

**FATTAL HOLDINGS (1998) LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2023**

**UNAUDITED**

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## **AUDITORS' REVIEW REPORT TO THE SHAREHOLDERS OF**

### **FATTAL HOLDINGS (1998) LTD.**

#### **Introduction**

We have reviewed the accompanying financial information of Fattal Holdings (1998) Ltd. ("the Company"), which comprises the condensed consolidated statement of financial position as of March 31, 2023 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the three months periods then ended. The Company's board of directors and management are responsible for the preparation and presentation of financial information for these interim periods in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed financial information of subsidiaries, whose assets constitute approximately 0.66% of total consolidated assets as of March 31, 2023, and their revenues constitute approximately 0.76% of total consolidated revenues for the three months period then ended. Furthermore, we did not review the condensed interim financial information of companies accounted for at equity, the investment in which amounted to NIS 359,373 thousand as of March 31, 2023 and the Company's share of their losses amounted to NIS 10,396 thousand for the three months period then ended. The condensed interim financial information of these companies were reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of these companies, is based on the review reports of the other auditors.

#### **Scope of review**

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

#### **Conclusion**

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

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

Tel-Aviv, Israel  
May 30, 2023

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31,	March 31,		Convenience translation (Note 1d)
	2022	2022	2023	March 31, 2023
	Audited	Unaudited		Unaudited
		NIS		Euro
	(In thousands)			
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	829,643	509,408	497,870	126,614
Securities held for trading	81,562	32,210	64,829	16,487
Trade receivables	400,061	260,036	366,568	93,222
Restricted deposit	3,951	-	-	-
Other accounts receivable	245,739	196,253	258,036	65,621
Income tax receivable	6,162	2,744	8,990	2,286
Inventories	20,119	15,070	20,619	5,244
	<u>1,587,237</u>	<u>1,015,721</u>	<u>1,216,912</u>	<u>309,474</u>
Assets held for sale	-	157,352	-	-
	<u>1,587,237</u>	<u>1,173,073</u>	<u>1,216,912</u>	<u>309,474</u>
<b>NON-CURRENT ASSETS:</b>				
Long-term receivables	93,319	79,600	47,899	12,181
Advance on Fixed Assets	15,646	49,005	20,736	5,273
Loans and Investments in companies and partnerships accounted for at equity	2,370,967	(*)1,923,513	2,475,594	629,570
Property, plant and equipment, net	6,113,864	5,273,064	6,447,404	1,639,643
Property, plant and equipment under construction	560,506	396,529	521,911	132,727
Right-of-use assets, net	11,816,059	(*)11,135,441	12,411,665	3,156,418
Deferred taxes on right-of-use assets	467,499	383,181	506,419	128,788
Deferred taxes	189,021	179,745	216,868	55,152
Intangible assets	345,082	363,223	361,802	92,010
	<u>21,971,963</u>	<u>19,783,301</u>	<u>23,010,298</u>	<u>5,851,762</u>
	<u><u>23,559,200</u></u>	<u><u>20,956,374</u></u>	<u><u>24,227,210</u></u>	<u><u>6,161,236</u></u>

