FATTAL HOLDINGS (1998) LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019

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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, 2019 and 2018, 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, 2019. 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 41,178 thousand and NIS 17,983 thousand as of December 31, 2019 and 2018, respectively, and the Company's share of their losses amounted to NIS 4,596 thousand, NIS 2,707 thousand and 1,742 thousand for the years ended December 31, 2019, 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, 2019 and 2018, and the results of their operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Without qualifying our above opinion, we draw attention to the matter discussed in Note 1c to the financial statements regarding the uncertainty that exists due to the spread of the Coronavirus which has led to a crisis in the markets in general and to an almost complete cessation of activities in the entire tourism and hospitality industry globally and, in particular, in the countries in which the Company operates. See also Note 1c for the actions the Company is undertaking and is planning in order to match its cash expenditures to the anticipated significant decrease in revenues, as well as the other plans of management and the board of directors in respect of this matter.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 29, 2020

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2018	December 31, 2019	Convenience translation (Note 1e) December 31, 2019
		NIS	NIS	Euro
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	5a	661,260	859,646	221,661
Securities held for trading	5b	238,721	260,617	67,201
Trade receivables	6	320,081	344,455	88,818
Other accounts receivable	7	223,988	147,327	37,988
Income tax receivable		67,790	49,273	12,705
Inventories		16,336	17,592	4,536
		1,528,176	1,678,910	432,909
Assets held for sale	9	143,752	144,544	37,271
		1,671,928	1,823,454	470,180
NON-CURRENT ASSETS:				
Long-term receivables	8	605,098	94,516	24,371
Advance on Fixed Assets		32,342	46,078	11,881
Loans and Investments in companies and partnerships accounted for at equity	9	941,919	1,236,312	318,785
Property, plant and equipment, net	10	5,151,003	5,751,589	1,483,056
Right-of-use assets, net	16	-	12,227,795	3,152,956
Deferred taxes on right-of-use assets	23f	-	177,142	45,676
Deferred taxes	23f	22,966	17,976	4,635
Intangible assets	4	463,644	413,605	106,649
		7,216,972	19,965,013	5,148,009
		8,888,900	21,788,467	5,618,189

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2018	December 31, 2019	Convenience translation (Note 1e) December 31, 2019
		NIS	NIS	Euro
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Short-term credit from banks and others	11	285,857	296,837	76,540
Current maturities of liabilities from leases of right-of-use assets	16	-	257,520	66,402
Current maturities of debentures	15	177,716	158,417	40,848
Trade payables	12	173,725	196,179	50,585
Income tax payable		118,592	79,810	20,579
Other accounts payable	13	613,673	752,048	193,914
Shareholders	22e	55,907	5,821	1,501
		1,425,470	1,746,632	450,369
Liabilities attributed to assets held for sale	9	45,729	43,854	11,308
		1,471,199	1,790,486	461,677
NON-CURRENT LIABILITIES:				
Loans from banks and others	14	2,245,324	2,448,924	631,459
Debentures, net	15	1,147,056	1,684,053	434,236
Liabilities from leases of right-of-use assets	16	-	12,279,543	3,166,300
Deferred taxes	23f	335,349	395,572	101,999
Employee benefit liabilities, net	18	14,851	21,065	5,432
Other non-current liabilities	19	448,862	48,634	12,540
Shareholders	22e	6,029	2,089	539
		4,197,471	16,879,880	4,352,505
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	22			
Share capital and premium		635,177	635,177	163,781
Capital reserves		876,765	996,352	256,911
Retained earnings		1,577,938	1,345,877	347,037
		3,089,880	2,977,406	767,729
Non-controlling interests		130,350	140,695	36,278
Total equity		3,220,230	3,118,101	804,007
		8,888,900	21,788,467	5,618,189

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

March 29, 2020	David Fattal	Shahar Aka
Date of approval of the financial statements	David Fattal Chairman of the Board of Directors and Chief Executive officer	Shahar Aka Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Note	2017	2018	2019	2019
		Year ended December 31,			Convenience translation (Note 1e) Year ended December 31,
		NIS			Euro
Revenues from hospitality services and others	24	2,586,084	3,765,643	5,342,389	1,377,543
Cost of revenues	25	1,442,030	1,994,383	2,909,106	750,117
		1,144,054	1,771,260	2,433,283	627,426
Selling and marketing expenses	26	77,421	111,029	145,773	37,588
General and administrative expenses	27	211,827	340,229	476,901	122,970
		854,806	1,320,002	1,810,609	466,868
Hotel lease expenses		365,588	599,262	115,273	29,723
Operating income before depreciation and amortization and other operating expenses		489,218	720,740	1,695,336	437,145
Depreciation and amortization		115,467	170,061	264,207	68,126
Depreciation of revaluation of step-up		33,401	42,726	45,604	11,759
Depreciation on right-of-use assets		-	-	584,363	150,679
Other operating expenses, net	28	30,041	44,392	36,313	9,363
Operating income		310,309	463,561	764,849	197,218
Financial income	29	3,197	4,815	5,940	1,532
Financial expenses	29	(52,680)	(129,953)	(106,395)	(27,434)
Financing expenses on liabilities from leases of right-of-use assets		-	-	(617,942)	(159,337)
Group's share of earnings of companies and partnerships accounted for at equity		7,123	2,966	10,944	2,822
Income before taxes on income		267,949	341,389	57,396	14,801
Taxes on income	23g	70,488	99,463	16,554	4,270
Net income		197,461	241,926	40,842	10,531
Attributable to:					
Shareholders of the Company		193,679	238,682	38,010	9,801
Non-controlling interests		3,782	3,244	2,832	730
		197,461	241,926	40,842	10,531
Net earnings per share attributable to equity holders of the Company (in NIS):	31				
Basic earnings per share		15.14	16.52	2.63	2.63
Diluted earnings per share		15.14	16.51	2.62	2.62

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE PROFIT OR LOSS

	Year ended December 31,			Convenience translation (Note 1e) Year ended December 31,
	2017	2018	2019	2019
	NIS			Euro
Net income	197,461	241,926	40,842	10,531
Other comprehensive income (loss) (after tax effect):				
<u>Amounts that will not be reclassified subsequently to profit or loss</u>				
Actuarial income (loss), net	1,387	717	(4,229)	(1,090)
Revaluation of properties	242,623	267,371	277,921	71,662
Group's share in revaluation of properties in companies and partnerships accounted for at equity	(33,041)	54,910	93,336	24,067
Total amounts that will not be reclassified subsequently to profit or loss	210,969	322,998	367,028	94,639
<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	(21,838)	(34,955)	90,421	23,315
Foreign currency translation adjustments	42,360	84,343	(288,429)	(74,372)
Total amounts that will be reclassified subsequently to profit or loss	20,522	49,348	(198,008)	(51,057)
Total other comprehensive income	231,491	372,346	169,020	43,582
Total comprehensive income	428,952	614,272	209,862	54,113
Attributable to:				
Shareholders of the Company	407,905	598,149	197,616	50,956
Non-controlling interests	21,047	16,123	12,246	3,157
	428,952	614,272	209,862	54,113

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, 2017	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
	NIS thousands								
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
Cumulative effect as a result of the initial adoption of IFRS 16 as of January 1, 2019 - see Note 2aa (*)	-	-	(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	-	-	38,010	-	-	-	38,010	2,832	40,842
Other comprehensive income (loss)	-	-	-	(296,868)	90,421	366,053	159,606	9,414	169,020
Total comprehensive income (loss)	-	-	38,010	(296,868)	90,421	366,053	197,616	12,246	209,862
Dividend to the shareholders of the company	-	-	(60,000)	-	-	-	(60,000)	-	(60,000)
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	(1,901)	(1,901)
Vesting option to employees	-	2,829	-	-	-	-	2,829	-	2,829
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	42,848	-	-	(42,848)	-	-	-
Balance as of December 31, 2019	635,177	5,586	1,345,877	(309,640)	37,202	1,263,204	2,977,406	140,695	3,118,101

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 1e) (In thousands)								
Balance as of December 31, 2018	163,781	711	406,875	(3,293)	(13,723)	242,380	796,731	33,611	830,342
Cumulative effect as a result of the initial adoption of IFRS 16 as of January 1, 2019 - see Note 2aa (*)	-	-	(65,216)	-	-	-	(65,216)	-	(65,216)
Balance as of January 1, 2019 (after initial adoption of IFRS 16)	163,781	711	341,659	(3,293)	(13,723)	242,380	731,515	33,611	765,126
Net income	-	-	9,801	-	-	-	9,801	730	10,531
Other comprehensive income (loss)	-	-	-	(76,547)	23,315	94,387	41,155	2,427	43,582
Total comprehensive income (loss)	-	-	9,801	(76,547)	23,315	94,387	50,956	3,157	54,113
Dividend to the shareholders of the company	-	-	(15,471)	-	-	-	(15,471)	-	(15,471)
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	(490)	(490)
Vesting option to employees	-	729	-	-	-	-	729	-	729
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	11,048	-	-	(11,048)	-	-	-
Balance as of December 31, 2019	163,781	1,440	347,037	(79,840)	9,592	325,719	767,729	36,278	804,007

