

FATTAL HOLDINGS (1998) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2021

UNAUDITED

INDEX

	Page
Review of Interim Consolidated Financial Statements	2
Consolidated Statements of Financial Position	3 - 4
Consolidated Statements of Profit or Loss	5
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Changes in Equity	7 – 10
Consolidated Statements of Cash Flows	11 – 13
Notes to Interim Consolidated Financial Statements	14 - 25

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 March 31, 2021 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the 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 March 31, 2021 and the Company's share of their losses amounted to NIS 987 thousand for the 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 4e 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, 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
May 31, 2021

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

				Convenience translation (Note 1b)
	December 31, 2020	March 31,		March 31,
	Audited	2020	2021	2021
		Unaudited		Unaudited
		N I S		Euro
		(In thousands)		
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	1,257,291	1,043,725	1,034,930	264,505
Securities held for trading	35,699	1,642	73,415	18,763
Trade receivables	90,222	180,420	126,304	32,281
Restricted deposit	14,171	-	6,542	1,672
Other accounts receivable	221,777	224,713	257,245	65,746
Income tax receivable	1,554	24,203	-	-
Inventories	10,885	14,976	10,653	2,723
	1,631,599	1,489,679	1,509,089	385,690
Assets held for sale	430,681	143,107	169,612	43,349
	2,062,280	1,632,786	1,678,701	429,039
NON-CURRENT ASSETS:				
Long-term receivables	60,658	89,940	77,750	19,870
Advance on Fixed Assets	33,076	29,359	33,644	8,599
Loans and Investments in companies and partnerships accounted for at equity	1,302,179	1,241,664	1,309,423	334,660
Property, plant and equipment, net	5,383,065	5,867,576	5,329,989	1,362,228
Right-of-use assets, net	11,853,401	11,995,065	12,413,262	3,172,557
Deferred taxes on right-of-use assets	258,605	202,539	277,012	70,798
Deferred taxes	111,213	25,951	182,862	46,736
Intangible assets	410,057	411,301	408,898	104,505
	19,412,254	19,863,395	20,032,840	5,119,953
	21,474,534	21,496,181	21,711,541	5,548,992

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2020	March 31,		Convenience translation (Note 1b)
	Audited	2020	2021	March 31, 2021
		Unaudited		Unaudited
		N I S		Euro
		(In thousands)		
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Short-term credit from banks and others	277,053	300,645	305,684	78,126
Current maturities of liabilities from leases of right-of-use assets	334,332	258,867	353,647	90,384
Current maturities of debentures	248,841	182,269	230,432	58,893
Trade payables	143,939	250,246	160,400	40,995
Income tax payable	82,438	65,404	80,785	20,647
Other accounts payable	669,332	624,954	815,509	208,426
Shareholders	5,170	15	7,871	2,012
	1,761,105	1,682,400	1,954,328	499,483
Liabilities attributed to assets held for sale	172,474	42,869	56,508	14,442
	1,933,579	1,725,269	2,010,836	513,925
NON-CURRENT LIABILITIES:				
Loans from banks and others	2,808,707	2,681,651	2,786,291	712,115
Debentures, net	2,123,296	1,833,292	2,104,514	537,867
Liabilities from leases of right-of-use assets	12,207,644	12,151,193	12,832,978	3,279,827
Deferred taxes	262,860	316,295	215,637	55,112
Employee benefit liabilities, net	21,118	21,337	20,594	5,263
Other non-current liabilities	163,119	62,842	175,349	44,815
Shareholders	3,851	2,037	3,856	986
	17,590,595	17,068,647	18,139,219	4,635,985
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:				
Share capital and premium	829,798	635,177	829,798	212,078
Capital reserves	891,322	880,773	739,465	188,991
Retained earnings (losses)	152,791	1,050,077	(80,166)	(20,489)
	1,873,911	2,566,027	1,489,097	380,580
Non-controlling interests	76,449	136,238	72,389	18,502
Total equity	1,950,360	2,702,265	1,561,486	399,082
	21,474,534	21,496,181	21,711,541	5,548,992