(\*) Reclassified

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2022	March 31,		Convenience translation (Note 1d)
	Audited	2022	2023	March 31, 2023
		Unaudited		Unaudited
		NIS		Euro
	(In thousands)			
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Short-term credit from banks and others	707,594	359,446	450,195	114,489
Current maturities of liabilities from leases of right-of-use assets	412,838	339,641	443,460	112,777
Current maturities of debentures	452,940	316,827	443,713	112,841
Trade payables	282,572	205,813	305,181	77,611
Income tax payable	70,496	46,393	73,337	18,650
Other accounts payable	878,970	821,618	890,014	226,342
Shareholders	6,290	9,104	5,655	1,438
	<u>2,811,700</u>	<u>2,098,842</u>	<u>2,611,555</u>	<u>664,148</u>
Liabilities attributed to assets held for sale	-	58,586	-	-
	<u>2,811,700</u>	<u>2,157,428</u>	<u>2,611,555</u>	<u>664,148</u>
<b>NON-CURRENT LIABILITIES:</b>				
Loans from banks and others	2,690,329	2,500,398	2,930,339	745,216
Debentures, net	2,234,939	2,238,334	2,217,463	563,924
Liabilities from leases of right-of-use assets	12,733,958	11,869,359	13,406,064	3,409,304
Deferred taxes	411,979	313,561	387,525	98,552
Employee benefit liabilities, net	20,155	21,602	20,980	5,335
Other non-current liabilities	90,410	101,178	139,452	35,464
Shareholders	5,181	4,755	5,476	1,393
	<u>18,186,951</u>	<u>17,049,187</u>	<u>19,107,299</u>	<u>4,859,188</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:</b>				
Share capital and premium	1,014,932	830,612	1,028,693	261,607
Capital reserves	1,419,158	1,016,329	1,532,864	389,823
Retained earnings (losses)	47,302	(170,901)	(136,510)	(34,716)
	<u>2,481,392</u>	<u>1,676,040</u>	<u>2,425,047</u>	<u>616,714</u>
Non-controlling interests	79,157	73,719	83,309	21,186
Total equity	<u>2,560,549</u>	<u>1,749,759</u>	<u>2,508,356</u>	<u>637,900</u>
	<u>23,559,200</u>	<u>20,956,374</u>	<u>24,227,210</u>	<u>6,161,236</u>

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

May 30, 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 PROFIT OR LOSS**

	Year ended December 31, 2022 Audited	Three months ended March 31,		Convenience translation (Note 1d)
		2022		Three months ended March 31, 2023
		Unaudited		Unaudited
		N I S		Euro
		(In thousands)		
Revenues from hospitality services and others	5,471,418	751,952	1,241,911	315,831
Cost of revenues	3,077,607	545,231	790,210	200,959
	2,393,811	206,721	451,701	114,872
Selling and marketing expenses	134,586	26,307	36,953	9,398
General and administrative expenses	434,215	86,817	120,325	30,600
	1,825,010	93,597	294,423	74,874
Hotel lease expenses	93,323	3,740	7,336	1,866
Operating income before depreciation and amortization and other operating (income) expenses, net	1,731,687	89,857	287,087	73,008
Depreciation and amortization	302,387	64,078	71,287	18,129
Depreciation of revaluation of step-up	31,553	9,375	10,964	2,788
Depreciation on right-of-use assets	671,394	159,328	179,869	45,743
Other operating expenses (income) , net	(21,948)	(14,497)	2,097	533
Operating income (loss)	748,301	(128,427)	22,870	5,815
Finance income	220	92	351	89
Finance expenses	(233,592)	(54,567)	(75,000)	(19,073)
Financing expenses on liabilities from leases of right- of-use assets	(649,445)	(158,552)	(171,177)	(43,532)
Group's share of earnings (losses) of companies and partnerships accounted for at equity	861	(9,597)	(20,229)	(5,144)
Loss before tax benefit	(133,655)	(351,051)	(243,185)	(61,845)
Tax benefit	55,199	78,454	47,767	12,148
Loss for the period	(78,456)	(272,597)	(195,418)	(49,697)
Attributable to:				
Shareholders of the Company	(78,775)	(272,127)	(195,363)	(49,683)
Non-controlling interests	319	(470)	(55)	(14)
	(78,456)	(272,597)	(195,418)	(49,697)
<u>Losses per share attributed to equity holders of the Company (in NIS)</u>				
Basic and diluted loss per share	(5.01)	(17.6)	(12.06)	(3.07)