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31			Convenience translation (Note 1e) Year ended December 31,
	2017	2018	2019	2019
	NIS			Euro
Cash flows from operating activities:				
Net income	197,461	241,926	40,842	10,531
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	148,868	212,787	894,174	230,564
Financial expenses, net	49,152	125,327	728,225	187,772
Group's share of earnings of companies and partnerships accounted for at equity	(7,123)	(2,966)	(10,944)	(2,822)
Change in liabilities for time-sharing rights, net	(1,082)	(1,081)	(1,024)	(264)
Change in employee benefit liabilities, net	1,255	(666)	1,093	282
Costs related to transactions for the purchase of assets	-	18,124	-	-
Loss from impairment of fixed assets	-	-	7,466	1,925
Taxes on income	70,488	99,463	16,554	4,270
Loss from impairment of investments	5,411	-	-	-
Gain from sale of companies accounted for at equity	(3,952)	-	-	-
Share- based payment expense	-	2,757	2,829	729
Loss (profit) from a change in the value of securities held for trading	(1,512)	2,538	(9,640)	(2,486)
	261,505	456,283	1,628,733	419,970
Changes in asset and liability items:				
Increase in trade receivables	(87,317)	(21,468)	(15,378)	(3,965)
Decrease (increase) in other accounts receivable	(62,574)	(18,548)	116,434	30,023
Increase in inventories	(1,108)	(778)	(815)	(210)
Decrease (increase) in long-term receivables	27,517	1,263	(58,446)	(15,070)
Increase (decrease) in trade payables	44,291	(23,553)	8,863	2,285
Increase (decrease) in other accounts payable	80,746	(25,919)	28,020	7,225
Increase in other non-current liabilities	15,528	9,071	74,138	19,117
	17,083	(79,932)	152,816	39,405
Cash paid during the year for:				
Taxes on income	20,797	-	28,896	7,451
Taxes paid	(93,594)	(133,256)	(150,010)	(38,680)
Interest paid for leases of right-of-use assets	-	-	(619,207)	(159,664)
Other interest paid, net	(49,634)	(123,257)	(109,296)	(28,182)
	(122,431)	(256,513)	(849,617)	(219,075)
Net cash provided by operating activities	353,618	361,764	972,774	250,831

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1e) Year ended December 31,
	2017	2018	2019	2019
		NIS		Euro
Cash flows from investment activities:				
Proceeds from sale of fixed assets	33,636	668,051	-	-
Purchase of property, plant and equipment, net	(279,434)	(765,193)	(787,459)	(203,048)
Advance of investment in fixed assets	-	(1,627)	(14,562)	(3,755)
Purchase of companies consolidated for the first time (Appendix A)	(309,578)	(728,962)	(83,449)	(21,517)
Exit from consolidation (Appendix B)	156,092	20,741	-	-
Sale and purchase of securities held for trading, net	21,315	(210,673)	(12,256)	(3,160)
Proceeds from sale of an investment in companies accounted for at equity	3,952	-	-	-
Loans and investments in companies and partnerships accounted for at equity	(191,348)	(86,539)	(176,478)	(45,505)
Advance payment on account of investment in investee company	(616,587)	-	-	-
Other assets, net	-	(167)	(1,501)	(387)
Withdrawal of (placement in) designated deposit	(35,534)	(59,142)	65,770	16,959
Investment in various companies	(3,484)	(113)	(27,047)	(6,974)
Net cash used in investment activities	(1,220,970)	(1,163,624)	(1,036,982)	(267,387)
Cash flows from financing activities:				
Dividend paid	(182,353)	(49,544)	(110,039)	(28,374)
Issuance of share capital (net of issuance expenses)	-	480,497	-	-
Short-term credit from banking corporations, net	76,332	(19,958)	(29,857)	(7,699)
Repayment of long-term loans from corporations and others	(215,860)	(383,771)	(284,211)	(73,284)
Repayment of debentures	(43,075)	(82,814)	(191,732)	(49,438)
Repayment of liabilities from leases of right-of-use assets	-	-	(439,491)	(113,323)
Receipt of long-term loans from banking corporations and others	912,309	582,774	650,935	167,844
Issue of debentures, net	433,788	524,455	708,071	182,577
Net cash provided by financing activities	981,141	1,051,639	303,676	78,303
Translation differences in respect of balances of cash and cash equivalents	20,518	1,489	(40,809)	(10,523)
Increase in cash and cash equivalents	134,307	251,268	198,659	51,225
Cash included in assets held for sale	(732)	321	(273)	(70)
Cash and cash equivalents at beginning of year	276,096	409,671	661,260	170,507
Cash and cash equivalents at end of year	409,671	661,260	859,646	221,661
Material non-cash activity				
Recognition of the right-of-use assets against lease liabilities	-	-	3,449,542	889,470
Dividend declared	97,650	-	-	-
Purchase of properties, plant and equipment	5,858	3,184	-	-

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31			Convenience translation (Note 1e) Year ended December 31,
	2017	2018	2019	2019
		NIS		Euro
(a) Acquisition of initially consolidated subsidiaries:				
The subsidiaries' assets and liabilities at date of acquisition:				
Working capital (excluding cash and cash equivalents)	12,964	199,968	19,948	5,144
Non - current assets	-	(471,292)	(34,626)	(8,928)
Deferred taxes	2,717	47,818	411	105
Property, plant and equipment	(442,544)	(902,188)	(103,394)	(26,660)
Goodwill created on acquisition (including brand)	-	(451,036)	2,102	542
Non - current liabilities	114,795	273,385	32,110	8,280
Less advance that paid in previous periods	-	574,383	-	
Non-controlling interests created in a newly consolidated company	2,490	-	-	
	(309,578)	(728,962)	(83,449)	(21,517)
(b) Exit from consolidation				
Current assets	12,953	23,262	-	-
Non-current assets	194,184	17,913	-	-
Current liabilities	(2,826)	(255)	-	-
Non-current liabilities	(48,219)	(20,179)	-	-
	156,092	20,741	-	-

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 22.

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 222 hotels throughout Israel and Europe, comprising some 43,000 hotel rooms, of which 48 hotels in Israel with a total of some 9,140 hotel rooms, of which some 6,078 rooms are in hotels to which the Company owns all or part of the rights, and 3,062 rooms are in hotels that the Company leases or manages. The Company also operates and manages 165 hotels throughout Europe (excluding Cyprus and Greece), with a total of 31,858 hotel rooms, of which some 9,074 rooms are in hotels to which the Company owns all or part of the rights, and 22,784 rooms are in hotels that the Company only leases or manages. In addition, the Company operates and manages 9 hotels in Cyprus and Greece with 2,025 rooms, of which 1,684 rooms are in hotels to which the Company owns all or part of the rights and 339 rooms are in hotels which the Company only leases or manages. For further details regarding operating segments, see Note 32. Regarding the effect of the spread of the Corona virus on the state of the Company's businesses following the balance sheet date, see Section C below.

c. The spread of the Corona virus and the global spread of the Corona pandemic during the first quarter of 2020 constitute a global macroeconomic risk and instill uncertainty as to the future economic activity worldwide and expected effects on the inflation and on the financial markets. The Company is following on an ongoing basis the developments in Israel and worldwide in connection with the spread of the Corona pandemic and is examining the effects on its business activity in Israel and in Europe. Against the backdrop of the limitations imposed on movement and convening in Israel and Europe, including a lockdown of all recreational activity in Israel and Europe, as well as issuance of closure orders to hotels in some of the countries of operations, as of the date of approval of the financial statements, the Company has closed most of the hotels operated by it in Israel and in Europe. As a result, the Company has performed and is performing, *inter alia*, the following actions, for the purpose of adjusting its cash-flow expenses to the expected material decrease in revenues:

1) Reductions and streamlining in manpower (in quantity of employees as well as quantity of working hours) – the Company is performing a gradual wage reduction (between 20% and 45%) for all Group employees, and is also examining terminations. In this context it is noted that Mr. David Fattal, the Company Chairman and CEO, and its controlling shareholder, advised the Company, on March 28, 2020, that he was irrevocably waiving the bonus for year 2019, as well as management fees, to which he is entitled according to an agreement with him (see Note 30), until the end of the second quarter of 2020.

2) Unpaid leave/initiated leave of employees – the Company had, as of the date of approval of the financial statements, approximately 5,500 of its employees in Israel (including the controlling shareholder's sons) take unpaid leave, and intends to have a considerable portion or most of its employees in Europe take unpaid leave or initiated leave (on account of vacation days accumulated), in accordance with the law and the governmental policy in each country.

NOTE 1: - GENERAL (Contd.)