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

May 31, 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 March 31,		Three months ended March 31, 2021
	Audited	2020	2021	2021
		Unaudited		Unaudited
		N I S		Euro
	(In thousands)			
Revenues from hospitality services and others	1,903,926	839,288	195,476	49,959
Cost of revenues	1,322,269	549,977	185,035	47,291
	581,657	289,311	10,441	2,668
Selling and marketing expenses	67,353	31,843	14,362	3,671
General and administrative expenses	267,458	92,468	66,238	16,929
	246,846	165,000	(70,159)	(17,932)
Hotel lease expenses	3,280	1,660	17	4
Operating income (loss) before depreciation and amortization and other operating expenses	243,566	163,340	(70,176)	(17,936)
Depreciation and amortization	288,137	71,479	64,485	16,481
Depreciation of revaluation of step-up	42,218	11,991	10,800	2,760
Depreciation on right-of-use assets	630,782	154,396	159,783	40,837
Other operating income (expenses), net	(41,304)	(86,949)	25,419	6,497
Operating loss	(758,875)	(161,475)	(279,825)	(71,517)
Finance income	1,006	599	609	156
Finance expenses	(169,168)	(63,524)	(66,305)	(16,947)
Financing expenses on liabilities from leases of right- of-use assets	(638,609)	(159,587)	(161,864)	(41,369)
Group's share of losses of companies and partnerships accounted for at equity	(33,566)	(9,681)	(9,704)	(2,480)
Loss before tax benefit	(1,599,212)	(393,668)	(517,089)	(132,157)
Tax benefit	274,928	85,920	137,457	35,131
Loss for the period	(1,324,284)	(307,748)	(379,632)	(97,026)
Attributable to:				
Shareholders of the Company	(1,314,687)	(307,272)	(378,279)	(96,680)
Non-controlling interests	(9,597)	(476)	(1,353)	(346)
	(1,324,284)	(307,748)	(379,632)	(97,026)
Losses per share attributed to equity holders of the Company (in NIS)				
Basic and diluted losses per share	(89.78)	(21.28)	(24.47)	(24.47)

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 March 31, 2020 Unaudited	Three months ended March 31, 2021 Unaudited	Three months ended March 31, 2021 Unaudited
		N I S		Euro
	(In thousands)			
Loss for the period	(1,324,284)	(307,748)	(379,632)	(97,026)
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)	(107,061)	15,634	3,996
Group's share in revaluation of properties in companies and partnerships accounted for at equity	14,969	(21,044)	6,349	1,623
Total amounts that will not be reclassified subsequently to profit or loss	(68,268)	(128,105)	21,983	5,619
<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	2,481	(9,017)	(2,305)
Foreign currency translation adjustments	42,888	17,356	(20,078)	(5,131)
Total amounts that will be reclassified subsequently to profit or loss	53,172	19,837	(29,095)	(7,436)
Total other comprehensive loss	(15,096)	(108,268)	(7,112)	(1,817)
Total comprehensive loss	(1,339,380)	(416,016)	(386,744)	(98,843)
Attributable to:				
Shareholders of the Company	(1,324,628)	(412,033)	(385,410)	(98,502)
Non-controlling interests	(14,752)	(3,983)	(1,334)	(341)
	(1,339,380)	(416,016)	(386,744)	(98,843)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						Revaluation reserve	Total	Non-controlling interests	Total equity
	Share Capital and premium	Share-Based Payment	Retained earnings (losses)	Foreign currency translation adjustments	Reserve from transactions with non-controlling interests	Hedge transactions reserve				
	Unaudited									
	NIS (In thousands)									
<u>Balance as of January 1, 2021 (audited)</u>	829,798	8,439	152,791	(262,941)	7,518	63,627	1,074,679	1,873,911	76,449	1,950,360
Loss for the period	-	-	(378,279)	-	-	-	-	(378,279)	(1,353)	(379,632)
Other comprehensive income (loss)	-	-	-	(20,774)	-	(9,017)	22,660	(7,131)	19	(7,112)
Total comprehensive income (loss)	-	-	(378,279)	(20,774)	-	(9,017)	22,660	(385,410)	(1,334)	(386,744)
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	-	(2,726)	(2,726)
Vesting option to employees	-	596	-	-	-	-	-	596	-	596
Transfer from revaluation in respect of sale, net	-	-	135,145	-	-	-	(135,145)	-	-	-
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	10,177	-	-	-	(10,177)	-	-	-
<u>Balance as of March 31, 2021</u>	<u>829,798</u>	<u>9,035</u>	<u>(80,166)</u>	<u>(283,715)</u>	<u>7,518</u>	<u>54,610</u>	<u>952,017</u>	<u>1,489,097</u>	<u>72,389</u>	<u>1,561,486</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share Capital and premium	Share-Based Payment	Retained earnings (losses)	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)	212,078	2,157	39,050	(67,203)	1,921	16,262	274,665	478,930	19,540	498,470
Loss for the period	-	-	(96,680)	-	-	-	-	(96,680)	(346)	(97,026)
Other comprehensive income (loss)	-	-	-	(5,308)	-	(2,305)	5,791	(1,822)	5	(1,817)
Total comprehensive income (loss)	-	-	(96,680)	(5,308)	-	(2,305)	5,791	(98,502)	(341)	(98,843)
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	-	(697)	(697)
Vesting option to employees	-	152	-	-	-	-	-	152	-	152
Transfer from revaluation in respect of sale, net	-	-	34,540	-	-	-	(34,540)	-	-	-
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	2,601	-	-	-	(2,601)	-	-	-
Balance as of March 31, 2021	212,078	2,309	(20,489)	(72,511)	1,921	13,957	243,315	380,580	18,502	399,082