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year ended December 31, 2022 Audited	Three months ended March 31,		Convenience translation (Note 1d)
		2022	2023	Three months ended March 31, 2023 Unaudited
	N I S		Euro	
	(In thousands)			
Loss for the period	(78,456)	(272,597)	(195,418)	(49,697)
Other comprehensive income (loss) (after tax effect):				
<u>Amounts that will not be reclassified subsequently to profit or loss:</u>				
Actuarial income, net	15,408	-	-	-
Revaluation of properties, net	193,515	40,537	15,381	3,912
Group's share in revaluation of properties in companies and partnerships accounted for at equity	174,425	11,892	49,162	12,502
Total amounts that will not be reclassified subsequently to profit or loss	383,348	52,429	64,543	16,414
<u>Amounts that will be classified or reclassified subsequently to profit or loss under specific conditions:</u>				
Income (loss) in respect of cash flow hedging transaction	(5,790)	12,659	(55,058)	(14,002)
Foreign currency translation adjustments	113,523	(4,456)	119,527	30,397
Total amounts that will be reclassified subsequently to profit or loss	107,733	8,203	64,469	16,395
Total other comprehensive income	491,081	60,632	129,012	32,809
Total comprehensive income (loss)	412,625	(211,965)	(66,406)	(16,888)
Attributable to:				
Shareholders of the Company	406,642	(211,977)	(70,804)	(18,007)
Non-controlling interests	5,983	12	4,398	1,119
	412,625	(211,965)	(66,406)	(16,888)

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to equity holders of the Company									
	Share Capital and premium	Share- Based Payment	Retained earnings (losses)	Foreign currency translation adjustments	Reserve from transactions with non- controlling interests	Hedge transactions reserve	Revaluation reserve	Total	Non- controlling interests	Total equity
	Unaudited									
	NIS (In thousands)									
<u>Balance as of January 1, 2023 (audited)</u>	1,014,932	13,093	47,302	(341,417)	7,518	70,202	1,669,762	2,481,392	79,157	2,560,549
Loss for the period	-	-	(195,363)	-	-	-	-	(195,363)	(55)	(195,418)
Other comprehensive income (loss)	-	-	-	143,067	-	(55,058)	36,550	124,559	4,453	129,012
Total comprehensive income (loss)	-	-	(195,363)	143,067	-	(55,058)	36,550	(70,804)	4,398	(66,406)
Exercise of stock options	87	(87)	-	-	-	-	-	-	-	-
Conversion of convertible bonds into shares	13,674	-	-	-	-	-	-	13,674	-	13,674
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	-	(246)	(246)
Vesting option to employees	-	785	-	-	-	-	-	785	-	785
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	11,551	-	-	-	(11,551)	-	-	-
<u>Balance as of March 31, 2023</u>	<u>1,028,693</u>	<u>13,791</u>	<u>(136,510)</u>	<u>(198,350)</u>	<u>7,518</u>	<u>15,144</u>	<u>1,694,761</u>	<u>2,425,047</u>	<u>83,309</u>	<u>2,508,356</u>

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to equity holders of the Company									
	Share Capital and premium	Share- Based Payment	Retained earnings (losses)	Foreign currency translation adjustments	Reserve from transactions with non- controlling interests	Hedge transactions reserve	Revaluation reserve	Total	Non- controlling interests	Total equity
	Unaudited									
	Convenience translation into Euro (Note 1d) (In thousands)									
<u>Balance as of January 1, 2023 (audited)</u>	258,108	3,330	12,029	(86,826)	1,912	17,853	424,638	631,044	20,130	651,174
Loss for the period	-	-	(49,683)	-	-	-	-	(49,683)	(14)	(49,697)
Other comprehensive income (loss)	-	-	-	36,383	-	(14,002)	9,295	31,676	1,133	32,809
Total comprehensive income (loss)	-	-	(49,683)	36,383	-	(14,002)	9,295	(18,007)	1,119	(16,888)
Exercise of stock options	22	(22)	-	-	-	-	-	-	-	-
Conversion of convertible bonds into shares	3,477	-	-	-	-	-	-	3,477	-	3,477
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	-	(63)	(63)
Vesting option to employees	-	200	-	-	-	-	-	200	-	200
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	2,938	-	-	-	(2,938)	-	-	-
<u>Balance as of March 31, 2023</u>	<u>261,607</u>	<u>3,508</u>	<u>(34,716)</u>	<u>(50,443)</u>	<u>1,912</u>	<u>3,851</u>	<u>430,995</u>	<u>616,714</u>	<u>21,186</u>	<u>637,900</u>



