

FATTAL HOLDINGS (1998) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2021

UNAUDITED

INDEX

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AUDITORS' REVIEW REPORT TO THE SHAREHOLDERS OF FATTAL HOLDINGS (1998) LTD.

Introduction

We have reviewed the accompanying financial information of Fattal Holdings (1998) Ltd. ("the Company"), which comprises the condensed consolidated statement of financial position as of June 30, 2021 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six and three months periods then ended. The Company's board of directors and management are responsible for the preparation and presentation of financial information for these interim periods in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a company accounted for at equity, the investment in which amounted to NIS 78,588 thousand as of June 30, 2021 and the Company's share of their losses amounted to NIS 2,172 and NIS 1,185 thousand for the six and three months period then ended. The condensed interim financial information of this company was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of this company, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34. In addition to the abovementioned, based on our review and the review reports of the other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Emphasis of matter

Without qualifying our above conclusion, we draw attention to the matter discussed in Note 1c 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 during 2020 in the entire tourism and hospitality industry globally and, in particular, in the countries in which the Company operates and on the other hand the beginning of a recovery trend starting in March 2021. Also, we draw attention to the matter discussed in Note 4f regarding agreements with the bondholders (Series B and C) and bank corporations 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, compared to the situation before the spread of the Coronavirus, as well as the plans of management and the board of directors in respect of this matter, see Note 1c.

Tel-Aviv, Israel
August 23, 2021

Kost Forer Gabbay and Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31, 2020 Audited | June 30, 2020 2021 Unaudited Unaudited | | Convenience translation (Note 1b) June 30, 2021 Unaudited Euro |
|--|---------------------------------|--|------------|--|
| | N I S in thousands | | | |
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | 1,257,291 | 701,750 | 1,353,867 | 349,403 |
| Securities held for trading | 35,699 | 909 | 77,037 | 19,882 |
| Trade receivables | 90,222 | 120,125 | 252,124 | 65,068 |
| Restricted deposit | 14,171 | - | 6,548 | 1,690 |
| Other accounts receivable | 221,777 | 232,713 | 242,096 | 62,478 |
| Income tax receivable | 1,554 | 16,068 | - | - |
| Inventories | 10,885 | 14,635 | 13,794 | 3,560 |
| | 1,631,599 | 1,086,200 | 1,945,466 | 502,081 |
| Assets held for sale | 430,681 | 636,710 | 156,940 | 40,503 |
| | 2,062,280 | 1,722,910 | 2,102,406 | 542,584 |
| NON-CURRENT ASSETS: | | | | |
| Long-term receivables | 60,658 | 26,549 | 73,601 | 18,995 |
| Advance on Fixed Assets | 33,076 | 31,155 | 33,231 | 8,576 |
| Loans and Investments in companies and partnerships accounted for at equity | 1,302,179 | 1,254,251 | 1,347,826 | 347,844 |
| Property, plant and equipment, net | 5,383,065 | 5,440,293 | 5,364,483 | 1,384,454 |
| Right-of-use assets, net | 11,853,401 | 11,580,874 | 12,176,384 | 3,142,455 |
| Deferred taxes on right-of-use assets | 258,605 | 224,268 | 321,373 | 82,939 |
| Deferred taxes | 111,213 | 62,043 | 188,853 | 48,739 |
| Intangible assets | 410,057 | 407,357 | 402,948 | 103,992 |
| | 19,412,254 | 19,026,790 | 19,908,699 | 5,137,994 |
| | 21,474,534 | 20,749,700 | 22,011,105 | 5,680,578 |

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31, 2020 Audited | June 30, 20202021 Unaudited | | Convenience translation (Note 1b) June 30, 2021 Unaudited Euro |
|--|---------------------------------|-----------------------------------|------------|--|
| | N I S in thousands | | | |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES: | | | | |
| Short-term credit from banks and others | 277,053 | 258,633 | 347,325 | 89,637 |
| Current maturities of liabilities from leases of right-of-use assets | 334,332 | 330,983 | 411,091 | 106,093 |
| Current maturities of debentures | 248,841 | 238,535 | 248,792 | 64,208 |
| Trade payables | 143,939 | 180,557 | 255,392 | 65,911 |
| Income tax payable | 82,438 | 70,414 | 104,141 | 26,876 |
| Other accounts payable | 669,332 | 571,496 | 840,791 | 216,990 |
| Shareholders | 5,170 | 533 | 8,739 | 2,255 |
| | 1,761,105 | 1,651,151 | 2,216,271 | 571,970 |
| Liabilities attributed to assets held for sale | 172,474 | 267,016 | 56,984 | 14,706 |
| | 1,933,579 | 1,918,167 | 2,273,255 | 586,676 |
| NON-CURRENT LIABILITIES: | | | | |
| Loans from banks and others | 2,808,707 | 2,459,749 | 2,698,920 | 696,531 |
| Debentures, net | 2,123,296 | 1,766,732 | 2,232,918 | 576,267 |
| Liabilities from leases of right-of-use assets | 12,207,644 | 11,821,892 | 12,632,934 | 3,260,280 |
| Deferred taxes | 262,860 | 281,276 | 244,068 | 62,989 |
| Employee benefit liabilities, net | 21,118 | 21,631 | 20,283 | 5,235 |
| Other non-current liabilities | 163,119 | 74,396 | 176,958 | 45,669 |
| Shareholders | 3,851 | 3,754 | 5,132 | 1,324 |
| | 17,590,595 | 16,429,430 | 18,011,213 | 4,648,295 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY: | | | | |
| Share capital and premium | 829,798 | 635,177 | 829,798 | 214,152 |
| Capital reserves | 891,322 | 932,963 | 818,107 | 211,135 |
| Retained earnings | 152,791 | 702,253 | 3,110 | 803 |
| | 1,873,911 | 2,270,393 | 1,651,015 | 426,090 |
| Non-controlling interests | 76,449 | 131,710 | 75,622 | 19,517 |
| Total equity | 1,950,360 | 2,402,103 | 1,726,637 | 445,607 |
| | 21,474,534 | 20,749,700 | 22,011,105 | 5,680,578 |

