FATTAL HOLDINGS (1998) LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022

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AUDITORS' REPORT

To the Shareholders of

FATTAL HOLDINGS (1998) LTD.

We have audited the accompanying consolidated statements of financial position of Fattal Holdings (1998) Ltd. ("the Company") as of December 31, 2022 and 2021, and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2022. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the condensed financial information of subsidiaries, whose assets constitute approximately 0.46% and 0.24% of total consolidated assets as of December 31, 2022, and 2021, respectively, and their revenues constitute approximately 2.44%,2.32%,1.47% of total consolidated revenues for the years ended December 31, 2022, 2021 and 2020, respectively. Furthermore, we did not audit the financial statements of companies accounted for at equity, the investment in which amounted to approximately NIS 353,868 thousand and NIS 78,582 thousand as of December 31, 2022, and 2021, respectively, and the Company's share of their Profits (losses) amounted to approximately NIS 8,971 thousand, NIS (8,590) thousand and NIS (3,610) thousand for the years ended December 31, 2022, 2021 and 2020, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our conclusion, insofar as it relates to financial information in respect for those companies, is based on the audit reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors , the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2022 and 2021, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2022, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 27, 2023

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2021	December 31, 2022	Convenience translation (Note 1f) December 31, 2022
		NIS		Euro
		(In thousands)		
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	5a	745,661	829,643	221,061
Securities held for trading	5b	30,671	81,562	21,732
Trade receivables	6	267,091	400,061	106,598
Restricted deposit		-	3,951	1,053
Other accounts receivable	7	187,838	245,739	65,478
Income tax receivable		1,182	6,162	1,642
Inventories		14,881	20,119	5,361
		1,247,324	1,587,237	422,925
Assets held for sale	9a	157,464	-	-
		1,404,788	1,587,237	422,925
NON-CURRENT ASSETS:				
Long-term receivables	8	79,743	93,319	24,865
Advance on fixed assets	20	41,994	15,646	4,169
Loans and Investments in companies and partnerships accounted for at equity	9	(*) 1,790,195	2,370,967	631,752
Property, plant and equipment, net	10	5,205,416	6,231,105	1,660,300
Property, plant and equipment under construction	10	282,590	443,265	118,110
Right-of-use assets, net	16	(*)11,145,420	11,816,059	3,148,430
Deferred taxes on right-of-use assets	23f	364,305	467,499	124,567
Deferred taxes	23f	139,567	189,021	50,365
Intangible assets	10e	364,943	345,082	91,948
		19,414,173	21,971,963	5,854,506
		20,818,961	23,559,200	6,277,431

(*) Reclassified (see Note 9b)

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2021	December 31, 2022	Convenience translation (Note 1f) December 31, 2022
		NIS	NIS	Euro
		(In thousands)		
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Short-term credit from banks and others	11	365,266	707,594	188,541
Current maturities of liabilities from leases of right-of-use assets	16	313,820	412,838	110,002
Current maturities of debentures	15	268,407	452,940	120,687
Trade payables	12	212,792	282,572	75,292
Income tax payable	23c	48,099	70,496	18,784
Other accounts payable	13	799,666	878,970	234,207
Shareholders	30c	9,871	6,290	1,676
		2,017,921	2,811,700	749,189
Liabilities attributed to assets held for sale	9a	59,454	-	-
		2,077,375	2,811,700	749,189
NON-CURRENT LIABILITIES:				
Loans from banks and others	14	2,405,737	2,690,329	716,848
Debentures, net	15	2,070,710	2,234,939	595,507
Liabilities from leases of right-of-use assets	16	11,840,238	12,733,958	3,393,008
Deferred taxes	23f	321,580	411,979	109,773
Employee benefit liabilities, net	18	20,961	20,155	5,370
Other non-current liabilities	19	117,283	90,410	24,090
Shareholders		4,713	5,181	1,380
		16,781,222	18,186,951	4,845,976
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	22			
Share capital and premium		829,815	1,014,932	270,432
Capital reserves		965,336	1,419,158	378,139
Retained earnings		91,496	47,302	12,603
		1,886,647	2,481,392	661,174
Non-controlling interests		73,717	79,157	21,092
Total equity		1,960,364	2,560,549	682,266
		20,818,961	23,559,200	6,277,431

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

March 27, 2023			
Date of approval of the financial statements	Yuval Bronstein Chairman of the Board of Directors	David Fattal Chief Executive Officer and Director	Shahar Aka Chief Financial Officer and Director

CONSOLIDATED STATEMENTS OF INCOME

	Note	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022	Convenience translation (Note 1f) Year ended December 31, 2022
		NIS			Euro
		(In thousands)			
Revenues from hospitality services and others	24	1,903,926	3,040,666	5,471,418	1,457,878
Cost of revenues	25	1,322,269	1,474,150	3,077,607	820,039
		581,657	1,566,516	2,393,811	637,839
Selling and marketing expenses	26	67,353	87,995	134,586	35,861
General and administrative expenses	27	267,458	291,978	434,215	115,698
		246,846	1,186,543	1,825,010	486,280
Hotel lease expenses		3,280	3,938	93,323	24,866
Operating income before depreciation and amortization and other operating expenses		243,566	1,182,605	1,731,687	461,414
Depreciation and amortization	10	288,137	264,540	302,387	80,572
Depreciation of revaluation of step-up		42,218	31,316	31,553	8,407
Depreciation on right-of-use assets		630,782	656,235	671,394	178,895
Other operating expenses (income), net	28	41,304	(269,884)	(21,948)	(5,848)
Operating income (loss)		(758,875)	500,398	748,301	199,388
Financial income	29	1,006	1,883	220	59
Financial expenses	29	(169,168)	(202,693)	(233,592)	(62,241)
Financing expenses on liabilities from leases of right-of-use assets		(638,609)	(660,531)	(649,445)	(173,048)
Group's share of earnings (losses) of companies and partnerships accounted for at equity		(33,566)	(679)	861	229
Loss before tax benefit		(1,599,212)	(361,622)	(133,655)	(35,613)
Tax benefit	23g	274,928	138,818	55,199	14,708
Loss for the period		(1,324,284)	(222,804)	(78,456)	(20,905)
Attributable to:					
Shareholders of the Company		(1,314,687)	(226,161)	(78,775)	(20,990)
Non-controlling interests		(9,597)	3,357	319	85
		(1,324,284)	(222,804)	(78,456)	(20,905)
Loss per share attributable to equity holders of the Company (in NIS):	31				
Basic loss per share		(89.78)	(14.63)	(5.01)	(5.01)
Diluted loss per share		(89.78)	(14.63)	(5.01)	(5.01)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE PROFIT OR LOSS

	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022	Convenience translation (Note 1f) Year ended December 31, 2022
	NIS	NIS	NIS	Euro
	(In thousands)			
Loss for the period	(1,324,284)	(222,804)	(78,456)	(20,905)
Other comprehensive income (loss) (after tax effect):				
Amounts that will not be reclassified subsequently to profit or loss:				
Actuarial income (loss), net	(5,529)	8,521	15,408	4,106
Revaluation of properties, net	(77,708)	282,377	193,515	51,563
Group's share in other comprehensive income (mainly for revaluation of properties in companies and partnerships) accounted for at equity	14,969	158,166	174,425	46,476
Total amounts that will not be reclassified subsequently to profit or loss	(68,268)	449,064	383,348	102,145
Amounts that will be classified or reclassified subsequently to profit or loss under specific conditions:				
Earnings (losses) in respect of cash flow hedging transaction	10,284	12,365	(5,790)	(1,543)
Foreign currency translation adjustments	42,888	(226,812)	113,523	30,249
Total amounts that will be reclassified subsequently to profit or loss	53,172	(214,447)	107,733	28,706
Total other comprehensive income (loss)	(15,096)	234,617	491,081	130,851
Total comprehensive income (loss)	(1,339,380)	11,813	412,625	109,946
Attributable to:				
Shareholders of the Company	(1,324,628)	11,051	406,642	108,351
Non-controlling interests	(14,752)	762	5,983	1,595
	(1,339,380)	11,813	412,625	109,946

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company									
	Share capital and premium	Share-based payment	Retained earnings	Foreign currency translation adjustments	Reserve from transactions with non-controlling interests	Hedge transactions reserve	Revaluation reserve	Total	Non-controlling interests	Total equity
	NIS (In thousands)									
Balance as of 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
Loss for the period	-	-	(226,161)	-	-	-	-	(226,161)	3,357	(222,804)
Other comprehensive income (loss)	-	-	-	(230,229)	-	12,365	455,076	237,212	(2,595)	234,617
Total comprehensive income (loss)	-	-	(226,161)	(230,229)	-	12,365	455,076	11,051	762	11,813
Share capital	17	(17)	-	-	-	-	-	-	-	-
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	-	(3,494)	(3,494)
Vesting option to employees	-	1,685	-	-	-	-	-	1,685		1,685
Transfer from revaluation in respect of sale, net	-	-	133,836	-	-	-	(133,836)	-	-	-
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	31,030	-	-	-	(31,030)	-	-	-
Balance as of December 31, 2021	829,815	10,107	91,496	(493,170)	7,518	75,992	1,364,889	1,886,647	73,717	1,960,364

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company									
	Share capital and premium	Share-based payment	Retained earnings	Foreign currency translation adjustments	Reserve from transactions with non-controlling interests	Hedge transactions reserve	Revaluation reserve	Total	Non-controlling interests	Total equity
	NIS (In thousands)									
Balance as of December 31, 2021	829,815	10,107	91,496	(493,170)	7,518	75,992	1,364,889	1,886,647	73,717	1,960,364
Net income (loss)	-	-	(78,775)	-	-	-	-	(78,775)	319	(78,456)
Other comprehensive income (loss)	-	-	-	151,753	-	(5,790)	339,454	485,417	5,664	491,081
Total comprehensive income (loss)	-	-	(78,775)	151,753	-	(5,790)	339,454	406,642	5,983	412,625
Share capital	259	(259)	-	-	-	-	-	-	-	-
Conversion of convertible bonds into shares	184,858	-	-	-	-	-	-	184,858	-	184,858
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	-	(543)	(543)
Vesting option to employees	-	3,245	-	-	-	-	-	3,245	-	3,245
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	34,581	-	-	-	(34,581)	-	-	-
Balance as of December 31, 2022	1,014,932	13,093	47,302	(341,417)	7,518	70,202	1,669,762	2,481,392	79,157	2,560,549

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company									
	Share capital and premium	Share-based payment	Retained earnings	Foreign currency translation adjustments	Reserve from transactions with non-controlling interests	Hedge transactions reserve	Revaluation reserve	Total	Non-controlling interests	Total equity
	Convenience translation into Euro (Note 1f) (In thousands)									
Balance as of January 1, 2022	221,107	2,693	24,379	(131,407)	2,003	20,248	363,679	502,702	19,642	522,344
Net income (loss)	-	-	(20,990)	-	-	-	-	(20,990)	85	(20,905)
Other comprehensive income (loss)	-	-	-	40,435	-	(1,543)	90,449	129,341	1,510	130,851
Total comprehensive income (loss)	-	-	(20,990)	40,435	-	(1,543)	90,449	108,351	1,595	109,946
Share capital	69	(69)	-	-	-	-	-	-	-	-
Conversion of convertible bonds into shares	49,256	-	-	-	-	-	-	49,256	-	49,256
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	-	(145)	(145)
Vesting option to employees	-	865	-	-	-	-	-	865	-	865
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	9,214	-	-	-	(9,214)	-	-	-
Balance as of December 31, 2022	270,432	3,489	12,603	(90,972)	2,003	18,705	444,914	661,174	21,092	682,266

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1f) Year ended December 31,
	2020	2021	2022	2022
	NIS			Euro
	(In thousands)			
Cash flows from operating activities:				
Loss for the period	(1,324,284)	(222,804)	(78,456)	(20,905)
Adjustments to reconcile net income to net cash provided by operating activities:				
Adjustments to the profit or loss items:				
Depreciation and amortization and depreciation on revaluation of property, plant and equipment and right-of-use assets	961,137	952,091	1,005,334	267,874
Finance expenses, net	787,590	855,298	866,688	230,930
Group's share of losses (earnings) of companies and partnerships accounted for at equity	33,566	679	(861)	(229)
Change in liabilities for time-sharing rights, net	(706)	(666)	(614)	(165)
Change in employee benefit liabilities, net	(5,636)	8,938	15,536	4,140
Tax benefit	(274,928)	(138,818)	(55,199)	(14,708)
Loss (gain) from impairment of investments	116,854	(95,597)	(2,713)	(723)
Share-based payment expense	2,853	1,685	3,245	865
Other income from rent concession received	(97,589)	(165,547)	(21,403)	(5,703)
Loss (gain) from a change in the value of securities held for trading	16,406	(3,148)	14,461	3,853
	1,539,547	1,414,915	1,824,474	486,134
Changes in asset and liability items:				
Decrease (increase) in trade receivables	258,618	(183,792)	(123,656)	(32,949)
Decrease (increase) in other accounts receivable	2,159	16,591	(65,608)	(17,481)
Decrease (increase) in inventories	6,953	(5,321)	(4,156)	(1,107)
Decrease (increase) in long-term receivables	126,249	(92,440)	58,190	15,505
Increase (decrease) in trade payables	(55,253)	71,263	61,417	16,365
Increase (decrease) in other accounts payable	(170,608)	120,015	(51,831)	(13,811)
Increase (decrease) in other non-current liabilities	75,940	30,048	(32,794)	(8,738)
	244,058	(43,636)	(158,438)	(42,216)
Cash paid during the year for:				
Taxes received	60,496	15,114	-	-
Taxes paid	(24,907)	(22,260)	(37,575)	(10,012)
Interest paid for leases of right-of-use assets	(598,379)	(590,116)	(634,953)	(169,185)
Other interest paid, net	(150,075)	(177,653)	(173,077)	(46,117)
	(712,865)	(774,915)	(845,605)	(225,314)
Net cash provided by (used in) operating activities	(253,544)	373,560	741,975	197,699

