**FATTAL HOLDINGS (1998) LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2019**

**UNAUDITED**

## INDEX



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# AUDITORS' REVIEW REPORT

**To the Shareholders of**

**FATTAL HOLDINGS (1998) LTD.**

## Introduction

We have reviewed the accompanying financial information of Fattal Holdings (1998) Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated statements of financial position as of September 30, 2019 and the related condensed consolidated statements of profit and loss, comprehensive income, changes in equity and cash flows for the nine and three months periods then ended. The Company's board of directors and management are responsible for the preparation and presentation of financial information for these interim periods in accordance with IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the financial statements of a certain company accounted for at equity, the investment in which amounted NIS 41,912 thousand as of September 30, 2019 and the Company's share of their losses and earnings amounted NIS 1,250 and NIS 2,958 thousand for the periods of nine and three months then ended, respectively. The financial statements of this company were reviewed by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for this company, is based on the reports of the other auditors.

## Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review and the reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review and the reports of the other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
November 26, 2019

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31, 2018 | September 30, 2018 | September 30, 2019 | Convenience translation (Note 1b) September 30, 2019 |
|---|---|---|---|---|
| | Audited | Unaudited | | Unaudited |
| | N I S (In thousands) | | | Euro |
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | 661,260 | 765,046 | 679,419 | 178,560 |
| Securities held for trading | 238,721 | 228,054 | 216,573 | 56,918 |
| Trade receivables | 320,081 | 424,657 | 443,914 | 116,666 |
| Other accounts receivable | 223,988 | 228,788 | 174,228 | 45,789 |
| Income tax receivable | 67,790 | 62,829 | 63,095 | 16,582 |
| Inventories | 16,336 | 15,162 | 18,884 | 4,963 |
| Restricted deposit | - | 88,528 | - | - |
| | 1,528,176 | 1,813,064 | 1,596,113 | 419,478 |
| Assets held for sale | 143,752 | 145,813 | 145,790 | 38,315 |
| | 1,671,928 | 1,958,877 | 1,741,903 | 457,793 |
| NON-CURRENT ASSETS: | | | | |
| Long-term receivables | 605,098 | 518,706 | 99,996 | 26,280 |
| Advance on fixed assets | 32,342 | 56,190 | 59,226 | 15,565 |
| Loans and investments in companies and partnerships accounted for at equity | 941,919 | 912,311 | 1,129,421 | 296,825 |
| Property, plant and equipment, net | 5,151,003 | 4,673,715 | 5,544,934 | 1,457,276 |
| Right-of-use assets, net | - | - | 11,727,944 | 3,082,245 |
| Deferred taxes on right-of-use assets | - | - | 148,593 | 39,052 |
| Deferred taxes | 22,966 | 7,849 | 25,662 | 6,744 |
| Intangible assets | 463,644 | 422,012 | 404,302 | 106,255 |
| | 7,216,972 | 6,590,783 | 19,140,078 | 5,030,242 |
| | 8,888,900 | 8,549,660 | 20,881,981 | 5,488,035 |

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31, 2018 | September 30, 2018 | September 30, 2019 | Convenience translation (Note 1b) September 30, 2019 |
|---|---|---|---|---|
| | Audited | Unaudited | | Unaudited |
| | N I S (In thousands) | | | Euro |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES: | | | | |
| Short-term credit from banks and others | 285,857 | 341,530 | 276,761 | 72,736 |
| Current maturities of liabilities from leases of right-of-use assets | - | - | 219,297 | 57,634 |
| Current maturities of debentures | 177,716 | 93,070 | 102,152 | 26,847 |
| Trade payables | 173,725 | 209,822 | 255,176 | 67,063 |
| Income tax payable | 118,592 | 133,671 | 86,713 | 22,789 |
| Other accounts payable | 613,673 | 649,001 | 727,927 | 191,307 |
| Shareholders | 55,907 | 53,050 | 4,413 | 1,160 |
| | 1,425,470 | 1,480,144 | 1,672,439 | 439,536 |
| Liabilities attributed to assets held for sale | 45,729 | 46,653 | 45,327 | 11,912 |
| | 1,471,199 | 1,526,797 | 1,717,766 | 451,448 |
| NON-CURRENT LIABILITIES: | | | | |
| Loans from banks and others | 2,245,324 | 2,152,023 | 2,399,094 | 630,511 |
| Debentures, net | 1,147,056 | 1,030,862 | 1,523,535 | 400,403 |
| Liabilities from leases of right-of-use assets | - | - | 11,762,870 | 3,091,424 |
| Deferred taxes | 335,349 | 323,922 | 389,129 | 102,268 |
| Employee benefit liabilities, net | 14,851 | 19,022 | 18,222 | 4,789 |
| Other non-current liabilities | 448,862 | 397,632 | 36,608 | 9,621 |
| Shareholders | 6,029 | 5,879 | 2,385 | 627 |
| | 4,197,471 | 3,929,340 | 16,131,843 | 4,239,643 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY: | | | | |
| Share capital and premium | 635,177 | 635,096 | 635,177 | 166,932 |
| Capital reserves | 876,765 | 819,045 | 925,565 | 243,250 |
| Retained earnings | 1,577,938 | 1,509,039 | 1,333,269 | 350,399 |
| | 3,089,880 | 2,963,180 | 2,894,011 | 760,581 |
| Non-controlling interests | 130,350 | 130,343 | 138,361 | 36,363 |
| Total equity | 3,220,230 | 3,093,523 | 3,032,372 | 796,944 |
| | 8,888,900 | 8,549,660 | 20,881,981 | 5,488,035 |

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

| November 26, 2019 | David Fattal | Shachar Aka |
|---|---|---|
| Date of approval of the financial statements | David Fattal<br>Chairman of the Board and CEO | Shachar Aka<br>CFO |