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

August 23, 2021

Date of approval of
the financial statements



David Fattal
Chairman of the Board and CEO



Shachar Aka
CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

| | | | | | | Convenience translation (Note 1b) |
|---|------------------------------------|--|-----------|--------------------------------------|-----------|---|
| | Year ended December 31, 2020 | Three months ended June 30, 2020 | 2021 | Six months ended June 30, 2020 | 2021 | Six months ended June 30, 2021 |
| | Audited | Unaudited | | | | Unaudited |
| | N I S un thousands | | | | | Euro |
| Revenues from hospitality services and others | 1,903,926 | 122,863 | 644,920 | 962,151 | 840,396 | 216,888 |
| Cost of revenues | 1,322,269 | 133,982 | 211,555 | 683,959 | 396,590 | 102,351 |
| | 581,657 | (11,119) | 433,365 | 278,192 | 443,806 | 114,537 |
| Selling and marketing expenses | 67,353 | 9,859 | 19,578 | 41,702 | 33,940 | 8,759 |
| General and administrative expenses | 267,458 | 39,617 | 51,078 | 132,085 | 117,316 | 30,277 |
| | 246,846 | (60,595) | 362,709 | 104,405 | 292,550 | 75,501 |
| Hotel lease expenses | 3,280 | 137 | 653 | 1,797 | 670 | 173 |
| Operating income (loss) before depreciation and amortization and other operating expenses | 243,566 | (60,732) | 362,056 | 102,608 | 291,880 | 75,328 |
| Depreciation and amortization | 288,137 | 69,699 | 66,848 | 141,178 | 131,333 | 33,894 |
| Depreciation of revaluation of step-up | 42,218 | 11,025 | 6,798 | 23,016 | 17,598 | 4,542 |
| Depreciation on right-of-use assets | 630,782 | 153,652 | 168,422 | 308,048 | 328,205 | 84,702 |
| Other operating income (expenses), net | (41,304) | 41,611 | 150,743 | (45,338) | 176,162 | 45,464 |
| Operating income (loss) | (758,875) | (253,497) | 270,731 | (414,972) | (9,094) | (2,346) |
| Finance income | 1,006 | 14 | 510 | 613 | 1,119 | 288 |
| Finance expenses | (169,168) | (28,494) | (49,093) | (92,018) | (115,398) | (29,783) |
| Financing expenses on liabilities from leases of right-of-use assets | (638,609) | (158,428) | (167,802) | (318,015) | (329,666) | (85,079) |
| Group's share of earnings (losses) of companies and partnerships accounted for at equity | (33,566) | (11,004) | 7,053 | (20,685) | (2,651) | (684) |
| Income (loss) before tax benefit | (1,599,212) | (451,409) | 61,399 | (845,077) | (455,690) | (117,604) |
| Tax benefit | 274,928 | 92,296 | 20,017 | 178,216 | 157,474 | 40,641 |
| Net income (loss) | (1,324,284) | (359,113) | 81,416 | (666,861) | (298,216) | (76,963) |
| Attributable to: | | | | | | |
| Shareholders of the Company | (1,314,687) | (358,297) | 77,789 | (665,569) | (300,490) | (77,550) |
| Non-controlling interests | (9,597) | (816) | 3,627 | (1,292) | 2,274 | 587 |
| | (1,324,284) | (359,113) | 81,416 | (666,861) | (298,216) | (76,963) |
| Net earnings (loss) per share attributed to equity holders of the Company (in NIS) | | | | | | |
| Basic earnings (loss) per share | (89.78) | (24.55) | 5.03 | (45.61) | (19.43) | (19.43) |
| Diluted earnings (loss) per share | - | (24.55) | 4.87 | (45.61) | (19.43) | (19.43) |

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | | | | | | Convenience translation (Note 1b) |
|--|---|--|---------|--|-----------|--|
| | Year ended December 31, 2020 Audited | Three months ended June 30, 2020 2021 | | Six months ended June 30, 2020 2021 | | Six months ended June 30, 2021 Unaudited |
| | | Unaudited | | Unaudited | | Euro |
| | | N I S un thousands | | | | |
| Net income (loss) | (1,324,284) | (359,113) | 81,416 | (666,861) | (298,216) | (76,963) |
| Other comprehensive income (loss) (after tax effect): | | | | | | |
| <u>Amounts that will not be reclassified subsequently to profit or loss:</u> | | | | | | |
| Actuarial loss, net | (5,529) | - | - | - | - | - |
| Revaluation of properties, net | (77,708) | 42,875 | 57,469 | (64,186) | 73,103 | 18,866 |
| Group's share in revaluation of properties in companies and partnerships accounted for at equity | 14,969 | 5,423 | 23,322 | (15,621) | 29,671 | 7,657 |
| Total amounts that will not be reclassified subsequently to profit or loss | (68,268) | 48,298 | 80,791 | (79,807) | 102,774 | 26,523 |
| <u>Amounts that will be classified or reclassified subsequently to profit or loss under specific conditions:</u> | | | | | | |
| Income (loss) in respect of cash flow hedging transaction | 10,284 | 25,559 | 6,994 | 28,040 | (2,023) | (522) |
| Foreign currency translation adjustments | 42,888 | (32,381) | (4,149) | (15,025) | (24,227) | (6,252) |
| Total amounts that will be reclassified subsequently to profit or loss | 53,172 | (6,822) | 2,845 | 13,015 | (26,250) | (6,774) |
| Total other comprehensive income (loss) | (15,096) | 41,476 | 83,636 | (66,792) | 76,524 | 19,749 |
| Total comprehensive income (loss) | (1,339,380) | (317,637) | 165,052 | (733,653) | (221,692) | (57,214) |
| Attributable to: | | | | | | |
| Shareholders of the Company | (1,324,628) | (312,506) | 161,328 | (724,539) | (224,082) | (57,831) |
| Non-controlling interests | (14,752) | (5,131) | 3,724 | (9,114) | 2,390 | 617 |
| | (1,339,380) | (317,637) | 165,052 | (733,653) | (221,692) | (57,214) |

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to shareholders of the Company | | | | | | | | | |
|---|---|---------------------|-------------------|--|--|----------------------------|---------------------|-----------|---------------------------|--------------|
| | Share capital and premium | Share-based payment | Retained earnings | Foreign currency translation adjustments | Reserve from transactions with non-controlling interests | Hedge transactions reserve | Revaluation reserve | Total | Non-controlling interests | Total equity |
| | Unaudited | | | | | | | | | |
| | NIS in thousands | | | | | | | | | |
| Balance as of January 1, 2021 (audited) | 829,798 | 8,439 | 152,791 | (262,941) | 7,518 | 63,627 | 1,074,679 | 1,873,911 | 76,449 | 1,950,360 |
| Net income (loss) | - | - | (300,490) | - | - | - | - | (300,490) | 2,274 | (298,216) |
| Comprehensive income (loss) | - | - | - | (27,330) | - | (2,023) | 105,761 | 76,408 | 116 | 76,524 |
| Total comprehensive income (loss) | - | - | (300,490) | (27,330) | - | (2,023) | 105,761 | (224,082) | 2,390 | (221,692) |
| Repayment of loan from non-controlling interests | - | - | - | - | - | - | - | - | (3,217) | (3,217) |
| Vesting option to employees | - | 1,186 | - | - | - | - | - | 1,186 | - | 1,186 |
| Transfer from revaluation in respect of sale, net | - | - | 133,836 | - | - | - | (133,836) | - | - | - |
| Transfer from revaluation reserve, in the amount of the depreciation, net | - | - | 16,973 | - | - | - | (16,973) | - | - | - |
| Balance as of June 30, 2021 | 829,798 | 9,625 | 3,110 | (290,271) | 7,518 | 61,604 | 1,029,631 | 1,651,015 | 75,622 | 1,726,637 |

