FATTAL HOLDINGS (1998) LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

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AUDITORS' REPORT

To the Shareholders of

FATTAL HOLDINGS (1998) LTD.

We have audited the accompanying consolidated statements of financial position of Fattal Holdings (1998) Ltd. ("the Company") as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of a company accounted for at equity, the investment in which amounted to NIS 17,983 thousand and NIS 4,695 thousand as of December 31, 2018 and 2017, respectively, and the Company's share of their losses amounted to NIS 2,707 thousand, NIS 1,742 thousand for the years ended December 31, 2018 and 2017 respectively. The financial statements of that company were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for that company, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other accountants, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Tel-Aviv, Israel
March 26, 2019

KOST FORER GABBAY & KASIERER
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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2018	Convenience translation (Note 1d) December 31, 2018
		NIS	NIS	Euro
		(In thousands)		
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	5a	409,671	661,260	154,082
Securities held for trading	5b	30,586	238,721	55,625
Trade receivables	6	215,034	320,081	74,583
Other accounts receivable	7	131,766	223,988	52,192
Income tax receivable		32,636	67,790	15,796
Inventories		7,818	16,336	3,807
		827,511	1,528,176	356,085
Assets held for sale	9	143,512	143,752	33,496
NON-CURRENT ASSETS:				
Long-term receivables	8	71,956	605,098	140,996
Advance on Fixed Assets		630,054	32,342	7,536
Loans and Investments in companies and partnerships accounted for at equity	9	761,583	941,919	219,480
Property, plant and equipment, net	10	3,917,126	5,151,003	1,200,252
Deferred taxes	22f	7,056	22,966	5,351
Intangible assets	4	3,660	463,644	108,035
		5,391,435	7,216,972	1,681,650
		6,362,458	8,888,900	2,071,231

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2018	Convenience translation (Note 1d) December 31, 2018
		NIS	NIS	Euro
		(In thousands)		
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Short-term credit from banks and others	11	344,949	285,857	66,608
Current maturities of debentures	15	82,815	177,716	41,410
Trade payables	12	135,752	173,725	40,480
Income tax payable		36,666	118,592	27,634
Other accounts payable	13	357,472	613,673	142,994
Shareholders	21e	-	55,907	13,027
		957,654	1,425,470	332,153
Liabilities attributed to assets held for sale	9	46,890	45,729	10,655
NON-CURRENT LIABILITIES:				
Loans from banks and others	14	1,957,626	2,245,324	523,190
Debentures, net	15	792,398	1,147,056	267,279
Deferred taxes	22f	282,380	335,349	78,141
Employee benefit liabilities, net	17	11,561	14,851	3,460
Other non-current liabilities	18	111,302	448,862	104,591
Shareholders	21e	101,453	6,029	1,405
		3,256,720	4,197,471	978,066
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	21			
Share capital and premium		148,487	635,177	148,005
Capital reserves		819,216	876,765	204,298
Retained earnings		1,034,581	1,577,938	367,681
		2,002,284	3,089,880	719,984
Non-controlling interests		98,910	130,350	30,373
Total equity		2,101,194	3,220,230	750,357
		6,362,458	8,888,900	2,071,231

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

March 26, 2019		
Date of approval of the financial statements	David Fattal Chairman of the Board of Directors and Chief Executive Officer	Shachar Aka Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Note	Year ended December 31, 2016	2017	2018	Convenience translation (Note 1d) Year ended December 31, 2018
		NIS			Euro
		(In thousands)			
Revenues from hospitality services and others	23	1,846,492	2,586,084	3,765,643	877,445
Cost of revenues	24	958,677	1,442,030	1,994,383	464,718
		887,815	1,144,054	1,771,260	412,727
Selling and marketing expenses	25	57,407	77,421	111,029	25,871
General and administrative expenses	26	153,212	211,827	340,229	79,278
		677,196	854,806	1,320,002	307,578
Hotel lease expenses	19b	266,067	365,588	599,262	139,636
Operating income before depreciation and amortization and other operating income (expenses)		411,129	489,218	720,740	167,942
Depreciation and amortization		107,117	115,467	170,061	39,626
Depreciation of revaluation of step-up		30,674	33,401	42,726	9,956
Other operating income (expenses), net	27	1,707	(30,041)	(44,392)	(10,344)
Operating income		275,045	310,309	463,561	108,016
Financial income	28	2,548	3,197	4,815	1,122
Financial expenses	28	(85,277)	(52,680)	(129,953)	(30,281)
Group's share of earnings (losses) of companies and partnerships accounted for at equity		7,487	7,123	2,966	691
Income before taxes on income		199,803	267,949	341,389	79,548
Taxes on income	22g	61,038	70,488	99,463	23,176
Net income		138,765	197,461	241,926	56,372
Attributable to:					
Shareholders of the Company		134,295	193,679	238,682	55,616
Non-controlling interests		4,470	3,782	3,244	756
		138,765	197,461	241,926	56,372
Net earnings per share attributable to equity holders of the Company (in NIS):	30				
Basic earnings per share		10.50	15.14	16.80	16.80
Diluted earnings per share		10.50	15.14	16.78	16.78

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE PROFIT OR LOSS

	Year ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2018	Convenience translation (Note 1d) Year ended December 31, 2018
	NIS			Euro
	(In thousands)			
Net income	138,765	197,461	241,926	56,372
Other comprehensive income (loss) (after tax effect):				
<u>Amounts that will not be reclassified subsequently to profit or loss</u>				
Actuarial income (loss), net	(1,905)	1,387	717	167
Revaluation of properties	145,677	242,623	267,371	62,301
Group's share in revaluation of properties in companies and partnerships accounted for at equity	56,610	(33,041)	54,910	12,795
Total amounts that will not be reclassified subsequently to profit or loss	200,382	210,969	322,998	75,263
<u>Amounts that will be classified or reclassified subsequently to profit or loss under specific conditions</u>				
Income (loss) in respect of cash flow hedging transaction	10,459	(21,838)	(34,955)	(8,154)
Foreign currency translation adjustments	(74,268)	42,360	84,343	19,653
Total amounts that will be reclassified subsequently to profit or loss	(63,809)	20,522	49,348	11,499
Total other comprehensive income	136,573	231,491	372,346	86,762
Total comprehensive income	275,338	428,952	614,272	143,134
Attributable to:				
Shareholders of the Company	256,794	407,905	598,149	139,377
Non-controlling interests	18,544	21,047	16,123	3,757
	275,338	428,952	614,272	143,134

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company								
	Share Capital and premium	Share-Based Payment	Retained earnings	Foreign currency translation adjustments	Hedge transactions reserve	Revaluation reserve	Total	Non-controlling interests	Total equity
	NIS thousands								
Balance as of January 1, 2016	148,487	-	955,240	(68,424)	(7,399)	620,383	1,648,287	58,694	1,706,981
Net income	-	-	134,295	-	-	-	134,295	4,470	138,765
Other comprehensive income (loss)	-	-	-	(71,115)	11,012	182,602	122,499	14,074	136,573
Total comprehensive income (loss)	-	-	134,295	(71,115)	11,012	182,602	256,794	18,544	275,338
A loan granted to non-controlling interests	-	-	-	-	-	-	-	(606)	(606)
Dividend declared to shareholders of the Company	-	-	(30,000)	-	-	-	(30,000)	-	(30,000)
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	20,402	-	-	(20,402)	-	-	-
Balance as of December 31, 2016	148,487	-	1,079,937	(139,539)	3,613	782,583	1,875,081	76,632	1,951,713
Net income	-	-	193,679	-	-	-	193,679	3,782	197,461
Other comprehensive income (loss)	-	-	-	40,791	(21,837)	195,272	214,226	17,265	231,491
Total comprehensive income (loss)	-	-	193,679	40,791	(21,837)	195,272	407,905	21,047	428,952
Non-controlling interests in a company consolidated for the first time			(702)	-	-	-	(702)	3,192	2,490
A loan granted to non-controlling interests	-	-	-	-	-	-	-	(1,961)	(1,961)
Dividend declared to shareholders of the Company	-	-	(280,000)	-	-	-	(280,000)	-	(280,000)
Transfer from revaluation reserve, due to exercise, net			8,247	-	-	(8,247)	-	-	-
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	33,420	-	-	(33,420)	-	-	-
Balance as of December 31, 2017	148,487	-	1,034,581	(98,748)	(18,224)	936,188	2,002,284	98,910	2,101,194
Net income	-	-	238,682	-	-	-	238,682	3,244	241,926
Other comprehensive income (loss)	-	-	-	85,976	(34,995)	308,486	359,467	12,879	372,346
Total comprehensive income (loss)	-	-	238,682	85,976	(34,995)	308,486	598,149	16,123	614,272
Issuance of share capital (net of issuance expenses)	486,690	-	-	-	-	-	486,690	-	486,690
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	15,317	15,317
Vesting option to employees	-	2,757	-	-	-	-	2,757	-	2,757
Transfer from revaluation reserve, due to exercise, net	-	-	264,881	-	-	(264,881)	-	-	-
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	39,794	-	-	(39,794)	-	-	-
Balance as of December 31, 2018	635,177	2,757	1,577,938	(12,772)	(53,219)	939,999	3,089,880	130,350	3,220,230

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company								
	Share Capital and premium	**Share-Based Payment**	**Retained earnings**	**Foreign currency translation adjustments**	**Hedge transactions reserve**	**Revaluation reserve**	**Total**	**Non-controlling interests**	**Total equity**
	Convenience translation into Euro (Note 1d)								
	(In thousands)								
Balance as of January 1, 2018	34,599	-	241,071	(23,010)	(4,245)	218,144	466,559	23,047	489,606
Net income	-	-	55,616	-	-	-	55,616	756	56,372
Other comprehensive income (loss)	-	-	-	20,034	(8,154)	71,881	83,761	3,001	86,762
Total comprehensive income (loss)	-	-	55,616	20,034	(8,154)	71,881	139,377	3,757	143,134
Issuance of share capital (net of issuance expenses)	113,406	-	-	-	-	-	113,406	-	113,406
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	3,569	3,569
Vesting option to employees	-	642	-	-	-	-	642	-	642
Transfer from revaluation reserve, due to exercise, net	-	-	61,721	-	-	(61,721)	-	-	-
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	9,273	-	-	(9,273)	-	-	-
Balance as of December 31, 2018	148,005	642	367,681	(2,976)	(12,399)	219,031	719,984	30,373	750,357

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1d) Year ended December 31,
	2016	2017	2018	2018
		NIS		Euro
		(In thousands)		
Cash flows from operating activities:				
Net income	138,765	197,461	241,926	56,372
Adjustments to reconcile net income to net cash provided by operating activities:				
Adjustments to the profit or loss items:				
Depreciation and amortization and depreciation on revaluation of property, plant and equipment	137,791	148,868	212,787	49,582
Financial expenses, net	87,161	49,152	125,327	29,204
Group's share of earnings of companies and partnerships accounted for at equity	(7,487)	(7,123)	(2,966)	(691)
Change in liabilities for time-sharing rights, net	(1,081)	(1,082)	(1,081)	(252)
Change in employee benefit liabilities, net	(22)	1,255	(666)	(155)
Costs related to transactions for the purchase of assets	-	-	18,124	4,223
Taxes on income	61,038	70,488	99,463	23,176
Loss from impairment of investments	-	5,411	-	-
Gain from sale of companies accounted for at equity	(14,195)	(3,952)	-	-
Share- based payment expense	-	-	2,757	642
Loss (profit) from a change in the value of securities held for trading	(2,090)	(1,512)	2,538	591
	261,115	261,505	456,283	106,320
Changes in asset and liability items:				
Increase in trade receivables	(16,227)	(87,317)	(21,468)	(5,002)
Increase in other accounts receivable	(24,185)	(*) (62,574)	(18,548)	(4,322)
Increase in inventories	(32)	(1,108)	(778)	(181)
Decrease (increase) in long-term receivables	(33,236)	27,517	1,263	294
Increase (decrease) in trade payables	(1,227)	44,291	(23,553)	(5,488)
Increase (decrease) in other accounts payable	65,006	80,746	(25,919)	(6,039)
Increase in other non-current liabilities	4,528	15,528	9,071	2,114
	(5,373)	17,083	(79,932)	(18,624)
Cash paid during the year for:				
Taxes on income	9,149	20,797	-	-
Taxes paid	(87,061)	(93,594)	(133,256)	(31,050)
Interest paid, net	(92,972)	(49,634)	(123,257)	(28,721)
	(170,884)	(122,431)	(256,513)	(59,771)
Net cash provided by operating activities	223,623	353,618	361,764	84,297

(*) Reclassified

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2018	Convenience translation (Note 1d) Year ended December 31, 2018
	NIS	NIS	NIS	Euro
	(In thousands)			
Cash flows from investment activities:				
Proceeds from sale of fixed assets	-	33,636	668,051	155,665
Purchase of property, plant and equipment, net	(204,068)	(279,434)	(765,193)	(178,300)
Advance of investment in fixed assets	-	-	(1,627)	(379)
Purchase of companies consolidated for the first time (Appendix A)	(199,856)	(309,578)	(728,962)	(169,858)
Exit from consolidation (Appendix B)	-	156,092	20,741	4,833
Sale and purchase of securities held for trading, net	(26,863)	21,315	(210,673)	(49,090)
Proceeds from sale of an investment in companies accounted for at equity	213,796	3,952	-	-
Loans and investments in companies and partnerships accounted for at equity	(54,802)	(191,348)	(86,539)	(20,165)
Advance payment on account of investment in investee company	-	(*) (616,587)	-	-
Other assets, net	-	-	(167)	(39)
Withdrawal of (placement in) designated deposit	14,013	(35,534)	(59,142)	(13,781)
Investment (return of investment) in various companies	698	(3,484)	(113)	(26)
Net cash used in investment activities	(257,082)	(1,220,970)	(1,163,624)	(271,140)
Cash flows from financing activities:				
Cash flow hedging transaction	(11,452)	-	-	-
Dividend paid	(30,000)	(182,353)	(49,544)	(11,544)
Issuance of share capital (net of issuance expenses)	-	-	480,497	111,961
Short-term credit from banking corporations, net	(127,207)	76,332	(19,958)	(4,650)
Repayment of long-term loans from corporations and others	(630,679)	(215,860)	(383,771)	(89,424)
Repayment of debentures	(14,955)	(43,075)	(82,814)	(19,297)
Receipt of long-term loans from banking corporations and others	538,754	912,309	582,774	135,794
Issue of debentures, net	371,497	433,788	524,455	122,205
Net cash provided by financing activities	95,958	981,141	1,051,639	245,045
Translation differences in respect of balances of cash and cash equivalents	(8,586)	20,518	1,489	346
Increase in cash and cash equivalents	53,913	134,307	251,268	58,548
Cash included in assets held for sale	(11,642)	(732)	321	75
Cash and cash equivalents at beginning of year	233,825	276,096	409,671	95,459
Cash and cash equivalents at end of year	276,096	409,671	661,260	154,082
Material non-cash activity				
Dividend declared	-	97,650	-	-
Purchase of properties, plant and equipment	6,109	5,858	3,184	742

(*) Reclassified

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2018	Convenience translation (Note 1d) Year ended December 31, 2018
	NIS	NIS	NIS	Euro
	(In thousands)			
(a) Acquisition of initially consolidated subsidiaries:				
The subsidiaries' assets and liabilities at date of acquisition:				
Working capital (excluding cash and cash equivalents)	7,094	12,964	199,968	46,595
Non - current assets	-	-	(471,292)	(109,818)
Deferred taxes	-	2,717	47,818	11,142
Property, plant and equipment	(206,950)	(442,544)	(902,188)	(210,221)
Goodwill created on acquisition (including brand)	-	-	(451,036)	(105,097)
Non - current liabilities	-	114,795	273,385	63,702
Less advance that paid in previous periods	-	-	574,383	133,839
Non-controlling interests created in a newly consolidated company	-	2,490	-	-
	(199,856)	(309,578)	(728,962)	(169,858)
(b) Exit from consolidation				
Current assets	-	12,953	23,262	5,420
Non-current assets	-	194,184	17,913	4,174
Current liabilities	-	(2,826)	(255)	(59)
Non-current liabilities	-	(48,219)	(20,179)	(4,702)
	-	156,092	20,741	4,833

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

NOTE 1: - GENERAL

a. Fattal Holdings (1998) Ltd. ("the Company") is a holding company which, by itself and through corporations that it owns, operates in the hotel, tourism and recreation sector through the holding of hotels in and outside Israel and through the operation and management of hotels in Israel and overseas. On February 21, 2018, the Company completed an initial public offering of 1,652,800 ordinary shares of the Company in consideration of NIS 507.4 million, thus becoming a public company. For further details, see Note 21.

b. As of the date of the approval of the financial statements, the Company, through its investees, operates and manages the Fattal Hotel chain, which 203 hotels throughout Israel and Europe, comprising some 39,000 hotel rooms, of which 41 hotels in Israel with a total of some 8,186 hotel rooms, of which some 5,347 rooms are in hotels to which the Company owns all or part of the rights, and 2,839 rooms are in hotels that the Company leases or manages. The Company also operates and manages 155 hotels throughout Europe (excluding Cyprus and Greece), with a total of 29,145 hotel rooms, of which some 8,048 rooms are in hotels to which the Company owns all or part of the rights, and 21,097 rooms are in hotels that the Company only leases or manages. In addition, the Company operates and manages 7 hotels in Cyprus and Greece with 1,561 rooms, of which 1,259 rooms are in hotels to which the Company owns all or part of the rights and 302 rooms are in hotels which the Company only leases or manages. For further details regarding operating segments, see Note 31.

c. Definitions

In these financial statements:

The Company	- Fattal Holdings (1998) Ltd.
The Group	- The Company and its investee company and partnerships.
Fattal Hotels	- Fattal Hotels Ltd., a subsidiary.
Consolidated subsidiaries and partnerships	- Companies that are controlled by the Company (as defined in IFRS 10) and whose accounts are consolidated with those of the Company.
Jointly controlled entities (joint ventures)	- Companies owned by various entities that have a contractual arrangement for joint control and whose accounts are consolidated with those of the Company using the proportionate consolidation method.
Investee companies and partnerships	- Subsidiaries, jointly controlled entities and associates.
Related parties	- As defined in IAS 24.
Interested party and controlling shareholder	- As defined in the Securities Regulations (Annual Financial Statements), 2010.

