

*Translated from the Hebrew Original*

**Alrov Properties and Lodgings Ltd.**

**Consolidated Financial Statements**  
**As at December 31, 2018**

The information contained in these financial statements constitutes an unofficial translation of the financial statements published by the Company in Hebrew. The Hebrew version is the binding version. This translation was prepared for convenience purposes only.



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**Auditors' Report to the Shareholders of Alrov Properties and Lodgings Ltd.  
Regarding the Audit of Internal Control Components over Financial  
Reporting in accordance with paragraph 9b(c) of the Israeli Securities  
Regulations (Periodic and Immediate Reports), 1970**

We have audited internal control components over financial reporting of Alrov Properties and Lodgings Ltd. and its subsidiaries (hereinafter "the Company") as of December 31, 2018. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company's internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company's internal control components over financial reporting based on our audit.

We did not audit the effectiveness of internal control components over financial reporting of certain consolidated subsidiaries whose assets and revenues constitute approximately 43% and approximately 38% of the total consolidated assets and revenues, respectively, included in the consolidated financial statements as of December 31, 2018 and for the year then ended. The effectiveness of those companies internal control components over financial reporting was audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the effectiveness of internal control components over financial reporting of such companies, is based solely on the reports of the other auditors.

Audited Internal control components over financial reporting were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting", and its amendments (hereinafter "Auditing Standard 104"). These components are: (1) Entity level controls, including controls over the preparation and closure of the financial reporting process and general information technology controls; (2) controls over investment property process; (3) controls over treasury, the cash management process and debt management; (4) controls over hotels income process (all these are named together "audited control components").

We conducted our audit in accordance with Auditing Standard 104. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Our audit also did not refer to mutual effects between audited control components and non audited control components, therefore our opinion does not take into account these possible effects. We believe that our audit, and the reports of the other auditors, provide a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and on the reports of the other auditors, the Company maintained, in all material respects, effective audited control components as of December 31, 2018.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 and our report dated March 31, 2019 expressed an unqualified opinion on those financial statements based on our audit and on the reports of other auditors based on our audit and on the reports of the other auditors.

Somekh Chaikin  
Certified Public Accountants (Isr.)  
March 31, 2019





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### **Auditors' Report to the Shareholders of Alrov Properties and Lodgings Ltd.**

We have audited the accompanying consolidated statements of financial position of Alrov Properties and Lodgings Ltd. (hereinafter "the Company") as of December 31, 2018 and 2017 and the consolidated income statements, statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018. 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 audit.

We did not audit the financial statements of certain consolidated subsidiaries whose assets included in consolidation constitute approximately 43% and 40% of total consolidated assets as of December 31, 2018 and 2017, respectively, and whose revenues included in consolidation constitute approximately 36%, 30% and 29% of total consolidated revenues for the years ended December 31, 2018, 2017 and 2016, respectively. Furthermore, we did not audit the financial statements of equity accounted investees the investment in which amounted to approximately NIS 410 thousand and NIS 245 thousand as of December 31, 2018 and 2017, respectively, and the Company's share in their profits (losses) amounted to approximately NIS 1,224 thousand, NIS 1,203 thousand and NIS (491) thousand for the years ended December 31, 2018, 2017 and 2016, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor's Mode of Performance) - 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of December 31, 2018 and 2017 and the results of their operations, changes in its equity and their cash flows for each of the three years in the period ended December 31, 2018 in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements) - 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "An Audit of Components of Internal Control Components over Financial Reporting", as amended, the Company's components of internal control over financial reporting as of December 31, 2018, and our report dated March 31, 2019 included an unqualified opinion on the effective maintenance of those components.

Somekh Chaikin  
Certified Public Accountants (Isr.)  
March 31, 2019

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Alrov Properties and Lodgings Ltd.

Consolidated Statements of Financial Position as at December 31

	2018	2017
	NIS thousands	NIS thousands
<b>Assets</b>		
Cash and cash equivalents	81,392	104,095
Security at fair value through profit or loss	504,352	841,133
Trade receivables	49,433	40,500
Other receivables and debits	45,280	73,597
Current tax assets	4,394	8,422
Hotelier inventory	25,924	19,660
Apartments inventory	61,388	78,874
<b>Total current assets</b>	<b>772,163</b>	<b>1,166,281</b>
Investments in investee companies accounted for by equity method	410	245
Other investments at fair value through profit or loss	5,045	9,842
Receivables for long-term	8,838	15,166
Investment property	8,010,969	6,591,169
Fixed assets of cost	170,478	185,682
Fixed assets of fair value	5,003,246	3,242,030
Fixed assets under construction	-	1,237,680
Intangible assets	195,718	189,379
Deferred tax	27,062	31,107
<b>Total non-current assets</b>	<b>13,421,766</b>	<b>11,502,300</b>
<b>Total assets</b>	<b>14,193,929</b>	<b>12,668,581</b>

  
 Alfred Akirov  
 Chairman of the Board and CEO

  
 Meir Elhakham  
 Financial Manager

Tel Aviv, March 31, 2019

  
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Consolidated Statements of Financial Position as at December 31

	Note	2018 NIS thousands	2017 NIS thousands
Credit from banks	15	581,271	2,174,646
Current maturities of loans from banks	18	65,434	237,837
Current maturities of debentures	18	201,031	185,607
Short-term employee benefits		16,302	11,047
Trade payables	16	165,108	126,331
Payables and credit balances including derivative instruments	17	261,733	196,849
Current tax liabilities		42,151	27,667
<b>Total current liabilities</b>		<b>1,333,030</b>	<b>2,959,984</b>
Loans from banks	18	5,871,856	3,416,414
Debentures	18	788,489	759,451
Other financial liabilities	20	55,218	5,509
Employee benefits	21	13,616	13,615
Deposits	22	17,318	14,917
Deferred tax liabilities	30	1,159,263	1,045,607
<b>Total non-current liabilities</b>		<b>7,905,760</b>	<b>5,255,513</b>
<b>Total liabilities</b>		<b>9,238,790</b>	<b>8,215,497</b>
<b>Equity</b>	23		
Share capital		37,868	37,868
Share premium		376,677	376,677
Capital reserve from merger		279,426	279,426
Revaluation reserve for fixed assets, net of tax		679,941	577,345
Translation reserve from foreign operations		(48,484)	(139,615)
Reserve from transaction with non-controlling interests		4,567	4,567
Retained earnings		3,161,910	2,923,402
<b>Total equity attributable to the owners of the Company</b>		<b>4,491,905</b>	<b>4,059,670</b>
Non-controlling interests		463,234	393,414
<b>Total equity</b>		<b>4,955,139</b>	<b>4,453,084</b>
<b>Total equity and liabilities</b>		<b>14,193,929</b>	<b>12,668,581</b>

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

Consolidated Income Statements for the Year Ended December 31

		2018	2017	2016
	Note	NIS thousands	NIS thousands	NIS thousands
<b>Revenues</b>				
Hotel operations		594,669	476,904	429,900
Rent and housing for the elderly		348,948	316,334	312,970
Sale of apartments	11	19,128	4,846	20,625
Maintenance – housing for the elderly		6,056	6,959	8,699
Income from property management		46,677	41,579	43,403
Gain from securities at fair value through profit or loss and other income	26	100,377	250,262	59,643
Increase in fair value of investment property, net	13	274,307	298,591	294,121
Company share in profits of associate companies, net of tax	12	1,224	1,203	-
		<u>1,391,386</u>	<u>1,396,678</u>	<u>1,169,361</u>
<b>Expenses</b>				
Hotel operations	27	491,037	384,312	374,963
Hotel pre-opening expenses		20,099	-	-
Hotel depreciation	14	114,813	95,997	99,041
Total expenses from hotel operation		625,949	480,309	474,004
Operation of properties		52,148	39,249	22,258
Cost of apartments sold	11	14,684	4,152	14,631
Maintenance – housing for the elderly		6,976	7,635	8,401
Property management expenses		43,593	40,525	40,906
Depreciation general and administrative	14	13,213	13,424	14,050
Administrative and general	28	79,527	73,567	78,272
Losses from securities at fair value through profit or loss and other expenses	26	5,690	8,979	4,790
Company share in losses of associate companies, net of tax	12	-	-	491
		<u>841,780</u>	<u>667,840</u>	<u>657,803</u>
		<u>549,606</u>	<u>728,838</u>	<u>511,558</u>
<b>Operating profit</b>				
<b>Financing expenses</b>				
Financing income		836	13,752	112,204
Financing expenses		(106,240)	(98,006)	(233,466)
<b>Financing expenses, net</b>	29	<u>(105,404)</u>	<u>(84,254)</u>	<u>(121,262)</u>
<b>Profit before taxes on income</b>				
Taxes on income savings (expenses)	30	444,202	644,584	390,296
		<u>(79,137)</u>	<u>(77,775)</u>	<u>57,446</u>
<b>Net profit for the year</b>				
<b>Attributable to:</b>				
The owners of the Company		321,867	541,247	381,284
Non-controlling interests		43,198	25,562	66,458
<b>Net profit for the year</b>		<u>365,065</u>	<u>566,809</u>	<u>447,742</u>
<b>Net earnings per share - in NIS</b>				
Basic and fully diluted	24	<u>13.31</u>	<u>22.12</u>	<u>14.96</u>

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

**Consolidated Statements of Comprehensive Income for the Year Ended December 31**

		2018	2017	2016
	Note	NIS thousands	NIS thousands	NIS thousands
<b>Net profit for the year</b>		<b>365,065</b>	566,809	447,742
<b>Other comprehensive income (loss) items that after initial recognition in comprehensive income will be transferred to profit or loss</b>				
Foreign currency translation differences for foreign operations	23B	116,664	(74,965)	(108,593)
Changes in fair value of available-for-sale financial assets, net of tax		-	-	34,712
<b>Total other comprehensive income (loss) for the period subsequent to initial recognition in comprehensive income that will be transferred to profit or loss</b>		<b>116,664</b>	<b>(74,965)</b>	<b>(73,881)</b>
<b>Other comprehensive income items that will not be transferred to profit or loss, net of tax</b>				
Remeasurement of defined benefit plan, net of tax	30F	895	(1,841)	293
Revaluation of fixed assets, net of tax	30F	120,233	141,527	30,842
<b>Total other comprehensive income for the year that will not be transferred to profit or loss, net of tax</b>		<b>121,128</b>	<b>139,686</b>	<b>31,135</b>
<b>Total comprehensive income for the year</b>		<b>602,857</b>	<b>631,530</b>	<b>404,996</b>
<b>Total comprehensive income attributable to:</b>				
Owners of the Company		516,409	610,377	360,455
Non-controlling interests		86,448	21,153	44,541
<b>Total comprehensive income for the year</b>		<b>602,857</b>	<b>631,530</b>	<b>404,996</b>

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

**Consolidated Statements of Changes in Equity for the Year Ended December 31**

For the year ended December 31, 2018									
	Share capital NIS thousands	Share premium NIS thousands	Capital reserve from merger NIS thousands	Translation reserve from foreign operations NIS thousands	Revaluation reserve for fixed assets, net of tax NIS thousands	Retained earnings NIS thousands	Total NIS thousands	Non-controlling interests NIS thousands	Total equity NIS thousands
<b>Balance at January 1, 2018</b>									
37,868	376,677	279,426	(139,615)	4,567	577,345	2,923,402	4,059,670	393,414	4,453,084
-	-	-	-	-	-	717	717	-	717
<b>Initial adoption of IFRS 15*</b>									
<b>Balance at January 1, 2018 after initial adoption</b>	<b>37,868</b>	<b>376,677</b>	<b>279,426</b>	<b>(139,615)</b>	<b>4,567</b>	<b>577,345</b>	<b>2,924,119</b>	<b>4,060,387</b>	<b>393,414</b>
<b>Comprehensive income (loss) for the year:</b>									
Profit for the year	-	-	-	-	-	-	321,867	321,867	43,198
Components of other comprehensive income (loss)									365,065
Re-measurement of defined benefit plan, net of tax	-	-	-	-	-	102,569	-	815	80
Revaluation of fixed assets, net of tax	-	-	-	-	-	-	-	102,569	895
Foreign currency translation differences for foreign operations	-	-	-	91,131	-	-	-	91,131	120,233
Total comprehensive income for the year	-	-	-	91,131	-	102,596	322,682	516,409	25,533
									116,664
<b>Transaction with owners that were recognized directly in equity:</b>									
Dividend distributed	-	-	-	-	-	-	(84,891)	(84,891)	-
Dividend distributed to non-controlling interests	-	-	-	-	-	-	-	-	(84,891)
<b>Balance at December 31, 2018</b>	<b>37,868</b>	<b>376,677</b>	<b>279,426</b>	<b>(48,484)</b>	<b>4,567</b>	<b>679,941</b>	<b>3,161,910</b>	<b>4,491,905</b>	<b>(16,628)</b>
									(16,628)
									463,234
									4,955,139

\*See Note 2H regarding early adoption of IFRS 15, *Revenue from Contracts with Customers*.

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

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Consolidated Statements of Changes in Equity for the Year Ended December 31 (cont'd)

										For the year ended December 31, 2017				
				Capital reserve from available-for-sale financial assets		Capital reserve from merger		Reserve from translation reserve from foreign operations		Revaluation reserve for fixed assets, net of tax		Retained earnings		Total
Share capital	Share premium	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	Non-controlling interests	NIS thousands
<b>39,521</b>	<b>475,390</b>	<b>279,426</b>	<b>180,921</b>	<b>(81,541)</b>	<b>4,567</b>	<b>448,623</b>	<b>2,253,277</b>	<b>3,600,184</b>	<b>377,819</b>	<b>3,978,003</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at January 1, 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(180,921)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>180,921</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Initial adoption of IFRS 9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at January 1, 2017 after initial adoption</b>	<b>39,521</b>	<b>475,390</b>	<b>279,426</b>	<b>-</b>	<b>(81,541)</b>	<b>4,567</b>	<b>448,623</b>	<b>2,434,198</b>	<b>3,600,184</b>	<b>377,819</b>	<b>3,978,003</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Comprehensive income (loss) for the year:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>541,247</b>	<b>541,247</b>	<b>25,562</b>	<b>566,809</b>	<b>-</b>
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	541,247	541,247	25,562	566,809	-
<b>Components of other comprehensive income (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Re-measurement of defined benefit plan, net of tax	-	-	-	-	-	-	-	-	-	(1,518)	(1,518)	(323)	(1,841)	(141,527)
Revaluation of fixed assets, net of tax	-	-	-	-	-	-	-	-	-	128,722	128,722	12,805	-	-
Foreign currency translation differences for foreign operations	-	-	-	-	-	(58,074)	-	-	-	-	-	(58,074)	(16,891)	(74,965)
Total comprehensive income (loss) for the year	-	-	-	-	-	(58,074)	-	-	-	128,722	128,722	610,377	21,153	631,530
<b>Transaction with owners that were recognized directly in equity:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Buy-back of treasury shares (see Note 23E)	(1,653)	(98,713)	-	-	-	-	-	-	-	(50,525)	(50,525)	(100,366)	-	(100,366)
Dividend distributed	-	-	-	-	-	-	-	-	-	-	-	-	-	(50,525)
Dividend distributed to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(5,558)	(5,558)	-
<b>Balance at December 31, 2017</b>	<b>37,868</b>	<b>376,677</b>	<b>279,426</b>	<b>-</b>	<b>(139,615)</b>	<b>4,567</b>	<b>577,345</b>	<b>2,923,402</b>	<b>4,059,670</b>	<b>393,414</b>	<b>4,453,084</b>	<b>-</b>	<b>-</b>	<b>-</b>

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



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**Consolidated Statements of Changes in Equity for the Year Ended December 31 (cont'd)**

							For the year ended December 31, 2016		
	Share capital NIS thousands	Share premium NIS thousands	Capital reserve from merging NIS thousands	Capital reserve from available-for- sale financial assets NIS thousands	Reserve from transactions with non- controlling interests NIS thousands	Revaluation reserve for fixed assets NIS thousands	Retained earnings NIS thousands	Non- controlling interests NIS thousands	Total equity NIS thousands
<b>Balance at January 1, 2016</b>	<b>40,100</b>	<b>504,785</b>	<b>279,426</b>	<b>145,522</b>	<b>4,408</b>	<b>7,083</b>	<b>419,195</b>	<b>1,877,589</b>	<b>3,278,108</b>
<b>Comprehensive income for the year:</b>									
Profit (loss) for the year	-	-	-	-	-	-	381,284	381,284	66,458
<b>Components of other comprehensive income (loss)</b>									
Remeasurement of defined benefit plan, net of tax	-	-	-	-	-	-	293	293	1,414
Revaluation of fixed assets, net of tax	-	-	-	-	-	29,428	-	-	293
Net changes in fair value of available-for-sale financial assets	-	-	-	35,399	-	-	-	35,399	30,842
Foreign currency translation differences for foreign operations	-	-	-	(85,949)	-	-	-	(85,949)	34,712
Total comprehensive income (loss) for the year	-	-	-	35,399	(85,949)	-	29,428	381,577	(22,644)
									(108,593)
<b>Transaction with owners that were recognized directly in equity:</b>									
Buy-back of treasury shares	(579)	(29,395)	-	-	-	(2,516)	-	-	(29,974)
Overseas restructuring	-	-	-	-	-	-	(5,889)	(2,516)	-
Dividend distributed	-	-	-	-	-	-	-	-	(5,889)
Dividend distributed to non-controlling interests	-	-	-	-	-	-	-	-	(13,468)
<b>Balance at December 31, 2016</b>	<b>39,521</b>	<b>475,390</b>	<b>279,426</b>	<b>180,921</b>	<b>(81,541)</b>	<b>4,567</b>	<b>448,623</b>	<b>2,253,277</b>	<b>3,600,184</b>
									<b>377,819</b>
									<b>3,978,003</b>

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



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**Consolidated Statements of Cash Flows for the Year Ended December 31**

	Note	2018 NIS thousands	2017 NIS thousands	2016 NIS thousands
<b>Cash flows from operating activities</b>				
Net profit for the year		<b>365,065</b>	566,809	447,742
Adjustments:				
Depreciation	14	<b>128,026</b>	109,421	113,091
Building expenses		<b>34,175</b>	22,913	9,537
Increase in fair value of investment property	13	<b>(274,307)</b>	(298,591)	(294,121)
Loss from buy-back of debentures			91	-
Amortization of costs, discounts and premiums from raising loans and debentures		<b>(1,936)</b>	(4,227)	(4,621)
Erosion of deposits, net		<b>(519)</b>	(738)	(980)
The Company's share in losses (profits) of equity accounted investee companies	12	<b>(1,224)</b>	(1,203)	491
Loss from sale of investment in investee company (see Note 17)		<b>146</b>	-	-
Gain from securities and other investments	26	<b>(82,623)</b>	(227,652)	(49,679)
Gain from sale of subsidiary		<b>(11,608)</b>	-	-
Capital loss from sale of investment property		<b>36</b>	-	-
Capital gain from sale of fixed assets		<b>(115)</b>	(4,162)	-
Financing expenses, net		<b>116,444</b>	91,397	119,949
Interest paid		<b>(114,803)</b>	(106,006)	(99,543)
Income tax paid, net		<b>(960)</b>	(4,888)	(5,253)
Income tax expenses (savings)	30	<b>79,137</b>	77,775	(57,446)
Receipt of housing for the elderly deposits		<b>2,868</b>	3,300	2,814
Repayment of housing for the elderly deposits		<b>(2,973)</b>	(3,655)	(2,465)
Investments in apartment inventory	11	<b>(378)</b>	(1,282)	(4,148)
Proceeds from sale of apartment inventory		<b>23,196</b>	3,877	10,022
Gain from sale of apartments		<b>(4,444)</b>	(694)	(5,994)
		<b>253,203</b>	222,485	179,396
Change in trade receivables and other receivables		<b>(11,681)</b>	(19,631)	39,499
Change in long-term receivables		<b>(570)</b>	(349)	(363)
Change in current liabilities		<b>29,605</b>	9,624	(47,685)
Change in hotel inventory		<b>(5,947)</b>	854	691
Change in employee benefits		<b>6,241</b>	1,554	1,435
		<b>17,648</b>	(7,948)	(6,423)
<b>Net cash from operating activities</b>		<b>270,851</b>	214,537	172,973
<b>Cash flows from investing activities</b>				
Proceeds from sale of marketable securities		<b>399,682</b>	67,058	4,263
Income tax paid on marketable securities		<b>(706)</b>	-	-
Receipts (payment) for derivatives, net		<b>(20,248)</b>	(16,986)	95,445
Dividends received		<b>25,225</b>	17,530	3,379
Investment in fixed assets		<b>(247,919)</b>	(332,886)	(219,978)
Investment grant received		<b>2,500</b>	-	6,500
Investment in investment property		<b>(912,297)</b>	(56,572)	(299,135)
Proceeds from sale of consolidated company net of cash disposal (see Note 13D)		<b>47,305</b>	-	-
Proceeds from sale of investment in investee company (see Note 12)		<b>1,216</b>	-	-
Change in long-term receivables, net		<b>(168)</b>	-	(6,144)
Change in restricted cash and deposits		<b>(17,335)</b>	(36,795)	(996)
Proceeds from sale of fixed assets		<b>115</b>	36,682	-
Proceeds from sale of investment property less selling expenses		<b>50,975</b>	-	245,905
Income tax paid on sale of investment property		<b>-</b>	-	(37,966)
Dividend received from investee company		<b>-</b>	2,275	456
Receipts (payments) of VAT on investment property and fixed assets, net		<b>2,385</b>	(787)	245
<b>Net cash used in investing activities</b>		<b>(669,270)</b>	(320,481)	(208,026)

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

**Consolidated Statements of Cash Flows for the Year Ended December 31 (cont'd)**

	2018 NIS thousands	2017 NIS thousands	2016 NIS thousands
<b>Cash flows from financing activities</b>			
Credit from banks, net	20,002	(1,052,472)	143,452
Receipt of long-term loans from banks, less raising expenses	604,652	1,187,424	229,700
Repayment of long-term loans from banks	(110,157)	(71,110)	(138,523)
Proceeds from issuance of debentures (net of issuance expenses)	223,750	483,959	7,289
Buy-back of the Company's shares	-	(100,368)	(29,974)
Repayment of suppliers' credit for construction	(109,505)	(57,349)	(11,702)
Repayment of debentures	(191,167)	(208,728)	(120,045)
Dividend paid	(59,890)	(50,524)	(5,889)
Change in rent deposits, net	1,859	(351)	323
Dividend distributed to non-controlling interests	(9,171)	(5,558)	(9,700)
<b>Net cash from financing activities</b>	<b>370,373</b>	<b>124,923</b>	<b>64,931</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(28,046)</b>	<b>18,979</b>	<b>29,878</b>
Cash and cash equivalents at beginning of year	104,095	85,659	58,635
Effect of change in exchange rate on balance of cash and cash equivalents	5,343	(543)	(2,854)
<b>Cash and cash equivalents at end of year</b>	<b>81,392</b>	<b>104,095</b>	<b>85,659</b>

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

## **Note 1 - General**

### **A. Reporting entity**

Alrov Properties and Lodgings Ltd. (hereinafter - "the Company") is an Israeli resident company that was incorporated in Israel and has as its address of record 46 Rothschild Blvd, Tel Aviv. The consolidated financial statements of the Group as at December 31, 2018 include those of the Company and its subsidiaries (hereinafter collectively - "the Group"), as well as the interests of the Group in associate companies. The Company is controlled by Mr. Alfred Akirov through companies that he owns. The Group operates primarily in the hotel sector in Israel and overseas as well as in the investment property sector by way of development or acquisition of income property, particularly shopping centers and offices.

The securities of the Company are listed for trade on the Tel Aviv Stock Exchange.

### **B. Definitions**

In these financial statements –

- (1) The Company - Alrov Properties and Lodgings Ltd.
- (2) The Group - Alrov Properties and Lodgings Ltd. and its subsidiaries.
- (3) Subsidiaries – Companies, including a partnership, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.
- (4) Investee companies – Subsidiaries and companies, including a partnership or joint venture, the Company's investment in which is stated, directly or indirectly, on the equity basis.
- (5) Related party - Within its meaning in IAS 24 (2009), "Related Party Disclosures".
- (6) Interested parties – Within their meaning in Paragraph (1) of the definition of an "interested party" in Section 1 of the Securities Law, 1968.

### **C. Financing of the Group's operations**

As to the resolution of the Company to prefer financing with short-term credit over financing with long-term credit and its policy in the management of the liquidity risk, see Note 32C.

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## Note 2 - Basis of Preparation

### A. Statement of compliance

The consolidated financial statements have been prepared by the Group in accordance with International Financial Reporting Standards (hereinafter: "IFRS").