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
	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 CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share Capital and premium	Share-Based Payment	Retained earnings	Foreign currency translation adjustments	Hedge transaction s reserve	Revaluati on reserve	Total	Non-controlling interests	Total equity
	Unaudited								
	NIS (In thousands)								
Balance as of January 1, 2020 (audited)	635,177	5,586	1,345,877	(309,640)	37,202	1,263,204	2,977,406	140,695	3,118,101
Loss for the period	-	-	(307,272)	-	-	-	(307,272)	(476)	(307,748)
Other comprehensive income (loss)	-	-	-	15,881	2,481	(123,123)	(104,761)	(3,507)	(108,268)
Total comprehensive income (loss)	-	-	(307,272)	15,881	2,481	(123,123)	(412,033)	(3,983)	(416,016)
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	(474)	(474)
Vesting option to employees	-	654	-	-	-	-	654	-	654
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	11,472	-	-	(11,472)	-	-	-
Balance as of March 31, 2020	635,177	6,240	1,050,077	(293,759)	39,683	1,128,609	2,566,027	136,238	2,702,265

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

				Convenience translation (Note 1b)
	Year ended December 31, 2020	Three months ended March 31,		Three months ended March 31,
	Audited	2020	2021	2021
		Unaudited		Unaudited
		N I S		Euro
	(In thousands)			
<u>Cash flows from operating activities:</u>				
Loss for the period	(1,324,284)	(307,748)	(379,632)	(97,026)
Adjustments to reconcile net income to net cash provided by operating activities:				
Adjustments to the profit or loss items:				
Depreciation and amortization	961,137	237,866	235,068	60,078
Finance expenses, net	787,590	207,186	224,323	57,332
Group's share of losses (earnings) of companies and partnerships accounted for at equity	33,566	9,681	9,704	2,480
Change in liabilities for time-sharing rights, net	(706)	(146)	(89)	(23)
Change in employee benefit liabilities, net	(5,636)	259	(479)	(122)
Tax benefit	(274,928)	(85,920)	(137,457)	(35,131)
Loss (income) from impairment of fixed assets	116,854	89,612	(2,740)	(700)
Share-based payment expense	2,853	654	596	152
Other income from rent concession received	(97,589)	-	(28,983)	(7,407)
Loss (profit) from a change in the value of securities held for trading	16,406	13,971	(6)	(2)
	1,539,547	473,163	299,937	76,657
Changes in asset and liability items:				
Decrease (increase) in trade receivables	258,618	165,874	(36,462)	(9,319)
Decrease (increase) in other accounts receivable	2,159	(45,676)	6,259	1,600
Decrease in inventories	6,953	2,688	161	41
Decrease (increase) in long-term receivables	126,249	47,872	(6,587)	(1,683)
Increase (decrease) in trade payables	(55,253)	51,835	17,093	4,369
Increase (decrease) in other accounts payable	(170,608)	(136,174)	114,926	29,373
