FATTAL HOLDINGS (1998) LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020

INDEX

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Kost Forer Gabbay & Kasierer
144 Menachem Begin Road, Building A,
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

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, 2020 and 2019, and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2020. 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 78,206 thousand and NIS 41,178 thousand as of December 31, 2020 and 2019, respectively, and the Company's share of their losses amounted to NIS 3,610 thousand, NIS 4,596 thousand and NIS 2,707 thousand for the years ended December 31, 2020, 2019 and 2018, 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 standards 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 auditors , 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, 2020 and 2019, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2020, 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. Also, we draw attention to the matter discussed in Note 15 (1) regarding agreements with the bondholders (Series B and C) regarding the financial covenants. As for the actions the Company is undertaking and is planning in order to match its cash expenditures to the significant decrease in revenues, and compliance with the financial covenants to which the group companies are obliged as well as the plans of management and the board of directors in respect of this matter, see Note 1c.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 25, 2021

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2019	December 31, 2020	Convenience translation (Note 1e) December 31, 2020
		NIS	NIS	Euro
		(In thousands)		
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	5a	859,646	1,257,291	318,778
Securities held for trading	5b	260,617	35,699	9,051
Trade receivables	6	344,455	90,222	22,875
Restricted deposit	15	-	14,171	3,593
Other accounts receivable	7	147,327	221,777	56,230
Income tax receivable		49,273	1,554	394
Inventories		17,592	10,885	2,760
		1,678,910	1,631,599	413,681
Assets held for sale	9, 33c	144,544	430,681	109,196
		1,823,454	2,062,280	522,877
NON-CURRENT ASSETS:				
Long-term receivables	8	94,516	60,658	15,379
Advance on fixed assets		46,078	33,076	8,386
Loans and Investments in companies and partnerships accounted for at equity	9	1,236,312	1,302,179	330,159
Property, plant and equipment, net	10	5,751,589	5,383,065	1,364,840
Right-of-use assets, net	16	12,227,795	11,853,401	3,005,350
Deferred taxes on right-of-use assets	23f	177,142	258,605	65,568
Deferred taxes	23f	17,976	111,213	28,197
Intangible assets		413,605	410,057	103,967
		19,965,013	19,412,254	4,921,846
		21,788,467	21,474,534	5,444,723

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2019	December 31, 2020	Convenience translation (Note 1e) December 31, 2020
		NIS	NIS	Euro
		(In thousands)		
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Short-term credit from banks and others	11	296,837	277,053	70,245
Current maturities of liabilities from leases of right-of-use assets	16	257,520	334,332	84,768
Current maturities of debentures	15	158,417	248,841	63,092
Trade payables	12	196,179	143,939	36,495
Income tax payable		79,810	82,438	20,902
Other accounts payable	13	752,048	669,332	169,703
Shareholders	22e	5,821	5,170	1,311
		1,746,632	1,761,105	446,516
Liabilities attributed to assets held for sale	9, 33c	43,854	172,474	43,730
		1,790,486	1,933,579	490,246
NON-CURRENT LIABILITIES:				
Loans from banks and others	14	2,448,924	2,808,707	712,129
Debentures, net	15	1,684,053	2,123,296	538,347
Liabilities from leases of right-of-use assets	16	12,279,543	12,207,644	3,095,166
Deferred taxes	23f	(*)379,431	262,860	66,646
Employee benefit liabilities, net	18	21,065	21,118	5,354
Other non-current liabilities	19	48,634	163,119	41,358
Shareholders	22e	2,089	3,851	976
		16,863,739	17,590,595	4,459,976
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	22			
Share capital and premium		635,177	829,798	210,390
Capital reserves		(*)1,012,493	891,322	225,989
Retained earnings		1,345,877	152,791	38,739
		2,993,547	1,873,911	475,118
Non-controlling interests		140,695	76,449	19,383
Total equity		3,134,242	1,950,360	494,501
		21,788,467	21,474,534	5,444,723

(*) Immaterial adjustment. See note 2y.

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

March 25, 2021	David Fattal	Shahar Aka
Date of approval of the financial statements	David Fattal Chairman of the Board and Chief Executive Officer	Shahar Aka Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

		Year ended December 31,			Convenience translation (Note 1e) Year ended December 31,
		2018	2019	2020	2020
	Note	NIS			Euro
		(In thousands)			
Revenues from hospitality services and others	24	3,765,643	5,342,389	1,903,926	482,728
Cost of revenues	25	1,994,383	2,909,106	1,322,269	335,253
		1,771,260	2,433,283	581,657	147,475
Selling and marketing expenses	26	111,029	145,773	67,353	17,077
General and administrative expenses	27	340,229	476,901	267,458	67,812
		1,320,002	1,810,609	246,846	62,586
Hotel lease expenses		599,262	115,273	3,280	832
Operating income before depreciation and amortization and other operating expenses		720,740	1,695,336	243,566	61,754
Depreciation and amortization		170,061	264,207	288,137	73,055
Depreciation of revaluation of step-up		42,726	45,604	42,218	10,704
Depreciation on right-of-use assets		-	584,363	630,782	159,931
Other operating expenses, net	28	44,392	36,313	41,304	10,472
Operating income (loss)		463,561	764,849	(758,875)	(192,408)
Financial income	29	4,815	5,940	1,006	255
Financial expenses	29	(129,953)	(106,395)	(169,168)	(42,891)
Financing expenses on liabilities from leases of right-of-use assets		-	(617,942)	(638,609)	(161,915)
Group's share of earnings (losses) of companies and partnerships accounted for at equity		2,966	10,944	(33,566)	(8,510)
Income (loss) before taxes on income		341,389	57,396	(1,599,212)	(405,469)
Tax benefit (taxes on income)	23g	(99,463)	(16,554)	274,928	69,706
Net income (loss)		241,926	40,842	(1,324,284)	(335,763)
Attributable to:					
Shareholders of the Company		238,682	38,010	(1,314,687)	(333,330)
Non-controlling interests		3,244	2,832	(9,597)	(2,433)
		241,926	40,842	(1,324,284)	(335,763)
Net earnings (loss) per share attributable to equity holders of the Company (in NIS):	31				
Basic earnings (loss) per share		16.35	2.60	(89.78)	(89.78)
Diluted earnings (loss) per share		16.34	2.59	(89.78)	(89.78)

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,
	2018	2019	2020	2020
	NIS			Euro
	(In thousands)			
Net income (loss)	241,926	40,842	(1,324,284)	(335,763)
Other comprehensive income (loss) (after tax effect):				
Amounts that will not be reclassified subsequently to profit or loss:				
Actuarial income (loss), net	717	(4,229)	(5,529)	(1,402)
Revaluation of properties, net	267,371	277,921	(77,708)	(19,702)
Group's share in revaluation of properties in companies and partnerships accounted for at equity	54,910	93,336	14,969	3,795
Total amounts that will not be reclassified subsequently to profit or loss	322,998	367,028	(68,268)	(17,309)
Amounts that will be classified or reclassified subsequently to profit or loss under specific conditions				
Income (loss) in respect of cash flow hedging transaction	(34,995)	(*)106,562	10,284	2,607
Foreign currency translation adjustments	84,343	(288,429)	42,888	10,874
Total amounts that will be reclassified subsequently to profit or loss	49,348	(181,867)	53,172	13,481
Total other comprehensive income (loss)	372,346	185,161	(15,096)	(3,828)
Total comprehensive income (loss)	614,272	226,003	(1,339,380)	(339,591)
Attributable to:				
Shareholders of the Company	598,149	(*)213,757	(1,324,628)	(335,851)
Non-controlling interests	16,123	12,246	(14,752)	(3,740)
	614,272	226,003	(1,339,380)	(339,591)

(*) Immaterial adjustment. See note 2y.

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 (In thousands)								
Balance as of January 1, 2018	148,487	-	1,034,581	(98,748)	(18,224)	936,188	2,002,284	98,910	2,101,194
Net income	-	-	238,682	-	-	-	238,682	3,244	241,926
Other comprehensive income (loss)	-	-	-	85,976	(34,995)	308,486	359,467	12,879	372,346
Total comprehensive income (loss)	-	-	238,682	85,976	(34,995)	308,486	598,149	16,123	614,272
Issuance of share capital (net of issuance expenses)	486,690	-	-	-	-	-	486,690	-	486,690
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	15,317	15,317
Vesting option to employees	-	2,757	-	-	-	-	2,757	-	2,757
Transfer from revaluation reserve, due to exercise, net	-	-	264,881	-	-	(264,881)	-	-	-
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	39,794	-	-	(39,794)	-	-	-
Balance as of December 31, 2018	635,177	2,757	1,577,938	(12,772)	(53,219)	939,999	3,089,880	130,350	3,220,230
Cumulative effect as a result of the initial adoption of IFRS 16 as of January 1, 2019	-	-	(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)	(*)106,562	366,053	175,747	9,414	185,161
Total comprehensive income (loss)	-	-	38,010	(296,868)	106,562	366,053	213,757	12,246	226,003
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)	53,343	1,263,204	2,993,547	140,695	3,134,242

(*) Immaterial adjustment. See note 2y.

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	Reserve from transactions with non-controlling interests	Hedge transactions reserve	Revaluation reserve	Total	Non-controlling interests	Total equity
	NIS (In thousands)									
Balance as of December 31, 2019	635,177	5,586	1,345,877	(309,640)	-	53,343	1,263,204	2,993,547	140,695	3,134,242
Net income	-	-	(1,314,687)	-	-	-	-	(1,314,687)	(9,597)	(1,324,284)
Other comprehensive income (loss)	-	-	-	46,699	-	10,284	(66,924)	(9,941)	(5,155)	(15,096)
Total comprehensive income (loss)	-	-	(1,314,687)	46,699	-	10,284	(66,924)	(1,324,628)	(14,752)	(1,339,380)
Rights issue	98,720	-	-	-	-	-	-	98,720	-	98,720
Share issue	49,755	-	-	-	-	-	-	49,755	-	49,755
Proceeds from conversion option upon issue of convertible debentures	46,146	-	-	-	-	-	-	46,146	-	46,146
Acquisition of non-controlling interests	-	-	-	-	7,518	-	-	7,518	(45,759)	(38,241)
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	-	(3,735)	(3,735)
Vesting option to employees	-	2,853	-	-	-	-	-	2,853	-	2,853
Transfer from revaluation in respect of sale, net	-	-	81,092	-	-	-	(81,092)	-	-	-
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	40,509	-	-	-	(40,509)	-	-	-
Balance as of December 31, 2020	829,798	8,439	152,791	(262,941)	7,518	63,627	1,074,679	1,873,911	76,449	1,950,360

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital and premium	Share-based payment	Retained earnings	Foreign currency translation adjustments	Reserve from transactions with non-controlling interests	Hedge transactions reserve	Revaluation reserve	Total	Non-controlling interests	Total equity
	Convenience translation into Euro (Note 1e) (In thousands)									
Balance as of December 31, 2019	161,045	1,417	341,238	(78,507)	-	13,525	320,277	758,995	35,672	794,667
Net income	-	-	(333,330)	-	-	-	-	(333,330)	(2,433)	(335,763)
Other comprehensive income (loss)	-	-	-	11,840	-	2,607	(16,968)	(2,521)	(1,307)	(3,828)
Total comprehensive income (loss)	-	-	(333,330)	11,840	-	2,607	(16,968)	(335,851)	(3,740)	(339,591)
Rights issue	25,030	-	-	-	-	-	-	25,030	-	25,030
Share issue	12,615	-	-	-	-	-	-	12,615	-	12,615
Proceeds from conversion option upon issue of convertible debentures	11,700	-	-	-	-	-	-	11,700	-	11,700
Acquisition of non-controlling interests	-	-	-	-	1,906	-	-	1,906	(11,602)	(9,696)
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	-	(947)	(947)
Vesting option to employees	-	723	-	-	-	-	-	723	-	723
Transfer from revaluation in respect of sale, net	-	-	20,560	-	-	-	(20,560)	-	-	-
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	10,271	-	-	-	(10,271)	-	-	-
Balance as of December 31, 2020	210,390	2,140	38,739	(66,667)	1,906	16,132	272,478	475,118	19,383	494,501