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to shareholders of the Company | | | | | | | | | |
|---|--|---------------------|-------------------|--|--|----------------------------|---------------------|----------|---------------------------|--------------|
| | Share capital and premium | Share-based payment | Retained earnings | Foreign currency translation adjustments | Reserve from transactions with non-controlling interests | Hedge transactions reserve | Revaluation reserve | Total | Non-controlling interests | Total equity |
| | Unaudited | | | | | | | | | |
| | Convenience translation into Euro (Note 1b) (In thousands) | | | | | | | | | |
| Balance as of January 1, 2021 (audited) | 214,152 | 2,178 | 39,433 | (67,860) | 1,940 | 16,421 | 277,351 | 483,615 | 19,730 | 503,345 |
| Net income (loss) | - | - | (77,550) | - | - | - | - | (77,550) | 587 | (76,963) |
| Comprehensive income (loss) | - | - | - | (7,053) | - | (522) | 27,294 | 19,719 | 30 | 19,749 |
| Total comprehensive income (loss) | - | - | (77,550) | (7,053) | - | (522) | 27,294 | (57,831) | 617 | (57,214) |
| Repayment of loan from non-controlling interests | - | - | - | - | - | - | - | - | (830) | (830) |
| Vesting option to employees | - | 306 | - | - | - | - | - | 306 | - | 306 |
| Transfer from revaluation in respect of sale, net | - | - | 34,540 | - | - | - | (34,540) | - | - | - |
| Transfer from revaluation reserve, in the amount of the depreciation, net | - | - | 4,380 | - | - | - | (4,380) | - | - | - |
| Balance as of June 30, 2021 | 214,152 | 2,484 | 803 | (74,913) | 1,940 | 15,899 | 265,725 | 426,090 | 19,517 | 445,607 |

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Cont.)

| | Attributable to shareholders of the Company | | | | | | | Non-controlling interests | Total equity |
|---|---|---------------------|-------------------|--|----------------------------|---------------------|-----------|---------------------------|--------------|
| | Share capital and premium | Share-based payment | Retained earnings | Foreign currency translation adjustments | Hedge transactions reserve | Revaluation reserve | Total | | |
| | | | | | | | | | |
| | | | | | | | | | |
| Unaudited | | | | | | | | | |
| NIS in thousands | | | | | | | | | |
| Balance as of January 1, 2020 (audited) | 635,177 | 5,586 | 1,345,877 | (309,640) | 53,343 | 1,263,204 | 2,993,547 | 140,695 | 3,134,242 |
| Net loss | - | - | (665,569) | - | - | - | (665,569) | (1,292) | (666,861) |
| Comprehensive income (loss) | - | - | - | (7,554) | 28,040 | (79,456) | (58,970) | (7,822) | (66,792) |
| Total comprehensive income (loss) | - | - | (665,569) | (7,554) | 28,040 | (79,456) | (724,539) | (9,114) | (733,653) |
| Repayment of loan from non-controlling interests | - | - | - | - | - | - | - | 129 | 129 |
| Vesting option to employees | - | 1,385 | - | - | - | - | 1,385 | - | 1,385 |
| Transfer from revaluation reserve, in the amount of the depreciation, net | - | - | 21,945 | - | - | (21,945) | - | - | - |
| Balance as of June 30, 2020 | 635,177 | 6,971 | 702,253 | (317,194) | 81,383 | 1,161,803 | 2,270,393 | 131,710 | 2,402,103 |

| | 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 |
| | Unaudited | | | | | | | | | |
| | NIS in thousands | | | | | | | | | |
| Balance as of April 1, 2021 | 829,798 | 9,035 | (80,166) | (283,715) | 7,518 | 54,610 | 952,017 | 1,489,097 | 72,389 | 1,561,486 |
| Net income | - | - | 77,789 | - | - | - | - | 77,789 | 3,627 | 81,416 |
| Comprehensive income (loss) | - | - | - | (6,556) | - | 6,994 | 83,101 | 83,539 | 97 | 83,636 |
| Total comprehensive income (loss) | - | - | 77,789 | (6,556) | - | 6,994 | 83,101 | 161,328 | 3,724 | 165,052 |
| Repayment of loan from non-controlling interests | - | - | - | - | - | - | - | - | (491) | (491) |
| Vesting option to employees | - | 590 | - | - | - | - | - | 590 | - | 590 |
| Transfer from revaluation in respect of sale, net | - | - | (1,309) | - | - | - | 1,309 | - | - | - |
| Transfer from revaluation reserve, in the amount of the depreciation, net | - | - | 6,796 | - | - | - | (6,796) | - | - | - |
| Balance as of June 30, 2021 | 829,798 | 9,625 | 3,110 | (290,271) | 7,518 | 61,604 | 1,029,631 | 1,651,015 | 75,622 | 1,726,637 |

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Cont.)

| | Attributable to shareholders of the Company | | | | | | Total | Non-controlling interests | Total equity |
|---|---|----------------------|-------------------|--|----------------------------|---------------------|------------------|---------------------------|------------------|
| | Share capital and premium | Share -based payment | Retained earnings | Foreign currency translation adjustments | Hedge transactions reserve | Revaluation reserve | | | |
| | Unaudited NIS in thousands | | | | | | | | |
| <u>Balance as of April 1, 2020</u> | 635,177 | 6,240 | 1,050,077 | (293,759) | 55,824 | 1,128,609 | 2,582,168 | 136,238 | 2,718,406 |
| Net loss | - | - | (358,297) | - | - | - | (358,297) | (816) | (359,113) |
| Comprehensive income (loss) | - | - | - | (23,435) | 25,559 | 43,667 | 45,791 | (4,315) | 41,476 |
| Total comprehensive income (loss) | - | - | (358,297) | (23,435) | 25,559 | 43,667 | (312,506) | (5,131) | (317,637) |
| Dividend declared to shareholders of the Company | - | - | - | - | - | - | - | 603 | 603 |
| Vesting option to employees | - | 731 | - | - | - | - | 731 | - | 731 |
| Transfer from revaluation reserve, in the amount of the depreciation, net | - | - | 10,473 | - | - | (10,473) | - | - | - |
| <u>Balance as of June 30, 2020</u> | <u>635,177</u> | <u>6,971</u> | <u>702,253</u> | <u>(317,194)</u> | <u>81,383</u> | <u>1,161,803</u> | <u>2,270,393</u> | <u>131,710</u> | <u>2,402,103</u> |

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Cont.)