3) Reduction of all welfare and training activity within the Group.
4) Unification of positions at headquarters, in the regions of operations and the specific hotels that are not to be closed.
5) Closure of hotels at which occupancy is low and transfer of guests to other chain hotels - as of the date of approval of the financial statements, the Company has closed approximately 160 hotels out of 182 of the Group's hotels that are active in Israel and Europe, and at the rest of the hotels that remain open, the occupancy rates are very low (between 5% and 30% only). The Company intends to consider closing additional hotels, subject to and depending on developments.
6) Reduction or cancellation of retainer fees to external service providers and receipt of discounts from suppliers.
7) Cessation of most investments in the Group hotels, except vital investments that began prior to the beginning of the crisis.
8) Cessation of all renovations at the Group hotels, except renovations that began prior to the beginning of the crisis.
9) Security at hotels – at all active hotels (including the closed hotels), security will be placed 24 hours a day.
10) Activity for receipt of discounts and postponement of payments from various state authorities – the Company has applied and will apply to authorities in all Group countries of operation with a request to grant discounts and postponement of payments for the various mandatory payments, as well as refund of employee costs. In this respect, it is noted that at some of the countries of operations, a blanket exemption was granted from municipal taxes, as well as participation in employee wages, up to 90% of the wage cost (subject to retention of the employees) during the crisis period.
11) Cessation of branding projects and projects in the digital field at the Group.
12) Suspension of rent payments for some of the hotels closed due to contract frustration and force majeure – as a result of cessation of activity of hotels and closure thereof, the Company has suspended or intends to suspend most payments according to the lease agreements. In addition, in accordance with the provisions of the law, legislative bills or the special governmental guidelines publicized in light of the situation, in the various countries, rent payments are likely to be postponed for various periods.
13) Addition of partners to hotels in Europe – the Company is considering the possibility of adding, to some of hotels owned by the Group, business partners to the extent of up to 50%, immediately at the end of the crisis.
14) Sale of hotels in Europe - the Company has begun examining the possibility of sale of some of the hotels owned by the Group (including hotels owned by the subsidiary – 100% - Fattal Europe), through sale-and-manage-back transactions or sale-and-lease-back transactions, in a manner that will increase the cash-flow in the Group, immediately at the end of the crisis.
15) Refinancing – examination of possibilities for refinancing for non-pledged properties or pledged properties with relatively low LTV, as well as rescheduling of part of the Company's banking credit, immediately after the end of the crisis. As of the date of the report, the Company has properties worth approximately EUR 142 million (approximately NIS 560 million) that are not at all pledged, and pledged assets with LTV which is lower than the 50%.
16) In some of the countries, the government has announced state-guaranteed loans in significant amounts. The Company is acting in accordance with the guidelines for receipt of these loans, and according to its assessment, it will be able to receive, in Germany, a loan for a period of approximately 5 years, amounting to tens of millions of Euros.

NOTE 1: - GENERAL (Contd.)

It is clarified, regarding sub-Sections 13-15 above, that as of the date of this report, there are no negotiations with any person regarding the addition of a partner to any of the Company's hotels in Europe and/or regarding sale of any of the Company's hotels in Europe and/or refinancing of credit in the Group.

The Company estimates that performing the actions as detailed in sub-sections 1-8 and 10-12 (as well as additional actions that are not specified above that the Company may take later in accordance with the circumstances and developments) may result in a significant reduction of the Group’s ongoing expenses cash flow in the coming months, in order to adjust them, as much as possible, to the very significant decrease expected in its revenues in the coming months, and the execution of actions as described in sub-section 16 above may yield additional financial resources to the Company.

Management and the Board of Directors believe that these actions, the Company's actions for increasing its financial sources, along with cash in the amount of approximately NIS 1billion held by the Company close to the date of publication of the financial statements, will allow the Company to meet all of its obligations over the coming year.
It is noted that the Company's ability to complete the aforesaid actions depends on regulatory actions adopted in the various countries, the degree of cooperation and willingness of third parties (such as lenders, owners of hotels leased to the Group).
Naturally, this is a changing event that is not under the Company's control, and factors, such as continued spread of the Corona pandemic or its stoppage, decisions of countries and relevant authorities in Israel and worldwide to cease or renew flights to various destinations, limitations on entry of tourists from certain countries, limitations on movement, limitations on gatherings or changes in demand, might positively or negatively (as the case may be) affect the Company accordingly. Due to the rapid rate of developments of decisions made by governmental bodies in Israel and Europe, the Company will continue following the developments and update its assessments accordingly.

NOTE 1: - GENERAL (Contd.)

d. 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.

e. The financial statements as of December 31, 2019 and for the year then ended have been translated into Euro using the representative exchange rate as of that date (€ 1 = NIS 3.8782). 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. Basis of presentation of the financial statements

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. The operating cycle

The operating cycle of the company is 12 months.

c. Consolidated financial statements

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.

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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

On January 1, 2018, the Company initially adopted IFRS 9, "Financial Instruments" ("the Standard"), the Company elected to adopt the provisions of the Standard retrospectively without restatement of comparative data.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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:

Financial assets at fair value through profit or loss

This category includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Derivatives, including embedded derivatives separated from the host contract, are classified as held for trading unless 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 are initially recognized at fair value. Loans and bonds measured at amortized cost are presented less direct transaction costs.

Financial liabilities at amortized cost

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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 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

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate.

If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

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.

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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

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".

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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. Derecognition of financial assets

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. Financial liabilities

a) Financial liabilities measured at amortized cost

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:

- 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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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:

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

p. Leases

As described in Note 2aa(1) regarding the initial adoption of IFRS 16, "Leases" ("the Standard"), the Company elected to apply the provisions of the Standard using the modified retrospective method (without restatement of comparative data).

The accounting policy for 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 to control the use of an identified 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 excluded 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 plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life and the lease team.

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, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

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, and are recognized as income as earned when the Company is the lessor.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

4. Lease extension and termination options

A non-cancelable 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 based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

If a lease modification reduces the scope of the lease, the Company recognizes a gain or loss arising from the partial or full reduction of 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 as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

The accounting policy for leases applied until December 31, 2018, is as follows:

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

v. Revenue recognition

On January 1, 2018, the Company initially adopted 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:

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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).

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. 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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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.

- 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.)

- Discount rate for a lease liability

When the Company is unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, the Company uses an incremental borrowing rate. That rate represents the rate of interest that the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. When there are no financing transactions that can serve as a basis, the Company determines the incremental borrowing rate based on its credit risk, the lease term and other economic variables deriving from the lease contract's conditions and restrictions.
The Group was assisted by 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.

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

- 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.

- Lease extension and/or termination options

In evaluating whether it is reasonably certain that the Company will exercise an option to extend a lease or not exercise an option to terminate a lease, the Company considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend or not exercise the option to terminate such as: significant amounts invested in leasehold improvements, the significance of the underlying asset to the Company's operation and whether it is a specialized asset, the Company's past experience with similar leases, etc.
After the commencement date, the Company reassesses the term of the lease upon the occurrence of a significant event or a significant change in circumstances that affects whether the Company is reasonably certain to exercise an option or not exercise an option previously included in the determination of the lease term, such as significant leasehold improvements that had not been anticipated on the lease commencement date, sublease of the underlying asset for a period that exceeds the end of the previously determined lease period, etc.

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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

1. Initial application of IFRS 16, "Leases"

In January 2016, the IASB published IFRS 16, Leases ("the new standard"). which provides guidance on the recognition, measurement, presentation and disclosure of leases and 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 to use an asset for a period of time in exchange for consideration.

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.

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 p 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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

aa. Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards (Contd):

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:

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 (Contd.)

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	156,025	(133,058)	22,968
Right-of-use assets, net	-	2,445,081	2,445,081
Loans and investment in companies and partnerships accounted for at equity	242,875	785	243,661
Deferred taxes on right-of-use assets	-	26,664	26,664
Current liabilities:			
Current maturities of liabilities from leases of right-of-use assets	-	(79,942)	(79,942)
Non-current liabilities:			
Liabilities from leases of right-of-use assets	-	(2,414,410)	(2,414,410)
Other non-current liabilities	(114,743)	89,663	(25,080)
Retained earnings	(406,875)	65,216	(341,659)

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

aa. Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards (Contd):

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.

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	3,855,674
The effect of changes in expectation to exercise lease extension options and/or termination options	1,426,352	367,787
Total undiscounted lease liabilities as per IFRS 16	16,379,425	4,223,461
Effect of discount of future lease payments at the Company's incremental borrowing rate on initial date of adoption	(6,741,182)	(1,738,224)
Total lease liabilities as per IFRS 16 as of January 1, 2019	9,638,243	2,485,237
Finance lease liabilities as per IAS 17 as of December 31, 2018	35,353	9,116
Total lease liabilities resulting from initial adoption of IFRS 16 as of January 1, 2019	9,673,596	2,494,353

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

aa. Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards (Contd):

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 (Contd.)

e) The effect of application of the Standard on the following balance sheet items as at December 31, 2019:

	According to the previous accounting policy	Impact of IFRS 16	As presented in these financial statements
	NIS in thousands		
Current assets:			
Other receivables	,269248	(121,921)	147,327
Non-current assets:			
Loans and investments in associates and partnerships accounted for at equity	1,220,170	16,142	1,236,312
Long-term receivables	633,213	(538,697)	94,516
Right-of-use assets, net	-	12,227,795	12,227,795
Deferred taxes on right-of-use assets	-	177,142	177,142
Current liabilities:			
Current maturities of liabilities from leases of right-of-use assets	-	(257,520)	(257,520)
Non-current liabilities:			
Liabilities from leases of right-of-use assets	-	(12,279,543)	(12,279,543)
Other non-current liabilities	(402,160)	353,526	(48,634)
Total equity	(3,541,177)	423,076	(3,118,101)

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

e) The effect of application of the Standard on the following balance sheet items as at December 31, 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	69,426	(31,438)	37,988
Non-current assets:			
Loans and investments in associates and partnerships accounted for at equity	314,623	4,162	318,785
Long-term receivables	163,273	(138,902)	24,371
Right-of-use assets, net	-	3,152,956	3,152,956
Deferred taxes on right-of-use assets		45,676	45,676
Current liabilities:			
Current maturities of liabilities from leases of right-of-use assets	-	(66,402)	(66,402)
Non-current liabilities:			
Liabilities from leases of right-of-use assets	-	(3,166,300)	(3,166,300)
Other non-current liabilities	(103,698)	91,157	(12,540)
Total equity	(913,098)	109,091	(804,007)

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

f) Effect of application of the standard on profit and loss items for the nine months ended December 31, 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	775,281	920,055	1,695,336
Depreciation and amortization	(309,811)	(584,363)	(894,174)
Financing expenses, net	(100,455)	(617,942)	(718,397)
The Group's share in profits of companies and partnerships accounted for using the equity method	(2,152)	13,096	10,944
Income (loss) before taxes on income	326,550	(269,154)	57,396
Tax benefit (taxes on income)	(98,238)	81,684	(16,554)
Income (loss) for the period	228,312	(187,470)	40,842

The main impact on profit and loss for the year ended December 31, 2019 is an increase in depreciation expenses of NIS 584 million and financing of NIS 617 million, while a decrease in rental expenses of NIS 920 million.