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,
	2018	2019	2020	2020
		NIS		Euro
		(In thousands)		
Net income (loss)	241,926	40,842	(1,324,284)	(335,763)
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	212,787	894,174	961,137	243,690
Financial expenses, net	125,327	728,225	787,590	199,688
Group's share of earnings (losses) of companies and partnerships accounted for at equity	(2,966)	(10,944)	33,566	8,510
Change in liabilities for time-sharing rights, net	(1,081)	(1,024)	(706)	(179)
Change in employee benefit liabilities, net	(666)	1,093	(5,636)	(1,429)
Costs related to transactions for the purchase of assets	18,124	-	-	-
Taxes on income (tax benefit)	99,463	16,554	(274,928)	(69,706)
Loss from impairment of investments	-	7,466	116,854	29,628
Share- based payment expense	2,757	2,829	2,853	723
Other income from rent concession received	-	-	(97,589)	(24,743)
Loss (gain) from a change in the value of securities held for trading	2,538	(9,640)	16,406	4,160
	456,283	1,628,733	1,539,547	390,342
Changes in asset and liability items:				
Decrease (increase) in trade receivables	(21,468)	(15,378)	258,618	65,571
Decrease (increase) in other accounts receivable	(18,548)	116,434	2,159	547
Decrease (increase) in inventories	(778)	(815)	6,953	1,763
Decrease (increase) in long-term receivables	1,263	(58,446)	126,249	32,010
Increase (decrease) in trade payables	(23,553)	8,863	(55,253)	(14,009)
Increase (decrease) in other accounts payable	(25,919)	28,020	(170,608)	(43,257)
Increase in other non-current liabilities	9,071	74,138	75,940	19,254
	(79,932)	152,816	244,058	61,879
Cash paid during the year for:				
Taxes received	-	28,896	60,496	15,338
Taxes paid	(133,256)	(150,010)	(24,907)	(6,315)
Interest paid for leases of right-of-use assets	-	(619,207)	(598,379)	(151,715)
Other interest paid, net	(123,257)	(109,296)	(150,075)	(38,050)
	(256,513)	(849,617)	(712,865)	(180,742)
Net cash provided by (used in) operating activities	361,764	972,774	(253,544)	(64,284)

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,
	2018	2019	2020	2020
		NIS		Euro
		(In thousands)		
Cash flows from investment activities:				
Proceeds from sale of fixed assets	668,051	-	226,391	57,400
Purchase of property, plant and equipment, net	(765,193)	(787,459)	(355,828)	(90,218)
Advance of investment in property, plant and equipment	(1,627)	(14,562)	(2,649)	(672)
Purchase of companies consolidated for the first time (a)	(728,962)	(83,449)	(251,404)	(63,742)
Exit from consolidation (b)	20,741	-	19,254	4,882
Sale and purchase of securities held for trading, net	(210,673)	(12,256)	208,512	52,867
Loans and investments in companies and partnerships accounted for at equity	(86,539)	(176,478)	(70,222)	(17,804)
Change in accounts receivable	-	-	(50,000)	(12,677)
Other assets, net	(167)	(1,501)	-	-
Withdrawal of (placement in) designated deposit	(59,142)	65,770	(52,328)	(13,267)
Return on investment (investment) in various companies	(113)	(27,047)	833	211
Net cash used in investment activities	(1,163,624)	(1,036,982)	(327,441)	(83,020)
Cash flows from financing activities:				
Dividend paid	(49,544)	(110,039)	-	-
Rights issue, net	-	-	98,720	25,030
Issuance of share capital (net of issuance expenses)	480,497	-	49,755	12,615
Acquisition of non-controlling interests	-	-	(38,241)	(9,696)
Short-term credit from banking corporations, net	(19,958)	(29,857)	(200)	(50)
Receipt of long-term loans from banking corporations and others	582,774	650,935	845,624	214,402
Repayment of long-term loans from banking corporations and others	(383,771)	(284,211)	(422,186)	(107,042)
Issue of debentures, net	524,455	708,071	759,579	192,586
Repayment of debentures	(82,814)	(191,732)	(171,963)	(43,600)
Repayment of liabilities from leases of right-of-use assets	-	(439,491)	(155,369)	(39,393)
Net cash provided by financing activities	1,051,639	303,676	965,719	244,852
Translation differences in respect of balances of cash and cash equivalents	1,489	(40,809)	13,232	3,354
Increase in cash and cash equivalents	251,268	198,659	397,966	100,902
Cash included in assets held for sale	321	(273)	(321)	(81)
Cash and cash equivalents at beginning of year	409,671	661,260	859,646	217,957
Cash and cash equivalents at end of year	661,260	859,646	1,257,291	318,778
Material non-cash activity:				
Recognition of the right-of-use assets against lease liabilities	-	3,864,568	388,328	98,458
Receipt of waiver of lease payment	-	-	58,455	14,821
Purchase of properties, plant and equipment	3,184	-	-	-

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

				Convenience translation (Note 1e)
	Year ended December 31,			Year ended December 31,
	2018	2019	2020	2020
	NIS			Euro
	(In thousands)			
(a) Acquisition of initially consolidated subsidiaries:				
The subsidiaries' assets and liabilities at date of acquisition:				
Working capital (excluding cash and cash equivalents)	199,968	19,948	(1,798)	(456)
Non - current assets	(471,292)	(34,626)	3,781	959
Deferred taxes	47,818	411	-	-
Property, plant and equipment	(902,188)	(103,394)	(311,822)	(79,060)
Goodwill created on acquisition (including brand)	(451,036)	2,102	-	-
Current liabilities	-	-	1,518	385
Non-current liabilities	273,385	32,110	56,917	14,430
Less advance that paid in previous periods	574,383	-	-	-
	(728,962)	(83,449)	(251,404)	(63,742)
(b) Exit from consolidation:				
Current assets	23,262	-	-	-
Non-current assets	17,913	-	19,254	4,882
Current liabilities	(255)	-	-	-
Non-current liabilities	(20,179)	-	-	-
	20,741	-	19,254	4,882

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 operates by itself and through corporations held by it, in the hotel, tourism and leisure industry by way of holding hotels in Israel and abroad, as well as by way of operating and managing hotels in Israel and abroad. In February 2018, the Company completed its first public offering of shares and as of that date, the Company became a public company as the term is defined in the Companies Law, 5759-1999. Mr. David Fattal is the controlling shareholder in the Company.

b. As of the date of approval of the financial statements, the Company, through the investee companies, is the operator and manager of the Fattal Hotel Chain, which includes 220 hotels throughout Israel and Europe, comprising about 42,000 hotel rooms, including 51 hotels in Israel with a total of about 9,241 hotel rooms. Of these, about 6,366 rooms are located in hotels in which the Company has full or part of the ownership rights, and about 2,875 rooms located in hotels that the Company leases or manages only. In addition, the Company operates and manages 160 hotels throughout Europe (excluding Cyprus and Greece) with a total of about 30,982 hotel rooms, of which about 8,601 rooms are in hotels in which the Company has full or part of the ownership rights, and about 22,381 rooms are in hotels that the Company leases or manages only. In addition, the Company operates and manages 9 hotels in Cyprus and Greece with about 2,038 rooms, of which about 1,699 rooms are in hotels in which the Company has full or part of the ownership rights, and about 339 rooms are in hotels that the Company leases or manages only. 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 business, see section c below.

c. The spread of the Corona virus and the global spread of the Corona pandemic starting in 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 background of the restrictions imposed on movement and gatherings in Israel and Europe, the shutdown of all leisure culture in Israel and Europe, as well as the issuance of closure orders for hotels in some of the operating countries, the Company closed most of the hotels it operated in both Israel and Europe at the end of March 2020, and began to gradually open the aforesaid hotels starting in June 2020. Later in the year, second and third lockdowns were imposed in Israel and some of the Company's hotels were open between lockdowns according to demand and occupancy. During February 2021, following the vaccination campaign in Israel and the decrease in morbidity, the entire economy was opened up for activity and as of the date of approval of the financial statements, the Company had opened 31 out of 42 active hotels in Israel. In Europe, due to traffic and gathering restrictions and / or closure orders for hotels that were imposed by European governments due to the outbreak of the second and third waves of Corona, about 117 hotels are open out of 146 active hotels and occupancy is low. The Company has performed and is performing, among other things, the following actions in order to adjust its cash flow expenses to the material decrease in the volume of revenues:

NOTE 1:- GENERAL (Cont.)

1. Reductions and streamlining in manpower (in quantity of employees as well as quantity of working hours) – the Company made a gradual reduction in wages (between 20% and 45%) for all the Group employees and dismissals. In addition, the Company cut the bonus amounts for the year 2019 for senior employees. In this respect it should be noted that Mr. David Fattal, the Company's Chairman, CEO and the controlling shareholder, on March 28, 2020 notified the Company that he irrevocably waives his bonus for the year 2019 and the management fees he is entitled to according to his agreement up to the end of the second quarter of 2020. On June 28, 2020, Mr. Fattal announced that from July 1, 2020 to September 30, 2020 ("the Waiver Period") he irrevocably waives about 34% of the management fee he is entitled to according to the agreement, so that his monthly management fees will amount to NIS 160 thousand (instead of NIS 243 thousand per month). On September 29, 2020, Mr. Fattal announced that he is extending the waiver period until December 31, 2020. On December 21, 2020, Mr. Fattal announced that from January 1, 2021 to March 31, 2021 (the "Waiver Period") he is waiving irrevocably about 28% of the management fees to which he is entitled under the agreement, and on March 24, 2021, Mr. Fattal announced that he is extending the waiver period until June 30, 2021. The above amounts are with the addition of VAT by law, and are linked to an increase in the Consumer Price Index at the time of payment with respect to the August 2016 index. The actual payment of the reduced management fees will be made only after the end of the waiver periods. It should also be emphasized that at this stage all the employees returning to work are employed under the tiered wage reduction policy.

2. Putting employees on unpaid leave / to initiated vacations - the Company put about 5,500 of its employees in Israel on unpaid leave, as well as most of its employees in Europe on unpaid leave or initiated vacations (on account of accumulated vacation days) or their jobs were scaled down (temporarily), in accordance with the law and government policy in each country. From June 2020 the Company began to gradually open the abovementioned hotels, rehired employees in Israel, and in Europe the scope of jobs was increased.
   In mid-September 2020, following a second lockdown imposed in Israel and the imposition of additional restrictions throughout Europe, the Company again put employees on unpaid leave and jobs were scaled down again. It should be noted that at the same time as hotels opened, employees were rehired proportionately under limited quotas. As of the date of the report, about 3,500 of the Company’s employees in Israel were rehired and in Europe the number of jobs increased for some of those employees whose jobs were reduced as aforesaid.

3. Reduction in additional expenses such as: closing of most of the hotels, reduction of welfare activities and training in the Group, reduction of branding and marketing expenses, streamlining and consolidating jobs, reductions and discounts from suppliers.

4. Cessation of the majority of the investments in the Group's hotels, except for essential investments that had started before the outbreak of the crisis.

5. Significant reduction of renovations in the Group's hotels, except for renovations that began before the crisis began.

NOTE 1:- GENERAL (Cont.)

6. Actions taken to receive discounts and deferrals of payments to authorities in the different countries – the Company has turned to and will turn to the authorities in all the operating countries with the request to receive discounts and deferrals of the different compulsory payments and refund of employee costs. In this respect it should be noted that some of the operating countries grant total exemptions from municipal taxes and participation of up to 90% in the cost of employee wages (as long as the employees remain employed) during the crisis period. In this context, it should be noted that up to December 31, 2020, the Company and its subsidiaries received government participation in Europe and Israel in the amount of approximately NIS 291 million, which was included as a reduction in the cost of revenues in the profit or loss statement.