Increase (decrease) in other non-current liabilities	75,940	10,310	(23,216)	(5,933)
	244,058	96,729	72,174	18,448
Cash paid during the period for:				
Taxes received	60,496	43,433	-	-
Taxes paid	(24,907)	(31,702)	(7,236)	(1,849)
Interest paid for leases of right-of-use assets	(598,379)	(159,681)	(156,148)	(39,908)
Other interest paid, net	(150,075)	(34,794)	(51,729)	(13,222)
	(712,865)	(182,744)	(215,113)	(54,979)
Net cash provided by (used in) operating activities	(253,544)	79,400	(222,634)	(56,900)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2020 Audited	Three months ended March 31, 20202021 Unaudited N I S		Convenience translation (Note 1b) Three months ended March 31, 2021 Unaudited Euro
		(In thousands)		
Cash flows from investing activities:				
Proceeds from sale of fixed assets	226,391	-	285,627	73,000
Repayment of investments from property owners (acquisitions) in respect of fixed assets	(355,828)	(223,418)	3,721	951
Advance of investment in fixed assets	(2,649)	-	(1,751)	(448)
Purchase of companies consolidated for the first time (Appendix A)	(251,404)	(219,911)	-	-
Exit from consolidation (Appendix B)	19,254	20,223	-	-
Sale and purchase of securities held for trading, net	208,512	245,004	(37,710)	(9,638)
Short-term loan	-	(50,000)	-	-
Loans and Investment in companies and partnerships accounted for at equity	(70,222)	(32,710)	(6,186)	(1,581)
Change in accounts receivable	(50,000)	-	-	-
Withdrawal of designated deposit	(52,328)	-	(7,531)	(1,925)
Return on investment (investment) in various companies	833	(4,322)	(4,482)	(1,146)
Net cash provided by (used in) investing activities	(327,441)	(265,134)	231,688	59,213
Cash flows from financing activities:				
Short-term credit from banking corporations, net	(200)	585	-	-
Receipt of long-term loans from banking corporations and others	845,624	352,515	97,052	24,804
Repayment of long-term loans from corporations and others	(422,186)	(109,553)	(220,525)	(56,361)
Repayment of debentures	(171,963)	(27,930)	(51,269)	(13,103)
Repayment of liabilities from leases of right-of-use assets	(155,369)	(50,632)	(35,807)	(9,151)
Issue of debentures, net	759,579	200,627	-	-
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	965,719	365,612	(210,549)	(53,811)
Translation differences in respect of balances of cash and cash equivalents	13,232	4,548	(5,556)	(1,420)
Increase (decrease) in cash and cash equivalents	397,966	184,426	(207,051)	(52,918)
Cash included in assets held for sale	(321)	(347)	(15,310)	(3,913)
Cash and cash equivalents at beginning of period	859,646	859,646	1,257,291	321,336
Cash and cash equivalents at end of period	1,257,291	1,043,725	1,034,930	264,505
Material non-cash activity:				
Recognition of the right-of-use assets against lease liabilities	388,328	146,138	452,418	115,628
Receipt of waiver of lease payment	58,455	-	17,809	4,552