	Euro in thousands		
Operating profit before depreciation and amortization and other expenses	199,907	237,238	437,145
Depreciation and amortization	(79,885)	(150,679)	(230,564)
Financing expenses, net	(25,902)	(159,337)	(185,239)
The Group's share in profits of companies and partnerships accounted for using the equity method	(555)	3,377	2,822
Income (loss) before taxes on income	84,202	(69,401)	14,801
Tax benefit (taxes on income)	(25,332)	21,062	(4,270)
Income (loss) for the period	58,870	(48,339)	10,531

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Contd.)

b. 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. This amendment had no material effect on the Company's financial statement.

IFRIC 23, "Uncertainty over Income Tax Treatments"

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the accounting for recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement of the effects of uncertainty involving income taxes on the financial statements and accounting for changes in facts and circumstances in respect of the uncertainty. The Interpretation has been initially applied in these financial statements.
The initial application of the Interpretation did not have a material effect on the Company's financial statements.

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

a 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.

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

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.

b. Amendments to IFRS 9, IFRS 7 and IAS 30

In September 2019, the IASB published an amendment to IFRS 9, "Financial Instruments", IFRS 7, "Financial Instruments: Disclosures" and IAS 39," Financial Instruments: Recognition and Measurement" ("the Amendment").

In view of global regulatory changes, numerous countries have considered introducing a reform in the benchmark Interbank Offered Rates ("IBORs") (LIBOR, the London Interbank Offered Rate, being one of the most common examples) and switching to a risk-free interest rate alternative ("RFRs") which extensively rely on data of specific transactions. The IBOR reform leads to uncertainty regarding the dates and amounts to be attributed to future cash flows relating to both hedging instruments and hedged items that rely on existing IBORs.

According to the existing accounting guidance of IFRS 9 and IAS 39, entities that have entered into the above hedges are facing uncertainty as a result of the IBOR reform which is likely to affect their ability to continue meeting the effective hedging requirements underlying existing transactions as well as the hedging requirements of future transactions. In order to resolve this uncertainty, the IASB issued the Amendment to offer transitional

reliefs for entities that apply IBOR-based hedge accounting. The Amendment represents phase one in the reform that will include additional amendments in the future.

The Amendment also permits certain reliefs in applying the hedge accounting effectiveness tests during the period of transition from IBORs to RFRs. These reliefs assume that the benchmark interest underlying the hedge will not change as a result of the expected interest reform. The reliefs will be effective indefinitely, until the occurrence of one of the events specified in the Amendment. The Amendment also requires entities to provide specific disclosures of the application of any reliefs.
The Amendment is to be applied retrospectively for annual periods beginning on or after January 1, 2020. Early adoption is permitted.

The Company believes that the adoption of the Amendment will not have an effect on its financial statements since it does not enter into substantial IBOR-based hedges.

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 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.

NOTE 4:- BUSINESS COMBINATIONS (cont.)

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 £ 33 million per year.

On August 31, 2018, on the completion of the perquisites and reorganization, the activity was consolidated for the first time.

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	32,164
Non-current assets (mainly assets in respect of leasing contracts)	377,187	97,258
Working capital (excluding cash and cash equivalents)	(188,793)	(48,681)
Deferred tax liability	(26,957)	(6,951)
Fixed assets	410,592	105,872
Brand	53,642	13,832
Goodwill created on acquisition	80,633	20,791
Non-current liabilities (mainly liabilities in respect of leasing contracts)	(256,239)	(66,072)
Total purchase price	574,802	148,214

NOTE 4:- BUSINESS COMBINATIONS (cont.)

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.

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	493
Non-current assets (mainly assets in respect of leasing contracts)	56,878	14,666
Working capital (excluding cash and cash equivalents)	(7,588)	(1,957)
Deferred tax liability	(22,007)	(5,675)
Fixed assets	353,471	91,143
Brand	16,402	4,229
Goodwill created on acquisition	294,887	76,037
Non-current liabilities	(49,254)	(12,700)
Total purchase price	644,701	166,237

NOTE 5:-

a. **CASH AND CASH EQUIVALENTS**

	December 31, 2018	December 31, 2019	Convenience translation December 31, 2019
	NIS	NIS	Euro
Cash for immediate withdrawal	322,536	458,570	118,242
Cash equivalents - short-term deposits	338,724	401,076	103,419
	661,260	859,646	221,661
Composition by currency types:			
Israeli Shekel	339,734	386,186	99,579
Euro	287,360	436,842	112,640
Pound Sterling	30,992	34,146	8,805
Other (mainly USD)	3,174	2,472	637
	661,260	859,646	221,661

b. **SECURITIES HELD FOR TRADING**

	December 31, 2018	December 31, 2019	Convenience translation December 31, 2019
	NIS	NIS	Euro
Shares	11,136	45,469	11,724
Bonds	141,616	151,689	39,113
Mutual Fund Participation Units	84,466	62,535	16,122
Other	1,503	934	242
	238,721	260,617	67,201

NOTE 6:- TRADE RECEIVABLES

	December 31,		Convenience translation December 31,
	2018	2019	2019
	NIS		Euro
Open accounts	247,035	262,590	67,709
Cheques receivable and credit card companies	81,425	95,602	24,651
	328,460	358,192	92,360
Less - allowance for doubtful accounts	8,379	13,737	3,542
Trade receivables, net	320,081	344,455	88,818

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,
	2018	2019	2019
	NIS		Euro
Chain hotels	80,500	58,073	14,974
Prepaid expenses	74,993	28,032	7,228
Income receivable	24,432	22,386	5,772
Institutions	22,133	18,413	4,748
Others	21,930	20,423	5,266
	223,988	147,327	37,988

NOTE 8:- LONG-TERM RECEIVABLES

	December 31,		Convenience translation December 31,
	2018	2019	2019
	NIS		Euro
Financial derivatives	-	70,179	18,096
Assets in respect of leasing contracts recognized in business combinations (*)	495,102	-	-
Restricted deposit (**)	82,666	10,859	2,800
Other	27,330	13,478	3,475
	605,098	94,516	24,371

(*) For further details, see Note 4. During the report period, the balance is presented as part of the section on Right-of-use assets, net.

(**) in 2018, the primary amount derived from deposit in respect of Series B debentures of an investee company, Fattal Properties (Europe).

NOTE 9:- INVESTMENTS

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

	December 31,		Convenience translation December 31,
	2018	2019	2019
	NIS		Euro
Investments in other companies and partnerships accounted for on equity basis	405,984	645,246	166,378
Capital note and loans to other companies and partnerships accounted for on equity basis	535,935	591,066	152,407
	941,919	1,236,312	318,785

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

2019

	Land and buildings (b &c below)	Furniture and equipment	Operating equipment	Leasehold improvements	Total
	NIS thousands				
Cost:					
Balance at January 1, 2019	4,865,977	1,476,023	56,799	224,449	6,623,248
Additions during the year	392,494	293,180	12,870	88,915	787,459
Companies consolidated for the first time	103,394	-	-	-	103,394
Revaluation recognized in other comprehensive income	336,877	-	-	-	336,877
Impairment of fixed assets	(7,466)	-	-	-	(7,466)
Adjustments arising from translating financial statements	(281,065)	(122,265)	-	-	(403,330)
Balance at December 31, 2019	5,410,211	1,646,938	69,669	313,364	7,440,182
Accumulated depreciation:					
Balance at January 1, 2019	908,009	469,124	45,310	49,802	1,472,245
Additions during the year	61,027	173,349	10,410	12,837	257,623
Depreciation of revaluation	45,604	-	-	-	45,604
Adjustments arising from translating financial statements	(56,901)	(29,978)	-	-	(86,879)
Balance at December 31, 2019	957,739	612,495	55.720	62,639	1,688,593
Depreciated cost at December 31, 2019	4,452,472	1,034,443	13,949	250,725	5,751,589

	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, 2019	1,254,700	380,595	14,646	57,873	1,707,814
Additions during the year	101,205	75,597	3,319	22,927	203,048
Companies consolidated for the first time	26,660	-	-	-	26,660
Revaluation recognized in other comprehensive income	86,864	-	-	-	86,864
Impairment of fixed assets	(1,925)	-	-	-	(1,925)
Adjustments arising from translating financial statements	(72,473)	(31,526)	-	-	(103,999)
Balance at December 31, 2019	1,395,031	424,666	17,965	80,800	1,918,462
Accumulated depreciation:					
Balance at January 1, 2018	234,132	120,964	11,683	12,842	379,621
Additions during the year	15,736	44,698	2,684	3,310	66,428
Depreciation of revaluation	11,759	-	-	-	11,759
Adjustments arising from translating financial statements	(14,672)	(7,730)	-	-	(22,402)
Balance at December 31, 2019	246,955	157,932	14,367	16,152	435,406
Depreciated cost at December 31, 2019	1,148,076	266,734	3,598	64,648	1,483,056

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

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

b. Additional information regarding land

Some of the Company's hotels in Israel, the book value of which totals, as of December 31, 2019, an amount of approximately NIS 1.23 billion (2018, approximately NIS 1.08 billion), are built upon land leased from the Israel Land Authority for periods ending between 2028 and 2047, with an option for extension by 49 additional years.