   It should be noted that close to the date of signing the report, the Company submitted a request to the German government for a grant for a decrease in revenue turnover in November-December 2020 due to the lockdowns imposed in Germany and in its estimation, eligibility for the grant is about EUR 36 million. The Company also submitted such a request to the German government for the months of January to June 2021 according to the ceiling approved by the German government (EUR 2 million per month).

7. Suspension and / or reduction of rental payments in respect of some of the hotels (except according to the rental agreements between subsidiaries of the Company and the 100% owned subsidiary - Fattal Europe) which were closed due to frustration and force majeure - as a result of suspension of activity of hotels and their closure, the Company suspended and / or reduced or intends to suspend and / or reduce some of the payments in accordance with the lease agreements. In addition, in accordance with the provisions of law, draft bills or special government directives published in light of the situation, in the various countries, rental payments will be deferred for different periods. As of the date of signing this report, the Company has received a deferral (for the following years) and / or a waiver in connection with rents totaling about NIS 260 million. It should also be noted that regarding a number of additional leased hotels, the Company is still negotiating deferral / reduction / waiver of payment of rent for the first and second quarters of 2021. For further details regarding waiver of payment of additional rent in respect of which the Company is negotiating, see Note 33a.

8. Sale of hotels in Europe – the Company began to examine the possibility of selling some of the Group owned hotels (including hotels owned by the 100% subsidiary Fattal Europe) as a transactions that take the form of Sale and Manage Back or Sale and Lease Back in order to increase the Group's cash balance. For details regarding the sale of the LEONARDO ROYAL BERLIN ALEXANDERPLATZ hotel in August 2020, as well as on the signing of an agreement for the sale of additional hotels in Munich after the balance sheet date, see Notes 20b and 33c.

9. Refinancing - Examining the possibilities of refinancing for mortgaged assets with a relatively low LTV as well as the rescheduling of part of the Company's bank credit. In this regard, it should be noted that the banks in Israel and in some European countries, which provided financing to the Company, deferred payments in full of principal in the total amount of about NIS 282 million for a period of three quarters and partial deferrals were agreed for the first and second quarters of 2021. For details regarding the issuing of bonds by the Company as well as the raising of funds and expansion of bonds in an investee company, see Note 15.

NOTE 1:- GENERAL (Cont.)

10. In some of the countries, the government has announced state-guaranteed loans in significant amounts. In this regard, it should be noted that banks in Germany provided a state-guaranteed loan in the amount of approximately EUR 60 million, banks in Israel provided the Company with state-guaranteed loans in the total amount of approximately NIS 134 million.

11. Rights issue - In July 2020, the Company made a rights issue in the amount of NIS 99 million to strengthen the Company's capital and liquidity and in accordance with the Company's obligation to the Debenture Holders (Series B and C). For further details, see Note 22a.

12. Private placement - In October 2020, the Company completed a private placement of 241,000 ordinary shares, all without a nominal value, of the Company for a total consideration of approximately NIS 50 million. For further details, see Note 22a.

The Company estimates that the continuation of operations as described in paragraphs 1 to 7 above (as well as additional actions that the Company may take later that are not listed above, depending on circumstances and developments) will help adapt the cash flow of current expenses, as much as possible, to the decrease in its revenues in 2021 compared with the situation before the crisis, and the carrying out of steps described in paragraphs 8-12 above, to the extent that they have not yet been performed and / or completed by the date of the report, may result in additional financial resources for the Company (as detailed above and below).

According to the estimation of Management and the Board of Directors, these operations, most of which have already been completed, together with cash in the amount of NIS 1.1 billion in the Group's possession close to the date of approval of the financial statements, along with the recovery following vaccinations in Israel and progress in vaccinations in Europe, will enable the Company to meet all obligations including in connection with compliance with the financial criteria set with banking corporations and bondholders in the year following the date of approval of the financial statements, at least in a manner that will allow return to a tiered operating routine without the need for additional steps.

It should be noted that the Company's ability to complete a considerable part of the above steps will depend on measures of the regulators in the different countries, and on the cooperation and readiness of third parties (such as lenders and owners of hotels that are rented to the Group).

Naturally, this is a changing event, which is not under the control of the Company and factors such as the continuing spread of the Corona pandemic or its ending, the decisions of countries and relevant authorities in Israel and in the World to renew flights to different destinations or to revoke them, the limitation of entrance of tourists from certain countries, the limitation in movement, the limitation on assembly or changes in the demand, may or could (depending on the subject) affect the Company accordingly. Due to the fast pace of developments of decisions of government officials in Israel and Europe, the Company will continue to follow developments and update its assessments accordingly.

NOTE 1:- GENERAL (Cont.)

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, 2020 and for the year then ended have been translated into Euro using the representative exchange rate as of that date (€ 1 = NIS 3.9441). 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 following accounting policies 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 comprehensive income 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 (Cont.)

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 the statement of profit or loss as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognizing a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IFRS 9. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

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.

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 (Cont.)

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 using the equity method

The Group's investments in associate companies and joint ventures are accounted for using the equity method.

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 and losses arising from transactions between the Group and the associate company or joint venture are cancelled according to the shareholding percentage.

Goodwill relating to the acquisition of an associate or a joint venture is presented as part of the investment in the associate or the joint venture, measured at cost and not systematically amortized. Goodwill is evaluated for impairment as part of the investment in the associate or in the joint venture as a whole.

The financial statements of the Company and of the associate company or joint venture are prepared as of the same dates and 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Upon the acquisition of an associate company or a joint venture achieved in stages when the former investment in the acquiree was accounted for pursuant to the provisions of IFRS 9, the Group applies the principles of IFRS 3 regarding business combinations achieved in stages. Consequently, equity interests in the acquiree that had been held by the Group prior to achieving significant influence or joint control are measured at fair value on the acquisition date and are included in the acquisition consideration while recognizing a gain or loss resulting from the fair value measurement.

Losses of an associate company in amounts which exceed its equity are recognized by the Company to the extent of its investment in the associate plus any losses that the Company may incur as a result of a guarantee or other financial support provided in respect of the associate. For this purpose, the investment includes long-term receivables (such as loans granted) for which settlement is neither planned nor likely to occur in the foreseeable future.

The equity method is applied until the loss of significant influence in the associate company or loss of joint control in the joint venture or classification as investment held for sale.

The Company continues to apply the equity method even in cases where the investment in the associate company becomes an investment in a joint venture, and vice versa. The Company applies the provisions of IFRS 5 to the investment or a portion of the investment in the associate or the joint venture that is classified as held-for-sale. Any retained interest in this investment which is not classified as held-for-sale continues to be accounted for using the equity method.

On the date of loss of 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, presentation 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 at equity.

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).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 liabilities in foreign currency

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

3. Index-linked monetary items

Monetary assets and liabilities linked according to their terms to changes in the Israeli consumer price index ("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, and which form part of the Group's cash management.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Inventories

Inventories comprise food and beverages and are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. 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. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly. The cost of inventories is determined at the cost of purchase using the "first-in, first-out" method.

l. Financial instruments

1. Financial assets

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

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

- The Company's business model for managing financial assets; and
- The contractual cash flow terms of the financial asset.

a) Debt instruments are measured at amortized cost when:

The Company's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

On the date of initial recognition, the Company may irrevocably designate a debt instrument as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency, such as when a related financial liability is also measured at fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The Company's business model is to hold the financial assets in order to both collect their contractual cash flows and to sell the financial assets, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, the instruments in this category are measured at fair value. Gains or losses from fair value adjustments, excluding interest and exchange rate differences, are recognized in other comprehensive income.

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

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

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 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.

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 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".

The Company considers a financial asset in default when contractual payments are more than 90 days past due. However, in certain cases, the Company considers a financial asset to be in default when external or internal information indicates that the Company is unlikely to receive the outstanding contractual amounts in full.

The Company considers a financial asset that is not measured at fair value through profit or loss as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The Company takes into consideration the following events as evidence that a financial asset is credit impaired:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a) significant financial difficulty of the issuer or borrower;
b) a breach of contract, such as a default or past due event;
c) a concession granted to the borrower due to the borrower's financial difficulties that would otherwise not be granted;
d) it is probable that the borrower will enter bankruptcy or financial reorganization;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) the purchase or origination of a financial asset at a deep discount that reflects the incurred 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.

A transaction involving factoring of accounts receivable and credit card vouchers is derecognized when the abovementioned conditions are met.

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Company's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay (guarantee amount).

When the Company continues to recognize an asset based on the level of its continuing involvement therein, the Company also recognizes the associated liability. The associated liability is measured in such a manner that the net carrying amount of the transferred asset and the associated liability is:

- The amortized cost of the rights and obligations retained by the Company, if the transferred asset is measured at amortized cost; or
- Equal to the fair value of the rights and obligations retained by the Company when measured on a stand-alone basis, if the transferred asset is measured at fair value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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, taking into account qualitative and quantitative information.

If the terms of an existing financial liability are substantially modified or a liability is exchanged for another liability from the same lender with substantially different terms, the modification or exchange 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If the modification in the terms of an existing liability is not substantial or if a liability is exchanged for another liability from the same lender whose terms are not substantially different, 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.

6. Compound financial instruments:

Convertible debentures which contain both an equity component and a liability component are separated into two components. This separation is performed by first determining the liability component based on the fair value of an equivalent non-convertible liability. The value of the conversion component is determined to be the residual amount. Directly attributable transaction costs are apportioned between the equity component and the liability component based on the allocation of proceeds to the equity and liability components.

m. Derivative financial instruments designated as hedges

The Group enters into contracts for derivative financial instruments such as forward currency contracts and interest rate swaps to hedge risks associated with foreign exchange rate and interest rate fluctuations. Any gains or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting 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 change in the fair value of the hedging instrument is recognized in other comprehensive income (loss) while any ineffective portion is recognized immediately in profit or loss.

Amounts recognized as other comprehensive income (loss) are reclassified to profit or loss when the hedged transaction affects profit or loss, such as when interest income or expense is recognized or when a forecasted transaction occurs. Where the hedged item is a non-financial asset or liability, their cost also includes the gain (loss) from the hedging instrument.

The Company discontinues hedge accounting prospectively only when the hedge relationship, in whole or in part, ceases to meet the qualifying criteria (after taking into account any rebalancing of hedge relationship, if applicable), including instances when the hedging instrument expires or is sold, terminated or exercised (or if the hedge designation is reversed).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

When the Company discontinues hedge accounting, amounts accumulated in the cash flow hedge reserve remain in the cash flow hedge reserve until the future cash flows occur or are reclassified to profit or loss if the hedged future cash flows are no longer expected to occur.

n. 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 (Cont.)

o. Leases

On January 1, 2019, the Company first applied 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 term.

The Company tests for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

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).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

The Group as lessee

1. Finance leases

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

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

2. Operating leases

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

p. 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. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Leasehold improvements are depreciated 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 useful life of the improvement.

The useful life, depreciation method and 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 is recognized in a revaluation reserve presented in equity, net of income taxes. The revaluation reserve is transferred directly to retained earnings when the asset is derecognized or as the asset is used based on the depreciation of the asset.

Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

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

q. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Impairment of non-financial assets

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If 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 value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the 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, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years 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 these specific assets:

1. Goodwill in respect of subsidiaries

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.

2. Investment in associate or joint venture

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the investment in associates or joint ventures. The Company determines at each reporting date whether there is objective evidence that the carrying amount of the investment in the associate or the joint venture is impaired. The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the associate or the joint venture.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Intangible assets with an indefinite useful life / capitalized development costs that have not yet been systematically amortized

   The impairment test is performed annually, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

s. Taxes on income

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

1. Current taxes

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

2. Deferred taxes

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. 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 ("the plan asset").

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 (Cont.)

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.

u. Revenue recognition

Revenue from contracts with customers is recognized 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).