**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to equity holders of the Company									
	Share Capital and premium	Share- Based Payment	Retained earnings (losses)	Foreign currency translation adjustments	Reserve from transactions with non- controlling interests	Hedge transactions reserve	Revaluation reserve	Total	Non- controlling interests	Total equity
	Unaudited									
	NIS (In thousands)									
<u>Balance as of January 1, 2022 (audited)</u>	829,815	10,107	91,496	(493,170)	7,518	75,992	1,364,889	1,886,647	73,717	1,960,364
Loss for the period	-	-	(272,127)	-	-	-	-	(272,127)	(470)	(272,597)
Other comprehensive income (loss)	-	-	-	(6,638)	-	12,659	54,129	60,150	482	60,632
Total comprehensive income (loss)	-	-	(272,127)	(6,638)	-	12,659	54,129	(211,977)	12	(211,965)
Exercise of stock options	38	(38)	-	-	-	-	-	-	-	-
Conversion of convertible bonds into shares	759	-	-	-	-	-	-	759	-	759
Repayment of loan from non-controlling interests	-	-	-	-	-	-	-	-	(10)	(10)
Vesting option to employees	-	611	-	-	-	-	-	611	-	611
Transfer from revaluation reserve, in the amount of the depreciation, net	-	-	9,730	-	-	-	(9,730)	-	-	-
<u>Balance as of March 31, 2022</u>	<u>830,612</u>	<u>10,680</u>	<u>(170,901)</u>	<u>(499,808)</u>	<u>7,518</u>	<u>88,651</u>	<u>1,409,288</u>	<u>1,676,040</u>	<u>73,719</u>	<u>1,749,759</u>