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022	Convenience translation (Note 1f) Year ended December 31, 2022
	NIS			Euro
	(In thousands)			
Cash flows from investment activities:				
Proceeds from sale of fixed assets	226,391	307,425	-	-
Purchase of property, plant and equipment, net	(355,828)	(273,463)	(886,752)	(236,278)
Advance of investment in fixed assets	(2,649)	(11,478)	(4,143)	(1,104)
Purchase of companies consolidated for the first time (a)	(251,404)	-	(15,332)	(4,085)
Exit from consolidation (b)	19,254	-	-	-
Tax paid for the disposal of fixed assets in the past	-	(54,615)	(10,771)	(2,870)
Sale and purchase of securities held for trading, net	208,512	8,176	(65,352)	(17,413)
Loans and Investment in companies and partnerships accounted for at equity, net	(70,222)	(321,590)	(335,261)	(89,331)
Change in accounts receivable	(50,000)	50,000	-	-
Change in designated deposit, net	(52,328)	3,748	16,239	4,327
Return on investment (investment) in various companies, net	833	(6,940)	(26,909)	(7,170)
Net cash used in investment activities	(327,441)	(298,737)	(1,328,281)	(353,924)
Cash flows from financing activities:				
Rights issue, net	98,720	-	-	-
Issuance of share capital (net of issuance expenses)	49,755	-	-	-
Acquisition of non-controlling interests	(38,241)	-	-	-
Short-term credit from banking corporations, net	(200)	1,744	7,617	2,030
Receipt of long-term loans from banking corporations and others	845,624	130,009	964,236	256,924
Repayment of long-term loans from corporations and others	(422,186)	(441,436)	(501,661)	(133,669)
Issue of debentures, net	759,579	190,667	756,074	201,459
Repayment of debentures	(171,963)	(240,044)	(253,416)	(67,524)
Repayment of liabilities from leases of right-of-use assets	(155,369)	(140,325)	(351,436)	(93,641)
Net cash provided by (used in) financing activities	965,719	(499,385)	621,414	165,579
Translation differences in respect of balances of cash and cash equivalents	13,232	(71,501)	33,307	8,875
Increase (decrease) in cash and cash equivalents	397,966	(496,063)	68,415	18,229
Cash included in assets held for sale	(321)	(15,567)	15,567	4,148
Cash and cash equivalents at beginning of year	859,646	1,257,291	745,661	198,684
Cash and cash equivalents at end of year	1,257,291	745,661	829,643	221,061
Material non-cash activity:				
Purchase of properties, plant and equipment	-	8,725	31,625	8,427
Recognition of the right-of-use assets against lease liabilities	388,328	734,962	760,714	202,695
Updates in right-of-use assets in respect of linkages to the CPI index	40,368	69,315	285,106	75,967
Receipt of waiver of lease payment	58,455	100,150	12,948	3,450
Conversion of convertible bonds into shares	-	-	184,858	49,256

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1f) Year ended December 31,
	2020	2021	2022	2022
	NIS			Euro
	(In thousands)			
(a) Acquisition of initially consolidated subsidiaries:				
The subsidiaries' assets and liabilities at date of acquisition:				
Working capital (excluding cash and cash equivalents)	(1,798)	-	15,286	4,073
Non - current assets	3,781	-	(26,858)	(7,156)
Property, plant and equipment	(311,822)	-	(3,760)	(1,002)
Current liabilities	1,518	-	-	-
Non-current liabilities	56,917	-	-	-
	(251,404)	-	(15,332)	(4,085)
(b) Exit from consolidation:				
Non-current assets	19,254	-	-	-
	19,254	-	-	-

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

NOTE 1:- GENERAL

a. Fattal Holdings (1998) Ltd. ("the Company") is a holding company, which operates by itself and through corporations held by it, in the hotel, tourism and leisure industry by way of holding hotels in Israel and abroad, as well as by way of operating and managing hotels in Israel and abroad. In February 2018, the Company completed its first public offering of shares and as of that date, the Company became a public company as the term is defined in the Companies Law, 1999. Mr. David Fattal is the controlling shareholder in the Company.

b. As of the date of approval of the financial statements, the Company, through the investee companies, is the operator and manager of the Fattal Hotel Chain, which includes 255 hotels throughout Israel and Europe, comprising about 47,000 hotel rooms, including 60 hotels in Israel with a total of about 10,496 hotel rooms. Of these, about 7,528 rooms are located in hotels in which the Company has full or part of the ownership rights, and about 2,968 rooms located in hotels that the Company leases or manages only. In addition, the Company operates and manages 183 hotels throughout Europe (excluding Cyprus and Greece) with a total of about 34,195 hotel rooms, of which about 12,674 rooms are in hotels in which the Company has full or part of the ownership rights, and about 21,521 rooms are in hotels that the Company leases or manages only. In addition, the Company operates and manages 12 hotels in Cyprus and Greece with about 2,434 rooms, of which about 2,100 rooms are in hotels in which the Company has full or part of the ownership rights, and about 334 rooms are in hotels that the Company leases or manages only. For further details regarding operating segments, see Note 32.

c. During the first quarter of the reporting year, the global market began a general trend of recovery from the Corona crisis. The restrictions imposed in Israel and Europe were completely lifted and at the same time demand and occupancy increased, which was affected, among other things, by the removal of the restrictions on the entry of tourists into countries. As of the date of approval of these financial statements, all the Company's hotels are open, available to receive guests and their occupancy rates are high. Based on the recovery in the hotel industry worldwide as a whole and the Company's activities in particular as mentioned above, Management and Board of Directors anticipate that the Company will be able to meet its existing and expected obligations in the foreseeable future.

d. It should be noted that, as of December 31, 2022, the Company had a consolidated working capital deficit of about NIS 1,224 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 560 million.
- Obtaining financing for properties that were not financed (a total of approximately NIS 300 million) and additional properties that were purchased with external financing when a major part of this external financing has already been repaid and the Company is working to raise external financing for these hotels.
- The Company is in advanced negotiations with banking corporations for refinancing loans totaling approximately NIS 340 million.
- Cash generated from the Company's ongoing activities as a result of a return to full activity and an increase in demand and occupancy.

NOTE 1:- GENERAL (Cont.)

e. Definitions:

In these financial statements:

The Company	-	Fattal Holdings (1998) Ltd.
The Group	-	The Company and its investee company and partnerships.
Fattal Hotels	-	Fattal Hotels Ltd., a subsidiary.
Consolidated subsidiaries and partnerships	-	Companies that are controlled by the Company (as defined in IFRS 10) and whose accounts are consolidated with those of the Company.
Jointly controlled entities (joint ventures)	-	Companies owned by various entities that have a contractual arrangement for joint control and whose accounts are consolidated with those of the Company using the proportionate consolidation method.
Investee companies and partnerships	-	Subsidiaries, jointly controlled entities and associates.
Related parties	-	As defined in IAS 24.
Interested party and controlling shareholder	-	As defined in the Securities Regulations (Annual Financial Statements), 2010.

f. The financial statements as of December 31, 2022 and for the year then ended have been translated into Euro using the representative exchange rate as of that date (€ 1 = NIS 3.753). The translation was made solely for the convenience of the reader. The amounts presented in these financial statements should not be construed to represent amounts receivable or payable in Euros or convertible into Euros, unless otherwise indicated in these statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements have been prepared on a cost basis, except for: property, financial instruments (including derivatives) which are presented at fair value.

The Company has elected to present the profit or loss items using the function of expense method.

b. The operating cycle:

The operating cycle of the company is 12 months.

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as a change in equity by adjusting the carrying amount of the non-controlling interests with a corresponding adjustment of the equity attributable to equity holders of the Company less / plus the consideration paid or received.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Upon the disposal of a subsidiary resulting in loss of control, the Company:

- derecognizes the subsidiary's assets (including goodwill) and liabilities.
- derecognizes the carrying amount of non-controlling interests.
- derecognizes the adjustments arising from translating financial statements carried to equity.
- recognizes the fair value of the consideration received.
- recognizes the fair value of any remaining investment.
- reclassifies the components previously recognized in other comprehensive income (loss) on the same basis as would be required if the subsidiary had directly disposed of the related assets or liabilities.
- recognizes any resulting difference (surplus or deficit) as gain or loss.

d. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

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

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

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date.

e. Investment in joint arrangements:

Joint arrangements are arrangements in which the Company has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Joint ventures:

In joint ventures the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture is accounted for at equity

2. Joint operations:

In joint operations the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The Company recognizes in relation to its interest its share of the assets, liabilities, revenues and expenses of the joint operation.

The acquisition of interests in a joint operation which represents a business, as defined in IFRS 3, is accounted for using the acquisition method, including the measurement of the identifiable assets and liabilities at fair value, the recognition of deferred taxes arising from this measurement, the accounting treatment of the related transaction costs and the recognition of goodwill or bargain purchase gains. This applies to the acquisition of the initial interest and additional interests in a joint operation that represents a business.

f. Investments in associates:

Associates are companies in which the Group has significant influence over the financial and operating policies without having control. The investment in an associate is accounted for using the equity method.

g. Investments accounted for using the equity method:

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

According to the equity method, the investment in the associate company or joint venture is presented at cost with the addition of changes after the acquisition in the Group's share in the net assets, including other comprehensive income of the associate company or joint venture. Gains and losses arising from transactions between the Group and the associate company or joint venture are cancelled according to the shareholding percentage.

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

The financial statements of the Company and of the associate company or joint venture are prepared as of the same dates and periods. The accounting policy in the financial statements of the associate company or the joint venture is applied on a uniform and consistent basis with that applied in the financial statements of the Group.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

On the date of loss of significant influence or joint control, the Group measures the fair value of any investment remaining in the associate company or joint venture and recognizes a gain or loss in the difference between the proceeds from the sale of the investment in the associate company or joint venture and the fair value of the investment remaining and the carrying value of the investment sold at that date.

h. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The Company's functional currency and the presentation currency of the financial statements is NIS.

The Group determines the functional currency of each Group entity, including the companies and partnerships accounted for at equity.

Assets and liabilities of an investee company which constitutes foreign activity including the cost surpluses generated are translated at the closing rate at each reporting date. Statement of profit or loss items are translated at the average exchange rates in all of the periods presented. Translation differences arising are carried to other comprehensive income (loss).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation and, accordingly, the exchange rate differences from these loans (net of the tax effect) are recorded in other comprehensive income (loss).

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive income is carried to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the amount recognized in other comprehensive income is reattributed to non-controlling interests.

2. Transactions, assets and liabilities in foreign currency:

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

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement.

i. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty.

j. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Inventories:

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

l. Financial instruments:

1. Financial assets:

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

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

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

a) Debt instruments are measured at amortized cost when:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

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

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

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

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

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

2. Impairment of financial assets:

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of loss allowances:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a) Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low - the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date (12-month ECLs); or

b) Debt instruments whose credit risk has increased significantly since initial recognition, and whose credit risk is not low - the loss allowance recognized is measured at an amount equal to the expected credit losses over the instrument's remaining term (lifetime ECLs).

The Company has short-term financial assets such as trade receivables in respect of which the Company applies a simplified approach in IFRS 9 and measures the loss allowance in an amount equal to the lifetime expected credit losses.

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset, whereas the impairment loss on debt instruments measured at fair value through other comprehensive income is recognized in profit or loss with a corresponding loss allowance that is recorded in other comprehensive income and not as a reduction of the carrying amount of the financial asset in the statement of financial position.

The Company applies the low credit risk simplification in IFRS 9, according to which the Company assumes the debt instrument's credit risk has not increased significantly since initial recognition if on the reporting date it is determined that the instrument has a low credit risk, for example when the instrument has an external rating of "investment grade".
In addition, the Company considers that when contractual payments in respect of a debt instrument are more than 30 days past due, there has been a significant increase in credit risk, unless there is reasonable and supportable information that demonstrates that the credit risk has not increased significantly.

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

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

The Company takes into consideration the following events as evidence that a financial asset is credit impaired:

a) significant financial difficulty of the issuer or borrower;
b) a breach of contract, such as a default or past due event;
c) a concession granted to the borrower due to the borrower's financial difficulties that would otherwise not be granted;
d) it is probable that the borrower will enter bankruptcy or financial reorganization;

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

3. Derecognition of financial assets:

A financial asset is derecognized only when:

- The contractual rights to the cash flows from the financial asset has expired; or
- The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

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

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

When the Company continues to recognize an asset based on the level of its continuing involvement therein, the Company also recognizes the associated liability.

The associated liability is measured in such a manner that the net carrying amount of the transferred asset and the associated liability is:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Financial liabilities:

a) Financial liabilities measured at amortized cost:

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method, except for:

- Financial liabilities at fair value through profit or loss;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate;
- Contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies.

b) Financial liabilities measured at fair value through profit or loss:

Financial liabilities measured at fair value through profit or loss include liabilities held for trading, including derivatives, and financial liabilities that meet certain criteria which are designated upon initial recognition to fair value through profit or loss.

At initial recognition, the Company measures financial liabilities at fair value. Transaction costs are recognized in profit or loss.

After initial recognition, changes in fair value are recognized in profit or loss, except for changes that can be attributed to changes in the financial liability's credit risk which are recorded in other comprehensive income.

5. Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires.

A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

When there is a modification in the terms of an existing financial liability, the Company evaluates whether the modification is substantial, taking into account qualitative and quantitative information.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If the terms of an existing financial liability are substantially modified or a liability is exchanged for another liability from the same lender with substantially different terms, the modification or exchange is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss.

If the modification in the terms of an existing liability is not substantial or if a liability is exchanged for another liability from the same lender whose terms are not substantially different, the Company recalculates the carrying amount of the liability by discounting the revised cash flows at the original effective interest rate and any resulting difference is recognized in profit or loss.

6. Compound financial instruments:

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

m. Derivative financial instruments designated as hedges:

The Group enters into contracts for derivative financial instruments such as forward currency contracts and interest rate swaps to hedge risks associated with foreign exchange rate and interest rate fluctuations. Any gains or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting are recorded immediately in profit or loss.

Hedges qualify for hedge accounting, among others, when at inception of the hedging relationship there is a formal designation and documentation of the hedging relationship and of the Group's risk management objective and strategy for undertaking the hedge. Hedges are assessed on an ongoing basis to determine whether they are highly effective during the reporting period for which the hedge is designated. Hedges are accounted for as follows:

Cash flow hedges:

The effective portion of the change in the fair value of the hedging instrument is recognized in other comprehensive income (loss) while any ineffective portion is recognized immediately in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The Company discontinues hedge accounting prospectively only when the hedge relationship, in whole or in part, ceases to meet the qualifying criteria (after taking into account any rebalancing of hedge relationship, if applicable), including instances when the hedging instrument expires or is sold, terminated or exercised (or if the hedge designation is reversed). When the Company discontinues hedge accounting, amounts accumulated in the cash flow hedge reserve remain in the cash flow hedge reserve until the future cash flows occur or are reclassified to profit or loss if the hedged future cash flows are no longer expected to occur.

n. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

The Company generally uses external appraisers for the purpose of measuring fair value based on the data in level 3.

o. Leases:

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

1. The Group as a lessee:

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the company has elected to apply the practical expedient in IFRS 16 and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.

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

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life and the lease term.

2. Variable lease payments that depend on an index:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

3. Variable lease payments:

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

4. Lease extension and termination options:

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

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

5. Lease modifications:

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Property, plant and equipment

Items of property, plant and equipment are presented at cost, with the addition of direct acquisition costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding routine maintenance expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

Components of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item are depreciated separately using the component method.

Depreciation is calculated in equal annual instalments on a straight-line basis over the useful life of the assets as follows:

	%
Buildings	1.2 - 2.5
Land under finance leases	According to the lease contract, including the option period (usually 1% - 2%)
Furniture and equipment	6.5 - 33
Operating equipment	40 - 50
Leasehold improvements	See below

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group which it intends to exercise) and the useful life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

The Group implements the revaluation model pursuant to IAS 16.

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

q. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost with the addition of directly acquisition costs. Intangible assets acquired in business combinations are included at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there are indications of impairment. The amortization period and the method of amortizing an intangible asset with a finite useful life are reviewed at least at each year-end.