The financial statements have also been prepared in accordance with the Securities Regulations (Annual Financial Statements), 2010.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 31, 2019.

### B. Functional and presentation currency

These consolidated financial statements are presented in NIS, which is the Company's functional currency, and have been rounded to the nearest thousand.

The NIS is the currency that represents the principal economic environment in which the Company operates.

### C. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

- Financial instruments measured at fair value through profit or loss.
- Deferred tax assets and liabilities.
- Assets and liabilities for employee benefits.
- Investment property measured at fair value.
- Provisions.
- Fixed assets accounted for using the revaluation model.
- Investments in equity-accounted associate companies.
- Inventories measured at the lower of cost or net realizable value.

For further information regarding the measurement of these assets and liabilities, see Note 3, Significant Accounting Policies.

### D. Operating cycle

The Group has two operating cycles. As regards the entrepreneurial real estate sector, the operating cycle of the Group is longer than one year and ranges from two to three years. As regards the Group's other operations, the operating cycle is one year. As a result, current assets and current liabilities include items the realization of which is intended and anticipated to take place within the operating cycle of these operations.

### E. Classification of expenses recognized in the statement of income

The classification of expenses recognized in the statement of income is based on the nature of the expense.

**Note 2 - Basis of Preparation (cont'd)**

**F. Use of estimates and judgments**

In preparing the consolidated financial statements in conformity with IFRS, management of the Company is required to exercise judgment and use assessments, estimates and assumptions that affect the application of the accounting policies and the amounts of assets and liabilities, revenues and expenses. It is hereby clarified that actual results may differ from such estimates.

The preparation of accounting estimates used in the preparation of the Company's financial statements requires that management of the Company makes assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions made by the Group with respect to the future and other reasons for uncertainty with respect to estimates that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities in the next financial year are included in the following notes:

Estimate	Principal assumptions	Possible effects	Reference
Fair value measurement of investment property	The expected yield and income on the investment property asset.	Gain or loss from a change in the fair value of investment property	For information on the changes in the anticipated yields on the fair value of investment property, see Note 13, "Investment Property".
Fair value measurement of fixed assets	Discount rate, anticipated operating profit, anticipated occupancy rates	Other comprehensive income or loss in respect of a change in the fair value of fixed assets	For information on the changes in the discount rate, anticipated income and anticipated occupancy rates, see Note 14, "Fixed Assets".
Uncertain tax positions	The extent of the uncertainty that the Group's tax positions will be accepted (uncertain tax positions) and the risk of it incurring any additional tax and interest expenses. This is based on an analysis of a number of factors, including interpretations of tax laws and the Group's past experience.	Recognition of additional income tax expenses	See Note 30, "Taxes on Income".

## Note 2 - Basis of Preparation (cont'd)

### F. Use of estimates and judgments (cont'd)

Estimate	Principal assumptions	Possible effects	Reference
Assessment of probability of contingent liabilities	Whether it is more likely than not that an outflow of economic resources will be required in respect of legal claims pending against the Company and its investee companies.	Reversal or creation of a provision for a claim	For information on the Company's exposure to claims, see Note 31C regarding contingent liabilities.

#### Determination of fair value

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 25, "Intangible Assets".
- Note 13, "Investment Property"
- Note 14, "Fixed Assets"
- Note 33, "Financial Instruments".

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the assessment, as follows:

- 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, either directly or indirectly.
- Level 3 - inputs that are not based on observable market data (unobservable inputs).

### G. Capital management - objectives, procedures and processes

Management's policy is to maintain a strong capital base in order to preserve the ability of the Company to continue operating so that it may provide a return on capital to its shareholders, benefits to other holders of interests in the Company, such as credit providers and employees of the Company, and sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total share capital, excluding non-controlling interests. The Board of Directors also monitors the amounts of dividends to the ordinary shareholders. As to the capital requirements that are imposed on the Company and its subsidiaries, see Note 18I.

  
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## Note 2 - Basis of Preparation (cont'd)

### H. Initial application of new standards

#### (1) IFRS 15, *Revenue from Contracts with Customers*

As from January 1, 2018 the Group applies International Financial Reporting Standard 15 ("IFRS 15" or "the standard") which provides guidance on revenue recognition.

The Group elected to apply the standard using the cumulative effect approach, with an adjustment to the balance of retained earnings as at January 1, 2018 and without a restatement of comparative data.

The standard introduces a new five step model for recognizing revenue from contracts with customers:

- (1) Identifying the contract with the customer.
- (2) Identifying distinct performance obligations in the contract.
- (3) Determining the transaction price.
- (4) Allocating the transaction price to distinct performance obligations.
- (5) Recognizing revenue when the performance obligations are satisfied.

As part of the initial application of the standard, the Group has chosen to apply the expedient of applying the cumulative effect approach only for contracts not yet completed at the transition date.

The table below presents the cumulative effect of the initial application on the items affected in the statement of financial position as at January 1, 2018:

	According to the previous policy	The change (1) Audited	According to IFRS 15
	Audited		Audited
	NIS thousands		NIS thousands
Other receivables and debits	73,597	4,111	77,708
Inventory of apartments	78,874	(3,180)	75,694
Deferred tax liabilities	1,045,607	214	1,045,821
Retained earnings	2,923,402	717	2,924,119

The effect on the items affected in the income statement for the year ended December 31, 2018:

	According to the previous policy	The change (1) Audited	According to IFRS 15
	Audited		Audited
	NIS thousands		NIS thousands
Revenues from sale of apartments	23,239	(4,111)	19,128
Cost of apartments sold	17,864	(3,180)	14,684
Operating profit	550,537	(931)	549,606
Taxes on income savings (expenses)	(79,288)	214	(79,074)
Net profit	365,844	(717)	365,127

(1) The change derives from the transition to recognizing revenue over time in the entrepreneurial real estate sector. According to the standard, revenue from the sale of apartments is recognized over time when several conditions are met, unlike the previous accounting treatment under which the Group recognized revenue only when the apartment was handed over to the buyer.

### Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements by the entities in the Group, aside from the aforesaid in Note 2H.

#### A. Basis of consolidation

##### 1. Business combinations

The Group implements the acquisition method to all business combinations.

The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

The Group recognizes goodwill at acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of rights that do not confer control in the acquiree as well as the fair value at the acquisition date of any pre-existing equity right of the Group in the acquiree, less the net amount of the identifiable assets acquired and the liabilities assumed.

On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured. Furthermore, goodwill is not adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree and equity instruments that were issued by the Group. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of the contingent consideration classified as a financial liability in profit or loss.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as: finder's fees, advisory, legal, valuation and other professional or consulting fees, other than those associated with an issue of debt or equity instruments connected to the business combination, are expensed in the period the services are received.

##### 2. Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

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### Note 3 - Significant Accounting Policies (cont'd)

#### A. Basis of consolidation (cont'd)

##### 3. Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company.

##### **Allocation of profit or loss and other comprehensive income to the shareholders**

Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests. Total comprehensive income is allocated to the owners of the Company and the non-controlling interests, even if the result is a negative balance of non-controlling interests.

##### **Transactions with non-controlling interests, while retaining control**

Transactions with non-controlling interests while retaining control are accounted for as equity transactions. **Any difference between the consideration paid or received and the change in non-controlling interests is included in the owners' share in equity of the Company directly in retained earnings.**

The amount of the adjustment to non-controlling interests is calculated as follows:

**For an increase in the holding rate, according to the proportionate share acquired from the balance of non-controlling interests in the consolidated financial statements prior to the transaction. For a decrease in the holding rate, according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.**

Furthermore, when the holding rate of the subsidiary changes, while retaining control, the Company re-atributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

##### 4. Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary.

The amounts recognized in capital reserves through other comprehensive income with respect to the same subsidiary are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the subsidiary had itself realized the same assets or liabilities.

##### 5. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. **Unrealized gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest in these investments.** Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

  
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### Note 3 - Significant Accounting Policies (cont'd)

- A. Basis of consolidation (cont'd)
- 6. Acquisition of a property company

Upon the acquisition of a property company, the Group exercises discretion when examining whether the transaction constitutes the acquisition of a business or acquisition of an asset, for the purpose of determining the accounting treatment of the transaction. When examining whether a property company constitutes a business, the Group examines, *inter alia*, the nature of the processes in place in the property company, including the extent and nature of the management, security, cleaning and maintenance services that are provided to the tenants. Transactions in which the acquired company is considered a business are accounted for as a business combination as described above. Conversely, transactions in which the acquired company is not considered a business are accounted for as the acquisition of a group of assets and liabilities. In such transactions, the cost of acquisition, which includes transaction costs, is allocated proportionately to the acquired identifiable assets and liabilities, based on their proportionate fair value on the acquisition date. In the latter case, no goodwill is recognized, and no deferred taxes are recognized in respect of the temporary differences existing on the acquisition date.

- B. Foreign currency
- 1. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value, are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

- 2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to NIS at exchange rates at the reporting date. The income and expenses of foreign operations are translated to NIS at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and presented in equity in the foreign operations translation reserve (hereinafter: "translation reserve"). When the foreign operation is a non-wholly-owned subsidiary of the Group, then the relevant proportionate share of the foreign operation translation difference is allocated to the non-controlling interests. **The financial statements of a foreign operation not directly held are first translated into the functional currency of the direct parent company and are after that translated into the functional currency of the ultimate parent company. Therefore, when a foreign operation not directly held is disposed of, the Group reclassifies to profit or loss the cumulative amount in the translation reserve that would have been created if the foreign operation had been translated directly into NIS.**

### Note 3 - Significant Accounting Policies (cont'd)

#### B. Foreign currency (cont'd)

##### 2. Foreign operations (cont'd)

When the Group's interest in a subsidiary that includes a foreign operation changes, while retaining control in the subsidiary, a proportionate part of the cumulative amount of the translation difference that was recognized in other comprehensive income is reattributed to non-controlling interests.

Generally, foreign currency differences in respect of loans received from or granted to foreign operations, including foreign operations that are subsidiaries, are recognized in profit or loss in the consolidated financial statements.

Foreign exchange gains and losses arising from loans received from or granted to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented within equity in the translation reserve.

#### C. Financial instruments

##### (1) Non-derivative financial assets – policy applicable as from January 1, 2017

###### **Initial recognition of financial assets**

The Group initially recognizes trade receivables and debt instruments issued on the date that they are created. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset.

###### **Derecognition of financial assets**

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

###### **Classification of financial assets into categories and the accounting treatment of each category**

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost or fair value through profit or loss.

Financial assets are not reclassified in subsequent periods unless, and only if, the Group changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets so as to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

### Note 3 - Significant Accounting Policies (cont'd)

#### C. Financial instruments (cont'd)

##### (1) Non-derivative financial assets – policy applicable as from January 1, 2017 (cont'd)

###### Classification of financial assets into categories and the accounting treatment of each category (cont'd)

All financial assets not classified as measured at amortized cost as described above, as well as financial assets designated at fair value through profit or loss, are measured at fair value through profit or loss.

The Group has balances of trade and other receivables and deposits that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

###### Assessment of the business model for debt assets

The Group assesses the objective of the business model within which the financial asset is held on the level of the portfolio, since this best reflects the manner by which the business is managed and information is provided to management. The following considerations are taken into account in the assessment of the Group's business model:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- How the performance of the business model and the financial assets within the model is evaluated and reported to the entity's key management people;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for the sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for purposes of assessment of the business model, consistent with the Group's continuing recognition of those financial assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis, are measured at fair value through profit or loss.

###### Assessment whether cash flows are solely payments of principal and interest

For the purpose of assessing whether the cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

### Note 3 - Significant Accounting Policies (cont'd)

#### C. Financial instruments (cont'd)

##### (1) Non-derivative financial assets – policy applicable as from January 1, 2017 (cont'd)

###### Assessment whether cash flows are solely payments of principal and interest (cont'd)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the timing or amount of the cash flows;
- Terms that may change the stated interest rate, including variable interest;
- Extension or prepayment features; and
- Terms that limit the Group's claim to cash flows from specified assets (for example a non-recourse financial asset).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation, received or paid, for early termination of the contract.

Additionally, for a financial asset acquired at a significant premium or discount compared to its contractual stated value, a feature that permits or requires prepayment at an amount that substantially represents the contractual stated value plus accrued (but unpaid) interest (which may also include reasonable additional compensation, received or paid, for early termination), is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

###### Subsequent measurement and gains and losses

###### *Financial assets at fair value through profit or loss*

These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss (other than certain derivatives designated as hedging instruments).

###### *Financial assets at amortized cost*

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

###### Non-derivative financial assets – accounting policies applied in periods prior to January 1, 2017

###### Initial recognition of financial assets

The Group initially recognizes loans, receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group undertook to purchase or sell the asset.

Non-derivative financial assets comprise investments in equity and debt securities, trade and other receivables and cash and cash equivalents.

### Note 3 - Significant Accounting Policies (cont'd)

#### C. Financial instruments (cont'd)

##### (1) Non-derivative financial assets – accounting policies applied in periods prior to January 1, 2017 (cont'd)

###### **Derecognition of financial assets**

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. Regular way sales of financial assets are recognized on the trade date, meaning on the date the Group undertook to sell the asset.

See section (2) below regarding the offsetting of financial assets and financial liabilities.

###### **Classification of financial assets into categories and the accounting treatment of each category**

The Group classifies its financial assets according to the following categories:

###### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading. Attributable transaction costs are recognized in profit or loss as incurred. These financial assets are measured at fair value and changes therein are recognized in profit or loss.

###### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

###### *Cash and cash equivalents*

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

###### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the previous categories. The Group's investments in certain securities are classified as available-for-sale financial assets. Available-for-sale financial assets are recognized initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized directly in other comprehensive income and presented within equity in a reserve for equity instruments classified as available for sale. A dividend received in respect of available-for-sale financial assets are recognized in profit or loss on the date of eligibility for payment. When an investment is derecognized, the cumulative gain or loss in the reserve for available-for-sale financial assets is transferred to profit or loss. Available-for-sale financial assets include available-for-sale securities and other investments.

### Note 3 - Significant Accounting Policies (cont'd)

#### C. Financial instruments (cont'd)

##### (2) Non-derivative financial liabilities

Non-derivative financial liabilities include bank overdrafts, loans and borrowings from banks and others, marketable debt instruments, and trade and other payables.

###### **Initial recognition of financial liabilities**

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

###### **Subsequent measurement of financial liabilities**

Financial liabilities are initially recognized at fair value less any attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Transaction costs directly attributable to an expected issuance of an instrument that will be classified as a financial liability are recognized as an asset in the framework of deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon its initial recognition, or are amortized as financing expenses in the statement of income when the issuance is no longer expected to occur.

###### **Derecognition of financial liabilities**

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires, or when it is discharged or cancelled.

###### **Modification in terms of debt instruments**

An exchange of debt instruments having substantially different terms between an existing borrower and lender, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. Furthermore, a substantial modification of the terms of an existing financial liability or part of it, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

In such cases the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

**In addition to the aforesaid quantitative criterion, the Group examines, inter alia, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments, therefore, as a rule, exchanges of CPI-linked debt instruments with unlinked instruments are considered exchanges with substantially different terms even if they do not meet the aforementioned quantitative criterion.**

**Non-substantial modification in terms of debt instruments - policy applicable after January 1, 2017**  
In a non-substantial modification in terms (or exchange) of debt instruments, the new cash flows are discounted using the original effective interest rate, and the difference between the present value of the new financial liability and the present value of the original financial liability is recognized in profit or loss.

### Note 3 - Significant Accounting Policies (cont'd)

#### C. Financial instruments (cont'd)

##### (2) Non-derivative financial liabilities (cont'd)

###### **Offset of financial instruments**

Financial assets and liabilities are offset and the net amounts presented in the statement of financial position when the Group has a currently enforceable legal right to offset the amounts recognized and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

##### (3) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are recognized initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

###### **Derivatives that do not serve hedging purposes**

The changes in fair value of these derivatives are recognized in profit or loss, **as financing income or expense**.

##### (4) CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase/decrease in the CPI.

##### (5) Share capital

###### Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognized as an asset in deferred expenses in the statement of financial position. The costs are deducted from equity upon the initial recognition of the equity instruments, or are amortized as financing expenses in the statement of income when the issuance is no longer expected to take place.

###### Treasury shares

When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. **Repurchased shares are deducted from the share capital and premium.** When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, **and the resulting surplus on the transaction is carried to share premium, whereas a deficit on the transaction is deducted from retained earnings.**

### Note 3 - Significant Accounting Policies (cont'd)

#### D. Fixed assets

##### 1. Recognition and measurement

Items of fixed assets (other than real estate properties) are measured at cost less accumulated depreciation and impairment losses. Real estate properties that are owned by the Company (other than properties under construction) are presented at a revaluation amount, which is the fair value on the date of revaluation, less accumulated depreciation and impairment losses (if any) accrued thereafter. Revaluations are performed at least once a year, in order to ensure that the carrying amount does not differ materially from the amount that would have been determined on the basis of fair value at the reporting date. In performing a revaluation, the depreciation accumulated as at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated based on the revaluation amount of the asset.

Spare parts, servicing equipment and stand-by equipment are to be classified as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise to be classified as inventory.

The revaluation reserve that is included in equity is transferred directly to retained earnings upon derecognition of the asset.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use.

Advances paid in respect of fixed-asset items are recorded as part of the fixed assets.

When major parts of a fixed asset item (including costs of major periodic inspections) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Gains and losses on disposal of a fixed asset item are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

##### 2. Subsequent costs

The cost of replacing part of a fixed asset item is capitalized if it is probable that the future economic benefits associated with the replaced part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

##### 3. Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value. An asset is depreciated from the date it is ready for use, meaning the date that it reaches the location and condition required for it to operate in the manner intended by management.

  
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**Note 3 - Significant Accounting Policies (cont'd)**

**D. Fixed assets (cont'd)**

**3. Depreciation (cont'd)**

Depreciation is recognized in the income statement on a straight-line basis (unless the amount is included in the carrying amount of another asset) over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land is not depreciated. Leased land under finance lease agreements are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

	%
Real estate (buildings)	1-2
Various systems in buildings (air-conditioning, electricity, elevators, etc.)	5-10
Hotel machinery and furniture	9-33 (mainly 9)
Machinery, equipment and appliances	10
Office furniture and equipment	6-33 (mainly 15)
Vehicles	15
Aircraft	10

Estimates pertaining to depreciation methods, useful lives and residual values are reviewed at least at the end of each reporting year and adjusted as necessary.

**E. Intangible assets**

**Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. For information on the measurement of goodwill at initial recognition, see section A(1) above. In subsequent periods, goodwill is measured at cost less accumulated impairment losses.

**F. Investment property**

Investment property is property (land or building – or part of a building – or both) held (by the Company as owner or by a lessee under a finance lease) either to earn rental income or for capital appreciation or for both, but not for:

1. Use in the production or supply of goods or services or for administrative purposes; or
2. Sale in the ordinary course of business.

Investment property is initially measured at cost including capitalized borrowing costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Any gain or loss on disposal of investment property is determined by comparing the net proceeds from disposal with the carrying amount of the asset at the last financial reporting date, and is recognized in profit or loss under “other income” or “other expenses”, as relevant.

### Note 3 - Significant Accounting Policies (cont'd)

#### F. Investment property (cont'd)

**In subsequent periods the investment property is measured at fair value** with any changes therein recognized in profit or loss. Property under construction that is intended for use as investment property is measured at fair value when its value can be reliably determined. Borrowing costs are not capitalized to investment property under construction measured at fair value. When the fair value cannot be reliably determined, investment property under construction is measured at the fair value of the land plus cost during the construction period until either construction is completed or its fair value becomes reliably determinable, whichever occurs earlier.

A liability to pay a betterment levy on investment property is recognized only on the date of realizing the rights per its meaning in the provisions of the law. Accordingly, as part of the fair value measurement of investment property prior to recognition of the liability to pay a betterment levy, negative cash flows relating to the levy are included.

#### G. Hotelier inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined by the **“first-in first-out” (FIFO)** principle and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling costs.

#### H. Inventory of residential units

Inventory of residential units is measured at the lower of cost and net realizable value. The cost of inventory includes expenditure incurred in acquiring the inventories (including operating lease fees) and the costs incurred in bringing it to its existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### I. Capitalization of borrowing costs

Specific and non-specific borrowing costs are capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use. Non-specific borrowing costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources which were not specifically capitalized. Foreign currency differences from credit in foreign currency are capitalized if they are considered an adjustment of interest costs. Other borrowing costs are recognized in profit or loss as incurred.

  
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### Note 3 - Significant Accounting Policies (cont'd)

#### J. Impairment

##### (1) Non-derivative financial assets – policy applicable as from January 1, 2017

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial asset. 12-month expected credit losses are the expected credit losses that result from possible default events within the 12 month period after the reporting date. The maximum period considered when assessing expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis, based on the Group's past experience and informed credit assessment, and it includes forward looking information.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full; or
- The contractual payments of the financial asset are past due for more than 90 days.

#### Measurement of expected credit losses

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following events:

- Significant financial difficulty of the issuer or borrower;
- A breach of contract such as a default or payments being past due;
- The restructuring of a loan or payment due to the Group on terms that the Group would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

#### Presentation of provision for expected credit losses in the statement of financial position

Provisions for expected credit losses of financial assets measured at amortized cost are deducted from the gross carrying amount of the financial assets.

#### Write-off

The gross carrying amount of a financial asset is fully or partly written off when the Group does not have reasonable expectations of recovery. This is usually the case when the Group determines that the debtor does not have assets or sources of income that may generate sufficient cash flows for paying the amounts being written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Write-off constitutes a de-recognition event.

### Note 3 - Significant Accounting Policies (cont'd)

#### J. Impairment (cont'd)

##### (1) Non-derivative financial assets – Accounting policies applied in periods prior to January 1, 2017

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- Breach of contract by a debtor;
- Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers;
- Changes in the economic environment that correlate with insolvency of issuers or the disappearance of an active market for a security;
- Observable data indicating a measurable decrease in the cash flow expected from a group of financial assets.

The Company considers evidence of impairment for loans, trade receivables and other receivables for each individual asset.

#### Evidence of impairment of available-for-sale financial assets

When testing available-for-sale financial assets that are equity instruments for impairment, the Group also examines the difference between the fair value of the asset and its original cost while taking into consideration the length of time the fair value of the asset is lower than its original cost and changes in the market environment in which the issuer of the instrument operates. In addition, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

#### Evidence of impairment of debt instruments

The Group considers evidence of impairment for loans, trade receivables and other receivables at the level of specific assets. Losses are recognized in profit or loss and presented as an impairment provision against the balance of the financial asset that is measured at amortized cost.

#### Accounting for impairment losses of available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in a capital reserve to profit or loss. The cumulative loss that is classified from other comprehensive income to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss.

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### Note 3 - Significant Accounting Policies (cont'd)

#### J. Impairment (cont'd)

##### 1. Non-derivative financial assets (cont'd)

###### (1) Non-derivative financial assets – Accounting policies applied in periods prior to January 1, 2017 (cont'd)

###### **Reversal of impairment loss**

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized (such as repayment by the debtor). For financial assets measured at amortized cost, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in other comprehensive income.

###### (2) Non-financial assets

###### **Timing of impairment testing**

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Once a year and on the same date, the Company estimates the recoverable amount of each cash generating unit that contains goodwill.

###### **Measurement of recoverable amount**

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Subject to an operating segment ceiling test (before the aggregation of similar segments), for the purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Goodwill acquired in a business combination is allocated to groups of cash-generating units that are expected to benefit from the synergies of the combination.

###### **Recognition of impairment loss**

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit to which the asset is allocated exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis. Impairment losses in respect of an asset that is measured on the basis of the revaluation model are recognized in other comprehensive income as a reduction of the revaluation reserve recorded in respect of the asset. The balance of the loss after the reduction of the reserve to zero is recognized as an expense in profit or loss.

### Note 3 - Significant Accounting Policies (cont'd)

#### J. Impairment (cont'd)

##### (2) Non-financial assets (cont'd)

###### **Reversal of impairment loss**

The reversal of an impairment loss in respect of an asset that is measured on the basis of the revaluation model is initially recognized as income in profit or loss up to the amount of the losses previously recognized in profit or loss. The balance, if any, is recognized in other comprehensive income as an increase in a revaluation reserve.

###### **Allocation of impairment loss to non-controlling interests**

An impairment loss is allocated between the owners of the Company and the non-controlling interests on the same basis that the profit or loss is allocated.

###### **Reversal of impairment loss**

An impairment loss in respect of goodwill is not reversed. In respect of other assets, for which impairment losses were recognized in prior periods, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### K. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows **at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability without adjustment for the Company's credit risk.** The carrying amount of the provision is adjusted each period to reflect the time that has passed. The amount of the adjustment is recognized as a financing expense.