**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	<u>1,014,932</u>	<u>13,093</u>	<u>47,302</u>	<u>(341,417)</u>	<u>7,518</u>	<u>70,202</u>	<u>1,669,762</u>	<u>2,481,392</u>	<u>79,157</u>	<u>2,560,549</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31, 2022 Audited	Three months ended March 31,		Convenience translation (Note 1d)
		2022	2023	Three months ended March 31, 2023
		Unaudited		Unaudited
		NIS		Euro
(In thousands)				
<u>Cash flows from operating activities:</u>				
Loss for the period	(78,456)	(272,597)	(195,418)	(49,697)
Adjustments to reconcile net income to net cash provided by operating activities:				
Adjustments to the profit or loss items:				
Depreciation and amortization	1,005,334	232,781	262,120	66,660
Finance expenses, net	866,688	212,496	237,447	60,386
Group's share of losses (earnings) of companies and partnerships accounted for at equity	(861)	9,597	20,229	5,144
Change in liabilities for time-sharing rights, net	(614)	(144)	(134)	(34)
Change in employee benefit liabilities, net	15,536	637	751	191
Tax benefit	(55,199)	(78,454)	(47,767)	(12,148)
Loss (gain) from impairment of investments	(2,713)	788	(604)	(154)
Share-based payment expense	3,245	611	785	200
Other income from rent concession received	(21,403)	(20,686)	-	-
Loss from a change in the value of securities held for trading	14,461	1,004	10,441	2,655
	<u>1,824,474</u>	<u>358,630</u>	<u>483,268</u>	<u>122,900</u>
Changes in asset and liability items:				
Decrease (increase) in trade receivables	(123,656)	6,842	40,560	10,315
Increase in other accounts receivable	(65,608)	(11,269)	(4,950)	(1,259)
Decrease (increase) in inventories	(4,156)	(183)	289	73
Decrease (increase) in long-term receivables	58,190	(5,922)	39,028	9,925
Increase (decrease) in trade payables	61,417	(10,802)	16,498	4,196
Decrease in other accounts payable	(51,831)	(9,025)	(29,878)	(7,598)
Increase (decrease) in other non-current liabilities	(32,794)	11,259	(21,973)	(5,588)
	<u>(158,438)</u>	<u>(19,100)</u>	<u>39,574</u>	<u>10,064</u>
Cash paid during the period for:				
Receiving a dividend from an investee company	-	-	4,000	1,017
Taxes paid	(37,575)	(11,321)	(10,010)	(2,546)
Interest paid for leases of right-of-use assets	(634,953)	(150,112)	(193,244)	(49,144)
Other interest paid, net	(173,077)	(54,887)	(76,471)	(19,447)
	<u>(845,605)</u>	<u>(216,320)</u>	<u>(275,725)</u>	<u>(70,120)</u>
Net cash provided by (used in) operating activities	<u>741,975</u>	<u>(149,387)</u>	<u>51,699</u>	<u>13,147</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended	Three months ended		Convenience
	December 31,	March 31,		translation
	2022	2022	2023	(Note 1d)
	Audited	Unaudited		Three months
	N I S			ended
	(In thousands)			March 31,
				2023
				Unaudited
				Euro
<u>Cash flows from investing activities:</u>				
Purchase of property, plant and equipment, net	(886,752)	(196,871)	(170,024)	(43,239)
Advance of investment in fixed assets	(4,143)	(7,171)	-	-
Purchase of companies consolidated for the first time (a)	(15,332)	-	-	-
Tax paid for the disposal of fixed assets in the past	(10,771)	-	-	-
Sale and purchase of securities held for trading, net	(65,352)	(2,543)	6,292	1,600
Loans and Investment in companies and partnerships accounted for at equity, net	(335,261)	(115,386)	(62,704)	(15,946)
Change in designated deposit, net	16,239	(5)	41,967	10,673
Return on investment (investment) in various companies, net	(26,909)	(5,517)	2,981	758
Net cash used in investing activities	<u>(1,328,281)</u>	<u>(327,493)</u>	<u>(181,488)</u>	<u>(46,154)</u>
<u>Cash flows from financing activities:</u>				
Short-term credit from banking corporations, net	7,617	5,018	(9,258)	(2,354)
Receipt of long-term loans from banking corporations and others	964,236	215,664	162,313	41,278
Repayment of long-term loans from banking corporations and others	(501,661)	(141,207)	(249,389)	(63,422)
Issue of debentures, net	756,074	289,767	140,945	35,844
Repayment of debentures	(253,416)	(75,717)	(159,258)	(40,501)
Repayment of liabilities from leases of right-of-use assets	(351,436)	(58,441)	(105,236)	(26,763)
Net cash provided by (used in) financing activities	<u>621,414</u>	<u>235,084</u>	<u>(219,883)</u>	<u>(55,918)</u>
<u>Translation differences in respect of balances of cash and cash equivalents</u>	<u>33,307</u>	<u>5,202</u>	<u>17,899</u>	<u>4,552</u>
<u>Increase (decrease) in cash and cash equivalents</u>	<u>68,415</u>	<u>(236,594)</u>	<u>(331,773)</u>	<u>(84,373)</u>
Cash included in assets held for sale	15,567	341	-	-
<u>Cash and cash equivalents at beginning of period</u>	<u>745,661</u>	<u>745,661</u>	<u>829,643</u>	<u>210,987</u>
<u>Cash and cash equivalents at end of period</u>	<u>829,643</u>	<u>509,408</u>	<u>497,870</u>	<u>126,614</u>
<u>Material non-cash activity:</u>				
Purchase of properties, plant and equipment	31,625	-	-	-
Sale of an investment in an investee company	-	-	6,805	1,731
Recognition of the right-of-use assets against lease liabilities	760,714	75,049	36,025	9,162
Updates in right-of-use assets in respect of linkages to the CPI index	285,106	109,226	192,718	49,010
Receipt of waiver of lease payment	12,948	12,514	-	-
Conversion of convertible bonds into shares	184,858	759	13,674	3,477

