Germany	Commercial investment properties - USA	Residential investment properties - USA	Other	Total
	Euro in thousands				
Segment assets	1,039,561	291,137	398,668	36,053	1,765,419
Assets not allocated to the segment					-
Total assets					1,765,419
Segment liabilities	330,394	52,657	246,841	3,837	636,729
Liabilities not allocated to the segment					113,565
Total Liabilities					747,294

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NOTE 22: OPERATING SEGMENTS (Cont.):

B. Analysis of income and results by operating segments (cont.):

Year ended December 31, 2020:

	Investment Properties	Residential Development	Total
	Euro in thousands		
Income	76,376	4,473	80,849
Segment profit (*)	129,515	480	129,995
Expenses not allocated to the segment			-
Operating profit			129,995
Finance expenses, net			(13,644)
Tax expenses			(18,529)
Net income			97,822
(*) Includes revaluation gain of investment properties	72,584	-	72,584
	Investment Properties	Residential Development	Total
	Euro in thousands		
Segment assets	1,627,712	9,366	1,637,078
Assets not allocated to the segment			-
Total assets			1,637,078
Segment liabilities	628,248	-	628,248
Liabilities not allocated to the segment			128,236
Total Liabilities			756,484

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NOTE 23: CONSEQUENCES OF THE SPREAD OF THE CORONA VIRUS

The year 2021 showed financial recovery following the vaccines efficiency. During the second half of 2021 the Delta variant began spreading followed later by the Omicron variant. Despite the rise in number of patients, there were fewer limitations in comparison to previous Covid-19 outbreaks.

Given the uncertainty as to the continuing spread of the virus, vaccine efficiency and its durability against new variants and the actions taken to manage the financial crisis caused by the pandemic, it is not possible to assess the extent of the crisis and its impact on the business environment, in which the Company operates, in a reliable manner. For the purpose of maintaining the continuity of the business activity of the company's properties and its tenants, the company is closely observing and analyzing the impact of the steps taken by governments on its activity, while minding the lack of certainty, as described above. The Company believes, that given the nature of its properties and their geographical spread, the stable cash flow that the properties generate from a diverse blend of tenants, will allow the company to narrow down its exposure to the crisis impacts.

During the reporting period and as of the date of publication of this report, the collection of rent and management fees is performed normally and the collection rates are similar to the rates prior to the pandemic.

It is noted, that as Covid-19 pandemic continues, it could adversely affect the economy, including potential recession. This could lead to a decrease in demand for real estate and impact the tenants, which could then lead to a decrease in the Company's revenues, a decrease in current cash flow and a decrease in the fair value of the properties. The Company is monitoring the developments closely.

NOTE 24: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Acquisitions in the US:

After the end of the reporting period, the Company entered into agreements for the acquisition of \$115.1 million of residential buildings in NYC and seven shopping centres in the U.S. in the amount of \$137 million. The transactions were structured in the same manner and procedures described under note 5 of this report.

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NOTE 25: THE COMPANY'S HOLDINGS AS OF 31 DECEMBER 2021

	Principal activity	Country of incorporation	Direct holdings %
Summit Finance Limited	Intermediate holding company	Guernsey	100.00%
Neston S.à r.l.	Intermediate holding company	Luxemburg	100.00%
Summit Real Estate Hirundo GmbH	Real Estate company	Germany	94.80%
Summit US Holdings GmbH	Intermediate holding company	Germany	100.00%
Summit Luxco s.a.r.l	Intermediate holding company	Luxemburg	100.00%

In addition the Company holds indirectly subsidiaries, which own real estate assets of the Group.