###### **Legal claims**

A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably. When the value of time is material, the provision is measured at its present value.

  
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### Note 3 - Significant Accounting Policies (cont'd)

#### L. Revenue

##### Policy applicable as from January 1, 2018

###### **Identifying the contract**

The Group accounts for a contract with a customer only when the following conditions are met:

- (a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
- (b) The Group can identify the rights of each party in relation to the goods or services that will be transferred;
- (c) The Group can identify the payment terms for the goods or services that will be transferred;
- (d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- (e) It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

For the purpose of paragraph (e) the Group examines, *inter alia*, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: the Group has no remaining obligations to transfer goods or services to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

###### **Identifying performance obligations**

On the contract's inception date the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

- (a) Goods or services (or a bundle of goods or services) that are distinct; or
- (b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract.

**In the entrepreneurial real estate sector, in contracts with customers for the sale of apartments, the Group has identified one performance obligation in each contract.**

###### **Determining the transaction price**

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of all the following elements when determining the transaction price: variable consideration, the existence of a significant financing component, non-cash consideration, and consideration payable to the customer.

### Note 3 - Significant Accounting Policies (cont'd)

#### L. Revenue (cont'd)

##### Policy applicable as from January 1, 2018 (cont'd)

###### Determining the transaction price (cont'd)

The Group applies a method based on inputs for measuring progress in performance. According to this method, the percentage of completion is determined based on an estimate of total costs required to complete the performance obligation. This estimate includes direct costs as well as indirect costs relating directly to satisfaction of the performance obligation and are allocated according to a reasonable allocation key. The Group is of the opinion that using the inputs method best represents the pattern of transferring control to the customer.

###### Satisfaction of performance obligations

For management and maintenance services in the income-producing real estate sector – revenue is recognized over time in the reporting period in which the services are provided, since the customer simultaneously receives and consumes the benefits provided by the Group's performance when the Group provides such services.

For revenue from the sale of apartments in the entrepreneurial real estate sector, the Group transfers control over time and therefore recognizes revenue over time since, according to the Group's contracts with its customers, and the relevant provisions of the law, the Group has decided that the contracts to sell apartments award the Group an enforceable right to payment for performance completed to date, and also that no asset with an alternative use has been created for the Group.

###### Revenue from inventory of apartments

In projects of entrepreneurial real estate for which the Group recognizes revenue over time, since individual apartments cannot be handed over before the entire building has been completed, the Group determines the stage of completion for each sale contract according to the stage of completion of the building as a whole.

###### Rendering of services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

###### Rental income

Rental income from investment property is recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

###### Principal or agent

When another party is involved in providing goods or services to the customer, the Group examines whether the nature of its promise is a performance obligation to provide the defined goods or services itself, which means the Group is a principal and therefore recognizes revenue in the gross amount of the consideration, or to arrange that another party provide the goods or services which means the Group is an agent and therefore recognizes revenue in the amount of the net commission.

### Note 3 - Significant Accounting Policies (cont'd)

#### L. Revenue (cont'd)

##### Policy applicable as from January 1, 2018 (cont'd)

###### Principal or agent (cont'd)

The Group is a principal when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include, inter alia, as follows: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

In the property rental and management sector, the Group provides electricity and management services to the tenants. In cases that the Group cannot direct the service transferred to the customer and it actually acts as an agent, the revenue is recognized on a net basis. In other cases, the revenue is recognized on a gross basis.

##### Policy applicable before January 1, 2018

Revenue from the sale of inventory of residential units is measured at the fair value of the consideration received or receivable. The Group recognizes revenue when the significant risks and rewards of ownership of the inventory have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of inventory can be estimated reliably, there is no continuing management involvement with the inventory, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

###### Revenue from inventory of apartments

With regard to the sale of residential units in Israel, risks and rewards are usually transferred upon the delivery of the apartment to the buyer.

###### Rendering of services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

###### Rental income

Rental income from investment property is recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

#### M. Government grants

Unconditional government grants are recognized initially at fair value when there is reasonable assurance that they will be received, and the Group will comply with the conditions associated with the grant.

**Government grants received for the construction of an asset are presented as a deduction from the related asset** and are recognized in profit or loss on a systematic basis over the useful life of the asset.

### Note 3 - Significant Accounting Policies (cont'd)

#### N. Leases

##### (1) Leased assets

Leases of lands where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases, and the leased assets are not recognized on the Group's statement of financial position. **Operating leases of property which the Group has chosen to classify as investment property are an exception**, where the investment property is recognized on the Group's statement of financial position at fair value, and the lease is accounted for as a finance lease at initial recognition.

##### (2) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the income from lease payments over the lease period.

#### O. Financing income and expenses

Financing income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues, using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is established. If the dividend is received in respect of quoted securities, the Group recognizes the dividend income on the ex-dividend date.

**Changes in the fair value of financial assets at fair value through profit or loss also include income from dividends and interest.**

Financing expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets (other than losses on trade receivables that are presented under general and administrative expenses).

Borrowing costs, which are not capitalized, are recognized in profit or loss using the effective interest method.

**Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.**

**In the statements of cash flows, interest received and paid is presented as part of cash flows from operating activities. Dividends received are presented as part of cash flows from investing activities and dividends paid are presented as part of cash flows from financing activities.**

### Note 3 - Significant Accounting Policies (cont'd)

#### P. Income tax expense

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or are recognized directly in equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income.

##### Current taxes

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

##### Offset of current tax assets and liabilities

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

##### Uncertain tax positions

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

##### Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences:

- The initial recognition of goodwill,
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and
- Differences relating to investments in subsidiaries, joint arrangements and associates, to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for carryforward tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

### Note 3 - Significant Accounting Policies (cont'd)

#### P. Income tax expense (cont'd)

##### Deferred taxes (cont'd)

###### Offset of deferred tax assets and liabilities

The Group offsets deferred tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities on a net basis or their current tax assets and liabilities will be settled simultaneously.

###### Additional tax on dividend distribution

The Group may be required to pay additional tax if a dividend is distributed by Group companies. This additional tax was not included in the financial statements, since the policy of the Group companies is to not distribute a dividend which creates an additional tax liability for the recipient company in the foreseeable future. In such cases that an investee company is expected to distribute a dividend from profits involving additional tax for the Company, the Company creates a tax provision in respect of the additional tax it may be required to pay in respect of the dividend distribution.

Additional income taxes that arise from the distribution of dividends by the Company are recognized in profit or loss at the same time as the liability to pay the related dividend is recognized.

###### Inter-company transactions

Deferred tax in respect of inter-company transactions in the consolidated financial statements is recorded according to the tax rate applicable to the buying company.

#### Q. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### R. Transactions with controlling shareholder

**Assets and liabilities included in a transaction with a controlling shareholder are measured at fair value on the date of the transaction. As the transaction is on the equity level, the Company includes the difference between the fair value and the consideration from the transaction in its equity.**

#### S. New standards and interpretations not yet adopted

##### (1) IFRS 16, Leases

The standard replaces IAS 17, *Leases* and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize a right-of-use asset and a lease liability in its financial statements. Furthermore, the standard determines new and expanded disclosure requirements from those required at present.

### Note 3 - Significant Accounting Policies (cont'd)

#### S. New standards and interpretations not yet adopted (cont'd)

##### (1) IFRS 16, Leases (cont'd)

IFRS 16 is applicable for annual periods as of January 1, 2019. IFRS 16 includes various alternative transitional provisions, so that companies can choose one of the alternatives at initial application consistently for all leases.

The Group plans to adopt IFRS 16 as from January 1, 2019 using the cumulative effect method, such that the right-of-use assets will be recognized at the same amount of the lease liability according to the present value of the discounted balance of future lease payments. Therefore, no effect on equity is expected at the date of initial application.

##### Expedients:

##### Expedients available for group of essentially similar assets:

- (1) Not applying the requirement to recognize a right-of-use asset and a lease liability in respect of short-term leases of up to one year.
- (2) Not separating non-lease components from lease components and instead accounting for all the lease components and related non-lease components as a single lease component.

##### Expedients available for each separate lease:

- (1) Relying on a previous assessment of whether an arrangement contains a lease in accordance with current guidance with respect to agreements that exist at the date of initial application.
- (2) Not applying the requirement to recognize a right-of-use asset and a lease liability in respect of leases where the underlying asset has a low value.
- (3) Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group has examined the implications of the standard, and it assesses that implementation of the standard is not expected to have a material effect on the financial statements.

##### (2) IFRIC 23, Uncertainty Over Income Tax Treatments

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes. According to IFRIC 23, when determining the taxable profit (loss), tax bases, carryforward tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity's tax position, the entity will recognize the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept the entity's tax position, the entity is required to reflect the uncertainty in its accounts by using one of the following methods: the most likely outcome or the expected value. IFRIC 23 clarifies that when the entity examines whether or not it is probable that the tax authority will accept the entity's position, it is assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and that it has full knowledge of all relevant information when doing so. Furthermore, according to IFRIC 23 an entity has to consider changes in circumstances and new information that may change its assessment. IFRIC 23 also emphasizes the need to provide disclosures of the judgments and assumptions made by the entity regarding uncertain tax positions.

### Note 3 - Significant Accounting Policies (cont'd)

#### S. New standards and interpretations not yet adopted (cont'd)

##### (2) IFRIC 23, Uncertainty Over Income Tax Treatments (cont'd)

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The interpretation includes two alternatives for applying the transitional provisions, so that companies can choose between retrospective application or prospective application as from the first reporting period in which the entity initially applied the interpretation.

The Group has examined the effects of applying IFRIC 23, and in its opinion the effect on the financial statements will be immaterial.

##### (3) Amendment to IFRS 3, Business Combinations

The Amendment clarifies whether a transaction to acquire an operation is the acquisition of a "business" or an asset. For the purpose of this examination, the Amendment added an optional concentration test so that if substantially all of the fair value of the acquired assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the acquisition will be of an asset. In addition, the minimum requirements for definition as a business have been clarified, such as for example the requirement that the acquired processes be substantive so that in order for it to be a business, the operation shall include at least one input element and one substantive process, which together significantly contribute to the ability to create outputs. Furthermore, the Amendment narrows the reference to the outputs element required in order to meet the definition of a business and added examples illustrating the aforesaid examination. The Amendment is effective for transactions to acquire an asset or business for which the acquisition date is in annual periods beginning on or after January 1, 2020, with earlier application being permitted.

The Group has not yet commenced examining the effects of adopting the Amendment on the financial statements.

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#### Note 4 - Determination of Fair Value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

##### A. Fixed assets

The fair value of the real estate properties (other than properties under construction) is determined on the basis of valuations prepared by independent outside appraisers who possess appropriate professional skills.

The valuation method used in performing the valuation is based on the discounting of the cash flows deriving from the asset at a discount rate of 7%-9% for hotels in Israel and 3.5%-6.25% for hotels overseas, this in the absence of suitable comparative data for the implementation of the comparison method or the cost method.

##### B. Investment property

The Group estimates the value of the Group's investment properties at least annually through independent outside appraisers who possess appropriate and recognized professional skills and applicable experience in relation to the location and type of the property being evaluated. The fair value figures are based on market values. The market value of investment property is the estimated amount that would have been received from the sale of the property on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the parties each acted knowledgeably.

In the absence of current prices in an active market, or comparable transaction, valuations of investment property take into account the estimated total of cash flows that are expected to be received from the rent of the property. The valuation of the property is based on the net annual cash flows, discounted at a rate of return that reflects the specific risks that are inherent in the net cash flows. Where rental agreements are in place, for which payments differ materially different from the projected rental payments, adjustments are made to reflect the actual rental payments over the period of the agreement.

With respect to investment property under construction, the fair value is based on the estimated fair value of the investment property after completion of its construction, less the present value of the estimated construction costs expected for its completion and less a reasonable entrepreneurial profit, taking into account a discount rate adjusted for the property's relevant risks and characteristics.

To the extent relevant, the valuations take into account the type of tenants that actually occupy the leasehold or are responsible for fulfilling the rental obligations or may occupy the leasehold when available property is rented out, including a general assessment of their credit quality; distribution of the responsibility for the property's maintenance and insurance between the Group and the tenant; and the remaining economic life of the property. See also Note 13.B.

##### C. Derivatives

The fair value of forward contracts on foreign currency is based on their quoted price, to the extent available. In the absence of a quoted price, the fair value of the forward contracts is estimated by discounting the difference between the forward price that is set out in the contract and the present forward price in respect of the remaining period of the contract to maturity, using a risk-free interest rate (on the basis of government debentures).

#### Note 4 - Determination of Fair Value (Cont'd)

##### C. Derivatives (cont'd)

The fair value of interest rate swaps is based on bank/broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

For further information regarding the fair value hierarchy, see Note 33.E, Financial Instruments.

##### D. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is determined by reference to the quoted closing asking price at the reporting date. If such a quoted price is not available, fair value is calculated on the basis of the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### Note 5 - Operating Segments

The Group has four reportable segments, as described below, which form strategic business units. The strategic business units offer different products and services and the allocation of resources and evaluation of performance are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's chief operating decision maker (CODM) reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's operating segments:

- (a) Investment property - The investment property sector represents a cluster of the Company's operations involving long-term investments in investment properties in Israel and overseas, and their betterment, rent and disposal once the potential of the property has been exhausted.
- (b) Lodging overseas - Development of construction or acquisition of hotels and their operation outside Israel. This sector represents a cluster of the Company's lodging operations in the UK together with its lodging operations in the Netherlands and France.
- (c) Lodging in Israel - Development of construction or acquisition of hotels and their operation in Israel. This sector represents a cluster of the Company's lodging operations in Israel.
- (d) Securities - The operations of the Company in this field consist primarily of investment in bank shares.

Other operations include activities in the assisted living sector and investment in an inventory of residential units. These operations are not recognized as reportable segments since they do not meet any of the quantitative thresholds in 2018 or in the years 2017 and 2016.

### Note 5 - Operating Segments (cont'd)

The accounting policies of the business segments is identical to that presented in Note 3, Significant Accounting Policies.

Segment results and segment assets reported to the chief operating decision maker include items directly attributable to a segment on a reasonable basis. Unallocated items consist primarily of expenses stemming from the assets of the Group's headquarters, such as: general and administrative costs, financing costs and income-tax assets and liabilities that are not specifically attributable.

Segment profits are measured based on the operating profit as included in the reports that are regularly reviewed by the chief operating decision maker and include items directly attributable to a segment on a reasonable basis, other than expenses that cannot be attributed on a reasonable basis, such as: general and administrative expenses, general and administrative depreciation, other expenses and losses from associate companies.

Segment capital expenditure is the total cost incurred during the period to acquire fixed assets and investment property.

Segment assets comprise fixed and intangible assets, investment property, and securities at fair value.

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**Note 5 - Operating Segments (cont'd)**  
Business segments

	Investment property 2018	Lodging overseas 2018	Lodging in Israel 2018	Securities 2018	Other 2018	Consolidated 2018
NIS thousands						
Segment revenues	679,691	326,074	268,595	88,126	27,030	1,389,516
Segment results before depreciation	583,763	6,162	77,371	88,126	5,370	760,792
Depreciation expenses	-	(70,919)	(43,894)	-	-	(114,813)
Segment results	583,763	(64,757)	33,477	88,126	5,370	645,979
Unallocated revenues				646		646
Unallocated expenses				(98,243)		(98,243)
Share in profits of equity-accounted investees				1,224		1,224
Operating profit					549,606	549,606
Allocated financing expenses, net		(27,983)	-	-	-	(27,983)
Unallocated financing expenses, net						(77,421)
Profit before tax					444,202	444,202
Taxes on income					(79,137)	(79,137)
Profit for the year					365,065	365,065
Segment results attributable to the owners of the Company	486,628	(51,806)		33,477	88,126	5,370

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**Note 5 - Operating Segments (cont'd)**  
Business segments

	Investment property	Lodging overseas	Lodging in Israel	Securities	Other	Consolidated
	2017	2017	2017	2017	2017	2017
NIS thousands						
Segment revenues	657,786	240,097	236,807	236,652	13,551	1,384,893
Segment results before depreciation	578,012	32,408	60,184	236,652	1,764	909,020
Depreciation expenses	-	(54,081)	(41,916)	-	-	(95,997)
Segment results	578,012	(21,673)	18,268	236,652	1,764	813,023
Unallocated revenues					10,582	
Unallocated expenses					(95,970)	
Share in profits of equity-accounted investees					1,203	
Operating profit					728,838	
Allocated financing expenses, net					(17,981)	
Unallocated financing expenses, net					(66,273)	
Profit before tax					644,584	
Taxes on income					(77,775)	
Profit for the year					566,809	
Segment results attributable to the owners of the Company	522,148	(17,338)	18,268	236,652	1,764	

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**Note 5 - Operating Segments (cont'd)**  
**Business segments**

	Investment property	Lodging overseas	Lodging in Israel	Securities	Other	Consolidated
	2016	2016	2016	2016	2016	2016
Segment revenues	648,649	249,981	179,919	51,197	31,169	1,160,915
Segment results before depreciation	582,923	27,128	27,809	51,197	8,137	697,194
Depreciation expenses	-	(58,993)	(40,048)	-	-	(99,041)
Segment results	582,923	(31,865)	(12,239)	51,197	8,137	598,153
Unallocated revenues				8,446		8,446
Unallocated expenses				(94,550)		(94,550)
Share in losses of equity-accounted investees				(491)		(491)
Operating profit					511,558	
Allocated financing expenses, net	(23,046)	-	-	-	(23,046)	
Unallocated financing expenses, net					(98,216)	
Profit before tax					390,296	
Taxes on income					57,446	
Profit for the year					447,742	
Segment results attributable to the owners of the Company	484,646	(25,492)	(12,239)	51,143	8,137	

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**Note 5 - Operating Segments (cont'd)**

	Investment property		Lodging overseas		Lodging in Israel		Securities		Other		<b>Total</b>
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	
<b>NIS thousands</b>											<b>2017</b>
Segment assets	<b>8,010,969</b>	<b>6,591,169</b>	<b>3,927,410</b>	<b>3,410,187</b>	<b>1,270,700</b>	<b>1,265,300</b>	<b>504,352</b>	<b>841,133</b>	<b>110,738</b>	<b>132,244</b>	<b>13,824,169</b>
Investment in equity-accounted investees											12,240,033
Unallocated assets											410
Total assets	<b>5,937,290</b>	<b>3,654,251</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>245</b>
Segment liabilities											369,350
Unallocated liabilities											428,303
Total liabilities	<b>1,019,905</b>	<b>80,241</b>	<b>362,092</b>	<b>267,390</b>	<b>8,061</b>	<b>23,270</b>	<b>-</b>	<b>-</b>	<b>1,414</b>	<b>1,282</b>	<b>14,193,929</b>
Capital expenditure											12,668,581

**Information on geographical segments**

	Israel		Switzerland		France		UK		Netherlands		<b>Other regions</b>
	2018	2017	2016	2018	2017	2016	2018	2017	2016	2017	
<b>NIS thousands</b>											<b>2016</b>
External revenues	<b>573,402</b>	<b>871,583</b>	<b>457,923</b>	<b>367,074</b>	<b>139,342</b>	<b>360,163</b>	<b>122,569</b>	<b>47,612</b>	<b>58,000</b>	<b>206,454</b>	<b>182,227</b>
Segment assets	<b>3,607,654</b>	<b>3,933,272</b>	<b>3,459,235</b>	<b>4,598,734</b>	<b>3,967,428</b>	<b>4,198,811</b>	<b>2,764,611</b>	<b>1,907,270</b>	<b>1,568,887</b>	<b>2,373,067</b>	<b>2,019,307</b>
											735,827
											717,390
											678,689
											114,036
											123,914
											40,321

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**Note 6 - Cash and Cash Equivalents**

	December 31	
	2018	2017
	NIS thousands	NIS thousands
Bank balances	76,704	98,080
Call deposits	4,688	6,015
	<b>81,392</b>	<b>104,095</b>

The Group's exposure to interest rate and currency risks, and a sensitivity analysis for financial assets and liabilities are disclosed in Note 33, Financial Instruments.

**Note 7 - Securities at Fair Value through Profit or Loss**

	December 31	
	2018	2017
	NIS thousands	NIS thousands
<b>Current assets:</b>		
Securities at fair value through profit or loss	<b>504,352</b>	<b>841,133</b>

The value of the portfolio consists primarily of an investment of NIS 497 million in the shares of Bank Leumi Le Israel Ltd. (December 31, 2017 – investment of NIS 824 million).

**Note 8 - Trade Receivables**

	December 31	
	2018	2017
	NIS thousands	NIS thousands
<b>Composition:</b>		
Hotel guests	33,360	26,747
Property renters	20,321	16,018
Less – provision for doubtful debts	(4,248)	(2,265)
	<b>49,433</b>	<b>40,500</b>

The Group's exposure to interest rate risk and impairment losses in respect of trade receivables is disclosed in Note 33, Financial Instruments.

**Note 9 - Other Receivables and Debits**

	December 31	
	2018	2017
	NIS thousands	NIS thousands
<b>Composition:</b>		
Government institutions	8,808	9,472
Short-term loans and deposits**	20,674	40,302
Prepaid expenses	10,245	9,922
Income receivable	71	5,195
Other*	5,482	8,706
	<hr/>	<hr/>
	<b>45,280</b>	<b>73,597</b>

\* Includes balances in respect of related parties, see Note 34.

\*\* In 2018 includes restricted cash; in 2017 includes monies in trust for purchase of investment property.

The Group's exposure to credit risks, currency risks and impairment losses in respect of other receivables is disclosed in Note 33, Financial Instruments.

**Note 10 - Hotelier Inventory**

	December 31	
	2018	2017
	NIS thousands	NIS thousands
<b>Inventory of food and beverages</b>		
Inventory of hotelier equipment	4,798	3,619
	<hr/>	<hr/>
	<b>21,126</b>	<b>16,041</b>
	<hr/>	<hr/>
	<b>25,924</b>	<b>19,660</b>

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**Note 11 - Apartments Inventory**

	December 31	
	2018	2017
	NIS thousands	NIS thousands
<b>A. Composition:</b>		
Balance as at January 1	78,874	81,744
Effect of initial application of IFRS 15	(3,180)	-
Costs invested during the period:		
Construction	378	1,282
	<u>76,072</u>	<u>83,026</u>
Less -		
Amounts recognized in profit or loss for delivery of apartments	(14,684)	(4,152)
	<u>61,388</u>	<u>78,874</u>
Balance as at December 31	<u>46,041</u>	<u>59,156</u>
Of which inventory that is expected to be returned after more than 12 months		

	December 31	
	2018	2017
	NIS thousands	NIS thousands
<b>B. Additional information</b>		
Sales contracts signed during the year ended December 31	19,128	8,957
Sales contracts in respect of projects the sale of which has not yet been completed as at December 31, cumulatively (see also Note 2.H)	-	4,111

The investment in apartments represents a subsidiary's investment in apartments designated for sale in the "commercial area" of the Mamilla Complex in Jerusalem. As to the rights of the subsidiary in the project and its progress, see Note 31.B(3).

As to pledges, see Note 31.D.

  
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**Note 12 - Investee Companies**

**A. Summary financial data regarding equity-accounted associate companies**

Country of incorporation	Percentage ownership	Current assets	Non-current assets	Total assets	Current liabilities NIS thousands	Non-current liabilities NIS thousands	Total liabilities NIS thousands	Revenues	Expenses	Net profit (loss)
Czech Republic	50%	-	-	-	-	-	-	-	2,265	(5) 2,260
	Associate company: Liliova Property SRO	1,812	210	2,022	815	-	815	3,137	(2,841)	296
France	34%	1,812	210	2,022	815	-	815	5,402	(2,846)	2,556
	Associate company: Properteam Regs Sarl	1,812	210	2,022	815	-	815	5,402	(2,846)	2,556
Czech Republic	50%	291	667	958	531	-	531	1,355	(301)	1,054
	Associate company: Liliova Property SRO	1,340	484	1,824	946	-	946	2,710	(2,489)	221
France	34%	1,631	1,151	2,782	1,477	-	1,477	4,065	(2,790)	1,275
	Associate company: Properteam Regs Sarl	1,631	1,151	2,782	1,477	-	1,477	4,065	(2,790)	1,275
Czech Republic	50%	-	3,776	3,776	364	-	364	-	(443)	(443)
	Associate company: Liliova Property SRO	933	149	1,082	448	-	448	2,237	(2,238)	(1)
France	34%	933	3,925	4,858	812	-	812	2,237	(2,681)	(444)
	Associate company: Properteam Regs Sarl	933	3,925	4,858	812	-	812	2,237	(2,681)	(444)

- In October 2018 the Company sold its investment in Liliova Property SRO in consideration for € 283 thousand (NIS 1,216 thousand). The Company recognized a capital loss in the amount of NIS 144 thousand as a result of the sale.
- In 2017, a dividend in the aggregate amount of NIS 2,293 thousand was received from associate companies.
- In 2016, a dividend in the aggregate amount of NIS 456 thousand was received from associate companies.