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31, 2022 Audited	Three months ended March 31,		Convenience translation (Note 1d)
		2022	2023	Three months ended March 31, 2023 Unaudited Euro
	NIS			
	(In thousands)			
(a) <u>Acquisition of initially consolidated subsidiaries:</u>				
The subsidiaries' assets and liabilities at date of acquisition:				
Working capital (excluding cash and cash equivalents)	15,286	-	-	-
Non- current assets	(26,858)	-	-	-
Property, plant and equipment	(3,760)	-	-	-
	<u>(15,332)</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1: - GENERAL**

- a. These financial statements have been prepared in a condensed format as of March 31, 2023 and for the three months periods then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2022 and for the year then ended and accompanying notes ("annual consolidated financial statements").
- 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 270 hotels throughout Israel and Europe, comprising about 48,000 hotel rooms, including 67 hotels in Israel, 187 hotels throughout Europe (excluding Cyprus and Greece) and 16 hotels in Cyprus and Greece. For further details regarding operating segments, see Note 7.
- c. It should be noted that, as of March 31, 2023, the Company had a consolidated working capital deficit of about NIS 1,395 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 and quoted securities in the amount of approximately NIS 590 million available to the Group close to the date of approval of the Financial Statements (including in respect of raising the Bonds as mentioned in Note 4d).
  - Obtaining financing for properties that were not financed (a total of approximately NIS 330 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 has a positive cash flow from current operations, which is even expected to increase during the year due to the effect of seasonality on the Company's operations as detailed in Note 3, as well as from the opening of new hotels in the coming year.
- d. The financial statements as of March 31, 2023 and for the three months then ended have been translated into Euro using the representative exchange rate as of that date (€ 1 = NIS 3.9322) 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.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 2- : SIGNIFICANT ACCOUNTING POLICIES

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

The interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies applied in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements, except as described below:

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

1. 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.

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

2. 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 is effective for annual reporting periods beginning on or after January 1, 2023. In relation to leases and decommissioning obligations, the Amendment is 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 is recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

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

3. 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 effective for annual periods beginning on or after January 1, 2023.

The above Amendment did not have an effect on the Company's interim consolidated financial statements, but it is expected to affect the disclosures of accounting policies in the Company's annual consolidated financial statements.

**NOTE 3: - SEASONALITY OF OPERATIONS**Israel

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

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

Europe (including UK and Ireland)

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

Mediterranean Basin

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

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



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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

- a. On February 16, 2023, the Company expanded the Bonds (Series B) by way of a private allocation to investors of NIS 150,000 thousand par value in Bonds (Series B) with a par value of NIS 1 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 for each par value of NIS 1. The effective interest rate of the expansion is 6.31%.
- b. Further to that stated in Note 15(1) to the Financial Statements for the year 2022 in connection with the Convertible Bonds (Series 1) of the Company, during the period of the Report 16,131,390 nominal value of the Bonds (Series 1) were converted into 52,890 ordinary shares of the Company. After the date of the Report and until close to the date of approval of the Financial Statements, an additional 64,010,238 par value of the Bonds (Series 1) were converted into 209,870 Ordinary Shares of the Company.

Until close to the date of approval of the Financial Statements, 284,354,214 Bonds (Series 1), which constitute about 94.8% of the total of the Bonds (Series 1) in circulation were converted into 958,771 Ordinary Shares. The rest of the Bonds (Series 1) in circulation (15,645,786 par value) can be converted into Company shares until May 5, 2028 in such a way that every NIS 430 par value of the Bonds can be converted into one Ordinary Share with no par value of the Company.