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 (2018 – mainly 8.5%), and the main discount rates (Cap Rate) of 5.18% with regard to assets in Europe (2018 - 4.6%-6.5%).

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.

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

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 197.4/(175.4) 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 21.

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

a. Composition

	December 31, 2018	December 31, 2019	Convenience translation December 31, 2019
	NIS		Euro
Short-term credit from banks	40,328	10,180	2,624
Current maturities of long-term loans	245,529	286,657	73,916
	285,857	296,837	76,540

b. As for collaterals, see Note 21.

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

NOTE 12:- TRADE PAYABLES

	December 31, 2018	December 31, 2019	Convenience translation December 31, 2019
	NIS		Euro
Open accounts	140,440	158,417	40,848
Notes payable	33,285	37,762	9,737
	173,725	196,179	50,585

NOTE 13:- OTHER ACCOUNTS PAYABLE

	December 31, 2018	December 31, 2019	Convenience translation December 31, 2019
	NIS	NIS	Euro
Accrued expenses	245,644	309,679	79,851
Salaries and related expenses *)	141,511	154,496	39,837
Advance payments from customers	132,998	165,980	42,798
The Chain Hotels	8,881	19,680	5,075
Interest payable	11,626	15,366	3,962
Institutions	18,288	12,703	3,275
Club members	7,777	8,408	2,168
Others	46,948	65,736	16,948
	613,673	752,048	193,914
*) Includes accrued vacation and convalescence	26,720	28,713	7,404

NOTE 14:- LOANS FROM BANKS AND OTHERS

a. Composition

	Annual interest rate *)	December 31, 2018 Balance	December 31, 2018 Balance, net of current maturities	December 31, 2019 Balance	December 31, 2019 Balance, net of current maturities	Convenience translation December 31, 2019 Balance	Convenience translation December 31, 2019 Balance, net of current maturities
	%	NIS (In thousands)				Euro	
Unlinked	2.84	667,607	560,537	746,641	622,848	192,523	160,602
Linked to Israeli CPI	3.03	173,978	141,530	350,429	288,798	90,359	74,467
Linked to US dollar/in US dollar	4.58	81,932	72,226	139,866	122,894	36,065	31,688
Linked to Euro/in Euro	2.10	1,153,161	1,078,424	1,045,613	985,975	269,613	254,235
Linked to GBP/in GBP	.367	414,175	392,607	453,032	428,409	116,815	110,467
Total		2,490,853	2,245,324	2,735,581	2,448,924	705,375	631,459

*) Weighted average rate as of December 31, 2019

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 four quarters 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, 2019, the Group complies with all of the financial covenants which it undertook.

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

c. in accordance with agreements with a banking corporation in December 2019, after the reporting date the Company repaid several loans from a banking corporation at various interest rates, for a total amount of approximately NIS 180 million, by early repayment. On the same date, the banking corporation provided the Company with loans in the amount of approximately NIS 320 million, linked to the index, at an interest rate of 1.18%. As a result of the aforesaid, the Company recognized, in the report period, a loss from early redemption in the amount of approximately NIS 8 million.

d. As for collaterals given, see Note 21.

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

NOTE 15:- DEBENTURES

	Annual interest rate *)	December 31, 2018 Balance	December 31, 2018 Balance, net of current maturities	December 31, 2019 Balance	December 31, 2019 Balance, net of current maturities	Convenience translation December 31, 2019 Balance	Convenience translation December 31, 2019 Balance, net of current maturities
	%	NIS (In thousands)				Euro (In thousands)	
Debentures (1)	2.99	544,921	455,340	960,338	904,073	247,625	233,117
Debentures of an investee company (2)	2.69	779,851	691,716	882,132	779,980	227,459	201,119
Total		1,324,772	1,147,056	1,842,470	1,684,053	475,084	434,236

*) Weighted average rate as of December 31, 2019.

	Bonds in the company: Bonds (Series B)	Bonds in the company: Bonds (Series C)
Date of initial offering of the series / dates of expansion during the year	1. June, 2018 2. October, 2018 (Series expansion) 3. January 2019 (Series expansion) 4. June, 2019 (Series expansion)	December, 2019
Nominal value at the date of issue / expansion (NIS thousands)	1. 255,840 2. 200,000 3. 125,828 4. 150,000	229,021
Total nominal value of bonds in circulation at December 31, 2018 (NIS thousands)	731,668	229,021
Issuance expenses (NIS thousands)	1,883	2,025
Liability value in the financial statements at December 31, 2018 (NIS thousands)	733,124	227,214
Nominal rate of interest	3.25%	2.16%
Effective interest rate of the entire series (including expansions made)	1. 3.45% 2. 3.11% 3. 3.89% 4. 2.43%	2.32%
Principal repayment dates	31/12/2020-31/12/2026 13 unequal semi-annual installments	28/02/2021-31/08/2031 22 unequal semi-annual installments
Linkage basis (principal and interest)	Unlinked	Unlinked
Financial covenants	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.	The main points of the criteria set forth in the issue of Series C bonds are: (1) The Company's shareholders' equity shall not be less than NIS 1,400 million. (2) The ratio of adjusted net financial debt to CAP, as defined in trust deed, shall not exceed 76%. (3) The Company's EBIDTA shall not be less than NIS 700 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) 2. April 2019 (Series expansion)	1. September 2017 2. November 2017 (Series expansion). 3. March 2019 (Series expansion).
Nominal value on issue date (NIS thousands)	475,000	215,260	400,000
Total nominal value of bonds in circulation at December 31, 2019 (NIS thousands)	335,160	193,734	363,234
Balance of issue expenses as of December 31, 2019 (NIS thousands)	5,864	1,828	1,210
Liability value in the financial statements as of December 31, 2019 (NIS thousands)	86,306	49,903	91,250
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%	1. 2.13% 2. 2.1% 3. 1.86%	1. 3% 2. 1.9% 3. 1.6%
Effective interest rate	2.8%	1. 2.2% 2. 1.8% 3. 1.74%	1.3.17% 2. 1.94% 3. 2.57%
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%.	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

NOTE 15:- DEBENTURES (Cont.)

(1) Bonds in the Company

(*) 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.

The Company's compliance 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, the Company complies with these conditions.

(*) Series C 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. The Company's shareholder's equity shall not be less than NIS 1,600 million.
2. Net financial debt ratio, adjusted to NET CAP, as defined in the trust deed, shall not exceed 74%.
3. The Company's EBITDA shall not be less than NIS 800 million.

NOTE 15:- DEBENTURES (Cont.)

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 1,600 million.
b. Net financial debt ratio, adjusted to NET CAP as defined in the trust deed, shall not exceed 76%.
c. The Company's EBITDA shall not be less than NIS 700 million.
d. At the date of the Board of Directors resolution, there are no grounds in the Company for immediate repayment of the bonds.

The Company's compliance 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 quarterly financial statements as at September 30, 2019.
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.

NOTE 15:- DEBENTURES (Cont.)

(*) 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.

Fulfillment by Fattal Properties (Europe) of the financial standards specified in the trust deed will be calculated according to the accounting standards applicable as of the date of the debentures' IPO.
As at the date of approval of the financial statements, Fattal Properties (Europe) complies with these conditions.

For details on expansion of debentures (Series C) of Fattal Properties (Europe) after the balance sheet date, see Note 33.

NOTE 16:- Leases

The Company has lease agreements that include leases of hotels used for maintaining the Company's ongoing activity.
The lease agreements are for a period ranging from 5 to 35 years. Some of the lease agreements that the Company entered include options for extension and/or cancellation, as well as variable lease payments.
In addition, the Company is leasing land through a discounted lease from the Israel Land Administration for a period of 49 years, until year 2047. The leased land is used by the Company for maintaining its ongoing activity. The Company has an option to extend the lease period by 49 additional years.

1. Information of Lease:

	Year ended December 31, 2019	
	NIS (thousands)	**Euro (thousands)**
Total cash outflow for leases	1,160,970	299,358

2. Variable Lease payments:

Some of the lease contracts of the hotels used by the Company include lease payments that vary according to turnover and/or operating profit deriving from the specific hotel. The Company's objective in entering into lease agreements that include variable lease payments is to align the lease expense to the revenue of the hotel, and thereby reduce the fixed costs deriving from operation of the hotel.
The following provides information on the lease payments for the store leases that contain fixed and variable payments:

	Year ended December 31, 2019	
	NIS (thousands)	**Euro (thousands)**
Fixed lease payments	281,851	72,676
Variable lease payments	102,272	26,371
Total lease payments	384,123	99,047

3. Lease extension and termination options:

The Company has lease agreements that include extension options as well as termination options. These options provide the Company with flexibility in management of the lease transactions and adjustment to the Company's business needs. The Company exercises significant judgement in deciding whether it is reasonably certain that extension and termination options will be exercised.
In lease agreements that include non-cancellable lease periods of 5 to 10 years, the Company included, as part of the lease period, exercise of the extension options pursuant to the agreements. In these lease agreements, the Company usually exercises extension options to avoid a significant adverse impact to its operating activities in the event that an alternative asset is not available immediately upon termination of the noncancelable lease period.