NOTE 1: - GENERAL (Cont.)

d. The financial statements as of December 31, 2018 and for the year then ended have been translated into Euro using the representative exchange rate as of that date (€ 1 = NIS 4.2916). The translation was made solely for the convenience of the reader. The amounts presented in these financial statements should not be construed to represent amounts receivable or payable in Euros or convertible into Euros, unless otherwise indicated in these statements.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set forth below have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. <u>Basis of presentation of the financial statements</u>

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements have been prepared on a cost basis, except for: property, financial instruments (including derivatives) which are presented at fair value.

The Company has elected to present the profit or loss items using the function of expense method.

b. <u>The operating cycle</u>

The operating cycle of the company is 12 months.

c. <u>Consolidated financial statements</u>

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power of effect of the investee entity, exposure or rights to variable returns as a result of its involvement in the investee entity, and the ability to use its power in order to influence the amount of the returns that will derive from the investee entity. In examining control, the effect of potential voting rights is taken into account only if they are tangible. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in respect of subsidiaries represent the capital in the subsidiaries which may not be attributed, directly or indirectly, to the parent company. The non-controlling interests are presented in capital separately within the capital of the Company. A profit or loss and any component of other may be attributed to the Company and to the non-controlling interests.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as a change in equity by adjusting the carrying amount of the non-controlling interests with a corresponding adjustment of the equity attributable to equity holders of the Company less / plus the consideration paid or received.

Upon the disposal of a subsidiary resulting in loss of control, the Company:

- derecognizes the subsidiary's assets (including goodwill) and liabilities.
- derecognizes the carrying amount of non-controlling interests.
- derecognizes the adjustments arising from translating financial statements carried to equity.
- recognizes the fair value of the consideration received.
- recognizes the fair value of any remaining investment.
- reclassifies the components previously recognized in other comprehensive income (loss) on the same basis as would be required if the subsidiary had directly disposed of the related assets or liabilities.
- recognizes any resulting difference (surplus or deficit) as gain or loss.

d. Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to profit or loss as incurred.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date.

Acquisitions of subsidiaries that are not business combinations

On acquiring subsidiaries and activities that do not constitute a business, the purchase consideration is allocated among the identifiable assets and liabilities only of the acquired entity based on their relative fair values on the acquisition date without attributing any amount to goodwill or to deferred taxes.

e. Investment in joint arrangements

Joint arrangements are arrangements in which the Company has joint control. Joint control is an agreed contractual sharing of control over an arrangement, which exists only when decisions with regard to the relevant activities require unanimous agreement of the parties which share control.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

1) Joint ventures

In joint ventures, the parties to the arrangement have joint control over the rights in the net assets of the arrangement. A joint venture is accounted for using the equity method.

2) Joint operations

In joint operations, the parties to the arrangement have joint control over the arrangement, rights to the assets and commitments to the liabilities of the arrangement. In respect of the joint operations, the Company recognizes its proportional share in the assets, liabilities, income and expenses of the joint operations.

The acquisition of interests in a joint operation which represents a business, as defined in IFRS 3, is accounted for using the acquisition method, including the measurement of the identifiable assets and liabilities at fair value, the recognition of deferred taxes arising from this measurement, the accounting treatment of the related transaction costs and the recognition of goodwill or bargain purchase gains. This applies to the acquisition of the initial interest and additional interests in a joint operation that represents a business.

f. Investments in associates

Associates are companies in which the Group has significant influence over the financial and operating policies without having control. The investment in an associate is accounted for using the equity method.

g. Investments accounted for at equity

The Group's investments in associate companies and joint ventures are dealt with at equity.

According to the equity method, the investment in the associate company or joint venture is presented at cost, with the addition of changes after the acquisition in the Group's share in the net assets, including other comprehensive income of the associate company or joint venture. Gains or losses arising from transactions between the Group and the associate company or joint venture are cancelled according to the shareholding percentage.

The financial statements of the Company and the associate company or joint venture are prepared at identical dates and for identical periods. The accounting policy in the financial statements of the associate company or the joint venture is applied on a uniform and consistent basis with that applied in the financial statements of the Group.

The equity base method is applied up to the date of the loss of significant influence in the associate company or the loss of joint control in the joint venture.

The Company continues to apply the equity base method, even in cases where an investment in an associate company becomes an investment in a joint venture, and vice versa.

On losing significant influence or joint control, the Group measures the fair value of any investment remaining in the associate company or joint venture and recognizes a gain or loss in the difference between the proceeds from the sale of the investment in the associate company or joint venture and the fair value of the investment remaining and the carrying value of the investment sold at that date.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

h. Functional currency and foreign currency

1. Functional currency and presentation currency

The Company's functional currency and the presentation currency of the financial statements is NIS.
The Group determines the functional currency of each Group entity, including the companies and partnerships accounted for on at equity, which is the functional currency of each company.

Assets and liabilities of an investee company which constitutes foreign activity including the cost surpluses generated are translated at the closing rate at each reporting date. Statement of income or loss items are translated at the average exchange rates in all of the periods presented. Translation differences arising are carried to other comprehensive income (loss).

Inter-company loans in the Group, which the Company has no intention of disposing of and are not expected to be repaid in the foreseeable future constitute in essence a part of the investment in foreign activity, and accordingly, exchange rate differences from loans are carried, net of the tax effect, to other comprehensive income (loss).

On realizing a foreign activity, with a loss of control, the accumulated profit (loss) relating to that activity, which was recognized in other comprehensive income is carried to profit or loss. On realizing a part of a foreign activity, retaining control in the subsidiary, a proportional part of the amount recognized in other comprehensive income is re-attributed to non-controlling interests.

2. Transactions, assets and liability in foreign currency

Assets and liabilities denominated in foreign currency are recorded on initial recognition at the exchange rate at the transaction date. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date to the functional currency at the exchange rate at this date. Exchange rate differences, other than those capitalized to qualifying assets or accounted for as hedging transactions in equity, are carried to profit or loss.
Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

3. Index-linked monetary items

Monetary assets and liabilities linked according to their terms to changes in the Israeli consumer price index (hereinafter – the CPI) are adjusted according to the relevant index, at each reporting date, in accordance with the terms of the agreement.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

i. Cash equivalents

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty.

j. Short-term deposits

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

k. Allowance for doubtful accounts (accounting policy applied until December 31, 2017)

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Impaired debts are written off when they are assessed as uncollectible.

l. Inventories

Inventories comprise food and beverages and are measured at the lower of cost and net realizable value.
The cost of inventories is determined at the cost of purchase using the "first-in, first-out" method.
Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

m. Financial instruments

As described in Note 2 aa. 2. regarding the initial adoption of IFRS 9, "Financial Instruments" ("the Standard"), the Company elected to adopt the provisions of the Standard retrospectively without restatement of comparative data.

The accounting policy for financial instruments applied until December 31, 2017, is as follows:

1. Financial assets

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Financial assets at fair value through profit or loss

This category includes financial assets held for trading and derivatives unless if they are designated as effective hedging instruments.

Loans and receivables

Loans and receivables are financial assets (non-derivative) which are circulated by fixed or determinable payments that are not traded on an active market. After initial recognition, loans are presented according to their terms at cost plus directly attributable transaction costs and less any impairment allowances. Short-term receivables is presented according to its terms, usually at nominal value.

2. Financial liabilities

Financial liabilities at amortized cost

Financial liabilities are recognized at fair value. Loans and bonds are presented net of direct transaction costs.

After initial recognition, loans and bonds are presented according to their terms, at cost, net of directly attributable transaction cost, using the effective interest method.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments.

A liability may be designated upon initial recognition at fair value through profit or loss, subject to the provisions of IAS 39.

3. Derecognition of financial instruments

a) Financial assets

A financial asset is derecognized when the contractual rights to the receipt of cash flows from the financial asset expire or when the Company has transferred the
contractual rights to receive the cash flows from the financial asset or when it has assumed an commitment to pay the cash flows received in full to a third party, without material delay, and, in addition, it has transferred substantially all of the risks and benefits connected to the asset, or it has neither transferred nor retained.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

substantially all of the risks and benefits connected to the asset but has transferred control of the asset.

b) Financial liabilities

A financial liability is derecognized when it is extinguished, that is, when the obligation is repaid, cancelled or expired. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, in goods or services; or is legally released from the obligation.

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange. When evaluating whether the change in the terms of an existing liability is substantial, the Company takes into account both quantitative and qualitative considerations.

4. Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows:

Financial assets carried at amortized cost

Objective evidence of impairment exists when one or more events after the date of recognition of the asset have a negative impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulties and inability to meet payments of interest or principal. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate.

5. Derivative financial instruments designated as hedges

The Group occasionally enters into contracts for derivative financial instruments, such as interest rate swaps (IRS) in order to hedge risks associated with interest rate fluctuations.

The Group occasionally enters into contracts for derivative financial instruments in order to protect on assets and liabilities associated with foreign exchange rate in the financial statements, against changes in exchange rates fluctuations. Derivative financial measured at fair value, as gains or losses arising from changes in the fair values of derivatives that are not used for hedging purposes are recorded immediately in profit or loss.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Hedges qualify for hedge accounting, among others, when at inception of the hedging relationship there is a formal designation and documentation of the hedging relationship and of the Group's risk management objective and strategy for undertaking the hedge. Hedges are assessed on an ongoing basis to determine whether they are highly effective during the reporting period for which the hedge is designated. Hedges are accounted for as follows:

Cash flow hedges

The effective portion of the changes in the fair value of the hedging instrument is recognized directly in capital as other comprehensive income (loss), while any ineffective portion is recognized immediately in profit or loss.

Other comprehensive income (loss) is transferred to profit or loss when the results of the hedging transaction are carried to profit or loss, for example, when the hedged income or expense is recognized in profit or loss.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income (loss) are reclassified to profit or loss.

The accounting policy for financial instruments applied commencing from January 1, 2018, is as follows:

1. Financial assets:

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:

- The Company's business model for managing financial assets; and

- The contractual cash flow terms of the financial asset.

a) Debt instruments are measured at amortized cost when:

The Company's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and
interest on the principal amount outstanding. After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.
On the date of initial recognition, the Company may irrevocably designate a debt instrument as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency, such as when a related financial liability is also measured at fair value through profit or loss.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

b) Debt instruments are measured at fair value through other comprehensive income when:

The Company's business model is to hold the financial assets in order to both collect their contractual cash flows and to sell the financial assets, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
After initial recognition, the instruments in this category are measured at fair value. Gains or losses from fair value adjustments, excluding interest and exchange rate differences, are recognized in other comprehensive income.

c) Debt instruments are measured at fair value through profit or loss when:

A financial asset which is a debt instrument does not meet the criteria for measurement at amortized cost or at fair value through other comprehensive income. After initial recognition, the financial asset is measured at fair value and gains or losses from fair value adjustments are recognized in profit or loss.

d) Equity instruments and other financial assets held for trading:

Investments in equity instruments do not meet the above criteria and accordingly are measured at fair value through profit or loss.

Other financial assets held for trading such as derivatives, including embedded derivatives separated from the host contract, are measured at fair value through profit or loss unless they are designated as effective hedging instruments.

In respect of certain equity instruments that are not held for trading, on the date of initial recognition, the Company made an irrevocable election to present subsequent changes in fair value in other comprehensive income which changes would have otherwise been recorded in profit or loss. These changes will not be reclassified to profit or loss in the future, even when the investment is disposed of.

Dividends from investments in equity instruments are recognized in profit or loss when the right to receive the dividends is established.

2. Impairment of financial assets:

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of loss allowances:

a) Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low - the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date (12-month ECLs); or

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

b) Debt instruments whose credit risk has increased significantly since initial recognition, and whose credit risk is not low - the loss allowance recognized is measured at an amount equal to the expected credit losses over the instrument's remaining term (lifetime ECLs).

The Company applies the low credit risk simplification in the Standard, according to which the Company assumes the debt instrument's credit risk has not increased significantly since initial recognition if on the reporting date it is determined that the instrument has a low credit risk, for example when the instrument has an external rating of "investment grade".

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset, whereas the impairment loss on debt instruments measured at fair value through other comprehensive income is recognized in profit or loss with a corresponding loss allowance that is recorded in other comprehensive income and not as a reduction of the carrying amount of the financial asset in the statement of financial position.

The Company has short-term financial assets such as trade receivables in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses.

3. <u>Derecognition of financial assets</u>

A financial asset is derecognized only when:

- The contractual rights to the cash flows from the financial asset has expired; or
- The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

4. <u>Financial liabilities</u>

a) <u>Financial liabilities measured at amortized cost</u>

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.
After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method, except for:

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

- Financial liabilities at fair value through profit or loss such as derivatives;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate;
- Contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies.

b) Financial liabilities measured at fair value through profit or loss

At initial recognition, the Company measures financial liabilities that are not measured at amortized cost at fair value. Transaction costs are recognized in profit or loss.

After initial recognition, changes in fair value are recognized in profit or loss.

5. Derecognition of financial liabilities

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires.
A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.
When there is a modification in the terms of an existing financial liability, the Company evaluates whether the modification is substantial.
If the terms of an existing financial liability are substantially modified, such modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss.
If the modification is not substantial, the Company recalculates the carrying amount of the liability by discounting the revised cash flows at the original effective interest rate and any resulting difference is recognized in profit or loss.
When evaluating whether the modification in the terms of an existing liability is substantial, the Company considers both quantitative and qualitative factors.

n. Derivative financial instruments designated as hedges

The Group occasionally enters into contracts for derivative financial instruments, such as interest rate swaps (IRS) in order to hedge risks associated with interest rate fluctuations.

The Group occasionally enters into contracts for derivative financial instruments in order to protect on assets and liabilities associated with foreign exchange rate in the financial statements, against changes in exchange rates fluctuations. Derivative financial measured at fair value, as gains or losses arising from changes in the fair values of derivatives that are not used for hedging purposes are recorded immediately in profit or loss.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Hedges qualify for hedge accounting, among others, when at inception of the hedging relationship there is a formal designation and documentation of the hedging relationship and of the Group's risk management objective and strategy for undertaking the hedge. Hedges are assessed on an ongoing basis to determine whether they are highly effective during the reporting period for which the hedge is designated. Hedges are accounted for as follows:

Cash flow hedges

The effective portion of the changes in the fair value of the hedging instrument is recognized directly in capital as other comprehensive income (loss), while any ineffective portion is recognized immediately in profit or loss.

Other comprehensive income (loss) is transferred to profit or loss when the results of the hedging transaction are carried to profit or loss, for example, when the hedged income or expense is recognized in profit or loss.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income (loss) are reclassified to profit or loss.

o. Fair value measurement

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.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

The Company generally uses external appraisers for the purpose of measuring fair value based on the data in level 3.

p. Leases

The tests for classifying leases as finance or operating leases are based on the substance of the agreements and carried out at the inception of the lease in accordance with the following principles as set out in IAS 17.