- c. Further to that stated in Note 9C to the Financial Statements for the year 2022 in connection with investments by Fattal Properties (Europe) Ltd., which is 100% owned in in final chain of ownership by the Company (hereinafter - "Fattal Properties (Europe)"), in FATTAL EUROPEAN PARTNERSHIP II LP (hereinafter - the Partnership), it should be noted that during the first quarter, Fattal Properties (Europe) invested a further EUR 8 million according to its share in calls for money made by the Partnership. As of the date of signing the Report, Fattal Properties (Europe) invested a total of about EUR 60 million out of its total commitment (EUR 100 million).

Up to March 31, 2023, 17 hotels were purchased in Spain, Poland, Cyprus, Austria, Greece, the UK and Italy at a total cost of about EUR 549 million (December 31, 2022 –EUR 386 million). After the balance sheet date and until close to the date of approval of the Financial Statements, the Partnership purchased 2 additional hotels in Cyprus and Germany at a total cost of approximately EUR 104 million.

- d. On May 21, 2023, Fattal Properties (Europe) Ltd. carried out an expansion of Bonds (Series C) by way of allocation to the public of 170,000,000 Bonds (Series C) par value NIS 1 each of the Company, listed for trading, at a price of NIS 0.916 for every NIS 1 par value of Bonds and a total of about NIS 155,720 thousand for all the aforementioned Bonds (Series C). The Bonds are in Israel Shekels and bear an annual interest rate of 2.65%, and are not linked (principal and interest) to any linkage base. The effective interest rate of the expansion is 6.7%.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - FINANCIAL INSTRUMENTS

Fair value:

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

	<u>March 31, 2022</u>		<u>December 31, 2022</u>	
	<u>Book</u>	<u>Fair value</u>	<u>Book</u>	<u>Fair value</u>
	<u>value(*)</u>		<u>value(*)</u>	
	<u>Unaudited</u>	<u>Audited</u>	<u>NIS</u>	
<u>(In thousands)</u>				
<u>Loans from banking corporations and other liabilities</u>				
Debentures (Level 1 of the fair value hierarchy)	2,578,100	2,754,111	2,737,384	2,540,635
Fixed interest loans (Level 3 of the fair value hierarchy)	1,850,496	1,741,490	1,613,524	1,425,138
Total	<u>4,428,596</u>	<u>4,495,601</u>	<u>4,350,908</u>	<u>3,965,773</u>
	<u>March 31, 2023</u>		<u>Convenience translation into Euro (note 1d)</u>	
	<u>Book</u>	<u>Fair value</u>	<u>Book</u>	<u>Fair value</u>
	<u>value(*)</u>		<u>value(*)</u>	
	<u>Unaudited</u>	<u>Unaudited</u>	<u>March 31, 2023</u>	
<u>(In thousands)</u>				
<u>Loans from banking corporations and other liabilities</u>				
Debentures (Level 1 of the fair value hierarchy)	2,683,169	2,491,333	682,358	633,572
Fixed interest loans (Level 3 of the fair value hierarchy)	1,590,527	1,452,787	404,488	369,459
Total	<u>4,273,696</u>	<u>3,944,120</u>	<u>1,086,846</u>	<u>1,003,031</u>

(\*) Including interest payable.