NOTE 16:- Leases (Cont.)

In lease agreements that contain non-cancellable lease periods of 10 to 35 years, the Company did not include, as part of the lease period, exercise of the extension options, since the Company does not expect that it would likely exercise such options.

4. Disclosures on right-of-use assets:

	December 31,	
	NIS (thousands)	**Euro (thousands)**
Cost	Hotels	
Balance as of January 1, 2019	9,235,405	2,381,364
Additions During the Year:		
Additions to usage right properties due to new leases during the period	3,866,308	996,934
Adjustments for indexation	41,459	10,690
Adjustments for changes in lease terms	3,870	998
Adjustments arising from translating financial statements of foreign operations	(587,630)	(151,521)
Initially consolidated company	247,388	63,789
Balance as of December 31, 2019	12,806,800	3,302,254
Accumulated Depreciation		
Balance as of January 1, 2019	-	-
Additions During the Year:		
Depreciation and amortizations	589,972	152,125
Adjustments for indexation	(159)	(41)
Adjustments for changes in lease terms	(5,449)	(1,405)
Adjustments arising from translating financial statements of foreign operations	(5,359)	(1,382)
Balance as of December 31, 2019	579,005	149,297
Depreciated cost at December 31, 2019	12,227,795	3,152,956

5. For an analysis of maturity dates of lease liabilities, See Note 17B.

NOTE 17:- 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.

In 2019, 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 288,430 thousand was recorded (in a capital reserve from adjustments due to financial statements translation) for the period ended on December 31, 2019, 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.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

- 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.

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
2019:			
Loans in NIS	+0.25%	1,686	434
Loans in Pound Sterling	+0.25%	1,020	263
Loans in Euro	+0.25%	233	60
Loans in dollar	+0.25%	165	43
Loans in NIS	-0.25%	(1,686)	(435)
Loans in Pound Sterling	-0.25%	(1,020)	(263)
Loans in Euro	-0.25%	(165)	(43)
Loans in dollar	-0.25%	(153)	(39)
2018:			
Loans in NIS	+0.25%	1,729	
Loans in Pound Sterling	+0.25%	1,054	
Loans in Euro	+0.25%	233	
Loans in dollar	+0.25%	106	
Loans in NIS	-0.25%	(1,729)	
Loans in Pound Sterling	-0.25%	(1,054)	
Loans in Euro	-0.25%	(233)	
Loans in dollar	-0.25%	(106)	

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.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

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):

As at December 31, 2019:

	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
Trade payables	196,179	-	-	-	-	-	196,179	50,585
Other accounts payable	757,869	-	-	-	-	-	757,869	195,415
Other non-current liabilities	1,482	1,482	1,482	1,482	1, 867	5,827	13,622	3,512
Debentures	212,008	284,168	276,841	286,024	278,298	758,076	2,095,415	540,306
Liabilities from leases of right-of-use assets	1,031,016	1,031,560	942,630	1,026,285	1,019,833	15,747,980	20,799,304	5,363,133
Loans from banks and others	382,156	300,384	696,816	512,809	161,249	960,453	3,013,867	777,130
	2,580,710	1,617,594	1,917,769	1,826,600	1,461,247	17,472,336	26,876,256	6,930,081

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
	NIS						
Trade payables	173,725	-	-	-	-	-	173,725
Other accounts payable	613,673	-	-	-	-	-	613,673
Liability for financing lease	2,716	2,716	2,716	2,716	2,716	21,771	35,351
Other non-current liabilities	665	3,140	3,710	4,122	5,690	40,307	57,634
Debentures	216,344	159,007	189,456	184,327	187,197	575,217	1,511,548
Loans from banks and others	372,424	278,663	234,427	733,033	454,999	773,295	2,846,841
	1,379,547	443,526	430,309	924,198	650,602	1,410,590	5,238,772

NOTE 17:- 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, 2018	Fair value December 31, 2018	Book value December 31, 2019	Fair value December 31, 2019
		Unaudited		
		(NIS in thousands)		
Loans from banking corporations and other liabilities				
Debentures (Level 1 of the fair value hierarchy)	1,324,772	1,324,962	1,842,470	1,951,994
Fixed interest loans (Level 3 of the fair value hierarchy)	1,007,573	1,048,507	1,346,330	1,385,703
Total	2,332,345	2,373,469	3,188,800	3,337,697

	Convenience translation Book value December 31, 2019	Convenience translation Fair value December 31, 2019
	(Euro in thousands)	
Loans from banking corporations and other liabilities		
Debentures (Level 1 of the fair value hierarchy)	475,084	503,325
Fixed interest loans (Level 3 of the fair value hierarchy)	347,153	357,306
Total	822,237	860,631

d. Changes in liabilities deriving from financing activity

	January 1, 2019	Cash flows	Effect of changes in exchange rates	Recognition of liabilities in respect of financing lease	Dividend Declared	Other changes	December 31, 2019
				(NIS in thousands)			
Liability in respect of financing lease	35,353	(35,353)	-	-	-	-	-
Dividend payable	50,185	-	(110,039)	-	60,000	(146)	-
Bonds	1,324,772	-	516,292	-	-	1,406	1,842,470
Liabilities from leases of right-of-use assets	-	9,673,596	3,609,845	(602,862)		(143,516)	12,537,063
Loans from banking corporations	2,585,220	-	336,867	(117,887)	-	(4,400)	2,799,800
	3,995,530	9,638,243	4,352,965	(720,749)	60,000	(146,656)	17,179,333

	January 1, 2019	Cash flows	Effect of changes in exchange rates	Recognition of liabilities in respect of financing lease	Dividend Declared	Other changes	December 31, 2019
	Convenience translation (Euro in thousands)						
Liability in respect of financing lease	9,116	(9,116)	-	-	-	-	-
Dividend payable	12,940	-	(28,374)	-	15,471	(37)	-
Bonds	341,595	-	133,127	-	-	362	475,084
Liabilities from leases of right-of-use assets	-	2,494,352	930,804	(155,449)	-	(37,005)	3,232,702
Loans from banking corporations	666,603	-	86,862	(30,397)	-	(1,135)	721,933
	1,030,254	2,485,236	1,122,419	(185,846)	15,471	(37,815)	4,429,719

	January 1, 2018	Cash flows	Effect of changes in exchange rates	Recognition of liabilities in respect of financing lease	Other changes	December 31, 2018
	(NIS in thousands)					
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 18:- 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 19:- OTHER NON-CURRENT LIABILITIES

	December 31,		Convenience translation December 31,
	2018	2019	2019
	NIS		Euro
	(In thousands)		
Liability in respect of leasing contracts recognized as business combinations (*)	268,636	-	-
Financial derivatives	75,060	28,673	7,393
Liability in respect of operating lease	47,608	-	-
Financial lease	35,353	-	-
Others	22,205	19,961	5,147
	448,862	48,634	12,540

(*) During the report period, the balance is presented as part of the section on Right-of-use assets, net.

NOTE 20:- 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 19 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.). Based on the opinion of the Group’s legal advisors, that it is not possible to evaluate the prospects of the claim at this stage, and no provision has been made in the financial statements in respect of this claim.

NOTE 20:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

b. 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
Bristol England	January 2019	Leased	200	100%	About £ 1.4 million	During 2020
Cologne, Germany	January 2019	Leased	238	100%	About € 1.6 million	During 2022
Tel Aviv, Israel	January 2019	Leased	26	100%	About NIS 2.2 million	August 2019
Jerusalem, Israel	February 2019	Leased	90	100%	About NIS 2.7 million	During 2023
Rhodes, Greece	February 2019	Acquisition	127	50%	About € 4.5 million	During 2019
Athens, Greece	February 2019	Leased	217	100%	About € 1.3 million	During 2021
Rome, Italy	February 2019	Acquisition	81	100%	About € 16 million	Operated from acquisition date
London, England (1)	March 2019	Leased	1,311	100%	About £ 55 million	Operated from acquisition date
Dublin, Ireland	March 2019	Acquisition	175	50%	About € 23.6million	During 2022
Tel Aviv, Israel	April 2019	Leased	85	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	56	100%	About NIS 1.8 million	During 2021
Porto, Portugal (2)	June 2019	Acquisition	560	33.3%	About € 23 million	During 2022
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	Acquisition	145	50%	About € 10.75 million	October 2019
Eilat, Israel (3)	August 2019	Acquisition	279	51%	About NIS 60 million	During 2020
Ramat Gan, Israel	August 2019	50%-owned	167	50%	About NIS 61 million	Leased and operated 100% by the Company Acquired 50% August 2019
Jerusalem, Israel	September 2019	Leased	72	100%	About NIS 3.2 million	During 2023
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 from acquisition date
Limassol, Cyprus	October 2019	Acquisition	165	50%	About € 7.5 million	During 2021
Jerusalem (Tzuba), Israel	October 2019	Leased	152	100%	About NIS 7.1 million	During 2023
Thessaloniki, Greece	October 2019	Acquisition	122	50%	About € 4.75 million	During 2021
Tel Aviv , Israel (4)	November 2019	Acquisition	85	100%	About NIS 108 million	During 2022
Dead sea, Israel	December 2019	Acquisition	198	100%	About NIS 12.3 million	During 2024
Hamburg, Germany	December 2019	Leased	209	100%	About € 2 million	During 2023