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

| | Year ended December 31, | Three months ended September 30, | | Nine months ended September 30, | | Convenience translation (Note 1b) Nine months ended September 30, |
|---|---|---|---|---|---|---|
| | 2018 | 2018 | 2019 | 2018 | 2019 | 2019 |
| | Audited | Unaudited | | | | Unaudited |
| | N I S | | | | | Euro |
| | (In thousands) | | | | | |
| Revenues from hospitality services and other | 3,765,643 | 1,069,300 | 1,489,504 | 2,526,726 | 4,005,232 | 1,052,623 |
| Cost of revenues | 1,994,383 | 557,651 | 790,876 | 1,372,873 | 2,197,855 | 577,623 |
| | 1,771,260 | 511,649 | 698,628 | 1,153,853 | 1,807,377 | 475,000 |
| Selling and marketing expenses | 111,029 | 24,783 | 41,129 | 71,752 | 113,765 | 29,899 |
| General and administrative expenses | 340,229 | 81,312 | 125,325 | 204,728 | 354,636 | 93,203 |
| | 1,320,002 | 405,554 | 532,174 | 877,373 | 1,338,976 | 351,898 |
| Hotel lease expenses | 599,262 | 165,154 | 49,920 | 375,793 | 91,477 | 24,041 |
| Operating income before depreciation and amortization and other expenses | 720,740 | 240,400 | 482,254 | 501,580 | 1,247,499 | 327,857 |
| Depreciation and amortization | 170,061 | 42,718 | 68,378 | 111,802 | 199,284 | 52,374 |
| Depreciation of revaluation step-up | 42,726 | 9,346 | 11,329 | 29,368 | 31,277 | 8,220 |
| Depreciation on right-of-use assets | - | - | 152,005 | - | 428,382 | 112,584 |
| Other operating expenses, net | (44,392) | (28,818) | (8,335) | (40,273) | (16,775) | (4,409) |
| Operating income | 463,561 | 159,518 | 242,207 | 320,137 | 571,781 | 150,270 |
| Finance income | 4,815 | 2,515 | 646 | 3,373 | 2,947 | 775 |
| Finance expenses | (129,953) | (25,609) | (20,602) | (78,523) | (79,172) | (20,807) |
| Financing expenses on liabilities from leases of right-of-use assets | - | - | (158,672) | - | (451,262) | (118,597) |
| Group's share of earnings of companies and partnerships accounted for at equity | 2,966 | 9,681 | 10,860 | 6,653 | 12,371 | 3,251 |
| Income before taxes on income | 341,389 | 146,105 | 74,439 | 251,640 | 56,665 | 14,892 |
| Taxes on income | 99,463 | 33,391 | 8,153 | 66,666 | 15,424 | 4,053 |
| Net income | 241,926 | 112,714 | 66,286 | 184,974 | 41,241 | 10,839 |
| Attributable to: | | | | | | |
| Shareholders of the Company | 238,682 | 111,650 | 65,400 | 182,615 | 38,826 | 10,204 |
| Non-controlling interests | 3,244 | 1,064 | 886 | 2,359 | 2,415 | 635 |
| | 241,926 | 112,714 | 66,286 | 184,974 | 41,241 | 10,839 |
| Net earnings per share attributed to equity holders of the Company (in NIS): | | | | | | |
| Basic net earnings per share | 16.80 | 7.73 | 4.53 | 12.92 | 2.69 | 2.69 |
| Diluted net earnings per share | 16.78 | 7.72 | 4.51 | 12.92 | 2.68 | 2.68 |

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Year ended December 31, 2018 | Three months ended September 30, 2018 | Three months ended September 30, 2019 | Nine months ended September 30, 2018 | Nine months ended September 30, 2019 | Convenience translation (Note 1b) Nine months ended September 30, 2019 |
|---|---|---|---|---|---|---|
| | Audited | Unaudited | | | | Unaudited |
| | NIS (In thousands) | | | | | Euro |
| Net income | 241,926 | 112,714 | 66,286 | 184,974 | 41,241 | 10,839 |
| Other comprehensive income (loss) (net of tax effect): | | | | | | |
| Amounts that will not be reclassified subsequently to profit or loss: | | | | | | |
| Actuarial income, net | 717 | - | - | - | - | - |
| Revaluation Property, plant and equipment, net | 267,371 | 98,715 | 135,789 | 230,106 | 228,367 | 60,018 |
| Group's share in revaluation of properties in companies and partnerships accounted for at equity | 54,910 | 23,268 | 43,108 | 47,133 | 79,849 | 20,985 |
| Total components that will not be reclassified subsequently to profit or loss | 322,998 | 121,983 | 178,897 | 277,239 | 308,216 | 81,003 |
| Amounts that will be or that have been reclassified to profit or loss when specific conditions are met: | | | | | | |
| Income (loss) in respect of cash flow hedging transaction | (34,995) | 17,575 | 66,807 | (13,788) | 111,718 | 29,361 |
| Foreign currency translation adjustments | 84,343 | (26,048) | (182,204) | 37,388 | (337,759) | (88,767) |
| Total components that will be or that have been reclassified to profit or loss | 49,348 | (8,473) | (115,397) | 23,600 | (226,041) | (59,406) |
| Total other comprehensive income | 372,346 | 113,510 | 63,500 | 300,839 | 82,175 | 21,597 |
| Total comprehensive income | 614,272 | 226,224 | 129,786 | 485,813 | 123,416 | 32,436 |
| Attributable to: | | | | | | |
| Shareholders of the Company | 598,149 | 218,223 | 119,799 | 472,317 | 114,944 | 30,209 |
| Non-controlling interests | 16,123 | 8,001 | 9,987 | 13,496 | 8,472 | 2,227 |
| | 614,272 | 226,224 | 129,786 | 485,813 | 123,416 | 32,436 |

The accompanying notes are an integral part of the interim 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 |
| | Audited | | | | | | | | |
| | NIS in thousands | | | | | | | | |
| Balance as of January 1, 2018 | 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 interim 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 |
| | Unaudited | | | | | | | | |
| | NIS in thousands | | | | | | | | |
| Balance as of July 1, 2018 (unaudited) | 635,142 | 1,162 | 1,390,074 | (35,261) | (49,587) | 802,665 | 2,744,195 | 122,342 | 2,866,537 |
| Net income | - | - | 111,650 | - | - | - | 111,650 | 1,064 | 112,714 |
| Other comprehensive income (loss) | - | - | - | (27,019) | 17,575 | 116,017 | 106,573 | 6,937 | 113,510 |
| Total comprehensive income (loss) | - | - | 111,650 | (27,019) | 17,575 | 116,017 | 218,223 | 8,001 | 226,224 |
| Issuance of share capital | (46) | - | - | - | - | - | (46) | - | (46) |
| Vesting options for employees | - | 808 | - | - | - | - | 808 | - | 808 |
| Transfer from revaluation reserve, in the amount of the depreciation, net | - | - | 7,315 | - | - | (7,315) | - | - | - |
| Balance as of September 30, 2018 (unaudited) | 635,096 | 1,970 | 1,509,039 | (62,280) | (32,012) | 911,367 | 2,963,180 | 130,343 | 3,093,523 |

The accompanying notes are an integral part of the interim 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 |
| | Unaudited | | | | | | | | |
| | NIS in thousands | | | | | | | | |
| Balance as of July 1, 2019 (unaudited) | 635,177 | 4,110 | (*) 1,257,360 | (171,303) | (8,308) | 1,056,423 | 2,773,459 | 128,607 | 2,902,066 |
| Net income | - | - | 65,400 | - | - | - | 65,400 | 886 | 66,286 |
| Other comprehensive income (loss) | - | - | - | (185,491) | 66,807 | 173,083 | 54,399 | 9,101 | 63,500 |
| Total comprehensive income (loss) | - | - | 65,400 | (185,491) | 66,807 | 173,083 | 119,799 | 9,987 | 129,786 |
| Repayment of loan from non-controlling interests | - | - | - | - | - | - | - | (233) | (233) |
| Vesting option to employees | - | 753 | - | - | - | - | 753 | - | 753 |
| Transfer from revaluation reserve, in the amount of the depreciation, net | - | - | 10,509 | - | - | (10,509) | - | - | - |
| Balance as of September 30, 2019 (unaudited) | 635,177 | 4,863 | 1,333,269 | (356,794) | 58,499 | 1,218,997 | 2,894,011 | 138,361 | 3,032,372 |

(*) Immaterial adjustment. See note 2(c)1.