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**Note 12 - Investee Companies (cont'd)**

**B. Additional information on consolidated companies that are directly held by the Company**

	Principal location of the company's operations	The Company's equity interest
<b>2018</b>		
Alrov Resorts (1993) Ltd.	Israel	100%
Tatza Holdings (1994) Ltd.	Israel	90%
Alrov Isal Communications Ltd.	Israel	90.10%
Alrov Communications (1994) Ltd.	Israel	100%
Property Investment Holding BV	Netherlands	76%
Epic Suisse AG	Switzerland	77.80%
Sutton Investment Group Limited	UK	82%
Constable Real BV	UK	80.8%
Wimbledon BV	UK	80.8%
George V Project Management BV	France	79.84%
LOCKA Holding BV	Netherlands	80%
The SET Hotel Management Company Limited	UK	85%
Lodging 2000 L.P. - partnership	Gibraltar	100%
Lodging 2000 L.P. - partnership	BVI	100%
Lodging Aviation L.P. - partnership	Gibraltar	100%
Nofei Hasharon Senior Citizen Residential Home Ltd.	Israel	100%
Elkanit Maintenance and Management Ltd.	Israel	100%
46 Rothschild Avenue Management & Maintenance Ltd.	Israel	79%
Alrov Ventures Ltd.	Israel	100%
Alrov Technological Holdings Ltd.	Israel	100%
Alrov Rothschild Avenue (1989) Ltd.	Israel	100%
Hashda Holdings (1993) Ltd.	Israel	100%
Alrov Properties and Construction (1983) Ltd.	Israel	100%
Alrov Towers Management and Operation Ltd.	Israel	100%
H.M. Holdings Ltd.	Israel	100%
<b>2017</b>		
Alrov Resorts (1993) Ltd.	Israel	100.00%
Tatza Holdings (1994) Ltd.	Israel	90.00%
Alrov Isal Communications Ltd.	Israel	90.10%
Alrov Communications (1994) Ltd.	Israel	100.00%
Property Investment Holding BV	Netherlands	76.00%
Epic Suisse AG	Switzerland	77.80%
Sutton Investment Group Limited	UK	82.00%
LOCKA Holding BV	Netherlands	80.00%
The SET Hotel Management Company Limited	UK	85.00%
Lodging 2000 L.P. - partnership	Gibraltar	100.00%
Lodging 2000 L.P. - partnership	BVI	100.00%
Lodging Aviation L.P. - partnership	Gibraltar	100.00%
Nofei Hasharon Senior Citizen Residential Home Ltd.	Israel	100.00%
Elkanit Maintenance and Management Ltd.	Israel	100.00%
46 Rothschild Avenue Management & Maintenance Ltd.	Israel	79.00%
Alrov Ventures Ltd.	Israel	100.00%
Alrov Technological Holdings Ltd.	Israel	100.00%
Alrov Rothschild Avenue (1989) Ltd.	Israel	100.00%
Hashda Holdings (1993) Ltd.	Israel	100.00%
Alrov Properties and Construction (1983) Ltd.	Israel	100.00%
Alrov Towers Management and Operation Ltd.	Israel	100.00%
H.M. Holdings Ltd.	Israel	100.00%

**Note 13 - Investment Property**

**A. Movement in carrying amount**

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
	<b>NIS thousands</b>	<b>NIS thousands</b>
Balance as at January 1	6,591,169	6,452,993
Additions	869,715	57,342
Retirements	(51,011)	-
Exchange differences, net	316,711	(228,365)
Income from reaching compromise on contracts	10,078	10,608
Changes in fair value**	<u>274,307</u>	<u>298,591</u>
Balance as at December 31*	<u>8,010,969</u>	<u>6,591,169</u>

\* The Group's investment property is comprised of rental buildings and land.

\*\* Unrealized changes in fair value amounted to NIS 274,307 thousand in 2018 (2017: 298,591 thousand).

**B. Determination of fair value**

**(1) General**

Investment property is presented at fair value as determined in the valuations performed by independent external appraisers who possess professional qualifications and extensive experience with regard to the location and type of the property being valued.

**(2) Fair value hierarchy**

Investment property is measured at fair value, using a valuation method according to Level 3 of the fair value hierarchy. For a definition of the various levels of the hierarchy, see Note 2.F, Basis of Preparation.

**(3) Details regarding fair value measurement of investment property at Level 3**

**Valuation technique for determining fair value**

The fair value is estimated using a discounted income technique: the valuation model is based on the present value of the estimated NOI of the property. The valuation of the property is based on net annual cash flows discounted at a rate reflecting the specific risks inherent in them. When actual rent agreements include rent payments that are different from market rent, adjustments are made to reflect the actual rent payments in the period of the contract.

The valuations take into account the type of tenants that actually occupy the leasehold or are responsible for fulfilling the rental obligations or may occupy the leasehold when vacant property is rented out, including a general assessment of their credit quality; distribution of the responsibility for the property's maintenance and insurance between the Group and the tenant; and the remaining economic life of the property, where these parameters are relevant.

**Note 13 - Investment Property (cont'd)**

**B. Determination of fair value (cont'd)**

**(3) Details regarding fair value measurement of investment property at Level 3 (cont'd)**

**Significant unobservable inputs**

- Market rent per sq.m.  
Israel: NIS 874 to NIS 3,412 (2017: NIS 874 to NIS 3,329)  
Switzerland: CHF 90 to CHF 342 (2017: CHF 90 to CHF 369)  
France: EUR 91 to EUR 500 (2017: EUR 91 to EUR 500)  
UK: GBP 556 to GBP 2,684 (2017: GBP 582 to GBP 2,250)
- Cash flow discount rate  
Israel: 6.75% to 7% (2017: 6.75%-7.5%)  
Switzerland: 3.2% to 4.5% (2017: 3.2% - 4.5%)  
France: 3.54% to 8.85% (2017: 3.9% - 8.85%)  
UK: 3.25% to 5.85% (2017: 3.25%-5.85%)

**The estimated fair value would increase if:**

- The market rent was higher
- The cash flow discount rate was lower.

**(4) Valuation processes used by the Company**

The fair value of the investment property is determined regularly by an external independent appraiser having appropriate recognized professional qualifications and experience in the location and category of the property being valued. External valuations are performed at the end of every calendar year. In the rest of the reporting periods valuations are performed if market indicators suggest a material change in the fair value of the property. All valuations are provided to the Company's CFO for perusal.

The principal unobservable inputs are as follows:

- The rate of return on investment property, which is based on professional publications in the relevant markets and a comparison to similar transactions.
- Market rentals, which are based on professional publications in the relevant markets and a comparison to similar transactions.

**C. Amounts recognized in profit or loss**

	Year ended December 31		
	2018	2017	2016
	NIS thousands	NIS thousands	NIS thousands
Rental income on investment property Direct operating expenses deriving from investment property that generated rental income during the period	393,779	356,168	354,528
	(60,976)	(56,637)	(53,574)
	<u>332,803</u>	<u>299,531</u>	<u>300,954</u>

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### Note 13 - Investment Property (cont'd)

#### D. Sale of material properties

In 2016 the Company sold investment property in Ashdod that was classified as held for sale in consideration of NIS 249 thousand.

In 2018 the Company sold 3 investment property assets in France for a total consideration of € 11.9 million (NIS 51 million). The fair value of the properties was € 11.9 million as at December 31, 2017.

In June 2018 the Company sold its entire investment in Epic Fourteen Property Investment AG, which owns investment property in Switzerland, in consideration of CHF 16 million (NIS 61 million). The Company recognized a capital gain in the amount of NIS 12 million as a result of the sale.

#### E. Acquisition of material properties

In 2016, the Company acquired an investment property in Switzerland for betterment purposes for the price of CHF 20 million (NIS 76 million). From the date of its acquisition up to December 31, 2018 the Company has invested an amount of CHF 5.6 million (NIS 21 million) in the property.

In 2016, the Company acquired an investment property in London for betterment purposes for the price of £ 41 million (NIS 193 million). Up to December 31, 2018 the Company has invested an amount of £ 12 million (NIS 58 million) in the property.

In February 2018 the Company acquired investment property in London ("Leonard") for the price of £ 17.3 million (NIS 85.5 million), which includes acquisition costs of £ 1 million (NIS 5 million). 80% of the investment property was acquired by a subsidiary of PIH and 20% by means of the Company investing directly in that subsidiary, so that the Company effectively owns 80.8% of the property.

In June 2018 the Company acquired investment property in Switzerland ("Lancy") for the price of CHF 57.3 million (NIS 211 million), which includes acquisition costs of CHF 2.3 million (NIS 8 million), for betterment purposes. Up to December 31, 2018 the Company has invested an amount of CHF 0.7 million (NIS 2.4 million) in the property.

In August 2018 a subsidiary of PIH acquired an additional property in England ("Pinnacle House") for the price of £ 42.6 million (NIS 202 million), which includes acquisition costs of £ 2.4 million (NIS 11 million), with 80% of the subsidiary being held by PIH and 20% by means of the Company's direct investment in that subsidiary, so that the Company effectively owns 80.8% of the property.

In October 2018 the Company acquired income generating property in Paris by means of acquiring shares of the company owning the property. The purchase price in the amount of € 81 million (NIS 349 million) includes acquisition costs in the amount of € 3.8 million (NIS 16 million). The acquisition was executed by PIH (by means of a wholly owned subsidiary) at the rate of 84% and the remaining 16% by the Company, so that the Company effectively owns 79.8% of the property.

### Note 13 - Investment Property (cont'd)

#### E. Acquisition of material properties (cont'd)

The Company's acquisition was accounted for as the acquisition of a group of assets and liabilities, in accordance with that described in Note 3.A.6 to the Company's consolidated financial statements. The acquired assets and liabilities do not constitute a business and therefore the transaction was accounted for as a business combination in accordance with IFRS 3. Therefore the transaction consideration was allocated to the acquired assets and liabilities on the basis of their fair value at the acquisition date and no deferred taxes or goodwill were recognized at acquisition. The value of the property (investment property) on the acquisition date was set at an aggregate amount of € 90 million (NIS 386 million). Accordingly, a revaluation gain in the amount of NIS 37 million was recognized due to a difference that is due to tax consequences between the purchase price of the shares and the fair value of the property.

In December 2018 the Company signed an agreement for the lease of land for 85 years on which income generating property will be constructed. At initial recognition the Company measured the leased property based on the discounted value of the future minimum lease payments in the amount of CHF 12,991 (NIS 49,459 thousand) against a liability for future minimum lease payments. See also Note 20.

#### F. For information on pledges on investment property, see Note 18.F.

#### G. As to restrictions on the sale of real estate properties overseas – see Note 18.I(4).

- As to rights in real estate in the Mamilla Commercial District in Jerusalem, see Note 31.B(3).
- As to the real estate rights in the UK, see Note 14.D below.
- The real estate rights of the Company are proprietary.

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**Note 14 - Fixed Assets**

**A. Composition:**

	Land and buildings at fair value	Land and buildings under construction	Machinery, equipment and appliances	Hoteller machinery and furniture	Office furniture and equipment	Vehicles and aircraft	Total
				NIS thousands			
<b>Cost or deemed cost</b>							
Balance as at January 1, 2017	3,125,918	952,748	16,463	163,315	16,023	107,123	4,381,590
Additions	19,088	262,660	163	8,679	2,000	126,903	419,493
Less retirements	-	-	-	-	-	(105,999)	(105,999)
Fair value revaluation of fixed assets	91,807	-	-	-	-	-	91,807
Effect of changes in exchange rates	5,217	28,209	-	-	(44)	-	33,382
Balance as at December 31, 2017	3,242,030	1,243,617	16,626	171,994	17,979	128,027	4,820,273
<b>Balance as at January 1, 2018</b>	<b>3,242,030</b>	<b>1,243,617</b>	<b>16,626</b>	<b>171,994</b>	<b>17,979</b>	<b>128,027</b>	<b>4,820,273</b>
Additions	27,616	338,672	158	3,852	58	755	371,111
Less retirements	-	-	-	-	-	(775)	(775)
Fair value revaluation of fixed assets	48,470	-	-	-	-	-	48,470
Effect of changes in exchange rates	(55,909)	158,750	-	-	-	-	102,977
Classification of fixed assets from cost to fair value	1,741,039	(1,741,039)	-	-	136	-	-
<b>Balance as at December 31, 2018</b>	<b>5,003,246</b>	<b>-</b>	<b>16,784</b>	<b>175,846</b>	<b>18,173</b>	<b>128,007</b>	<b>5,342,056</b>
<b>Accumulated depreciation</b>							
Balance as at January 1, 2017	-	5,937	14,509	105,905	14,443	67,958	208,752
Depreciation for the year	89,246	-	265	9,028	525	10,357	109,421
Less retirements	-	-	-	-	-	(74,046)	(74,046)
Fair value revaluation of fixed assets	(89,246)	-	-	-	-	-	(89,246)
Balance as at December 31, 2017	-	5,937	14,774	114,933	14,968	4,269	154,881
<b>Balance as at January 1, 2018</b>	<b>-</b>	<b>5,937</b>	<b>14,774</b>	<b>114,933</b>	<b>14,968</b>	<b>4,269</b>	<b>154,881</b>
Depreciation for the year	107,863	-	237	9,100	616	10,210	128,026
Less retirements	-	-	-	-	-	(775)	(775)
Fair value revaluation of fixed assets	(113,800)	(5,937)	-	-	-	-	(113,800)
Classification of fixed assets from cost to fair value	-	-	15,011	124,033	15,584	-	-
Fair value revaluation of fixed assets	-	-	1,773	51,813	2,589	13,704	168,332
<b>Balance as at December 31, 2018</b>	<b>5,003,246</b>	<b>-</b>	<b>16,784</b>	<b>175,846</b>	<b>18,173</b>	<b>128,007</b>	<b>5,173,724</b>

**Note 14 - Fixed Assets (cont'd)**

**A. Composition: (cont'd)**

	Land and buildings at fair value	Land and buildings under construction	Machinery, equipment and appliances	Hotelier machinery and furniture NIS thousands	Office furniture and equipment	Vehicles and aircraft	Total
<b>Carrying amounts</b>							
As at December 31, 2018	5,003,246	-	1,773	51,813	2,589	114,303	5,173,724
As at January 1, 2017	3,125,918	946,811	1,954	57,410	1,580	39,165	4,172,838
As at December 31, 2017	3,242,030	1,237,680	1,852	57,061	3,011	123,758	4,665,392

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## Note 14 - Fixed Assets (cont'd)

## B. Determination of fair value

### (1) Fair value hierarchy

The table hereunder presents the fixed assets that are measured at fair value, using a valuation method according to the fair value levels. For a definition of the various hierarchy levels, see Note 2.F, Basis of Preparation.

NIS thousands	December 31, 2018		December 31, 2017	
	Level 3	Total	Level 3	Total
Fixed assets at fair value	5,003,246	5,003,246	3,358,142	3,358,142

(2) Details regarding fair value measurement of fixed assets at Level 3

## Valuation technique for determining fair value

The fair value is estimated using a discounted income technique: the valuation model is based on the present value of the estimated operating income from the asset. The valuation of fixed assets is based on net annual cash flows discounted at a rate reflecting the specific risks inherent in them.

### Significant unobservable inputs

- Occupancy rate of the hotels in Israel: 63%-70% (2017: 63% to 72%).
- Occupancy rate of the hotels overseas: 70%-80% (2017: 70% to 80%).
- Discount rate of cash flows in Israel: 7% to 9% (2017: 7%-11.5%).
- Discount rate of cash flows overseas: 3.5% to 6.25% (2017: 4.5%-6.25%).
- Price per night in Israel: NIS 1,316- NIS 1,444 (2017: NIS 1,231 to NIS 1,525).
- Price per night overseas: NIS 2,146 -NIS 4,135 (2017: NIS 2,076 to NIS 2,612).

The estimated fair value would increase if:

- Hotel occupancy rates were higher.
- The cash flow discount rate was lower.
- The price per night was higher.

(3) Valuation processes used by the Company

The fair value of fixed assets is determined periodically by an independent external appraiser having appropriate recognized professional qualifications and experience in the location and category of the property being valued. External valuations are performed at the end of every calendar year. In the rest of the reporting periods, valuations are performed if market indicators suggest a change in the fair value of the asset. All valuations are provided to the Company's CFO for perusal.

The principal unobservable inputs are as follows:

The principal unobservable inputs are as follows:

- The discount rate, which is based on professional publications in the relevant markets and a comparison to similar transactions.

C. The discount rate used in determining the amount of discountable borrowing costs is 1.7% (2017: 1.72%).

#### Note 14 - Fixed Assets (cont'd)

D. In August 2008, the Company and Barco Investments B.V., a subsidiary of the Company (hereinafter: "Barco") entered into an agreement (hereinafter: "the Agreement") with the representatives of Crown Estate (in charge of the Crown's assets) (hereinafter: "the Crown") in relation to a property located on Regent Street in Central London, historically known as "Café Royal" (hereinafter: "the Property") which is part of a freehold complex of the Crown. Barco is wholly owned by Locka.

The Agreement relates to the redevelopment of the Property by Barco into a luxury hotel, including auxiliary services and commercial areas. Following the completion of the development and construction by Barco, in accordance with the terms of the Agreement, Barco received from the Crown a lease of the Property for the duration of 125 years (commencing upon the full payment of the consideration in June 2014). Early in July 2014, the Company paid the Crown in full the liability for the acquisition of a hotelier property in the amount of approximately NIS 425 million. Against the payment, the Company was granted leasehold rights in the land of the Café Royal Hotel in London as well as in the commercial areas adjacent to the Hotel, through December 2137.

At the end of 2012, the Company had substantially completed the works for the conversion of the Café Royal Hotel in London, a leading premium, five-star, luxury hotel with close to 160 suites and rooms and some 1,300 sq.m. of space for rental to luxury shops. Upon completion of the works, the Hotel was gradually opened, by the end of 2013. The Hotel has been fully operational since 2014.

Further to that mentioned in the Company's quarterly report for the third quarter that was issued on November 28, 2018 regarding an audit of the valuation of the Café Royal property by the Securities Authority, with the assistance of the services of a real estate appraiser, during the period and up to the reporting date the Company and the Securities Authority conducted talks on the difference between the actual results of the Hotel in prior years and the results of the Hotel and the forecasts according to the valuation for such years.

The Company's update and expansion on the matter:

The valuation of the Café Royal Hotel ("the valuation") was prepared by Cushman & Wakefield ("C&W"), an independent external appraiser having qualifications and experience in the location and category of the property being valued. The valuation is attached to the periodic report for 2018 in accordance with Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) – 1970, even though the Company is not required to attach it since the value of the property in the reporting year is lower than the threshold provided in the regulations, but in view of that stated in this note it was decided to attach the valuation this year without the Company being required to continue attaching it in the future unless required to do so by law.

The valuation is based on a fair value measurement methodology pursuant to IFRS 13, Fair Value Measurement ("IFRS 13" or "the standard") and is classified at level 3 of the fair value hierarchy. The valuation also applies the "Red Book" of the RICS (the Royal Institute of Chartered Surveyors), a professional body that issues guidance and international standards for valuations ("the Red Book").

In view of the aforesaid, according to the standard, and accepted standards for international appraisals (the Red Book), the valuation is derived from the discounted cash flows which are based on, inter alia, assumptions of a market participant who is "a reasonably efficient operator" and benchmark data of other hotels in London that are similar to Café Royal in their location and the accommodations they offer.

#### Note 14 - Fixed Assets (cont'd)

##### D. (cont'd)

Further to that mentioned in the Company's quarterly report for the third quarter that was issued on November 28, 2018 regarding an audit of the valuation of the Café Royal property by the Securities Authority, during the period and up to the reporting date the Company and the Securities Authority conducted talks on the valuation of the Café Royal property and particularly the value of the Hotel in view of the difference between the actual results of the Hotel and the forecasted results of a market participant that is "a reasonably efficient operator" according to the valuation methodology.

For reasons of prudence, and as part of these discussions and examinations with the Securities Authority, the Company requested a fairness opinion from an international valuer (Savills), who like C&W is a professional, objective and independent body, with respect to the valuation of the Café Royal Hotel that was prepared by C&W (which is attached along with the valuation to the periodic report for 2018).

The fairness opinion validated, *inter alia*, the methodology that C&W used in the valuation, the assumptions and the principal comparison data that were used, the reasonableness and fairness of the valuation and the value it determined for the Café Royal hotel in the amount of £ 250 million (NIS 1,199 million), not including the commercial units and the fourth unit that is for self-use. At the same time, the fairness opinion determined that the fair value of the Hotel is in the range of £ 235-265 million, and noted that it is more reasonable that the value is in the higher part of the range.

Taking into consideration all the aforesaid, the Company's board of directors that examined the issue saw before it, *inter alia*, as follows:

- The valuation of the Café Royal hotel by C&W by which the value is £ 250 million.
- The fairness opinion that validated the value in the valuation and at the same time determined that the fair value of the Hotel is in the range of £ 235-265 million as aforesaid.
- The issues, questions and positions of the Securities Authority and its advisors with respect to the valuation and/or the fair value of the Café Royal Hotel as were presented in the talks between the Company and the Securities Authority as aforesaid.

In view of the aforesaid, the Company's board of directors, taking note of, *inter alia*, the comments and talks with the Securities Authority, decided, for reasons of prudence, and taking into account, *inter alia*, the range indicated in the fairness opinion, to update the value of the Hotel to the low threshold of the range indicated in the fairness opinion, meaning to an amount of £ 235 million (NIS 1,127 million).

**E.** Pursuant to the valuations of the hotels in Israel and overseas, in 2018 the Company recorded an increase of NIS 120 million in the revaluation reserve, net of tax.

The carrying amount of the fixed assets as at December 31, 2018, which is presented at the fair value that would have been recognized had the assets been presented under the cost model, is NIS 4,052 million.

As to real estate rights in a hotel at the Mamilla Complex in Jerusalem, see Note 31.B(3).

**F.** As at December 31, 2018, fixed-asset items in the amount of NIS 5,005,381 thousand (December 31, 2017: NIS 4,481,770 thousand) are pledged to secure borrowings from banks (see Note 15, Borrowings from Banks, as to the terms of the credit).

**Note 14 - Fixed Assets (cont'd)**

- G.** As at December 31, 2018, the balance of Café Royal London in the balance sheet of the Company, at fair value, is NIS 1,088 million (approximately GBP 253.5 million). This balance includes a revaluation reserve in the amount of NIS 264 million (approximately GBP 55 million).
- H.** In July 2018 Hotel Lutetia in Paris was reopened after it had been shut down for renovations as from July 1, 2014 so that it would achieve the high standards that are characteristic of the other hotels of the Group. According to a valuation that was prepared by an independent external appraiser having appropriate qualifications and experience in the location and category of the property being valued, the Company revalued the balance of the property as at September 30, 2018. According to the valuation, the value of the hotel is € 447 million (NIS 1,918 million). The gain on the revaluation in the amount of NIS 119 million, net of tax, was recorded within other comprehensive income in a capital reserve for revaluation of fixed assets. In accordance with a valuation as at December 31, 2018 there was no change in the value of the property.
- I.** In 2016 the Company received an investment grant of NIS 6.5 million under the "Aid Procedure for the Renovation, Betterment and Upgrading of Hotels" track of the Ministry of Tourism. In 2018 the Company received another grant in the amount of NIS 2.5 million. To secure the terms of the grant, a guarantee was provided in favor of the Ministry of Tourism, the balance of which is NIS 0.8 million as at December 31, 2018. Management of the Company believes that, as at reporting date, the Company is in compliance with the terms attached to the receipt of the grant.

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### Note 15 - Borrowings from Banks

This note provides information regarding the contractual terms of the Group's interest-bearing loans and borrowings measured at amortized cost. Further information on the Group's exposure to interest, foreign currency and liquidity risks is included in Note 33, Financial Instruments.

Composition:

	Variable interest as at December 31, 2018	December 31	
		2018 NIS thousands	2017 NIS thousands
<b>Short-term loans – in Israel</b>			
Unlinked	<b>1.65% - 1.86%</b>	<b>276,776</b>	1,064,659
Denominated in Swiss francs		-	386
Denominated in dollars	<b>3.77%</b>	-	1,636
Denominated in pounds sterling	<b>2.49%</b>	-	284,948
Denominated in Euros	<b>1.03% - 1.86%</b>	<b>304,495</b>	823,017
		<b>581,271</b>	<b>2,174,646</b>

Short-term bank loans in the amount of NIS 581,271 thousand are secured by a fixed charge on land, buildings, inventory of apartments and marketable shares that are used by the Company as fixed assets, investment property and investment in securities, the carrying amount of which is NIS 792,144 thousand as at December 31, 2018.