The Group as lessee

1. Finance leases

Assets where all of the risks and benefits attached to the ownership of the asset are transferred to the Group are classified as a finance lease. At the commencement of the lease term, the leased asset is measured at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

The leased asset is amortized over the shorter of its useful life or the term of the lease.

2. Operating leases

Assets where all of the risks and benefits included in the ownership of the leased asset are not tangibly transferred are classified as an operating lease. Leasing payments are recognized as an expense in profit or loss on a straight-line and current basis over the lease term.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

q. Property, plant and equipment

Items of property, plant and equipment are presented at cost, with the addition of direct acquisition costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding routine maintenance expenses.

Components of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item are depreciated separately using the component method.

Depreciation is calculated in equal annual instalments on a straight-line basis over the useful life of the assets as follows:

	%
Buildings	1.2 - 2.5
Land under finance leases	According to the lease contract, including the option period (usually 1% - 2%)
Furniture and equipment	6.5 - 33
Operating equipment	40 - 50
Leasehold improvements	See below

Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term (including the extension option held by the Group which it intends to exercise) and the expected life of the improvement.

The useful life, the depreciation method and the residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

The Group implements the revaluation model pursuant to IAS 16.

The revaluation of property, plant and equipment (land and buildings) was taken to a revaluation reserve which is presented in capital, net of the effect of tax. The revaluation reserve is transferred directly to surpluses when the asset is disposed.

Revaluations are made on a regular basis in order to ensure that the balance in the financial statements is not materially different from the value that would be determined at fair value at the reporting date.

Impairment of an asset that has been revalued is carried directly to other comprehensive income, up to an amount at which there is a credit balance in the revaluation reserve in respect of that asset. Additional impairment, if any, is carried to profit or loss. An increase in the value of an asset as a result of a revaluation is recognized in profit or loss up to an amount at which it cancels out a decrease which was previously recognized in profit or loss. Any additional increase thereafter is carried to the revaluation reserve.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

r. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost with the addition of directly acquisition costs. Intangible assets acquired in business combinations are included at fair value at the acquisition date.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there are indications of impairment. The amortization period and the method of amortizing an intangible asset with a finite useful life are reviewed at least at each year-end.

Intangible assets with indefinite useful lives are not systematically amortized and are subject to examination for impairment each year or whenever there is an indication that impairment has occurred. The useful life of these assets is reviewed each year to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate, and on that date the asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

s. Impairment of non-financial assets

The Company evaluates the need for an examination of impairment of non-financial assets when events or changes in circumstances indicate that the carrying amount is not recoverable. In cases where the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and the value in use. In measuring value in use, the expected cash flows are discounted using a pre-tax discount rate that reflects the risks specific to each asset.

The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, is limited to the lower of the carrying amount that was previously recognized (net of depreciation or amortization) and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

The following criteria are applied in assessing impairment of investments in companies and partnerships accounted for by the equity method, including joint transactions:

After applying the equity method, the Company determines whether it is necessary to recognize any additional loss from impairment of the investment in companies and partnerships accounted for by the equity method. At each reporting date, an examination is made as to whether there is objective evidence of impairment of the investment. The test of impairment is carried out with reference to the entire investment.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

The Company reviews goodwill for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

t. Taxes on income

The tax results in respect of current or deferred taxes are recognized in profit or loss, except to the extent that the tax arises from items which are recognized in other comprehensive income or capital.

1. Current taxes

The current tax liability is determined using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date, together with adjustments required in connection with the tax liability in respect of prior years.

2. Deferred taxes

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are computed using the tax rates that are expected to apply when the asset is realized or the liability is settled, based on the tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and amortized to the extent that it is not probable that they will be utilized. At the same time, temporary differences (such as carry-forward tax losses) for which deferred tax assets have not been recognized are reviewed and an appropriate deferred tax asset is recognized to the extent that their utilization is expected.

Taxes that would apply in the event of the disposal of investments in investee companies have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investee companies is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of profits by investee companies as dividends have not been taken into account in computing deferred taxes, since it is the Company's policy not to initiate distribution of dividends that triggers an additional tax liability.

Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpaying entity and the same taxation authority.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

u. Employee benefit liabilities

The Group has several types of employee benefits:

1. Short-term employee benefits

Short-term employee benefits are benefits which are predicted to be fully paid within 12 months of the annual reporting period in which the employees provide the related services. These benefits include salaries, paid annual leave, paid sick leave, convalescence pay, bonuses and grants and employer social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits

The plans are usually financed by contributions to pension funds and insurance companies and classified as a defined contribution plan or as a defined benefit plan.

The Group companies in Israel have a defined contribution plan pursuant to Section 14 to the Severance Pay Law, pursuant to which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed to a plan at the same time as receiving the employee's services and no additional provision is required in the financial statements.

In addition, the Group operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to receive severance pay upon dismissal or retirement. The liability for termination of employee-employer relations is presented according to the actuarial value of the projected unit entitlement method. The actuarial computation takes into account future salary increases and rates of employee turnover, based on the estimated timing of payment.

The Group makes current deposits in respect of its liabilities to pay compensation to certain of its employees in pension funds and insurance companies (hereinafter - the plan assets). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Actuarial gains and losses (re-measurements of liabilities, net) are recognized in other comprehensive income in the period in which they occur.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

v. Revenue recognition

As described in Note 2 aa.1. regarding the initial adoption of IFRS 15, "Revenue from Contracts with Customers" ("the Standard"), the Company elected to adopt the provisions of the Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data.

The accounting policy for revenue recognition applied until December 31, 2017, is as follows:

Revenue recognition:

Revenues are recognized in profit or loss when they can be reliably measured, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be reliably measured. Revenues are measured at the fair value of the consideration in a transaction received, net of discounts.

The specific criteria for revenue recognition which must be fulfilled for the following types of revenues are as follows:

1. Revenues from hospitality services are recognized in the financial statements as the services are rendered.
2. Revenues from hotel management fees are recognized in the financial statements on an accrual's basis over the term of the management of each hotel.
3. Revenues from rental fees are recognized in the financial statements over the rental period.

Customer discounts

Current customer discounts are included in the financial statements when granted and are recorded in revenues.

Some of the agents (customers) are entitled to certain commissions (hereinafter - surplus commissions) on the basis of annual activity after these agents have complied with targets placed by the Group. The expense in respect of surplus commissions is recorded in proportion to total revenues from that agent and based on the expected scope of its work during the year and its entitlement to surplus commissions, if any. Surplus commissions are carried to profit or loss in the item cost of revenues.

The accounting policy for revenue recognition applied commencing from January 1, 2018, is as follows:

Revenue recognition:

Revenue from contracts with customers is recognized in profit or loss when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Revenue from rendering of services:

Revenue from rendering of services is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by the Company's performance. Revenue is recognized in the reporting periods in which the services are rendered. The Company charges its customers based on payment terms agreed upon in specific agreements. When payments are made before or after the service is performed, the Company recognizes the resulting contract asset or liability.

The specific criteria for revenue recognition which must be fulfilled for the following types of revenues are as follows:

1. Revenues from hospitality services are recognized in the financial statements as the services are rendered.
2. Revenues from hotel management fees are recognized in the financial statements on an accrual's basis over the term of the management of each hotel.
3. Revenues from rental fees are recognized in the financial statements over the rental period.

w. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The types of provisions included in the financial statements are as follows:

Legal claims

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

x. Share-based payment transactions

The Company's employees/other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions and certain employees/other service providers are entitled to remuneration in the form of cash-settled share-based payment transactions that are measured based on the increase in the Company's share price.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments granted.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest.

y. Significant judgments, estimates and assumptions used in the preparation of the financial statements

Judgments

In the process of applying the significant accounting policies, the Group used its discretion and made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

- Acquisition of subsidiaries that are not business combinations:

  Pursuant to IFRS 3, on acquisition of subsidiaries, the Company assesses whether the acquisition represents a business combination according to IFRS 3. The assessment is based on the following circumstances which indicate the acquisition of a business: the large number of assets acquired, the existence of large volume of ancillary services related to the operation of the asset and the complexity of the management of the asset.

- Classification of leases

  In order to determine whether to classify a lease as a financing or operating lease, the Company evaluates whether the lease transfers substantially all the risks and benefits

  incidental to ownership of the asset. In this respect, the Company evaluates, inter alia, the existence of an option to purchase at a "bargain" price, the lease term in relation to

  the economic life of the asset and the fair value of the minimum lease payments in relation to the fair value of the asset.

- Effective control

  The Company assess whether it controls a company in which it holds less than the majority of the voting rights, among others, by reference to the size of its holding of voting rights relative to the size and dispersion of holdings of the other vote holders including voting patterns at previous shareholders' meetings.

- Determining the fair value of share-based payment transactions

  The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. The basis of the estimates and assumptions is reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions which were made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

- Revaluation of property:

  The Group measures land and buildings which constitute property, plant and equipment at revalued amounts, and the changes in the fair value are carried to other comprehensive income. The Group entered into agreements with external assessors in order to assess the fair value. The Group measures the fair value once a year, or at longer time intervals with regard to certain assets whose value is not expected to change materially. The land and buildings are usually valued using the method of discounting the cash flows deriving from the assets (Level 3 in the fair value hierarchy), using adjusted comparative data for specific market factors, such as type of assets, location and condition.

- Useful life of property, plant and equipment:

  Property, plant and equipment are depreciated on a systematic basis over the estimated useful life. The rates of depreciation of property, plant and equipment are based on management's estimate of the expected life of each asset.

  The depreciation periods reflect, as management believes, the best estimate of the periods during which the Group may obtain future economic benefits from these assets.

- Deferred tax assets

  Deferred tax assets are recognized in respect of unutilized carry-forward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. An estimate of the management is required to determine the amount of deferred tax assets that can be recognized, based upon the expected timing and level of future taxable income together with future tax planning strategies.

- Legal claims

  In estimating the prospects of the legal claims filed against the Company and its investees, the companies have relied on the opinion of their legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and legal experience accumulated in the various subjects. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

z. Earnings (loss) per share

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share.

The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

aa. Changes in accounting policies - initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards

1. Initial adoption of IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15 ("IFRS 15").
IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The IFRS 15 introduces a five-step model that will apply to revenue earned from contracts with customers.

The new Standard allows the option of modified retrospective adoption with certain reliefs according to which the new Standard will be applied to existing contracts from the initial period of adoption and thereafter with no restatement of comparative data. Under this option, the Company will recognize the cumulative effect of the initial adoption of the new Standard as an adjustment to the opening balance of retained earnings (or another component of equity, as applicable) as of the date of initial application. Alternatively, the new Standard permits full retrospective adoption with certain reliefs.

The Company elected to adopt the provisions of the new Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data. The Company recognizes any difference between the previous carrying amount and the carrying amount on the date of initial application of the new Standard as an adjustment to the opening balance of retained earnings.

The new Standard has been applied for the first time in these financial statements. The adoption of the standard is not expected to have a material impact on the financial statements.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2. IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the 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.

IFRS 9 also includes a new model for measurement of impairment of financial assets. Subsequent measurement of all other debt instruments and financial assets should be at fair value. IFRS 9 establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

According to IFRS 9, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

According to IFRS 9, changes in the fair value of financial liabilities which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss.
IFRS 9 also prescribes new hedge accounting requirements.

The new Standard has been applied for the first time in these financial statements retrospectively without restatement of comparative data.

NOTE 3:- DISCLOSURE OF IFRS STANDARDS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION

a. IFRS 16, "Leases"

In January 2016, the IASB published IFRS 16, Leases ("the new standard").
According to the New Standard, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a specified period of time in exchange for consideration.

The main points of the new standard are as follows:

- The new standard requires lessees to recognize all leases in the asset in the statement of financial position (apart from certain exceptions, see below), lessees will recognize a liability in respect of lease payments and, on the other hand, will recognize a right–of-use asset similar to the accounting treatment for a finance lease under IAS 17, Leases.
- In addition, the lessees will recognize interest expenses and depreciation expenses separately.
- Variable lease payments that do not depend on an index or interest rate, such as those based on performance or use (for example, a percentage of the payment), are recognized as an expense by the lessees or as income by the lessors as incurred.
- In the event of changes in variable lease payments linked to the CPI, lessees will remeasure the lease liability, with the effect of the modification being carried to the right to use the asset.
- Accounting treatment by the lessor remains essentially unchanged compared with the existing standard, i.e., classification as a finance lease or an operating lease.
- The new standard includes two exemptions permitting the lessee to account for leases using the existing accounting policy for operational leases, when the assets have a low financial value or for leases of up to a period of one year.

The new standard will be applied for annual periods beginning on or after January 1, 2019.

The new standard permits lessees to choose one of the following implementation approaches:

1. Full retroactive implementation – According to this approach, a right-to-use asset and the liability will be presented in the statement of financial position as if they had always been measured according to the provisions of the new standard. In this case, the effect of implementing the new standard at the earliest commencement date will be carried to capital. Furthermore, the Company will restate its financial statements presented as comparative figures. The balance of the liability at the date of implementing the New Standard for the first time under this approach will be calculated using the interest rate inherent in the lease, unless this rate cannot be readily determined, in which case the incremental interest rate of the lessee must be used on the date of making the lease commitment.

2. Partial retroactive implementation – According to this approach, the comparative figures will not be required to be restated. The balance of the liability at the date of implementing the New Standard for the first time will be calculated using the incremental interest rate of the lessee existing on the date of initial application of the new standard. With respect to the balance of the right of use asset, the Company may decide, for each lease separately, to apply one of the two following alternatives:

NOTE 3:- DISCLOSURE OF IFRS STANDARDS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION (cont.)

- recognition of an asset in the amount of the liability under lease, with certain adjustments;
- recognition of an asset as it had always been measured in accordance with the New Standard.

Any difference created on initial implementation of the new standard as a result of partial implementation, if any, will be carried to capital.

The Company assesses that the partial implementation approach will be chosen on initial application of the New Standard, with the measurement of the right of use asset being according to the provisions of the New Standard as if they had always been measured in this way.

The Company has lease contracts, mainly of real estate properties / land of significant scope. Pursuant to examining the impact of the New Standard on the financial statements, the Company reviews the following subjects:

- The existence of options to extend the lease – According to the new standard, the leasing period which may not be canceled also includes periods which are covered by an option to extend the lease if it is reasonably certain that the lessee will exercise this option. The Company examines the existence of such options in its lease agreements and whether it is reasonably certain that it will exercise these options. Pursuant to the aforesaid examination, the Company examines all of the relevant facts and circumstances which are likely to create an economic incentive for the exercise of the option, inter alia, significant improvements in the leased property which have been made or are forecast to be made, the importance of the leased asset to the Company's activity and past experience in connection with the exercise of the aforesaid options to extend.
- Discount interest rate – The Company estimates the incremental interest rate which will be used to measure the liability in respect of a lease and the right to use asset at the date of initial application of the standard taking into account the leasing period and the nature of the leased asset.

In addition, the Company examines the need for the adjustment of internal control, procedures and policy which are required in order to implement the provisions of the New Standard.

The Company estimates that the impact of the initial application of the New Standard at January 1, 2019 will lead to an increase in the total of the Company's assets and liabilities in a range of NIS 9.5 – 10 billion and a decrease in the balance of the Company’s shareholders' equity in a rage of NIS 280 – 340 million. In addition, in connection with leases into which the Company has entered subsequent to January 1, 2019 and up to immediately prior to date of approval of the financial statements, the Company assesses that the implementation of the standard will result in a further increase in the total of the Company’s assets and liabilities in a range between NIS 3.3 – 3.8 billion and without any impact on the balance of the Company’s shareholders' equity.

NOTE 3:- DISCLOSURE OF IFRS STANDARDS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION (cont.)

In addition, the impact of the initial application of the New Standard will lead, in 2019, to a decrease in the Company's leasing expenses amounting to NIS 800 million, and an increase in depreciation and amortization expenses and in financial expenses of the Company amounting to NIS 450 million and NIS 550 million, respectively (based on the exchange rates as of December 31, 2018). The total impact of implementing the New Standard will result, in 2019, in an increase in operating profit before depreciation and amortization and other expenses amounting to NIS 800 million and a decrease in profit after tax amounting to NIS 150 million (based on leases that were in effect on January 1, 2019).