NOTE 6:- REVENUES FROM HOSPITALITY SERVICES AND OTHERS

	<u>Year ended</u>	<u>Three months ended</u>		<u>Convenience translation</u>
	<u>December 31,</u>	<u>March 31,</u>		<u>(Note 1d)</u>
	<u>2022</u>	<u>2022</u>	<u>2023</u>	<u>Three months ended</u>
		<u>NIS</u>		<u>March 31,</u>
				<u>2023</u>
				<u>Euro</u>
		<u>(In thousands)</u>		
Rooms	4,236,121	558,768	941,439	239,418
Food and beverages	864,222	135,772	210,855	53,623
Other services	345,176	56,709	87,537	22,261
Hotel management fees	25,899	703	2,080	529
Total	<u>5,471,418</u>	<u>751,952</u>	<u>1,241,911</u>	<u>315,831</u>

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7: - OPERATING SEGMENTS**a. General:

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

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

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**NOTE 7: - OPERATING SEGMENTS (cont.):**

 b. Reporting on operating segments:

	Israel	Europe (mainly Germany)	UK and Ireland	Other	Adjustments to financial reporting (No adjustments for IFRS 16) NIS	Total	Adjustments for IFRS 16	Total	Convenience translation (Note 1d) Total Euro
(In thousands)									
<b><u>Three months ended March 31, 2023</u></b>									
<b><u>(unaudited):</u></b>									
Segment revenues	<u>356,351</u>	<u>468,652</u>	<u>424,248</u>	<u>79,375</u>	<u>(86,715)</u>	<u>1,241,911</u>	<u>-</u>	<u>1,241,911</u>	<u>315,831</u>
Operating income (loss) before depreciation and amortization, other operating expenses and rental expenses	<u>51,659</u>	<u>119,559</u>	<u>130,850</u>	<u>23,745</u>	<u>(31,390)</u>	<u>294,423</u>	<u>-</u>	<u>294,423</u>	<u>74,874</u>
Operating income (loss) before depreciation and amortization and other operating expenses	<u>15,695</u>	<u>13,564</u>	<u>1,775</u>	<u>5,860</u>	<u>(44,874)</u>	<u>(7,980)</u>	<u>295,067</u>	<u>287,087</u>	<u>73,008</u>
Depreciation and amortization	(26,955)	(41,420)	(23,145)	(7,664)	16,933	(82,251)	(179,869)	(262,120)	(66,660)
Other operating expenses, net								(2,097)	(533)
Finance expenses, net								(245,826)	(62,516)
Group's share of losses of associate companies and partnerships accounted for at equity								(20,229)	(5,144)
Loss before tax benefit								(243,185)	(61,845)
Tax benefit								47,767	12,148
Loss for the period								<u>(195,418)</u>	<u>(49,697)</u>

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 7: - OPERATING SEGMENTS (cont.):

	Israel	Europe (mainly Germany)	UK and Ireland	Other	Adjustments to financial reporting (No adjustments for IFRS 16) NIS	Total	Adjustments for IFRS 16	Total
	(In thousands)							
<b>Three months ended March 31, 2022</b>								
<b>(unaudited):</b>								
Segment revenues	<u>255,895</u>	<u>182,491</u>	<u>304,834</u>	<u>29,108</u>	<u>(20,376)</u>	<u>751,952</u>	<u>-</u>	<u>751,952</u>
Operating income (loss) before depreciation and amortization, other operating expenses and rental expenses	<u>21,917</u>	<u>(12,990)</u>	<u>77,937</u>	<u>9,963</u>	<u>(3,230)</u>	<u>93,597</u>	<u>-</u>	<u>93,597</u>
Operating income (loss) before depreciation and amortization and other operating expenses	<u>(2,375)</u>	<u>(88,813)</u>	<u>(31,618)</u>	<u>(2,178)</u>	<u>(12,269)</u>	<u>(137,253)</u>	<u>227,110</u>	<u>89,857</u>
Depreciation and amortization	(22,871)	(34,341)	(22,828)	(5,394)	11,981	(73,453)	(159,328)	(232,781)
Other operating income, net								14,497
Finance expenses, net								(213,027)
Group's share of losses of associate companies and partnerships accounted for at equity								<u>(9,597)</u>
Loss before tax benefit								(351,051)
Tax benefit								<u>78,454</u>
Loss for the period								<u>(272,597)</u>

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 7: - OPERATING SEGMENTS (cont.):

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