Intangible assets with indefinite useful lives are not systematically amortized and are subject to examination for impairment each year or whenever there is an indication that impairment has occurred. The useful life of these assets is reviewed each year to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate, and on that date the asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

r. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following criteria are applied in assessing impairment of these specific assets:

1. Goodwill in respect of subsidiaries

The Company reviews goodwill for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

2. Investment in associate or joint venture

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

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

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

s. Taxes on income:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Deferred taxes:

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

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

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

When the company owns an investment in a single property Company in the manner in which expects to dispose of the investment is by selling the shares of the property company rather that by selling the property itself, the Company recognized deferred taxes for both inside temporary differences arising from the difference between the carrying amount of the property and its tax basis, and for outside temporary differences arising from the difference between the tax basis of the investment and the Company's carrying amount of the net assets of the investment in the consolidated financial statements.

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

Taxes on income that relate distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Employee benefit liabilities:

The Group has several types of employee benefits:

1. Short-term employee benefits:

Short-term employee benefits are benefits which are predicted to be fully paid within 12 months of the annual reporting period in which the employees provide the related services. These benefits include salaries, paid annual leave, paid sick leave, convalescence pay, bonuses and grants and employer social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies or funds and classified as defined contribution plans or as defined benefit plans.

a) Defined contribution plans:

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to a defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

b) Defined benefit plans:

The Group operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

When the Company has a surplus in a defined benefit plan, it shall measure the net defined benefit asset up to the present value of economic benefits available to the Company in the form of refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Company when it can be utilized during the life of the plan or after the obligation is settled taking into account minimum contribution requirements.

If the Company's minimum contribution requirements consist of an obligation to make contributions for past services, the Company recognizes the obligation as long as these contributions will not be available in the form of a refund or a reduction in future contributions.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements of the net liability are recognized in other comprehensive income in the period in which they occur.

u. Revenue recognition:

Revenue from contracts with customers is recognized when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

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

Revenue from rendering of services:

Revenue from rendering of services is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by the Company's performance. The Company charges its customers based on payment terms agreed upon in specific agreements. When payments are made before or after the service is performed, the Company recognizes the resulting contract asset or liability.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement. The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that the Company would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the provision.

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

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

w. Share-based payment transactions:

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

Equity-settled transactions:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest.

x. Earnings (loss) per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

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

1. Amendment to IAS 37, "Provisions, Contingent Liabilities and Contingent Assets":

In May 2020, the IASB issued an amendment to IAS 37, regarding which costs a company should include when assessing whether a contract is onerous ("the Amendment").

According to the Amendment, costs of fulfilling a contract include both the incremental costs (for example, raw materials and direct labor) and an allocation of other costs that relate directly to fulfilling a contract (for example, depreciation of an item of property, plant and equipment used in fulfilling the contract).

The Amendment is effective for annual periods beginning on or after January 1, 2022 and applies to contracts for which all obligations in respect thereof have not yet been fulfilled as of January 1, 2022. The application of the Amendment does not require of property, plant and equipment the restatement of comparative data. Instead, the opening balance of retained earnings on the date of initial application date is adjusted for the cumulative effect of the Amendment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a result of the application of the Amendment, the Company now includes both incremental costs and certain other costs in determining whether a contract is onerous whereas before the Amendment, the Company only included incremental costs in the determination. Accordingly, the Company evaluated the effect of the application of the Amendment on contracts whose entire obligations have not been fulfilled as of January 1, 2022 and concluded that it is unnecessary to recognize any onerous contracts in respect thereof.

The application of the Amendments did not have a material impact on the Company's financial statements.

2. Amendments to IFRS 3, "Business Combinations":

In May 2020, the IASB issued Amendments to IFRS 3, "Business Combinations – Reference to the Conceptual Framework", which are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting, that was issued in March 2018, without significantly changing its requirements.

The IASB added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately.

The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine at the acquisition date whether as a result of a past event, a present obligation exists or whether the event that creates an obligation to pay the levy occurred by the acquisition date.

The Amendments also clarify that contingent assets do not qualify for recognition at the acquisition date.

The Amendments are applied prospectively for annual reporting periods beginning on or after January 1, 2022.

The application of the Amendments did not have a material impact on the Company's financial statements.

3. Annual improvements to IFRSs 2018-2020:

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

According to the Amendment, fees paid net of any fees received that are included in the cash flows are only those fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Amendment is effective for annual periods beginning on or after January 1, 2022. The Amendment is applied to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the Amendment, that is from January 1, 2022.

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

In the process of applying the significant accounting policies, the Group used its discretion and made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments:

- Acquisition of subsidiaries that are not business combinations:

  Pursuant to IFRS 3, on acquisition of subsidiaries, the Company assesses whether the acquisition represents a business combination according to IFRS 3. The assessment is based on the following circumstances which indicate the acquisition of a business: the large number of assets acquired, the existence of large volume of ancillary services related to the operation of the asset and the complexity of the management of the asset.

- Discount rate for a lease liability:

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

  The Group was assisted by an external valuation expert for determining the nominal interest rate for discounting its leases based on the companies' financing risk, the average duration of the leases and other economic variables such as: quality, geographical area and the currency in which the lease contract is specified.

b. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. The basis of the estimates and assumptions is reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

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

The key assumptions which were made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

- Revaluation of property:

  The Group measures land and buildings which constitute property, plant and equipment at revalued amounts, and the changes in the fair value are carried to other comprehensive income. The Group entered into agreements with external assessors in order to assess the fair value. The Group measures the fair value once a year, or at longer time intervals with regard to certain assets whose value is not expected to change materially. The land and buildings are usually valued using the method of discounting the cash flows deriving from the assets (Level 3 in the fair value hierarchy), using adjusted comparative data for specific market factors, such as type of assets, location and condition.

- Deferred tax assets:

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

- Legal claims:

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

- Lease extension and/or termination options:

  In evaluating whether it is reasonably certain that the Company will exercise an option to extend a lease or not exercise an option to terminate a lease, the Company considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend or not exercise the option to terminate such as: significant amounts invested in leasehold improvements, the significance of the underlying asset to the Company's operation and whether it is a specialized asset, the Company's past experience with similar leases, etc.

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

After the commencement date, the Company reassesses the term of the lease upon the occurrence of a significant event or a significant change in circumstances that affects whether the Company is reasonably certain to exercise an option or not exercise an option previously included in the determination of the lease term, such as significant leasehold improvements that had not been anticipated on the lease commencement date, sublease of the underlying asset for a period that exceeds the end of the previously determined lease period, etc.

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

a. <u>Amendment to IAS 1, "Presentation of Financial Statements":</u>

In January 2020, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" regarding the criteria for determining the classification of liabilities as current or non-current ("the Original Amendment"). In October 2022, the IASB issued a subsequent amendment ("the Subsequent Amendment").

According to the Subsequent Amendment:

- Only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.

- An entity should provide disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months from the reporting date. This disclosure is required to include information about the covenants and the related liabilities. The disclosures must include information about the nature of the future covenants and when compliance is applicable, as well as the carrying amount of the related liabilities. The purpose of this information is to allow users to understand the nature of the future covenants and to assess the risk that a liability classified as non-current could become repayable within twelve months. Furthermore, if facts and circumstances indicate that an entity may have difficulty in complying with such covenants, those facts and circumstances should be disclosed.

According to the Original Amendment, the conversion option of a liability affects the classification of the entire liability as current or non-current unless the conversion component is an equity instrument.

The Original Amendment and Subsequent Amendment are both effective for annual periods beginning on or after January 1, 2024 and must be applied retrospectively. Early application is permitted.

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

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

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" ("the Amendment"), in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is to be applied prospectively for annual reporting periods beginning on or after January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted.

c. Amendment to IAS 12, "Income Taxes":

In May 2021, the IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12"), which narrows the scope of the initial recognition exception under IAS 12.15 and IAS 12.24 ("the Amendment").

According to the recognition guidelines of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from the initial recognition of certain transactions. This exception is referred to as the "initial recognition exception". The Amendment narrows the scope of the initial recognition exception and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from transactions that are not a business combination and that give rise to equal taxable and deductible temporary differences, even if they meet the other criteria of the initial recognition exception.

The Amendment applies for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. In relation to leases and decommissioning obligations, the Amendment is to be applied commencing from the earliest reporting period presented in the financial statements in which the Amendment is initially applied. The cumulative effect of the initial application of the Amendment should be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

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

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

d. Amendment to IAS 1 - Disclosure of Accounting Policies:

In February 2021, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("the Amendment"), which replaces the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. One of the main reasons for the Amendment is the absence of a definition of the term 'significant' in IFRS whereas the term 'material' is defined in several standards and particularly in IAS 1.

The Amendment is applicable for annual periods beginning on or after January 1, 2023. Early application is permitted.

The Company is evaluating the effects of the Amendment on its financial statements.

e. Amendment to IFRS 16, "Leases":

In September 2022, the IASB issued an amendment to IFRS 16, "Leases" ("the Amendment"), which provides guidance on how a seller-lessee should measure the lease liability arising in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The seller-lessee has to choose between two accounting policies for measuring the lease liability on the inception date of the lease. The accounting policy chosen must be applied consistently.

The Amendment is applicable for annual periods beginning on or after January 1, 2024. Early application is permitted. The Amendment is to be applied retrospectively.

The Company is evaluating the effects of the Amendment on its financial statements.

NOTE 5A:- CASH AND CASH EQUIVALENTS

	December 31,		Convenience translation December 31,
	2021	2022	2022
	NIS		Euro
	(In thousands)		
Cash for immediate withdrawal	378,766	469,955	125,221
Cash equivalents - short-term deposits	366,895	359,688	95,840
	745,661	829,643	221,061
Composition by currency types:			
Israeli Shekel	361,189	423,314	112,793
Euro	330,501	361,951	96,443
Pound Sterling	51,614	33,072	8,812
Other	2,357	11,306	3,013
	745,661	829,643	221,061

NOTE 5B:- SECURITIES HELD FOR TRADING

	December 31,		Convenience translation December 31,
	2021	2022	2022
	NIS		Euro
	(In thousands)		
Shares	21,716	35,720	9,518
Bonds	2,732	37,151	9,899
Mutual Funds	6,223	8,691	,2315
	30,671	81,562	,21732

NOTE 6:- TRADE RECEIVABLES

	December 31, 2021	December 31, 2022	Convenience translation December 31, 2022
	NIS		Euro
	(In thousands)		
Open accounts	166,078	271,514	72,346
Cheques receivable and credit card companies	109,573	137,591	36,662
	275,651	409,105	109,008
Less - allowance for doubtful accounts	8,560	9,044	2,410
Trade receivables, net	267,091	400,061	106,598

Impairment of debts is accounted for through recording an allowance for doubtful accounts. The Group has no significant arrears of trade receivables that are not included in the abovementioned allowance for doubtful accounts.

NOTE 7:- OTHER ACCOUNTS RECEIVABLE

	December 31, 2021	December 31, 2022	Convenience translation December 31, 2022
	NIS		Euro
	(In thousands)		
Institutions	73,400	90,591	24,138
Prepaid expenses	44,925	53,448	14,241
Associate companies and hotels under management	31,289	53,323	14,208
Income receivable	6,546	6,778	1,806
Others	31,678	41,599	,11085
	187,838	245,739	,65478

NOTE 8:- LONG-TERM RECEIVABLES

	December 31, 2021	December 31, 2022	Convenience translation December 31, 2022
	NIS		Euro
	(In thousands)		
Restricted deposit (*)	53,216	56,539	15,065
Financial derivatives	14,044	17,293	4,608
Other	12,483	19,487	5,192
	79,743	93,319	24,865

(*) The balance includes a total of approximately EUR 10 million in connection with a loan received by the German government.

NOTE 9:- INVESTMENTS

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

	December 31,		Convenience translation December 31,
	2021	2022	2022
	NIS		Euro
	(In thousands)		
Investments in other companies and partnerships accounted for on equity basis	1,038,255	1,529,918	407,652
Capital note and loans to other companies and partnerships accounted for on equity basis	751,940	841,049	224,100
	1,790,195	2,370,967	631,752

Additional information:

a. As of the date of approval the financial statements, the Group holds 50% of Protal Tourism Ltd (hereinafter – "Protal Tourism"), which, through its subsidiaries, holds the rights to 10 hotels in Israel and one hotel abroad, which is inactive. The rights in some of the abovementioned hotels are in joint ventures with other parties.
During March 2017, the purchase was agreed of the Leonardo Plaza Eilat Hotel, which is owned by Protal Tourism, by the Group. In addition, the parties agreed on the sale of the Group's portion of the shares of a subsidiary company that owns the Leonardo Beach Tel Aviv hotel, to a partner in Protal Tourism; at the same time the assets and liabilities in respect of the hotel were classified as available for sale.
As of the date of approval of the financial statements, the said purchase and sale have not yet been completed due to technical matters related to the Israel Lands Administration. Since the Company has no certainty that the transaction will be completed during the coming year, the assets and liabilities are not presented as available for sale.

b. During the year 2021, the Company purchased 4 hotels in London for a total of approximately GBP 54.5 million, during the reporting period the Company completed the Purchase Price Allocation (PPA) and subsequently updated the classification of these costs.

c. On April 2022, Fattal Properties (Europe) completed the establishment of the venture together with institutional entities for the purpose of investment in hotels in Europe by establishing an Israeli partnership, FATTAL EUROPEAN PARTNERSHIP II LP (hereinafter - the "Partnership"), which will work to identify investment opportunities in hotels in Europe, whether by purchasing and improving existing hotels or by establishment of new hotels, with their day-to-day operation and their sale as long as the Partnership deems it appropriate in accordance with the established investment strategy. As of the date of publication of the financial statements, investment commitments have been received totaling about EUR 381 million.

NOTE 9:- INVESTMENTS (Cont.)

Menorah Mivtachim Holdings Ltd. (hereinafter - "Menorah Mivtachim") has committed to invest in the project up to EUR 100 million, Harel Insurance Investments and Financial Services Ltd. (hereafter - "Harel Insurance") has committed to invest in the project up to EUR 100 million euros, Leumi Partners (hereafter - "Leumi Partners") has committed to invest approximately EUR 15 million in the venture, Hachshara Insurance Company Ltd. (hereinafter - "Hachshara") has committed to invest approximately EUR 10 million in the venture, S. Shlomo Holdings Ltd. (hereinafter - "Shlomo") has committed to invest approximately EUR 11 million in the venture, Meitav Dash Investments Ltd. (hereinafter - Meitav) committed to invest approximately EUR 35 million in the venture, Analyst Provident Funds Ltd. (hereinafter - Analyst) has committed to invest approximately EUR 10 million in the venture and Fattal Properties (Europe) has committed to invest the remaining amount of up to EUR 100 million in the venture. The obligation of the institutional bodies to invest is subject to the regulatory provisions that apply to them.

In accordance with the partnership documents, it has been determined that FATTAL EUROPEAN PARTNERSHIP II GP (a wholly owned partnership of Fattal Properties (Europe)) is the General Partner (GP), and the above partners (including Fattal Properties (Europe)) are Limited Partners (LP).