The expected impact of the standard, as aforesaid, is under the following assumptions:

a. The discount rates used for the calculations vary mainly between 3.32% and 6.76% and are based on the nominal incremental interest rates of the lessee in each lease, the currency in which the leasing contract is denominated, taking into account the amount of the lease, the average length of life and the geographical region of the leased property.
b. The Company will apply the relief regarding "hindsight" for the purpose of determining the leasing period in a situation in which the contract includes options to extend or cancel the lease.
c. The Company will not include initial direct costs in the measurement of right-to-use assets at the date of initial application of the standard.

The Company does not foresee that the application of the standard will result in breaches of the Company's financial covenants as the Company's financial covenants mostly continue to be calculated in accordance with the regulations that were in force at the date of entering into the agreements.

b. IAS 28, "Investments in associates and joint ventures"

In October 2017, the IASB published an amendment to International Accounting Standard no. 28 "Investments in Associate Companies and Joint Transactions" (hereinafter, "the Standard"). The amendment clarifies that long-term interests (such as, loans receivable or investment in preferred shares) which constitute a part of the net investment in an associate company or joint transaction, will be subject first to the provisions of IFRS 9 in full (both for the purpose of measurement and for the purpose of impairment) and, thereafter, the balances of those rights will be subject to the provisions of IAS 28, The amendment should be applied retroactively with effect from the annual periods commencing January 1, 2019. Early implementation is permitted.

The Company estimates, after examining the implications of implementing the amendments that their implementation is not expected to have a significant impact on the Company's financial statements.

NOTE 3:- DISCLOSURE OF IFRS STANDARDS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION (cont.)

c. IFRS 3 "Business Combinations"

In October 2018, the IASB published an amendment to the definition of "business" in International Financial Reporting Standard no. 3 "Business Combinations" (hereinafter – "the Amendment"). The purpose of the Amendment is to assist companies in determining whether a purchase transaction should be accounted for as a business combination or a purchase transaction of assets.

The Amendment includes:

1. A clarification that in order to be considered a "business", a system of activities and assets which have been acquired shall include at least input and a significant process which together make a material contribution to the ability to generate outputs.
2. The omission of a reference to an assessment whether a market participant can continue in the operation of an acquired business through the replacement of inputs and processes.
3. Additional directives and examples which will assist companies in assessing whether the processes acquired are material.
4. A change in the definition of "output" and "business", such that the definitions will be more focused and concise.
5. An optional test according to which a company can determine that the purchase of a business is not involved, without the necessity for additional examinations.

The Amendment will be applied for business combinations and transactions for the purchase of assets, the purchase date which occurs starting from the annual period commencing January 1, 2020 or thereafter. Early implementation is permitted.

NOTE 4:- BUSINESS COMBINATIONS

a. On December 13, 2017, the Group engaged with a subsidiary of the Swedish Group Pandox (hereinafter: "the Buyer") in an agreement for purchase of a portfolio of 37 hotels in the UK (25), Ireland (4), Scotland (5), Northern Ireland (1), Wales (1) and the Czech Republic (1) (hereinafter: "the Portfolio"), such that Pandox – after reorganization of the Portfolio – would own 21 hotels in the UK and Ireland (hereinafter: "the Pandox Properties"), while the Group would purchase the operational platform of 36 hotels (by way of leasing the Pandox Properties (except the Hilton Garden Inn Heathrow Hotel (hereinafter: "HGI Hotel") – which is operated under a concession agreement between one of the acquired companies in the portfolio (which is the owner of the hotel) and Hilton), assuming of existing leases of the remaining 15 hotels from third parties and management of a hotel in Prague), consisting of 8,013 rooms and operated under the "Jurys Inn" brand. The total consideration of the transaction was approximately £ 823 million. The Group's share, in the total consideration of the transaction amounted to £ 123 million (not including transaction expenses of approx. £ 2 million), was provided by the Group as a loan to Pandox (hereinafter: "the Fattal Loan") against its guarantee (hereinafter: "the Pandox Guarantee"). The transaction was completed on December 20, 2017.

Upon completion of the transaction, a reorganization process began, pursuant to a framework agreement between Pandox, the Buyer, and Group companies (hereinafter: "the Framework Agreement"), as part of which the operational platform of 36 hotels was transferred, whether directly or indirectly, to the operating companies of the Group, against repayment of the Fattal loan provided by the Group and cancellation of the Pandox Guarantee, and subject to adjustments as specified below.

The Group's share in the reorganization costs is expected to total £ 3.7 million.

During the interim period from the transaction completion date until completion of the reorganization in August 2018, the Group operated all Jurys Inn hotels (including the Pandox Properties – except the HGI Hotel) under management agreements, the commercial principles of which are compatible with revenue-based lease agreements, including the guaranteeing of minimal rent to the lessor and conventional obligations on part of the lessee in connection with the leased property.

The aforesaid management agreements were replaced by lease agreements as specified below, at the reorganization completion date (August 2018). As of the reorganization completion date the Pandox Properties are operated by the Group under lease agreements for 25 years (based on revenues with variable rent lease with minimum rent), while the other 15 hotels in the portfolio are operated by the Group according to the terms of the lease agreements existing as of the transaction completion date.

The total amount of the fixed component in the annual lease for the Pandox Properties (except the HGI Hotel) totals approx. £ 32.8 million per year. The range of the variable rent rates for the Pandox Properties is 15% to 39.5% of the turnover deriving from gross revenues from rooms, together with revenues from the conference rooms and sub-leases, and 10%-15% from all other income not included in the foregoing calculation. Regarding the lease agreements for the other hotels (not including the Pandox Properties), the balance of the lease periods in these agreements does not exceed 30 years and the average lease periods of these leases is approximately 24 years. In most of these lease agreements, annual fixed rent is paid, linked to the increase in the RPI (updated every five years). In a small part of such lease agreements, there is a variable component deriving from the hotel's turnover (up to 6% of the turnover). The total amount of the fixed component in the annual lease for such hotels amounted to £ 20 million per year.

On August 31, 2018, on the completion of the perquisites and reorganization, the activity was consolidated for the first time. As of the date of approval of the financial statements the settlement of accounts in respect of the transaction has not been fully completed.

NOTE 4:- BUSINESS COMBINATIONS (cont.)

The following is a breakdown of the temporary purchase cost (temporary PPA) of the fair value of the identifiable assets and identifiable liabilities of the acquired company at the date of acquisition (translated according to the exchange rate of the Pound sterling to NIS as of August 31, 2018, which was 4.6941):

	Fair value	
	NIS	Euro
	In thousands	
Cash and cash equivalents	124,737	29,065
Non-current assets (mainly assets in respect of leasing contracts)	338,327	78,835
Working capital (excluding cash and cash equivalents)	(188,793)	(43,991)
Deferred tax liability	(25,677)	(5,983)
Fixed assets	410,592	95,673
Brand	53,642	12,499
Goodwill created on acquisition	86,105	20,064
Non-current liabilities (mainly liabilities in respect of leasing contracts)	(224,131)	(52,226)
Total purchase price	574,802	133,936

b. In August 2018, the Company completed a transaction with third parties for the purchase of a holding company which holds the ownership (4 hotels), leases (8 hotels) and management (1 hotel) rights of 13 hotels in the Netherlands in consideration for € 153 million. At the completion date of the transaction, long-term lease agreements were signed between the property companies and the operating company owned by the Company. For the purpose of financing the transaction, an agreement was signed between a company in the Group and a banking corporation and a loan of € 65 million was extended. As of the approval date of the financial statements, the settlement of accounts in respect of the transaction was completed in full.

NOTE 4:- BUSINESS COMBINATIONS (cont.)

The following is a breakdown of the attribution of the purchase cost (PPA) of the fair value of the identifiable assets and identifiable liabilities of the acquired company at the date of acquisition (translated according to the exchange rate of the euro to NIS as of August 31, 2018, which was 4.2119):

	Fair value	
	NIS	Euro
	In thousands	
Cash and cash equivalents	1,912	446
Non-current assets (mainly assets in respect of leasing contracts)	56,878	13,253
Working capital (excluding cash and cash equivalents)	(7,588)	(1,768)
Deferred tax liability	(22,007)	(5,128)
Fixed assets	353,471	82,363
Brand	16,402	3,822
Goodwill created on acquisition	294,887	68,713
Non-current liabilities	(49,254)	(11,477)
Total purchase price	644,701	150,224

If the business combination had been effected at the beginning of the report period, the transactions outlined in paragraphs a. and b, above would have contributed to the Company in the report period a total of NIS 1,521 million to the turnover of revenues and a total of NIS 193 million to operating profit (before depreciation and amortization and other expenses); out of the abovementioned amounts a total of NIS 627 million and NIS 146 million were included in the Company's revenue turnover and in operating profit in the report period, respectively, (including the management fees outlined in paragraph a. above).

NOTE 5:-

A. CASH AND CASH EQUIVALENTS

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Cash for immediate withdrawal	259,258	322,536	75,155
Cash equivalents - short-term deposits	150,413	338,724	78,927
	409,671	661,260	154,082
Composition by currency types:			
Israeli Shekel	165,310	339,734	79,162
Euro	242,246	287,360	66,959
Pound Sterling	-	30,992	7,221
Other (mainly USD)	2,115	3,174	740
	409,671	661,260	154,082

B. SECURITIES HELD FOR TRADING

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Shares	1,330	11,136	2,595
Bonds	19,283	141,616	32,998
Mutual Fund Participation Units	9,425	84,466	19,682
Other	548	1,503	350
	30,586	238,721	55,625

NOTE 6:- TRADE RECEIVABLES

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Open accounts	151,432	247,035	57,562
Cheques receivable and credit card companies	66,583	81,425	18,973
	218,015	328,460	76,535
Less - allowance for doubtful accounts	2,981	8,379	1,952
Trade receivables, net	215,034	320,081	74,583

Impairment of debts is accounted for through recording an allowance for doubtful accounts. The Group has no significant arrears of trade receivables that are not included in the abovementioned allowance for doubtful accounts.

NOTE 7:- OTHER ACCOUNTS RECEIVABLE

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Chain hotels	67,554	80,500	18,758
Prepaid expenses	26,071	74,993	17,474
Income receivable	11,226	24,432	5,693
Institutions	10,138	22,133	5,157
Others	16,777	21,930	5,110
	131,766	223,988	52,192

NOTE 8:- LONG-TERM RECEIVABLES

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Assets in respect of leasing contracts recognized in business combinations (*)	-	495,102	115,365
Prepaid rental expenses	21,490	20,922	4,875
Restricted deposit (**)	44,973	82,666	19,262
Other	5,493	6,408	1,494
	71,956	605,098	140,996

(*) For further details, see Note 4.
(**) In addition, see details regarding Series B bonds in Note 15 below.

NOTE 9:- INVESTMENTS

Loans and investments in other companies and partnerships accounted for on equity basis

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Investments in other companies and partnerships accounted for on equity basis	346,806	405,984	94,600
Capital note and loans to other companies and partnerships accounted for on equity basis	414,777	535,935	124,880
	761,583	941,919	219,480

Additional information

As of the date of approval the financial statements, the Group holds 50% of Protal Tourism Co. (hereinafter: "Protal Tourism"), which, through its subsidiaries, holds the rights to 10 hotels in Israel and one hotel abroad, which is inactive. The rights in some of the abovementioned hotels are in joint ventures with other parties.

During March 2017, a number of agreements was signed in accordance with which on May 1, 2017, the hotels held by Protal Tourism, were transferred from an outline plan of management by the Group to an outline plan for the rental of the hotels to the Group. As of that date, management fees and incentive fees are not paid to the Group, and instead the Group pays rent. Furthermore, the acquisition by the Group of the Leonardo Plaza Hotel in Eilat, which is owned by Protal Tourism, was agreed. As of the approval date of the financial statements, the acquisition had not been completed. In addition, the parties agreed on the sale of the Group's share in the shares of a subsidiary that holds the Leonardo Beach in Tel Aviv to a partner in Protal Tourism. The sale has not yet been completed. The assets and liabilities in the hotel are classified as available for sale.

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement

2018

	Land and buildings (b &c below)	Furniture and equipment	Operating equipment	Leasehold improvements	Total
	NIS thousands				
Cost:					
Balance at January 1, 2018	4,176,074	725,459	46,194	209,721	5,157,448
Additions during the year	575,031	149,891	10,605	14,728	750,255
Disposals during the year	(649,160)	-	-	-	(649,160)
Companies consolidated for the first time	330,099	572,089	-	-	902,188
Revaluation recognized in other comprehensive income	320,476	-	-	-	320,476
Adjustments arising from translating financial statements	103,983	28,584	-	-	132,567
Addition in respect of financial lease	9,474	-	-	-	9,474
Balance at December 31, 2018	4,865,977	1,476,023	56,799	224,449	6,623,248
Accumulated depreciation:					
Balance at January 1, 2018	807,904	356,030	37,439	38,949	1,240,322
Additions during the year	41,662	107,250	7,871	10,853	167,636
Depreciation of revaluation	42,726		-	-	42,726
Adjustments arising from translating financial statements	15,717	5,844	-	-	21,561
Balance at December 31, 2018	908,009	469,124	45,310	49,802	1,472,245
Depreciated cost at December 31, 2018	3,957,968	1,006,899	11,489	174,647	5,151,003

	Land and buildings (b &c below)	Furniture and equipment	Operating equipment	Leasehold improvements	Total
	Convenience translation into Euro (In thousands)				
Cost:					
Balance at January 1, 2018	973,081	169,042	10,764	48,868	1,201,755
Additions during the year	133,990	34,927	2,471	3,432	174,820
Disposals during the year	(151,263)	-	-	-	(151,263)
Companies consolidated for the first time	76,917	133,304	-	-	210,221
Revaluation recognized in other comprehensive income	74,675	-	-	-	74,675
Adjustments arising from translating financial statements	24,229	6,660	-	-	30,889
Addition in respect of financial lease	2,208	-	-	-	2,208
Balance at December 31, 2018	1,133,837	343,933	13,235	52,300	1,543,305
Accumulated depreciation:					
Balance at January 1, 2018	188,252	82,960	8,723	9,076	289,011
Additions during the year	9,708	24,991	1,834	2,529	39,062
Depreciation of revaluation	9,956	-	-	-	9,956
Adjustments arising from translating financial statements	3,662	1,362	-	-	5,024
Balance at December 31, 2018	211,578	109,313	10,557	11,605	343,053
Depreciated cost at December 31, 2018	922,259	234,620	2,678	40,695	1,200,252

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

2017

	Land and buildings (b &c below)	Furniture and equipment	Operating equipment	Leasehold improvements	Total
			NIS thousands		
Cost:					
Balance at January 1, 2017	3,470,108	548,431	39,834	194,491	4,252,864
Additions during the year	117,993	142,913	7,533	15,230	283,669
Disposals during the year	(30,737)	(2,899)	-	-	(33,636)
Companies consolidated for the first time	421,749	33,687	-	-	455,436
Revaluation recognized in other comprehensive income	302,744	-	-	-	302,744
Adjustments arising from translating financial statements	55,678	10,686	-	-	66,364
Transfer to assets held for sale	(161,461)	(7,359)	(1,173)	-	(169,993)
Balance at December 31, 2017	4,176,074	725,459	46,194	209,721	5,157,448
Accumulated depreciation:					
Balance at January 1, 2017	740,572	306,493	32,826	29,191	1,109,082
Additions during the year	49,411	50,638	5,660	9,758	115,467
Depreciation of revaluation	33,401	-	-	-	33,401
Adjustments arising from translating financial statements	8,221	4,144	-	-	12,365
Transfer to assets held for sale	(23,701)	(5,245)	(1,047)	-	(29,993)
Balance at December 31, 2017	807,904	356,030	37,439	38,949	1,240,322
Depreciated cost at December 31, 2017	3,368,170	369,429	8,755	170,772	3,917,126

b. Additional information regarding land

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Freehold	2,582,238	3,115,409	725,932
Capitalized lease from the Israel Lands Authority (*)	785,932	842,559	196,327
	3,368,170	3,957,968	922,259

(*) The Company’s hotels built on land leased from the Israel Lands Authority for periods ending between 2028 and 2047, with an option to extend for an additional 49 years.

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

c. Information regarding fair value of property, plant and equipment

1. The Group has adopted the revaluation model with regard to land and buildings. The fair value of the property, plant and equipment which has been revalued is determined by external independent appraisers. The fair value is determined based on the Income Capitalization method or based on the estimated future discounted cash flows from each asset owned by the Group. In the computation of the fair value, the appraisers used mainly a discount rate of 8.5% with regard to assets in Israel (2017 – mainly 8.5%), and the main discount rates (Cap Rate) of 4.6%-6.5% with regard to assets in Europe (2017 - 4.8%-6.7%).