The accompanying notes are an integral part of the interim 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 |
| | Unaudited | | | | | | | | |
| | NIS in thousands | | | | | | | | |
| Balance as of January 1, 2018 (audited) | 148,487 | - | 1,034,581 | (98,748) | (18,224) | 936,188 | 2,002,284 | 98,910 | 2,101,194 |
| Net income | - | - | 182,615 | - | - | - | 182,615 | 2,359 | 184,974 |
| Other comprehensive income (loss) | - | - | - | 36,468 | (13,788) | 267,022 | 289,702 | 11,137 | 300,839 |
| Total comprehensive income (loss) | - | - | 182,615 | 36,468 | (13,788) | 267,022 | 472,317 | 13,496 | 485,813 |
| Issuance of share capital (net of issuance expenses) | 486,609 | - | - | - | - | - | 486,609 | - | 486,609 |
| Repayment of loan granted to non-controlling interests | - | - | - | - | - | - | - | 17,937 | 17,937 |
| Vesting options for employees | - | 1,970 | - | - | - | - | 1,970 | - | 1,970 |
| Transfer from revaluation reserve, due to exercise, net | - | - | 264,881 | - | - | (264,881) | - | - | - |
| Transfer from revaluation reserve, in the amount of the depreciation, net | - | - | 26,962 | - | - | (26,962) | - | - | - |
| Balance as of September 30, 2018 (unaudited) | 635,096 | 1,970 | 1,509,039 | (62,280) | (32,012) | 911,367 | 2,963,180 | 130,343 | 3,093,523 |

The accompanying notes are an integral part of the interim 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 |
| | Unaudited | | | | | | | | |
| | NIS in thousands | | | | | | | | |
| Balance as of January 1, 2019 (audited) | 635,177 | 2,757 | 1,577,938 | (12,772) | (53,219) | 939,999 | 3,089,880 | 130,350 | 3,220,230 |
| Cumulative effect as a result of the initial adoption of IFRS 16 as of January 1, 2019 - see Note 2(c) (*) | - | - | (252,919) | - | - | - | (252,919) | - | (252,919) |
| Balance as of January 1, 2019 (after initial adoption of IFRS 16) | 635,177 | 2,757 | 1,325,019 | (12,772) | (53,219) | 939,999 | 2,836,961 | 130,350 | 2,967,311 |
| Net income | - | - | 38,826 | - | - | - | 38,826 | 2,415 | 41,241 |
| Other comprehensive income (loss) | - | - | - | (344,022) | 111,718 | 308,422 | 76,118 | 6,057 | 82,175 |
| Total comprehensive income (loss) | - | - | 38,826 | (344,022) | 111,718 | 308,422 | 114,944 | 8,472 | 123,416 |
| Dividend to shareholders of the Company | - | - | (60,000) | - | - | - | (60,000) | - | (60,000) |
| Repayment of loan from non-controlling interests | - | - | - | - | - | - | - | (461) | (461) |
| Vesting option to employees | - | 2,106 | - | - | - | - | 2,106 | - | 2,106 |
| Transfer from revaluation reserve, in the amount of the depreciation, net | - | - | 29,424 | - | - | (29,424) | - | - | - |
| Balance as of September 30, 2019 (unaudited) | 635,177 | 4,863 | 1,333,269 | (356,794) | 58,499 | 1,218,997 | 2,894,011 | 138,361 | 3,032,372 |

(*) Immaterial adjustment. See note 2(c)1.

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | 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 1b)** | | | | | | | | |
| | **Attributable to shareholders of the Company** | | | | | | | | |
| | **Unaudited** | | | | | | | | |
| | **(In thousands)** | | | | | | | | |
| Balance as of January 1, 2019 (audited) | 166,932 | 725 | 414,701 | (3,357) | (13,987) | 247,044 | 812,058 | 34,257 | 846,315 |
| Cumulative effect as a result of the initial adoption of IFRS 16 as of January 1, 2019 - see Note 2(c) (*) | - | - | (66,470) | - | - | - | (66,470) | - | (66,470) |
| Balance as of January 1, 2019 (after initial adoption of IFRS 16) | 166,932 | 725 | 348,231 | (3,357) | (13,987) | 247,044 | 745,588 | 34,257 | 779,845 |
| Net income | - | - | 10,204 | - | - | - | 10,204 | 635 | 10,839 |
| Comprehensive income (loss) | - | - | | (90,413) | 29,361 | 81,057 | 20,005 | 1,592 | 21,597 |
| Total comprehensive income (loss) | - | - | 10,204 | (90,413) | 29,361 | 81,057 | 30,209 | 2,227 | 32,436 |
| Dividend to shareholders of the Company | - | - | (15,769) | - | - | - | (15,769) | - | (15,769) |
| Repayment of loan from non-controlling interests | - | - | - | - | - | - | - | (121) | (121) |
| Vesting option to employees | - | 553 | - | - | - | - | 553 | - | 553 |
| Transfer from revaluation reserve, in the amount of the depreciation, net | - | - | 7,733 | - | - | (7,733) | - | - | - |
| Balance as of September 30, 2019 (unaudited) | 166,932 | 1,278 | 350,399 | (93,770) | 15,374 | 320,368 | 760,581 | 36,363 | 796,944 |

(*) Immaterial adjustment. See note 2(c)1.