NOTE 20:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. In March 2019, the Company engaged, through its sub-subsidiary, in an agreement for rental of 4 hotels in London (1,311 rooms) in consideration for annual rent of GBP 55 million. The rent will be updated every five years and will be linked to increase in the price indexes in the UK. The rent agreement is for a period of 25 years, with an option for extension by five additional years. The parties agreed that the hotels would be renovated according to an overall renovation program financed by the lessor, which undertook to provide an amount of approximately GBP 34.5 million for financing the renovation. In addition, the hotel owners undertook to complete for the Company the shortfall in the hotels' profitability, up to an amount of GBP 55 million per year, and GBP 34.5 million in total, according to conditions agreed between the parties. In the event the hotels' profitability exceeds the amount of GBP 55 million during two consecutive years, the entire balance of the amount will be transferred to the lessee. As part of the agreement, the Company provided a guarantee limited in amount to the benefit of the hotel owners as aforesaid, for payment of the lessee's obligations, including timely payment of the rent. Until such time at which the EBITDAR ratio in the two years preceding such date is equal to or higher than 1:1.5 (hereinafter – the Change Date), the guarantee amount will be limited to an amount equal to the annual rent for five years (GBP 275 million). As of the Change Date, the guarantee amount will be limited to an amount equal to two times the annual rent (GBP 110 million).

2. In June 2019, the Company engaged with 2 third parties (Company's part – 33%) in a transaction for purchase of three service and commerce buildings, adjacent to each other, in Porto, Portugal, with the objective of building a hotel with approximately 260 rooms and a convention hall, to be rented by the Company. In addition, as part of the transaction, a 140-unit building would be built for student residence or joint residence, as well as a 160-room hostel, to be rented and managed by a third party, while demolishing the existing buildings. The transaction was completed in August 2019. The Company expects that the project costs will total approximately EUR 67 million. The Company's part in the transaction is approximately EUR 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 10 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%).

4. In November 2019, an investee company engaged in an agreement for purchasing a building designated for preservation, for a total amount of approximately NIS 108 million. As of the date of approval of the financial statements, the Company paid an amount of NIS 36 million.

5. The Company began, through an investee partnership, activity in the co-working field, under the ROOMS brand. As of the date of signing the report, the partnership signed rental agreements for 5 complexes in Tel Aviv, Raanana and Bnei Brak, with a total area of approximately 19 thousand sq.m. (one complex in Tel Aviv opened in July 2019, and the complex in Raanana was opened in February 2020). In addition, the partnership holds 50% in a company that holds 14 complexes with a total area of approximately 23 thousand sq.m. In central Israel, which are expected to open during 2020-2021.

NOTE 21:- LIENS AND GUARANTEES

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

	December 31,		Convenience translation December 31,
	2018	2019	2019
	NIS		Euro
	(In thousands)		
Short-term credit	40,328	10,178	2,623
Loans from banking corporations and others, including current maturities	2,490,853	2,684,056	692,088
	2,531,181	2,694,234	694,711

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 69.4 million and €74.4 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 € 282 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. Regarding a guarantee limited in amount that the Company provided pursuant to rental agreements for four hotels in London, see Note 20.B.1 above.

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

NOTE 22:- CAPITAL

a. Composition of share capital:

	December 31,			
	2018		2019	
	Authorized	Issued and paid-up	Authorized	Issued and paid-up
	Number of shares			
Ordinary shares of NIS 1 par value each	50,000,000	14,441,800	50,000,000	14,441,800

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.

b. Issue of options

On February 12, 2018, 156,426 non-registered options were allocated to70 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.

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.

NOTE 22:- CAPITAL (Cont.)

e. Dividend

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. 50% of the loans will be repaid shortly 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. It is noted that as of the date of the financial statements, the balance has been repaid in full.

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

NOTE 23:- 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 23:- 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 23:- 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 e ntire 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

NOTE 23:- TAXES ON INCOME (Cont.)

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.

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 2019 and 2018 and 24% in 2017. 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 24.94%.
The corporate tax rate that applies domiciled in the Netherlands is 19% for revenues of up to EUR 200,000 (16.5% as of 2020 and 15% as of 2021), and 25% for revenues over EUR 200,000 (21.7% as of year 2021).
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%.

NOTE 23:- TAXES ON INCOME (Cont.)

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

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 2014 tax year, subject to certain conditions.

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.

e. Carryforward losses for tax purposes

Carryforward tax losses of consolidated companies in Israel total approximately NIS 18 million as of December 31, 2019.

Carryforward tax losses of consolidated companies abroad as of December 31, 2019 total approximately € 19.5 million.

In respect of accumulated losses amounting to approximately NIS 94 million, the Group has created a deferred tax asset of approximately NIS 23 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.

NOTE 23:- TAXES ON INCOME (Cont.)

f. Deferred taxes

Composition

	Statement of financial position		Convenience translation
	December 31,		December 31,
	2018	2019	2019
	NIS		Euro
Deferred tax liabilities			
Right-of-use assets, net	-	(3,100,173)	(799,385)
Depreciable property, plant and equipment	(260,053)	(295,142)	(76,103)
Taxes arising on business combinations	(47,684)	-	-
Other temporary differences	(43,067)	(114,222)	(29,452)
	(350,804)	(3,509,537)	(904,940)
Deferred tax assets			
Right-of-use assets, net	-	3,277,315	845,061
Depreciable property, plant and equipment	6,829	8,685	2,239
Carry-forward tax losses	31,592	23,083	5,952
	38,421	3,309,083	853,252
Deferred tax liabilities, net	(312,383)	(200,454)	(51,688)

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

	December 31,		Convenience translation December 31,
	2018	2019	2019
	NIS		Euro
Non-current assets	22,966	195,118	50,311
Non-current liabilities	(335,349)	(395,572)	(101,999)
	(312,383)	(200,454)	(51,688)

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 23b(2) abroad, based on the tax rates that are expected to apply upon realization.

NOTE 23:- TAXES ON INCOME (Cont.)

g. Taxes on income included in profit or loss

	Year ended December 31,			Convenience translation Year ended December 31,
	2017	2018	2019	2019
	NIS			Euro
	(In thousands)			
Current taxes	73,188	157,961	103,813	26,768
Prior years' taxes	5,524	2,283	(3,470)	(893)
Deferred taxes	(8,224)	(60,781)	(83,789)	(21,605)
	70,488	99,463	16,554	4,270

h. Taxes on income relating to other comprehensive income

Mainly in respect of the revaluation of fixed assets, amounting to NIS 58,956 thousand, NIS 53,105 thousand and NIS 60,612 thousand as of December 31, 2019, 2018 and 2017, 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:

	Year ended December 31,			Convenience translation Year ended December 31,
	2017	2018	2019	2019
	NIS			Euro
Income before taxes on income	267,949	341,389	57,396	14,800
Statutory tax rate	24%	23%	23%	23%
Tax at the statutory tax rate	64,308	78,519	13,775	3,552
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	(1,710)	(682)	(2,517)	(649)
Adjustment of deferred tax balances due to a change in tax rates	-	-	(3,323)	(857)
Losses in the reporting year for which no deferred taxes were created	4,157	4,475	4,348	1,121
Income at different tax rates	8,625	8,838	8,304	2,141
Prior years' taxes	5,524	2,282	(3,470)	(893)
Other differences	(10,416)	6,031	(563)	(145)
	70,488	99,463	16,554	4,270
Effective tax rate	26%	29%	29%	29%

NOTE 24:- REVENUES FROM HOSPITALITY SERVICES AND OTHERS

	Year ended December 31,			Convenience translation Year ended December 31,
	2017	2018	2019	2019
	NIS			Euro
	(In thousands)			
Rooms	1,948,898	2,746,001	3,977,018	1,025,480
Food and beverages	464,349	726,424	1,025,798	264,504
Other services	142,030	198,801	311,618	80,351
Hotel management fees	30,807	94,417	27,955	7,208
	2,586,084	3,765,643	5,342,389	1,377,543

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.