2. All fair valuations are made by using Level 3 of the fair value hierarchy, as defined in IFRS 13.

3. The following are unobservable principal data used by the appraisers in determining the fair value of the land and buildings owned by the Group.

   a) Forecast of operating income of the hotel operated on the land and buildings, from which derives the discounted cash flows.
   b) A specific discount rate for each asset according to its condition, location and the specific risks of that asset.
   c) Investments required for renovation.
   d) Other factors, such as building rights, planning and legal position, etc.

4. Effect of the significant unobservable factors on the fair value:

   A decrease (increase) in the discount rate of forecast cash flows by approx. 2.5% will increase (decrease) the value of the assets in an amount of approx. NIS 168.6/(176.4) million.

5. The Company has determined that the revaluation of the assets will be once a year, or at longer time intervals with regard to certain assets whose value is not expected to change significantly.

d. As regards liens, see Note 20.

NOTE 11:- SHORT-TERM CREDIT FROM BANKS AND OTHERS

a. Composition

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Short-term credit from banks	60,027	40,328	9,397
Current maturities of long-term loans	284,922	245,529	57,211
	344,949	285,857	66,608

b. As for collaterals, see Note 20.

c. As for financial covenants, see Note 14b.

NOTE 12:- TRADE PAYABLES

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Open accounts	105,279	140,440	32,724
Notes payable	30,473	33,285	7,756
	135,752	173,725	40,480

NOTE 13:- OTHER ACCOUNTS PAYABLE

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Accrued expenses	122,093	245,644	57,238
Salaries and related expenses *)	103,565	141,511	32,974
Advance payments from customers	73,167	132,998	30,990
Institutions	955	18,288	4,262
Interest payable	12,420	11,626	2,709
Club members	7,299	7,777	1,812
Others	37,973	55,829	13,009
	357,472	613,673	142,994
*) Includes accrued vacation and convalescence	16,721	26,720	6,226

NOTE 14:- LOANS FROM BANKS AND OTHERS

a. Composition

		December 31,				Convenience translation December 31,	
		2017		2018		2018	
	Annual interest rate *)	Balance	Balance, net of current maturities	Balance	Balance, net of current maturities	Balance	Balance, net of current maturities
	%	NIS				Euro	
				(In thousands)			
Unlinked, variable interest	2.89	656,922	564,917	667,607	560,537	155,561	130,612
Linked to Israeli CPI	4.73	194,964	163,960	173,978	141,530	40,539	32,978
Linked to US dollar/in US dollar	5.59	44,003	38,816	81,932	72,226	19,091	16,830
Linked to Euro/in Euro	2.12	1,066,795	924,115	1,153,161	1,078,424	268,702	251,287
Linked to GBP/in GBP	.376	279,864	265,818	414,175	392,607	96,508	91,483
Total		2,242,548	1,957,626	2,490,853	2,245,324	580,401	523,190

*) Weighted average rate as of December 31, 2018

b. Financial covenants

1. Some of the loan documents from banking corporations contain undertakings which include, inter alia, an undertaking to comply with financial covenants, the most important of which are:

The Company:

a) An undertaking relating to shareholders' equity - The Company's equity must not fall below NIS 750 million at any time.

NOTE 14:- LOANS FROM BANKS AND OTHERS (Cont.)

b) Ratio of debt to EBITDA - The Company's debt to EBITDA ratio plus earnings from associates shall not exceed 6.

For this purpose, the "Company's debt" means the Company's total debts to financial institutions and bonds, including convertible bonds (net, less cash) relating to hotels that are owned and/or managed by the relevant company, and that had earnings at least half a year before the relevant date of the examination. The "Company's EBITDA" means operating income before financial expenses, depreciation, amortization and taxation of hotels that the relevant company owns and/or manages and that had earnings at least half-a-year before the relevant date of the examination.

c) Control - An undertaking not to change control without prior written consent of the lending bank.

With regard to the financial covenants underlying the offering of the Company’s bonds, see Note 15.

Fattal Hotels:

(a) An undertaking relating to equity – At any time Fattal Hotels’ equity shall not be less than an amount equal to 18% of the total assets.
(b) An undertaking relating to equity - At any time Fattal Hotels’ equity shall not be less than NIS 450 million.
(c) Ratio of debt to EBITDA – Fattal Hotels’ debt to EBITDA ratio shall not exceed 7.

Fattal Properties (Europe)

(a) An undertaking relating to equity – At any time, the equity of Fattal Properties (Europe) shall not be less than an amount equal to 22.5% of the total assets.
(b) An undertaking relating to equity - At any time, the equity of Fattal Properties (Europe) shall not be less than Euro 120 million.
(c) Ratio of debt to net operating income – The ratio of net financial debt to adjusted net operating income, as defined in the trust deed, shall not exceed 17.

2. Pursuant to loan agreements that the Group assumed in order to acquire hotels in Germany, the borrowing companies undertook to comply with a loan-to-value (LTV) in various ratios between 60%-78%, leverage ratios and debt service coverage ratios.

In addition, Fattal Hotels has undertaken to comply with certain financial covenants with respect to loans taken by companies accounted for on equity basis.

As of December 31, 2018, the Group complies with all of the financial covenants which it undertook.

c. As for collaterals given, see Note 20.

d. Regarding the liabilities of a consolidated company, Fattal Properties (Europe), in connection with the issue of bonds, see Note 15 below.

NOTE 15:- DEBENTURES

		December 31,				Convenience translation December 31,	
		2017		2018		2018	
	Annual interest rate *)	Balance	Balance, net of current maturities	Balance	Balance, net of current maturities	Balance	Balance, net of current maturities
	%	NIS				Euro	
		(In thousands)					
Debentures (1)	3.31	97,209	82,254	544,921	455,340	126,973	106,100
Debentures of an investee company (2)	2.72	778,004	710,144	779,851	691,716	181,716	161,179
Total		875,213	792,398	1,324,772	1,147,056	308,689	267,279

*) Weighted average rate as of December 31, 2018.

	Bonds in the company	
	Bonds (Series A)	Bonds (Series B)
Date of initial offering of the series / dates of expansion during the year	April 2014	1. June, 2018 2. October, 2018 (Series expansion)
Nominal value at the date of issue / expansion (NIS thousands)	149,553	1. 255,840 2. 200,000
Total nominal value of bonds in circulation at December 31, 2018 (NIS thousands)	82,254	455,840
Issuance expenses (NIS thousands)	-	1,523
Liability value in the financial statements at December 31, 2018 (NIS thousands)	89,581	455,340
Nominal rate of interest	3.9% In relation to the registration of the Company's Series A bonds for trading on the stock exchange and a decrease in the nominal interest rate, see Note 21 below.	3.25%
Effective interest rate of the entire series (including expansions made)		1. 3.45% 2. 3.11%
Principal repayment dates	10/10/2014-10/04-2014 20 equal semi-annual installments	31/12/2020-31/12/2026 13 unequal semi-annual installments
Linkage basis (principal and interest)	Linked	Unlinked
Financial covenants	The main points of the criteria set forth in the issue of Series A bonds are: (1) The ratio of equity to total balance sheet shall not be less than 22.5% (2) The ratio of net debt of the Company to EBITDA, as defined in the trust deed shall not exceed 7 (3) The Company's shareholders' equity shall not be less than NIS 650 million.	The main points of the criteria set forth in the issue of Series B bonds are: (1) The ratio of equity to total balance sheet shall not be less than 22.5% (2) The ratio of net debt of the Company to EBITDA, as defined in the trust deed shall not exceed 8 (3) The Company's shareholders' equity shall not be less than NIS 1,250 million.

NOTE 15:- DEBENTURES (Cont.)

	Bonds in an investee company		
	Bonds (Series A)	**Bonds (Series B)**	**Bonds (Series C)**
Date of issue	1. February 2016 2. April 2016 (Series expansion) 3. September 2016 (Series expansion 4. January 2017 (Series expansion)	1. May 2017 2. May 2018 (Series expansion)	1. September 2017 2. November 2017 (Series expansion).
Nominal value on issue date (NIS thousands)	475,000	202,760	200,000
Total nominal value of bonds in circulation at December 31, 2018 (NIS thousands)	391,020	202,760	188,000
Balance of issue expenses as of December 31, 2018 (NIS thousands)	5,903	1,726	1,264
Liability value in the financial statements as of December 31, 2018 (NIS thousands)	390,432	202,422	186,997
Nominal interest rate	3.5%	2.85%	2.65%
Hedge transaction	Immediately prior to the receipt of the proceeds from the issues, Fattal Properties (Europe) executed full hedging transactions with a banking corporation in which the shekel debt (principal and interest) was converted into debt in the currency indicated below, such that on each payment date of interest and / or principal, a shekel amount will be paid by the banking corporation against receipt of the amount of currency below determined at the date of the hedge transaction. As a result of the transactions, the shekel debt was replaced by debt in the currency below at a nominal annual interest, as follows:		
	Euro	Euro	1. GBP 2. Euro
	Such principal and interest swap transactions of Series A and B bonds as aforesaid are accounted for as cash flow hedges. The interest swap transactions and the interest of the Series C bonds, as aforesaid, were split into two notional derivatives: 1. Principal and interest swap of shekel/euro which is used to hedge the cash flows of the Series C bonds and 2. Principal and interest swap of euro/pound sterling which is used to hedge the investment in overseas activity in the UK. The hedging transactions described above are presented in the statement of financial position at fair value, which was calculated by an external appraiser by discounting future cash flows		
Interest rate following hedging transaction	2.73%	2.13%	1. 3% 2. 1.9%
Effective interest rate	2.8%	.22%	1. 3.17% 2. 1.94%

NOTE 15:- DEBENTURES (Cont.)

	Bonds in an investee company		
	Bonds (Series A)	**Bonds (Series B)**	**Bonds (Series C)**
Principal repayment dates	15/08/2017-15/08/2025 17 unequal semi-annual payments	30/06/2019-30/06/2026 15 unequal semi-annual payments	30/08/2018-30/08/2027 10 unequal annual payments
Linkage basis (principal and interest)	Unlinked	Unlinked	Unlinked
Financial covenants	The main points of the criteria set forth in the issue of bonds (Series A): (1) The ratio of equity to the balance sheet shall not be less than 22.5%. (2) The ratio of adjusted net financial debt to adjusted net operating income, as defined in trust deed, shall not exceed 17. (3) The shareholders' equity of Fattal Properties (Europe) shall not be less than Euro 100 million.	The main points are identical to the criteria set forth in the issue of bonds (Series A), except for the following: The loan to value ratio shall not exceed 82.5%. On expanding the series, the ratio of loan to security shall not exceed 75%.It should be noted that the hotel is in the construction stages and therefore the value will be examined starting from the earliest date of: (1) prior to the expansion of the above series as detailed in the trust deed of the series and for the purpose of expanding the series only. (2) after the hotel has generated income at least in the four quarters preceding the examination date.	The main points are identical to the criteria set forth in the issue of bonds (Series A), except for the following: Commitment to maintain minimum capital - the shareholders' equity of Fattal Properties (Europe) will not be less than Euro 120 million

(1) Bonds in the Company

(*) Series A bonds

In addition to the criteria set forth above, a mechanism was provided in the trust deed, for adjusting the interest rate (up to an additional interest ceiling of 1.25%) in accordance with the change in the rating of the bonds and in the event of a breach of the following financial covenants:

1. Ratio of equity to total assets shall not fall below 26.5%.
2. Ratio of net financial debt to EBITDA, as defined in the trust deed, shall not exceed 6.
3. The Company’s shareholders' equity shall not be less than NIS 750 million.

NOTE 15:- DEBENTURES (Cont.)

Dividend distribution restriction – The Company undertook that it will not make a distribution that exceeds 50% of the profits available for distribution (as defined in the trust deed) and taking into account the following restriction:

The Company's consolidated shareholders' equity at the end of the last quarter prior to the distribution of the dividend, net of the dividend to be distributed, must not be less than NIS 750 million.

On November 27, 2018, the Board of Directors of the Company approved the full early redemption, at the Company's initiative, of the balance of the nominal value of the Company's Series A bonds, which was affected on January 1, 2019. At the date of the early redemption, the Company paid holders of the Series A bonds a total sum of NIS 89.5 million (net of the amounts of principal, interest, linkage and the payment increment in respect of full early redemption). As of the date of approval of the financial statements, the balance of the liability of the Series A bonds amounting to NIS 89.5 million was presented in the item current maturities in respect of debentures and the total of NIS 5.9 million was recorded as a loss from early redemption in the item, financial expenses.

As of December 31, 2018, the Company complies with the financial criteria set in the trust deed.

(*) Series B bonds

In addition to the criteria set forth above, a mechanism was provided in the trust deed, for adjusting the interest rate (up to an additional interest ceiling of 1.5%) in accordance with the change in the rating of the bonds and in the event of a breach of the following financial covenants:

1. Ratio of equity to total assets shall not fall below 26%.
2. Ratio of net financial debt to EBITDA, as defined in the trust deed, shall not exceed 6.5.
3. The Company’s shareholders' equity shall not be less than NIS 1,750 million.

Dividend distribution restriction – The Company undertook that it will not make a distribution of 50% of the profits available for distribution (as defined in the trust deed) and taking into account the following restrictions:

a. The Company's consolidated shareholders’ equity (including minority interests) at the end of the last quarter prior to the distribution of the dividend, net of the dividend to be distributed, shall not be less than NIS 1,750 million.
b. The ratio of equity to total assets shall not be less than 22.5%
c. The ratio of net financial debt to EBITDA, as defined in the trust deed, shall not exceed 8.
d. At the date of the Board of Directors resolution, there are no grounds in the Company for immediate repayment of the bonds.

NOTE 15:- DEBENTURES (Cont.)

The Company's compliance with the financial criteria set forth in the trust deed will not be considered according to the accounting standards to which the Company was subject in the consolidated financial statements as at December 31, 2017 and in the quarterly financial statements as at March 31, 2018.
As at the date of approval of the financial statements, the Company complies with these conditions.

(2) Bonds in investee company

(*) Series A bonds

In addition to the criteria set forth above, the trust deed provides a mechanism for adjusting the interest rate (up to a ceiling of 1.5%) in accordance with a change in the rating of the bonds and in the event of a breach of the following financial covenants:

1. The ratio of equity to total assets shall not be less than 26%.
2. The ratio of the adjusted net financial debt to adjusted net operating income, as defined in the trust deed, shall not exceed 15.
3. The Company's consolidated shareholders' equity shall not be less than Euro 120 million.

Dividend distribution limit - Fattal Properties (Europe) has undertaken not to make a distribution that exceeds 50% of the distributable earnings, (as defined in the trust deed), and taking into account the following restrictions:

a. Fattal Properties (Europe) consolidated shareholders' equity (including minority interests) at the end of the last quarter before the distribution of the dividend, net of the distributed dividend, shall not be less than Euro120 million.
b. The ratio of equity to total assets shall not be less than 28%.
c There are no grounds for immediate repayment of the bonds (Series A).
d. On the date of the Board of Directors' resolution to distribute a dividend, there are no grounds in the Company for immediate repayment of the bonds.

(*) Collateral of Series B Bonds:

According to the bonds (Series B), Fattal Properties (Europe) and a subsidiary which owns a hotel property in Amsterdam (hereinafter: "the property company") undertook to provide collateral as follows:

(1) A lien on all the rights of the property company in the lease agreement and receipts from the hotel.
(2) A lien on the entire rights of the property company in the Turnkey agreement and the rights of the property company as a co-insured party in a contractors' works insurance policy.
(3) A lien on the entire rights of the property company in the lease agreement.
(4) A lien on the entire rights of the company by virtue of the back-to-back loan agreement.

NOTE 15:- DEBENTURES (Cont.)

In May 2018, Fattal Properties (Europe) made an expansion of the Series B bonds by way of a private placement of 68,000,000 Series B bonds of NIS 1 par value each, registered for trading, at a price of NIS 1.02 for each NIS 1 par value and in total, about NIS 69,360,000 for all the said Series B bonds. Following the allocations as aforesaid, the total Series B bonds in circulation amounted to NIS 202,760,000 par value.

The monetary proceeds in respect of the abovementioned expansion were transferred to the Company in accordance with a mechanism provided in the trust deed of the series. As of the date of the financial statements, of the total proceeds of the Series B bonds, NIS 71.4 million (€ 16.6 million) is held in a deposit on trust with the trustee.