As to financial covenants undertaken by the Group towards banks, see Note 18.I. As to classification of borrowing from banks from short-term to long-term, see Note 18.J.

### Note 16 - Trade Payables

Composition:

	December 31	
	2018 NIS thousands	2017 NIS thousands
Open debts	<b>36,936</b>	30,553
Debts in respect of investment in real estate	<b>124,344</b>	85,430
Checks and notes payable	<b>3,828</b>	10,348
	<b>165,108</b>	<b>126,331</b>

The Group's exposure to currency and liquidity risks related to trade payables is disclosed in Note 33, Financial Instruments.

  
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**Note 17 - Other Payables, Including Derivative Instruments**

Composition:

	December 31	
	2018	2017
	NIS thousands	NIS thousands
Interest payable	12,857	11,344
Accrued expenses	95,009	69,279
Income received in advance	22,994	15,037
Government institutions	12,003	10,913
Employees and accrued benefits	16,528	15,316
Customer advances	10,263	5,130
Derivative financial instruments	21,564	24,288
Deposits	24,368	25,266
Other payables and credit balances	46,147	20,276
	<b>261,733</b>	<b>196,849</b>

The Group's exposure to currency and liquidity risks related to other payables is disclosed in Note 33, Financial Instruments.

**Note 18 - Debentures and Loans from Banks**

This note provides information regarding the contractual terms of the Group's debentures and loans from banks measured at amortized cost. Further information on the Group's exposure to interest, foreign currency and liquidity risks is included in Note 33, Financial Instruments.

**A. Composition:**

	Interest rate as at December 31, 2018	December 31	
		2018	2017
		NIS thousands	
<b>Non-convertible debentures</b>			
Linked to the Consumer Price Index	1.85%-4.8%	978,422	935,656
Debenture raising, discounting and premium expenses		11,098	9,402
		<b>989,520</b>	<b>945,058</b>
Less current maturities		201,031	185,607
		<b>788,489</b>	<b>759,451</b>

  
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**Note 18 - Debentures and Loans from Banks (cont'd)**

**A. Composition: (cont'd)**

	Interest rate as at December 31, 2018	December 31	
		2018	2017
<b>Loans from banks</b>			
Linkage basis:			
In NIS	1.70%	79,719	-
Exchange rate of the Euro	1.14%-1.85%	1,539,536	470,967
Exchange rate of the Swiss franc	1.1%*	2,420,135	2,220,575
Exchange rate of the Pound Sterling	2.445%-3.09%	1,913,702	982,886
Less – Loan raising expenses		15,802	20,177
		5,937,290	3,654,251
Less current maturities		65,434	237,837
		5,871,856	3,416,414

\* Average rate.

**B. Non-convertible debentures (Series A)**

The principal of the debentures was redeemed in six equal annual installments in each of the years 2012 through 2017.

**C. Non-convertible debentures (Series B)**

On July 31, 2012, the Company issued NIS 230 million par value of debentures (Series B) of NIS 1 par value each in consideration of NIS 230 million. The debentures bear an annual interest rate of 4.8% and are linked (principal and interest) to the Consumer Price Index. The debentures are redeemable in six equal annual installments on July 31 in each of the years 2015 through 2020. The interest on the debentures is payable in semi-annual installments every calendar year on the unpaid balance of principal on January 31 and on July 31 in each of the years 2013 through 2020.

Under an additional shelf offer report, dated January 20, 2013, NIS 117 million par value of debentures (Series B) was issued and listed for trade on the Stock Exchange. Additionally, in July and November 2013, the Company raised NIS 94 million and NIS 200 million par value of debentures (Series B), respectively.

In 2013, the Company, through a subsidiary, sold NIS 4.1 million par value of ordinary debentures (Series B) of the Company in consideration of approximately NIS 4.5 million. As at December 31, 2018, the balance of the debentures (Series B) is a par value of NIS 213,839 thousand.

**D. Non-convertible debentures (Series C)**

On June 1, 2014, NIS 200 million par value of ordinary debentures (Series C) was issued and listed for trade on the Stock Exchange. The debentures bear an annual interest rate of 1.85%. The principal and interest are linked to the Consumer Price Index. The debentures are redeemable through June 1, 2022 by way of annual principal payments, as follows: the Company will redeem 3% of the principal in each of the years 2016 and 2017, and 18.8% of the principal in each of the years 2018-2022. The Group purchased NIS 37.6 million par value of debentures on the date of issuance.

## Note 18 - Debentures and Loans from Banks (cont'd)

### D. Non-convertible debentures (Series C) (cont'd)

The Group acquired NIS 28 million par value of debentures in consideration of NIS 28 million in 2014 and NIS 0.4 million par value of debentures in consideration of NIS 0.4 million in 2015. In 2016, the Group sold NIS 9.3 million in consideration of NIS 9.2 million. In 2017, the Group sold NIS 7.7 million in consideration of NIS 7.7 million. In 2018, the Group sold NIS 49.5 million in consideration of NIS 50.4 million. As at December 31, 2018, the balance of the debentures (Series C) is a par value of NIS 150,400 thousand.

### E. Non-convertible debentures (Series D)

On January 9, 2017, NIS 243,556 million par value of ordinary debentures (Series D) was issued and listed for trade on the Stock Exchange. The debentures bear interest at the rate of 2.4%. The principal and interest are linked to the Consumer Price Index. The debentures are redeemable from 2018 to December 31, 2023 by way of annual principal payments, as follows: the Company will redeem 7.5% of the principal in each of the years 2018 and 2019, 10% of the principal in 2020 and 25% of the principal in each of the years 2021-2023. During 2017, two expansions of debentures were issued totaling NIS 226,996 thousand. On February 21, 2018, an additional expansion of NIS 177,340 par value was issued. As at December 31, 2018, the balance of the debentures (Series D) is a par value of NIS 599,300 thousand.

### F. Loans from foreign banks

Long-term loans from banks in the amount of NIS 5,937,290 thousand (including current maturities of long-term loans in the amount of NIS 65,434 thousand) are secured by a fixed charge on land and buildings that are used by the Company as investment property, and fixed assets, the carrying amount of which amounted to NIS 13,201,401 thousand as at December 31, 2018.

### G. Refinancing

In December 2016, the Company refinanced two properties in France in the aggregate amount of EUR 26 million (approximately NIS 105 million) at a fixed annual interest rate of 1.57% for a period of 7 years. In December 2018, the Company refinanced three additional properties in France in the amount of EUR 8.5 million (approximately NIS 36 million) at variable interest for a period of 12 years (as at December 31, 2018, the interest rate is 1.85%).

### H. Borrowings from foreign banks

In February 2016, a subsidiary entered into an agreement with a bank to finance the upgrading of Hotel Lutetia in Paris. The facility is up to EUR 120 million (including interest). As at December 31, 2018 the balance of the loan is EUR 119.3 million. The balance is payable until March 15, 2021.

In December 31, 2017 the Company took a 5-year loan in the amount of £ 45 million (approx. NIS 211 million) to finance property in England. Similarly, a 7-year loan in the amount £ 165 million (approx. NIS 772 million) was taken in December 2017 to finance the Café Royal Hotel in England.

## Note 18 - Debentures and Loans from Banks (cont'd)

### H. Borrowings from foreign banks (cont'd)

In 2018 financing was obtained for two additional properties in England that were purchased during the reporting year. A loan in the amount of £ 11 million financed property purchased in 2018 having a fair value of £ 18 million as at December 31, 2018 and a loan in the amount of £ 26 million financed property purchased in 2018 having a fair value of £ 42 million as at December 31, 2018. The loans bear variable interest and are for 5 years.

### I. Financial covenants

- 1) In 2012, the Company undertook to banks to maintain the following equity ratios: a. Equity – the equity (excluding minority interests) will not fall below NIS 1,250 million at any time; b. Equity deriving from operations in Israel – the equity deriving from operations in Israel, as calculated by the Company based on the reports of the Company, will, at all times, amount to at least 15% of total assets less overseas assets. As regarding one of the banks, the 15% undertaking relates to the equity as per the consolidated balance sheet of the Group. Those reports are subject to inspection by said bank, which is entitled to request clarifications thereon.  
If the Company violates or fails to comply with any of its undertakings to the bank, the bank shall be entitled to call for the immediate repayment of the amounts provided as part of the banking services or any part thereof and to employ any means that it finds appropriate to ensure their collection. To the date of the report, the Company is in compliance with its undertaking to the banks.
- 2) In connection with borrowings from banks in Israel, the Company has undertaken as follows:  
1. The annual rental that is received from the rent of certain properties will at no time fall below a specified amount; 2. To provide to the bank every agreed-upon period, an up-to-date valuation of the real estate, confirming, *inter alia*, that the value of the real estate is not less than a specified amount; 3. The equity of the Company will not fall below NIS 1,250 million at any time; 4. The equity of the Company (excluding minority interests) deriving from operations in Israel, as calculated based on the reports of the Company, will at all times amount to at least 15% of total assets less overseas assets. To the date of the report, the Company is in compliance with these undertakings.
- 3) On several occasions, foreign subsidiaries have made undertakings to foreign banks that had provided non-recourse borrowings to said companies for the acquisition of properties, pursuant to which the loan amounts would not exceed specified percentages of the value of such properties. In other instance, the companies have undertaken that payments of principal and interest would not fall below certain percentages of the rental income in said years. In additional instances, the subsidiary has undertaken that the unoccupied premises within the properties would not exceed a certain percentage of the area of the properties. As at balance sheet date, the subsidiaries are in compliance with the set requirements.  
On two occasions, a subsidiary provided a guarantee in the total amount of CHF 8 million in favor of two of the property companies to secure the debt to the financial institution.
- 4) Foreign subsidiaries have undertaken to the banks that had provided the financing for the acquisition of real estate properties overseas, to obtain their approval, in advance, for the sale of the real estate properties by the subsidiaries.

## Note 18 - Debentures and Loans from Banks (cont'd)

### I. Financial covenants (cont'd)

5) On July 23, 2012, the Company published an amendment to the shelf prospectus dated May 24, 2012, concerning, inter alia, Addendum No. 1 to the trust deed dated May 22, 2012 ("Addendum No. 1"), pursuant to which, the Company will be prohibited from distributing further dividends (including the repurchase of shares) and/or making any equity reductions during the period pending the final redemption of the debentures (Series B), in the following instances: (a) In the event that the ratio of net financial debt to net CAP exceeds 70% ("the Minimum Ratio") until the ratio of net financial debt to net CAP falls below the Minimum Ratio; (b) In the event that the equity of the Company (including minority interests), after distribution of profits, is less than NIS 1.6 billion. In this regard, it is clarified that the Company will not distribute a dividend out of revaluation gains (this being in conformity with the dividend policy of the Company prior to Addendum No. 1 as above). It should be noted that, to the date of issue of the financial statements, the Company is not prohibited from the distribution of dividends in accordance with and subject to the aforementioned restrictions.

6) On January 20, 2013, the Company published a shelf offer report under a prospectus dated May 24, 2012, as amended on July 23, 2012, which prescribes, inter alia, quantitative financial covenants for the immediate redemption of the debentures (Series B) of the Company:

- The ratio of the net financial debt of the Company to the net total equity and indebtedness (CAP) of the Company exceeds 75% for the duration of two sequential and consecutive quarters.
- The equity of the Company (including minority interests) is less than NIS 1.2 billion for the duration of more than two sequential and consecutive quarters.
- The net financial debt divided by the operating surplus as per the annual financial statements of the Company exceeds 25.

To the date of the report, the Company is in compliance with said financial covenants.

7) On June 1, 2014, the Company published a shelf offer report under a prospectus dated May 24, 2012, as amended on July 23, 2012, which prescribes, inter alia, quantitative financial covenants for the immediate redemption of the debentures (Series C) of the Company:

- The ratio of the net financial debt of the Company to the net total equity and indebtedness (CAP) of the Company exceeds 70% for the duration of two sequential and consecutive quarters.
- The equity of the Company (including minority interests) is less than NIS 1.4 billion for the duration of more than two sequential and consecutive quarters.
- The net financial debt divided by the operating surplus as per the annual financial statements of the Company exceeds 25.

To the date of the report, the Company is in compliance with said covenants.

8) On January 8, 2018, the Company published a shelf offer report under a prospectus dated May 27, 2015, which prescribes, inter alia, quantitative financial covenants for the Company's debentures (Series D):

- If the ratio of the net financial debt of the Company to the net total equity and indebtedness (CAP) of the Company exceeds 68%, the Company will be prevented from distributing dividends or a buy-back of the Company's shares.

**Note 18 - Debentures and Loans from Banks (cont'd)**

**I. Financial covenants (cont'd)**

8) (cont'd)

- b. If the equity of the Company (including minority interests) is less than NIS 2.3 billion, the Company will be prevented from distributing profits, per their definition in the Companies Law, 1999.
- 9) A subsidiary of the Company has made an undertaking to a bank, pursuant to which it is obligated to comply with the following covenants:
  - a. The LTV ratio of Hotel Conservatorium will not exceed 61%.
  - b. The ratio of the Company's equity to total assets will not fall below 15%.
  - c. The LTV ratio of the Café Royal property in England will not exceed 65%.
  - d. The LTV ratio of the Lutetia property in France will not exceed 45%.
 To the date of the report, the Group is in compliance with said covenants.

J. On June 24, 2018 the Company signed a credit facility agreement with the financing bank with respect to the Mamilla complex in Jerusalem that extended the credit facility until July 31, 2020. Therefore the balance of the credit in the amount of NIS 1,162 million was presented as at December 31, 2018 within non-current liabilities as part of the item of credit from banks. After a one-year period the credit facility will be reduced by 2.5% and after two years by another 2.5% (the same rate by which the credit facility was reduced in prior years).

**Note 19 - Other Investments at Fair Value through Profit or Loss**

	December 31	
	2018	2017
	NIS thousands	
<b>Non-current investments</b>		
Non-marketable shares	-	5,723
Venture capital funds	<b>5,045</b>	4,119
	<b>5,045</b>	9,842

  
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## Note 20 - Other Financial Liabilities

### A. Loans from others

This note provides information regarding the contractual terms of loans received from others, measured at amortized cost. Further information on the Group's exposure to interest, foreign currency and liquidity risks is included in Note 33, Financial Instruments.

Composition:

	December 31	
	2018	2017
Nominal interest as at December 31, 2018	NIS thousands	
Loans in Euros received from the minority at variable interest*	2.05%	5,759
Total loans received from minority	<u>5,759</u>	<u>5,509</u>

\* Repayment dates have not yet been fixed for said loans, see also Note 34, Related Parties.

### B. Lease liability

	December 31, 2018		
	Future minimum lease payments	Financing component	Present value of minimum lease payments
	NIS thousands		
From one to five years	9,670	(9,670)	-
More than five years	77,286	(27,827)	49,459
	<u>86,956</u>	<u>(37,497)</u>	<u>49,459</u>

In December 2018 the Company entered into a transaction with a government company in Switzerland to lease land for the construction of income-generating real estate. According to the lease agreement, the Company leased the land for a period of 85 years, and the first payment will be paid after construction is completed in 2020. Furthermore, the Company has an option to pay the balance of the debt after 20 years in one discounted amount. The minimum lease payments were discounted at a discount rate of 4.1%.

## Note 21 - Employee Benefits

Employee benefits include post-employment benefits based on actuarial assessments.

**Note 22 - Deposits**

	December 31	
	2018	2017
	NIS thousands	
Housing for the elderly deposits (1)	24,227	24,918
Rent deposits (2)	13,121	10,979
Maintenance deposits (3)	4,338	4,286
	<u>41,686</u>	<u>40,183</u>
Less – current deposits	24,368	25,266
Total deposits	<u>17,318</u>	<u>14,917</u>

(1) **Housing for the elderly deposits** – Represent amounts received by the Company on account of the acquisition of usage rights in housing for the elderly units constructed by the Company.

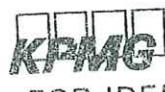
The terms of the deposits are as follows:

- a. **Deposit agreement** – Upon leaving, the tenant is refunded the amount of the deposit, which until December 3, 2012 was linked to the exchange rate of the U.S. dollar, and less 2.5%-3% for every year. In accordance with the Housing for the Elderly Law that came into effect on said date (December 3, 2012), all deposit balances are to be linked to the Consumer Price Index published by the Central Bureau of Statistics. Accordingly, on December 3, 2012, the balance of the deposits was translated from dollars into NIS. The translated balance will be linked to the Consumer Price Index on the basis of the index for December 2012. Under no circumstances will amounts be deducted for more than 10 to 15 years of the date that possession is handed over, such that the total deduction will not exceed 25% to 45% of the deposit amount. Income from the deposits is carried to profit or loss as it accrues according to the terms of the deposits. The balance of the deposits as at December 31, 2018 – NIS 23,615 thousand (December 31, 2017 – NIS 24,172 thousand).
- b. **Entrance fees agreement** - Upon leaving, the tenant is refunded the entrance fees, less 2%-2.5% for every month that passed from the date of handing over possession. Income from entrance fees is carried to profit or loss according to the terms of the agreement, based on the average duration of stay of the tenants as estimated by management.

The balance of the deposits as at December 31, 2018 – NIS 613 thousand (December 31, 2017 – NIS 746 thousand).

(2) **Rent deposits** – Represent amounts received by the Company and subsidiaries from certain property renters. The amounts are partly linked to the Consumer Price Index and partly to the Euro and will be refunded to the depositors on the date of termination of the rent contract of the property.

(3) **Maintenance deposits** – Represent amounts received by subsidiaries from certain property renters. The amounts are linked to the Consumer Price Index and will be refunded to the depositors on the date of termination of the rent contract of the property.

  
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**Note 23 - Equity**

**A. Share capital**

	December 31		
	2018	2017	2016
	Shares of NIS 1 par value		
Issued and paid-in share capital as at January 1	<b>24,178,620</b>	25,233,396	25,603,558
Repurchase of shares*	-	(1,054,776)	(370,162)
Issued and paid-in share capital as at December 31	<b>24,178,620</b>	24,178,620	25,233,396
Authorized share capital	<b>100,000,000</b>	100,000,000	100,000,000

\* See also Note 23.E.

The holders of ordinary shares have the right to receive dividends, as may be declared from time to time, and the right to vote at general meetings of the Company, each share conferring one vote.

**B. Translation reserve from foreign operations**

The translation reserve includes all exchange differences resulting from the translation of the financial statements of foreign operations.

The movement in the translation reserve from foreign operations is as follows:

	Year ended December 31		
	2018	2017	2016
	NIS thousands		
Subsidiaries: PIH Luxembourg, P.I.H. B.V. and SwissPic	107,604	(71,323)	(58,512)
Subsidiary: Locka Holding	8,526	(4,079)	(48,921)
Subsidiary: Bionature S.A.R.L.	-	-	(1,125)
Subsidiary: The Set	5	(26)	63
Subsidiary directly held by the Company	529	463	(98)
	<b>116,664</b>	<b>(74,965)</b>	<b>(108,593)</b>

**C. Revaluation reserve for fixed assets**

The reserve includes the excess of the fair value of real estate (excluding real estate under construction) included in fixed assets over the carrying amount of such real estate. For information on the accounting policy concerning the revaluation of fixed assets, see Note 3D.

**D. Dividends**

In the reporting period, the Group declared dividends in the amount of NIS 101,519 thousand (of which NIS 25,001 thousand was paid subsequent to the date of the statement of financial position).

**Note 23 - Equity (cont'd)**

**E. Repurchase of shares**

On March 27, 2016, the Board of Directors of the Company decided to approve a plan for the repurchase of Company shares in the amount of NIS 50 million. In its meeting on November 28, 2016, the Board of Directors decided on the repurchase of an additional NIS 50 million. Likewise, on May 17, 2017, the Board of Directors decided to approve an additional plan for the repurchase of the Company's shares totaling NIS 30 million. The plan is effective from May 17, 2017 to May 17, 2018. The execution of the repurchase, the price, the timing and the method of its execution (whether on or off the stock exchange, including by way of issuing orders to a third party to collect securities) will be subject to the discretion of management of the Company. Within the framework of a repurchase plan, in the years 2016 and 2017, the Company repurchased (treasury shares) of an aggregate par value of NIS 1,055 thousand in consideration of NIS 100,365 thousand and of an aggregate par value of NIS 370 thousand in consideration of NIS 29,974 thousand, respectively.

On February 3, 2019 the Company's Board of Directors decided to approve a plan for the repurchase of Company shares in the amount of NIS 30 million. The plan is effective until February 4, 2020. In accordance with the repurchase plan, subsequent to the date of the statement of financial position the Company repurchased (treasury shares) of an aggregate par value of NIS 40 thousand in consideration of NIS 4,953 thousand.

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## Note 24 - Earnings per Share

### Basic earnings per share

The calculation of basic earnings per share as at December 31, 2018 was based on a profit of NIS 321,867 thousand (2017: profit of NIS 541,247 thousand; 2016: loss of NIS 381,284 thousand) attributable to the Company's ordinary shareholders divided by a weighted average number of ordinary shares outstanding of 24,467 thousand shares (2017: 24,467 thousand shares; 2016: 25,485 thousand shares), calculated as follows:

### Weighted average number of ordinary shares

	Year ended December 31		
	2018	2017	2016
	Thousands of shares of NIS 1 par value		
Balance as at January 1	24,179	25,233	25,604
Effect of Company shares held by the Company	-	(766)	(119)
Weighted average number of ordinary shares used in calculating earnings per share	<u>24,179</u>	<u>24,467</u>	<u>25,485</u>

### Diluted earnings (loss) per share

The calculation of diluted earnings per share as at December 31, 2018 was based on a profit of NIS 321,867 thousand (2017: profit of NIS 541,247 thousand; 2016: profit of NIS 381,284 thousand) attributable to the Company's ordinary shareholders divided by a weighted average number of ordinary shares outstanding of 24,179 thousand shares (2017: 24,467 thousand shares; 2016: 25,485 thousand shares), calculated as follows:

	Year ended December 31		
	2018	2017	2016
	NIS thousands		
Profit used to calculate basic earnings per share	<u>321,867</u>	<u>541,247</u>	<u>381,284</u>
Profit attributable to ordinary shareholders (diluted)	<u>321,867</u>	<u>541,247</u>	<u>381,284</u>

	Year ended December 31		
	2018	2017	2016
	Thousands of shares of NIS 1 par value		
Weighted average number of ordinary shares used to calculate basic earnings per share	24,179	25,233	25,604
Effect of Company shares held by the Company	-	(766)	(119)
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>24,179</u>	<u>24,467</u>	<u>25,485</u>

## Note 25 - Subsidiaries

### A. Lutetia

#### 1. Acquisition of Lutetia

For the purpose of impairment testing, the goodwill was fully allocated to Hotel Lutetia in Paris, which represents the lowest level within the Group at which goodwill is monitored for internal management purposes, which is not higher than the operating segments, before the aggregation of segments, reported in Note 5, Operating Segments.

As part of the impairment testing of the cash-generating unit that includes the goodwill, the Company examined the recoverable amount of the Hotel's operations, based on the external valuation performed by Cushman & Wakefield. The recoverable amount was based on the fair value and determined by discounting the future cash flows that are expected to be generated by the Hotel. As at December 31, 2018, the recoverable amount is greater than the carrying amount of the unit and therefore no impairment loss was recognized. The fair value measurement is classified at Level 3 of the fair value hierarchy (for a definition of the various hierarchy levels, see Note 2, Basis of Preparation).

Key assumptions used in calculation of recoverable amount:

	2018	2017
Discount rate for the representative period	6.50%	6.50%
Perpetual discount rate	3.50%	4.00%

## Note 26 - Gain (Loss) on Securities at Fair Value through Profit or Loss and Other Income (Expenses)

	Year ended December 31		
	2018	2017	2016
	NIS thousands		
<b>Income</b>			
From securities, net	88,126	236,652	51,197
Capital gain	115	4,162	-
Other income	12,136	9,448	8,446
	<b>100,377</b>	<b>250,262</b>	<b>59,643</b>
<b>Expenses</b>			
Capital loss	187	-	2,595
Impairment loss on investments	5,503	8,979	2,195
	<b>5,690</b>	<b>8,979</b>	<b>4,790</b>

**Note 27 - Hotel Operation Costs and Expenses**

	Year ended December 31		
	2018	2017	2016
	NIS thousands		
<b>Cost of services</b>			
Payroll and related expenses	211,818	161,628	157,999
Food and beverages	46,369	36,561	35,501
Other expenses	38,770	34,073	31,967
	<u>296,957</u>	<u>232,262</u>	<u>225,467</u>
<b>Operating expenses</b>			
Payroll and related expenses	64,473	45,315	46,326
Energy	19,102	15,837	16,560
Property maintenance	31,936	21,688	22,914
Taxes and Insurance	19,003	17,313	12,801
Advertising, marketing and public relations	17,931	12,994	11,854
General expenses	41,635	38,903	39,041
	<u>194,080</u>	<u>152,050</u>	<u>149,496</u>
	<u>491,037</u>	<u>384,312</u>	<u>374,963</u>

Depreciation expenses in respect of the fixed assets of the hotels are carried to the income statement under "hotel depreciation expenses".