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, | Three months ended September 30, | | Nine months ended September 30, | | Convenience translation (Note 1b) Nine months ended September 30, |
|---|---|---|---|---|---|---|
| | 2018 | 2018 | 2019 | 2018 | 2019 | 2019 |
| | Audited | Unaudited | | | | Unaudited |
| | N I S | | | | | Euro |
| | (In thousands) | | | | | |
| Cash flows from operating activities: | | | | | | |
| Net income | 241,926 | 112,714 | 66,286 | 184,974 | 41,241 | 10,839 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Adjustments to the profit or loss items: | | | | | | |
| Depreciation and amortization | 212,787 | 52,064 | 231,712 | 141,170 | 658,943 | 173,178 |
| Finance expenses, net | 125,327 | 22,834 | 178,159 | 75,297 | 534,579 | 140,494 |
| Group's share of earnings of companies and partnerships accounted for at equity | (2,966) | (9,681) | (10,860) | (6,653) | (12,371) | (3,251) |
| Change in liabilities for time-sharing rights, net | (1,081) | (290) | (275) | (810) | (767) | (202) |
| Change in employee benefit liabilities, net | (666) | 1,217 | 2,385 | 2,893 | 3,877 | 1,019 |
| Costs related to transactions for the purchase of assets | 18,124 | - | - | - | - | - |
| Loss from impairment of fixed assets | - | 484 | 872 | 4,698 | 3,943 | 1,036 |
| Taxes on income | 99,463 | 33,391 | 8,153 | 66,666 | 15,424 | 4,053 |
| Share-based payment expense | 2,757 | 808 | 753 | 1,970 | 2,106 | 553 |
| Loss (gain) from a change in the value of securities held for trading | 2,538 | (1,477) | (2,250) | (1,132) | (7,944) | (2,088) |
| | 456,283 | 99,350 | 408,649 | 284,099 | 1,197,790 | 314,792 |
| Changes in asset and liability items: | | | | | | |
| Increase in trade receivables | (21,468) | (62,082) | (1,350) | (133,996) | (120,835) | (31,757) |
| Decrease (Increase) in other accounts receivable | (18,548) | 23,770 | (18,292) | (31,894) | 83,036 | 21,823 |
| Decrease (increase) in inventories | (778) | 160 | 5 | (1,028) | (2,493) | (655) |
| Decrease (increase) in long-term receivables | 1,263 | 16,440 | (10,310) | 12,012 | (43,576) | (11,452) |
| Increase (decrease) in trade payables | (23,553) | 20,503 | (49,263) | 38,151 | 71,543 | 18,802 |
| Increase (decrease) in other accounts payable | (25,919) | 36,332 | 79,686 | 71,586 | 69,929 | 18,378 |
| Increase (decrease) in other non-current liabilities | 9,071 | (3,893) | (10,417) | (2,810) | (1,880) | (494) |
| | (79,932) | 31,230 | (9,941) | (47,979) | 55,724 | 14,645 |
| Cash paid during the period for: | | | | | | |
| Taxes received | - | - | - | - | 28,896 | 7,594 |
| Taxes paid | (133,256) | (24,731) | (63,916) | (75,021) | (110,096) | (28,935) |
| Interest paid for leases of right-of-use assets | - | - | (158,604) | - | (449,676) | (118,180) |
| Other interest paid, net | (123,257) | (38,446) | (20,772) | (86,075) | (78,102) | (20,526) |
| | (256,513) | (63,177) | (243,292) | (161,096) | (608,978) | (160,047) |
| Net cash provided by operating activities | 361,764 | 180,117 | 221,702 | 259,998 | 685,777 | 180,229 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, | Three months ended September 30, | | Nine months ended September 30, | | Convenience translation (Note 1b) Nine months ended September 30, |
|---|---|---|---|---|---|---|
| | 2018 | 2018 | 2019 | 2018 | 2019 | 2019 |
| | Audited | Unaudited | | | | Unaudited |
| | N I S | | | | | Euro |
| | (In thousands) | | | | | |
| Cash flows from investing activities: | | | | | | |
| Proceeds from sale of fixed assets | 668,051 | - | - | 668,051 | - | - |
| Purchase of property, plant and equipment, net | (765,193) | (171,530) | (138,331) | (464,184) | (643,173) | (169,034) |
| Advance of investment in fixed assets | (1,627) | (24,155) | (21,464) | (26,018) | (21,464) | (5,641) |
| Purchase of companies initially consolidated (Appendix A) | (728,962) | (476,471) | - | (520,516) | (83,449) | (21,931) |
| Exit from consolidation (Appendix B) | 20,741 | 20,741 | - | 20,741 | - | |
| Sale and purchase of securities held for trading, net | (210,673) | (20,372) | (48,270) | (196,336) | 30,092 | 7,909 |
| Loans and investment in companies and partnerships accounted for at equity | (86,539) | (47,364) | (31,957) | (69,922) | (126,171) | (33,159) |
| Other assets, net | (167) | - | - | (167) | (1,501) | (394) |
| Withdrawal of (placement in) designated deposit | (59,142) | 187,191 | - | (158,905) | 66,431 | 17,459 |
| Investment in various companies, net | (113) | (152) | (1,724) | (274) | (21,438) | (5,634) |
| Net cash used in investing activities | (1,163,624) | (532,112) | (241,746) | (747,530) | (800,673) | (210,425) |
| Cash flows from financing activities: | | | | | | |
| Dividend paid | (49,544) | - | - | (49,544) | (110,039) | (28,920) |
| Issuance of share capital (net of issuance expenses) | 480,497 | (46) | - | 480,516 | - | - |
| Short-term credit from banks, net | (19,958) | (9,760) | (42,992) | (14,991) | (40,003) | (10,513) |
| Repayment of long-term loans from banking corporations and others | (383,771) | (140,846) | (81,768) | (245,821) | (207,173) | (54,448) |
| Repayment of debentures | (82,814) | (39,121) | (52,985) | (75,695) | (181,258) | (47,636) |
| Repayment of liabilities from leases of right-of-use assets | - | - | (58,236) | - | (333,832) | (87,735) |
| Receipt of long-term loans from banking corporations and others | 582,774 | 418,912 | 127,307 | 430,912 | 571,942 | 150,313 |
| Issue of debentures, net | 524,455 | - | - | 323,146 | 481,365 | 126,509 |
| Net cash provided by (used in) financing activities | 1,051,639 | 229,139 | (108,674) | 848,523 | 181,002 | 47,570 |
| Translation differences in respect of balances of cash and cash equivalents | 1,489 | (12,009) | (28,351) | (5,870) | (47,304) | (12,433) |
| Increase (decrease) in cash and cash equivalents | 251,268 | (134,865) | (157,069) | 355,121 | 18,802 | 4,941 |
| Cash included in assets held for sale | 321 | 229 | (582) | 254 | (643) | (169) |
| Cash and cash equivalents at beginning of period | 409,671 | 899,682 | 837,070 | 409,671 | 661,260 | 173,788 |
| Cash and cash equivalents at end of period | 661,260 | 765,046 | 679,419 | 765,046 | 679,419 | 178,560 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, 2018 | Three months ended September 30, 2018 | Three months ended September 30, 2019 | Nine months ended September 30, 2018 | Nine months ended September 30, 2019 | Convenience translation (Note 1b) Nine months ended September 30, 2019 |
|---|---|---|---|---|---|---|
| | Audited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
| | N I S (In thousands) | | | | | Euro |
| Significant non-cash transaction: | | | | | | |
| Recognition of the right-of-use assets against lease liabilities | - | - | - | - | 3,747,478 | 984,883 |
| Purchase of property, plant and equipment | 3,184 | - | - | - | 745 | 196 |
| (a) Acquisition of initially consolidated subsidiaries: | | | | | | |
| The subsidiaries' assets and liabilities at date of acquisition: | | | | | | |
| Working capital (excluding cash and cash equivalents) | 199,968 | 139,874 | - | 139,874 | 19,948 | 5,243 |
| Non - current assets | (471,292) | (395,327) | - | (395,327) | (34,626) | (9,100) |
| Deferred taxes | 47,818 | 59,218 | - | 59,218 | 411 | 108 |
| Property, plant and equipment | (902,188) | (761,500) | - | (761,500) | (103,394) | (27,173) |
| Goodwill created on acquisition (including brand) | (451,036) | (415,132) | - | (415,132) | 2,102 | 552 |
| Non-current liabilities | 273,385 | 277,968 | - | 277,968 | 32,110 | 8,439 |
| Less advance that paid in previous periods | 574,383 | 618,428 | - | 574,383 | - | - |
| | (728,962) | (476,471) | - | (520,516) | (83,449) | (21,931) |
| (b) Exit from consolidation: | | | | | | |
| Current assets | 23,262 | 23,262 | - | 23,262 | - | - |
| Non-current assets | 17,913 | 17,913 | - | 17,913 | - | - |
| Current liabilities | (255) | (255) | - | (255) | - | - |
| Non-current liabilities | (20,179) | (20,179) | - | (20,179) | - | - |
| | 20,741 | 20,741 | - | 20,741 | - | - |

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

## NOTE 1: - GENERAL

a. These financial statements have been prepared in a condensed format as of September 30, 2019 and for the periods of nine and three months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2018 and for the year then ended and accompanying notes, which are included as part of the prospectus ("annual financial statements").

b. The financial statements as of September 30, 2019 and for the nine months then ended have been translated into Euro using the representative exchange rate as of that date (€ 1 = NIS 3.8050) 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

a. Basis of presentation of the interim consolidated financial statements:

The interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34 ("Interim Financial Reporting"), and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The principal accounting policies and methods of calculation used for preparation of consolidated interim financial statements are consistent with those implemented for preparation of the annual financial statements, except as described below:

b. Leases:

As detailed in note 2(c)1 below regarding the initial adoption of IFRS 16, "Leases" ("the Standard"), the Company chose to adopt the provisions of the Standard using the modified retrospective approach (without restatement of comparative figures).

**The accounting policy on leases applied before December 31, 2018 is as follows:**

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17:

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

b. Leases: (Cont.)