In determining the amount of revenue from contracts with customers, the Company evaluates whether it is a principal or an agent in the arrangement. The Company is a principal when the Company controls the promised goods or services before transferring them to the customer. In these circumstances, the Company recognizes revenue for the gross amount of the consideration. When the Company is an agent, it recognizes revenue for the net amount of the consideration, after deducting the amount due to the principal.

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.

For certain management and maintenance services contracts, the Company is an agent. Accordingly, revenue is recognized for the net amount of the consideration, after deducting the amount due to the principal.

v. 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. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

Following are the types of provisions included in the financial statements:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

w. Share-based payment transactions

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

Equity-settled transactions

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

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

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.

x. 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 (Cont.)

y. Non-material adjustment of comparative figures

As of December 31, 2019, the subsidiary has recorded a deferred tax liability in the amount of approximately EUR 4 million in respect of timing differences in connection with financial derivatives. The deferred tax liability was recorded against a capital reserve and this was instead of recording it against tax expenses in the statement of profit or loss. In addition, as of December 31, 2019, the subsidiary had carry-forward losses for which no tax assets were recorded in the statement of profit or loss for the same amount. Accordingly, during the preparation of the financial statements for the second quarter of 2020, the Company updated, by way of a non-material adjustment, the balance of the deferred taxes and the balance of the translation differences reserve as of December 31, 2019, so that the balance of deferred taxes decreased and the translation differences reserve increased by about EUR 4 million.

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

1. Amendments to IFRS 9, IFRS 7 and IAS 39

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

The Amendment permits certain temporary reliefs for entities applying hedge accounting for IBOR-based instruments which are affected by the uncertainty involving the expected interest rate benchmark reform. This reform has caused uncertainty relating to the timing and amounts of future cash flows from both hedging instruments and hedged items.

The Amendment is applicable for annual periods beginning on January 1, 2020.

The adoption of the Amendment did not have an effect on the Company's financial statements as of January 1, 2020, since the Company does not have any material IBOR-based hedge transactions which could be affected by the timing of the above reform.

2. Amendment to IFRS 16, "Leases"

In view of the global Covid-19 crisis, in May 2020, the IASB issued "Covid-19-Related Rent Concessions - Amendment to IFRS 16, Leases" ("the Amendment"). The objective of the Amendment is to allow a lessee to apply a practical expedient according to which Covid-19 related rent concessions will not be accounted for as lease modifications but as variable lease payments. The relief applies solely to lessees.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Amendment applies only to Covid-19 related rent concessions and only if all of the following conditions are met:

- The revised future lease payments are substantially the same or less than the original lease payments immediately preceding the change;
- The reduction in lease payments relates to payments due on or before June 30, 2021; and
- No other substantive changes have been made to the terms of the lease.

The Amendment is to be applied retrospectively effective for annual periods beginning on or after June 1, 2020, with earlier application permitted.

The Company has elected to apply the Amendment early to all covid-19 related rent concessions. Accordingly, as a result of a rent concession received for April to December 2020, the Company recognized other income totaling approximately NIS 97,589 thousand for the year ended December 31, 2020.

NOTE 3:- SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

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:

a. Judgments

- 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 3:- SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

- 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.

b. 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.

NOTE 3:- SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

- Useful life of property, plant and equipment

Property, plant and equipment are depreciated on a systematic basis over the estimated useful life. The rates of depreciation of property, plant and equipment are based on management's estimate of the expected life of each asset. The depreciation periods reflect, as management believes, the best estimate of the periods during which the Group may obtain future economic benefits from these assets.

- Deferred tax assets

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

- Legal claims

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

- 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.

NOTE 4:- DISCLOSURE OF IFRS STANDARDS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION

a. Amendments to IFRS 10 and IAS 28 regarding sale or transfer of assets between an investor and its associate or joint venture

In September 2014, the IASB issued amendments to IFRS 10 and IAS 28 ("the Amendments") regarding the accounting treatment of the sale or transfer of assets (an asset, a group of assets or a subsidiary) between an investor and its associate or joint venture.

According to the Amendments, when the investor loses control of a subsidiary or a group of assets that are not a business in a transaction with its associate or joint venture, the gain will be partially eliminated such that the gain to be recognized is the gain from the sale to the other investors in the associate or joint venture. According to the Amendments, if the remaining rights held by the investor represent a financial asset as defined in IFRS 9, the gain will be recognized in full.

If the transaction with an associate or joint venture involves loss of control of a subsidiary or a group of assets that are a business, the gain will be recognized in full.

The Amendments are to be applied prospectively. A mandatory effective date has not yet been determined by the IASB but early adoption is permitted.

b. Amendment to IAS 16, "Property, Plant and Equipment"

In May 2020, the IASB issued an amendment to IAS 16, "Property, Plant and Equipment" ("the Amendment"). The Amendment prohibits a company from deducting from the cost of property, plant and equipment ("PP&E") consideration received from the sales of items produced while the company is preparing the asset for its intended use. Instead, the company should recognize such consideration and related costs in profit or loss.

The Amendment is effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Amendment is to be applied retrospectively, but only to items of PP&E made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the Amendment. The company should recognize the cumulative effect of initially applying the Amendment as an adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.

The Company estimates that the application of the Amendment is not expected to have a material impact on the financial statements.

c. Annual improvements to IFRSs 2018-2020

In May 2020, the IASB issued certain amendments in the context of the Annual Improvements to IFRSs 2018-2020 Cycle. The main amendment is to IFRS 9, "Financial Instruments" ("the Amendment"). The Amendment clarifies which fees a company should include in the "10% test" described in paragraph B3.3.6 of IFRS 9 when assessing whether the terms of a debt instrument that has been modified or exchanged are substantially different from the terms of the original debt instrument.

NOTE 4:- DISCLOSURE OF IFRS STANDARDS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION (Cont.)

The Amendment is effective for annual periods beginning on or after January 1, 2022. Early application is permitted. The Amendment is to be applied to debt instruments that are modified or exchanged commencing from the year in which the Amendment is first applied.

d. Amendment to IAS 1, "Presentation of Financial Statements"

In January 2020, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("the Amendment") regarding the criteria for determining the classification of liabilities as current or non-current.

The Amendment includes the following clarifications:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The Amendment is effective for annual periods beginning on or after January 1, 2023 and must be applied retrospectively.

The Company is evaluating the possible impact of the Amendment on its current loan agreements.

NOTE 5A:- CASH AND CASH EQUIVALENTS

	December 31,		Convenience translation December 31,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Cash for immediate withdrawal	458,570	298,143	75,592
Cash equivalents - short-term deposits	401,076	959,148	243,186
	859,646	1,257,291	318,778
Composition by currency types:			
Israeli Shekel	386,186	950,264	240,934
Euro	436,842	304,003	77,078
Pound Sterling	34,146	1,173	297
Other (mainly USD)	2,472	1,851	469
	859,646	1,257,291	318,778

NOTE 5B:- SECURITIES HELD FOR TRADING

	December 31,		Convenience translation December 31,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Shares	45,469	937	237
Bonds	151,689	34,762	8,814
Mutual Fund Participation Units	62,535	-	-
Other	934	-	-
	260,617	35,699	9,051

NOTE 6:- TRADE RECEIVABLES

	December 31,		Convenience translation December 31,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Open accounts	262,590	70,530	17,882
Cheques receivable and credit card companies	95,602	36,282	9,199
	358,192	106,812	27,081
Less - allowance for doubtful accounts	13,737	16,590	4,206
Trade receivables, net	344,455	90,222	22,875

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,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Institutions	18,413	84,592	21,448
Prepaid expenses	58,073	35,523	9,007
Chain hotels	28,032	34,675	8,792
Income receivable	22,386	4,304	1,091
Others	20,423	62,683	15,892
	147,327	221,777	56,230

NOTE 8:- LONG-TERM RECEIVABLES

	December 31,		Convenience translation December 31,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Financial derivatives (see note 15)	70,179	-	-
Restricted deposit	10,859	49,024	12,430
Other	13,478	11,634	2,949
	94,516	60,658	15,379

NOTE 9:- INVESTMENTS

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

	December 31,		Convenience translation December 31,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Investments in other companies and partnerships accounted for on equity basis	645,246	649,051	164,563
Capital note and loans to other companies and partnerships accounted for on equity basis	591,066	653,128	165,596
	1,236,312	1,302,179	330,159

Additional information

As of the date of approval the financial statements, the Group holds 50% of Protal Tourism Co. ("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, the purchase was agreed of the Leonardo Plaza Eilat Hotel, which is owned by Protal Tourism, by the Group. The parties also agreed on the sale of the Group's share in the shares of a subsidiary that owns the Leonardo Beach Hotel Tel Aviv to a partner in Protal Tourism. As of the date of approval of the financial statements, the said purchase and sale have not yet been completed due to technical matters related to the Israel Lands Administration. The assets (about NIS 226 million) and the liabilities (about NIS 143 million) in respect of the hotel are classified as available for sale.

.

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement

2020

	Land and buildings (b) (c)	Furniture and equipment	Operating equipment	Leasehold improvements	Total
	NIS (In thousands)				
Cost:					
Balance at January 1, 2020	5,410,211	1,646,938	69,669	313,364	7,440,182
Additions during the year	163,915	161,160	5,577	25,176	355,828
Disposals during the year	(292,258)	-	-	-	(292,258)
Companies consolidated for the first time	311,822	-	-	-	311,822
Exit from consolidation	(37,314)	-	-	-	(37,314)
Revaluation recognized in other comprehensive income	(88,972)	-	-	-	(88,972)
Impairment of fixed assets	(96,854)	-	-	-	(96,854)
Adjustments arising from translating financial statements	19,624	23,158	-	-	42,782
Transfer to assets held for sale	(402,419)	-	-	-	(402,419)
Balance at December 31, 2020	4,987,755	1,831,256	75,246	338,540	7,232,797
Accumulated depreciation:					
Balance at January 1, 2020	957,739	612,495	55,720	62,639	1,688,593
Additions during the year	63,461	190,621	10,055	17,462	281,599
Disposals during the year	(65,867)	-	-	-	(65,867)
Depreciation of revaluation	42,218	-	-	-	42,218
Adjustments arising from translating financial statements	10,113	7,576	-	-	17,689
Transfer to assets held for sale	(114,500)	-	-	-	(114,500)
Balance at December 31, 2020	893,164	810,692	65,775	80,101	1,849,732
Depreciated cost at December 31, 2020	4,094,591	1,020,564	9,471	258,439	5,383,065

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

	Land and buildings (b) (c)	Furniture and equipment	Operating equipment	Leasehold improvements	Total
	Convenience translation into Euro (In thousands)				
Cost:					
Balance at January 1, 2020	1,371,723	417,570	17,664	79,451	1,886,408
Additions during the year	41,560	40,861	1,414	6,383	90,218
Disposals during the year	(74,100)	-	-	-	(74,100)
Companies consolidated for the first time	79,060	-	-	-	79,060
Exit from consolidation	(9,461)	-	-	-	(9,461)
Revaluation recognized in other comprehensive income	(22,558)	-	-	-	(22,558)
Impairment of fixed assets	(24,557)	-	-	-	(24,557)
Adjustments arising from translating financial statements	4,976	5,872	-	-	10,848
Transfer to assets held for sale	(102,031)	-	-	-	(102,031)
Balance at December 31, 2020	1,264,612	464,303	19,078	85,834	1,833,827
Accumulated depreciation:					
Balance at January 1, 2020	242,829	155,294	14,127	15,882	428,132
Additions during the year	16,090	48,331	2,549	4,427	71,397
Disposals during the year	(16,700)	-	-	-	(16,700)
Depreciation of revaluation	10,704	-	-	-	10,704
Adjustments arising from translating financial statements	2,564	1,921	-	-	4,485
Transfer to assets held for sale	(29,031)	-	-	-	(29,031)
Balance at December 31, 2020	226,456	205,546	16,676	20,309	468,987
Depreciated cost at December 31, 2020	1,038,156	258,757	2,402	65,525	1,364,840

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

2019

	Land and buildings (b) (c)	Furniture and equipment	Operating equipment	Leasehold improvements	Total
			NIS (In 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

b. Additional information regarding land

Some of the Company's hotels in Israel, the book value of which totals, as of December 31, 2020, an amount of approximately NIS 1.17 billion (2019, approximately NIS 1.23 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 (2019 – mainly 8.5%), and the main discount rates (Cap Rate) of 5.56% with regard to assets in Europe (2019 – 5.18%).