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**Note 28 - General and Administrative Expenses**

Composition:

	Year ended December 31		
	2018	2017	2016
	NIS thousands		
Salaries and related expenses	25,463	25,838	27,735
Management fees to companies controlled by interested parties	3,296	3,290	3,497
Consulting, legal and audit fees	20,112	16,927	16,078
Directors' fees	932	861	885
Rent	835	822	661
Impairment loss on trade receivables	212	790	305
Advertising and public relations	2,646	10,090	8,004
Donations	6,397	6,900	4,250
Other	19,634	8,049	16,857
	79,527	73,567	78,272

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**Note 29 - Financing Income and Expenses**

**A. Recognized in profit or loss:**

	Year ended December 31		
	2018	2017	2016
	NIS thousands		
<b>Income</b>			
Derivative financial instruments	-	11,114	112,032
From revaluation of deposits	-	-	3
From other	836	2,638	169
	<u>836</u>	<u>13,752</u>	<u>112,204</u>
<b>Expenses</b>			
From long-term bank loans (1)	39,701	43,258	47,938
From debentures (2)	38,070	27,450	21,960
From short-term borrowings from banks and others	19,370	49,794	177,144
From revaluation of deposits	52	17	-
Derivative financial instruments	17,352		
To others	4,050	1,165	7,125
	<u>118,595</u>	<u>121,684</u>	<u>254,167</u>
Less – financing expenses carried to the cost of fixed assets	12,355	23,678	20,701
	<u>106,240</u>	<u>98,006</u>	<u>233,466</u>
Financing expenses, net	105,404	84,254	121,262
(1) Including amortization of deferred expenses	3,543	1,076	2,123
(2) Including amortization of deferred expenses and discount/(premium)	(5,479)	(5,303)	(6,695)

**B. Recognized directly in comprehensive income**

Income (expenses) in respect of currency translation differences of foreign operation	116,664	(74,965)	(108,593)
<b>Attributable to:</b>			
Owners of the Company	91,131	(58,074)	(85,949)
Non-controlling interests	25,533	(16,891)	(22,644)
	<u>116,664</u>	<u>(74,965)</u>	<u>(108,593)</u>

  
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**Note 30 - Taxes on Income**

**A. Composition of income tax expense included in the income statement:**

	Year ended December 31		
	2018	2017	2016
	NIS thousands		
<b>Current tax expense</b>			
For the current period	20,075	8,250	39,134
For prior years	(2,490)	(1,150)	(357)
	<b>17,585</b>	<b>7,100</b>	<b>38,777</b>
<b>Deferred tax expense</b>			
Creation and reversal of temporary differences	64,563	92,605	26,109
Change in tax rates	(1,011)	(21,930)	(122,332)
	<b>61,552</b>	<b>70,675</b>	<b>(96,223)</b>
Income tax expense (saving)	<b>79,137</b>	<b>77,775</b>	<b>(57,446)</b>

**B. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense as included in the income statement:**

	Year ended December 31		
	2018	2017	2016
	NIS thousands		
Profit before taxes on income	444,202	644,584	390,296
Primary statutory tax rate	23.0%	24%	25.0%
Theoretical tax calculated according to the Company's primary tax rate	<b>102,166</b>	154,701	97,574
Additional tax (tax saving) in respect of:			
Different tax rate of foreign subsidiaries, including adjustments for changes in the purchasing power	(11,568)	(1,033)	(20,586)
Changes in deferred taxes as a result of the changes in the purchasing power	(130)	(2,006)	1,897
Non-deductible expenses, including an impairment provision for investments	283	561	1,155
Tax exempt income and preferred income	(21,045)	(59,070)	(1,118)
Neutralization of tax calculated in respect of the Company's share in profits of associates	(308)	(289)	123
Change in losses carried forward for which deferred taxes were not recognized	10,921	3,594	(6,910)
Taxes in respect of previous years	(2,490)	(1,150)	(357)
Deferred taxes in respect of previous years	(117)	924	435
Tax timing differences for which deferred taxes were not recognized	-	-	(13,274)
Changes in the tax rates	(1,011)	(25,057)	(122,332)
Other	<b>2,436</b>	<b>6,600</b>	<b>5,947</b>
	<b>79,137</b>	<b>77,775</b>	<b>(57,446)</b>

### Note 30 - Taxes on Income (cont'd)

#### C. Details regarding the tax environment of the Group

##### (1) Corporate tax rate

(a) Presented hereunder are the tax rates relevant to the Company in the years 2016-2018:  
2016 – 25%  
2017 – 24%  
2018 – 23%

On January 4, 2016, the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) – 2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016.

Furthermore, on December 22, 2016, the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

As a result of the reduction in the tax rate to 23%, the deferred tax balances as at December 31, 2018 were calculated according to the new tax rates specified in the Economic Efficiency Law, at the tax rate expected to apply on the date of reversal.

The effect of the changes described above on the Company's results of operations for the 2016 was reflected in deferred tax income in the amount of NIS 57 million and an increase in other comprehensive income in the amount of NIS 4 million.

(b) On January 12, 2012 Amendment 188 to the Income Tax Ordinance (New Version) – 1961 (hereinafter – “the Ordinance”) was published in the Official Gazette. The amendment amended Section 87A to the Ordinance, and provides a temporary order whereby Accounting Standard No. 29 “Adoption of International Financial Reporting Standards (IFRS)” that was issued by the Israel Accounting Standards Board shall not apply when determining the taxable income for the tax years 2010-2011 even if this standard was applied when preparing the financial statements (hereinafter – “the Temporary Order”). On July 31, 2014 Amendment 202 to the Ordinance was issued, by which the Temporary Order was extended to the 2012 and 2013 tax years.

##### (2) Benefits under the Law for the Encouragement of Industry (Taxes)

The subsidiaries, Alrov Mamilla 2006 Ltd. and Alrov Luxury Hotels (1993) Ltd. qualify as “Industrial Companies” as defined in the Law for the Encouragement of Industry (Taxes) – 1969 and accordingly, since 2009, they are entitled to submit consolidated tax returns as companies in the same line of business.

  
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**Note 30 - Taxes on Income (cont'd)**

**C. Details regarding the tax environment of the Group (cont'd)**

**(3) Law for the Encouragement of Capital Investments**

On December 30, 2010, the Company announced its selection of 2009 as the election year of the beneficiary enterprise under the Law for the Encouragement of Capital Investments – 1959 (hereinafter: "the Encouragement Law"). The Encouragement Law grants tax benefits based on the development area in which the hotel is located. As at the date of announcement of the election year, Development Area A, as defined in the Encouragement of Capital investments Order (Determination of Special Areas for Tourism Enterprises) – 2007, includes hotels in the region of Jerusalem and confers tax exemption for a period of 10 years on income from the beneficiary enterprise.

**(4) Description of the effects of the tax law that apply to foreign related companies**

Group companies operating overseas are subject to the tax laws in their countries of residence and operation. The tax rates applicable to its foreign subsidiaries are as follows: France – 33%-34.53%; Netherlands – 25%; Switzerland – 15.73%-23.86%. In 2003, the provisions of the Law for the Amendment of the Income Tax Ordinance (Amendment No. 132) – 2002 (hereinafter in this section: "the Tax Reform"), which set out a comprehensive reform of certain aspects of the tax system in Israel, came into effect. The principal provisions of the Tax Reform that may have bearing on Israeli-resident companies are: source rules for determining the location where income was produced; controlled foreign company (CFC) – principles are set out whereby, under certain circumstances, Israeli shareholders will be liable for tax on a deemed dividend in respect of passive income in the foreign body of persons that they control. In the opinion of the Company, the CFC rules do not apply to the Company, *inter alia*, since the tax rate in the countries in which the Group operates is 15%.

In the first quarter of 2016, a legislative proceeding was completed in the canton of Vaud in Switzerland, which reduces the rate of corporate tax in the canton, commencing in 2019 and thereafter, from an average rate of 21% to 14%. Following the legislation amendment in Switzerland, during 2016 the Company recorded a decrease of approximately NIS 31 million in the provision for deferred taxes against tax income.

On September 15, 2016, a legislation proceeding was completed in Great Britain, which provides for the gradual reduction of the corporate tax rate from a rate of 20% to a rate of 17%. Following the legislation amendment in Great Britain, during 2016 the Company recorded a decrease in deferred tax assets against tax expenses of approximately NIS 3 million.

In the fourth quarter of 2016, a legislation proceeding was completed in France, which provides for the reduction of the corporate tax rate from 33.3% and 34.53% to 28% and 28.92%, respectively, commencing in 2019 and thereafter. Following the legislation amendment in France, in 2016 the Company recorded a decrease of approximately NIS 36 million and NIS 5 million, respectively, in the provision for deferred taxes against tax income and against a capital reserve from the revaluation of fixed assets. In the fourth quarter of 2017, an additional legislative proceeding ended in France, which provided a further reduction in the corporate tax rate from 28% and 28.92% to 25% and 25.825%, respectively, commencing from 2022. Following the legislative amendment in France, in the reporting year the Company recorded an additional decrease in the provision for deferred taxes against tax saving and against capital reserve from revaluation of fixed assets of NIS 19 million and NIS 3 million, respectively.

**Note 30 - Taxes on Income (cont'd)**

**C. Details regarding the tax environment of the Group (cont'd)**

**(4) (cont'd)**

In the fourth quarter of 2018, a legislation proceeding was completed in the Netherlands, which provides for a reduction in the corporate tax rate from a rate of 25% to a rate of 22.25%. Following the legislation amendment in the Netherlands, during 2018 the Company recorded a decrease in deferred tax assets against tax expenses of approximately NIS 1 million.

**D. Deferred tax assets and liabilities**

**(1) Recognized deferred tax assets and liabilities**

Deferred taxes in respect of companies in Israel are calculated according to the tax rate anticipated to be in effect on the date of reversal as stated above.

Deferred taxes in respect of subsidiaries operating outside Israel were calculated according to the tax rates applicable in each country.

Deferred tax assets and liabilities are attributable to the following items:

	Fixed assets and investment property	Employee benefits	Carry- forward tax deductions and losses	Other	Total
	NIS thousands				
<b>Balance of deferred tax asset (liability) as at January 1, 2017</b>					
Changes recognized in profit or loss	(1,102,901)	3,223	169,049	14,785	(915,844)
Currency translation differences in respect of deferred foreign tax	(86,081)	308	(7,763)	931	(92,605)
Deferred taxes in respect of remeasurement of defined benefit plan carried to other comprehensive income	14,253	(25)	(3,259)	-	10,969
Effect of change in the tax rate	-	570	-	-	570
Deferred taxes in respect of revaluation of fixed assets carried to other comprehensive income	22,199	-	(269)	-	21,930
	(39,326)	-	(194)	-	(39,520)
<b>Balance of deferred tax asset (liability) as at December 31, 2017</b>					
Changes recognized in profit or loss	(1,191,856)	4,076	157,564	15,716	(1,014,500)
Deferred taxes in respect of remeasurement of defined benefit plan carried to other comprehensive income	(56,988)	63	(3,523)	(2,115)	(62,563)
Effect of change in the tax rate	-	(249)	-	-	(249)
Deferred taxes in respect of revaluation of fixed assets carried to other comprehensive income	1,011	-	-	-	1,011
	(42,037)	-	-	-	(42,037)
Currency translation differences in respect of deferred foreign tax	(8,290)	11	(5,584)	-	(13,863)
<b>Balance of deferred tax asset (liability) as at December 31, 2018</b>					
	(1,298,160)	3,901	148,457	13,601	(1,132,201)

**Note 30 - Taxes on Income (cont'd)**

**D. Deferred tax assets and liabilities (cont'd)**

**(2) Unrecognized deferred tax liabilities**

Deferred tax assets were not recognized in respect of the following items:

	December 31	
	2018	2017
	NIS thousands	
Losses for tax purposes	6,388	19,144
Capital loss	-	449
Timing differences in respect of securities	<u>3,594</u>	<u>8,784</u>
	<u>9,982</u>	<u>28,377</u>

The Company creates deferred taxes according to the various restrictions that apply to the utilization of tax losses and the deductible temporary differences.

**(3) Carry-forward tax losses and deductions**

The Company and subsidiaries have carry-forward tax losses and carry-forward capital losses that as at December 31, 2018 amount to NIS 699 million and NIS 15 million, respectively (2017: NIS 802 million and NIS 36 million, respectively).

In accordance with the law mentioned in C.(2) above, the balances of carry-forward losses and deductions are linked to the CPI through to the end of 2007, with the exception of a subsidiary that maintains its accounts in foreign currency, for which such items are linked to the exchange rate of the foreign currency.

The balance of the aforesaid business losses and capital losses for which deferred taxes were not created is NIS 28 million and NIS 14 million, respectively (2017: NIS 83 million and NIS 35 million, respectively).

As at December 31, 2018 there is no balance of real difference for which deferred taxes have not been created (2017: NIS 2 million).

**E. Tax assessments**

The Company has received final assessments through tax year 2013.

Other subsidiaries in Israel have received assessments that are considered to be final through tax year 2013.

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**Note 30 - Taxes on Income (cont'd)**

**F. Taxes on income in respect of components of other comprehensive incomes**

	2018		
	Before tax	Tax benefit (expense)	Net of tax
Revaluation reserve for fixed-asset items	162,270	(42,037)	120,233
Remeasurement of defined benefit plans	1,144	(249)	895
<b>Total taxes in respect of components of other comprehensive income</b>	<b>163,414</b>	<b>(42,286)</b>	<b>121,128</b>

	2017		
	Before tax	Tax benefit (expense)	Net of tax
Revaluation reserve for fixed-asset items	181,047	(39,520)	141,527
Remeasurement of defined benefit plans	(2,411)	570	(1,841)
<b>Total taxes in respect of components of other comprehensive income</b>	<b>178,636</b>	<b>(38,950)</b>	<b>139,686</b>

	2016		
	Before tax	Tax benefit (expense)	Net of tax
Revaluation reserve for fixed-asset items	17,219	13,623	30,842
Financial assets available for sale	34,712	-	34,712
Remeasurement of defined benefit plans	351	(58)	293
<b>Total taxes in respect of components of other comprehensive income</b>	<b>52,282</b>	<b>13,565</b>	<b>65,847</b>

  
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## Note 31 - Contingent Liabilities, Commitments and Pledges

### A. Contingent liabilities

(1) a. As at the date of the statement of financial position, bank guarantees were provided as follows:  
To a financial institution to secure a loan to a subsidiary – NIS 37,149 thousand.  
To secure a payment in connection with arbitration - NIS 3,433 thousand.  
To institutions (mainly municipalities and the Ministry of Tourism) – NIS 1,853 thousand.  
To secure a sales agreement - NIS 200 thousand.  
To tenants in connection with a project of housing for the elderly - NIS 3,503 thousand.

b. As at the date of the statement of financial position, documentary credit guarantees in the amount of NIS 2,944 thousand have been issued.

### (2) Guarantees

a. The Company has provided a guarantee in an unlimited amount to secure the liabilities of several subsidiaries to banks and guarantees limited in amount to several companies.

b. The Company has provided guarantees for the fulfillment of obligations of subsidiaries in connection with agreements signed under a real estate transaction, as described in section B.(3) below.

c. The Company has provided a guarantee to fulfill the debts and obligations of a subsidiary pursuant to a lease contract, under which a hotel property was acquired in London. See Note 14.D. This guarantee is limited to £1 million per year, linked to the Consumer Price Index, and a total of up to £5 million for a period of 25 years from the lease period (commenced in 2014).

d. The Company has provided guarantees to contractors on behalf of a subsidiary, to secure the subsidiary's payment for the works performed by such contractors to upgrade the hotel in Paris. As at the date of the statement of financial position, the guarantee amounted to NIS 12,887 thousand.

### B. Commitments

(1) As at the date of the statement of financial position, the Company and the subsidiaries have existing construction obligations in the amount of NIS 124 million.

(2) See Note 14.D regarding the Company's commitment in connection with construction of a hotel in London.

(3) **Mamilla Commercial District in Jerusalem**  
(a) This complex comprises a hotel, commercial areas for rent, residential areas and offices. The constructed surface of the buildings in the commercial district aggregates 48,440 sq.m. of principal areas and some 4,000 sq.m. on a commercial level constructed on the rooftop of the Jaffa Gate Carpark (as well as basements and parking with a total area of some 50,000 sq.m.). The rights in the Mamilla Commercial District in Jerusalem are owned by Alrov Mamilla Commercial District (1993) Ltd. (hereinafter: "Alrov Commercial District"), a subsidiary of the Company, in accordance with and subject to the provisions of an agreement with Karta, which is a party to the development of the Commercial District of the Mamilla complex in Jerusalem.

### Note 31 - Contingent Liabilities, Commitments and Pledges (cont'd)

#### B. Commitments (cont'd)

##### (3) Mamilla Commercial District in Jerusalem (cont'd)

###### (a) (cont'd)

Alrov Commercial District entered into the commitment with Karta in July 1994, by way of several contracts, including a contract for the performance of development works (hereinafter: "the Development Contract"), to which is attached the format of a lease contract (hereinafter: "Lease Contract").

###### (b) The Development Contract

The Development Contract addresses, inter alia, the performance of development works by Alrov Commercial District at the Mamilla complex, in the "Commercial District" and in the "pedestrian mall levels" that constitute part of the Commercial District.

The Commercial District encompasses some 24.5 thousand dunam within the Mamilla complex (hereinafter: "the Commercial District"). The pedestrian mall levels are part of the Commercial District and include the commercial areas constructed on the rooftop of the Jaffa Gate Carpark (hereinafter: "the Pedestrian Mall Levels").

According to the Development Contract, upon completion of the development works in the Commercial District, the Group will be granted long-term lease rights in the Commercial District for a period of 199 years, with the exception of the two following areas (that constitute part of the Commercial District) in an area of 1.5 dunam ("the Patriarch Properties"), in which lease rights will be granted for a period of 149 years commencing in 1973, and an area of 1 dunam ("the Shops of the Order"), in which lease rights will be granted for a period of 125 years commencing in 1992.

The Development Contract further determines that, upon the registration of any right in the Commercial District in the name of the Group, only 30% of the lease rights in the Pedestrian Mall Levels will be registered in the name of Karta.

###### (c) The lease contract

The lease contract addresses the leasing of areas in the Commercial District (by Karta to the Group, with the exception of the Patriarch Properties and the Shops of the Order, which Karta will sublet to the Company) and the lease fees payable to Karta.

In 2015, the Special Administrator of Karta published a call for proposals for the acquisition of the rights of Karta in the Pedestrian Mall Levels in accordance with the Development Contract, i.e. the right to be registered as the owner of 30% (unspecified) of the lease and sublease rights in the Pedestrian Mall Levels for a period of 100 years and the right to receive 30% of the receipts from rent in the Pedestrian Mall Levels in accordance with and subject to the formulas that are set out in the lease contract.

A subsidiary Alrov Mamilla Commercial District (1993) Ltd. (hereinafter: "Alrov Commercial District") submitted a proposal, and following a bidding process involving several bidders, on November 19, 2015 a sale contract was signed, pursuant to which Alrov Commercial District acquired the aforesaid rights in consideration of NIS 220 million plus VAT.

**Note 31 - Contingent Liabilities, Commitments and Pledges (cont'd)**

**B. Commitments (cont'd)**

**(3) Mamilla Commercial District in Jerusalem (cont'd)**

**(c) The lease contract (cont'd)**

Alrov Commercial District completed the payment of the aforesaid consideration on December 31, 2015. As of said date, it is fully entitled to the aforesaid rights for a period of 100 and Karta no longer holds those rights.

**(d) Arbitration proceeding against Karta**

In November 1998, Alrov Commercial District initiated an arbitration proceeding against Karta, a party to the development of the Mamilla Commercial District in Jerusalem, for the issue of a declaratory relief pursuant to which Karta is in breach of the agreement with Alrov Commercial District as a result of Karta's refusal to sign an amendment to the Municipal Building Plan that had been drawn up by Alrov Commercial District for the Mamilla Commercial District.

On September 13, 1999, the arbitrator issued his first ruling (hereinafter: "the First Ruling"), in which he accepted the principal claim of Alrov Commercial District and determined the liability of Karta for the breach of the agreement with Alrov Commercial District. On March 30, 2000, the Tel Aviv-Jaffa Court approved the aforesaid ruling. Consequently, in the second quarter of 2000, Karta signed the amended Municipal Building Plan for the Mamilla Commercial District.

Nevertheless, the parties proceeded with the arbitration concerning the amount of damage that Alrov Commercial District had claimed for the breach. Alrov Commercial District claimed damages for expenses, losses, loss of earnings and etc. that the group had incurred as a result of the defaults by Karta, which had caused a delay in the construction of the Mamilla Project, as well as damages for the inability to fully realize the building rights in the Mamilla Project and other expenses that had been incurred by the company in the development of Ha'Emek Street in Jerusalem, in the aggregate amount of NIS 350 million, and a declaratory judgment that, in view of Karta's breaches of the contract, Alrov is entitled to rescind it.

At the same time, Karta filed a counterclaim demanding a declaratory judgment pursuant to which Alrov Commercial District had breached the agreement between them and is unlawfully withholding monies due to Karta.

On December 31, 2004, the arbitrator issued an interlocutory decree (hereinafter: "the Second Ruling"), requiring Karta to pay damages of NIS 80 million (including VAT) to Alrov Commercial District for the breach of the agreement between them.

On January 11, 2006, Alrov Commercial District received the final ruling of the arbitrator (hereinafter: "the Third Ruling"), pursuant to which Alrov Commercial District is entitled to damages as well as to the reimbursement of expenses and fees from Karta in the aggregate amount of approximately NIS 22 million (including VAT).

### Note 31 - Contingent Liabilities, Commitments and Pledges (cont'd)

#### B. Commitments (cont'd)

(3) Mamilla Commercial District in Jerusalem (cont'd)  
(d) Arbitration proceeding against Karta (cont'd)

On July 31, 2006, the Jerusalem District Court issued a ruling that validates the arbitrator's ruling for full execution. In September 2006, Alrov Commercial District filed a petition for the issue of a liquidation order and the appointment of a provisional liquidator for Karta. Karta and its shareholders, the State and the Jerusalem Municipality objected to the appointment of the provisional liquidator. On February 12, 2007, a liquidation order was issued against Karta, the official receiver was appointed as liquidator and was authorized to appoint a Special Administrator for certain duties.

On March 4, 2007, a debt-claim against Karta, in the amount of NIS 133 million (including VAT) was filed with the official receiver on behalf of Alrov Commercial District. On March 6, 2007, a meeting of creditors was held at the offices of the official receiver for the appointment of a Special Administrator. Pursuant to the meeting, the creditors (Alrov, the State and the Jerusalem Municipality) have agreed to appoint Adv. Yitzhak Molcho as Special Administrator. It should be noted that the State of Israel and the Jerusalem Municipality have also filed debt claims under the liquidation proceedings, for substantial amounts that could affect the ability of Karta to pay the arbitrator's ruling as at the date of the report. Alrov Commercial District is considering filing a monetary claim against the State in respect of the damages incurred by the company as a result of the delay in the construction of the Mamilla Commercial District project, which had been caused by the Ministry of Interior and the Ministry of Construction and Housing.

On October 18, 2015, the Jerusalem District Court ruled that the Special Administrator will distribute an amount of NIS 60 million out of the liquidation fund, in equal parts, to each of the three creditors: the Jerusalem Municipality, the State of Israel and the subsidiary, Alrov Mamilla Commercial District (1993) Ltd. (hereinafter: "the Subsidiary"), against the signing of an indemnification agreement with the Official Receiver ("the OR") and the Special Administrator. Pursuant to the indemnification deed, each of the creditors will pay an amount of up to NIS 20 million to the liquidation fund within 14 days of a demand by the Special Administrator and/or the OR, with no obligation on the part of the latter two to reason and/or substantiate their demand. On November 20, 2015, Alrov Commercial District received NIS 20 million. In view of the signing of the indemnification deed, Alrov Commercial District did not recognize income in respect of the amount received.

In 2016 the Jerusalem Municipality, the State of Israel and the Subsidiary each submitted to the Special Administrator their arguments regarding the debt claim of the others and the response of each one of them to the arguments of the others. In January 2017 the Special Administrator notified the court that after having thoroughly studied the parties' debt claims and examining the parties' arguments, the Special Administrator has prepared a settlement proposal that it will present before the parties (the Municipality, the State and the Subsidiary). The Special Administrator also notified that if it should become clear that no agreement can be reached on the settlement, the Special Administrator will rule on the debt claims.