Immediately prior to the date of receiving the proceeds, from the expansion of the Series B bonds, Fattal Properties (Europe) effected a full hedge transaction as outlined in the table above.

The compliance of Fattal Properties (Europe) with the financial criteria set forth in the trust deed will be considered according to the accounting standards to which the Company was subject in the consolidated financial statements as at December 31, 2017 and in the quarterly financial statements as at March 31, 2018.
As at the date of approval of the financial statements, Fattal Properties (Europe) complies with these conditions.

NOTE 16:- FINANCIAL INSTRUMENTS

a. Financial risks factors

The Group's activities expose it to various financial risks, such as market risks (foreign currency risk, Israeli CPI risk and interest risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities to reduce to a minimum any possible adverse effects on the Group's financial performance. The Group uses derivatives in order to hedge certain exposures to risks.

1. Market risks

- Foreign currency risk

The Group operates internationally in a number of countries and is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the euro, the pound sterling and the U.S. dollar. Foreign exchange risk arises from assets and liabilities recognized which are denominated in foreign currency other than the functional currency and also net investments in foreign operations.

NOTE 16:- FINANCIAL INSTRUMENTS (Cont.)

In 2018, there were significant changes in the foreign currency exchange rates to which the Group is exposed, following the depreciation of these currencies vis-à-vis the Group's functional currency (NIS). Most of the exposure stems from foreign operations whose functional currency is the euro, in respect of which another comprehensive gain totaling NIS 84,343 thousand was recorded (in a capital reserve from adjustments due to financial statements translation) for the period ended on December 31, 2018, from sale transactions denominated in euro and trade payables in respect thereof as well as foreign currency transactions in financial derivatives on the euro and the pound sterling.

The rates charged by the Group's European hotels are denominated in foreign currency (usually the euro and the pound sterling) as well as their expenses. Accordingly, changes in the exchange rate of foreign currency vis-à-vis the NIS have an effect on the Group's financial results.

Most of the loans that the Group takes are in foreign currency, such that the fluctuations in the exchange rates have an effect on financial expenses, thus usually mitigating the effect of the change in the exchange rates on the Group's profitability.

In addition, the Group executes transactions in derivatives in the U.S. dollar, the euro and the pound sterling.

- Credit risk

The Company holds cash and cash equivalents and other financial derivatives in the most highly rated financial institutions in Israel, Germany, Spain, Scotland, the Netherlands and Switzerland.

- Interest risk

Interest risk is the risk that the fair value or future cash flows from a financial instrument will change as a result of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates mainly to the Group's long-term liabilities bearing variable interest. The Group manages the interest rate risk by using a balance sheet portfolio of variable interest loans and fixed interest loans.

NOTE 16:- FINANCIAL INSTRUMENTS (Cont.)

Interest rate sensitivity analysis:

The table below presents the sensitivity to a reasonably possible change in interest rates on the affected part of loans and credit, after the effect of hedge accounting. When all other variables are unchanged, the effect of changes in interest rates on the Group's pre-tax profit will be as follows:

	Increase/ decrease at the starting point	Effect on the profit before tax	Effect on the profit before tax
		NIS thousands	Euro thousands
2018:			
Loans in Euro	+0.25%	233	54
Loans in dollar	+0.25%	106	25
Loans in Pound Sterling	+0.25%	1,054	245
Loans in NIS	+0.25%	1,729	138
Loans in Euro	-0.25%	(233)	(54)
Loans in dollar	-0.25%	(106)	(25)
Loans in Pound Sterling	-0.25%	(1,054)	(245)
Loans in NIS	-0.25%	(1,729)	(138)
2017:			
Loans in Euro	+0.25%	630	
Loans in dollar	+0.25%	84	
Loans in NIS	+0.25%	576	
Loans in Euro	-0.25%	(630)	
Loans in dollar	-0.25%	(84)	
Loans in NIS	-0.25%	(576)	

The estimated movement at the starting point for the sensitivity analysis of the interest rate is based on the observable current market environment, according to which there is significantly higher volatility than in previous years.

b. Concentration of liquidity risk

The Group's objective is to preserve the existing ratio between the continuing receipt of finance and the existing flexibility through the use of overdrafts, loans from banks and bonds. The Group considers the taking of credit for a long or short term according to the conditions prevailing in the market.

The table below presents the maturity periods of the Group's financial liabilities based on contractual undiscounted payments (including amounts in respect of interest):

NOTE 16:- FINANCIAL INSTRUMENTS (Cont.)

As at December 31, 2018:

	Less than one year	1 to 2 years	2 to 3 Years	3 to 4 years	4 to 5 years	More than 5 years	Total	Convenience translation Total
				NIS				Euro
				(In thousands)				
Trade payables	173,725	-	-	-	-	-	173,725	40,480
Other accounts payable	613,673	-	-	-	-	-	613,673	142,994
Liability for financing lease	2,716	2,716	2,716	2,716	2,716	21,771	35,351	8,237
Other non-current liabilities	665	3,140	3,710	4,122	5,690	40,307	57,634	13,429
Debentures	216,344	159,007	189,456	184,327	187,197	575,217	1,511,548	352,211
Loans from banks and others	372,424	278,663	234,427	733,033	454,999	773,295	2,846,841	663,352
	1,379,547	443,526	430,309	924,198	650,602	1,410,590	5,238,772	1,220,703

As at December 31, 2017:

	Less than one year	1 to 2 years	2 to 3 Years	3 to 4 years	4 to 5 years	More than 5 years	Total
				NIS			
				(In thousands)			
Trade payables	135,752	-	-	-	-	-	135,752
Other accounts payable	357,472	-	-	-	-	-	357,472
Liability for financing lease	2,143	2,143	2,143	2,143	2,143	16,083	26,798
Other non-current liabilities	2,103	3,043	3,043	3,043	3,342	21,498	36,072
Debentures	110,509	121,041	117,845	114,650	111,455	440,710	1,016,210
Loans from banks and others	404,024	258,866	221,285	142,366	678,299	853,215	2,558,055
	1,012,003	385,093	344,316	262,202	795,239	1,331,506	4,130,359

NOTE 16:- FINANCIAL INSTRUMENTS (Cont.)

c. Fair value

The table below compares the balance in the books and the fair value of the Company's financial instruments presented in the financial statements, which are not according to their fair value:

	Book value December 31, 2017	Fair value December 31, 2017	Book value December 31, 2018	Fair value December 31, 2018
		Unaudited		
		(NIS in thousands)		
Loans from banking corporations and other liabilities				
Debentures (Level 1 of the fair value hierarchy)	778,004	822,724	1,324,772	1,324,962
Debentures (Level 2 of the fair value hierarchy) (*)	97,209	98,570	-	-
Fixed interest loans (Level 3 of the fair value hierarchy)	1,013,223	1,060,752	1,007,573	1,048,507
Total	1,888,436	1,982,046	2,332,345	2,373,469

	Convenience translation Book value December 31, 2018	Convenience translation Fair value December 31, 2018
	(Euro in thousands)	
Loans from banking corporations and other liabilities		
Debentures (Level 1 of the fair value hierarchy)	308,689	308,734
Debentures (Level 2 of the fair value hierarchy) (*)	-	-
Fixed interest loans (Level 3 of the fair value hierarchy)	234,778	244,316
Total	543,467	553,050

(*) As a result of the registration the Company’s Series A bonds for trading, the balance as of December 31, 2018 is presented in Level 1 in the fair value hierarchy. For further details, see Note 21.

NOTE 16:- FINANCIAL INSTRUMENTS (Cont.)

d. Changes in liabilities deriving from financing activity

	January 1, 2018	Cash flows	Effect of changes in exchange rates	Recognition of liabilities in respect of financing lease	Other changes	December 31, 2018
Liability in respect of financing lease	26,804	-	-	8,549	-	35,353
Dividend payable	99,087	(49,544)	-	-	642	50,185
Bonds	875,213	441,641	-	-	7,918	1,324,772
Loans from banking corporations	2,302,575	179,045	33,778	-	69,822	2,585,220
	3,303,679	571,142	33,778	8,549	78,382	3,995,530

NOTE 17:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits

According to the labour laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current deposits in defined contribution plans pursuant to Section 14 of the Severance Pay Law, as outlined below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and period of employment which establish the entitlement to receive the compensation. It is noted that the Group companies in Germany do not have such liability, in accordance with German labour laws.

The post-employment employee benefits are normally financed by deposits classified as defined benefit plans or as defined contribution plans, as detailed below.

1. Defined contribution plans

   Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed deposits made by the Group in pension funds and/or in policies of insurance companies release the Group from any additional liability to employees in respect of whom the said contributions are made. These deposits and those for compensation represent defined contribution plans.

2. Defined benefit plans

   The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in appropriate insurance policies.

NOTE 18:- OTHER NON-CURRENT LIABILITIES

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Liability in respect of leasing contracts recognized as business combinations	-	268,636	62,596
Financial derivatives	29,129	75,060	17,490
Liability in respect of operating lease	41,364	47,608	11,093
Financial lease	26,804	35,353	8,238
Others	14,005	22,205	5,174
	111,302	448,862	104,591

NOTE 19:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Contingent liabilities

1. a. The southern part of the Dead Sea is used by the Dead Sea Works as artificial evaporation ponds to which seawater is pumped from the northern end of the Dead Sea. Over the years, several hotels have been built in the area, among which 4 hotels in which the Group or associate companies have rights. In view of the danger of flooding of the hotels due to the rise of the water level, the protective measures surrounding the ponds are occasionally elevated.

   To the best of the Group's knowledge, Dead Sea Works is due to start carrying out the works of "harvesting the salt" and thus lowering of water level no additional cost to the hotels.

   b. The insurance companies do not cover in the insurance policies damages caused by the phenomenon of "swallow-holes" in the Dead Sea area. Consequently, the insurance market currently offers no possibilities for insuring the "swallow-hole" phenomenon, which represents the market practice.

2. Various claims have been filed against the Group by third parties in the aggregate amount of approximately NIS 29 million. The Company's financial statements include the appropriate provisions, which, in the opinion of the Group's management and based on the advice of its legal counsel, adequately reflect the potential liabilities in respect of these claims.

3. On May 22, 2013, a claim with regard to publication of hotels' stars rating, in a total amount of NIS 50 million, was filed against a few companies in the Group, together with a petition for approval of the claim as a class action. On December 15, 2016, the petition to file a class action was approved in the matter. In Management's opinion based on the opinion of the Group's legal advisors, it is not possible to assess the prospects of the claim at this stage, and no provision has been made in the financial statements in respect of the claim.

4. As of the date of signing the report, 6 claims had been filed against the Group, with requests for them to be recognized as class actions, concerning operating matters (for example, room size, accessibility, smoking, vacation rights, etc.). As of the date of approval of the financial

NOTE 19:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

statements, a settlement arrangement had been agreed upon in respect of one of the claims; with regard to the rest, the Group is examining the said claims through its legal advisors

5. Since 2007, the Group has taken in asylum seekers that have been granted collective temporary protection from deportation by the Israeli government (hereinafter: "the asylum seekers"), and most of whom have been under this protection for the past several years. The Group has received from the tax authorities a demand to pay a tax levy from the salary paid to the asylum seekers, but according to the Group legal advisors, the asylum seekers are considered legal residents of Israel under Foreign Workers Law, and therefore the tax levy should not be applied. On August 22, 2016, a judgment was given in the Beer Sheva District Court regarding one of the hotels in Eilat and an associate company in the Group, which rejected the Company's appeal against the judgment in the Magistrate's Court on the said matter. In October 2016, the Company filed an appeal to the Supreme Court in respect of this judgment.

   In September 13, 2017, the Supreme Court rejected the Group's appeal. As a result, in 2017, an expense was recognized during the reporting period, in the amount of approximately NIS 14 million under other expenses in respect of the monetary damage that might be caused following rejection of the appeal (in addition to equity losses in the amount of approximately NIS 4.65 million due to a provision made by an associate company).
   In May 2018, it was decided in the Knesset Finance Committee that all fines and interest in all matters relating to debts in respect of foreign workers’ levies would be canceled and payment in installments would be allowed. The abovementioned beneficiaries are granted to companies who have arranged the treatment of foreign workers' levies no later than July 30, 2018.
   The Group arranged the payments in accordance with the outline described above.

b. Commitments

As of December 31, 2018, the Group has agreements to lease properties for periods ranging between 3 years and 25 years. The cost of leasing in the year ended December 31, 2018 amounted to approximately NIS 797 million.

Future minimum rent under non-cancellable lease agreements as of December 31, 2018 are:

	NIS	Convenience translation Euro
	(In thousands)	
First year	797,478	185,823
Second to fifth year	3,143,248	732,419
Sixth year and thereafter	11,012,347	2,566,024
	14,953,073	3,484,266

The future minimum rent described above does not include rent for hotels that has been leased after the reporting date, as detailed in Note 32.

NOTE 19:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

c. Below is a table of the commitments of the Company during the reporting period regarding the opening of new hotels in Israel and Europe:

Property location	Transaction date	Transaction type	No. of rooms	Percentage holding	Property cost/ annual rent amount	Expected date of opening / Lease period
Cologne, Germany	January 2018	Leased	336	100%	About € 3.2 million	During 2022
Herzliya, Israel	January 2018	Leased	179	33%	About NIS 8.7 million	Leased and operated 100% by the Company starting May 2018 – Acquired 33% in February 2019
Warsaw, Poland	March 2018	Leased	331	100%	About € 4 million	During 2020
Mannheim, Germany	March 2018	Leased	153	100%	€ 1.3 million	August 2018
Jerusalem, Israel	March 2018	Leased	168	100%	About NIS 4.5 million	During 2021
Beer-Sheva, Israel	March 2018	Acquisition	257	100%	About NIS 137 million	Managed by the Company until completion of acquisition in May 2018
Haifa, Israel	March 2018	Acquisition	187	100%	About NIS 105 million	Leased until acquisition in May 2018
Frankfurt, Germany	June 2018	Leased	374	100%	About € 4.5 million	During 2023
Frankfurt, Germany	July 2018	Leased	348	100%	About € 3.2 million	During 2021
The Netherlands (5)	August 2018	Leased, owned and managed	1,938	100%	About € 153 million	August 2018
Edinburgh, Scotland (2)	August 2018	Acquisition	186	100%	£ 52 million	Operated from acquisition date
Eilat, Israel	July 2018	Acquisition	281	100%	About NIS 220 million	Managed by the Company until completion of the purchase in January 2019
Herzliya, Israel (3)	October 2018	50%-owned	227	50%	About NIS 270 million	Leased and operated by the Company fully
Hamburg, Germany	October 2018	Leased	142	100%	About €1.1 million	During 2022
Southampton, United Kingdom	October 2018	Acquisition	173	100%	About £ 29.5 million	Operated from acquisition date
Manchester, United Kingdom (4)	October 2018	Leased	312	100%	About £ 15 million	November 2018
Protaras, Cyprus	November 2018	Management	122	0%	(*)	During 2019
Nicosia, Cyprus	December 2018	Leased	198	50%	About € 9.5 million	During 2020

(*) Management agreement.

NOTE 19:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. In June 2018, the Company completed a sale and leaseback transaction of the Hotel Leonardo Royal, München. The proceeds from the sale amounted to € 157 million. The consideration was determined, inter alia, taking into account an early repayment penalty (about € 4.5 million) in respect of the bank loan for the security of which the property was mortgaged. As of the date of the report, the proceeds had been received in full. As at the balance sheet date, a total of € 42 million of the total loan had been used for recycling and extending loans in other properties in the Group, while the balance of the loan in respect of the abovementioned hotel amounting to NIS 15 million has been repaid. As a result of the transaction outlined above, a total of NIS 265 million in respect of the revaluation of the property (net of the effect of tax) accumulated until the date of the sale was classified revaluation reserve to retained earnings.
   The leasing fees according to the new agreement had been determined at the higher of the minimum sum of € 7.2 million or a percentage of the turnover.

2. In August 2018, an investee company entered into an agreement with a third party in an agreement to purchase an existing hotel, a vacant adjacent plot and an additional plot on which a residential property is located in the city of Edinburgh, Scotland, for a total consideration of £ 52 million (£ 55.6 million including expenses and taxes). It should be noted that the existing hotel is leased to an investee company of the Company. Insofar as an appropriate building permit will be received, the investee company intends to erect on the vacant parcel an additional wing that will include 101 rooms at an expected overall cost of £ 14 million, and construct a new NYX Hotel which will include 131 rooms at an expected total cost of £ 17 million and 31 housing units in a structure separate from the new hotel at an expected total cost of £ 1 million. Application for building permit was filed. The transaction was completed in November 2018 and the consideration was paid in full.