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

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

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

   a) Forecast of operating income of the hotel operated on the land and buildings, from which derives the discounted cash flows.

   b) A specific discount rate for each asset according to its condition, location and the specific risks of that asset.

   c) Investments required for renovation.

   d) Other factors, such as building rights, planning and legal position, etc.

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

   A decrease (increase) in the discount rate of forecast cash flows by approximately 2.5% will increase (decrease) the value of the assets in an amount of approximately NIS 184.7/(173) million.

5. The Group has determined that the revaluation of the properties will be carried out once a year, or at longer periods of time in respect of certain properties, the value of which is not expected to change materially.
   Due to the Corona crisis, and the temporary decrease in the operating turnover of the hotels held by the Company, the Company updated the value of fixed assets value as of December 31, 2020 in accordance with updated appraisals received from the appraisers, according to which it recorded a total impairment of about NIS 186 million, of which about NIS 89 million was expressed in a revaluation capital fund (before the effect of tax) and about NIS 97 million was charged to other expenses in the income statement. In addition, the Company's share in the impairment in investee companies presented according to the equity-base method is in the amount of about 48 NIS million. In addition, in the reporting period, the Company recognized a provision in the amount of NIS 20 million in respect of amounts paid during the reporting period to a third party for the purpose of investing in hotels. The provision was included in other expenses in the income statement.

d. As for liens, see Note 21.

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

a. Composition

	December 31,		Convenience translation December 31,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Short-term credit from banks	10,180	10,000	2,535
Current maturities of long-term loans	286,657	267,053	67,710
	296,837	277,053	70,245

b. As for collaterals, see Note 21.

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

NOTE 12:- TRADE PAYABLES

	December 31,		Convenience translation December 31,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Open accounts	158,417	134,060	33,990
Notes payable	37,762	9,879	2,505
	196,179	143,939	36,495

NOTE 13:- OTHER ACCOUNTS PAYABLE

	December 31, 2019	December 31, 2020	Convenience translation December 31, 2020
	NIS		Euro
	(In thousands)		
Accrued expenses	309,679	347,450	88,094
Salaries and related expenses *)	154,496	135,305	34,306
Advance payments from customers	165,980	108,649	27,547
The Chain Hotels	19,680	1,272	323
Interest payable	15,366	27,053	6,859
Institutions	12,703	-	-
Club members	8,408	8,210	2,082
Others	65,736	41,393	10,492
	752,048	669,332	169,703
*) Includes accrued vacation and convalescence	28,713	24,124	6,116

NOTE 14:- LOANS FROM BANKS AND OTHERS

a. Composition

	Annual interest rate *)	December 31, 2019 Balance	December 31, 2019 Balance, net of current maturities	December 31, 2020 Balance	December 31, 2020 Balance, net of current maturities	Convenience translation December 31, 2020 Balance	Convenience translation December 31, 2020 Balance, net of current maturities
	%	NIS				Euro	
		(In thousands)					
Unlinked	2.95	746,641	622,848	832,960	720,200	211,191	182,602
Linked to Israeli CPI	1.81	350,429	288,798	620,631	561,345	157,357	142,325
Linked to US dollar/in US dollar	2.91	139,866	122,894	118,984	104,485	30,168	26,491
Linked to Euro/in Euro	2.04	1,045,613	985,975	1,084,921	1,028,098	275,074	260,667
Linked to GBP/in GBP	3.24	453,032	428,409	418,264	394,579	106,048	100,044
Total		2,735,581	2,448,924	3,075,760	2,808,707	779,838	712,129

*) Weighted average rate as of December 31, 2020.

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

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.

b) Liability for shareholders’ equity - the Company's shareholders’ equity will not be reduced at any time from an amount equal to 26.5% of the total balance sheet;

c) 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 company owns and/or manages and that had earnings at least half-a-year before the relevant date of the examination.

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

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.

In light of the implications of the Corona crisis (see Note 1), the Company has reached agreements with banking corporations that certain covenants will not be reviewed until, and including reports for, the first quarter of 2021. The Company is also finalizing processes with some banking corporations in Israel to update the required covenants in accordance with their relevance.

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

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, 2020, the Group complies with all of the financial covenants which it undertook.

c. As for collaterals given, see Note 21.

NOTE 15:- DEBENTURES

		December 31,				Convenience translation December 31,	
		2019		2020		2020	
	Annual interest rate *)	Balance	Balance, net of current maturities	Balance	Balance, net of current maturities	Balance	Balance, net of current maturities
	%	NIS				Euro	
		(In thousands)					
Debentures (1)	2.97	960,338	904,073	1,157,489	1,024,346	293,474	259,716
Debentures of an investee company (2)	3.69	882,132	779,980	1,124,648	1,098,950	307,965	278,631
Total		1,842,470	1,684,053	2,372,137	2,123,296	601,439	538,347

*) Weighted average rate as of December 31, 2020.

NOTE 15:- DEBENTURES (Cont.)

	Bonds in the Company		
	Bonds (Series B)	**Bonds (Series C)**	**Convertible Bonds (Series1)**
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	November, 2020
Nominal value at the date of issue / expansion (NIS thousands)	1. 255,840 2. 200,000 3. 125,828 4. 150,000	229,021	300,000
Total nominal value of bonds in circulation at December 31, 2020 (NIS thousands)	675,402	229,021	300,000
Issuance expenses (NIS thousands)	5,094	2,025	2,030
Liability value in the financial statements at December 31, 2020 (NIS thousands)	676,496	227,208	253,784
Nominal rate of interest	3.25%(*)	2.16%(*)	4.00%
	(*)Regarding a temporary change in the interest rate, see Note 15 (1) below.		
Effective interest rate of the entire series (including expansions made)	1. 3.45% 2. 3.11% 3. 3.89% 4. 2.43%	2.32%	7.61% After taking onto account the conversion component at the date of the issuance
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	15/05/2021-15/05/2028 15 unequal semi-annual installments
Linkage basis (principal and interest)	Unlinked	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. Regarding the temporary waiver of examination of some of the financial criteria, see details in section (1) below.	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. Regarding the temporary waiver of examination of some of the financial criteria, see details in section (1) below.	The main points of the criteria set forth in the issue of (Series 1) 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%.

NOTE 15:- DEBENTURES (Cont.)

	Bonds in an investee company			
	Bonds (Series A)	**Bonds (Series B)**	**Bonds (Series C)**	**Bonds (Series D)**
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). 4. February 2020 (Series expansion) (see note 15(2))	August 2020
Nominal value on issue date (NIS thousands)	475,000	215,260	598,679	250,000
Total nominal value of bonds in circulation at December 31, 2020 (NIS thousands)	279,300	172,208	523,601	250,000
Balance of issue expenses as of December 31, 2020 (NIS thousands)	5,498	1,543	755	4,323
Liability value in the financial statements as of December 31, 2020 (NIS thousands)	70,769	43,685	131,264	62,248
Nominal interest rate *	4%	3.35%	3.15%	5.24%
	* In October 2020, following the downgrading of Bonds (Series A, B, C, and D) due to the outbreak of Corona, from the A2.IL rating in an examination with negative consequences to the A3.IL rating while determining a negative rating outlook, the interest rate of Bonds Series A, B and C was updated (increase of 0.5% to the annual interest rate) and Series D Bonds (increase of 0.25% to the annual interest rate).			
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	30/09/2022-30/09/2026 9 unequal semi-annual payments
Linkage basis (principal and interest)	Unlinked	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%.	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.	The main points of the criteria set forth in the issue of bonds (Series D): (1) The ratio of equity to the balance sheet shall not be less than 23.5%. (2) The ratio of adjusted net financial debt to adjusted net operating income, as defined in trust deed, shall not exceed 16. (3) The shareholders' equity of Fattal Properties (Europe) shall not be less than Euro 205 million. (4) The loan to value ratio shall not exceed 77.5%.

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 of December 31, 2017 and in the quarterly financial statements as of March 31, 2018.

For details regarding an exchange tender offer that was offered to Bondholders (Series B) in exchange for the issuance of Bonds (Series C), see Note 33b.

(*) 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 of September 30, 2019.

On March 18, 2020, Midroog the rating company placed the Company's credit rating and the rating of the Series B and C bonds of the Company issued on credit watch with negative outlook. Placing the rating on credit watch is due to the effect of the outbreak of the Corona pandemic: limitations on movement and gatherings, the effect on the global economy and specifically on the hotel industry and accordingly on the Company's activities. On May 17, 2020, Midroog announced a down grade on the Company's issuer rating and the rating of its listed bonds from a rating of A1.IL to a rating of A3.IL and maintained the rating on credit watch with negative outlook.

In line with the Company Management's assessment that the EBITDA in the first, second and third quarters, 2020 will materially decrease as compared with the parallel quarters in 2019 as a direct and exclusive consequence of the closure of the majority of the Group's hotels and the cessation of their activity because of the Corona crisis, the Company assessed that during 2020 it will not meet one or more of the financial covenants relating to the EBITDA level for four consecutive quarters ('the financial covenants') that it is obliged to meet as part of its bond deeds. As a result, in May 2020, the Company approached the holders of its bonds (Series B and C) with the request to receive their approval for a temporary waiver from part of the financial covenants that give the holders of the bonds the right to place the outstanding balance on instant redemption. On June 2, 2020, the holders of the Series B bonds approved the Company's request and at that time the Company's request regarding the holders of Series B and Series C bonds (that approved the request on May 21, 2020).

NOTE 15:- DEBENTURES (Cont.)

Below the main terms of the agreement with the bond holders:

1. The financial covenants will not be tested from the publication date of the Company's interim statements for March 31, 2020 until the publication of the Company's interim statements for March 31, 2021 (inclusive); And from the publication date of the Company's interim financial statements for June 30, 2021 until the publication date of the Company's periodic statements for December 31, 2021 (inclusive) testing of the financial covenants will accordingly exclude the EBITDA data for the first until the fourth quarters of 2020 and the first quarter of 2021; the waiver will only apply to the covenant allowing the demand for instant settlement due to non-compliance with the financial covenants in the waiver period. The agreement also determined circumstances when the waiver period will finish before the publication of the Company's periodic report for the year 2021.

2. The Company will pay the bond holders additional annual interest of 0.5% due to the reduction in the rating of the bonds. The Company will pay the addition to the bond holders from June 2, 2020 until the end of the waiver period, or afterwards if the rating remains as is, even if during the relevant period Midroog will increase the bond rating to the base rating (rating of A) or to a higher rating.

3. The Company will pay the bond holders additional interest of 0.25% due to the Company's non-compliance with the financial covenants. The Company will pay the addition to the bond holders from June 2, 2020 to the end of the waiver period, even if in this period the Company complies with the financial covenants.

4. The Company committed not to improve collateral and not to make early repayments to the Company's existing financial creditors (excluding the Group's European operating companies and Fattal Properties (Europe) Ltd.), that are not in accordance with the original repayment schedule in the arrangements with the financial creditors.

5. The Company (excluding the Group's European operating companies and Fattal Properties (Europe) Ltd.) committed not to take new credit against the Group's existing non-pledged assets.

6. The Company committed not to make any distributions, including declarations, payments or distributions of dividend during the waiver period.

7. The annual limit of the Company's bonus payment to Fattal Investments (1998) Ltd. in accordance with the consulting and initiating agreement for the year 2020 will be NIS 2,912 thousand (compared with the annual limit of NIS 5,824 thousand set in the agreement).