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 25:- COST OF REVENUES

	Year ended December 31,			Convenience translation Year ended December 31,
	2017	2018	2019	2019
	NIS			Euro
	(In thousands)			
Salaries and related expenses	614,548	860,569	1,276,033	329,027
Food and beverages	273,108	364,994	619,953	159,856
Expenses relating to rooms department	295,160	411,326	479,246	123,574
Maintenance and energy expenses	177,721	231,422	298,480	76,964
Municipal taxes and insurance	54,481	92,253	166,348	42,893
Others	27,012	33,819	69,046	17,803
	1,442,030	1,994,383	2,909,106	750,117

NOTE 26:- SELLING AND MARKETING EXPENSES

	Year ended December 31,			Convenience translation Year ended December 31,
	2017	2018	2019	2019
	NIS			Euro
	(In thousands)			
Advertising and marketing	56,874	79,319	109,082	28,127
Salaries and related expenses	20,547	31,710	36,691	9,461
	77,421	111,029	145,773	37,588

NOTE 27:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,			Convenience translation Year ended December 31,
	2017	2018	2019	2019
	NIS			Euro
	(In thousands)			
Salaries and related expenses	120,586	194,072	219,721	56,655
Professional services	28,995	47,067	102,270	26,370
Credit card commissions	15,778	27,981	50,400	12,996
Office, expenses, communication and postage	22,705	30,137	38,257	9,865
Vehicle maintenance	4,197	5,311	5,122	1,321
Others	19,566	35,661	61,131	15,763
	211,827	340,229	476,901	122,970

NOTE 28:- OTHER OPERATING INCOME (EXPENSES), NET

	Year ended December 31,			Convenience translation Year ended December 31,
	2017	2018	2019	2019
	NIS			Euro
	(In thousands)			
Costs of business combinations and acquisitions of properties	-	(44,516)	(19,872)	(5,124)
Income (expenses) in respect of previous years	(23,327)	3,012	(3,555)	(917)
Capital gain from sale of investments	2,915	-	-	-
Other expenses	(9,629)	(2,888)	(12,886)	(3,322)
	(30,041)	(44,392)	(36,313)	(9,363)

NOTE 29:- FINANCE INCOME AND EXPENSES

	Year ended December 31, 2017	2018	2019	Convenience translation Year ended December 31, 2019
	NIS			Euro
	(In thousands)			
a. Financial income				
Others	3,197	4,815	5,940	1,532
	3,197	4,815	5,940	1,532
b. Financial expenses				
Financial expenses in respect of long-term loans and bonds	50,566	103,325	100,511	25,917
Expenses in respect of derivative financial instruments	1,098	19,492	4,663	1,202
Others	1,016	7,136	1,221	315
	52,680	129,953	106,395	27,434

NOTE 30:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. Balances with interested and related parties

	December 31, 2018	2019	Convenience translation December 31, 2019
	NIS		Euro
	(In thousands)		
Current assets			
Chain hotels	66,505	20,100	5,183
Non-current assets – related companies	535,935	591,066	152,407
Current liabilities			
Shareholders	55,907	5,821	1,501
The chain hotels	6,228	18,457	4,759
Non-current liabilities			
Shareholders	6,029	2,089	539
Investee companies accounted for at equity method	3,950	3,864	996

NOTE 30:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b. Transactions with interested and related parties *)

	Year ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2019	Convenience translation Year ended December 31, 2019
	NIS	NIS	NIS	Euro
	(In thousands)			
Salaries and related expenses to interested parties **) ***)	(10,846)	(17,543)	(16,753)	(4,320)
Management fees from companies and partnerships accounted for at equity	26,584	11,800	22,604	5,828
Remuneration of directors not employed in the Company	270	628	652	168
Number of directors to whom the benefit refers	1	5	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.

Notwithstanding Note 1C above, following the balance sheet date, the controlling shareholder waived a bonus of NIS 5.9 million and his children waived a bonus of NIS 0.4 million.

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

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

			Convenience translation
Year ended December 31,			Year ended December 31,
2017	2018	2019	2019
NIS			Euro
(In thousands)			
8,973	(* 9,581	(** 9,020	2,326

*) Including an issue bonus of NIS 500 thousand.

**) Due to the Corona crisis, the controlling shareholder irrevocably waived the entire bonus to which he was entitled.

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).

d) Due to the spread of the Corona pandemic, the controlling shareholder irrevocably waived the ongoing management fee to which he was entitled, until the end of the second quarter of 2020, and the controlling shareholder's sons began unpaid leave until the end of the crisis.

NOTE 31:- 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						2019	
	2017		2018		2019		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	193,679	14,441	238,682	14,441	38,010	14,441	9,801
Effect of contingently issuable shares	-	-	13	-	58	-	58	-
For the computation of diluted net earnings	*12,789*	*193,670*	14,454	238,682	*14,499*	38,010	*14,499*	9,801

(* The data also refer to the need for calculation of the profit per share, basic and diluted for the discontinued operation

NOTE 32:- 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 Mediterranean basin) and in the United Kingdom and Ireland. In addition, the Group has investment through subsidiaries in Mediterranean basin and other investment, which do not amount a reportable segment, and, accordingly, is reported 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 operative decision-maker is continuing to examine the activity sectors according to the old Leases Standard, IAS 17. Accordingly, adjustments were added in respect of the new Leases Standard, IFRS 16.

NOTE 32:- 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 1e)
	NIS thousands								Euro Thousands
Year ended December 31, 2019 (audited):									
Segment revenues	1,708,798	1,889,463	1,700,754	137,034	(103,660)	5,342,389	-	5,342,389	1,377,543
Operating income before depreciation and amortization, other operating expenses and rental expenses	430,857	735,374	623,006	51,712	(30,340)	1,810,609	-	1,810,609	466,868
Operating income before depreciation and amortization and other operating expenses	303,812	412,989	131,607	19,833	(92,960)	775,281	920,055	1,695,336	437,145
Depreciation and amortization	(84,105)	(165,710)	(94,787)	(10,994)	45,785	(309,811)	(584,363)	(894,174)	(230,564)
Other operating expenses, net								(36,313)	(9,363)
Finance expenses, net								(718,397)	(185,239)
Group's share of earnings of associate companies and partnerships accounted for at equity								10,944	2,822
Income before taxes on income								57,396	14,801
Taxes on income								16,554	4,270
Net income								40,842	10,531

NOTE 32:- 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	Total
	NIS thousands								Euro Thousands
Year ended December 31, 2019 (audited):									
Total assets	4,090,215	4,506,877	2,029,884	509,483	(1,108,453)	10,028,006	11,760,461	21,788,467	5,618,189
Total liabilities	3,107,237	2,850,654	1,319,081	318,310	(1,108,453)	6,486,829	12,183,537	18,670,366	4,814,182

NOTE 32:- OPERATING SEGMENTS (Cont.)

	Israel	Abroad, mainly Germany	UK and Ireland	Other	Adjustments	Total
	NIS (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	639,921	267,425	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

	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

	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, other operating expenses and rental expenses	331,981	501,398	28,690	24,922	(32,185)	854,806
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

NOTE 33:- 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
Budapest, Hungary	January, 2020	Acquisition	71	100%	Approximately € 17 million	Operated from acquisition date
Lisbon, Portugal (1)	January, 2020	Acquisition	132	100%	Approximately € 64 million	During 2022
Barcelona, Spain (2)	January, 2020	Acquisition	115	100%	Approximately € 18 million	During 2022
Liverpool, England	January, 2020	Acquisition	200	100%	Approximately £ 7 million	During 2022
Nuremberg, Germany	January, 2020	Leased	222	100%	Approximately € 2.1 million	December 2023
Jerusalem, Israel	January, 2020	Management	88	0%	(*)	During 2022

(*) Management agreement.

(1) in January 2020, the Company entered an agreement for purchase of shares of a company that owns the plot on which the building designated for conservation was built and regarding which there was a valid construction permit (until June 2020), according to which a 132-room hotel may be built, for consideration of a total amount of EUR 42 million. The Company plans to build on the plot a 4-star deluxe or 5-star hotel. According to the Company's assessment, the construction costs will total approximately EUR 22 million, so that the total cost of the hotel will be approximately EUR 64 million. As of the date of signature of the financial statements, the transaction has been completed, and the consideration, totaling EUR 42 million has been paid in full.

(2) In January 2020, the Company entered into an agreement for purchase of a building in Barcelona, Spain, which currently serves as an office building, for consideration of a total amount of approximately EUR 7 million. Completion of the transaction is contingent upon the provision of approval for change of designation by the seller, by March 31, 2020. Immediately after change of designation as aforesaid, the Company will pay the aforesaid consideration and will deposit an amount of approximately EUR 1.4 million in trust, for guaranteeing payment of additional consideration after receipt of the municipality's approval for the construction plans and allocation of appropriate construction rights. As of the date of the statements, the buyer has deposited an amount of EUR 840 thousand in trust.

b. In February 2020, Fattal Properties (Europe) issued additional Series C debentures by an allocation to the public of 198,679,000 Series C debentures, each with NIS 1 par value, of Fattal Properties (Europe) listed for trading at a price of NIS 1.016 for each NIS 1 par value of debentures and a total of approximately NIS 201,857,000 for all Series C debentures. After the additional allocation, the total amount of the Series C debentures is NIS 561,913,000 par value. Shortly before the date of receipt of the proceeds from the issuance described above, Fattal Properties (Europe) executed a full hedging transaction with a banking corporation, whereby the NIS debt (principal and interest) was converted into Euro debt, such that on each payment date of interest and / or principal, the banking corporation will pay a NIS amount against the receipt of the amount in Euro determined at the date of the hedge transaction.

NOTE 33:- EVENTS AFTER THE REPORTING DATE (Cont.)

As a result of the transaction, the NIS debt was replaced by EURO debt at an annual nominal interest rate of 2.12%. The exchange of principal and interest as aforesaid is treated as a cash flow hedge transaction. The EURO effective interest of the expansion of the debentures (including issuance costs) is 1.92%.

c. Regarding the effect of the spread of the Corona virus after the balance sheet date upon the Company's businesses, see Note 1.C.

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