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

				Convenience translation (Note 1b)
	Year ended December 31, 2020	Three months ended March 31, 2020	2021	Three months ended March 31, 2021
	Audited	Unaudited		Unaudited
		N I S		Euro
	(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)	3,284	-	-
Non - current assets	3,781	-	-	-
Property, plant and equipment	(311,822)	(223,195)	-	-
Current liabilities	1,518	-	-	-
Non-current liabilities	56,917	-	-	-
	<u>(251,404)</u>	<u>(219,911)</u>	<u>-</u>	<u>-</u>
(b)	<u>Exit from consolidation:</u>			
Non-current assets	19,254	20,223	-	-
	<u>19,254</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 March 31, 2021 and for the 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 March 31, 2021 and for the three months then ended have been translated into Euro using the representative exchange rate as of that date (€ 1 = NIS 3.9127) 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 "Corona" virus and the global spread of the Corona pandemic that began in the first quarter of 2020 pose a global macroeconomic risk, uncertainty regarding future economic activity worldwide and the expected effects on inflation and financial markets. The Company is following on an ongoing basis the developments in Israel and around the world in connection with the recovery from the Corona pandemic and reviews the implications for its business activities in Israel and Europe. Against the background of the restrictions placed on travel and gatherings in Israel and Europe, the shutdown of all the leisure culture in Israel and Europe, as well as the issuance of closure orders on hotels operating in some countries, the Company closed most of the hotels it manages in both Israel and Europe at the end of March 2020, and opened some of them in the beginning of June 2020. At later stage of 2020 and beginning of 2021, lockdowns were imposed in Israel and Europe, with some of the Company's hotels remaining open between lockdowns in accordance with permits, demand and occupancy. At the beginning of March 2021, following the vaccination campaign in Israel and the decline in morbidity, the economy gradually opened up for activity and as of the date of approval of the financial statements, the Company has opened 33 hotels out of 41 active hotels in Israel. In Europe, the vaccination campaign began in March 2021 and is still in progress, as a result of which about 135 hotels in Europe were opened out of 146 active hotels but their rate occupancy is low. Further to the aforesaid detailed in Note 1C in the consolidated annual financial statements, regarding the actions that were performed and will be performed by the Company for the purpose of adjusting its cash flow expenses to the material decrease in revenue compared with the situation before the outbreak of the Corona pandemic, below is an update regarding the main actions taken during and after the reporting period:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: - GENERAL (Cont.)

- 1) Activity for the receiving of discounts and payment deferrals from various state authorities - the Company has applied and will apply to the authorities in all the countries in which the Group operates, requesting discounts and deferral of payments in relation to the various mandatory payments, as well as reimbursement of employee costs. In this regard, it should be noted that in some countries of activity, a comprehensive exemption from property taxes and participation in workers' wages was granted up to 90% of the wage costs (subject to keeping workers employed) during the crisis. In this context, it should be noted that during the reporting period, the Company and its subsidiaries received government participation in Europe and Israel in the amount of approximately NIS 83 million, which was included as a reduction in the cost of revenue in the statement of profit or loss. It should also be noted that after the balance sheet date, the Company received a grant from the German government in respect of a decrease in revenue turnover of about EUR 48 million (about NIS 190 million), for further details see Note 4d.
- 2) Suspension and / or reduction of rental payments in respect of some of the hotels (except according to the rental agreements between the Company's consolidated companies and the subsidiary - Fattal Europe – held 100%) which were closed due to hindrance and force majeure - as a result of interruption of operations 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, bills or special government directives published in light of the situation, in the various countries, rental payments will be deferred for different periods. The Company received a deferral (for the following years) and / or a waiver in connection with rents totaling approximately NIS 48 million for the period January to March 2021. It should also be noted that regarding a number of additional leased hotels, the Company is still negotiating a deferral / reduction / waiver of payment of rent for the first and second quarters of 2021 as well as for rent not yet paid for 2020.
- 3) Sale of hotels in Europe - During the reporting period, the Company (through its subsidiary) sold two hotels in Germany in transactions in the format of SALE AND LEASE BACK. The said sale generated a net cash flow of approximately EUR 33 million. For further details, see Note 4b.
- 4) Refinancing - rescheduling of part of the Company's bank credit. In this regard, it should be noted that most banks in Israel and in some European countries that provided financing to the Company deferred in 2021 partial payments of principal totaling approximately NIS 50 million for the first quarter of 2021. For details regarding the expansion of the Company's bonds during the reporting period, see Note 4c.

The Company estimates that the continuation of operations as described in detail in Note 1C in the consolidated annual financial statements and as aforesaid will help adapt the cash flow of current expenses, as much as possible, to a decrease in its revenues in 2021 compared with the pre-crisis situation, and to the extent that these have not yet been carried out and/or completed at the reporting date, may lead to additional financial sources of funds for the Company.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: - GENERAL (Cont.)