It was also agreed that the day-to-day operational management of the hotels maintained by the Partnership would be carried out by Fattal Hotels Ltd, which is 100% owned indirectly by the Company, (hereinafter - "Fattal Hotels") in accordance with the management agreement that shall be signed between each hotel (when purchased) and Fattal Hotels (in exchange for an annual fee of 2% of each hotel's revenue turnover plus an incentive fee of 14% of the total operating profit (NOP) as defined in each hotel's agreement). Each year, before paying the incentive fee to Fattal Hotels for managing the hotels, the Partnership shall distribute an amount equal to 5% of the shareholders' equity of the investment that has not yet been repaid cumulatively to all hotels (and if not actually paid in a particular year, it will accrue in nominal terms for the following year), subject to the terms set out in the partnership agreement.

It should be noted that in accordance with the partnership agreement, it was determined that a special approvals committee will be established, which will be composed of representatives of the largest investors (including a Fattal representative) (each representative will have one vote in the committee) which will have the power to make decisions (by a simple majority or a special majority as stipulated in the partnership agreement) on various issues related to the partnership, including strategic and financial decisions, such as the annual budget prepared by Fattal Hotels or the General Partner, CAPEX expenses, taking up of debt and more, with everything as defined in the agreement. Accordingly, the Company reports its investment in the partnership according to the balance sheet value method.

Shortly after the establishment of the partnership and until the balance sheet date, 6 calls for money were made for a total amount of about EUR 139.5 million (the company's share is about EUR 37 million). After the balance sheet date, three additional calls for money were made, so that as of the date of signing the reports, a total of EUR 170 million was transferred to the partnership.

Up to December 31, 2022, 14 hotels were purchased in Spain, Poland, Cyprus, Austria, Greece and the UK with a total value of approximately EUR 386 million. As of the date of approval of the financial statements, 3 more hotels were purchased in Spain, UK and Italy at a total cost of approximately EUR 163 million.

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement

2022

	Land and buildings (b) (c)	Furniture and equipment	Operating equipment	Leasehold improvements	Total
			NIS (In thousands)		
Cost:					
Balance at January 1, 2022	5,185,026	1,770,568	82,980	430,816	7,469,390
Additions during the year	592,934	269,603	14,174	41,666	918,377
Reclassification from a property held for sale (see Note 9a above)	168,478	8,545	1,680	-	178,703
Revaluation recognized in other comprehensive income	251,972	-	-	-	251,972
Entry into consolidation	-	3,760	-	-	3,760
Cancelation of impairment of fixed assets	2,713	-	-	-	2,713
Adjustments arising from translating financial statements	150,114	104,657	-	-	254,771
Balance at December 31, 2022	6,351,237	2,157,133	98,834	472,482	9,079,686
Accumulated depreciation:					
Balance at January 1, 2022	897,828	910,577	73,464	99,515	1,981,384
Additions during the year	69,674	159,160	9,942	24,188	262,964
Reclassification from a property held for sale (see Note 9a above)	4,559	25,045	7,597	1,502	38,703
Depreciation of revaluation	31,553	-	-	-	31,553
Adjustments arising from translating financial statements	38,775	51,937	-	-	90,712
Balance at December 31, 2022	1,042,389	1,146,719	91,003	125,205	2,405,316
Depreciated cost at December 31, 2022	5,308,848	1,010,414	7,831	347,277	6,674,370

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

2022

	Land and buildings (b) (c)	Furniture and equipment	Operating equipment	Leasehold improvements	Total
	Convenience translation into Euro (In thousands)				
Cost:					
Balance at January 1, 2022	1,381,568	471,774	22,110	114,792	1,990,244
Additions during the year	157,989	71,837	3,777	11,102	244,705
Reclassification from a property held for sale (see Note 9a above)	44,892	2,277	448	-	47,617
Revaluation recognized in other comprehensive income	67,139	-	-	-	67,139
Entry into consolidation	-	1,002	-	-	1,002
Cancelation of impairment of fixed assets	723	-	-	-	723
Adjustments arising from translating financial statements	39,998	27,886	-	-	67,884
Balance at December 31, 2022	1,692,309	574,776	26,335	125,894	2,419,314
Accumulated depreciation:					
Balance at January 1, 2022	239,229	242,626	19,575	26,516	527,946
Additions during the year	18,565	42,409	2,649	6,445	70,068
Reclassification from a property held for sale (see Note 9a above)	1,215	6,673	2,024	400	10,312
Depreciation of revaluation	8,407	-	-	-	8,407
Adjustments arising from translating financial statements	10,332	13,839	-	-	24,171
Balance at December 31, 2022	277,748	305,547	24,248	33,361	640,904
Depreciated cost at December 31, 2022	1,414,561	269,229	2,087	92,533	1,778,410

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

2021

	Land and buildings (b) (c)	Furniture and equipment	Operating equipment	Leasehold improvements	Total
			NIS (In thousands)		
Cost:					
Balance at January 1, 2021	4,987,755	1,831,256	75,246	338,540	7,232,797
Additions during the year	65,651	107,733	7,843	100,961	282,188
Disposals during the year	(28,570)	(1,375)	(109)	(8,685)	(38,739)
Revaluation recognized in other comprehensive income	361,063	-	-	-	361,063
Cancelation of impairment of fixed assets	75,597	-	-	-	75,597
Adjustments arising from translating financial statements	(276,470)	(167,046)	-	-	(443,516)
Balance at December 31, 2021	5,185,026	1,770,568	82,980	430,816	7,469,390
Accumulated depreciation:					
Balance at January 1, 2021	893,164	810,692	65,775	80,101	1,849,732
Additions during the year	53,213	174,315	7,769	20,770	256,067
Disposals during the year	(15,174)	(332)	(80)	(1,356)	(16,942)
Depreciation of revaluation	31,316	-	-	-	31,316
Adjustments arising from translating financial statements	(64,691)	(74,098)	-	-	(138,789)
Balance at December 31, 2021	897,828	910,577	73,464	99,515	1,981,384
Depreciated cost at December 31, 2021	4,287,198	859,991	9,516	331,301	5,488,006

b. Additional information regarding land:

Some of the Company's hotels in Israel, the book value of which totals, as of December 31, 2022, an amount of approximately NIS 1.7 billion (2021, approximately NIS 1.4 billion), are built upon land leased from the Israel Land Authority for periods ending between 2028 and 2047, with an option for extension by 49 additional years.

c. Information regarding fair value of property, plant and equipment:

1. The Group has adopted the revaluation model with regard to land and buildings. The fair value of the property, plant and equipment which has been revalued is determined by external independent appraisers. The fair value is determined based on the discounted cash flow method (DCF) based on the discounting estimate of the future cash flows from each asset owned by the Group while examining similar transactions made, as far as possible. In the computation of the fair value, the appraisers used mainly a discount rate of 7%-8.25% with regard to assets in Israel (2021 – 7%-8.25%), and a discount rate of 5.31% (2021 – 5.23%) with regard to assets in Europe.

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

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

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

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

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

   c) Investments required for renovation.

   d) Other factors, such as building rights, planning and legal status, transactions in the area and more.

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

   A decrease (increase) in the discount rate of forecast cash flows by approximately 0.25% will increase (decrease) the value of the assets in an amount of approximately NIS 167.8/(179.1) million.

5. The Group has determined that the revaluation of the properties will be carried out once a year, or at longer periods of time in respect of certain properties, the value of which is not expected to change materially.

The Company updated the value of the fixed assets as of December 31, 2022 in accordance with valuation updates received from the appraisers, and according to which it recorded an increase in total value of approximately NIS 255 million, of which a total of approximately NIS 252 million was reflected in a revaluation capital fund (before the effect of tax) and about NIS 3 million were recognized under Other Revenue in the income statement as a cancellation of a provision for impairment recorded in the past. In addition, the Company's share in the revaluation capital fund in investee companies presented according to the equity method is in the amount of approximately NIS 145 million. The increase in the fair value was mainly due to the recovery of the industry and an improvement in the results of the hotels during the reporting period.

d. As for liens, see Note 21.

e. During the reporting period, the Company rebranded some of the hotels in Europe. As a result, the Company reduced the balance of the brand and recognized depreciation expenses in the total amount of approximately EUR 11 million.
As of December 31, 2022, the balance of the item derives mainly from goodwill of the United Kingdom and the rest of Europe. The Company examines every year whether there is any indication of impairment.

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

a. Composition

	December 31,		Convenience translation December 31,
	2021	2022	2022
	NIS		Euro
	(In thousands)		
Short-term credit from banks	11,694	36,576	9,746
Current maturities of long-term loans	353,572	671,018	178,795
	365,266	707,594	188,541

b. As for collaterals, see Note 21.

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

NOTE 12:- TRADE PAYABLES

	December 31,		Convenience translation December 31,
	2021	2022	2022
	NIS		Euro
	(In thousands)		
Open accounts	177,952	262,527	69,951
Notes payable	34,840	20,045	5,341
	212,792	282,572	75,292

NOTE 13:- OTHER ACCOUNTS PAYABLE

	December 31,		Convenience translation December 31,
	2021	2022	2022
	NIS		Euro
	(In thousands)		
Accrued expenses	422,189	407,980	108,708
Salaries and related expenses *)	135,006	169,407	45,139
Advance payments from customers	143,905	148,897	39,674
Interest payable	26,070	45,041	12,001
Club members	11,724	11,713	3,121
Institutions	3,436	18,561	4,946
The Chain Hotels	833	299	80
Others	56,503	77,072	20,538
	799,666	878,970	234,207
*) Includes accrued vacation and convalescence	29,124	37,675	10,039

NOTE 14:- LOANS FROM BANKS AND OTHERS

a. Composition:

	Annual interest rate *)	December 31, 2021 Balance	December 31, 2021 Balance, net of current maturities	December 31, 2022 Balance	December 31, 2022 Balance, net of current maturities	Convenience translation December 31, 2022 Balance	Convenience translation December 31, 2022 Balance, net of current maturities
	%	NIS				Euro	
				(In thousands)			
Unlinked	5.78	739,015	583,690	1,113,899	767,277	296,802	204,444
Linked to Israeli CPI	2.07	592,374	521,261	601,892	524,203	160,376	139,676
Linked to US dollar/in US dollar	7.43	100,480	84,511	95,625	77,600	25,480	20,677
Linked to Euro/in Euro	3.04	952,315	868,294	1,299,392	1,074,527	346,228	286,311
Linked to GBP/in GBP	5.76	375,125	347,981	250,539	246,722	66,757	65,740
Total		2,759,309	2,405,737	3,361,347	2,690,329	895,643	716,848

*) Weighted average rate as of December 31, 2022.

b. Financial covenants:

1. Some of the loan documents from banking corporations contain undertakings which include, inter alia, an undertaking to comply with financial covenants, the most important of which are:

The Company:

a) Commitment to Shareholders' Equity - the Shareholders' Equity of the Company will not be less than NIS 1,400 million for two consecutive quarters;

b) The ratio of Financial Debt to Net CAP as defined in the agreements - the ratio of Net Financial Debt to Net Cap will not exceed 76% for two consecutive quarters;

c) The ratio of Net Financial Debt to Adjusted EBITDA as defined in the agreements - in 2022 the ratio of Net Financial Debt to Adjusted EBITDA will not exceed 9 for two consecutive quarters;

In the years 2023, 2024 and 2025 onwards the ratio shall not exceed 8.5, 8.25 and 8, respectively for two consecutive quarters;

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

Fattal Hotels:

a) Commitment to Shareholders' Equity - the Shareholders' Equity of Fattal Hotels will not be less than the amount of NIS 1,100 million for two consecutive quarters;

b) The ratio of Financial Debt to Net CAP as defined in the agreements - the ratio of Net Financial Debt to Net CAP of Fattal Hotels shall not exceed 76% for two consecutive quarters;

c) The ratio of Net Financial Debt to Adjusted EBITDA as defined in the agreements - in 2022 the ratio between Net Financial Debt and the Adjusted EBITDA of Fattal Hotels will not exceed 9 for two consecutive quarters;

In the years 2023, 2024 and 2025 onwards the ratio shall not exceed 8.5, 8.25 and 8, respectively for two consecutive quarters;

Fattal Properties (Europe):

a) An undertaking relating to equity – At any time, the equity of Fattal Properties (Europe) shall not be less than an amount equal to 22.5% of the total assets.

b) An undertaking relating to equity - At any time, the equity of Fattal Properties (Europe) shall not be less than Euro 120 million.

c) Ratio of debt to net operating income – The ratio of net financial debt to adjusted net operating income, as defined in the trust deed, shall not exceed 17.

2. Pursuant to loan agreements that the Group assumed in order to acquire hotels in Germany, the borrowing companies undertook to comply with a loan-to-value (LTV) in various ratios between 63%-78%, leverage ratios and debt service coverage ratios.

In addition, Fattal Hotels has undertaken to comply with certain financial covenants with respect to loans taken by companies accounted for on equity basis.

As of December 31, 2022, the Group complies with all of the financial covenants which it undertook.

c. For details of the Company's exposure to loans bearing variable interest, see Note 17a.

d. As for collaterals given, see Note 21.

NOTE 15:- DEBENTURES

	Annual interest rate *)	December 31, 2021 Balance	December 31, 2021 Balance, net of current maturities	December 31, 2022 Balance	December 31, 2022 Balance, net of current maturities	Convenience translation December 31, 2022 Balance	Convenience translation December 31, 2022 Balance, net of current maturities
	%	NIS (In thousands)				Euro	
Debentures (1)	3.05	1,238,219	1,104,260	1,499,446	1,290,295	399,533	343,804
Debentures of an investee company (2)	3.55	1,100,898	966,450	1,188,433	944,644	316,661	251,703
Total		2,339,117	2,070,710	2,687,879	2,234,939	716,194	595,507

*) Weighted average rate as of December 31, 2022.

	Bonds in the Company			
	Bonds (Series B)	Bonds (Series C)	Convertible Bonds (Series1)	Bonds (Series D)
Date of initial offering of the series / dates of expansion during the year	1. June, 2018 2. October, 2018 (Series expansion) 3. January 2019 (Series expansion) 4. June, 2019 (Series expansion) 5. January 2021 (conversion following an exchange purchase offer)	1. December, 2019 2. January 2021 (extension following an exchange purchase offer) 3. April, 2021 4. January 2022 (Series expansion)	November, 2020	July, 2022
Nominal value at the date of issue / expansion (NIS thousands)	1. 255,840 2. 200,000 3. 125,828 4. 150,000 5. (266,937)	1. 229,021 2. 289,627 3. 204,000 4. 300,000	300,000	260,000
Total nominal value of bonds in circulation at December 31, 2022 (NIS thousands)	306,382	870,783	95,787	260,000
Issuance expenses (NIS thousands)	5,094	6,366	1,885	2,293
Liability value in the financial statements at December 31, 2022 (NIS thousands)	306,690	848,077	82,565	262,114
Nominal rate of interest	3.25% (*)	2.16% (*)	4.00%	3.25%
	(*)Regarding a temporary change in the interest rate, see Note 15 (1) below.			
Effective interest rate of the entire series (including expansions made)	1. 3.45% 2. 3.11% 3. 3.89% 4. 2.43%	1. 2.32% 2. 2.79% 3. 3.57% 4. 2.90%	7.61% After taking onto account the conversion component at the date of the issuance	3.45%
Principal repayment dates	31/12/2020-31/12/2026 13 unequal semi-annual installments	28/02/2021-31/08/2031 22 unequal semi-annual installments	15/05/2021-15/05/2028 15 unequal semi-annual installments	30/06/2024-31/12/2032 18 unequal semi-annual installments

NOTE 15:- DEBENTURES (Cont.)