The Group as lessee

1. Finance leases:

A lease that transfers substantially all the risks and rewards incidental to ownership of the leased asset to the Group is 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 depreciated over the shorter of its useful life and the lease term.

2. Operating leases:

Leases in which substantially all the risks and rewards of ownership of the leased asset are not transferred to the Group are classified as operating leases. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

**The accounting policy on leases applied effective from January 1, 2019 is as follows:**

The Company accounts for a contract as a lease when the contract terms convey the right-of-use an underlying asset for a period of time in exchange for consideration.

1. The Group as a lessee:

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability adjusted for any prepaid or accrued lease payments, plus initial direct costs incurred in respect of the lease. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life or the lease term. The Company tests for impairment the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

b. Leases: (Cont.)

2. Variable lease payments that depend on an index:

On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset. The effect of the change in the index on current payments is recorded in profit or loss.

3. Variable lease payments:

Variable lease payments that do not depend on an index or interest rate but are based on performance or usage are recognized as an expense as incurred when the Company is the lessee.

4. Lease extension and termination options:

A non-cancellable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised, and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

5. Lease modifications:

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability in the modified contract at the revised discount rate on the modification date and carries the change in the lease liability to the right-of-use asset.

If a lease modification reduces the scope of the lease, the Company recognizes a profit or loss arising from the partial or full reduction in the carrying amount of the right-of-use asset and the lease liability. The Company subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate on the modification date and carries the change in the lease liability to the right-of-use asset.

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

c. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

1. Initial adoption of IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the Standard"), which supersedes IAS 17, "Leases" ("the old Standard"), IFRIC 4, "Determining Whether an Arrangement Contains a Lease", and SIC-15, "Operating Leases - Incentives". According to the Standard, a lease is a contract, or part of a contract, that conveys the right-of-use an asset for a period of time in exchange for consideration.

The effects of the adoption of the Standard are as follows:

- According to the Standard, lessees are required to recognize all leases in the statement of financial position (excluding certain exceptions, see below). Lessees will recognize a liability for lease payments with a corresponding right-of-use asset, similar to the accounting treatment for finance leases under the existing standard, IAS 17, "Leases". Lessees will also recognize interest expense and depreciation expense separately.

- Variable lease payments that are not dependent on changes in the CPI or interest rates but are based on performance or usage are recognized as an expense by the lessees as incurred or recognized as income by the lessors as earned.

- In the event of changes in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and record the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset.

- The Standard includes two exceptions which allow lessees to account for leases based on the existing accounting treatment for operating leases - leases for which the underlying asset is of low financial value and short-term leases (up to one year).

- The accounting treatment by lessors remains substantially unchanged from the existing standard, namely classification of a lease as a finance lease or an operating lease.

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

c. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards: (Cont.)

1. Initial adoption of IFRS 16, "Leases": (Cont.)

The Standard has been applied for the first time in these financial statements. As permitted by the Standard, the Group elected to adopt the provisions of the Standard using the modified retrospective method whereby the carrying amount of the right-of-use assets were measured as if the Standard has been applied from the commencement date of the lease but for the purpose of calculation, the lessee's incremental borrowing rate on the date of initial adoption was used.

According to this approach, no comparative figures are restated. The carrying amount of the lease liability as of the date of initial adoption of the Standard is calculated using the Company's incremental borrowing rate on the date of initial adoption of the Standard.

See details of the accounting policy applied from the date of initial adoption of the Standard in paragraph b above.

The main effect of the initial adoption of the Standard relates to existing leases in which the Company acts as lessee. According to the Standard, as explained in paragraph b above, excluding certain practical expedients, the Company recognizes for each lease contract in which it acts as lessee the carrying amount of the lease liability against the carrying amount of the right-of-use asset, as opposed to the treatment in the old Standard according to which the lease payments in leases in which substantially all the risks and rewards incidental to ownership of the leased asset were not effectively transferred to the lessee were recognized as an expense in profit or loss using the straight-line method over the lease term.

During the preparation of the consolidated financial statements for the third quarter, the balance of deferred taxes was amended as of January 1, 2019 due to a technical error in calculating the deferred taxes in respect of the initial implementation of IFRS 16 by way of immaterial adjustment. The effect of the adjustment on the consolidated interim statements of changes in equity is an increase of approximately NIS 34 million in the retained earnings as of January 1, 2019.

Following are data relating to the initial adoption of the Standard as of January 1, 2019, in respect of existing leases as of that date:

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

c. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards: (Cont.)

1. Initial adoption of IFRS 16, "Leases": (Cont.)

a) Effects of the initial application of the Standard on the Company's financial statements as of January 1, 2019:

| | According to the previous accounting policy | Impact of IFRS 16 | As presented in these financial statements |
|---|---|---|---|
| | NIS in thousands | | |
| **As of January 1, 2019:** | | | |
| Non-current assets: | | | |
| Other receivables | 605,098 | (516,024) | 89,074 |
| Right-of-use assets, net | - | 9,482,516 | 9,482,516 |
| Loans and investment in companies and partnerships accounted for at equity | 941,919 | 3,046 | 944,965 |
| Deferred taxes on right-of-use assets | - | 103,409 | 103,409 |
| Current liabilities: | | | |
| Current maturities of liabilities from leases of right-of-use assets | - | (310,033) | (310,033) |
| Non-current liabilities: | | | |
| Liabilities from leases of right-of-use assets | - | (9,363,563) | (9,363,563) |
| Other non-current liabilities | (444,995) | 347,730 | (97,265) |
| Retained earnings | (1,577,938) | 252,919 | (1,325,019) |

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

c. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards: (Cont.)

1. Initial adoption of IFRS 16, "Leases": (Cont.)

a) Effects of the initial application of the Standard on the Company's financial statements as of January 1, 2019 (Cont.):

| | **According to the previous accounting policy** | **Impact of IFRS 16** | **As presented in these financial statements** |
|---|---|---|---|
| | **Euro in thousands** | | |
| **As of January 1, 2019:** | | | |
| Non-current assets: | | | |
| Other receivables | 159,027 | (135,617) | 23,410 |
| Right-of-use assets, net | - | 2,492,120 | 2,492,120 |
| Loans and investment in companies and partnerships accounted for at equity | 247,548 | 800 | 248,348 |
| Deferred taxes on right-of-use assets | - | 27,177 | 27,177 |
| Current liabilities: | | | |
| Current maturities of liabilities from leases of right-of-use assets | - | (81,480) | (81,480) |
| Non-current liabilities: | | | |
| Liabilities from leases of right-of-use assets | - | (2,460,858) | (2,460,858) |
| Other non-current liabilities | (116,950) | 91,388 | (25,562) |
| Retained earnings | (414,701) | 66,470 | (348,231) |

b) The Group hired an external valuation expert for determining the nominal interest rate for discounting its leases based on the companies' financing risk, the average duration of the leases and other economic variables such as: quality, geographical area and the currency in which the lease contract is specified. A weighted average incremental borrowing rate of 3.32%-6.76% was used to discount future lease payments in the calculation of the lease liability on the date of initial adoption of the Standard.

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

c. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards: (Cont.)