### Note 31 - Contingent Liabilities, Commitments and Pledges (cont'd)

#### B. Commitments (cont'd)

(3) Mamilla Commercial District in Jerusalem (cont'd)  
(d) Arbitration proceeding against Karta (cont'd)

On March 29, 2019 the Company received the decision of the Special Administrator by which the Special Administrator had approved the debt claim in the amount of NIS 153,076 thousand (including linkage differences and interest at an annual rate of 3%) that Alrov Commercial District had submitted in the framework of the liquidation proceedings of Karta. The net amount that was approved for payment to Alrov Commercial District, after offsetting debts that can be offset as decided by the Special Administrator, is NIS 118,915 thousand (from which was deducted the advance payment of NIS 20,000 thousand that was paid to Alrov Commercial District on November 19, 2015, which with the addition of linkage differences and annual interest of 3% amounts to NIS 21,928 thousand). The aforesaid amounts are true for October 31, 2018. In addition, the Special Administrator decided as follows: (a) At this time he approved for all the creditors annual interest of 3% and if enough money is left after paying the debts of Karta, the creditors will be paid additional interest according to the interest rate provided in the law or in the relevant agreement; (b) The VAT issue will be examined and insofar as necessary, based on understandings between the parties, a pre-ruling will be requested from the tax authority on the matter.

Alrov Commercial District is permitted by law to appeal the aforesaid decision of the Special Administrator and it will examine it together with its advisors. The Special Administrator has not yet decided on the debt claim of the State, and in any case the decisions of the Special Administrator regarding the Jerusalem Municipality, the State and Alrov Commercial District are subject to appeals or objections, as relevant, before the District Court.

In view of the timing of the decision and the aforesaid, the Company is studying the effects of the decision on its financial results for 2019.

(4) The Company offers indemnification for directors and officers in the Company, on an individual basis, for the duration of their office in the Company, this being subject to the restrictions and amounts that are set out in the Articles of Association of the Company.

(5) Mr. Alfred Akirov ("Mr. Akirov"), the controlling shareholder in the Company, is the founder of the Company ("the Group") and serves as active Chairman of its Board of Directors since its inception. A management agreement exists between each of the companies in the Group and Akirov Banking Holdings (1994) Ltd. (which is owned by Mr. Akirov and Mrs. Chava Akirov) ("the Management Company") which provides, inter alia, for the provision of management services by the Management Company, through Mr. Akirov, who currently serves and will continue to serve as active Chairman in the Company. In addition to remuneration, the Company bears and pays to Mr. Akirov or to the Management Company all the expenses of Mr. Akirov in respect of his service in the Company or on its behalf including the making available of an appropriate vehicle, vehicle maintenance, telephones, hospitality coverage, travel expenses, including the grossing up of notional income for income tax purposes where applicable.

**Note 31 - Contingent Liabilities, Commitments and Pledges (cont'd)**

**B. Commitments (cont'd)**

**(5) (cont'd)**

The agreement determines, *inter alia*, that an employer-employee relationship does not and will not exist between the Company and Mr. Akirov and that he will not be included in collective or sectoral agreements. According to the agreement, payments in respect of an employer-employee relationship will be borne by the Management Company. The agreement allows Mr. Akirov to change his status to that of a Company employee, provided that his overall benefits, including social benefits, will not exceed the consideration that is specified above. The agreement further determines that the Management Company may assign its rights and obligations under the agreement to a third party, provided that the management services will continue to be provided by Mr. Akirov alone. On August 4, 1997, the Management Company provided a letter of undertaking ("the Letter of Undertaking") that sets out the duties of Mr. Akirov as an employee of the Management Company, in all aspects. According to the Letter of Undertaking, the consideration that will be payable by the Company for the management services is the total cost of the management services provided by Mr. Akirov, and the Management Company will indemnify the Company for any expense that it incurs in excess of the agreed-upon management fees. Additionally, the Management Company has undertaken to insure Mr. Akirov under all requisite and customary insurance policies and to ensure that the Company is added as a beneficiary to policies pertaining to Mr. Akirov, to be liable for any damage that is caused to Mr. Akirov within the framework of the management services and to be exclusively liable for any damage that Mr. Akirov may cause to the Company as part of or in connection with the provision of the management services, and to indemnify and compensate the Company for any loss or damage that it incurs as a result of a claim or demand that is filed against it in connection with the provision of the management services for which the Management Company is accountable.

On February 21, 2016, the general meeting of the shareholders of the Company decided (pursuant to the approval by the Compensation Committee and the Board of Directors of the Company) to extend the engagement of the Company in management arrangements with Mr. Akirov in the amount of NIS 3,132 thousand, linked to the Consumer Price Index published on December 15, 2015, payable by the Company to the Management Company. The management arrangements approved in said general meeting will be in effect for a period of 3 years commencing on the expiration of the Company's previous management arrangements with Mr. Akirov (May 8, 2016).

The Company's Audit Committee and Board of Directors decided that Locka (held at the rate of 80% by the Company, 15% by the son of the controlling shareholder and the rest by an unrelated third party) would be responsible for 30% of the cost of the management fee paid by the Company as aforesaid, plus a profit of 5% on the aforesaid cost.

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### Note 31 - Contingent Liabilities, Commitments and Pledges (cont'd)

#### B. Commitments (cont'd)

##### (5) (cont'd)

On June 27, 2017, the general meeting of the Company's shareholders decided to give temporary approval, commencing from the end of the tenure of the resigning CEO, Mr. Ron Geller (June 30, 2017), to the appointment of Mr. Akirov, Chairman of the Board of Directors, to serve concurrently as the Company's CEO, for a short bridge period until a CEO is found for the Company who meets its needs, and in no case for longer than a 12-month period, all in a manner whereby Mr. Akirov will continue to be entitled to the terms of his current tenure (including indemnification and insurance), without any change. Mr. Akirov will not be entitled for his tenure as the Company's CEO, to any additional remuneration beyond the remuneration and terms to which he is entitled as the Chairman of the Board.

On July 4, 2018, the general meeting of the Company's shareholders decided to give temporary approval, commencing from the end of the additional service as CEO of the Company's Chairman of the Board of Directors (June 30, 2018), to an extension in the service of Mr. Akirov, the Chairman of the Board, as also the Company's CEO for an additional short bridge period until a CEO is found for the Company who meets its needs, and in no case for longer than a 6-month period, all in a manner whereby Mr. Akirov will continue to be entitled to the terms of his current tenure (including indemnification and insurance), without any change.

(6) As regards the collaboration in P.I.H. Property Investment Holdings B.V. (hereinafter: "PIH"), on December 28, 2008, a shareholders' agreement (hereinafter: "the Shareholders' Agreement") was signed between the Company and EPIC Luxembourg SA, a company that is (indirectly) wholly owned by a British citizen who is not affiliated to the controlling shareholder (hereinafter: "the Partner in PIH"), for cooperation in the acquisition, rent, trade and related transactions in income-generating real estate properties outside Israel, primarily in Europe, including Eastern Europe, this through PIH. The Shareholders' Agreement prescribes, *inter alia*, provisions concerning the founders' loans to PIH, the prohibition of pledging of shares and restrictions on their transferability, the composition of shareholders and signatory rights, management practices in PIH and non-compete arrangements.

- The Partner in PIH will no longer be required to provide any owners' loans or capital in favor of PIH and its operations. Any owners' loans or capital that are required for the business operations of PIH will be provided by the Company, in accordance with the terms that are set out in the Agreement, including as regarding the repayment of such loans. The liability of the Company to provide owners' loans as above will be limited in amount, and the Company may, at its sole discretion, raise the limit of the owners' loan. To the extent that the limit is raised by the Company as above, the Company would be obligated to provide to PIH higher amounts of owners' loans or capital, in accordance with a resolution of the Board of Directors of PIH. The Company alone shall be entitled to receive from PIH a tier of distribution of profits, in the amount of EUR 7.9 million, which will be increased from time to time based on the linkage mechanism that is set out in the Agreement.

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### Note 31 - Contingent Liabilities, Commitments and Pledges (cont'd)

#### B. Commitments (cont'd)

##### (6) (cont'd)

- The Partner in PIH will be responsible for the current management of PIH and its subsidiaries, subject to the supervision and directives of the Board of Directors of PIH and the subsidiaries, and will dedicate the majority of his time and efforts to this purpose. Within this framework, the Partner in PIH will also be oversee the efforts to locate properties for acquisition (on all related aspects, including feasibility testing of the acquisition, handling of business negotiations, management strategy and adaptation of acquired properties to their designated business purpose) and the actions necessary for obtaining outside finance for the acquisition or adaptation of the properties. For his services, the Partner in PIH shall be entitled to an annual consideration as provided for in the Agreement, with the addition of reimbursement of expenses.
- If control in the Company changes as a result of an action by Mr. Alfred Akirov or the Company, the Partner in PIH shall be entitled at his discretion and absolute authority to decide to sell to the Company and to obligate the Company to purchase from him, in their entirety, all of the shares of PIH that he holds at such time, clear and free, and subject to the provisions that are set out in the Agreement. Furthermore, in the event of a change in control other than as a result of an action by Mr. Alfred Akirov or the Company, as above, additional provisions shall apply to the decision-making mechanism in PIH including, inter alia, expansion of the areas for which a unanimous vote is required. The aforesaid will not apply if PIH becomes a public company and offers its shares to the public.

In 2015, an addendum to the aforesaid Shareholders' Agreement was signed, pursuant to which PIH will distribute to the parties, every year, amounts that are equal to the greater of: (a) the amounts distributable to the parties under the new shareholders' agreement, or (b) EUR 6 million every year thereafter. The aforesaid addendum also includes updates concerning the consideration payable to the Partner in connection with the services that he provides. It also excludes various earnings that are received as part of the joint venture. As further specified, provisions are prescribed in relation to the repayment of loans provided by the Company in favor of subsidiaries.

In 2016, as part of a restructuring, the Company and EPIC Luxembourg transferred their entire interest in Property Investment Holding S.A. and Bionature S.A.R.L (hereinafter collectively: "the Luxembourg Companies") to a new Swiss-resident company, SwissPic Holdings AG, which later changed its name to Epic Suisse AG, which had been established specifically for this purpose (hereinafter: "Epic Suisse"), solely in consideration for the allotment of shares (hereinafter: "the Restructuring").

The Company has been issued a pre-ruling by the tax authorities, pursuant to which the Restructuring will not be subject to tax in accordance with the provisions of Section 104B(a) of the Ordinance, subject to compliance with the terms of Part E2 of the Ordinance, the Regulations and the terms of the pre-ruling.

**Note 31 - Contingent Liabilities, Commitments and Pledges (cont'd)**

**B. Commitments (cont'd)**

**(6) (cont'd)**

• (cont'd)

The tax pre-ruling further determines that the merger of the Luxembourg Companies into Epic Suisse by way of a statutory merger or liquidation subsequent to the Restructuring do not constitute a breach of Sections 104B that apply to Epic Suisse.

The Company and EPIC Luxembourg hold 77.8% and 22.2%, respectively, in the share capital of Epic Suisse.

The agreements described above will apply, with the required changes also with respect to the holdings in Epic Suisse.

**(7)** Until the date of completion of the merger transaction between the Company and Alrov Israel on June 30, 2015 and the winding up of Alrov Israel, Mr. Ben Moshe had served as the CEO of Alrov Israel (15% position) as well as the Director of Real Estate Operations in Israel (85% position). In view of the completion of the merger transaction and the winding up of Alrov Israel, commencing on July 1, 2015, Mr. Ben Moshe serves as the Company's Director of Real Estate Operations in Israel, under a full-time (100%) position. The salary cost of Mr. Shmulik Ben Moshe in 2018 amounted to NIS 1,960 thousand.

**(8)** On December 29, 2011, the general meeting of the Company's shareholders decided, inter alia (after obtaining the approvals of the Audit Committee and the Board of Directors of the Company), to employ Mrs. Chava Akirov (wife of Mrs. Alfred Akirov) as Positioning and Standards Trustee of the Group's hotels, at a Deputy CEO level, with a CPI-linked monthly salary of NIS 30 thousand, with the addition of an amount equal to the notional grossing-up of the value of the benefit of a former Level 6 executive vehicle (NIS 8 thousand as at said date). Additionally, a company on behalf of Mrs. Akirov shall be entitled to a monthly, CPI-linked amount of NIS 12 thousand in respect of a vehicle (and related expenses) that will be used by Mrs. Akirov at her sole expense. The terms of engagement, as above, were determined, inter alia, on the basis of an examination by an external expert of customary earning levels against the compensation offered to Mrs. Akirov.

On January 2, 2018, the general meeting of the Company's shareholders approved an extension of the employment arrangement for Mrs. Chava Akirov, in accordance with the terms of the current engagement, for a 3-year period ending December 31, 2020.

**(9)** Mr. Georgi Akirov ("Mr. Akirov"), the son of the controlling shareholder in the Company, has been serving since 2007 as the Director of Hotel Operations of the Company in Israel and overseas.

On January 18, 2017, a general meeting of the Company's shareholders approved the employment agreement and remuneration arrangements with Mr. Georgi Akirov until the end of 3 years from the approval date by the general meeting.

**Note 31 - Contingent Liabilities, Commitments and Pledges (cont'd)**

**B. Commitments (cont'd)**

**(9) (cont'd)**

In accordance with the remuneration arrangements that were approved by the general meeting, there will be no changes in the remuneration and engagement terms with Mr. Georgi Akirov, and he will be entitled (by means of a company on his behalf) to a fixed component payable as monthly management fees in the amount of NIS 127 thousand (plus VAT as applicable), linked to the CPI of April 2013.

On December 29, 2011, the general meeting, after obtaining the approval of the Audit Committee and the Board of Directors of the Company on November 15 and 20, 2011 (respectively), approved the engagement of the Company in an agreement for the establishment of a company that will specialize in the management of leading hotels in Israel and overseas ("the Management Company"), this in partnership between the Company (85%) and Mr. Georgi Akirov (15%), who is to lead and head the Management Company venture. Additionally, the Management Company will sign an agreement with the relevant companies in the Group for the provision of management services. The Management Company will bear 20% of the cost of employment of Mr. Georgi Akirov. The Management Company was established in 2016.

**C. Claims**

**(1)** In the ordinary course of business, legal claims have been filed, or various legal proceedings are pending against the Company (hereinafter in this section: "Legal Claims").

As at December 31, 2018, the amounts of claims made under Legal Claims that had been filed against the Company in various regards aggregate approximately NIS 5,972 thousand. In the opinion of the Company, based on the opinion of its legal counsel, the chances of the claims being accepted are lower than 50% and therefore no provision was included in the financial statements.

**(2)** A claim and a petition to certify it as a class action were filed on January 9, 2014 against two subsidiaries of the Company with the Tel Aviv District Court. The claim and the petition allege that the Company (through the subsidiary) charges some of the business owners and shops in a project of the Company excessive and unreasonable management fees, while areas that are rented by the Company and/or owned by the Company and not rented out, are not charged management fees and/or are charged low and unreasonable management fees. The petitioner argues that the conduct of the Company and the subsidiaries amounts to mala fide conduct in the contract negotiation and execution and constitutes unlawful enrichment. The amount of the petitioner's personal claim is NIS 373 thousand; the alleged collective damage is estimated by the petitioner at NIS 40,725 thousand. On April 5, 2017, a verdict was issued, in which the Court dismissed the motion for a class action. On June 11, 2017, the petitioner filed an appeal with the Supreme Court. A hearing on the appeal was set for May 6, 2019. Based on the opinion of the Company, which is based on the opinion of its legal counsel, no provision was included in the financial statements.

**Note 31 - Contingent Liabilities, Commitments and Pledges (cont'd)**

**D. Pledges**

**(1) To secure the liabilities of the Company and its subsidiaries to banks, the following were provided:**

**a.** Fixed charges, unlimited in amount, on all the real estate properties of the Company and its subsidiaries, a lien on the rental and other income that is expected to be received thereon, a pledge on a securities deposit and a pledge on monies and/or goodwill, rights that will be due to the Company and subsidiaries under contracts signed by the companies, as well as fixed charges on fixed assets, goodwill, share capital and the insurance rights in respect of the property and floating charges on the properties of subsidiaries.

Additionally, a fixed charge was placed on all the shares of foreign subsidiaries that are held through a subsidiary, including on their attached rights, with the exception of foreign subsidiaries that are directly held by the Company. The pledges are unlimited in amount.

**b.** A subsidiary has undertaken not to place general floating charges on its assets and properties without obtaining the consent of a bank thereto, and subsidiaries have made an undertaking to banks not to change their ownership structure.

Total liabilities secured by pledges on the assets of the Company and subsidiaries as at December 31, 2018 amount of NIS 6,597,344.

**(2)** Subsidiaries have received an investment grant from the state of Israel under the Law for the Encouragement of Capital Investments - 1959. If the subsidiaries fail to meet the terms attached to the receipt of the grant, they will be required to refund the amounts of the grant, in whole or in part, with the addition of interest from its day of receipt.

A subsidiary has placed floating charges on all of its assets in favor of the State of Israel to secure its compliance with the terms attached to the receipt of the investment grant. Another subsidiary has placed floating charges in favor of the State of Israel to secure its compliance with the terms attached to the receipt of the investment grant, this on all of the assets to be used by the hotel that is to be constructed at the Commercial District, and on all of the assets deriving therefrom.

  
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## Note 32 - Financial Risk Management

### A. General

The Group has exposure to the following risks as a result of the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (including currency/linkage risk, interest risk and share prices risk)

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk. Additional quantitative disclosure is presented throughout these consolidated financial statements.

Financial risk management in the Company is performed by Mr. Alfred Akirov, who serves as Chairman of the Board of Directors and temporary CEO (until December 31, 2018) and is the controlling shareholder in the Company. Management of the Company regularly monitors developments in the relevant markets and receives weekly reports on the status of the exposure to the various risks. Once a quarter, the Company's Board of Directors reports on market risks and on the developments in this field.

### B. Credit risk

#### *Trade receivables*

Investment property is characterized by a variety of tenants, in various sectors. In Israel, the Group customarily enters into medium-term rent agreements with its customers, for periods of several years. The rental in Switzerland, France and Israel are mostly linked to the Consumer Price Index (in the respective country) and are collected in advance for a period of 1-3 months, all in accordance with the rent agreements between the parties. Additionally, tenants are charged maintenance fees in respect of the rental property.

The collaterals that are received by the Company from tenants in Israel are mostly bank guarantees in an amount equal to three-months' rent, management fees and VAT, and occasionally promissory notes.

As at the date of the report, the Group is not dependent on a single customer or on a limited number of customers in this segment, the loss of which could materially affect the segment, and the Group does not have a customer that accounts for more than 10% of total income as per its consolidated financial statements.

In the lodging segment, customers share similar characteristics, consisting primarily of tourists and foreign business people. To the date of the report, the Group is not dependent on a single customer or on a limited number of customers in this segment, the loss of which could materially affect the segment.

### C. Liquidity risk

As at December 31, 2018, the consolidated financial statements of the Company show negative working capital in the amount of NIS 561 million (December 31, 2017 - NIS 1,794 million) and continuous positive cash flows from operating activities.

The Company has had a negative working capital for several years, this as a result of the Company's decision to favor financing with short-term credit, this in view of the relatively low rates of interest on short-term credit in recent years as compared to that on the long-term credit, and taking into account anticipated receipts from the sale of properties, all of which have led the Company to decide on the continuation of financing with short-term credit when obtaining credit from Israeli banks.

## Note 32 - Financial Risk Management (cont'd)

### C. Liquidity risk (cont'd)

The Company regularly reviews this policy. The decrease in the negative working capital as at December 31, 2018 compared with December 31, 2017 derives from, inter alia, extending to 28 months (as from April 2018) an existing credit facility agreement in respect of the Mamilla complex, and accordingly, presenting the utilized amount of the facility as a long-term liability. Furthermore, other credit facilities have been extended that in the financial statements as at December 31, 2017 had been presented as short-term credit, in an amount of NIS 483 million, to a period longer than one year and accordingly are presented as long-term liabilities.

The Company has approved credit facilities from a banking corporation that are classified as current liabilities in the amount of NIS 316 million (excluding credit facilities on the securities portfolio, see section 2.4.4 of this report for details). With respect to NIS 250 million, the Company is negotiating with the banking corporation regarding the terms and period for extending the facility and the rest is extended on a regular basis.

The Company's Board of Directors has determined that the working capital deficit, as described above, is not indicative of a liquidity problem in the Company; and taking note of Legal Position No. 105-27: Disclosure of Projected Cash Flows, of the Securities Authority, presented below are details of the examination performed by the Board of Directors and the reasoning for its aforesaid resolution: The Board of Directors has reviewed the existing policy of the Company, which is the source of the negative working capital that has been recorded by the Company for several years, to favor financing with short-term credit, this in view of the relatively low rates of interest on short-term credit in recent years as compared to that on long-term credit, while regularly reviewing this policy and updating it in the future to the extent necessary, and taking note of the actions the Company has and is taking to lower the amount of negative working capital, as indicated above. The Company's Board of Directors has also reviewed the existing and anticipated liabilities of the Company and, more particularly, the liabilities that fall due in the next two years, as well as the sources for the repayment of said liabilities, taking into account the sources of credit and the unutilized facilities that are available to the Company as well as the positive cash flow from operating activities. Based on all of the aforesaid, the Board of Directors determined that the existence of negative working capital is not indicative of a liquidity problem in the Company.

#### Guarantees

It is the policy of the Company to provide guarantees to wholly owned subsidiaries. For information on financial guarantees, see Note 31.A(2), Contingent Liabilities.

### D. Market risks

As part of their activities, the Company and its subsidiaries are exposed to market risks, the principal of which are:

- (1) Currency exposure as a result of loans and inflow of income in foreign currency, including transactions in derivative financial instruments that are denominated in foreign currency.  
The Group has a current inflow of cash in U.S. dollars from its operations in Israel, deriving mainly from the David Citadel and Mamilla Hotels, while most of the expenses of the Company in Israel are incurred in NIS. The Company occasionally enters into dollar-NIS forward and swap transactions, based on its assessments regarding changes in the exchange rate of the dollar. Management of the Company regularly monitors developments in the relevant markets.

## Note 32 - Financial Risk Management (cont'd)

### D. Market risks (cont'd)

#### (1) (cont'd)

The Company's Board of Directors has not determined quantitative restrictions for transactions in derivative financial instruments.

#### (2)

Exposure to changes in interest rates on loans in NIS and in foreign currency:

The Company has fixed-interest loans in NIS and in foreign currency, such that changes in the market interest rates create exposure in relation to the fair value of the Company's liabilities.

In opposition, the Company has unlinked, variable-interest, loans in NIS and in foreign currency, such that changes in variable market interest rates affect the financing expenses included in the financial statements.

#### (3)

Exposure to changes in the rate of increase in the Israeli CPI:

The Group is exposed to changes in the Consumer Price Index, due to its effect on the Group's CPI-linked liabilities. In addition, the Company is exposed to changes in the Consumer Price Index in agreements with CPI-linked rental.