| | 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 January 1, 2020 | 635,177 | 5,586 | 1,345,877 | (309,640) | - | 53,343 | 1,263,204 | 2,993,547 | 140,695 | 3,134,242 |
| Loss for the period | - | - | (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 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, 2020 <u>Audited</u> | Three months ended June 30, 20202021 | | Six months ended June 30, 20202021 | | Convenience translation (Note 1b) Six months Ended June 30, 2021 <u>Unaudited</u> Euro | |
|--|--|--|------------------|--|------------------|---|--|
| | | N I S in thousands | | | | | |
| <u>Cash flows from operating activities:</u> | | | | | | | |
| Net income (loss) | (1,324,284) | (359,113) | 81,416 | (666,861) | (298,216) | (76,963) | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | | |
| Adjustments to the profit or loss items: | | | | | | | |
| Depreciation and amortization | 961,137 | 234,376 | 242,068 | 472,242 | 477,136 | 123,138 | |
| Finance expenses, net | 787,590 | 192,859 | 219,301 | 400,045 | 443,624 | 114,492 | |
| Group's share of losses (earnings) of companies and partnerships accounted for at equity | 33,566 | 11,004 | (7,053) | 20,685 | 2,651 | 684 | |
| Change in liabilities for time-sharing rights, net | (706) | (187) | (239) | (333) | (328) | (85) | |
| Change in employee benefit liabilities, net | (5,636) | 266 | (279) | 525 | (758) | (196) | |
| Tax benefit | (274,928) | (92,296) | (20,017) | (178,216) | (157,474) | (40,641) | |
| Loss (income) from impairment of fixed assets | 116,854 | (4,642) | (58,674) | 84,970 | (61,414) | (15,850) | |
| Share-based payment expense | 2,853 | 731 | 590 | 1,385 | 1,186 | 306 | |
| Other income from rent concession received | (97,589) | (42,672) | (89,779) | (42,672) | (118,762) | (30,650) | |
| Loss (profit) from a change in the value of securities held for trading | 16,406 | 36 | (466) | 14,007 | (472) | (122) | |
| | <u>1,539,547</u> | <u>299,475</u> | <u>285,452</u> | <u>772,638</u> | <u>585,389</u> | <u>151,076</u> | |
| Changes in asset and liability items: | | | | | | | |
| Decrease (increase) in trade receivables | 258,618 | 60,416 | (126,615) | 226,290 | (163,077) | (42,087) | |
| Decrease in other accounts receivable | 2,159 | 46,865 | 47,626 | 1,189 | 53,885 | 13,907 | |
| Decrease (increase) in inventories | 6,953 | 270 | (3,272) | 2,958 | (3,111) | (803) | |
| Decrease (increase) in long-term receivables | 126,249 | 77,849 | (6,478) | 125,721 | (13,065) | (3,372) | |
| Increase (decrease) in trade payables | (55,253) | (69,317) | 96,180 | (17,482) | 113,273 | 29,233 | |
| Increase (decrease) in other accounts payable | (170,608) | (54,376) | 50,588 | (190,550) | 165,514 | 42,715 | |
| Increase (decrease) in other non-current liabilities | 75,940 | 25,158 | 19,177 | 35,468 | (4,039) | (1,042) | |
| | <u>244,058</u> | <u>86,865</u> | <u>77,206</u> | <u>183,594</u> | <u>149,380</u> | <u>38,551</u> | |
| Cash paid during the period for: | | | | | | | |
| Taxes received | 60,496 | 16,757 | 15,114 | 60,190 | 15,114 | 3,901 | |
| Taxes paid | (24,907) | (735) | (3,869) | (32,437) | (11,105) | (2,866) | |
| Interest paid for leases of right-of-use assets | (598,379) | (138,715) | (149,431) | (298,396) | (305,579) | (78,863) | |
| Other interest paid, net | (150,075) | (28,344) | (37,130) | (63,138) | (88,859) | (22,932) | |
| | <u>(712,865)</u> | <u>(151,037)</u> | <u>(175,316)</u> | <u>(333,781)</u> | <u>(390,429)</u> | <u>(100,760)</u> | |
| Net cash provided by (used in) operating activities | (253,544) | (123,810) | 268,758 | (44,410) | 46,124 | 11,904 | |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, 2020 <u>Audited</u> | Three months ended June 30, 20202021 <u>Unaudited</u> | | Six months ended June 30, 20202021 <u>Unaudited</u> | | Convenience translation (Note 1b) Six months Ended June 30, 2021 <u>Unaudited</u> Euro |
|--|--|--|------------------|--|------------------|---|
| | N I S in thousands | | | | | |
| <u>Cash flows from investing activities:</u> | | | | | | |
| Proceeds from sale of fixed assets | 226,391 | - | - | - | 285,627 | 73,714 |
| Acquisitions of investments from property owners in respect of fixed assets | (355,828) | (42,527) | (17,630) | (265,945) | (14,322) | (3,696) |
| Advance of investment in fixed assets | (2,649) | - | - | - | (1,338) | (345) |
| Purchase of companies consolidated for the first time (Appendix A) | (251,404) | (31,493) | - | (251,404) | - | - |
| Exit from consolidation (Appendix B) | 19,254 | - | - | 20,223 | - | - |
| Sale and purchase of securities held for trading, net | 208,512 | 697 | (3,156) | 245,701 | (40,866) | (10,547) |
| Loans and Investment in companies and partnerships accounted for at equity | (70,222) | (19,997) | (11,410) | (52,707) | (17,596) | (4,541) |
| Withdrawal of (placement in) designated deposit | (52,328) | - | 4,842 | - | (2,689) | (694) |
| Change in accounts receivable | (50,000) | - | - | (50,000) | - | - |
| Return on investment (investment) in various companies | 833 | 2,463 | 2,629 | (1,859) | (1,853) | (478) |
| Net cash provided by (used in) investing activities | <u>(327,441)</u> | <u>(90,857)</u> | <u>(24,725)</u> | <u>(355,991)</u> | <u>206,963</u> | <u>53,413</u> |
| <u>Cash flows from financing activities:</u> | | | | | | |
| Short-term credit from banking corporations, net | (200) | 8,758 | 600 | 9,343 | 600 | 155 |
| Receipt of long-term loans from banking corporations and others | 845,624 | 19,536 | 36,117 | 372,051 | 133,169 | 34,368 |
| Repayment of long-term loans from corporations and others | (422,186) | (114,950) | (71,894) | (224,503) | (292,419) | (75,467) |
| Repayment of debentures | (171,963) | (10,685) | (44,791) | (38,615) | (96,060) | (24,791) |
| Repayment of liabilities from leases of right-of-use assets | (155,369) | (24,090) | (28,918) | (74,722) | (64,725) | (16,704) |
| Issue of debentures, net | 759,579 | - | 190,667 | 200,627 | 190,667 | 49,207 |
| Rights issue, net | 98,720 | - | - | - | - | - |
| Issuance of share capital (net of issuance expenses) | 49,755 | - | - | - | - | - |
| Acquisition of non-controlling interests | (38,241) | - | - | - | - | - |
| Net cash provided by (used in) financing activities | <u>965,719</u> | <u>(121,431)</u> | <u>81,781</u> | <u>244,181</u> | <u>(128,768)</u> | <u>(33,232)</u> |
| <u>Translation differences in respect of balances of cash and cash equivalents</u> | <u>13,232</u> | <u>(5,849)</u> | <u>(6,540)</u> | <u>(1,301)</u> | <u>(12,096)</u> | <u>(3,123)</u> |
| <u>Increase (decrease) in cash and cash equivalents</u> | <u>397,966</u> | <u>(341,947)</u> | <u>319,274</u> | <u>(157,521)</u> | <u>112,223</u> | <u>28,962</u> |
| Cash included in assets held for sale | (321) | (28) | (337) | (375) | (15,647) | (4,038) |
| <u>Cash and cash equivalents at beginning of period</u> | <u>859,646</u> | <u>1,043,725</u> | <u>1,034,930</u> | <u>859,646</u> | <u>1,257,291</u> | <u>324,479</u> |
| <u>Cash and cash equivalents at end of period</u> | <u>1,257,291</u> | <u>701,750</u> | <u>1,353,867</u> | <u>701,750</u> | <u>1,353,867</u> | <u>349,403</u> |
| <u>Material non-cash activity:</u> | | | | | | |
| Recognition of the right-of-use assets against lease liabilities | 388,328 | 145,482 | 55,954 | 145,482 | 508,372 | 131,200 |
| Receipt of waiver of lease payment | 58,455 | 24,407 | 54,037 | 24,407 | 71,846 | 18,542 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, 2020 <u>Audited</u> | Three months ended June 30, 2020 2021 | | Six months ended June 30, 2020 2021 | | Convenience translation (Note 1b) Six months Ended June 30, 2021 <u>Unaudited</u> Euro |
|--|--|--|----------|--|----------|---|
| | | <u>Unaudited</u> | | <u>Unaudited</u> | | |
| | | NIS in thousands | | | | |
| (a) <u>Acquisition of initially consolidated subsidiaries:</u> | | | | | | |
| The subsidiaries' assets and liabilities at date of acquisition: | | | | | | |
| Working capital (excluding cash and cash equivalents) | (1,798) | (5,082) | - | (1,798) | - | - |
| Non - current assets | 3,781 | 3,781 | - | 3,781 | - | - |
| Deferred taxes | - | - | - | - | - | - |
| Property, plant and equipment | (311,822) | (88,627) | - | (311,822) | - | - |
| Current liabilities | 1,518 | 1,518 | - | 1,518 | - | - |
| Non-current liabilities | 56,917 | 56,917 | - | 56,917 | - | - |
| | <u>(251,404)</u> | <u>(31,493)</u> | <u>-</u> | <u>(251,404)</u> | <u>-</u> | <u>-</u> |
| (b) <u>Exit from consolidation:</u> | | | | | | |
| Non-current assets | 19,254 | - | - | - | - | - |
| | <u>19,254</u> | <u>-</u> | <u>-</u> | <u>20,223</u> | <u>-</u> | <u>-</u> |