NOTE 15:- DEBENTURES (Cont.)

8. The Company undertook to offer the Company's shares for the total amount of NIS 100 million by way of issuing rights to the Company's existing shareholders, in which the controlling shareholder will utilize, in accordance with the undertaking given by him, the rights in full that were allotted to him, and invest approximately NIS 57 million in the Company's equity. See Note 22a above regarding the completion of the issue as aforesaid.

9. Without derogating from the Company's commitment to the rights issue (as detailed above) the Company committed to issue capital (in this respect – the Company's share issue for cash and for a shareholders' loan of NIS 50 million, for each reduction of a notch in the rating below the rate of A- (that means starting by a reduction below BBB+), that is subordinated (also in the case of insolvency) to the Company's bonds (Series B and C) in issue and that the Company will not repay (principal and interest) before the end of the waiver period. For details regarding the completion of the said issuance, see Note 22a.

10. Without derogating from the Company's commitment to the rights issue (as detailed above) the Company committed to issue capital (in this respect – the Company's share issue for cash and for a shareholders' loan that is subordinated (also in the case of insolvency) to the Company's bonds (Series B and C) in issue and that the Company will not repay (principal and interest) before the end of the waiver period within 50 business days after the end of 2020 in the circumstances and amounts as detailed below:

    a) In case the total consolidated cash generated to the Company until the end of 2020 from the following sources:
    In case the cash from inserting partners into the European hotels, sale of European hotels, refinancing of non-pledged assets or pledged assets with comparatively low LTVs and receipt of government guaranteed loans amounts to less than NIS 150 million - a capital issue of NIS 100 million.

    b) In case the total consolidated cash generated to the Company until the end of 2020 from the above actions is between NIS 150 million and NIS 300 million – a capital issue of NIS 50 million. On condition that the capital issue subject of item 10 above and the capital issue subject of item 9 above will be less than a cumulative total of NIS 100 million.

On October 15, 2020, Midroog announced a downgrading of the Company and the Company's Bonds (Series B) and Bonds (Series C), from A3.IL to BAA1.IL, while setting a negative Outlook for the Company's rating and the Bonds Series. As a result, the interest rate of Series B and C Bonds was updated (an increase of 0.25% to the annual interest rate).

NOTE 15:- DEBENTURES (Cont.)

(*) Convertible Bonds (Series 1):

Each of the bonds can be converted in the manner specified below: (1) In the period from the date of listing of the series of bonds for trading on the Tel Aviv Stock Exchange until May 5, 2023, each NIS 305 par value of the bonds are convertible into one ordinary share with no par value of the Company; (2) In the period from May 16, 2023 to May 5, 2028, each NIS 430 par value of the bonds can be converted into one ordinary share with no par value of the Company.

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%.

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. 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 of June 30, 2020.

As of the balance sheet date, the Company is in compliance with the financial criteria to which it is committed.

NOTE 15:- DEBENTURES (Cont.)

(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 € 120 million.
b. The ratio of equity to total assets shall not be less than 28%.
c There are no grounds for immediate repayment of the bonds (Series A).
d. On the date of the Board of Directors' resolution to distribute a dividend, there are no grounds in the Company for immediate repayment of the bonds.

(*) Collateral of Series B Bonds:

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

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

NOTE 15:- DEBENTURES (Cont.)

(*) Bonds (Series D):

As collateral to ensure the full and accurate existence of all Fattal Properties (Europe) liabilities under the Bonds (Series D) and the Bonds (Series D) Trust Deed, Fattal Properties (Europe) undertook to cause each of the property corporations and holding corporations to create and register the collateral for the Trustee in connection with the Leonardo Hotel Edinburgh Murrayfield, Leonardo Hotel Edinburgh City, Leonardo Inn Glasgow West End, Leonardo Boutique Budapest M-Square, Apollo Hotel Almere City Center, Apollo Hotel Lelystad City Center and Corpus Christi Lisbon properties. It is clarified that in the event of an expansion of the Bonds (Series D), the collateral will be amended so that it also secures the debt that will accrue in respect of the increase in the additional Bonds (Series D) in favor of the Trustee (as Trustee of the bondholders (Series D), as specified in the Mortgages Appendix.

As collateral for ensuring the full and accurate existence of all liabilities of Fattal Properties (Europe) under the bonds (Series D), the following were created and registered in favor of the Trustee:

(1) First-degree mortgage unlimited in amount on the full rights of the property corporations in the mortgaged properties (in respect of the mortgaged properties in Scotland and Hungary) and limited in amount (in respect of the mortgaged properties in the Netherlands and Portugal).
(2) First-degree lien unlimited in amount in the amount on the full rights of the property corporations (in respect of the mortgaged properties in the Netherlands and Hungary) in the lease agreements and first-degree lien unlimited in amount (in respect of the mortgaged properties in Hungary and the Netherlands) and limited in amount (in respect of mortgaged properties in Portugal) on insurance receipts by virtue of all insurances applicable to the property.
(3) Assignment of Rents (in respect of the mortgaged properties in Scotland) – assignment to the Trustee by way of collateral of all amounts received, will or may be received on the date of their payment to the property corporations in Scotland by the tenants under the leases on the mortgaged properties in Scotland.
(4) Assignment by way of collateral (in respect of the mortgaged property in Portugal) limited in amount – assignment to the Trustee by way of collateral of all receipts that the property corporation may be entitled to receive in the future under any lease agreement to which the property corporation is a party and all property corporation rights deriving from the aforesaid leasing agreement (If and to the extent that it is signed) in addition to all receipts which the property corporation may be entitled to receive in the future under the insurance policies which the property corporation will enter into in the future in relation to the property.
(5) Irrevocable and unconditional guarantee by each of the property corporations in favor of the Trustee, unlimited in amount (in respect of the property corporations in Scotland, the Netherlands and Hungary) and limited in amount (in respect of the property corporation in Portugal).
(6) First-degree fixed lien on all (100%) of the shares of the property corporations as well as all the rights attached to the shares, including but not limited to, the dividend amounts, bonus shares, voting rights, etc.

NOTE 15:- DEBENTURES (Cont.)

In addition to the financial criteria listed above, the Bonds Series Trust Deed sets out a mechanism for adjusting the interest rate in accordance with the change in the rating of the bonds and in the event of a breach of the following financial criteria:

1. The ratio of equity to balance sheet shall not be less than 28%.
2. The ratio of adjusted net financial debt to adjusted NOI, as defined in the Trust Deed, shall not exceed 15.5.
3. The shareholders' equity of Fattal Properties (Europe) will not be less than EUR 230 million.
4. The ratio of the loan to the collateral shall not exceed -
   A) 70% - as long as the construction of the hotel in the CORPUS CHRISTI property and its delivery to the tenant has not yet been completed;
   B) 72.5% - and this from the date of completion of the construction of the hotel on the CORPUS CHRISTI property and its delivery to the tenant or from the date of its sale (whichever is earlier).

Dividend distribution limit - Fattal Properties (Europe) undertakes that it will not make a distribution in excess of 50% of the distributable profits and taking into account the definitions and restrictions as defined in the Trust Deed.

1. Near the date of receipt of the consideration from the expansion of the Bonds (Series C) in February 2020, Fattal Properties (Europe) executed a full hedging transaction in a banking corporation in which the shekel debt (principal and interest) was converted into EUR debt, so that at every payment date of interest and / or principal, a shekel amount will be paid by the banking corporation against receipt of an amount in EUR determined at the time of the hedging transaction.

2. As of the balance sheet date, Fattal Properties (Europe) is in compliance with the financial covenants set out in the Trust Deeds of all the Bonds it issued.

3. As part of the operations of Fattal Properties (Europe) to reduce its exposure to changes in the exchange rates of the EUR (the functional currency of Fattal Properties (Europe) against the New Israel Shekel (the currency in which a significant portion of its financing is raised), Fattal Properties (Europe) was accustomed to enter into the aforesaid swap transactions close to the date of receipt of the proceeds from the issuance of bonds issued by Fattal Properties (Europe) in recent years, in which the Shekel debt (principal and fixed-rate interest) was converted into EUR debt (principal and fixed-rate interest). In May 2020, following the Corona crisis, Fatal Properties (Europe) "unwound" most interest rate swap-type transactions with banking corporations in Israel and as a result, Fattal Properties (Europe) generated a cash flow surplus of about EUR 20.4 million (about NIS 81 million).

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, some of the Company's hotels in Israel are on land under a lease from the Israel Lands Administration discounted for a period of 49 years until 2047. The Company has an option to extend the lease period by an additional 49 years. See also Note 10 above.

a. Information about lease

	December 31, 2019	December 31, 2020	
	NIS	NIS	Euro
	(In thousands)		
Total cash outflow for leases	1,160,970	817,730	207,330

b. 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:

	December 31, 2019	December 31, 2020	
	NIS	NIS	Euro
	(In thousands)		
Fixed lease payments	281,851	252,938	64,131
Variable lease payments	102,272	63,982	16,222
Total lease payments	384,123	316,920	80,353

c. 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.

NOTE 16:- LEASES (Cont.)

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.
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.

d. Disclosures on right-of-use assets

	Hotels	
	December 31, 2020	
	NIS	Euro
	(In thousands)	
Cost:		
Balance as of January 1, 2020	12,806,800	3,247,078
Additions during the year:		
Additions to usage right properties due to new leases during the period	388,328	98,458
Adjustments for indexation	40,368	10,235
Adjustments for changes in lease terms	40,637	10,303
Adjustments arising from translating financial statements of foreign operations	(214,532)	(54,393)
Disposals during the year:		
Disposals from Right-of-use assets in respect of leases terminated during the period	(21,986)	(5,574)
Balance as of December 31, 2020	13,039,615	3,306,107
Accumulated depreciation:		
Balance as of January 1, 2020	579,005	146,802
Additions during the year:		
Depreciation and amortizations	630,782	159,931
Adjustments for indexation	8,651	2,193
Adjustments for changes in lease terms	(2,952)	(748)
Adjustments arising from translating financial statements of foreign operations	(7,286)	(1,847)
Disposals during the year:		
Disposals from Right-of-use assets	(21,986)	(5,574)
Balance as of December 31, 2020	1,186,214	300,757
Depreciated cost at December 31, 2020	11,853,401	3,005,350

NOTE 16:- LEASES (Cont.)

	Hotels
	December 31, 2019
	NIS
Cost:	
Balance as of January 1, 2019	9,235,405
Additions during the year:	
Additions to usage right properties due to new leases during the period	3,866,308
Adjustments for indexation	41,459
Adjustments for changes in lease terms	3,870
Adjustments arising from translating financial statements of foreign operations	(587,630)
Initially consolidated company	247,388
Balance as of December 31, 2019	12,806,800
Accumulated depreciation:	
Balance as of January 1, 2019	-
Additions during the year:	
Depreciation and amortizations	589,972
Adjustments for indexation	(159)
Adjustments for changes in lease terms	(5,449)
Adjustments arising from translating financial statements of foreign operations	(5,359)
Balance as of December 31, 2019	579,005
Depreciated cost at December 31, 2019	12,227,795

e. 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.

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 2020, 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 42,888 thousand was recorded (in a capital reserve from adjustments due to financial statements translation) for the period ended on December 31, 2020, 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.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

- Credit risk

Credit risk is the risk that the counterparty will not meet its obligations as a customer or its obligations arising from a financial instrument and as a result the Group will incur a loss. The Group is exposed to credit risk as a result of its operating activities (mainly customer balances) and its financial activities, including deposits in banks and other financial institutions, foreign exchange transactions and other financial instruments. The Group holds cash and cash equivalents and other financial instruments in various high-level financial institutions in Israel, Germany, Spain, Scotland, the Netherlands and Switzerland.