1. Initial adoption of IFRS 16, "Leases": (Cont.)

c) The table below explains the difference between the operating lease obligations that were disclosed in Note 19b to the annual financial statements as of December 31, 2018, to the lease liability recognized as of January 1, 2019:

| | January 1, 2019 | January 1, 2019 |
|---|---|---|
| | NIS in thousands | Euro in thousands |
| Total future minimum lease payments for non-cancellable leases as per IAS 17 according to the financial statements as of December 31, 2018 | 14,953,073 | 3,929,848 |
| The effect of changes in expectation to exercise lease extension options and/or termination options | 1,426,352 | 374,863 |
| Total undiscounted lease liabilities as per IFRS 16 | 16,379,425 | 4,304,711 |
| Effect of discount of future lease payments at the Company's incremental borrowing rate on initial date of adoption | (6,741,182) | (1,771,664) |
| Total lease liabilities as per IFRS 16 as of January 1, 2019 | 9,638,243 | 2,533,047 |
| Finance lease liabilities as per IAS 17 as of December 31, 2018 | 35,353 | 9,291 |
| Total lease liabilities resulting from initial adoption of IFRS 16 as of January 1, 2019 | 9,673,596 | 2,542,338 |

d) Practical expedients applied in the initial adoption of the Standard:

(1) The Company elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

(2) The Company elected to rely on its assessment of whether leases are onerous by applying IAS 37, as an alternative to performing an impairment review of the right-of-use asset on the date of initial adoption.

(3) The Company elected to exclude initial direct costs from the measurement of right-of-use assets at the date of initial adoption.

(4) The Company elected to use hindsight in determining the lease term in contracts containing options to extend or terminate the lease.

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

c. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards: (Cont.)

1. Initial adoption of IFRS 16, "Leases": (Cont.)

e) The effect of application of the Standard on the following balance sheet items as at September 30, 2019:

| | According to the previous accounting policy | Impact of IFRS 16 | As presented in these financial statements |
|---|---|---|---|
| | NIS in thousands | | |
| Current assets: | | | |
| Other receivables | 296,540 | (122,312) | 174,228 |
| Non-current assets: | | | |
| Loans and investments in associates and partnerships accounted for at equity | 1,115,933 | 13,488 | 1,129,421 |
| Long-term receivables | 596,148 | (496,152) | 99,996 |
| Right-of-use assets, net | - | 11,727,944 | 11,727,944 |
| Deferred taxes on right-of-use assets | - | 148,593 | 148,593 |
| Current liabilities: | | | |
| Current maturities of liabilities from leases of right-of-use assets | - | (219,297) | (219,297) |
| Non-current liabilities: | | | |
| Liabilities from leases of right-of-use assets | - | (11,762,870) | (11,762,870) |
| Other non-current liabilities | (373,200) | 336,592 | (36,608) |
| Total equity | (3,406,386) | 374,014 | (3,032,372) |

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

c. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards: (Cont.)

1. Initial adoption of IFRS 16, "Leases": (Cont.)

e) The effect of application of the Standard on the following balance sheet items as at September 30, 2019 (Cont.):

| | According to the previous accounting policy | Impact of IFRS 16 | As presented in these financial statements |
|---|---|---|---|
| | Euro in thousands | | |
| Current assets: | | | |
| Other receivables | 77,934 | (32,145) | 45,789 |
| Non-current assets: | | | |
| Loans and investments in associates and partnerships accounted for at equity | 293,280 | 3,545 | 296,825 |
| Long-term receivables | 156,675 | (130,395) | 26,280 |
| Right-of-use assets, net | - | 3,082,245 | 3,082,245 |
| Deferred taxes on right-of-use assets | - | 39,052 | 39,052 |
| Current liabilities: | | | |
| Current maturities of liabilities from leases of right-of-use assets | - | (57,634) | (57,634) |
| Non-current liabilities: | | | |
| Liabilities from leases of right-of-use assets | - | (3,091,424) | (3,091,424) |
| Other non-current liabilities | (98,082) | 88,461 | (9,621) |
| Total equity | (895,239) | 98,295 | (796,944) |

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

c. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards: (Cont.)

1. Initial adoption of IFRS 16, "Leases": (Cont.)

f) Effect of application of the standard on profit and loss items for the nine months ended September 30, 2019:

| | According to the previous accounting policy | Impact of IFRS 16 | As presented in these financial statements |
|---|---|---|---|
| | NIS in thousands | | |
| Operating profit before depreciation and amortization and other expenses | 586,018 | 661,481 | 1,247,499 |
| Depreciation and amortization | (230,561) | (428,382) | (658,943) |
| Financing expenses, net | (76,225) | (451,262) | (527,487) |
| The Group's share in profits of companies and partnerships accounted for using the equity method | 1,929 | 10,442 | 12,371 |
| Income (loss) before taxes on income | 264,386 | (207,721) | 56,665 |
| Tax benefit (taxes on income) | (72,803) | 57,379 | (15,424) |
| Income (loss) for the period | 191,583 | (150,342) | 41,241 |
| | Euro in thousands | | |
| Operating profit before depreciation and amortization and other expenses | 154,012 | 173,845 | 327,857 |
| Depreciation and amortization | (60,594) | (112,584) | (173,178) |
| Financing expenses, net | (20,032) | (118,597) | (138,629) |
| The Group's share in profits of companies and partnerships accounted for using the equity method | 507 | 2,744 | 3,251 |
| Income (loss) before taxes on income | 69,484 | (54,592) | 14,892 |
| Tax benefit (taxes on income) | (19,133) | 15,080 | (4,053) |
| Income (loss) for the period | 50,351 | (39,512) | 10,839 |

The main impact on profit and loss is an increase in depreciation expenses of NIS 428 million and financing of NIS 451 million, while a decrease in rental expenses of NIS 661 million.

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

c. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards: (Cont.)

1. Initial adoption of IFRS 16, "Leases": (Cont.)

g) Effect of application of the standard on profit and loss items for the three months ended September 30, 2019:

| | According to the previous accounting policy | Impact of IFRS 16 | As presented in these financial statements |
|---|---|---|---|
| | NIS in thousands | | |
| Operating profit before depreciation and amortization and other expenses | 270,799 | 211,455 | 482,254 |
| Depreciation and amortization | (79,707) | (152,005) | (231,712) |
| Financing expenses, net | (19,956) | (158,672) | (178,628) |
| The Group's share in profits of companies and partnerships accounted for using the equity method | 7,420 | 3,440 | 10,860 |
| Income (loss) before taxes on income | 170,221 | (95,782) | 74,439 |
| Tax benefit (taxes on income) | (45,407) | 37,254 | (8,153) |
| Income (loss) for the period | 124,814 | (58,528) | 66,286 |

The main impact on profit and loss is an increase in depreciation expenses of NIS 152 million and financing of NIS 158 million, while a decrease in rental expenses of NIS 211 million.

2. Amendment to IAS 28 Investments in Associates and Joint Ventures:

In October 2017, the IASB issued an amendment to IAS 28 Investments in Associates and Joint Ventures ("the Amendment"). The amendment clarifies that long-term rights (such as loans to receive or investment in preferred shares) that are part of the net investment in an associate or a joint venture will be fully subject to the provisions of IFRS 9 (both for measurement and for impairment) Are subject to the provisions of IAS 28. In view of the provisions of the amendment, the application of the "tier method" as expressed in Accounting Enforcement Decision 11-2 of the Securities Authority is no longer relevant.

The amendment is first applied in these financial statements. After examining the implications of implementing the amendment, the Company concluded that its implementation has no material effect on the Company's financial statements.

## NOTE 3: - SEASONALITY OF OPERATIONS

Israel

The Group's leisure hotels in Israel are impacted by a clear trend of seasonality, with the turnover increasing in the months of spring and summer and a large part of Jewish holidays.