According to the estimate of Management and the Board of Directors, these actions, most of which have already been completed, together with cash in the amount of about NIS 1.5 billion that is in the Group's possession close to the date of approval of the financial statements, along with the recovery following vaccinations in Israel and the progress of vaccinations in Europe, will enable the Company to meet all of its obligations, including in connection with compliance with the financial covenants 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 the gradual return to routine operations without the need for additional steps.

It should be noted that the Company's ability to complete a significant portion of the abovementioned operations depends on regulatory decisions made in the various countries, the degree of cooperation, and the willingness of third parties (such as lenders and owners of hotels leased to the Group).

Naturally, this is an ever-changing event that is not under the control of the Company and factors such as the continued spread of the Corona epidemic or its cessation, decisions of relevant countries and authorities in Israel and around the world to resume or stop flights to various destinations, restricting entry of tourists from certain countries, restrictions on movement, restrictions on gatherings or changes in demand may or might (as the case may be) affect the Company accordingly. Due to the rapid pace of development of government officials' decisions in Israel and Europe, the Company will continue to monitor developments and update 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:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2- : SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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").

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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 March 2021, the Company recognized, during the period of three months ending on March 31, 2021, in the amount of NIS 28, 983 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: - SEASONALITY OF OPERATIONS

Israel

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

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

Europe (including UK and Ireland)

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

Mediterranean Basin

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

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

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

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- 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 1,604 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 applied to the German government for a grant in respect of a decrease in revenue turnover in the months of November - December 2020 and from January to June 2021 for lockdowns imposed in Germany under the ceiling approved by the German government (EUR 2 million per month). After the balance sheet date, the application was approved, and the Company received grants totaling approximately EUR 48 million.

e. Financial covenants

- 1) Further to the aforesaid in Note 15 to the Company's consolidated annual financial statements as of December 31, 2020, regarding the approval of the holders of Bonds (Series B and C) for a temporary waiver (up to and including the date of publication of the Company's quarterly statement as of March 31, 2021) of an examination of some of the financial covenants that entitle the bondholders to the outstanding balance of the Bonds for them for immediate repayment, it should be noted that from the date of publication of the Company's quarterly report as of June 30, 2021 until (and including) the date of publication of the Company's periodic report to December 31, 2021, examination of the financial covenant will be carried out by excluding the EBITDA data in the first to fourth quarters of 2020 and the first quarter of 2021, as applicable.
- 2) Further to that stated in Note 14 to the Company's consolidated annual financial statements as of December 31, 2020, regarding the fact that in light of the consequences of the Corona crisis, the Company reached agreements with banking corporations that certain criteria will not be reviewed until and including the first quarter of 2021, the Company received the agreements of the banking corporations that the above specific criteria will not be reviewed until and including the statements for the second quarter of 2021.
- 3) As of the date of approval of the financial statements, the Company did not meet the financial covenants regarding updating the interest rate as set forth in the Trust Deeds, due to a decrease in minimum shareholders' equity and / or the equity to balance sheet ratio as of March 31, 2021 beyond the set threshold. Accordingly, the interest rate of the Company's Bonds has been updated in accordance with the provisions of the Trust Deeds, so that as of the date of publication of the financial statements of the first quarter of 2021, the Bonds (Series B), (Series C) and (Series 1) will bear annual interest rates of 4.5%, 3.41% and 4.25%, respectively (an increase of 0.25% in the annual interest rate compared with the interest rate before the date of the update) until the repayment in full of the debentures or until the date of publication of the Company's financial statements according to which the Company meets the relevant financial covenants, whichever the earlier.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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:

	March 31, 20		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)	2,015,561	1,399,200	2,372,137	2,467,988
Fixed interest loans (Level 3 of the fair value hierarchy)	1,616,719	1,580,205	2,022,882	2,175,719
Total	3,632,280	2,979,405	4,395,019	4,643,707

			Convenience translation (note 1b)	
	Book value	Fair value	Book value	Fair value
	March 31, 2021		March 31, 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)	2,334,946	2,478,349	596,760	633,411
Fixed interest loans (Level 3 of the fair value hierarchy)	1,907,083	2,041,833	487,408	521,848
Total	4,242,029	4,520,182	1,084,168	1,155,259