	Bonds in the Company			
	Bonds (Series B)	**Bonds (Series C)**	**Convertible Bonds (Series1)**	**Bonds (Series D)**
Linkage basis (principal and interest)	Unlinked	Unlinked	Unlinked	Linked
Financial covenants	The main points of the criteria set forth in the issue of (Series B) bonds are: (1) The ratio of equity to total balance sheet shall not be less than 22.5% (2) The ratio of net debt of the Company to EBITDA, as defined in the trust deed shall not exceed 8. (3) The Company's shareholders' equity shall not be less than NIS 1,250 million.	The main points of the criteria set forth in the issue of (Series C) bonds are: (1) The Company's shareholders' equity shall not be less than NIS 1,400 million. (2) The ratio of adjusted net financial debt to CAP, as defined in trust deed, shall not exceed 76%. (3) The Company's EBIDTA shall not be less than NIS 700 million.	The main points of the criteria set forth in the issue of (Series 1) bonds are: (1) The Company's shareholders' equity shall not be less than NIS 1,400 million. (2) The ratio of adjusted net financial debt to CAP, as defined in trust deed, shall not exceed 76%.	The main points of the criteria set forth in the issue of (Series D) bonds are: (1) The Company's shareholders' equity shall not be less than NIS 1,370 million. (2) The ratio of adjusted net financial debt to CAP, as defined in trust deed, shall not exceed 76%.

	Bonds in an investee company			
	Bonds (Series A)	**Bonds (Series B)**	**Bonds (Series C)**	**Bonds (Series D)**
Date of issue	1. February 2016 2. April 2016 (Series expansion) 3. September 2016 (Series expansion 4. January 2017 (Series expansion) 5. December 2022 (Series expansion)	1. May 2017 2. May 2018 (Series expansion) 2. April 2019 (Series expansion)	1. September 2017 2. November 2017 (Series expansion) 3. March 2019 (Series expansion) 4. February 2020 (Series expansion) 5. September 2022 (Series expansion)	August 2020
Nominal value on issue date (NIS thousands)	595,000	215,260	698,679	250,000
Total nominal value of bonds in circulation at December 31, 2022 (NIS thousands)	287,580	139,919	546,976	231,250
Balance of issue expenses as of December 31, 2022 (NIS thousands)	5,082	1,755	1,384	2,520
Liability value in the financial statements as of December 31, 2022 (NIS thousands)	75,787	37,155	142,721	60,908
Nominal interest rate	3.5%	2.85%	2.65%	4.99%

NOTE 15:- DEBENTURES (Cont.)

	Bonds in an investee company			
	Bonds (Series A)	Bonds (Series B)	Bonds (Series C)	Bonds (Series D)
Hedging transaction	During the months of September and December 2022, the Company carried out hedging transactions with banking corporations in full on Bonds Series B and Series A, respectively, in which the shekel debt (principal and interest) was converted into a euro debt, so that at each interest and/or principal repayment date the banking corporations will pay an amount in shekels against the receipt of an amount in euros determined at the time of the hedging transaction. As a result of the transactions, the shekel debt was replaced by a debt in a lower currency with an annual nominal interest rate as follows: The principal and interest exchange transactions of Bonds Series A and B as mentioned above are treated as cash flow hedging transactions. The hedging transactions described above are presented in the Report on the Financial Position at fair value calculated by an external appraiser using the future cash flow discounting method.			
Interest rate following a hedging transaction	3.8%	2.63%	-	-
Principal repayment dates	15/08/2017-15/08/2025 17 unequal semi-annual payments	30/06/2019-30/06/2026 15 unequal semi-annual payments	30/08/2018-30/08/2027 10 unequal annual payments	30/09/2022-30/09/2026 9 unequal semi-annual payments
Linkage basis (principal and interest)	Unlinked	Unlinked	Unlinked	Unlinked
Financial covenants	The main points of the criteria set forth in the issue of bonds (Series A): (1) The ratio of equity to the balance sheet shall not be less than 22.5%. (2) The ratio of adjusted net financial debt to adjusted net operating income, as defined in trust deed, shall not exceed 17. (3) The shareholders' equity of Fattal Properties (Europe) shall not be less than Euro 100 million.	The main points are identical to the criteria set forth in the issue of bonds (Series A), except for the following: The loan to value ratio shall not exceed 82.5%.	The main points are identical to the criteria set forth in the issue of bonds (Series A), except for the following: Commitment to maintain minimum capital - the shareholders' equity of Fattal Properties (Europe) will not be less than Euro 120 million.	The main points of the criteria set forth in the issue of bonds (Series D): (1) The ratio of equity to the balance sheet shall not be less than 23.5%. (2) The ratio of adjusted net financial debt to adjusted net operating income, as defined in trust deed, shall not exceed 16. (3) The shareholders' equity of Fattal Properties (Europe) shall not be less than Euro 205 million. (4) The loan to value ratio shall not exceed 77.5%.

NOTE 15:- DEBENTURES (Cont.)

(1) Bonds in the Company.

(*) Series B bonds:

In addition to the criteria set forth above, a mechanism was provided in the trust deed, for adjusting the interest rate (up to an additional interest ceiling of 1.5%) in accordance with the change in the rating of the bonds and in the event of a breach of the following financial covenants:

1. Ratio of equity to total assets shall not fall below 26%.
2. Ratio of net financial debt to EBITDA, as defined in the trust deed, shall not exceed 6.5.
3. The Company's shareholders' equity shall not be less than NIS 1,750 million.

Dividend distribution restriction – The Company undertook that it will not make a distribution of 50% of the profits available for distribution (as defined in the trust deed) and taking into account the following restrictions:

a. The Company's consolidated shareholders' equity (including minority interests) at the end of the last quarter prior to the distribution of the dividend, net of the dividend to be distributed, shall not be less than NIS 1,750 million.
b. The ratio of equity to total assets shall not be less than 22.5%
c. The ratio of net financial debt to EBITDA, as defined in the trust deed, shall not exceed 8.
d. At the date of the Board of Directors resolution, there are no grounds in the Company for immediate repayment of the bonds.

The Company's compliance with the financial criteria set forth in the trust deed will be considered according to the accounting standards to which the Company was subject in the consolidated financial statements as of December 31, 2017 and in the quarterly financial statements as of March 31, 2018.

On February 16, 2023, the Company made an expansion of the series of Bond (Series B) by way of a private allocation to investors of NIS 150,000 thousand in Bonds (Series B) with NIS 1 par value each of the Company, listed for trading, for a gross cash consideration of NIS 141,150 thousand (before deducting issuance costs of about NIS 0.3 million), at a price of NIS 0.941 per NIS 1 par value.

(*) Series C bonds:

In addition to the criteria set forth above, a mechanism was provided in the trust deed, for adjusting the interest rate (up to an additional interest ceiling of 1.5%) in accordance with the change in the rating of the bonds and in the event of a breach of the following financial covenants:

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

NOTE 15:- DEBENTURES (Cont.)

Dividend distribution restriction – The Company undertook that it will not make a distribution of 50% of the profits available for distribution (as defined in the trust deed) and taking into account the following restrictions:

a. The Company's consolidated shareholders' equity (including minority interests) at the end of the last quarter prior to the distribution of the dividend, net of the dividend to be distributed, shall not be less than NIS 1,600 million.
b. Net financial debt ratio, adjusted to NET CAP as defined in the trust deed, shall not exceed 76%.
c. The Company's EBITDA shall not be less than NIS 700 million.
d. At the date of the Board of Directors resolution, there are no grounds in the Company for immediate repayment of the bonds.

The Company's compliance with the financial criteria set forth in the trust deed will be considered according to the accounting standards to which the Company was subject in the quarterly financial statements as of September 30, 2019.

On May 17, 2020 Midroog announced the lowering of the Company's issuer rating and the rating of the Company's Bonds (Series B) and Bonds (Series C) from A1.IL to A3.IL and left the rating under review (CREDIT WATCH) with negative consequences. As a result of lowering of the rating, the interest rate of the Bonds (Series B) and Bonds (Series C) was updated (a 0.5% increase in the annual interest rate). On October 15, 2020, Midroog announced a lowering of the rating for the Company and the Company's Bonds (Series B) and Bonds (Series C), from the A3.IL rating to the BAA1.IL rating, while setting a negative outlook for the Company's rating and the bonds series. As a result, the interest rate of the Bonds (Series B and Series C) was updated (a 0.25% increase to the annual interest rate).

On November 18, 2021, Midroog announced the raising of the Company's issuer rating and the rating of the Company's Bonds, Series B and Series C, in circulation from a Baa1.il rating with a negative outlook to an A3.il rating with a stable outlook. As a result, the annual interest rate was reduced by 0.25% starting from the date of the rating increase.
On October 20, 2022, Midroog announced the raising of the company's issuer rating and the rating of the company's Series B and Series C in circulation from A3.il rating with a stable outlook to A3.il rating with a positive outlook.
As of December 31, 2022, the nominal interest rate on Bonds (Series B) is 3.75% and the nominal interest rate on Bonds (Series C) is 2.66%.

(*) Convertible Bonds (Series 1):

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

NOTE 15:- DEBENTURES (Cont.)

In addition to the criteria set forth above, a mechanism was provided in the trust deed, for adjusting the interest rate (up to an additional interest ceiling of 1.5%) in accordance with the change in the rating of the bonds and in the event of a breach of the following financial covenants:

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

Dividend distribution restriction – The Company undertook that it will not make a distribution of 50% of the profits available for distribution (as defined in the trust deed) and taking into account the following restrictions:

a. The Company's consolidated shareholders' equity (including minority interests) at the end of the last quarter prior to the distribution of the dividend, net of the dividend to be distributed, shall not be less than NIS 1,600 million.
b. Net financial debt ratio, adjusted to NET CAP as defined in the trust deed, shall not exceed 76%.
c. At the date of the Board of Directors resolution, there are no grounds in the Company for immediate repayment of the bonds.

The Company's compliance with the financial criteria set forth in the trust deed will be considered according to the accounting standards to which the Company was subject in the quarterly financial statements as of June 30, 2020.

In July 2022, as part of the Shelf Offering Report, it was proposed to all the Holders of Bonds (Series 1) of the Company to purchase up to NIS 278,801,653 of Bonds (Series 1) held by them (which at the time of publication of the Shelf Offering Report constituted 100% of the total par value of the Bonds (Series 1) in circulation), by way of an Exchange Purchase Offer, in exchange for the issuance of ordinary shares with no par value of the Company, in such a way that for every NIS 1 of Bonds (Series 1) to be purchased by the Company, the Company will issue 0.00345 Ordinary Shares.
154,460,804 Bonds (Series 1) were accepted for the Exchange Purchase Offer, which is about 55.4% of the total Bonds (Series 1) in circulation. Accordingly, and according to the terms of the Exchange Purchase Offer, the Company allocated 532,890 ordinary shares. As a result of the Exchange Purchase Offer, the Company incurred financing expenses in the Statement of Profit and Loss in the amount of approximately NIS 10 million.
It should be noted that as of the date of the Balance Sheet, an additional 49,751,782 Bonds (Series 1) were converted into 163,122 Ordinary Shares in accordance with the conditions stipulated in the Trust Deed.

(*) Bonds (Series D):

In addition to the criteria set forth above, a mechanism was provided in the trust deed, for adjusting the interest rate (up to an additional interest ceiling of 1.25%) in accordance with the change in the rating of the bonds and in the event of a breach of the following financial covenants:

NOTE 15:- DEBENTURES (Cont.)

1. The Company's shareholder's equity shall not be less than NIS 1,570 million.
2. Net financial debt ratio, adjusted to NET CAP, as defined in the trust deed, shall not exceed 74%.
3. The ratio of net financial debt to EBITDA, as defined in the Trust Deed, shall not exceed 10.

Dividend distribution restriction – The Company undertook that it will not make a distribution of 50% of the profits available for distribution (as defined in the trust deed) and taking into account the following restrictions:

a. The Company's consolidated shareholders' equity (including minority interests) at the end of the last quarter prior to the distribution of the dividend, net of the dividend to be distributed, shall not be less than NIS 1,800 million.
b. The ratio of net financial debt to EBITDA, as defined in the trust deed, shall not exceed 10.
c. At the date of the Board of Directors resolution, there are no grounds in the Company for immediate repayment of the bonds.

The Company's compliance with the financial criteria set forth in the trust deed will be considered according to the accounting standards to which the Company was subject in the quarterly financial statements as of March 31, 2022.

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

(2) Bonds in Investee Company.

(*) Series A bonds:

In addition to the criteria set forth above, the trust deed provides a mechanism for adjusting the interest rate (up to a ceiling of 1.5%) in accordance with a change in the rating of the bonds and in the event of a breach of the following financial covenants:

1. The ratio of equity to total assets shall not be less than 26%.
2. The ratio of the adjusted net financial debt to adjusted net operating income, as defined in the trust deed, shall not exceed 15.
3. The Company's consolidated shareholders' equity shall not be less than Euro 120 million.

Dividend distribution limit - Fattal Properties (Europe) has undertaken not to make a distribution that exceeds 50% of the distributable earnings, (as defined in the trust deed), and taking into account the following restrictions:

a. Fattal Properties (Europe) consolidated shareholders' equity (including minority interests) at the end of the last quarter before the distribution of the dividend, net of the distributed dividend, shall not be less than € 120 million.
b. The ratio of equity to total assets shall not be less than 28%.
c There are no grounds for immediate repayment of the bonds (Series A).

NOTE 15:- DEBENTURES (Cont.)

d. On the date of the Board of Directors' resolution to distribute a dividend, there are no grounds in the Company for immediate repayment of the bonds.

(*) Collateral of Series B Bonds:

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

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

(*) Bonds (Series D):

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

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

(1) First-degree mortgage unlimited in amount on the full rights of the property corporations in the mortgaged properties (in respect of the mortgaged properties in Scotland and Hungary) and limited in amount (in respect of the mortgaged properties in the Netherlands and Portugal).
(2) First-degree lien unlimited in amount in the amount on the full rights of the property corporations (in respect of the mortgaged properties in the Netherlands and Hungary) in the lease agreements and first-degree lien unlimited in amount (in respect of the mortgaged properties in Hungary and the Netherlands) and limited in amount (in respect of mortgaged properties in Portugal) on insurance receipts by virtue of all insurances applicable to the property.
(3) Assignment of Rents (in respect of the mortgaged properties in Scotland) – assignment to the Trustee by way of collateral of all amounts received, will or may be received on the date of their payment to the property corporations in Scotland by the tenants under the leases on the mortgaged properties in Scotland.

NOTE 15:- DEBENTURES (Cont.)