The peak season in the Group's business hotels in Israel is during the months of May - June and October – November, and also during periods in which special events take place in areas where the hotels are located.

Europe (including UK and Ireland)

The peak season for the Group's hotels abroad, which are mostly characterized as business hotels, is the months of May – June and September – October and also during periods in which special events take place in areas where the hotels are located.

Mediterranean Basin

The tourist season in the region runs from the beginning of spring and finishes in the autumn. During the rest of the year, most of the leisure hotels in the region are closed.

The financial results should be reviewed taking this seasonality into account.

## NOTE 4: - SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD

a. Below is a table of the commitments of the Company during and after the reporting:

| Location of property | Transaction date | Transaction type | No. of rooms | Percentage holding | Property cost 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 € 1.6 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 March 2019 |
| Dublin, Ireland | March 2019 | Owned | 175 | 50% | About € 23.6 million | During 2021 |
| Tel Aviv, Israel | April 2019 | Leased | 90 | 100% | About NIS 2.7 million | During 2022 |
| Hamburg, Germany | June 2019 | Leased | 191 | 100% | About € 1.9 million | During 2023 |
| Tel Aviv, Israel | June 2019 | Leased | 60 | 100% | About NIS 1.8 million | During 2021 |
| Porto, Portugal (2) | June 2019 | Owned | 560 | 33.3% | About € 23 million | During 2021 |
| Berlin, Germany | July 2019 | Leased | 374 | 100% | About € 4.5 million | During 2023 |
| Cologne, Germany | July 2019 | Leased | 250 | 100% | About € 2.3 million | During 2023 |
| Verona, Italy | July 2019 | Owned | 145 | 50% | € 10.75 million | October 2019 |
| Eilat, Israel (3) | August 2019 | Owned | 279 | 51% | About NIS 60 million | During 2020 |
| Ramat Gan, Israel | August 2019 | Owned(50%) | 167 | 50% | About NIS 61 million | Leased and Managed by the company (100%) Acquired 50% In August 2019 |
| Jerusalem, Israel | September 2019 | Leased | 72 | 100% | About NIS 3.2 million | During 2023 |
| Tel Aviv, Israel | September 2019 | Leased | 200 | 100% | About NIS 9.5 million | During 2021 |
| Leipzig, Germany | September 2019 | Leased | 236 | 100% | About € 2.3 million | During 2023 |
| Berlin, Germany | October 2019 | Leased | 165 | 100% | About € 1.3 million | Operated since acquisition date |
| Limassol, Cyprus | October 2019 | Owned | 135 | 50% | About € 7.5 million | During 2021 |
| Jerusalem (Tsuba), Israel | October 2019 | Leased | 152 | 100% | About NIS 7.1 million | During 2023 |
| Saloniki, Greece | October 2019 | Owned | 115 | 50% | About € 4.75 million | During 2021 |

**NOTE 4: - SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Cont.)**

(1) In March 2019, 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).

(2) In June 2019, the Company contracted with two third parties (33% share of the Company) in a deal to purchase three services and commercial buildings, which are adjacent to the city of Porto, Portugal, with the aim of establishing a hotel with about 260 rooms and a congress hall to be leased by the Company. In addition, as part of the deal, a building comprising 140 units will be built for student residences or co-residences and a 160-room hostel, which will be leased and managed by a third party, while demolishing existing buildings. The deal was completed in August 2019. The Company expects costs for the project to total around Euro 67 million. The Company's share of the deal is about Euro 23 million.

(3) During August 2019, the Group signed acquisition rights agreements in the ownership of the U Sunrise Club Eilat (which is managed by the Group as of the date of signing of the report). The Group's share in the acquisition is 51% (approximately NIS 40 million), of which a total of approximately NIS 5 million was paid as an advance payment. The Company intends to renovate the hotel. The cost of renovation is about NIS 37 million (the Company's share of the renovation is 51%). As of the date of approval of the financial statements, the conditions precedent for the completion of the transaction have not yet been met in full.

**NOTE 4: - SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Cont.)**

b. On November 27, 2018, the Company's Board of Directors approved an early redemption in full at the Company's initiative of the balance of the par value of the Series A bonds of the Company, which was executed on January 1, 2019. On the date of early redemption, the Company paid the Series A bondholders the total of about NIS 89.5 million (in respect of principal, interest, linkage and additional payment amounts in respect of early redemption in full).

c. On January 14, 2019, the Company carried out an expansion of the Series B bonds, 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.

d. On June 17, 2019, the Company carried out an expansion of the Series B bonds, by way of a private allotment to investors of NIS 150,000 par value of Series B bonds of NIS 1 each of the Company, listed for trading, for gross monetary consideration of NIS 156,900 thousand (before deduction of issue costs of NIS 1,030 thousand), at a cost of NIS 1.046 per NIS 1 par value. After the aforementioned allotment and the allotment detailed in section C above, the total amount of Debentures (Series B) in circulation amounts to NIS 731,668 thousand par value.

e. On March 14, 2019, Fattal Properties (Europe) carried out 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 Fattal Properties (Europe), 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.

f. In April 2019, Fattal Properties (Europe) carried out an expansion of the Series B bonds by way of a private placement of NIS 12,500 thousand par value of Series B bonds of NIS 1 par value each of Fattal Properties (Europe), listed for trading, at a price of NIS 101.5 per NIS 1 par value of bonds and a total of approximately NIS 12,687 thousand for all of the said Series B bonds. Subsequent to the placements as mentioned, the total amount of Series B bonds in circulation amounted to NIS 215,260 thousand par value.

g. Further to that stated in Note 21e of the annual financial statements as of December 31, 2018 regarding the balance of shareholders' loans received, it should be noted that as of the date of the financial statements, the balance was repaid in full.

h. In accordance with Note 4A to the annual financial statements as of December 31, 2018, regarding the initial consolidation of operations and the temporary allocation of the cost of purchase (temporary PPA), as of the date of the financial statements, the Company has completed the acquisition cost allocation. There were no material changes compared to the temporal allocation made.

## NOTE 4: - SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Cont.)

i. On May 30, 2019, the Company's Board of Directors decided to distribute a dividend in the amount of NIS 60,000 thousand. The dividend was paid in June 2019.

j. During the period of the report, two claims were filed against the Group, together with petitions for their approval as a class action, which were related to operational issues. As of the date of approval of the financial statements, the Group is reviewing these claims through its legal counsel.

## NOTE 5: - FINANCIAL INSTRUMENTS

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:

| | September 30, 2018 (unaudited) | | December 31, 2018 (audited) | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| | N I S | | | |
| | (In thousands) | | | |
| Loans from banking corporations and other liabilities | | | | |
| Debentures (Level 1 of the fair value hierarchy) | 1,123,932 | 1,153,753 | 1,324,772 | 1,324,962 |
| Fixed interest loans (Level 3 of the fair value hierarchy) | 1,070,895 | 1,087,369 | 1,007,573 | 1,048,507 |
| Total | 2,194,827 | 2,241,122 | 2,332,345 | 2,373,469 |

| | September 30, 2019 (unaudited) | | September 30, 2019 (unaudited) | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| | N I S | | Euro | |
| | (In thousands) | | | |
| Loans from banking corporations and other liabilities | | | | |
| Debentures (Level 1 of the fair value hierarchy) | 1,625,687 | 1,729,109 | 427,250 | 454,431 |
| Fixed interest loans (Level 3 of the fair value hierarchy) | 1,323,804 | 1,338,382 | 347,912 | 351,743 |
| Total | 2,949,491 | 3,067,491 | 775,162 | 806,174 |

## NOTE 6: - 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 to the annual financial statements as of December 31, 2018, , the Group is reporting a new segment– United Kingdom and Ireland, and therefore, from the third quarter of 2018, the Group's operations are conducted through three reporting operating segments: in Israel, Europe (excluding UK Ireland and the Mediterranean basin) and in the United Kingdom and Ireland. Comparative figures have been restated to reflect the change in the structure of the Group's reporting segments. In addition, the Group has an investment through investee companies in the Mediterranean basin and a number of other investments that do not add up to a reportable segment and are therefore presented as other.