- Interest risk

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

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

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

Interest rate sensitivity analysis

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

	Increase/ decrease at the starting point	Effect on the profit before tax	Effect on the profit before tax
		NIS	Euro
		(In thousands)	
2020:			
Loans in NIS	+0.25%	1,566	397
Loans in Pound Sterling	+0.25%	305	77
Loans in Euro	+0.25%	253	64
Loans in dollar	+0.25%	330	84
Loans in NIS	-0.25%	(1,566)	(397)
Loans in Pound Sterling	-0.25%	(305)	(77)
Loans in Euro	-0.25%	(253)	(64)
Loans in dollar	-0.25%	(330)	(84)
2019:			
Loans in NIS	+0.25%	1,686	
Loans in Pound Sterling	+0.25%	1,020	
Loans in Euro	+0.25%	233	
Loans in dollar	+0.25%	165	
Loans in NIS	-0.25%	(1,686)	
Loans in Pound Sterling	-0.25%	(1,020)	
Loans in Euro	-0.25%	(165)	
Loans in dollar	-0.25%	(153)	

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):

December 31, 2020

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total	Convenience translation Total
	NIS							Euro
	(In thousands)							
Trade payables	143,939	-	-	-	-	-	143,939	36,495
Other accounts payable	560,556	-	-	-	-	-	560,556	142,125
Other non-current liabilities	1,781	1,781	1,781	1,781	1,479	7,816	16,419	4,163
Debentures	357,127	375,531	462,301	447,930	445,374	1,025,036	3,113,299	789,356
Liabilities from leases of right-of-use assets	1,087,274	1,110,903	1,110,754	1,069,679	1,065,581	15,281,531	20,725,722	5,254,867
Loans from banks and others	493,419	841,525	543,751	321,081	303,137	939,266	3,442,179	872,741
	2,644,096	2,329,740	2,118,587	1,840,471	1,815,571	17,253,649	28,002,114	7,099,747

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
	NIS						
	(In thousands)						
Trade payables	196,179	-	-	-	-	-	196,179
Other accounts payable	591,567	-	-	-	-	-	591,567
Other non-current liabilities	1,482	1,482	1,482	1,482	1, 867	5,827	13,622
Debentures	212,008	284,168	276,841	286,024	278,298	758,076	2,095,415
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
Loans from banks and others	382,156	300,384	696,816	512,809	161,249	960,453	3,013,867
	2,414,408	1,617,594	1,917,769	1,826,600	1,461,247	17,472,336	26,709,954

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:

	December 31,				Convenience translation December 31,	
	2019		2020		2020	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
	NIS				Euro	
	(In thousands)					
Loans from banking corporations and other liabilities						
Debentures (Level 1 of the fair value hierarchy)	1,842,470	1,951,994	2,372,137	2,467,988	601,439	625,742
Fixed interest loans (Level 3 of the fair value hierarchy)	1,582,658	1,622,030	2,022,882	2,175,719	512,888	551,639
Total	3,425,128	3,574,024	4,395,019	4,643,707	1,114,327	1,177,381

d. Changes in liabilities deriving from financing activity

	January 1, 2020	Cash flows	Effect of changes in exchange rates	Classification of liabilities attributed to assets held for sale	Other changes	December 31, 2020
	NIS					
	(In thousands)					
Bonds	1,842,470	527,686	-	-	1,981	2,372,137
Liabilities from leases of right-of-use assets	12,537,063	232,959	(201,399)	-	(26,647)	12,541,976
Loans from banking corporations	2,799,800	423,240	1,386	(130,161)	(8,505)	3,085,760
	17,179,333	1,183,885	(200,013)	(130,161)	(33,171)	17,999,873

	January 1, 2020	Cash flows	Effect of changes in exchange rates	Classification of liabilities attributed to assets held for sale	Other changes	December 31, 2020
	Euro					
	(In thousands)					
Bonds	467,146	133,791	-	-	502	601,439
Liabilities from leases of right-of-use assets	3,178,688	59,065	(51,063)	-	(6,756)	3,179,934
Loans from banking corporations	709,870	107,310	351	(33,001)	(2,156)	782,374
	4,355,704	300,166	(50,712)	(33,001)	(8,410)	4,563,747

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

	January 1, 2019	Initial application of IFRS 16	Cash flows	Effect of changes in exchange rates	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, 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.

NOTE 18:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

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

a. 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.

b. 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,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Liability in respect of lease	-	63,096	15,998
Financial derivatives	28,673	33,774	8,563
Others	19,961	66,249	16,797
	48,634	163,119	41,358

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 8 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, 5 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
Budapest, Hungary	January 2020	Owned	71	100%	€ 17 million	January 2020
Lisbon, Portugal (1)	January 2020	Owned	144	100%	€ 66 million	During 2023
Liverpool, England	January 2020	Owned	200	100%	£ 7 million	During 2022
Nuremberg, Germany	January 2020	Leased	222	100%	€ 2.1 million	December 2023
Jerusalem, Israel	January 2020	Management	88	0%	(*)	During 2022
Dortmund, Germany(2)	December 2016	Owned	196	94.9%	€ 25 million	Completed in April, 2020
Liverpool, England	December 2020	Leased	283	100%	£ 2.4 million	During 2023

*) Management agreement

1. In January 2020, an investee company purchased for EUR 42 million the shares of a company which owned a plot on which a building protected for conservation had been constructed, and for which the investee company submitted an application for a construction permit for the construction of a 144-room hotel. The Company intends to build (while maintaining the conservation status of the building) on the plot a 4-star deluxe or 5-star hotel. The Company estimates that the construction costs will amount to about EUR 24 million, so that the total cost of the hotel will amount to about EUR 66 million.
2. In December 2016, an investee company entered into an agreement under which it undertook to acquire, on the date of completion, 94.9% of the shares of a corporation that will purchase real estate in Dortmund, Germany, on which a hotel will be built by a third party (TURN KEY basis agreement), for consideration totaling approximately EUR 25 million. In April 2020, the construction of the hotel was completed, and the purchase transaction was completed. Until the date of completion, the company paid a total of approximately EUR 3 million on account of the consideration and at the date of completion of the transaction, the balance of the consideration of EUR 22 million was paid, and bank financing was granted in the amount of approximately EUR 15 million.
3. In July 2020, the Group signed the sale of the Leonardo Royal Berlin Alexanderplatz hotel. The sale transaction was made by way of sale and lease-back of the property. In August 2020, the transaction was completed and the buyer paid the Group a total of EUR 57.4 million, while at the same time the bank loan was repaid for the property that remained at the time of the transaction, amounting to approximately EUR 23.3 million. The cash that resulted for the Group from the transaction after the repayment of the aforesaid credit and the payment of taxes as a result of the transaction is approximately EUR 17.3 million.
4. In January 2020, the Group entered into an agreement to purchase a hotel in Romania for approximately EUR 9.5 million. The date for completion of this transaction was set for December 2020. It should be noted that the transaction was not completed on the set date, but the purchase agreement has not yet been canceled. As of the date of signing the financial statements, the Company has made a down payment of EUR 0.3 million.

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,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Short-term credit	10,178	10,000	2,535
Loans from banking corporations and others, bonds, including current maturities	2,684,056	3,444,119	873,234
	2,694,234	3,454,119	875,769

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 67 million and €78 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 guaranteed up to a total of about EUR 146 million to secure lease agreements of companies and partnerships held abroad. In addition, the Group’s companies provided performance guarantees in connection with their contractual obligations in the amount of about EUR 12.4 million. In addition, Fattal Hotels is a guarantor for 16.5% of the total of loans made by one of the banking corporations to an investee 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.

NOTE 21:- LIENS AND GUARANTEES (Cont.)

g. As part of a lease agreement for four hotels in London, the Company provided a guarantee limited in amount to the above hotel owners for the payment of rental obligations, including the payment of the rent on due date. Until the date when the EBITDAR multiplier in the two years prior to that date is equal to or higher than 1: 1.5 (hereinafter – the Date of Change) the amount of the guarantee will be limited to an amount equal to the annual rent for five years (GBP 275 million). As of the date of the change, the amount of the guarantee will be limited to a guarantee amount equal to twice the annual rents (GBP 110 million).

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

NOTE 22:- CAPITAL

a. Composition of share capital

	December 31, 2019		December 31, 2020	
	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	15,461,541

In July 2020, the Company completed the raising of equity of about NIS 99 million by way of issuing rights in which 778,741 ordinary shares were allotted with no par value. Mr. David Fattal, Chairman and CEO of the Company, the controlling shareholder of the Company, exercised in full his rights which were allocated to him as part of the rights issue and invested about NIS 57 million in the Company's equity.

In October 2020, the Company completed a private allocation of 241,000 ordinary shares with no par value of the Company for a total consideration of about NIS 50 million.

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.

NOTE 22:- CAPITAL (Cont.)

On December 23, 2020, the Company's Board of Directors approved a non-material private offer of 16,818 unregistered options for 12 offerees, who are employees of the Fattal Group. On January 27, 2021, the options were allotted. The terms of the options are the same as 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.

e. Dividend

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 ("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.

In accordance with the provisions of the Ordnance, the undistributed profits originating from passive revenues ("unpaid profits") of a "foreign controlled company" (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.

NOTE 23:- TAXES ON INCOME (Cont.)

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 ("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.

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.

NOTE 23:- TAXES ON INCOME (Cont.)

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) Fattal Hotels (which leases and operates, among other things, the Jerusalem Boutique Hotel) received approval from the Israel Tax Authority to obtain "Beneficial Enterprise" status (as this term is defined by law) in connection with its investment in the hotel, and chose 2017 as "election year" in accordance with Section 51D of the law.

e) Other tax benefits

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

NOTE 23:- TAXES ON INCOME (Cont.)

2. Foreign companies

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

b. Tax rates applicable to the Group companies

1. Companies in Israel

The Israeli corporate income tax rate was 23% in 2018-2020.

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

2. Foreign companies

The corporate tax rate applicable to companies resident in Germany that have no business income is 15.825% (including solidarity tax). Companies with business activity are also subject to a trade tax of an average of 14%.
The corporate tax rate applicable to Swiss resident companies (the Zurich Canton) is 21.15%.
The corporate tax rate applicable to Luxembourg resident companies is 24.94%.
The corporate tax rate applicable to companies resident in the Netherlands in 2020 is between 16% and 25%.
The corporate tax rate applicable to Italian resident companies is 24%. Companies with business operations are also subject to trade tax at the rate of 3.9%.
The corporate tax rate applicable to Spanish resident companies is 25%.
The corporate tax rate applicable to Austrian resident companies is 25%.
The corporate tax rate applicable to England and Scotland resident companies is 19%.
The corporate tax rate applicable to companies resident in Ireland is 12.5%. In addition, certain passive income is subject to a tax rate of 25%.
The corporate tax rate applicable to companies resident in Hungary is 9%.
The corporate tax rate applicable to companies resident in Portugal is 21%.
The corporate tax rate applicable to companies resident in Belgium is 25%.

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

The Company has final assessments up to and including the 2015 tax year and subject to certain conditions.
The rest of the Group's companies in Israel have final or are considered as final assessments up to and including the tax year 2015 and some until 2016, 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 188 million as of December 31, 2020.

Carryforward tax losses of consolidated companies abroad as of December 31, 2020 total approximately € 280 million.