(4) Assignment by way of collateral (in respect of the mortgaged property in Portugal) limited in amount – assignment to the Trustee by way of collateral of all receipts that the property corporation may be entitled to receive in the future under any lease agreement to which the property corporation is a party and all property corporation rights deriving from the aforesaid leasing agreement (If and to the extent that it is signed) in addition to all receipts which the property corporation may be entitled to receive in the future under the insurance policies which the property corporation will enter into in the future in relation to the property.

(5) Irrevocable and unconditional guarantee by each of the property corporations in favor of the Trustee, unlimited in amount (in respect of the property corporations in Scotland, the Netherlands and Hungary) and limited in amount (in respect of the property corporation in Portugal).

(6) First-degree fixed lien on all (100%) of the shares of the property corporations as well as all the rights attached to the shares, including but not limited to, the dividend amounts, bonus shares, voting rights, etc.

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

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

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

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

NOTE 16:- LEASES

The Company has lease agreements that include leases of hotels used for maintaining the Company's ongoing activity.

The lease agreements are for a period ranging from 5 to 35 years. Some of the lease agreements that the Company entered include options for extension and/or cancellation, as well as variable lease payments.

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

a. Information about lease:

	December 31, 2021	December 31, 2022	
	NIS	NIS	Euro
	(In thousands)		
Total cash outflow for leases	831,253	1,095,592	291,924

b. Variable lease payments:

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

The following provides information on the lease payments for the store leases that contain fixed and variable payments:

	December 31, 2021	December 31, 2022	
	NIS	NIS	Euro
	(In thousands)		
Fixed lease payments	267,137	306,497	81,667
Variable lease payments	6,237	27,205	7,249
Total lease payments	273,374	333,702	88,916

c. Lease extension and termination options:

The Company has lease agreements that include extension options as well as termination options. These options provide the Company with flexibility in management of the lease transactions and adjustment to the Company's business needs. The Company exercises significant judgement in deciding whether it is reasonably certain that extension and termination options will be exercised.

NOTE 16:- LEASES (Cont.)

In lease agreements that include non-cancellable lease periods of 5 to 10 years, the Company included, as part of the lease period, exercise of the extension options pursuant to the agreements. In these lease agreements, the Company usually exercises extension options to avoid a significant adverse impact to its operating activities in the event that an alternative asset is not available immediately upon termination of the noncancelable lease period.
In lease agreements that contain non-cancellable lease periods of 10 to 35 years, the Company did not include, as part of the lease period, exercise of the extension options, since the Company does not expect that it would likely exercise such options.

d. Disclosures on right-of-use assets:

2022

	Hotels	
	December 31, 2022	
	NIS	Euro
	(In thousands)	
Cost:		
Balance as of January 1, 2022	12,876,471	3,430,981
Additions during the year:		
Additions to usage right properties due to new leases during the period	760,714	202,695
Adjustments for indexation	285,106	75,967
Adjustments for changes in lease terms	(2,818)	(751)
Adjustments arising from translating financial statements of foreign operations	365,297	97,335
Balance as of December 31, 2022	14,284,770	3,806,227
Accumulated depreciation:		
Balance as of January 1, 2022	1,731,051	461,245
Additions during the year:		
Depreciation and amortizations	671,394	178,895
Adjustments for depreciation and amortizations	1,171	312
Adjustments arising from translating financial statements of foreign operations	65,095	17,345
Balance as of December 31, 2022	2,468,711	657,797
Depreciated cost at December 31, 2022	11,816,059	3,148,430

NOTE 16:- LEASES (Cont.)

2021

	Hotels
	December 31, 2021
	NIS
	(In thousands)
Cost:	
Balance as of January 1, 2021	13,039,615
Additions during the year:	
Additions to usage right properties due to new leases during the period	734,962
Adjustments for indexation	69,315
Adjustments for changes in lease terms	(205,904)
Adjustments arising from translating financial statements of foreign operations	(761,517)
Balance as of December 31, 2021	12,876,471
Accumulated depreciation:	
Balance as of January 1, 2021	1,186,214
Additions during the year:	
Depreciation and amortizations	656,235
Change in Initially consolidated company	11,581
Adjustments for changes in lease terms	(22,565)
Adjustments arising from translating financial statements of foreign operations	(100,414)
Balance as of December 31, 2021	1,731,051
Depreciated cost at December 31, 2021	11,145,420

e. For an analysis of maturity dates of lease liabilities, see Note 17b.

NOTE 17:- FINANCIAL INSTRUMENTS

a. Financial risks factors:

The Group's activities expose it to various financial risks, such as market risks (foreign currency risk, Israeli CPI risk and interest risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities to reduce to a minimum any possible adverse effects on the Group's financial performance. The Group uses derivatives in order to hedge certain exposures to risks.

Market risks:

- Foreign currency risk:

The Group operates internationally in a number of countries and is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the euro, the pound sterling and a small amount in U.S. dollar. Foreign exchange risk arises from assets and liabilities recognized which are denominated in foreign currency other than the functional currency and also net investments in foreign operations.

In 2022, there were significant changes in the foreign currency exchange rates to which the Group is exposed, following the depreciation of these currencies vis-à-vis the Group's functional currency (NIS). Most of the exposure stems from foreign operations whose functional currency are the euro and pound sterling, in respect of which another comprehensive gain totaling NIS 113,523 thousand was recorded (in a capital reserve from adjustments due to financial statements translation) for the period ended on December 31, 2022, from sale transactions denominated in euro and trade payables in respect thereof as well as foreign currency transactions in financial derivatives on the euro and the pound sterling.

The rates charged by the Group's European hotels are denominated in foreign currency (usually the euro and the pound sterling) as well as their expenses. Accordingly, changes in the exchange rate of foreign currency vis-à-vis the NIS have an effect on the Group's financial results.

Most of the loans that the Group takes are in foreign currency, such that the fluctuations in the exchange rates have an effect on financial expenses, thus usually mitigating the effect of the change in the exchange rates on the Group's profitability.

In addition, the Group executes transactions in derivatives in the euro and the pound sterling.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

- Credit risk:

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

- Interest risk:

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

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

  Changes in interest rates and the level of interest in the economy have had an effect on the Group's obligations. The Group has NIS liabilities and in foreign currency at variable interest rates amounting to about NIS 2 billion, which constitute about 33% of its total credit, and any change in the interest rate affects its interest payments. In addition, this affects the interest rates of the Group's borrowings in both the banking market and the non-banking market. During the year that ended on December 31, 2022, the basic annual interest rate in the various countries where the Company operates increased by approximately 2.5%-3.25%. After the balance sheet date and up to the date of approval of the financial statements, the basic interest rate increased by an additional approximately 0.75%-1.25%.
  The Group has bonds as well as loans from banking corporations linked to the Consumer Price Index in the amount of about NIS 866 million, which is about 15% of the total credit. Therefore, an increase in the index will increase the expenses of the linkage differences. The Group continuously analyzes the situation of costs and raises prices at least by the level of inflation in most of the hotels in all the regions according to and subject to levels of demand

  Interest rate sensitivity analysis:

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

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

	Increase/ decrease at the starting point	Effect on the profit before tax	Effect on the profit before tax
		NIS	Euro
		(In thousands)	
2022			
Loans in NIS	+1%	(11,077)	(2,952)
Loans in Pound Sterling	+1%	(2,359)	(629)
Loans in Euro	+1%	(4,226)	(1,126)
Loans in dollar	+1%	(956)	(255)
Loans in NIS	-1%	11,077	2,952
Loans in Pound Sterling	-1%	2,359	629
Loans in Euro	-1%	4,226	1,126
Loans in dollar	-1%	956	255

	Increase/ decrease at the starting point	Effect on the profit before tax
		NIS
		(In thousands)
2021		
Loans in NIS	+1%	(6,778)
Loans in Pound Sterling	+1%	(293)
Loans in Euro	+1%	(723)
Loans in dollar	+1%	(1,002)
Loans in NIS	-1%	6,778
Loans in Pound Sterling	-1%	293
Loans in Euro	-1%	723
Loans in dollar	-1%	1,002

The estimated movement at the starting point for the sensitivity analysis of the interest rate is based on the observable current market environment.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

b. Concentration of liquidity risk:

The Group's objective is to preserve the existing ratio between the continuing receipt of finance and the existing flexibility through the use of overdrafts, loans from banks and bonds. The Group considers the taking of credit for a long or short term according to the conditions prevailing in the market.

The table below presents the maturity periods of the Group's financial liabilities based on contractual undiscounted payments (including amounts in respect of interest):

December 31, 2022

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total	Convenience translation Total
	NIS							Euro
	(In thousands)							
Trade payables	282,572	-	-	-	-	-	282,572	75,292
Other accounts payable	730,069	-	-	-	-	-	730,069	194,529
Other non-current liabilities	2,033	1,243	1,243	24,308	24,308	27,185	80,320	21,402
Debentures	542,846	509,522	499,416	591,360	321,241	570,736	3,035,121	808,719
Liabilities from leases of right-of-use assets	1,202,130	1,191,672	1,185,811	1,174,409	1,170,944	14,614,839	20,539,805	5,472,902
Loans from banks and others	825,675	615,731	416,841	798,545	399,600	701,431	3,757,823	1,001,286
	3,585,325	2,318,168	2,103,311	2,588,622	1,916,093	15,914,191	28,425,710	7,574,130

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

December 31, 2021

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
	NIS (In thousands)						
Trade payables	212,792	-	-	-	-	-	212,792
Other accounts payable	661,330	-	-	-	-	-	661,330
Other non-current liabilities	3,888	39,592	8,904	3,098	4,187	19,062	78,731
Debentures	344,954	413,060	401,930	402,569	528,882	620,186	2,711,581
Liabilities from leases of right-of-use assets	1,077,099	1,040,202	1,059,537	1,055,547	1,039,839	14,110,281	19,382,505
Loans from banks and others	449,025	757,045	535,731	296,025	508,530	407,846	2,954,202
	2,749,088	2,249,899	2,006,102	1,757,239	2,081,438	15,157,375	26,001,141

c. Fair value:

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

	December 31, 2021		December 31, 2022		Convenience translation December 31, 2022	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
	NIS				Euro	
	(In thousands)					
Loans from banking corporations and other liabilities						
Debentures (Level 1 of the fair value hierarchy)	(*)2,356,609	2,534,421	(*)2,737,384	2,540,635	(*)729,386	676,961
Fixed interest loans (Level 3 of the fair value hierarchy)	1,832,970	1,762,072	1,613,524	1,425,138	429,929	379,733
Total	4,189,579	4,296,493	4,350,908	3,965,773	1,159,315	1,056,694

(*) Including interest payable.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

d. Changes in liabilities deriving from financing activity:

2022

	January 1, 2022	Cash flows	Effect of changes in exchange rates	Other changes	December 31, 2022
			NIS (In thousands)		
Bonds	2,339,117	502,658	-	(153,896)	2,687,879
Liabilities from leases of right-of-use assets	12,133,725	(351,436)	339,489	1,025,018	13,146,796
Loans from banking corporations	2,769,309	462,575	50,755	115,281	3,397,920
	17,242,151	613,797	390,244	986,403	19,232,595

	January 1, 2022	Cash flows	Effect of changes in exchange rates	Other changes	December 31, 2022
			Euro (In thousands)		
Bonds	623,266	133,935	-	(41,007)	716,194
Liabilities from leases of right-of-use assets	3,233,074	(93,641)	90,458	273,119	3,503,010
Loans from banking corporations	737,892	123,255	13,524	30,718	905,389
	4,594,232	163,549	103,982	262,830	5,124,593

2021

	January 1, 2021	Cash flows	Effect of changes in exchange rates	Other changes	December 31, 2021
			NIS (In thousands)		
Bonds	2,372,137	(19,787)	-	(13,233)	2,339,117
Liabilities from leases of right-of-use assets	12,541,976	(140,325)	(730,823)	462,897	12,133,725
Loans from banking corporations	3,085,760	(182,274)	(117,000)	(17,177)	2,769,309
	17,999,873	(342,386)	(847,823)	432,487	17,242,151

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

2020

	January 1, 2020	Cash flows	Effect of changes in exchange rates	Classification of liabilities attributed to assets held for sale	Other changes	December 31, 2020
	NIS (In thousands)					
Bonds	1,842,470	527,686	-	-	1,981	2,372,137
Liabilities from leases of right-of-use assets	12,537,063	(155,369)	(201,399)	-	361,681	12,541,976
Loans from banking corporations	2,799,800	423,240	1,386	(130,161)	(8,505)	3,085,760
	17,179,333	795,557	(200,013)	(130,161)	355,157	17,999,873

NOTE 18:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits:

According to the labour laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current deposits in defined contribution plans pursuant to section 14 of the Severance Pay Law, as outlined below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and period of employment which establish the entitlement to receive the compensation. It is noted that the Group companies in Germany do not have such liability, in accordance with German labour laws.

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

a. Defined contribution plans

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed deposits made by the Group in pension funds and/or in policies of insurance companies release the Group from any additional liability to employees in respect of whom the said contributions are made. These deposits and those for compensation represent defined contribution plans.

b. Defined benefit plans

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in appropriate insurance policies.

NOTE 19:- OTHER NON-CURRENT LIABILITIES

	December 31,		Convenience translation December 31,
	2021	2022	2022
	NIS		Euro
	(In thousands)		
Liability in respect of lease	38,552	17,058	4,545
Tax payable	-	12,620	3,363
Financial derivatives	14,672	3,142	837
Others	64,059	57,590	15,345
	117,283	90,410	24,090

NOTE 20:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Contingent liabilities:

1. a) The southern part of the Dead Sea is used by the Dead Sea Works as artificial evaporation ponds to which seawater is pumped from the northern end of the Dead Sea. Over the years, several hotels have been built in the area, among which 4 hotels in which the Group or associate companies have rights. In view of the danger of flooding of the hotels due to the rise of the water level, the protective measures surrounding the ponds are occasionally elevated.

   To the best of the Group's knowledge, Dead Sea Works is due to start carrying out the works of "harvesting the salt" and thus lowering of water level no additional cost to the hotels.

   b) The insurance companies do not cover in the insurance policies damages caused by the phenomenon of "swallow-holes" in the Dead Sea area. Consequently, the insurance market currently offers no possibilities for insuring the "swallow-hole" phenomenon, which represents the market practice.

2. Various claims have been filed against the Group by third parties in a total amount of approximately NIS 9 million. In the estimation of Company Management, based on, among other things, the opinion of its legal advisors, the chances of the claims being accepted are lower than the chances of being rejected and therefore no provision was included for these claims.

3. A lawsuit was filed against several companies in the Group on March 19, 2019, along with a motion for its approval as a class action, regarding a violation of recreation rights. On February 7, 2022, the motion to file a class action lawsuit was approved. As part of a mediation procedure in the opinion of Management based on the opinion of the Group's legal advisors, it is not possible to assess the chances of claims at this stage and therefore the provision was not included in the financial statements.