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.

The chief operating decision maker continues to examine the operating segments according to the old leases standard, IAS 17. Accordingly, adjustments were added in respect of the new leases standard, IFRS 16.

## NOTE 6: - OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments:

| | Israel | Abroad (mainly Germany) | UK and Ireland | Other | Adjustments to financial reporting (before adjustments for IFRS 16) | Total | Adjustments for IFRS 16 | Total | Convenience translation (Note 1b) Total |
|---|---|---|---|---|---|---|---|---|---|
| | N I S (In thousands) | | | | | | | | Euro |
| **Nine months ended September 30, 2019 (unaudited)** | | | | | | | | | |
| Segment revenues | 1,304,976 | 1,409,987 | 1,257,759 | 110,606 | (78,096) | 4,005,232 | - | 4,005,232 | 1,052,623 |
| Operating income before depreciation and amortization, other operating expenses and rental expenses | 339,747 | 528,247 | 454,568 | 39,373 | (22,959) | 1,338,976 | - | 1,338,976 | 351,898 |
| Operating income before depreciation and amortization and other operating expenses | 244,135 | 291,716 | 100,165 | 21,686 | (71,684) | 586,018 | 661,481 | 1,247,499 | 327,857 |
| Depreciation and amortization | (63,195) | (121,883) | (70,872) | (8,095) | 33,484 | (230,561) | (428,382) | (658,943) | (173,178) |
| Other operating expenses, net | | | | | | | | (16,775) | (4,409) |
| Finance expenses, net | | | | | | | | (527,487) | (138,629) |
| Group's share of earnings of associate companies and partnerships accounted for at equity | | | | | | | | 12,371 | 3,251 |
| Income before taxes on income | | | | | | | | 56,665 | 14,892 |
| Taxes on income | | | | | | | | 15,424 | 4,053 |
| Net income | | | | | | | | 41,241 | 10,839 |

## NOTE 6: - OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments: (Cont.)

| | Israel | Abroad (mainly Germany) | UK and Ireland | Other | Adjustments | Total |
|---|---|---|---|---|---|---|
| | N I S (In thousands) | | | | | |
| **Nine months ended September 30, 2018 (unaudited)** | | | | | | |
| Segment revenues | 1,133,197 | 1,139,433 | 248,233 | 82,446 | (76,583) | 2,526,726 |
| Operating income before depreciation and amortization, other operating expenses and rental expenses | 299,435 | 448,246 | 114,514 | 37,828 | (22,650) | 877,373 |
| Operating income before depreciation and amortization and other operating expenses | 203,459 | 264,038 | 75,948 | 27,027 | (68,892) | 501,580 |
| Depreciation and amortization | (57,221) | (102,434) | (8,863) | (5,886) | 33,234 | (141,170) |
| Other operating expenses, net | | | | | | (40,273) |
| Finance expenses, net | | | | | | (75,150) |
| Group's share of earnings of companies and partnerships accounted for at equity | | | | | | 6,653 |
| Income before taxes on income | | | | | | 251,640 |
| Taxes on income | | | | | | 66,666 |
| Net income | | | | | | 184,974 |

## NOTE 6: - OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments: (Cont.)

| | Israel | Abroad (mainly Germany) | UK and Ireland | Other | Adjustments to financial reporting (before adjustments for IFRS 16) | Total | Adjustments for IFRS 16 | Total |
|---|---|---|---|---|---|---|---|---|
| | N I S (In thousands) | | | | | | | |
| **Three months ended September 30, 2019 (unaudited)** | | | | | | | | |
| Segment revenues | 502,563 | 480,377 | 464,246 | 72,496 | (30,178) | 1,489,504 | - | 1,489,504 |
| Operating income before depreciation and amortization, other operating expenses and rental expenses | 139,593 | 185,454 | 184,829 | 33,378 | (11,080) | 532,174 | - | 532,174 |
| Operating income before depreciation and amortization and other operating expenses | 108,473 | 108,277 | 63,987 | 21,908 | (31,846) | 270,799 | 211,455 | 482,254 |
| Depreciation and amortization | (21,375) | (43,868) | (23,227) | (2,449) | 11,212 | (79,707) | (152,005) | (231,712) |
| Finance expenses, net | | | | | | | | (178,628) |
| Other operating expenses, net | | | | | | | | (8,335) |
| Group's share of earnings of associate companies and partnerships accounted for at equity | | | | | | | | 10,860 |
| Income before taxes on income | | | | | | | | 74,439 |
| Taxes on income | | | | | | | | 8,153 |
| Net income | | | | | | | | 66,286 |

## NOTE 6: - OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments: (Cont.)

| | Israel | Abroad (mainly Germany) | UK and Ireland | Other | Adjustments | Total |
|---|---|---|---|---|---|---|
| | | | NIS (In thousands) | | | |
| **Three months ended September 30, 2018 (unaudited)** | | | | | | |
| Segment revenues | 428,460 | 450,639 | 168,056 | 53,177 | (31,032) | 1,069,300 |
| Operating income before depreciation and amortization, other operating expenses and rental expenses | 114,228 | 188,478 | 83,066 | 31,154 | (11,372) | 405,554 |
| Operating income before depreciation and amortization and other operating expenses | 81,166 | 113,728 | 51,380 | 24,432 | (30,306) | 240,400 |
| Depreciation and amortization | (19,638) | (38,416) | (2,960) | (1,800) | 10,750 | (52,064) |
| Other operating expenses, net | | | | | | (28,818) |
| Finance expenses, net | | | | | | (23,094) |
| Group's share of earnings of companies and partnerships accounted for at equity | | | | | | 9,681 |
| Income before taxes on income | | | | | | 146,105 |
| Taxes on income | | | | | | 33,391 |
| Net income | | | | | | 112,714 |

## NOTE 6: - OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments: (Cont.)

| | Israel | Abroad (mainly Germany) | UK and Ireland | Other | Adjustments | Total |
|---|---|---|---|---|---|---|
| | N I S (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 |
| Operating income before depreciation and amortization, other operating expenses and rental expenses | 402,319 | 639,916 | 267,430 | 40,815 | (30,478) | 1,320,002 |
| Operating income before depreciation and amortization and other operating expenses | 271,006 | 374,403 | 139,303 | 27,112 | (91,084) | 720,740 |
| Depreciation and amortization | (76,829) | (140,791) | (32,891) | (8,080) | 45,804 | (212,787) |
| Other operating expenses, net | | | | | | (44,392) |
| Finance expenses, net | | | | | | (125,138) |
| Group's share of earnings of companies and partnerships accounted for at equity | | | | | | 2,966 |
| Income before taxes on income | | | | | | 341,389 |
| Taxes on income | | | | | | (99,463) |
| Net income | | | | | | 241,926 |

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