3. In October 2018, the Group entered into an agreement with a third party in an agreement to purchase 50% of the ownership rights of the Herods Hotel in Herzliya, which has been leased and managed by the Group since 2015. As of the approval date of the financial statements, the transaction has not yet been completed.

4. In October 2018, a investee company signed a 35-year leasing agreement in respect of the Midland Hotel in Manchester, England. As part of the transaction, the Company paid a total of £ 15 million in respect of the hotel's equipment and its operating rights.

5. For details regarding the Apollo transaction, see Note 4b, above.

d. For details regarding the Jurys Inn transaction, see Note 4a, above.

NOTE 20:- LIENS AND GUARANTEES

a. The balances of liabilities secured by pledges on the assets are as follows:

	December 31, 2017	December 31, 2018	Convenience translation December 31, 2018
	NIS	NIS	Euro
	(In thousands)		
Short-term credit	60,027	40,328	9,397
Loans from banking corporations and others, including current maturities	2,242,548	2,490,853	580,401
	2,302,575	2,531,181	589,798

b. The majority of the Group's liabilities are secured by a fixed charge on the Group hotels in which the Group has freehold or leasehold rights, a charge on rights and funds by virtue of management agreements or insurance rights. In some cases, a charge has also been recorded on the rights to the shares of the corporation holding property rights.
In some cases, a floating charge has been recorded on the property of the borrowing company (companies indirectly held by the Group) in favor of the lending entity. (In some cases, a floating charge was recorded in favor of the State of Israel as is customary in these circumstances in respect of State grants.)
In addition, there is a negative pledge on the Company and on Fattal Hotels.

c. As of the balance sheet date, the Group has provided bank guarantees amounting to approximately NIS 35.4 million and €71.8 million, mainly to secure various lease and management agreements and obligations to banks in Israel or overseas of investee companies and partnerships.

d. The Group has guaranteed up to the amount of approximately € 277 million to secure the liabilities of fully owned investee companies and partnerships abroad to banking corporations and others. In addition, Fattal Hotels has also guaranteed 16.5% of the total loans provided by one of the banking corporations to a jointly controlled company.

e. The Group and the partner in a jointly controlled entity have, jointly and severally, provided a limited guarantee of NIS 15 million to a banking corporation in connection with the credit extended to an investee company, which will secure and back the exercise of the guarantees provided by the shareholders in this company.

f. In addition to the aforementioned financial guarantees, it is noted that the management partnership usually pledges the hotel inventory ("property guarantee") (i.e. – the equipment which is used by the management partnership in the operation of the hotel) in favor of the bank that provided financing to the property company, as part of the collateral provided to the bank in respect of this financing.

g. With regard to securities given to Fattal Properties (Europe) against Series B bonds, see Note 15 above.

NOTE 21:- CAPITAL

a. Composition of share capital:

	December 31,			
	2017		2018	
	Authorized	Issued and paid-up	Authorized	Issued and paid-up
	Number of shares			
Ordinary shares of NIS 1 par value each	35,700	12,789	-	-
Ordinary shares without par value	-	-	50,000,000	14,441,800

In January 2018, the par value of the Company's shares was canceled and each ordinary share of NIS 1 par value was split in the authorized capital and in the issued capital to 1,000 ordinary shares without a par value; in addition, the Company increased the authorized capital by 14,300,000 additional ordinary shares.

On February 21, 2018, the Company completed an issue to the public of 1,652,800 ordinary shares of the Company in consideration of NIS 507.4 million and the registration for trading on the stock exchange of 12,789,000 existing shares of the Company and with effect from that date, the Company became a public company as the term is defined in the Companies Law, 5749 – 1999. The total costs of the issue amounted to about NIS 27.1 million (before the effect of the tax benefit). David Fattal is the main controlling shareholder in the Company.

In addition, following completion of the issue, the Company registered the Company's Series A bonds for trading which, until that date, were traded in the Institutional Continuity System. As a result, and in accordance with Clause 2.5 of Trust Deed, interest of the bonds was reduced by 0.3%, with effect from the date of registration for trading on the stock exchange.

b. Issue of options

On February 12, 2018, 156,426 non-registered options were allocated to 70 offerees (including 36,163 options to 9 senior office-holders (including a director) and 10,933 to three sons of the controlling shareholder who serve in management positions in the Group). On that date, it was approved that an additional quantity of up to 54,497 unquoted options would be allocated pursuant to the abovementioned plan to other offerees in the future. The non-registered options are available for exercise to ordinary shares of the Company in exchange for an exercise price of NIS 301 per share and subject to vesting periods which have been determined between 3 and 7 years from the date of allocation. The exercise periods provided are between 2 and 4 years from the date of vesting and in accordance with the "net exercise" (cashless) mechanism.

On March 13, 2018, 36,163 non-registered options were allocated to 13 offerees who are service-providers to the Fattal Group. The terms of the options are identical to the options described above.

c. Rights attached to shares:

Voting rights at the general meeting, right to dividends and rights upon liquidation of the Company.

NOTE 21:- CAPITAL (Cont.)

d. Management of capital in the Company

The Company's objective in managing capital is to ensure long-term operating profitability in order to provide an adequate return for the shareholders.

As for financial covenants, see Note 14b and 15.

e. Dividend

On April 30, 2017, the Board of Directors resolved to distribute a dividend of NIS 30 million. The dividend was paid in July 2017.

On September 18, 2017, the Board of Directors resolved to distribute a dividend amounting to NIS 250 million. In 2017, NIS 151 million was paid and the balance was provided to the Company as shareholders' loan by each shareholder in an amount equal to the amount of the dividend to which that shareholder was entitled. The loans were extended to the Company without interest and are linked to the increase in the CPI. The loans will be repaid immediately after the date of receiving the proceeds of the Company's issue (actually repaid on February 27, 2018) and the balance will be repaid on April 1, 2019. As of December 31, 2018, the balance of the shareholder loans which had not yet been repaid was a total of NIS 50.2 million.

NOTE 22:- TAXES ON INCOME

a. Tax laws applicable to the Group companies

1. Companies in Israel

a) Income Tax (Inflationary Adjustments) Law, 1985

In accordance with the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the Knesset (the Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the Adjustments Law from 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, with the exception of certain adjustments in respect of changes in the Israeli CPI in the period up to December 31, 2007. Adjustments relating to capital gains, such as for the sale of real estate (betterment) and securities, continue to apply until the date of disposal. The amendment to the law includes, inter alia, the cancellation of the inflationary addition and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year), effective 2008.

b) Controlled foreign companies in Israel (hereinafter – "CFC")

On January 1, 2014, Amendment 198 to the Ordinance came into effect. The Amendment introduced several changes in CFC legislation, which apply to income which a foreign company generated or derived as January 1, 2014.

NOTE 22:- TAXES ON INCOME (Cont.)

In accordance with the provisions of the Ordnance, the undistributed profits originating from passive revenues ("unpaid profits") of a "foreign controlled company" (hereinafter in this section – "the foreign company") shall be deemed to have been distributed to its controlling shareholders who are Israeli residents as a "notional dividend".

A "controlled foreign company" is defined in the Ordinance as a foreign resident company that meets the following cumulative conditions:

- Its shares or interests therein are not listed for trading on the stock exchange; however, if they are listed, less than 30% of the shares or rights therein have been issued to the public or listed for trading. For these purposes, interests held by the controlling shareholder shall not be taken into account.
- The bulk of the company's income in the tax year or the bulk of its profits originates from passive revenues. The tax rate applicable to its passive revenues in the foreign country does not exceed 15%.
- More than 50% in one or more of the means of control in the company are held, directly or indirectly, by Israeli residents.

c) The Law for the Encouragement of Industry (Taxation), 1969

Some of the Group companies have the status of an "industrial company" as defined by this law. According to this status and by virtue of regulations that have been published, the companies are entitled to claim, and have indeed claimed, a deduction of accelerated depreciation with regard to equipment used in a hotel, as provided in the regulations under the Adjustments Law.

Furthermore, pursuant to this law, certain subsidiaries file a consolidated tax return for income tax purposes.

d) Benefits under the Law for the Encouragement of Capital Investments, 1959

1) Pursuant to the Law for the Encouragement of Capital Investments, 1959 (hereinafter - the Law), certain subsidiaries operating some of the Group's hotels have been granted "approved enterprise" status, entitling them to certain investment grants and/or tax benefits. The subsidiaries did not utilize any tax benefits, except for the entitlement to deduct accelerated depreciation over five tax years and the receipt of investment grants from the
State, since they have yet to earn taxable income. The period of benefits ended in 2011 and 2012.

The benefits are conditional upon the fulfillment of the conditions stipulated by the Law and the letters of approval for the performance of the investments. Non-compliance with the conditions may cancel all or part of the benefits and require a refund of the amounts of the benefits, with the addition of interest or linkage differences. Management estimates that the subsidiaries are meeting the aforementioned conditions.

NOTE 22:- TAXES ON INCOME (Cont.)

2) a) In 2005, an amendment to the Law came into effect according to which corporations that meet the prescribed criteria, including those that own an industrial enterprise or a hotel for accommodation in which at least 25% of total accommodations (in each tax year or based on an average calculation in the tax year and in the two preceding tax years) are of foreign residents, own a "beneficiary enterprise" and are entitled to tax benefits as outlined above without the need for advance approval.

b) Fattal Hotels (which leases and operates, inter alia, the Leonardo Boutique Hotel in Ramat HeHayal) has received a "beneficiary enterprise" status (as this term is defined by the Law) from the Tax Authority and chose 2009 as the "year of election" pursuant to Section 51d to the Law.

c) Fattal Hotels (which leases and operates, inter alia, the Leonardo Boutique Hotel in Rehovot) has received a "beneficiary enterprise" status (as this term is defined by the Law) from the Tax Authority in connection with its investment in the hotel and chose 2012 as the "year of election" pursuant to Section 51d to the Law.

d) Fattal Hotels (which leases and operates, inter alia, the Rothschild 22 Hotel and the NYX Hotel in Tel Aviv) has received a "beneficiary enterprise" status (as this term is defined by the Law) from the Tax Authority and chose 2016 as the "year of election" pursuant to Section 51d to the Law.

e) <u>Other tax benefits</u>

1) The Group has six hotels under its ownership and several hotels under its management, which were registered and are operating in the Eilat region, which is defined as a "Free Trade Zone".
On November 21, 2011, the Knesset passed an amendment to the Law of Free Trade Zone in Eilat (Exemptions and Tax Discounts), (Amendment No. 6), 2011, which prescribes that anyone who was a resident of Eilat during the entire tax year is entitled in that year to an income tax credit at the rate of 10% of its taxable income from profession or labor, providing that it was earned or generated in the region of the city of Eilat or in the borders of the region of Eilat.

2) By virtue of the Income Tax Regulations (Tax Reliefs on Income of Residents of Eilat and the Arava Settlements), 1975, and by virtue of the Income Tax Regulations (Tax Reliefs in Certain Nahal Settlements), 1978, the Group deducts additional depreciation amounting to 50% of the depreciation for income tax purposes on assets in the Eilat region, and an additional depreciation deduction of 25% on the depreciation for income tax purposes on assets in the Dead Sea and Tiberias regions. The additional deduction for assets acquired through June 30, 2003 was claimed on the basis of the tax Authority's directives of December 8, 2008 and April 28, 2010 and for assets acquired after said date - claimed on basis of an opinion of the Company's legal counsel.

NOTE 22:- TAXES ON INCOME (Cont.)

2. Foreign companies

The foreign companies in the Group are subject to the payment of tax abroad according to the local tax laws. Foreign companies in the Group are assessed in accordance with the applicable tax law in their resident countries. The tax liability of foreign companies holding real estate only is in respect of profit from operations (such as disposal of properties) or alternatively, in respect of rental income (in certain cases, with the addition of foreign exchange differences accrued or realized in respect of properties, which are not denominated in local currencies), less the expenses which incurred in connection with the properties, all in accordance with the local tax laws in the country in which the foreign companies was incorporated.

b. Tax rates applicable to the Group companies

1. Companies in Israel

The Israeli corporate income tax rate was 23% in 2018, 24% in 2017 and 25% in 2016.

The deferred tax balances included in the financial statement have been calculated at a tax rate of 23%.

2. Foreign companies

The corporate tax applicable to German resident companies, which do not have business operations, is 15.825% (including a solidarity tax). Companies with business operations are also subject to trade tax at the rate of 14%-17%.

The corporate tax rate applicable to Swiss resident companies (the Zurich Canton) is 21%.
The corporate tax rate applicable to Luxembourg resident companies is 26.01%.
The corporate tax rate applicable to Netherlands resident companies is 20% to 25%.
The corporate tax rate applicable to Italian resident companies is 24%. Companies with business operations are also subject to trade tax at the rate of 3.9%.
The corporate tax rate applicable to Spanish resident companies is 25%.
The corporate tax rate applicable to Austrian resident companies is 25%.
The corporate tax rate applicable to England and Scotland resident companies is 19%, and commencing in 2020, the tax rate is 17%.

c. Partnerships are not independent taxable entities for income tax purposes. The earnings of the investee partnerships are adjusted for tax purposes and transferred to the partners according to their share in the partnership's earnings.

d. Tax assessments

1. Final tax assessments

Fattal has received agreed assessments up to the 2014 tax year, subject to certain conditions.

The other Group companies in Israel received final assessments or assessments that are deemed to be final up to and including the 2013 tax year, subject to certain conditions.

NOTE 22:- TAXES ON INCOME (Cont.)

A number of the Group companies in Germany are in the process of discussions on assessments for the years 2013-2015. Group management is of the opinion that sufficient provisions have been included to cover these assessments. The remaining companies of the Group overseas have not yet been assessed.

2. As regards the requirement of the tax authorities for levy on asylum seekers see Note 19a(5).

e. Carryforward losses for tax purposes

Carryforward tax losses of consolidated companies in Israel total approximately NIS 56 million as of December 31, 2018.
Carryforward tax losses of consolidated companies abroad as of December 31, 2018 total approximately € 16.3 million.
In respect of accumulated losses amounting to approximately NIS 126 million, the Group has created a deferred tax asset of approximately NIS 32 million. Deferred tax assets relating to the balance of carry-forward losses were not created as it is not probable that they will be utilized in the foreseeable future.

f. Deferred taxes

Composition

	Statement of financial position		
			Convenience translation
	December 31,		December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Deferred tax liabilities			
Depreciable property, plant and equipment	(316,938)	(260,053)	(60,596)
Taxes arising on business combinations	-	(47,684)	(11,111)
Other temporary differences	(1,666)	(43,067)	(10,035)
	(318,604)	(350,804)	(81,742)
Deferred tax assets			
Depreciable property, plant and equipment	5,695	6,829	1,591
Carry-forward tax losses	37,585	31,592	7,361
	43,280	38,421	8,952
Deferred tax liabilities, net	(275,324)	(312,383)	(72,790)

NOTE 22:- TAXES ON INCOME (Cont.)

Deferred taxes are presented in the statement of financial position as follows:

	December 31, 2017	December 31, 2018	Convenience translation December 31, 2018
	NIS		Euro
	(In thousands)		
Non-current assets	7,056	22,966	5,351
Non-current liabilities	(282,380)	(335,349)	(78,141)
	(275,324)	(312,383)	(72,790)

The deferred taxes are computed at the average tax rate of 23% for companies in Israel and in accordance with the tax rates set forth in Note 22b(2) abroad, based on the tax rates that are expected to apply upon realization.

g. Taxes on income included in profit or loss

	Year ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2018	Convenience translation Year ended December 31, 2018
	NIS			Euro
	(In thousands)			
Current taxes	16,995	73,188	157,961	36,807
Prior years' taxes	11,780	5,524	2,283	532
Deferred taxes	32,263	(8,224)	(60,781)	(14,163)
	61,038	70,488	99,463	23,176

h. Taxes on income relating to other comprehensive income

Mainly in respect of the revaluation of fixed assets, amounting to NIS 53,105 thousand, NIS 60,612 thousand and NIS 2,596 thousand as of December 31, 2018, 2017 and 2016, respectively.

i. Theoretical tax

A reconciliation between the tax expense, assuming that all the income and expenses, gains and losses in the statement of income were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

NOTE 22:- TAXES ON INCOME (Cont.)