## Note 33 - Financial Instruments

### A. Credit risk

#### (1) Exposure to credit risk

The carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at balance sheet date was as follows:

	December 31	
	2018	2017
	NIS thousands	
Cash and cash equivalents	81,392	104,095
Trade receivables	49,433	40,500
Other receivables	35,035	63,675
	165,860	208,270

The maximum exposure to credit risk in respect of cash, trade receivables, other receivables, loans and other investments as at the date of the statement of financial position, by geographical areas, was as follows:

	December 31	
	2018	2017
	NIS thousands	
Israel	28,497	41,742
France	44,432	32,738
Switzerland	30,695	59,312
United Kingdom	47,572	42,008
The Netherlands	14,664	32,470
	165,860	208,270

**Note 33 - Financial Instruments (cont'd)**

**A. Credit risk (cont'd)**

**(2) Aging of debts and impairment losses**

Presented below is the aging of trade receivables:

	December 31			
	2018		2017	
	Gross	Impairment	Gross	Impairment
NIS thousands				
Not past due	32,275	-	29,113	-
Past due 0-30 days	11,028	-	7,453	-
Past due 31-120 days	4,203	-	2,916	-
Past due 121-365 days	980	173	1,191	173
Past due more than one year	5,195	4,075	2,092	2,092
	<b>53,681</b>	<b>4,248</b>	<b>42,765</b>	<b>2,265</b>

The movement in the provision for impairment in respect of trade receivables was as follows:

	December 31	
	2018	
	NIS thousands	2017
Balance as at January 1	2,265	2,392
Impairment loss recognized	212	790
Bad debts	1,771	(917)
Balance as at December 31	<b>4,248</b>	<b>2,265</b>

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**Notes to the Financial Statements as at December 31, 2018**

**Note 33 - Financial Instruments (cont'd)**

**B. Liquidity risk**

Following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	December 31, 2018				More than 5 years
			6 months or less	6-12 months	1-2 years	2-5 years	
			NIS thousands				
<b>Non-derivative financial liabilities</b>							
Bank credit	581,271	582,221	475	581,746	-	-	-
Trade payables	165,108	165,108	165,108	-	-	-	-
Other payables *	206,912	206,912	206,912	-	-	-	-
Debentures	989,520	1,047,137	47,023	172,618	233,654	593,842	-
Bank loans	5,937,290	6,342,129	82,179	81,973	1,601,993	3,228,351	1,347,633
Other financial liabilities	55,218	93,339	62	62	1,496	14,433	77,286
<b>Derivative financial liabilities</b>							
Forward exchange contracts not used for hedging:							
Net payments	17,320	17,320	17,320	-	-	-	-
Interest rate swaps not used for hedging	4,244	4,244	1,943	2,301	-	-	-
Total	7,956,883	8,458,410	521,022	838,700	1,837,143	3,836,626	1,424,919

	Carrying amount	Contractual cash flows	December 31, 2017				More than 5 years
			6 months or less	6-12 months	1-2 years	2-5 years	
			NIS thousands				
<b>Non-derivative financial liabilities</b>							
Bank credit	2,174,646	2,211,839	18,597	2,193,242	-	-	-
Trade payables	126,331	126,331	126,331	-	-	-	-
Other payables *	152,394	152,394	152,394	-	-	-	-
Debentures	945,058	1,021,702	42,455	158,277	194,168	505,980	120,822
Bank loans	3,654,251	4,001,514	60,119	241,881	405,293	1,753,247	1,540,974
Long-term loan from others	5,509	6,100	59	59	118	5,864	-
<b>Derivative financial liabilities</b>							
Forward exchange contracts not used for hedging:							
Net payments	5,847	5,847	5,847	-	-	-	-
Interest rate swaps not used for hedging	18,441	18,441	6,947	5,749	5,745	-	-
Total	7,082,477	7,544,168	412,749	2,599,208	605,324	2,265,091	1,661,796

\* Including interest payable on debentures.

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**Note 33 - Financial Instruments (cont'd)**

**C. Linkage and foreign currency risks**

**(1) Exposure to linkage and foreign currency risks**

The Group's exposure to linkage and foreign currency risk, in nominal amounts, is as follows:

	December 31, 2018						
	NIS		Foreign currency				
	Unlinked	CPI-linked	GBP	Euro	CHF	Dollar	Total
<b>Current assets:</b>							
Cash and cash equivalents	2,206	-	19,878	34,756	23,852	700	81,392
Securities at fair value through profit or loss	504,352	-	-	-	-	-	504,352
Trade receivables	12,207	64	7,274	15,300	4,886	9,702	49,433
Other receivables	2,065	1,458	20,420	9,040	1,957	95	35,035
<b>Non-current assets:</b>							
Other investments at fair value through profit or loss	5,045	-	-	-	-	-	5,045
Long-term receivables	-	-	2,845	5,993	-	-	8,838
<b>Current liabilities:</b>							
Borrowings from banks in Israel	(276,776)	-	-	(304,495)	-	-	(581,271)
Current maturities of debentures	-	(196,786)	-	-	-	-	(196,786)
Current maturities of borrowings from banks	-	-	-	(14,734)	(51,758)	-	(66,492)
Trade payables	(18,098)	(214)	(9,536)	(129,867)	(7,097)	(296)	(165,108)
Other payables *	(116,260)	(34,499)	(24,238)	(48,585)	(63,285)	(106)	(286,973)
<b>Non-current liabilities:</b>							
Debentures	-	(781,636)	-	-	-	-	(781,636)
Bank loans	(79,719)	-	(1,913,702)	(1,524,802)	(2,368,377)	-	(5,886,600)
Loans from others	-	-	-	(5,759)	(49,459)	-	(55,218)
Deposits	-	(7,204)	(3,144)	(6,970)	-	-	(17,318)
	<u>35,022</u>	<u>(1,018,817)</u>	<u>(1,900,203)</u>	<u>(1,970,123)</u>	<u>(2,509,281)</u>	<u>10,095</u>	<u>(7,353,307)</u>

\* Other payables include short-term employee benefits.

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**Note 33 - Financial Instruments (cont'd)**

**C. Linkage and foreign currency risks (cont'd)**

**(1) Exposure to linkage and foreign currency risks (cont'd)**

	December 31, 2017						
	NIS		Foreign currency				
	Unlinked	CPI-linked	GBP	Euro	CHF	Dollar	Total
<b>Current assets:</b>							
Cash and cash equivalents	10,933	-	14,969	48,704	29,208	281	104,095
Securities at fair value through profit or loss	841,133	-	-	-	-	-	841,133
Trade receivables	10,860	556	6,877	6,665	4,122	11,420	40,500
Other receivables	5,005	2,279	20,162	9,839	25,982	408	63,675
<b>Non-current assets:</b>							
Other investments at fair value through profit or loss	9,842	-	-	-	-	-	9,842
Long-term receivables	-	-	2,305	12,861	-	-	15,166
<b>Current liabilities:</b>							
Borrowings from banks in Israel	(1,064,659)	-	(284,948)	(823,017)	(386)	(1,636)	(2,174,646)
Current maturities of debentures		(181,288)					(181,288)
Current maturities of borrowings from overseas banks	-	-	-	(5,461)	(233,703)	-	(239,164)
Trade payables	(20,615)	(214)	(14,397)	(86,825)	(4,259)	(21)	(126,331)
Other payables *	(85,029)	(36,284)	(12,141)	(12,979)	(61,522)	(9,176)	(217,131)
<b>Non-current liabilities:</b>							
Debentures	-	(754,368)	-	-	-	-	(754,368)
Bank loans	-	-	(982,886)	(465,506)	(1,986,872)	-	(3,435,264)
Loans from others	-	-	-	(5,509)	-	-	(5,509)
Deposits	-	(6,688)	(2518)	(5,711)	-	-	(14,917)
	(292,530)	(976,007)	(1,252,577)	(1,326,939)	(2,227,430)	1,276	(6,074,207)

\* Other payables include short-term employee benefits.

The Group's exposure to linkage and foreign currency risk in respect of derivative financial instruments is as follows:

	December 31, 2018					
	Currency/ linkage receivable	Currency/ linkage payable	Date of expiration	Amount	Amount	Fair value NIS thousands
				receivable	payable	
<b>Instruments not used for hedging:</b>						
Forward foreign currency contracts	NIS	Dollar	Jan. 2019	29,989	8,000	40
	NIS	EUR	Jan. 2019	746,971	177,666	(15,502)
	NIS	CHF	Jan. 2019	99,464	26,612	(1,858)

**Note 33 - Financial Instruments (cont'd)**

**C. Linkage and foreign currency risks (cont'd)**

**(1) Exposure to linkage and foreign currency risks (cont'd)**

Instruments not used for hedging:	December 31, 2017					
	Currency/ linkage receivable	Currency/ linkage payable	Date of expiration	Amount receivable	Amount payable	Fair value
				Foreign currency thousands	NIS thousands	NIS thousands
Forward foreign currency contracts						
	NIS	GBP	Jan. 2018	310,116	65,843	1,851
	NIS	EUR	Jan. 2018	631,355	151,704	1,371
	NIS	CHF	Jan. 2018	80,997	22,763	75
	Dollar	NIS	Jan. 2018	29,350	102,734	(985)
	Dollar	NIS	Feb. 2018	6,000	28,920	(8,159)

**(2) Sensitivity analysis**

A change as at December 31 in the exchange rates of the following currencies against the NIS, as indicated below, and a change in the CPI would have increased (decreased) equity and profit or loss by the amounts shown below (after tax). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2017.

	December 31, 2018	
	Equity	Profit or (loss)
	NIS thousands	
2% increase in the CPI	(15,653)	(15,653)
5% increase in the exchange rate of:		
The U.S. dollar	389	389
The Euro	(29,860)	(29,860)
The pound sterling	(28,076)	(28,076)

	December 31, 2017	
	Equity	Profit or (loss)
	NIS thousands	
2% increase in the CPI	(14,770)	(14,770)
5% increase in the exchange rate of:		
The U.S. dollar	48	48
The Euro	(17,388)	(17,388)
The pound sterling	(10,828)	(10,828)

A devaluation of the NIS in similar rates against said currencies and a decrease in the Consumer Price Index at a similar rate as at December 31 would have had the same, but inverse effect, and in the same amounts, assuming that all other variables remain constant.

The effect of the changes in exchange rates on equity does not take into account the effect of translation of the capital invested in a foreign operation.

**Note 33 - Financial Instruments (cont'd)**

**D. Interest rate risk**

**(1) Interest rate profile**

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	December 31	
	2018	2017
	Carrying amount	
	NIS thousands	
<b>Fixed-rate instruments</b>		
Financial liabilities	<b>2,365,059</b>	2,029,575
<b>Variable-rate instruments</b>		
Financial liabilities	<b>5,145,915</b>	4,742,729

**(2) Fair value sensitivity analysis for fixed-rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

**(3) Fair value sensitivity analysis for variable-rate instruments**

A change of 5% in interest rates at the end of the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for 2017.

	December 31, 2018			
	Profit or (loss)		Equity	
	Increase in interest	Decrease in interest	Increase in interest	Decrease in interest
NIS thousands				
Variable rate instruments	(3,213)	3,213	(3,213)	3,213

	December 31, 2017			
	Profit or (loss)		Equity	
	Increase in interest	Decrease in interest	Increase in interest	Decrease in interest
NIS thousands				
Variable rate instruments	(2,597)	2,597	(2,597)	2,597

**Note 33 - Financial Instruments (cont'd)**

**D. Interest rate risk**

**(3) Fair value sensitivity analysis for variable-rate instruments (cont'd)**

	December 31, 2018				
	Interest rate receivable	Interest rate payable	Expiration date	Nominal value (CHF thousands)	Fair value (NIS thousands)
<b>Interest rate swap contracts not used for hedging</b>					
Contract A	0.00%	1.41%	May 16, 2019	10	658
Contract B	0.00%	0.33%	Apr. 15, 2019	20	443
Contract C	0.00%	0.08%	Dec 5, 2019	15	495
Contract D	0.00%	0.46%	Sep. 12, 2019	33	1,996
Contract E	0.00%	0.14%	Dec. 12, 2019	75	2,633
Contract F	0.00%	0.66%	March 26, 2019	48	(3,194)
Contract G	0.00%	0.51%	Apr. 2, 2019	12	(714)
Contract H	0.00%	0.14%	Feb. 9, 2019	40	1,402
Contract S	0.00%	0.14%	Dec. 16, 2019	15	525

	December 31, 2017				
	Interest rate receivable	Interest rate payable	Expiration date	Nominal value (CHF thousands)	Fair value (NIS thousands)
<b>Interest rate swap contracts not used for hedging</b>					
Contract A	0.00%	1.41%	May 16, 2019	10	1,369
Contract B	0.00%	0.33%	Apr. 15, 2019	20	1,166
Contract C	0.00%	0.08%	Dec 5, 2019	15	785
Contract D	0.00%	0.46%	Sep. 12, 2019	65	3,749
Contract E	0.00%	0.14%	Dec. 12, 2019	75	4,208
Contract F	0.00%	0.66%	March 26, 2019	55	2,059
Contract G	0.00%	0.51%	Apr. 2, 2019	12	464
Contract H	0.00%	0.14%	Feb. 9, 2019	40	2,239
Contract I	0.00%	0.97%	July 16, 2018	20	1,024
Contract J	0.00%	0.99%	Aug. 14, 2018	10	539
Contract K	0.00%	0.14%	Dec. 16, 2019	15	839

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**Note 33 - Financial Instruments (cont'd)**

**E. Fair value**

**(1) Financial instruments measured at fair value for disclosure purposes only**

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, derivatives, bank borrowings, short-term loans and borrowings, trade payables, certain long-term bank loans and other payables are the same or proximate to their fair value.

The fair values of the other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

Level *	December 31			
	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial liabilities:</b>				
Debentures	1	994,241	991,892	951,969
Loans in France, England and Switzerland at fixed interest		1,388,600	1,418,271	1,104,016
		<u>2,382,841</u>	<u>2,410,163</u>	<u>2,055,985</u>
				1,093,463
				2,079,807

\* As to the fair value hierarchy, see Note 2.F.

See Note 4, Determination of Fair Value.

**(2) Data used in determining the fair value**

The fair value of debentures is determined based on their value on the stock exchange as at December 31, 2018 and December 31, 2017.

**(3) Fair value hierarchy of financial instruments measured at fair value**

The table below presents an analysis of financial instruments measured at fair value, using a valuation methodology. As to the fair value hierarchy, see Note 2.F.

	December 31, 2018			
	Level 1 NIS thousands	Level 2 NIS thousands	Level 3 NIS thousands	Total NIS thousands
<b>Securities at fair value through profit or loss</b>				
Marketable shares (a)	504,352	-	-	504,352
	<u>504,352</u>	<u>-</u>	<u>-</u>	<u>504,352</u>
<b>Other investments at fair value through profit or loss:</b>				
Non-marketable shares, including venture capital funds	-	-	5,045	5,045
	<u>-</u>	<u>-</u>	<u>5,045</u>	<u>5,045</u>
<b>Derivative financial liabilities:</b>				
Forward contracts not used for hedging (b)	-	17,320	-	17,320
Interest rate swaps not used for hedging (c)	-	4,244	-	4,244
	<u>-</u>	<u>21,564</u>	<u>-</u>	<u>21,564</u>

**Note 33 - Financial Instruments (cont'd)**

**E. Fair value (cont'd)**

**(3) Fair value hierarchy of financial instruments measured at fair value (cont'd)**

	December 31, 2017			
	Level 1 NIS thousands	Level 2 NIS thousands	Level 3 NIS thousands	Total NIS thousands
<b>Financial assets at fair value through profit or loss:</b>				
Marketable shares (a)	841,133	-	-	841,133
	<u>841,133</u>	<u>-</u>	<u>-</u>	<u>841,133</u>
<b>Other investments at fair value through profit or loss:</b>				
Non-marketable shares, including venture capital funds	-	-	9,842	9,842
	<u>-</u>	<u>-</u>	<u>9,842</u>	<u>9,842</u>
<b>Derivative financial liabilities:</b>				
Forward contracts not used for hedging (b)	-	5,847	-	5,847
Interest rate swaps not used for hedging (c)	-	18,441	-	18,441
	<u>-</u>	<u>24,288</u>	<u>-</u>	<u>24,288</u>

- The fair value of marketable shares is recognized according to their fair value on the stock exchange as at December 31, 2018 and December 31, 2017.
- Forward contracts not used for hedging – the value is estimated based on the discounted difference between the forward price specified in the contract and the current forward price for the remaining contractual period to maturity, using applicable market interest rates of similar instruments.
- Interest rate swaps not used for hedging – the fair value is estimated by discounting future cash flows over the term of the contract and applicable market interest rates of similar instruments, including necessary adjustments in respect of the parties' credit risks.

  
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### Note 34 - Related and Interested Parties

#### A. Controlling shareholder and subsidiaries

Mr. Alfred Akirov is the controlling shareholder in the Company, through companies that he owns. As to subsidiaries, see Note 37, Entities in the Group.

#### B. Benefits to key management personnel (including directors)

In addition to their salaries, the directors and executive officers are entitled to non-cash benefits (such as a car, etc.).

Benefits to key management personnel that are employed by the Group (including directors) include:

	Year ended December 31					
	2018		2017		2016	
	Number of People	Amount NIS thousands	Number of people	Amount NIS thousands	Number of people	Amount NIS thousands
Short-term employee benefits	4	8,036	5	11,503	5	12,440
Post-employment benefits	2	228	2	226	2	226
		<u>8,264</u>		<u>11,729</u>		<u>12,666</u>

Benefits to directors that are not employed by the Group include:

	Year ended December 31					
	2018		2017		2016	
	Number of People	Amount NIS thousands	Number of people	Amount NIS thousands	Number of people	Amount NIS thousands
Total benefits to director who is not an employee	7	932	6	861	6	885

#### C. The statement of financial position includes balances with interested and related parties as follows:

	December 31	
	2018	2017
	NIS thousands	
Other accounts receivable	417	348
Long-term receivables *	6,519	11,444
Loans from others **	5,759	5,509

\* A loan to non-controlling interests that is included in long-term receivables bears interest at the rate of 0.78%.

\*\* As to loans from others, see Note 20.

**Note 34 - Related and Interested Parties (cont'd)**

D. The income statements include transactions with interested and related parties, as follows:

	Year ended December 31		
	2018	2017	2016
	NIS thousands		
<b>Revenues</b>			
From property management	158	158	158
Financing income	12	12	11
<b>Expenses</b>			
Salaries and other (1)	5,663	9,141	9,888
Management fees to companies controlled by interested parties (2)	3,283	3,265	3,459
Directors' fees	932	861	885
Financing expenses	132	158	165

(1) For additional information, see Notes 31.B(7), 31.B(8) and 31.B(9).

(2) For additional information on an engagement with a controlling shareholder, see Note 31.B(5).

**Note 35 - Changes in Major Liabilities Resulting from Financing Activity**

	Year ended December 31, 2018		Year ended December 31, 2017	
	Debentures*	Bank loans and borrowings*	Debentures*	Bank loans and borrowings*
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
<b>Balance as of January 1</b>	945,058	5,828,897	666,633	5,869,139
Borrowings from banks, net	-	20,002	-	(1,052,472)
Receipt of long-term bank loans net of loan acquisition costs	-	604,652	-	1,187,424
Repayment of long-term bank loans	-	(110,157)	-	(71,110)
Proceeds from issuance of debentures (net of issue costs)	223,750	-	483,959	-
Repayment of debentures	(191,167)	-	(208,728)	-
Revaluation of financial liabilities	17,358	-	8,497	(105,160)
Amortization of discount, premium and deferred expenses	(5,479)	3,543	(5,303)	1,076
<b>Balance as of December 31</b>	<u>989,520</u>	<u>6,518,561</u>	<u>945,058</u>	<u>5,828,897</u>

\* Includes current maturities of debentures and loans

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### Note 36 - Subsequent Events

- A. On February 3, 2019 the Company's Board of Directors decided to approve an additional plan for the repurchase of Company shares in the amount of NIS 30 million. The plan is effective from February 4, 2019 to February 4, 2020. Until the date of issuing this report, the Company has repurchased shares of a total par value of NIS 42,629 in consideration of NIS 5 million.
- B. On March 31, 2019 the Board of Directors of the Company decided to distribute to its shareholders a cash dividend in the amount of NIS 0.62 per share on account of 2019, i.e. a total dividend of NIS 15.1 million.
- C. See Note 31.B(3) regarding the decision that was made subsequent to the date of the statement of financial position by the Special Administrator of Karta regarding the Company's debt claim.

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**Notes to the Financial Statements as at December 31, 2018**

**Note 37 - List of Investee Companies**

Presented below is a list of the companies in the Group:

Consolidated companies:

	Year ended December 31			
	2018		2017	
	Percentage of voting rights	Rate of participation in profits	Percentage of voting rights	Rate of participation in profits
Mamilla Alrov Quarter Management Ltd.	100	100	100	100
Al Kanit Maintenance and Management Ltd.	100	100	100	100
Alrov Resorts (1993) Ltd.	100	100	100	100
Alrov Luxury Hotels (1993) Ltd.	100	100	100	100
Alrov Mamilla Commercial District (1993) Ltd.	100	100	100	100
Alrov Mamilla 2006 Ltd.	100	100	100	100
Tatza Holdings (1994) Ltd.	90	90	90	90
Australian Wool Industries Ltd.	90	90	90	90
Nofei Hasharon Senior Citizen Residential Home Ltd.	100	100	100	100
46 Rothschild Avenue Management & Maintenance Ltd.	79	79	79	79
Alrov Properties and Construction (1983) Ltd.	100	100	100	100
Alrov Towers Management and Operation Ltd.	100	100	100	100
Alrov Rothschild Avenue (1989) Ltd.	100	100	100	100
Inimor Ltd. (1)	100	100	100	100
Technorov Holdings (1993) Ltd.	80	80	80	80
Hashda Holdings (1993) Ltd.	100	100	100	100
Alrov Ventures Ltd.	100	100	100	100
Alrov Technological Holdings Ltd.	100	100	100	100
Alrov Towers (1992) Ltd. (2)	100	100	100	100
H.M. Holdings Ltd.	100	100	100	100
Alrov Fund Ltd. (PBC)	100	100	100	100
European Property Investment Corporation Limited	76	76	76	76
Property Investment Holding B.V.	76	76	76	76
Clan Alpine Properties B.V.	76	76	76	76
Fronciere Le Charlebourg Sarl SCI	76	76	76	76
Fronciere Le President SCI	76	76	76	76
Fronciere Le Jardins Gambetta SCI	76	76	76	76
Fronciere Latrimum SCI	76	76	76	76
Fronciere Satie SCI	76	76	76	76
Property Investment Holding France Sarl	76	76	76	76
Epic Holdings France SAS	76	76	76	76
Property Investment Holding France DM Sarl	76	76	76	76
Epic France 2 SCI	76	76	76	76
Property Investment Holding France SCI	76	76	76	76
PIH France Pm Sarl	76	76	76	76
Letenska Property SRO	76	76	76	76
Fonciere Ventadoor SCI	76	76	76	76
Fonciere de Flander SCI	76	76	76	76
Epic One Property Investment AG	77.8	77.8	77.8	77.8

(1) A subsidiary of Alrov Rothschild (1989) Ltd.

(2) A subsidiary of Inimor Ltd.

**Note 37 - List of Investee Companies (cont'd)**

Presented below is a list of the companies in the Group (cont'd):

Consolidated companies (cont'd):

	Year ended December 31			
	2018	Rate of participation in profits	2017	Rate of participation in profits
Percentage of voting rights	Percentage of voting rights	Percentage of voting rights	Percentage of voting rights	Percentage of voting rights
Epic Two Property Investment AG	77.8	77.8	77.8	77.8
Epic Three Property Investment AG	77.8	77.8	77.8	77.8
Epic Four Property Investment AG	77.8	77.8	77.8	77.8
Epic Five Property Investment AG	77.8	77.8	77.8	77.8
Epic Six Property Investment AG	77.8	77.8	77.8	77.8
Epic Seven Property Investment AG	-	-	77.8	77.8
Epic Nine Property Investment AG	77.8	77.8	77.8	77.8
Epic Ten Property Investment AG	77.8	77.8	77.8	77.8
Epic Eleven Property Investment AG	77.8	77.8	77.8	77.8
Epic Twelve Property Investment AG	77.8	77.8	77.8	77.8
Epic Fourteen Property Investment AG	-	-	77.8	77.8
Epic Fifteen Property Investment AG	77.8	77.8	77.8	77.8
Epic Sixteen Property Investment AG	77.8	77.8	77.8	77.8
Epic Seventeen Property Investment AG	77.8	77.8	77.8	77.8
Epic Eighteen Property Investment AG	77.8	77.8	77.8	77.8
Epic Nineteen Property Investment AG	77.8	77.8	77.8	77.8
Epic Twenty Property Investment AG	77.8	77.8	77.8	77.8
Epic Twenty One Property Investment AG				
Epic Twenty Two Property Investment AG				
Epic Twenty Three Property Investment AG				
Epic Property Management GmbH	77.8	77.8	77.8	77.8
The SET Hotel Management Company Limited	85	85	85	85
Locka Holding B.V.	80	80	80	80
Epic Suisse AG	77.8	77.8	77.8	77.8
Barco Investments B.V.	80	80	80	80
Conservatium B.V.	80	80	80	80
L Hotel Holding SAS	80	80	80	80
Lhotel SNC (formerly Lhotel SAS)	80	80	80	80
Lodging 2000 L.P.	100	100	100	100
Lodging 2020 L.P.	99.99	99.99	99.99	99.99
Lodging Aviation L.P.	100	100	100	100
PIH Luxembourg	76	76	76	76
Bionatre S.A.R.L	100	100	100	100
Café Royal Management Limited	80	80	80	80
Flower Hill Property Ltd.	50	38	50	38
Sutton Investment Group Limited	82	82	82	82
(CR) Constable Real BV	80.8	80.8	76	76
Wimbledon BV	80.8	80.8	-	-
George V Project Management BV	79.84	79.84	-	-
Pennrite Assets Corporation S.A.R.L	79.84	79.84	-	-
Coccinelle SA	79.84	79.84	-	-
<b>Associates</b>			-	-
Liliova Property SRO	-	-	50	38
Propeream Regs Sarl	34	25.8	34	25.8