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: - GENERAL

- a. These financial statements have been prepared in a condensed format as of June 30, 2021 and for the six and three months periods then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2020 and for the year then ended and accompanying notes, which are included as part of the prospectus ("annual consolidated financial statements").
- b. The financial statements as of June 30, 2021 and for the six and three months then ended have been translated into Euro using the representative exchange rate as of that date (€ 1 = NIS 3.8748) 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.
- c. The outbreak of the coronavirus and global spread of the pandemic starting in the first quarter of 2020 constitute a global macroeconomic risk, causing uncertainty regarding future economic activity around the world and the expected impacts on inflation and financial markets. The Company continuously monitors developments and in Israel and around the world in connection with the recovery from the coronavirus pandemic and assesses the effects on its business activity in Israel and Europe. Against the backdrop of travel and gathering restrictions imposed in Israel and Europe, the closure of recreational activities in Israel and Europe, and the issuance of closing orders to hotels in some of the Company's countries of operation, at the end of March 2020, the Company closed most of the hotels it operates both in Israel and in Europe, and opened some of them as from June 2020. Later on in 2020 and at the beginning of 2021, governments in Europe and Israel imposed lockdowns, with some of the Company's hotels remaining open between lockdowns in accordance with permits, demand and occupation levels. In early March 2021, following the rollout of the coronavirus vaccination campaign in Israel and the decline in morbidity rates, the Israeli economy gradually reopened, and as of the financial statements approval date, the Company reopened most of its hotels in Israel, with high occupancy rates. In Europe - where the vaccination campaign began in March 2021 and is still underway - the Company has reopened most of its hotels and is on an upward trend in line with the lifting of restrictions. Further to that which is described in detail in Note 1c to the consolidated annual financial statements - regarding the measures taken by the Company to adjust its cash expenses to the material decline in revenues compared with the revenues prior to the coronavirus pandemic - set forth below is a description of the key measures taken during and after the reporting period.
 - 1) Steps to obtain discounts on and deferral of payments to various government agencies - the Company has requested and intends to request from government agencies in all of the Group's countries of operation discounts on and deferral of various mandatory payments, as well as reimbursement of employee-related costs. In that respect, it should be noted that some of the Group's countries of operation granted a sweeping exemption from property taxes and participation of up to 90% in employees' wages during the crisis (provided that the employees would not be dismissed).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL (Cont.)

It should be noted that, during the six-month period ended June 30, 2021, the Company and its subsidiaries received approximately NIS 361 million in government funding in Europe and Israel, which was included as a reduction of the cost of revenues in the statement of income. It should be noted that the abovementioned amount includes a grant of approximately EUR 48 million (approximately NIS 188 million) from the German government in respect of the decline in its turnover; for more information, see Note 4d.

- 2) Seeking a moratorium on rent and/or reduction of rent in respect of some of the hotels (other than under lease agreements between the Company's consolidated companies and the subsidiary - 100% - Fattal Europe), which were closed due to frustration and *force majeure* - as a consequence of the hotels' shutdown and their closure, the Company sought and obtained and/or will seek a moratorium on rent and/or a reduction of rent in accordance with the lease agreements. Furthermore, rent payments may be postponed by various periods pursuant to the provisions of laws, bills or special government guidance issued in various countries in view of the crisis. The Company secured the deferment (to forthcoming years) and/or waiver of rent totaling approximately NIS 130 million in respect of the period spanning from January to June 2021 and NIS 608 million in total from the beginning of the crisis until the signing date of the financial statements. For details on reduction of rent in 4 London hotels, see Note 4e. In addition, it should be noted that the Company is still negotiating the deferment, reduction or waiver of NIS 54 million in rent for several other rented hotels in respect of Q1 and Q2 of 2021, as well as in respect of unpaid rent for 2020; negotiations regarding said amount have yet to be concluded, and the amount is stated in the payables and credit balances line item.
- 3) Sale of hotels in Europe - during the reporting period, the Company sold (through the subsidiary) two hotels in Germany under sale and lease back transactions; the said sales generated a net inflow of approximately EUR 33 million. For further details, see Note 4b.
- 4) Refinancing - rescheduling some of the Company's bank credit. In this matter, it should be noted that in 2021, most Israeli and European banks that provided credit to the Company deferred certain portions of principal payments totaling approximately NIS 50 million in respect of Q1 and Q2 of 2021. For information about the expansion of a bond series of the Company during the reporting period, see Note 4c.

The Company is of the opinion that further implementation of the measures described in detail in Note 1c to the consolidated annual financial statements and as detailed above, shall help adjust its current expenses as much as possible such that they are in line with the decline in revenues in 2021 compared with the pre-crisis revenues; such measures, where they are yet to be implemented and/or completed as of report date, may increase the Company's financial sources.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL (Cont.)