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

4. As of the date of signing the report, 5 claims had been filed against the Group, with requests for them to be recognized as class actions, concerning operating matters (for example, room size, misleading prices, accessibility, smoking and the like). Based on the opinion of the Group's legal advisors that it is not possible to evaluate the prospects of the claim at this stage, and no provision has been made in the financial statements.

b. Below is a table of the commitments of the Company during the reporting period regarding the opening of new hotels in Israel and Europe:

Property location	Transaction date	Transaction type	No. of rooms	Percentage holding	Property cost (The Company's share)	Annual Rent	Expected date of opening
Ein Gev, Israel	January, 2022	Owned 50% Management 100%	120	100%	About NIS 75 million	-	2025
Eilat, Israel	May, 2022	Owned 50% Leased 100%	208	100%	About NIS 85 million	About NIS 16 million	2025
Jerusalem, Israel	April, 2022	Owned 50% Leased 100%	169	100%	About NIS 110 million	About NIS 9 million	2027
Zefat, Israel	June, 2022	Leased	122	100%	-	About NIS 4.5 million	2023
Eilat, Israel	June, 2022	Owned 33% Management 100%	126	100%	About NIS 48 million	-	2025
Austria (1)	September, 2022	Leased	1,005	100%	-	About EUR 8.9 million	Date of execution of the transaction
Herzliya, Israel	October, 2022	Owned 50% Management 100%	219	100%	About NIS 108 million	-	2025

(*) For more details about the purchase of hotels through an investee partnership, see Section 9c below.

(1) In September 2022, the Group entered into an agreement with a third party to purchase 100% of the shares of a company that rents and operates 2 hotels in Vienna, 5 in Salzburg and another hotel in Linz, Austria. The total annual rent for the 8 hotels is about EUR 8.9 million.

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

a. On December 2018, Fatal Properties (Europe) Ltd., which is 100% owned by the Company (hereinafter – "Fatal Properties (Europe)"), entered into a conditional future agreement with a third party for the purchase of a hotel, according to which, subject to the existence of conditions precedent that were decided, the developer will build a hotel in Manchester, England that will include 275 rooms which will be sold to Fatal Properties Europe for a total consideration of approximately GBP 37 million (including related transaction costs). In April 2022, the construction of the hotel was completed, and the purchase transaction was completed from the independent sources of Fatal Properties (Europe). At the time of completion of the purchase, the property was entered in the books in accordance with its fair value as determined in the valuation performed by an external appraiser in the amount of approximately GBP 41 million (the difference in the amount of approximately GBP 4 million is recorded in the revaluation item of fixed assets in the statement of comprehensive income). In July, Fatal Properties (Europe) entered into a loan agreement with a foreign banking corporation of approximately GBP 24 million (an amount of approximately GBP 20 million was advanced during the report period) in connection with the property for a period of 5 years bearing a variable interest rate at the rate of SONIA plus a margin of 2.5%.

b. Fattal Properties (Europe) is working to expand the Jurys Inn Edinburgh hotel, establishing a new NYX hotel and a number of residential and commercial units next to it. In April 2022, a subsidiary of Fattal Properties (Europe) entered into a financing agreement with the banking corporation that provided the financing for the hotel, for the receipt of financing totaling up to GBP 60 million for the repayment of the existing debt (the balance of which at the date of the statements is about GBP 25 million) and also for the purpose of financing most of the expansion costs, the construction of the new hotel, residential and commercial units (a total of about GBP 35 million). The loan is for a period of 4 years, with the right of the borrower to extend the repayment date by another year. The loan bears variable interest at the rate of SONIA plus a margin of 3.4% during the construction period until its completion and 3.2% after the completion of construction in the complex.

NOTE 21:- LIENS AND GUARANTEES

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

	December 31,		Convenience translation December 31,
	2021	2022	2022
	NIS		Euro
	(In thousands)		
Short-term credit	10,000	36,524	9,732
Loans from banking corporations and others, bonds, including current maturities	3,076,312	3,617,959	964,018
	3,086,312	3,654,483	973,750

NOTE 21:- LIENS AND GUARANTEES (Cont.)

b. The majority of the Group's liabilities are secured by a fixed charge on the Group hotels in which the Group has freehold or leasehold rights, a charge on rights and funds by virtue of management agreements or insurance rights. In some cases, a charge has also been recorded on the rights to the shares of the corporation holding property rights.

   In some cases, a floating charge has been recorded on the property of the borrowing company (companies indirectly held by the Group) in favor of the lending entity. (In some cases, a floating charge was recorded in favor of the State of Israel as is customary in these circumstances in respect of State grants.)

   In addition, there is a negative pledge on the Company and on Fattal Hotels.

c. As of the balance sheet date, the Group has provided bank guarantees amounting to approximately NIS 99.8 million and €97 million, mainly to secure various lease and management agreements and obligations to banks in Israel or overseas of investee companies and partnerships.

d. The Group guaranteed up to a total of about EUR 144 million (in addition to the guarantee specified in section g below) to secure lease agreements of companies and partnerships held abroad. In addition, the Group's companies provided performance guarantees in connection with their contractual obligations in the amount of about EUR 12.4 million. In addition, Fattal Hotels is a guarantor for 16.5% of the total of loans made by one of the banking corporations to an investee company.

e. The Group and the partner in a jointly controlled entity have, jointly and severally, provided a limited guarantee of NIS 15 million to a banking corporation in connection with the credit extended to an investee company, which will secure and back the exercise of the guarantees provided by the shareholders in this company.

f. In addition to the aforementioned financial guarantees, it is noted that the management partnership usually pledges the hotel inventory ("property guarantee") (i.e. – the equipment which is used by the management partnership in the operation of the hotel) in favor of the bank that provided financing to the property company, as part of the collateral provided to the bank in respect of this financing.

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

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

NOTE 22:- CAPITAL

a. Composition of share capital:

	December 31, 2021		December 31, 2022	
	Authorized	Issued and paid-up	Authorized	Issued and paid-up
	Number of shares			
Ordinary shares of NIS 1 par value each	50,000,000	15,461,573	50,000,000	16,158,635

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

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

For details about the conversion of bonds to shares, see Note 15(1) above.

b. Issue of options:

On February 12, 2018, 156,426 non-registered options were allocated to70 offerees (including 36,163 options to 9 senior office-holders (including a director) and 10,933 to three sons of the controlling shareholder who serve in management positions in the Group). On that date, it was approved that an additional quantity of up to 54,497 unquoted options would be allocated pursuant to the abovementioned plan to other offerees in the future. The non-registered options are available for exercise to ordinary shares of the Company in exchange for an exercise price of NIS 301 per share and subject to vesting periods which have been determined between 3 and 7 years from the date of allocation. The exercise periods provided are between 2 and 4 years from the date of vesting and in accordance with the "net exercise" (cashless) mechanism.

On March 13, 2018, 36,163 non-registered options were allocated to 13 offerees who are service-providers to the Fattal Group. The terms of the options are identical to the options described above.

During the years 2021 and 2022, 52,982 non-registered options were allocated to 28 offerees, who are employees of the Fattal Group. The terms of the options are identical to the options described above.

c. Rights attached to shares:

Voting rights at the general meeting, right to dividends and rights upon liquidation of the Company.

NOTE 22:- CAPITAL (Cont.)

d. Management of capital in the Company:

The Company's objective in managing capital is to ensure long-term operating profitability in order to provide an adequate return for the shareholders.

As for financial covenants, see Notes 14b and 15.

NOTE 23:- TAXES ON INCOME

a. Tax laws applicable to the Group companies:

1. Companies in Israel:

a) Income Tax (Inflationary Adjustments) Law, 1985:

In accordance with the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the Knesset (the Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the Adjustments Law from 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, with the exception of certain adjustments in respect of changes in the Israeli CPI in the period up to December 31, 2007. Adjustments relating to capital gains, such as for the sale of real estate (betterment) and securities, continue to apply until the date of disposal. The amendment to the law includes, inter alia, the cancellation of the inflationary addition and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year), effective 2008.

b) Controlled foreign companies in Israel ("CFC"):

On January 1, 2014, Amendment 198 to the Ordinance came into effect. The Amendment introduced several changes in CFC legislation, which apply to income which a foreign company generated or derived as January 1, 2014.

In accordance with the provisions of the Ordnance, the undistributed profits originating from passive revenues ("unpaid profits") of a "foreign controlled company" (in this section, "the foreign company") shall be deemed to have been distributed to its controlling shareholders who are Israeli residents as a "notional dividend".

NOTE 23:- TAXES ON INCOME (Cont.)

A "controlled foreign company" is defined in the Ordinance as a foreign resident company that meets the following cumulative conditions:

- Its shares or interests therein are not listed for trading on the stock exchange; however, if they are listed, less than 30% of the shares or rights therein have been issued to the public or listed for trading. For these purposes, interests held by the controlling shareholder shall not be taken into account.
- The bulk of the company's income in the tax year or the bulk of its profits originates from passive revenues. The tax rate applicable to its passive revenues in the foreign country does not exceed 15%.
- More than 50% in one or more of the means of control in the company are held, directly or indirectly, by Israeli residents.

c) The Law for the Encouragement of Industry (Taxation), 1969:

Some of the Group companies have the status of an "industrial company" as defined by this law. According to this status and by virtue of regulations that have been published, the companies are entitled to claim, and have indeed claimed, a deduction of accelerated depreciation with regard to equipment used in a hotel, as provided in the regulations under the Adjustments Law.

Furthermore, pursuant to this law, certain subsidiaries file a consolidated tax return for income tax purposes.

d) Benefits under the Law for the Encouragement of Capital Investments, 1959:

1) Pursuant to the Law for the Encouragement of Capital Investments, 1959 ("the Law"), certain subsidiaries operating some of the Group's hotels have been granted "approved enterprise" status, entitling them to certain investment grants and/or tax benefits. The subsidiaries did not utilize any tax benefits, except for the entitlement to deduct accelerated depreciation over five tax years and the receipt of investment grants from the State, since they have yet to earn taxable income. The period of benefits ended in 2011 and 2012. The benefits are conditional upon the fulfillment of the conditions stipulated by the Law and the letters of approval for the performance of the investments. Non-compliance with the conditions may cancel all or part of the benefits and require a refund of the amounts of the benefits, with the addition of interest or linkage differences. Management estimates that the subsidiaries are meeting the aforementioned conditions.

NOTE 23:- TAXES ON INCOME (Cont.)

2) a) In 2005, an amendment to the Law came into effect according to which corporations that meet the prescribed criteria, including those that own an industrial enterprise or a hotel for accommodation in which at least 25% of total accommodations (in each tax year or based on an average calculation in the tax year and in the two preceding tax years) are of foreign residents, own a "beneficiary enterprise" and are entitled to tax benefits as outlined above without the need for advance approval.

b) Fattal Hotels (which leases and operates, inter alia, the Leonardo Boutique Hotel in Ramat HeHayal, the Leonardo Boutique Hotel in Rehovot, the Rothschild 22 Hotel, the NYX Hotel in Tel Aviv, the Jerusalem Boutique Hotel and the NYX Herzliya) has received a "beneficiary enterprise" status (as this term is defined by the Law) from the Tax Authority and chose 2009, 2012, 2016, 2016, 2017 and 2020 as the "year of election" pursuant to section 51d to the Law.

In September 2022, the Company elected to pay corporate tax according to the provisions of the Economic Efficiency Law for selected accumulated income in the amount of NIS 22,853 thousand, which is 100% of the total accumulated income of the Company and accordingly it recognized current tax expenses in the amount of approximately NIS 3,850 thousand.

e) Other tax benefits:

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

2. Foreign companies:

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

NOTE 23:- TAXES ON INCOME (Cont.)

b. Tax rates applicable to the Group companies:

1. Companies in Israel:

The Israeli corporate income tax rate was 23% in 2022, 2021 and 2020.

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

2. Foreign companies:

The corporate tax rate applicable to companies resident in Germany that have no business income is 15.825% (including solidarity tax). Companies with business activity are also subject to a trade tax of an average of 14%.
The corporate tax rate applicable to Swiss resident companies (the Zurich Canton) is 21.15%.
The corporate tax rate applicable to Luxembourg (Luxembourg City) resident companies is 24.94%.
The corporate tax rate applicable to companies resident in the Netherlands is between 15% and 25.8%.
The corporate tax rate applicable to Italian resident companies is 24%. Companies with business operations are also subject to trade tax at the rate of 3.9%.
The corporate tax rate applicable to Spanish resident companies is 25%.
The corporate tax rate applicable to Austrian resident companies is 25%.
The corporate tax rate applicable to England and Scotland resident companies is 19%. It should be noted that, starting in 2023, the tax rate is expected to rise to 25%.
The corporate tax rate applicable to companies resident in Ireland is 12.5%. In addition, certain passive income is subject to a tax rate of 25%.
The corporate tax rate applicable to companies resident in Hungary is 9%.
The corporate tax rate applicable to companies resident in Portugal is 21%.
The corporate tax rate applicable to companies resident in Belgium is 25%.
The corporate tax rate applicable to companies resident in Poland is 19%.
The corporate tax rate applicable to companies resident in Romania is 16%.

c. Partnerships are not independent taxable entities for income tax purposes. The earnings of the investee partnerships are adjusted for tax purposes and transferred to the partners according to their share in the partnership's earnings.

d. Tax assessments:

Final tax assessments:

The Company has final assessments up to and including the 2017 tax year and subject to certain conditions.

Fattal Hotels Ltd has final assessments up to and including the 2019 tax.

In December 2022, Fatal Properties (Europe) signed a tax assessment agreement for the years 2016 - 2020.

NOTE 23:- TAXES ON INCOME (Cont.)

The other Group companies in Israel have final tax assessments or are considered final up to and including the 2017 tax year.

Most of the Group companies in Germany have final tax assessments or are considered final up to and including the 2015 tax year. Also, some of these companies are in the process of tax assessment discussions up to the year 2020. In the estimation of Group Management, sufficient provisions have been included to cover these assessments.

e. Carryforward losses for tax purposes:

Carryforward tax losses of consolidated companies in Israel total approximately NIS 137 million as of December 31, 2022.

Carryforward tax losses of consolidated companies abroad total approximately € 358 million as of December 31, 2022.

In respect of accumulated losses amounting to approximately NIS 833 million, the Group has created a deferred tax asset of approximately NIS 199 million. Deferred tax assets relating to the balance of carry-forward losses were not created as it is not probable that they will be utilized in the foreseeable future.

f. Deferred taxes:

Composition:

	Statement of financial position		
			Convenience translation
	December 31,		December 31,
	2021	2022	2022
	NIS		Euro
	(In thousands)		
Deferred tax liabilities:			
Right-of-use assets, net	(3,217,594)	(3,425,483)	(912,732)
Depreciable property, plant and equipment	(343,271)	(381,679)	(101,700)
Other temporary differences	(46,305)	(52,701)	(14,042)
	(3,607,170)	(3,859,863)	(1,028,474)
Deferred tax assets:			
Right-of-use assets, net	3,581,899	3,892,983	1,037,299
Depreciable property, plant and equipment	7,883	12,775	3,404
Carry-forward tax losses	199,680	198,646	52,930
	3,789,462	4,104,404	1,093,633

NOTE 23:- TAXES ON INCOME (Cont.)