It should be noted that, as at March 31, 2021, the Company had a consolidated working capital deficit (including relating to assets and liabilities held for sale) of about NIS 332 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 1.5 billion.
- Financing assets that were not financed.
- Receivables from the expansion of the Company's Bonds (Series C) after the balance sheet date in the amount of approximately NIS 190 million, as specified in Note 4c above.
- Receipt of grants in Europe as detailed in Note 4d above.
- The sale of assets.
- Cash generated from the Company's current operations in Israel, as well as a gradual return to operations in Europe.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: - OPERATING SEGMENTSa. 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.):

	NIS in thousands					Convenience translation (Note 1b)	
	Israel	Abroad, mainly Germany	UK and Ireland	Other	Adjustments to financial reporting (No adjustments for IFRS 16)	Adjustments for IFRS 16	Total Euro
	NIS in thousands						
Three months ended March 31, 2021 (unaudited):							
Segment revenues	83,844	65,790	42,326	9,992	(6,476)	195,476	49,959
Operating income (loss) before depreciation and amortization, other operating expenses and rental expenses	(15,369)	(31,328)	(26,416)	1,923	1,031	(70,159)	(17,932)
Operating loss before depreciation and amortization and other operating expenses	(37,581)	(101,007)	(157,622)	(3,983)	(7,699)	237,716	(17,936)
Depreciation and amortization	(21,981)	(38,254)	(22,204)	(4,341)	11,495	(75,285)	(60,078)
Finance expenses, net						(159,783)	(58,160)
Other operating income, net						(227,560)	25,419
Group's share of losses of associate companies and partnerships accounted for at equity							(9,704)
Loss before tax benefit							(517,089)
Tax benefit							137,457
Loss for the period							(379,632)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: - OPERATING SEGMENTS (cont.):

	Israel	Abroad, mainly Germany	UK and Ireland	Other	Adjustments to financial reporting (No adjustments for IFRS 16)	Total	Adjustments for IFRS 16	Total
	NIS in thousands							
Three months ended March 31, 2020 (unaudited):								
Segment revenues	241,463	315,582	281,598	12,506	(11,861)	839,288	-	839,288
Operating income before depreciation and amortization, other operating expenses and rental expenses	33,251	73,993	55,510	(662)	2,908	165,000	-	165,000
Operating income before depreciation and amortization and other operating expenses	7,160	3,054	(35,594)	(9,779)	(9,948)	(45,107)	208,447	163,340
Depreciation and amortization	(22,985)	(44,505)	(24,656)	(3,338)	12,014	(83,470)	(154,396)	(237,866)
Finance expenses, net								(222,512)
Other operating expenses, net								(86,949)
Group's share of losses of associate companies and partnerships accounted for at equity								(9,681)
Loss before tax benefit								(393,668)
Tax benefit								85,920
Loss for the period								(307,748)

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)	Total	Adjustments for IFRS 16	Total
					NIS			
					(In thousands)			
Segment revenues	<u>709,435</u>	<u>674,151</u>	<u>498,087</u>	<u>61,703</u>	<u>(39,450)</u>	<u>1,903,926</u>	<u>-</u>	<u>1,903,926</u>
Operating income before depreciation and amortization, other operating expenses and rental expenses	<u>136,165</u>	<u>76,693</u>	<u>9,311</u>	<u>17,984</u>	<u>6,693</u>	<u>246,846</u>	<u>-</u>	<u>246,846</u>
Operating income (loss) before depreciation and amortization and other operating expenses	<u>33,685</u>	<u>(186,361)</u>	<u>(425,264)</u>	<u>(4,658)</u>	<u>(28,517)</u>	<u>(611,115)</u>	<u>854,681</u>	<u>243,566</u>
Depreciation and amortization	(89,191)	(169,755)	(100,038)	(16,647)	45,276	(330,355)	(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								<u>(33,566)</u>
Loss before tax benefit								(1,599,212)
Tax benefit								<u>274,928</u>
Loss								<u>(1,324,284)</u>