The Company's management and Board of Directors are of the opinion that these measures, most of which have already been completed, along with approximately NIS 1.3 billion in cash held by the Group immediately prior to the financial statements' approval date, and the recovery as a result of the vaccination campaigns in Israel and Europe, will enable it to meet all of its obligations, including compliance with financial covenants of banking corporations and bondholders during the year following the financial statements' approval date, such that it will be able, at the very least, to gradually go back to normal activity levels without having to take any further measures.

It should be noted that the Company's ability to complete the implementation of a considerable number of the above measures depends on regulatory decisions to be made in different countries and on the level of cooperation and willingness of third parties (such as lenders and owners of hotels leased to the Group).

Naturally, this is an unfolding event which is not under the Company's control, and factors such as the continued spread of the coronavirus or any decline in such spread, decisions by governments and relevant authorities in Israel and around the world to renew or halt flights to various destinations, restrict tourists' entry into certain countries, introduce movement restrictions, restrictions on gatherings or changes in demand, may affect the Company accordingly. In the light of the quick pace of decision-making by governments in Israel and Europe, the Company will continue to monitor developments and revise its assessments accordingly.

NOTE 2- : SIGNIFICANT ACCOUNTING POLICIES

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

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

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

- b. Initial adoption of amendments to existing financial reporting and accounting standards:

1. Amendments to IFRS 9, IFRS 7, IAS 39, IFRS 4 and IFRS 16:

In August 2020, the IASB published amendments to IFRS 9, "Financial Instruments", IFRS 7, "Financial Instruments: Disclosures" and IAS 39, "Financial Instruments: Recognition and Measurement", IFRS 4, "Insurance Contracts" and IFRS 16, "Leases" ("the Amendments").

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2- : SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Amendments provide practical reliefs which address the financial reporting effects when benchmark Interbank Offered Rates ("IBORs") are replaced with alternative nearly Risk-Free Interest Rate (RFR).

The amendments include a practical relief to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate interest. That is, an entity is required to recognize the changes in interest rates by updating the effecting interest rate without adjusting the carrying amount of the financial instrument. The use of this practical relief requires that the transition from IBOR to RFR takes place on the basis of equal economic conditions.

In addition, the amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued when certain conditions are met.

The amendments allow also a temporary relief relate with the implementation of hedge accounting relating to the identification of hedged risk which defined as a separately identifiable component.

The amendments include disclosure additions regarding the expected reform effect on the entity's financial statements, including how the entity is managing the transition to RFRs, its progress and the risks to which it is exposed as well as qualitative information about the financial instruments that have yet to transition to RFRs.

The amendments are mandatory and effective for annual periods beginning on or after 1 January 2021. Application is retrospective. However, restating prior periods isn't required.

The Amendments had no impact on the interim financial statements of the Company.

2. Additional amendment to IFRS 16 Leases on April 2021

In May 2020, Due to Covid-19 pandemic, the IASB issued amendment to IFRS 16 Leases (hereinafter – "the 2020 amendment"). The purpose of the 2020 amendment is to provide practical relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. A lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. The 2020 amendment applies to lessees only.

Originally, the 2020 amendment applied only to rent concessions relating to the period up to June 30, 2021. However, the pandemic continued beyond the expected period, thus the IASB has updated that the amendment will apply to rent concessions relating to the period up to June 30, 2022 (hereinafter – "the 2021 amendment"). The additional criteria for implementing the 2021 amendment remain unchanged.

The 2021 amendment which was published in April 2021 has been applied for annual periods beginning on April 1, 2021. Earlier application is permitted.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2- : SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The company chose to apply the 2021 amendment in early application and apply it to all changes in lease payments arising from the Covid-19 pandemic and relating to the period up to June 30, 2022. Accordingly, in light of waivers of lease payments for the period of January to June 2021, the Company recognized, during the period of six and three months ending on June 30, 2021, in the amount of NIS 118,762 thousand and NIS 89,779 thousand, respectively, as other income.

c. Disclosure of IFRS standards in the period prior to their implementation:

Amendment to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":

In February 2021, the IASB published amendment to IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors" ("the Amendment"). The purpose of the amendment is to introduce a new definition of the term "Accounting Estimates".

Accounting Estimates are defined as "financial amounts in the financial statements subject to measurement uncertainty". The amendment clarifies what changes in accounting estimates are and how they differ from changes in accounting policies and correction of errors.

The amendment will be applied prospectively to annual periods beginning on January 1, 2023 and applies to changes in accounting policies and accounting estimates that occur at the beginning or after that periods. Early application is permitted.

NOTE 3: - SEASONALITY OF OPERATIONS

Israel

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

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

Europe (including UK and Ireland)

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

Mediterranean Basin

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

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

About the effects of the Corona virus on the Company's activities, see note 1(c).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- a. On January 24, 2021, the Company published an Offer of Purchase 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 an Exchange Tender Offer in full, for Bonds (Series C) as specified in the Offer Report, at an exchange ratio of 1.085. The Exchange Tender Offer was accepted by the offerees holding 266,937,598 Bonds (Series B), accordingly and in accordance with the terms of the Exchange Tender Offer, the Company allocated 289,627,294 par value of Bonds (Series C). As a result of the Exchange Tender Offer, the Company incurred financing expenses in the income statement in the amount of approximately NIS 13 million.
- b. On February 26, 2021, two consolidated partnerships (100%) entered an undertaking with two third parties (hereinafter: "the Purchaser") for the sale of the LEONARDO HOTEL RESIDENZ MUNCHEN and LEONARDO HOTEL MUNCHEN CITY WEST hotels, comprising a total of 368 rooms by way of a sale and leaseback of the properties. The sale proceeds of the hotels amounted to EUR 73 million, and the transaction was completed on March 31, 2021. The net cash flow to the consolidated company (the proceeds net of repayment of a bank loan for the property and transaction costs) amounted to approximately EUR 33 million. At the same date, the rental agreements for the hotels came into force for a period of 25 years plus a 5-year option. From the date of completion of the transaction and for a period of 21 months, the rent for the hotels will amount to approximately EUR 1.78 million per year and after this period - approximately EUR 3.83 million per year. It was also agreed between the parties that the lessee (the subsidiary) will receive EUR 4 million from the purchaser for renovations and repairs in the two said hotels.
- c. On April 22, 2021, the Company made an expansion of the Bonds (Series C) by way of an allocation to the public of NIS 204,000 thousand par value of Bonds (Series C) of NIS 1,000 par value each of the Company, listed for trading, for a gross monetary consideration of NIS 192,168 thousand (before deducting issuance costs in the amount of NIS 1,501 thousand), at a price of NIS 0.942 for every NIS 1 par value. After the aforesaid allotment as well as an Exchange Tender Offer detailed in Section B above, the total Bonds (Series C) in circulation amount to NIS 699,309 thousand par value.
- d. In March 2021, the Company filed an application to receive a grant from the German government in respect of a decrease in its turnover during November-December 2020 and January-June 2021 due to the lockdowns imposed in Germany over the course of the said months. In May 2021 the application was approved, and the Company received grants at the total amount of EUR 48 million (app. NIS 188 million). It should be noted that subsequent to balance sheet date, the maximum amount that companies may receive in such grants was increased, and the Company intends to file another application to receive a grant at the total amount of EUR 40 million.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- e. On December 29, 2020, a memorandum of agreement was signed between an investee (100%) and the owner of 4 hotels located in central London (hereinafter - the “Lessor”), which are leased to the investee for a 25-year period under lease agreements of March 2019; the memorandum of agreement was signed in connection with the formulation of a comprehensive arrangement between the parties, which includes the reduction of the lease fees, the reduction of the debt arising from credit that the Lessor received from foreign financial institutions (hereinafter - the “Lenders”) in order to fund the purchase of the hotels, and other waivers on behalf of the Lenders - against the injection of capital by the owners and the investee, such that the investee will be conferred rights in the property companies holding the hotels. The transaction was completed in July 2021. Pursuant to the agreement, the investee paid GBP 54.5 million that will be used mainly to repay some of the existing credit in consideration for 50% of the share capital of the company holding the four hotels, and to reduce by GBP 52 million the annual lease fees in respect of the hotels over the next three years. As from the financial statements for the third quarter of 2021, the Company will account for this investment by the equity method, and shall include its share in the investee’s results in accordance with the promote mechanism agreed upon with the partners.