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

	December 31,		Convenience translation December 31,
	2021	2022	2022
	NIS		Euro
	(In thousands)		
Non-current assets	503,872	656,520	174,932
Non-current liabilities	(321,580)	(411,979)	(109,773)

The deferred taxes are computed at the average tax rate of 23% for companies in Israel and in accordance with the tax rates set forth in Note 23b(2) abroad, based on the tax rates that are expected to apply upon realization.

g. Taxes benefit (taxes on income) included in profit or loss:

	Year ended December 31,			Convenience translation Year ended December 31,
	2020	2021	2022	2022
	NIS			Euro
	(In thousands)			
Current taxes	(17,764)	(44,482)	(30,615)	(8,157)
Prior years' taxes	9,126	16,286	7,551	2,012
Deferred taxes	283,566	167,014	78,263	20,853
	274,928	138,818	55,199	14,708

h. Taxes on income relating to other comprehensive income:

Mainly in respect of the revaluation of fixed assets, amounting to NIS 58,456 thousand, NIS 80,513 thousand and NIS 11,264 thousand as of December 31, 2022, 2021 and 2020, respectively.

NOTE 23:- TAXES ON INCOME (Cont.)

i. Theoretical tax:

A reconciliation between the tax expenses, assuming that all the income and expenses, gains and losses in the statement of profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31,			Convenience translation Year ended December 31,
	2020	2021	2022	2022
	NIS			Euro
	(In thousands)			
Loss for the period before tax benefit	(1,599,212)	(361,622)	(133,655)	(35,613)
Statutory tax rate in Israel	23%	23%	23%	23%
Tax at the statutory tax rate in Israel	(367,818)	(83,173)	(30,741)	(8,191)
Increase (decrease) in taxes on income resulting from the following factors:				
Tax in respect of the Company's share in profits of associate companies	7,720	156	(198)	(53)
Adjustment of deferred tax balances due to a change in tax rates	10,141	(25,315)	-	-
Recognition of deferred taxes for losses from prior years	-	-	(48,862)	(13,019)
Losses in the reporting year for which no deferred taxes were created	85,645	8,415	2,342	624
Income at different tax rates	731	(16,379)	(15,847)	(4,222)
Prior years' taxes	(9,126)	(16,286)	41,312	11,008
Other differences	(2,221)	(6,236)	(3,205)	(855)
	(274,928)	(138,818)	(55,199)	(14,708)
Effective tax rate	17%	38%	41%	41%

NOTE 24:- REVENUES FROM HOSPITALITY SERVICES AND OTHERS

	Year ended December 31,			Convenience translation Year ended December 31,
	2020	2021	2022	2022
	NIS			Euro
	(In thousands)			
Rooms	1,349,254	2,303,851	4,236,121	1,128,729
Food and beverages	330,538	502,207	864,222	230,275
Other services	216,748	213,856	345,176	91,973
Hotel management fees	7,386	20,752	25,899	6,901
	1,903,926	3,040,666	5,471,418	1,457,878

The Group has hotels to which it owns all of the rights (by title or lease) and hotels that it leases under an operating lease which are included in the consolidated financial statements.

In hotels where the management agreement includes guaranteed rental fees and the Group bears most of the risks deriving from the management, the Group records in the financial statements all revenues and operating expenses and assets and liabilities resulting from the operation. In other hotels, where the Group earns revenues from management fees that derive from the turnover and operating profit, the Group records in the financial statements only the management fees to which it is entitled.

NOTE 25:- COST OF REVENUES

	Year ended December 31,			Convenience translation Year ended December 31,
	2020	2021	2022	2022
	NIS			Euro
	(In thousands)			
Salaries and related expenses	566,682	(*) 811,206	1,292,579	344,412
Expenses (incomes) relating to rooms department	250,573	(**) (27,434)	663,368	176,757
Food and beverages	183,712	298,802	469,262	125,037
Maintenance and energy expenses	198,382	245,270	433,880	115,609
Municipal taxes and insurance	96,871	112,293	167,785	44,707
Others	26,049	34,013	50,733	13,517
	1,322,269	1,474,150	3,077,607	820,039

(*) Shown net of grants received in connection with the Corona pandemic in the amount of approximately NIS 153 million.
(**) Shown net of grants received in connection with the Corona pandemic in the amount of approximately NIS 400 million.

NOTE 26:- SELLING AND MARKETING EXPENSES

	Year ended December 31,			Convenience translation Year ended December 31,
	2020	2021	2022	2022
	NIS			Euro
	(In thousands)			
Advertising and marketing	45,801	62,902	97,771	26,051
Salaries and related expenses	21,552	25,093	36,815	9,810
	67,353	87,995	134,586	35,861

NOTE 27:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,			Convenience translation Year ended December 31,
	2020	2021	2022	2022
	NIS			Euro
	(In thousands)			
Salaries and related expenses	106,720	147,388	215,649	57,460
Professional services	69,925	53,375	63,606	16,948
Credit card commissions	17,104	22,859	51,761	13,792
Office, expenses, communication and postage	25,840	32,011	44,166	11,768
Vehicle maintenance	5,357	4,038	5,364	1,429
Others	42,512	32,307	53,669	14,301
	267,458	291,978	434,215	115,698

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

	Year ended December 31,			Convenience translation Year ended December 31,
	2020	2021	2022	2022
	NIS			Euro
	(In thousands)			
Reduction in rent payments	(97,589)	(165,547)	(21,403)	(5,703)
Decrease (increase) in Impairment of property, plant, equipment and investments	116,854	(95,597)	(2,713)	(723)
Other (income) expenses	22,039	(8,740)	2,168	578
	41,304	(269,884)	(21,948)	(5,848)

NOTE 29:- FINANCE INCOME AND EXPENSES

	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022	Convenience translation Year ended December 31, 2022
	NIS			Euro
	(In thousands)			
a. Financial income				
Others	1,006	1,883	220	59
b. Financial expenses				
Financial expenses in respect of long-term loans and bonds (*)	141,396	194,582	217,553	57,968
Expenses in respect of derivative financial instruments	14,989	6,499	1,067	284
Others	12,783	1,612	14,972	3,989
	169,168	202,693	233,592	62,241

(*) For the year that ended on December 31, 2022, the expense includes about NIS 11 million for exchange rate differences and about NIS 32 million for linkage differences

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

a. Balances with interested and related parties

	December 31, 2021	December 31, 2022	Convenience translation December 31, 2022
	NIS		Euro
	(In thousands)		
Current assets:			
Associate companies	28,583	45,191	12,041
Non-current assets – Capital Note and loans to companies and other partnerships treated under the equity method	751,940	841,049	224,100
Current liabilities:			
Shareholders	9,871	6,290	1,676
Chain hotels	833	299	80

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

b. Transactions with interested and related parties: *)

	Year ended December 31,			Convenience translation Year ended December 31,
	2020	2021	2022	2022
	NIS			Euro
	(In thousands)			
Salaries and related expenses to interested parties **)	(5,126)	(15,504)	(18,135)	(4,832)
Management fees from companies and partnerships accounted for at equity	4,632	4,291	5,838	1,556
Remuneration of directors not employed in the Company	529	(503)	(560)	(149)
Number of directors to whom the benefit refers	5	6	4	4

*) These transactions do not include immaterial transactions as defined by Company's management.

**) Including payment of management fees to a related company as stated in c below.

c. Benefits to key management personnel (including directors):

On October 30, 2016, an agreement was signed for the provision of CEO, advisory and entrepreneurship services between Fattal Investments (1998) Ltd. (a private company owned by the Company's controlling shareholder) and the Company, in effect from November 1, 2016, and an addition to the agreement from December 2017. The key terms of the new agreement are (inter alia) as follows: (a) the Manager is entitled to monthly management fees of NIS 243 thousand (plus VAT), linked to the increase in the Israeli CPI on the payment date in relation to the Israeli CPI of August 2016; (b) the Manager is entitled to an annual bonus equivalent to 10% of the annual net income, as defined in the agreement, according to the Fattal Holding's annual financial statements, provided that the bonus payable to Fattal Holdings and the Manager does not exceed NIS 5,824 thousand a year, linked to the Israeli Consumer Price Index (index base – August 2016). It should be noted that in the year in which the total bonus to which Fattal Investments is entitled exceeds the annual ceiling, Fattal Investments will receive amounts in the amount of the annual ceiling only and will be entitled to the surplus payments in the following commitment years; (c) other related employment terms. This agreement cancels any previous agreement between the parties.

Following the spread of the Corona epidemic, the Controlling Shareholder informed the Company on March 28, 2020, that he was irrevocably waiving the bonus for 2019. In addition, the Controlling Shareholder irrevocably waived approximately 34% of the Management Fees to which he is entitled to under the agreement up to June 30, 2021.

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

It should be noted that on February 21, 2023, the General Meeting of the Company's Shareholders re-approved the terms of Mr. Fattal's tenure as the Company's CEO, and approved the extension of the services agreement between the Company and Fattal Investments for another three years. For details about the termination of Mr. Fattal's term as Chairman of the Board of Directors of the Company, see Section e below.

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

Year ended December 31,			Convenience translation Year ended December 31,
2020	2021	2022	2022
NIS			Euro
(In thousands)			
(** (4,064)	8,608	9,441	2,516

**) Due to the Corona pandemic, in March 2020, the Controlling Owner irrevocably waived in full the bonus to which he was entitled for the year 2019 and therefore the provision was canceled (see Section c above).

d. Engagements with interested and related parties:

1. The Company's controlling shareholder has provided personal guarantees limited in amount in favour of banks that extended credit to companies accounted for by the equity method. As of the date of approval of the financial statements, these guarantees amount to approximately € 1.5 million.

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

3. In September 2017, the Group signed a lease agreement with a wholly-owned subsidiary of a controlling shareholder for the Group's headquarters office in Israel, commencing from January 2018, for annual lease fees of NIS 1.8 million. The lease period was set for 24 years and 11 months (including 3 option periods of 5 years each).

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

e. Appointment of Chairman of the Board of Directors

In January 2023, Mr. David Fattal informed the Company's Board of Directors that he intends to focus on the role of CEO of the Company and to retire from his position as Chairman of the Board of Directors, in order to strengthen the Company's corporate governance. On January 12, 2023, the Company's Board of Directors decided to appoint Mr. Yuval Bronstein, who has served as a Director of the Company since October 14, 2021, as the Chairman of the Board of Directors, effective from February 21, 2023. In accordance with the Engagement Agreement, the Company will pay Mr. Bronstein monthly management fees in the amount of NIS 70 thousand, and in addition, Mr. Bronstein is entitled to an annual bonus subject to meeting the threshold conditions stipulated in the Agreement. The amount of the bonus together with the amount of the annual benefit in respect of equity compensation (insofar as equity compensation is awarded) shall not exceed a total of NIS 600 thousand. Accordingly, starting on February 21, 2023, Mr. David Fattal serves as the Company's Director and CEO.

NOTE 31:- NET EARNINGS (LOSS) PER SHARE

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

	Year ended December 31,						Year ended December 31,	
	2020		2021		2022		2022	
	Weighted number of shares (*	Loss attributed to the shareholders of the Company	Weighted number of shares	Loss attributed to the shareholders of the Company	Weighted number of shares	Loss attributed to the shareholders of the Company	Weighted number of shares	Loss attributed to the shareholders of the Company
	In thousands	NIS in thousands	In thousands	NIS in thousands	In thousands	NIS in thousands	In thousands	Euro in thousands
For the computation of basic loss	14,643	(1,314,687)	15,462	(226,161)	16,158	(78,775)	16,158	(20,990)
Effect of contingently issuable shares	-	-	-	-	-	-	-	-
For the computation of diluted loss	14,643	(1,314,687)	15,462	(226,161)	16,158	(78,775)	16,158	(20,990)

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

NOTE 32:- OPERATING SEGMENTS

a. General:

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") for making decisions about resources to be allocated and assessing performance. The Group's activity was conducted through three reportable operating segments: In Israel, in Europe (except for United Kingdom, Ireland and Mediterranean basin) and United Kingdom and Ireland. 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.

The performance of the segments is evaluated mainly according to the revenues and the operating profit before depreciation and amortization, financing taxes and other expenses (EBITDA), including for hotels that are held through affiliated companies whose performance is presented in a proportional consolidation according to the effective holding percentage of the affiliated company.

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

The chief operative decision-maker is continuing to examine the activity sectors according to the old Leases Standard, IAS 17. Accordingly, adjustments were added in respect of the new Leases Standard, IFRS 16.

NOTE 32:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments:

	Israel	Europe (mainly Germany)	UK and Ireland	Other	Adjustments to financial reporting (before adjustments for IFRS 16)	Total	Adjustments for IFRS 16	Total	Convenience translation Total
	Year ended December 31, 2022								
	NIS (In thousands)								Euro
Segment revenues	1,776,259	1,874,946	1,772,621	387,572	(339,980)	5,471,418	-	5,471,418	1,457,878
Operating income before depreciation and amortization, other operating expenses and rental expenses	473,270	684,822	632,821	155,131	(121,034)	1,825,010	-	1,825,010	486,280
Operating income before depreciation and amortization and other operating expenses	351,341	346,610	154,059	78,818	(184,905)	745,923	985,764	1,731,687	461,414
Depreciation and amortization	(97,231)	(130,808)	(115,318)	(24,225)	33,642	(333,940)	(671,394)	(1,005,334)	(267,874)
Other operating income, net								21,948	5,848
Finance expenses, net								(882,817)	(235,230)
Group's share of earnings of associate companies and partnerships accounted for at equity								861	229
Loss before tax benefit								(133,655)	(35,613)
Tax benefit								55,199	14,708
Loss for the period								(78,456)	(20,905)

NOTE 32:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2021							
	Israel	Europe (mainly Germany)	UK and Ireland	Other	Adjustments to financial reporting (before adjustments for IFRS 16)	Total	Adjustments for IFRS 16	Total
	NIS (In thousands)							
Segment revenues	1,315,830	768,156	928,898	137,630	(109,848)	3,040,666	-	3,040,666
Operating income before depreciation and amortization, other operating expenses and rental expenses	403,694	478,501	275,444	66,551	(37,647)	1,186,543	-	1,186,543
Operating income (loss) before depreciation and amortization and other operating expenses	324,033	229,308	(133,774)	32,378	(75,938)	376,007	806,598	1,182,605
Depreciation and amortization	(89,818)	(142,674)	(91,871)	(18,179)	46,686	(295,856)	(656,235)	(952,091)
Other operating income, net								269,884
Finance expenses, net								(861,341)
Group's share of losses of associate companies and partnerships accounted for at equity								(679)
Loss before tax benefit								(361,622)
Tax benefit								138,818
Loss								(222,804)

NOTE 32:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2020							
	Israel	Europe (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	709,435	674,151	498,087	61,703	(39,450)	1,903,926	-	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	-	246,846
Operating income (loss) before depreciation and amortization and other operating expenses	33,685	(186,361)	(425,264)	(4,658)	(28,517)	(611,115)	854,681	243,566
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								(33,566)
Loss before tax benefit								(1,599,212)
Tax benefit								274,928
Loss								(1,324,284)

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