	Year ended December 31,			Convenience translation Year ended December 31,
	2016	2017	2018	2018
	NIS			Euro
	(In thousands)			
Income before taxes on income	199,803	267,949	341,389	79,548
Statutory tax rate	25%	24%	23%	23%
Tax at the statutory tax rate	49,951	64,308	78,519	18,296
Increase (decrease) in taxes on income resulting from the following factors:				
Tax in respect of the Company's share in profits of associate companies and partnerships	(1,868)	(1,710)	(682)	(159)
Adjustment of deferred tax balances due to a change in tax rates	(6,421)	-	-	-
Losses in the reporting year for which no deferred taxes were created	3,941	4,157	4,475	1,043
Income at different tax rates	10,680	8,625	8,838	2,059
Prior years' taxes	11,780	5,524	2,282	532
Other differences	(7,025)	(10,416)	6,031	1,405
	61,038	70,488	99,463	23,176
Effective tax rate	31%	26%	29%	29%

NOTE 23:- REVENUES FROM HOSPITALITY SERVICES AND OTHERS

	Year ended December 31,			Convenience translation Year ended December 31,
	2016	2017	2018	2018
	NIS			Euro
	(In thousands)			
Rooms	1,401,873	1,948,898	2,746,001	639,856
Food and beverages	275,443	464,349	726,424	169,266
Other services	111,366	142,030	198,801	46,323
Hotel management fees	57,810	30,807	94,417	22,000
	1,846,492	2,586,084	3,765,643	877,445

The Group has hotels to which it owns all of the rights (by title or lease) and hotels that it leases under an operating lease which are included in the consolidated financial statements.

NOTE 23:- REVENUES FROM HOSPITALITY SERVICES AND OTHERS (Cont.)

In hotels where the management agreement includes guaranteed rental fees and the Group bears most of the risks deriving from the management, the Group records in the financial statements all revenues and operating expenses and assets and liabilities resulting from the operation. In other hotels, where the Group earns revenues from management fees that derive from the turnover and operating profit, the Group records in the financial statements only the management fees to which it is entitled.

For details regarding the transfer of the Protal Tourism Hotels in 2017 from an outline plan for management by the Group to an outline plan of leasing hotels to the Group, see Note 9.
For details regarding management fees in the interim periods in respect of the Jurys Inn transaction, see Note 4a.

NOTE 24:- COST OF REVENUES

	Year ended December 31,			Convenience translation Year ended December 31,
	2016	2017	2018	2018
	NIS			Euro
	(In thousands)			
Salaries and related expenses	414,749	614,548	860,569	200,525
Food and beverages	187,904	273,108	364,994	85,049
Expenses relating to rooms department	167,922	295,160	411,326	95,844
Maintenance and energy expenses	132,744	177,721	231,422	53,924
Municipal taxes and insurance	36,493	54,481	92,253	21,496
Others	18,865	27,012	33,819	7,880
	958,677	1,442,030	1,994,383	464,718

NOTE 25:- SELLING AND MARKETING EXPENSES

	Year ended December 31,			Convenience translation Year ended December 31,
	2016	2017	2018	2018
	NIS			Euro
	(In thousands)			
Advertising and marketing	42,595	56,874	79,319	18,482
Salaries and related expenses	14,812	20,547	31,710	7,389
	57,407	77,421	111,029	25,871

NOTE 26:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,			Convenience translation Year ended December 31,
	2016	2017	2018	2018
	NIS			Euro
	(In thousands)			
Salaries and related expenses	86,769	120,586	194,072	45,222
Professional services	18,041	28,995	47,067	10,967
Office expenses, communications and postage	19,539	22,705	30,137	7,022
Credit card commissions	12,328	15,778	27,981	6,520
Vehicle maintenance	3,772	4,197	5,311	1,238
Others	12,763	19,566	35,661	8,309
	153,212	211,827	340,229	79,278

NOTE 27:- OTHER OPERATING INCOME (EXPENSES), NET

	Year ended December 31,			Convenience translation Year ended December 31,
	2016	2017	2018	2018
	NIS			Euro
	(In thousands)			
Capital gain from sale of investments	14,458	2,915	-	-
Income (expenses) in respect of previous years	(11,227)	(23,327)	3,012	702
Costs of business combinations and acquisitions of properties	-	-	(44,516)	(10,373)
Other expenses	(1,524)	(9,629)	(2,888)	(673)
	1,707	(30,041)	(44,392)	(10,344)

NOTE 28:- FINANCE INCOME AND EXPENSES

	Year ended December 31,			Convenience translation Year ended December 31,
	2016	2017	2018	2018
	NIS			Euro
	(In thousands)			
a. Financial income				
Others	2,548	3,197	4,815	1,122
	2,548	3,197	4,815	1,122
b. Financial expenses				
Financial expenses in respect of long-term loans and bonds	77,792	50,566	103,325	24,076
Expenses in respect of derivative financial instruments	3,385	1,098	19,492	4,542
Others	4,100	1,016	7,136	1,663
	85,277	52,680	129,953	30,281

NOTE 29:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. Balances with interested and related parties

	December 31,		Convenience translation December 31,
	2017	2018	2018
	NIS		Euro
	(In thousands)		
Current assets			
Chain hotels	53,413	66,505	15,497
Non-current assets – related companies	414,777	535,935	124,880
Current liabilities			
Interested parties	-	55,907	13,027
Non-current liabilities – companies and			
Interested parties	101,452	6,029	1,405
partnerships accounted for at equity basis	4,740	3,950	920

NOTE 29:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b. Transactions with interested and related parties *)

	Year ended December 31,			Convenience translation Year ended December 31,
	2016	2017	2018	2018
	NIS			Euro
	(In thousands)			
Salaries and related expenses to interested parties **) ***)	(10,734)	(10,846)	(17,543)	(4,088)
Management fees from companies and partnerships accounted for at equity	43,441	26,584	11,800	2,750
Remuneration of directors not employed in the Company	270	270	628	146
Number of directors to whom the benefit refers	1	1	5	-

*) These transactions do not include immaterial transactions as defined by Company's management.

**) Including payment of management fees to a related company as stated in c. below.

***) From 2018, also includes a director employed in the Company. In 2017 and 2016, includes only the controlling shareholder and his children.

c. Benefits to key management personnel (including directors)

On October 30, 2016, an agreement was signed for the provision of CEO, advisory and entrepreneurship services between Fattal Investments (1998) Ltd. (a private company owned by the Company's controlling shareholder) and the Company, in effect from November 1, 2016, and an addition to the agreement from December 2017. The key terms of the new agreement are (inter alia) as follows: (a) the Manager is entitled to monthly management fees of NIS 243 thousand (plus VAT), linked to the increase in the Israeli CPI on the payment date in relation to the Israeli CPI of August 2016; (b) the Manager is entitled to an annual bonus equivalent to 10% of the annual net income, as defined in the agreement, according to the Fattal Holding's annual financial statements, provided that the bonus payable to Fattal Holdings and the Manager does not exceed NIS 5,824 thousand a year, linked to the Israeli Consumer Price Index (index base – August 2016); (c) other related employment terms. This agreement cancels any previous agreement between the parties.

NOTE 29:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

The cost of related parties in the reported periods is as follows:

	Year ended December 31,			Convenience translation Year ended December 31,
	2016	2017	2018	2018
	NIS			Euro
	(In thousands)			
	8,943	8,973	(* 9,581	2,233

*) Including an issue bonus of NIS 500 thousand.

d. Engagements with interested and related parties

a) The Company's controlling shareholder has provided personal guarantees limited in amount in favour of banks that extended credit to companies accounted for by the equity method. As of the date of approval of the financial statements, these guarantees amount to approximately € 1.5 million.

b) The controlling shareholder's three sons are employed at the Company in various positions in the reporting periods.

c) In September 2017, the Group signed a lease agreement with a wholly-owned subsidiary of a controlling shareholder for the Group's headquarters office in Israel, commencing from January 2018, for annual lease fees of NIS 1.8 million. The lease period was set for 24 years and 11 months (including 3 option periods).

NOTE 30:- NET EARNINGS PER SHARE

Details of the number of shares and the earnings used in the calculation of net earnings per share

	For the year ended December 31						2018	
	2016		2017		2018		Convenience translation	
	Weighted number of shares	Net earnings attributed to the shareholders of the Company	Weighted number of shares	Net earnings attributed to the shareholders of the Company	Weighted number of shares	Net earnings attributed to the shareholders of the Company	Weighted number of shares	Net earnings attributed to the shareholders of the Company
	NIS thousands						Euro Thousands	Euro Thousands
Number of shares and the earnings	12,789	134,295	12,789	193,679	14,441	238,682	3,365	55,616

The calculation is based on the number of shares after the split. For further details, see Note 21a.

NOTE 31:- OPERATING SEGMENTS

a. General

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") for making decisions about resources to be allocated and assessing performance. To the end of the second quarter of 2018, the Group's activity was conducted through two reportable operating segments: In Israel and in Europe (except for Cyprus), from the third quarter of 2018, as a result of completing the acquisition of the operating platform of 36 hotels as detailed in Note 4a, the Group presents a new segment – United Kingdom and Ireland, and therefore, from the third quarter of 2018, the Group's activity is conducted through three reportable operating segments: in Israel, in Europe (except for the United Kingdom, Ireland and Cyprus) and in the United Kingdom and Ireland. Comparative figures have been restated to reflect the change in the structure of the Group's reportable segments. In addition, from March 2017, the Group has investment through subsidiaries in 3 hotels in Cyprus, which do not amount a reportable segment, and, accordingly, is reported as one.

Segment performance is evaluated principally based on revenues and operating income before depreciation and amortization, financing and other expenses (EBITDA), including in respect of hotels owned through associate companies.

The segment results reported to the CODM include items that are allocated directly to the segments and items that can be allocated on a reasonable basis. Items that were not allocated, mainly the Group's headquarter assets, general and administrative costs, finance and taxes on income are managed on a group basis.

NOTE 31:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments

	Israel	Abroad, mainly Germany	UK and Ireland	Other	Adjustments	Total	Convenience translation (Note 1d)
	NIS						Euro
	(In thousands)						
Year ended December 31, 2018 (audited):							
Segment revenues	1,526,806	1,631,164	617,358	96,073	(105,758)	3,765,643	877,445
Operating income before depreciation and amortization and other operating expenses	271,006	374,403	139,303	27,112	(91,084)	720,740	167,942
Depreciation and amortization	76,829	140,791	32,891	8,080	(45,804)	212,787	49,582
Other operating expenses, net						(44,392)	(10,344)
Finance expenses, net						(125,138)	(29,159)
Group's share of earnings of companies and partnerships accounted for at equity						2,966	691
Income before taxes on income						341,389	79,548

	Israel	Abroad, mainly Germany	UK and Ireland	Other	Adjustments	Total
	NIS					
	(In thousands)					
Year ended December 31, 2018 (audited):						
Total assets	3,208,624	4,273,000	1,957,791	407,613	(958,128)	8,888,900
Total liabilities	2,258,246	2,816,824	1,300,750	250,978	(958,128)	5,668,670

NOTE 31:- OPERATING SEGMENTS (Cont.)

	Israel	Abroad, mainly Germany	UK and Ireland	Other	Adjustments	Total
	NIS (In thousands)					
Year ended December 31, 2017 (audited):						
Segment revenues	1,305,719	1,283,578	89,746	65,286	(158,245)	2,586,084
Operating income before depreciation and amortization and other operating expenses	228,192	301,562	15,081	16,227	(71,844)	489,218
Depreciation and amortization	73,052	110,181	5,502	4,718	(44,585)	148,868
Other operating expenses, net						(30,041)
Finance expenses, net						(49,483)
Group's share of earnings of companies and partnerships accounted for at equity						7,123
Income before taxes on income						267,949

	Israel	Abroad, mainly Germany	UK and Ireland	Other	Adjustments	Total
	NIS (In thousands)					
Year ended December 31, 2017 (audited):						
Total assets	2,417,563	3,570,935	997,057	298,132	(921,229)	6,362,458
Total liabilities	1,812,528	2,456,247	705,092	208,626	(921,229)	4,261,264

NOTE 31:- OPERATING SEGMENTS (Cont.)

	Israel	Abroad, mainly Germany	UK and Ireland	Other	Adjustments	Total
	NIS (In thousands)					
Year ended December 31, 2016 (audited):						
Segment revenues	993,535	1,137,018	28,608	-	(312,669)	1,846,492
Operating income before depreciation and amortization and other operating expenses	201,021	280,728	(4,332)	-	(66,288)	411,129
Depreciation and amortization	70,606	102,616	894	-	(36,325)	137,791
Other operating income, net						1,707
Finance expenses, net						(82,729)
Group's share of earnings of companies and partnerships accounted for at equity						7,487
Income before taxes on income						199,803

	Israel	Abroad, mainly Germany	UK and Ireland	Other	Adjustments	Total
	NIS (In thousands)					
Year ended December 31, 2016 (audited):						
Total assets	2,372,480	2,722,095	237,911	-	(759,503)	4,572,983
Total liabilities	1,462,832	1,905,033	12,908	-	(759,503)	2,621,270

NOTE 32:- EVENTS AFTER THE REPORTING DATE

a. Below is a table of the commitments of the Group signed after the reporting date:

Location of property	Transaction date	Transaction type	No. of rooms	Percentage holding	Property cost (100%)/ annual rent	Expected date of opening / Lease period
Bristol, England	January 2019	Leased	200	100%	About £ 1.4 million	During 2020
Cologne, Germany	January 2019	Leased	198	100%	About € 1.4 million	During 2020
Tel Aviv, Israel	January 2019	Leased	26	100%	About NIS 2.2 million	During 2020
Jerusalem, Israel	February 2019	Leased	90	100%	About NIS 2.7 million	During 2022
Rhodes, Greece	February 2019	Owned	114	50%	About € 4.5 million	During 2019
Athens, Greece	February 2019	Leased	180	100%	About € 1.3 million	During 2020
Rome, Italy	February 2019	Owned	81	100%	About € 16 million	Operated since acquisition date
London, United Kingdom (1)	March 2019	Leased	1,311	100%	About £ 55 million	Operated since acquisition date
Dublin, Ireland	March 2019	Owned	175	100%	About € 17 million	During 2021

(1) In March, 2018, the Company entered into an agreement through its subsidiary to lease 4 hotels in London (1,311 rooms) in consideration of annual leasing fees of £ 55 million. The lease agreement is for a period of 25 years with an option to extend for an additional five years. The rent will be updated every five years linked to the increase in the price index in the United Kingdom. It was agreed between the parties that the hotels would be renovated in accordance with an overall renovation plan financed by the lessor who undertook to extend a total of £ 34.5 million to finance the renovation. In addition, the hotel owners undertook to supplement the Company with shortfall on profitability of the hotels up to a total of £ 55 million a year, and in total, £ 34.5 million, in accordance with the conditions agreed between the parties.
In the event that the profitability of the hotels exceeds a total of £ 55 million in two consecutive years, the entire balance of the amount outstanding will be transferred to the tenant.
Pursuant to the agreement, the Company extended a guarantee limited in amount vis-à-vis the abovementioned hotel owners for the payment of the tenant's obligations, including the payment of leasing fees when due. Up to the date on which the EBITDAR multiplier in the two years preceding that date is equal to or higher than 1:1.5 (hereinafter: the date of the change), the amount of the guarantee will be limited to an amount equal to the annual leasing fees in five years (currently £ 275 million). From the date of the change, the amount of the guarantee will be limited to an amount equal to twice the annual leasing fees (currently £ 110 million).

b. On January 14, 2019, the Company effected an expansion of the Series B bonds, which are mentioned in Note 15 above, by way of a private placement to investors of NIS 125,828 thousand par value of Series B bonds of NIS 1 par value each of the Company, registered for trading, for gross monetary consideration of NIS 122,682 thousand (before deduction of issue costs of NIS 250 thousand), at a price of NIS 0.975 for each NIS 1 par value. Following the aforesaid allocation, the total amount of Series B bonds in circulation is NIS 581,668 thousand par value.

NOTE 32:- EVENTS AFTER THE REPORTING DATE (Cont.)

c. On March 14, 2019, Fattal Properties (Europe) effected an expansion of the series of Series C bonds, by way of an allocation to the public of NIS 200,000 thousand par value of Series C bonds of NIS 1 each of the Company, registered for trading, for gross monetary consideration of NIS 191,600 thousand (before the deduction of issue costs amounting to NIS 1,496 thousand) at a price of NIS 0.958 for each NIS 1 par value. Following the aforesaid allocation, the total of Series C bonds in circulation is NIS 388,000 par value.