f. Financial covenants

- 1) Further to what is stated in Note 15 to the Company’s consolidated annual financial statements as of December 31 2020 regarding the approval by bondholders (Series B and Series C) of a temporary waiver (through the publication date of the Company’s quarterly financial statements as of March 31 2021) of the review of the Company’s compliance with some of the financial covenants, the failure to comply with which gives the bondholders the right to call for the immediate repayment of the outstanding balance of the bonds, it should be noted that as from the publication date of the Company’s quarterly financial statements as of June 30 2021 and through the publication date of the Company’s periodic report as of December 31 2021, compliance with the financial covenants shall be carried out after excluding the EBITDA data for the first to the fourth quarters of 2020 and the first quarter of 2021, as applicable.
- 2) Further to what is stated in Note 14 to the Company’s consolidated annual financial statements as of December 31 2020 regarding the Company’s reaching understandings with banks whereby due to the consequences of the coronavirus crisis the Company’s compliance with certain financial covenants will not be reviewed through the financial statements for the first quarter of 2021, the Company obtained the said banks’ consent to the effect that its compliance with the above financial covenants will not be reviewed through the financial statements for the second quarter of 2021. Furthermore, the Company reached understandings with some of the banks whereby its compliance with the above financial covenants will not be reviewed until the end of 2021; as to the remaining banks, the Company is currently finalizing the revision of the relevant financial covenants.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- 3) As of the approval date of the Company's financial statements for the first quarter of 2021, the Company failed to comply with the financial covenants pertaining to updating the interest rates set in the deeds of trust, due to the fact that its shareholders' equity and/or equity to asset ratio as of March 31 2021 have decreased below the set threshold. Accordingly, the interest rate of the Company's bonds was updated in accordance with the provisions of the deeds of trusts, such that as from the publication date of the Company's financial statements for the first quarter of 2021, the Company's bonds (Series B, Series C and Series 1) shall bear annual interest of 4.5%, 3.41% and 4.25%, respectively (a 0.25% increase in annual interest compared with the interest rate prior to the updating date); the said rates will be in effect until the earlier of repayment in full of the bonds or the publication date of financial statements of the Company according to which it complies with the relevant financial covenants.

As of the publication date of the Company's financial statements for the second quarter of 2021, the Company complied with the relevant financial covenants as of June 30 2021 regarding the updating of the interest rate as described above for the Series C and Series 1 bonds; accordingly, the increase in interest rates for those series of bonds was cancelled.

g. Tax rates in the UK

In May 2021, as part of the UK's Finance Bill, it was decided to increase the corporate tax rate from 19% to 25% as from 2023. As a result of the above, during the course of the second quarter the Company revised the value of its net deferred tax assets in connection with its UK-based assets and/or activity, and recorded a tax benefit of GBP 7.2 million (app. NIS 32.7 million).

NOTE 5: - FINANCIAL INSTRUMENTS

Fair value:

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

| | June 30, 2020 | | December 31, 2020 | |
|--|------------------|------------|-------------------|------------|
| | Book value | Fair value | Book value | Fair value |
| | NIS in thousands | | | |
| <u>Loans from banking corporations and other liabilities</u> | | | | |
| Debentures (Level 1 of the fair value hierarchy) | 2,005,267 | 1,514,182 | 2,372,137 | 2,467,988 |
| Fixed interest loans (Level 3 of the fair value hierarchy) | 1,685,570 | 1,655,581 | 2,022,882 | 2,175,719 |
| Total | 3,690,837 | 3,169,763 | 4,395,019 | 4,643,707 |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - FINANCIAL INSTRUMENTS (Cont.)

| | | | Convenience translation (note 1b) | |
|--|----------------|------------|--------------------------------------|------------|
| | Book value | Fair value | Book value | Fair value |
| | June 30, 2021 | | June 30, 2021 | |
| | Unaudited | | | |
| | NIS | | Euro | |
| | (In thousands) | | (In thousands) | |
| <u>Loans from banking corporations and other liabilities</u> | | | | |
| Debentures (Level 1 of the fair value hierarchy) | 2,481,710 | 2,657,622 | 640,475 | 685,873 |
| Fixed interest loans (Level 3 of the fair value hierarchy) | 1,882,205 | 2,028,439 | 485,755 | 523,495 |
| Total | 4,363,915 | 4,686,061 | 1,126,230 | 1,209,368 |

It should be noted that, as at June 30, 2021, the Company had a consolidated working capital deficit (including relating to assets and liabilities held for sale) of about NIS 171 million. According to the Company's Management and the Board of Directors, the above deficit does not indicate a liquidity issue as the Company has the following sources:

- Cash available to the Group close to the date the financial statements were approved of about NIS 1.3 billion.
- Receipt of grants in Europe as detailed in Note 4d above.
- Cash generated from the Company's current operations.

NOTE 6: - OPERATING SEGMENTS

a. General:

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") for making decisions about resources to be allocated and assessing performance. The Group's activity is conducted through three reportable operating segments: in Israel, in Europe (except for the United Kingdom, Ireland and Mediterranean basin) and in the United Kingdom and Ireland. In addition, the Group has investment through subsidiaries in Mediterranean basin and other investment, which do not amount a reportable segment, and, accordingly, is reported as other.