In respect of accumulated losses amounting to approximately NIS 877 million, the Group has created a deferred tax asset of approximately NIS 199 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		
	December 31,		Convenience translation December 31,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Deferred tax liabilities			
Right-of-use assets, net	(3,100,173)	(3,017,880)	(765,163)
Depreciable property, plant and equipment	(279,001)	(263,507)	(66,810)
Other temporary differences	(114,222)	(96,448)	(24,454)
	(3,493,396)	(3,377,835)	(856,427)
Deferred tax assets			
Right-of-use assets, net	3,277,315	3,276,485	830,731
Depreciable property, plant and equipment	8,685	8,833	2,240
Carry-forward tax losses	23,083	199,475	50,575
	3,309,083	3,484,793	883,546
Deferred tax liabilities, net	(184,313)	106,958	27,119

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

	December 31,		Convenience translation December 31,
	2019	2020	2020
	NIS		Euro
	(In thousands)		
Non-current assets	195,118	369,818	93,765
Non-current liabilities	(379,431)	(262,860)	(66,646)
	(184,313)	106,958	27,119

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,
	2018	2019	2020	2020
	NIS			Euro
	(In thousands)			
Current taxes	157,961	103,813	17,764	4,504
Prior years' taxes	2,283	(3,470)	(9,126)	(2,314)
Deferred taxes	(60,781)	(83,789)	(283,566)	(71,896)
	99,463	16,554	(274,928)	(69,706)

h. Taxes on income relating to other comprehensive income

Mainly in respect of the revaluation of fixed assets, amounting to NIS 11,264 thousand, NIS 58,956 thousand and NIS 53,105 thousand as of December 31, 2020, 2019 and 2018, respectively.

NOTE 23:- TAXES ON INCOME (Cont.)

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,
	2018	2019	2020	2020
	NIS			Euro
	(In thousands)			
Income (loss) before taxes on income	341,389	57,396	(1,599,212)	(405,469)
Statutory tax rate	23%	23%	23%	23%
Tax at the statutory tax rate	78,519	13,775	(367,818)	(93,258)
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	(682)	(2,517)	7,720	1,957
Adjustment of deferred tax balances due to a change in tax rates	-	(3,323)	10,141	2,571
Losses in the reporting year for which no deferred taxes were created	4,475	4,348	85,645	21,715
Income at different tax rates	8,838	8,304	731	185
Prior years' taxes	2,282	(3,470)	(9,126)	(2,314)
Other differences	6,031	(563)	(2,221)	(562)
	99,463	16,554	(274,928)	(69,706)
Effective tax rate	29%	29%	17%	17%

NOTE 24:- REVENUES FROM HOSPITALITY SERVICES AND OTHERS

	Year ended December 31,			Convenience translation Year ended December 31,
	2018	2019	2020	2020
	NIS			Euro
	(In thousands)			
Rooms	2,746,001	3,977,018	1,349,254	342,094
Food and beverages	726,424	1,025,798	330,538	83,806
Other services	198,801	311,618	216,748	54,955
Hotel management fees	94,417	27,955	7,386	1,873
	3,765,643	5,342,389	1,903,926	482,728

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.

NOTE 25:- COST OF REVENUES

	Year ended December 31,			Convenience translation Year ended December 31,
	2018	2019	2020	2020
	NIS			Euro
	(In thousands)			
Salaries and related expenses	860,569	1,276,033	566,682	143,678
Expenses relating to rooms department	411,326	619,953	250,573	63,531
Food and beverages	364,994	479,246	183,712	46,579
Maintenance and energy expenses	231,422	298,480	198,382	50,298
Municipal taxes and insurance	92,253	166,348	96,871	24,561
Others	33,819	69,046	26,049	6,606
	1,994,383	2,909,106	1,322,269	335,253

NOTE 26:- SELLING AND MARKETING EXPENSES

	Year ended December 31,			Convenience translation Year ended December 31,
	2018	2019	2020	2020
	NIS			Euro
	(In thousands)			
Advertising and marketing	79,319	109,082	45,801	11,613
Salaries and related expenses	31,710	36,691	21,552	5,464
	111,029	145,773	67,353	17,077

NOTE 27:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,			Convenience translation Year ended December 31,
	2018	2019	2020	2020
	NIS			Euro
	(In thousands)			
Salaries and related expenses	194,072	219,721	106,720	27,058
Professional services	47,067	102,270	69,925	17,729
Credit card commissions	27,981	50,400	17,104	4,337
Office, expenses, communication and postage	30,137	38,257	25,840	6,552
Vehicle maintenance	5,311	5,122	5,357	1,358
Others	35,661	61,131	42,512	10,778
	340,229	476,901	267,458	67,812

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

	Year ended December 31,			Convenience translation Year ended December 31,
	2018	2019	2020	2020
	NIS			Euro
	(In thousands)			
Impairment of property, plant, equipment and investments	-	-	116,854	29,628
Reduction in rent payments (see note 2z)	-	-	(97,589)	(24,743)
Costs of business combinations and acquisitions of properties	44,516	19,872	-	-
Income (expenses) in respect of previous years	(3,012)	3,555	-	-
Other expenses	2,888	12,886	22,039	5,587
Reduction in rent payments	44,392	36,313	41,304	10,472

NOTE 29:- FINANCE INCOME AND EXPENSES

	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2020	Convenience translation Year ended December 31, 2020
	NIS			Euro
	(In thousands)			
a. Financial income				
Others	4,815	5,940	1,006	255
b. Financial expenses				
Financial expenses in respect of long-term loans and bonds	103,325	100,511	141,396	35,850
Expenses in respect of derivative financial instruments	19,492	4,663	14,989	3,800
Others	7,136	1,221	12,783	3,241
	129,953	106,395	169,168	42,891

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

a. Balances with interested and related parties

	December 31, 2019	December 31, 2020	Convenience translation December 31, 2020
	NIS		Euro
	(In thousands)		
Current assets			
Chain hotels	20,100	25,453	6,453
Non-current assets – related companies	591,066	653,128	165,596
Current liabilities			
Shareholders	5,821	5,170	1,311
The chain hotels	18,457	1,272	323
Non-current liabilities			
Shareholders	2,089	-	-
Investee companies accounted for at equity method	3,864	3,965	1,005

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

a. Transactions with interested and related parties *)

	Year ended December 31,			Convenience translation Year ended December 31,
	2018	2019	2020	2020
	NIS			Euro
	(In thousands)			
Salaries and related expenses to interested parties **)	(17,543)	(16,753)	(5,126)	(1,300)
Management fees from companies and partnerships accounted for at equity	16,006	22,604	4,632	1,174
Remuneration of directors not employed in the Company	628	652	529	134
Number of directors to whom the benefit refers	5	5	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.

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.

Following the spread of the Corona pandemic, the controlling shareholder irrevocably waived some of the management fees to which he was entitled. For further details, see Note 1c above.

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

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

Year ended December 31,			Convenience translation Year ended December 31,
2018	2019	2020	2020
NIS			Euro
(In thousands)			
(* 9,581	(** 9,020	(** (4,064)	(** (1,030)

*) Including an issue bonus of NIS 500 thousand.

**) In 2019, including a provision for a bonus to the controlling shareholder (see Section c above). Following the Corona crisis, in March 2020, the controlling shareholder irrevocably waived, in full, the bonus to which he was entitled and therefore the provision was canceled.

d. Engagements with interested and related parties

1. 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.

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

3. 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 of 5 years each).

NOTE 31:- NET EARNINGS PER SHARE

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

	Year ended December 31,						Year ended December 31,	
	2018		2019		2020		2020	
	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
	In thousands	NIS in thousands	In thousands	NIS in thousands	In thousands	NIS in thousands	In thousands	Euro in thousands
Number of shares and the earnings	14,592	238,682	14,592	38,010	14,643	(1,314,687)	14,643	(333,330)
Effect of contingently issuable shares	13	-	58	-	-	-	-	-
For the computation of diluted net earnings	14,605	238,682	14,650	38,010	14,643	(1,314,687)	14,643	(333,330)

*) After weighting the issuance of shares by way of rights. For further details, see Note 22a.

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 in United Kingdom and Ireland, 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.

NOTE 32:- OPERATING SEGMENTS (Cont.)

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.

b. Reporting on operating segments

	Year ended December 31, 2018					
	Israel	**Abroad, mainly Germany**	**UK and Ireland**	**Other**	**Adjustments**	**Total**
	NIS (In thousands)					
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
Taxes on income						99,463
Net income						241,926

NOTE 32:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2019							
	Israel	Abroad (mainly Germany)	UK and Ireland	Other	Adjustments to financial reporting (before adjustments for IFRS 16)	Total	Adjustments for IFRS 16	Total
	NIS (In thousands)							
Segment revenues	1,708,798	1,889,463	1,700,754	137,034	(103,660)	5,342,389	-	5,342,389
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
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
Depreciation and amortization	(84,105)	(165,710)	(94,787)	(10,994)	45,785	(309,811)	(584,363)	(894,174)
Other operating expenses, net								(36,313)
Finance expenses, net								(718,397)
Group's share of earnings of associate companies and partnerships accounted for at equity								10,944
Income before taxes on income								57,396
Taxes on income								16,554
Net income								40,842

NOTE 32:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2020								
	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 Total
	NIS								Euro
	(In thousands)								
Segment revenues	709,435	674,151	498,087	61,703	(39,450)	1,903,926	-	1,903,926	482,728
Operating income before depreciation and amortization, other operating expenses and rental expenses	136,165	76,693	9,311	17,984	6,693	246,846	-	246,846	62,586
Operating income (loss) before depreciation and amortization and other operating expenses	33,685	(186,361)	(425,264)	(4,658)	(28,517)	(611,115)	854,681	243,566	61,754
Depreciation and amortization	(89,191)	(169,755)	(100,038)	(16,647)	45,276	(330,355)	(630,782)	(961,137)	(243,690)
Other operating expenses, net								(41,304)	(10,472)
Finance expenses, net								(806,771)	(204,551)
Group's share of losses of associate companies and partnerships accounted for at equity								(33,566)	(8,510)
Loss before taxes on income								(1,599,212)	(405,469)
Tax benefit								274,928	69,706
Loss								(1,324,284)	(335,763)

NOTE 33:- EVENTS AFTER THE REPORTING DATE

a. On December 29, 2020, a non-binding Memorandum of Understanding was signed between an investee company (100% held) and the owners of 4 hotels in central London, England ("the Lessor") that are leased to the investee company in lease agreements from March 2019 for a period of 25 years, in connection with a comprehensive arrangement between the parties that includes a reduction in the rent, a reduction in the credit debt borne by the Lessor from foreign financial corporations ("the Lenders") to finance the purchase of hotels, and additional concessions on behalf of the Lenders, against a capital injection by the Owner and of the investee company in a manner that will give the investee company rights in the property companies that own the hotels. Under the agreement, the investee company will pay GBP 45 million, which will be used mainly to repay the existing loan, in exchange for 50% of the share capital of the company holding the four hotels and to reduce the annual rent for hotels over the next three years by a total of GBP 52 million. As of the date of approval of the financial statements, the transaction has not yet been completed.

b. On January 24, 2021, the Company issued a purchase tender in which the Company addressed the holders of the Bonds (Series B) of the Company with an offer to purchase from them all the Bonds (Series B) held by them, by way of a full exchange purchase tender, in exchange for Bonds (Series C) as specified in the tender report, according to an exchange ratio of 1.085. The exchange purchase offer exchange was accepted by offerees holding 266,937,598 Bonds (Series B), accordingly and in accordance with the terms of the exchange purchase tender, the Company allocated 289,627,294 par value of Bonds (Series C).

c. On February 26, 2021, two consolidated partnerships (100%) entered into an undertaking with two third parties ("the Purchaser") for the sale of the LEONARDO HOTEL RESIDENZ MUNCHEN and LEONARDO HOTEL MUNCHEN CITY WEST hotels, which include a total of 368 rooms by way of the sale and leaseback of the properties. The sale proceeds of the hotels will amount to about EUR 73 million. The net cash flow to the consolidated company (the consideration less the repayment of a bank loan for the property and transaction costs) is expected to amount to approximately EUR 33 million. The lease agreements for the hotels will take effect on the date of transfer of ownership for a period of 25 years, with the addition of an option for 5 years. As long as the closing date is before 31 March 2021, then until that date the rent will be free, as long as the closing takes place after 31 March 2021, then starting from the closing date and for a period of 21 months, the rent for the hotels will amount to about EUR 1.78 million per year, and after this period and thereafter - about EUR 3.83 million per year. It was also agreed between the parties that the tenant (the subsidiary) will receive EUR 4 million from the purchaser for renovations and repairs in the two said hotels.

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