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

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: - OPERATING SEGMENTS (cont.):

| | Israel | Abroad (mainly Germany) | UK and Ireland | Other | Adjustments to financial reporting (before adjustments for IFRS 16) | Total | Adjustments for IFRS 16 | Total |
|---|---------------|-------------------------------|-------------------|---------|--|----------|----------------------------|-----------|
| | NIS thousands | | | | | | | |
| Three months ended June 30, 2021 (unaudited) | | | | | | | | |
| Segment revenues | 356,708 | 127,882 | 159,971 | 25,247 | (24,888) | 644,920 | - | 644,920 |
| Operating income before depreciation and amortization, other operating expenses and rental expenses | 132,163 | 191,313 | 32,958 | 14,444 | (8,169) | 362,709 | - | 362,709 |
| Operating income (loss) before depreciation and amortization and other operating expenses | 137,718 | 146,651 | (93,098) | 7,428 | (19,973) | 178,726 | 183,330 | 362,056 |
| Depreciation and amortization | (21,561) | (32,806) | (23,537) | (4,382) | 8,640 | (73,646) | (168,422) | (242,068) |
| Finance expenses, net | | | | | | | | (216,385) |
| Other operating income, net | | | | | | | | 150,743 |
| Group's share of earnings of associate companies and partnerships accounted for at equity | | | | | | | | 7,053 |
| Income before tax benefit | | | | | | | | 61,399 |
| Tax benefit | | | | | | | | 20,017 |
| Net income | | | | | | | | 81,416 |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: - OPERATING SEGMENTS (cont.):

| | Israel | Abroad (mainly Germany) | UK and Ireland | Other | Adjustments to financial reporting (before adjustments for IFRS 16) | Total | Adjustments for IFRS 16 | Total |
|--|-----------------|-------------------------------|-------------------|----------------|--|------------------|----------------------------|------------------|
| | NIS thousands | | | | | | | |
| Three months ended June 30, 2020 (unaudited) | | | | | | | | |
| Segment revenues | <u>62,781</u> | <u>53,600</u> | <u>5,915</u> | <u>5,731</u> | <u>(5,164)</u> | <u>122,863</u> | <u>-</u> | <u>122,863</u> |
| Operating income (loss) before depreciation and amortization, other operating expenses and rental expenses | <u>(7,185)</u> | <u>(28,153)</u> | <u>(26,689)</u> | <u>(172)</u> | <u>1,604</u> | <u>(60,595)</u> | <u>-</u> | <u>(60,595)</u> |
| Operating income (loss) before depreciation and amortization and other operating expenses | <u>(25,811)</u> | <u>(88,986)</u> | <u>(109,351)</u> | <u>(3,845)</u> | <u>(4,764)</u> | <u>(232,757)</u> | <u>172,025</u> | <u>(60,732)</u> |
| Depreciation and amortization | <u>(21,303)</u> | <u>(42,658)</u> | <u>(23,768)</u> | <u>(4,809)</u> | <u>11,814</u> | <u>(80,724)</u> | <u>(153,652)</u> | <u>(234,376)</u> |
| Finance expenses, net | | | | | | | | (186,908) |
| Other operating income, net | | | | | | | | 41,611 |
| Group's share of losses of associate companies and partnerships accounted for at equity | | | | | | | | <u>(11,004)</u> |
| Loss before tax benefit | | | | | | | | (451,409) |
| Tax benefit | | | | | | | | <u>92,296</u> |
| Loss for the period | | | | | | | | <u>(359,113)</u> |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: - OPERATING SEGMENTS (Cont.):

| | Israel | Abroad (mainly Germany) | UK and Ireland | Other | Adjustments to financial reporting (before adjustments for IFRS 16) | Total | Adjustments for IFRS 16 | Total | Convenience translation (Note 1b) Total Euro |
|--|----------------|-------------------------------|-------------------|---------|--|-----------|----------------------------|-----------|--|
| | N I S | | | | | | | | |
| | (In thousands) | | | | | | | | |
| Six months ended June 30, 2021 (unaudited) | | | | | | | | | |
| Segment revenues | 440,552 | 193,672 | 202,297 | 35,239 | (31,364) | 840,396 | - | 840,396 | 216,888 |
| Operating income (loss) before depreciation and amortization, other operating expenses and rental expenses | 116,794 | 159,985 | 6,542 | 16,367 | (7,138) | 292,550 | - | 292,550 | 75,501 |
| Operating income (loss) before depreciation and amortization and other operating expenses | 100,137 | 45,644 | (250,720) | 3,445 | (27,672) | (129,166) | 421,046 | 291,880 | 75,328 |
| Depreciation and amortization | (43,542) | (71,060) | (45,741) | (8,723) | 20,135 | (148,931) | (328,205) | (477,136) | (123,138) |
| Finance expenses, net | | | | | | | | (443,945) | (114,574) |
| Other operating income, net | | | | | | | | 176,162 | 45,464 |
| Group's share of losses of associate companies and partnerships accounted for at equity | | | | | | | | (2,651) | (684) |
| Loss before taxes on income | | | | | | | | (455,690) | (117,604) |
| Tax benefit | | | | | | | | 157,474 | 40,641 |
| Loss for the period | | | | | | | | (298,216) | (76,963) |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: - OPERATING SEGMENTS (Cont.):

| | Israel | Abroad (mainly Germany) | UK and Ireland | Other | Adjustments to financial reporting (before adjustments for IFRS 16) NIS | Total | Adjustments for IFRS 16 | Total |
|---|----------|-------------------------------|-------------------|----------|--|-----------|----------------------------|-----------|
| Six months ended June 30, 2020 (unaudited) | | | | | | | | |
| Segment revenues | 304,244 | 369,182 | 287,513 | 18,237 | (17,025) | 962,151 | - | 962,151 |
| Operating income before depreciation and amortization, other operating expenses and rental expenses | 26,065 | 45,842 | 28,822 | (835) | 4,511 | 104,405 | - | 104,405 |
| Operating income before depreciation and amortization and other operating expenses | (18,651) | (85,931) | (144,945) | (13,625) | (14,712) | (277,864) | 380,472 | 102,608 |
| Depreciation and amortization | (44,288) | (87,164) | (48,424) | (8,147) | 23,829 | (164,194) | (308,048) | (472,242) |
| Finance expenses, net | | | | | | | | (409,420) |
| Other operating expenses, net | | | | | | | | (45,338) |
| Group's share of losses of associate companies and partnerships accounted for at equity | | | | | | | | (20,685) |
| Loss before taxes on income | | | | | | | | (845,077) |
| Tax benefit | | | | | | | | 178,216 |
| Loss for the period | | | | | | | | (666,861) |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: - 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) NIS | Adjustments for IFRS 16 | Total |
| | (In thousands) | | | | | | |
| Segment revenues | 709,435 | 674,151 | 498,087 | 61,703 | (39,450) | - | 1,903,926 |
| Operating income before depreciation and amortization, other operating expenses and rental expenses | 136,165 | 76,693 | 9,311 | 17,984 | 6,693 | - | 246,846 |
| Operating income (loss) before depreciation and amortization and other operating expenses | 33,685 | (186,361) | (425,264) | (4,658) | (28,517) | 854,681 | 243,566 |
| Depreciation and amortization | (89,191) | (169,755) | (100,038) | (16,647) | 45,276 | (630,782) | (961,137) |
| Other operating expenses, net | | | | | | | (41,304) |
| Finance expenses, net | | | | | | | (806,771) |
| Group's share of losses of associate companies and partnerships accounted for at equity | | | | | | | (33,566) |
| Loss before tax benefit | | | | | | | (1,599,212) |
| Tax benefit | | | | | | | 274,928 |
| Loss | | | | | | | (1,324,284) |