

Translated from the Hebrew Original

Alrov Properties and Lodgings Ltd.
Consolidated Financial Statements
As of December 31, 2021

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.



Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+ 972 3 684 8000

**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, 2021. 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 22% and approximately 13% of the total consolidated assets and revenues, respectively, included in the consolidated financial statements as of December 31, 2021 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 911 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting" (hereinafter "Auditing Standard (Israel) 911"). 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 the investment property process; (3) controls over treasury of cash management and debt management; (4) controls over hotels income process; (5) controls over the payroll process in hotels (all these are named together "audited control components").

We conducted our audit in accordance with Auditing Standard (Israel) 911. 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, 2021.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and our report dated March 27, 2022 expressed an unqualified opinion on those financial statements based on our audit and the reports of other auditors, and also included an emphasis-of matter paragraph regarding the effects of the coronavirus on the tourism industry and the Company's hotel activity.

Somekh Chaikin

Somekh Chaikin

Certified Public Accountants (Isr.)

March 27, 2022



Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+ 972 3 684 8000

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, 2021 and 2020 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, 2021. 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 22% and 23% of total consolidated assets as of December 31, 2021 and 2020, respectively, and whose revenues included in consolidation constitute approximately 13%, 15% and 40% of total consolidated revenues for the years ended December 31, 2021, 2020 and 2019, respectively. Furthermore, we did not audit the financial statements of equity accounted investees the investment in which amounted to approximately NIS 543 thousand and NIS 570 thousand as of December 31, 2021 and 2020, respectively, and the Group's share in their profits (losses) amounted to approximately NIS 36 thousand, NIS (108) thousand and NIS 299 thousand for the years ended December 31, 2021, 2020 and 2019, 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 audit 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, 2021 and 2020 and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2021 in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements) - 2010.

Without qualifying our above opinion, we draw attention to that mentioned in Note 1D to the financial statements regarding the effects of the coronavirus on the tourism industry and the Company's hotel activity.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "An Audit of Components of Internal Control Components over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2021, and our report dated March 27, 2022 included an unqualified opinion on the effective maintenance of those components.

Somekh Chaikin
Somekh Chaikin
Certified Public Accountants (Isr.)
March 27, 2022

Consolidated Statements of Financial Position as at December 31

		2021	2020
	Note	NIS thousands	NIS thousands
Assets			
Cash and cash equivalents	6	120,097	139,063
Securities at fair value through profit or loss	7	859,962	402,928
Trade receivables	8	24,169	17,133
Other receivables, including derivative instruments	9	41,409	* 77,999
Current tax assets		5,687	3,018
Hotelier inventory	10	23,923	25,194
Investment property held for sale	36	34,886	-
Revalued amount of fixed assets held for sale	36	45,114	-
Total current assets		1,155,247	665,335
Investments in equity accounted investees	12	543	570
Other investments at fair value through profit or loss	19	5,378	4,834
Long-term receivables	34C	26,980	* 24,713
Investment property	13	8,840,801	8,577,285
Fixed assets at amortized cost	14	131,218	145,934
Fixed assets at fair value	14	4,429,551	4,566,977
Intangible assets	25A	160,525	179,871
Total non-current assets		13,594,996	13,500,184
Total assets		14,750,243	14,165,519

Alfred Akirov – Chairman of the Board

Roni Bar-On - Director

Meir Elhakham – Acting CEO and Financial Manager

Date of approval of the financial statements: March 27, 2022

* Immaterial adjustment of comparative data regarding basis of preparation

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

Consolidated Statements of Financial Position as at December 31

	Note	2021 NIS thousands	2020 NIS thousands
Credit from banks	15	174,279	908,951
Current maturities of loans from banks	18	434,474	459,629
Current maturities of debentures	18	230,635	214,958
Short-term employee benefits		13,668	16,647
Trade payables	16	60,056	62,160
Other payables, including derivative instruments	17	288,693	252,551
Current tax liabilities		18,832	54,910
Total current liabilities		1,220,637	1,969,806
Loans from banks	18	5,607,284	5,479,168
Debentures	18	1,012,800	593,871
Other financial liabilities, including derivative instruments	20	55,269	76,598
Employee benefits	21	13,756	15,162
Deposits	22	16,764	17,767
Deferred tax liabilities	30	1,243,716	1,098,224
Total non-current liabilities		7,949,589	7,280,790
Total liabilities		9,170,226	9,250,596
Equity	23		
Share capital		36,106	36,115
Share premium		232,451	233,099
Capital reserve from merger		279,426	279,426
Revaluation reserve for fixed assets, net of tax		962,308	744,612
Translation reserve from foreign operations		(241,640)	(133,825)
Reserve from transaction with non-controlling interests		(290)	4,567
Retained earnings		3,815,454	3,286,536
Equity attributable to owners of the Company		5,083,815	4,450,530
Non-controlling interests		496,202	464,393
Total equity		5,580,017	4,914,923
Total equity and liabilities		14,750,243	14,165,519

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

Consolidated Income Statements for the Year Ended December 31

	Note	2021 NIS thousands	2020 NIS thousands	2019 NIS thousands
Revenues				
Hotel operations		278,334	151,418	697,922
Rent and housing for the elderly		371,585	374,463	363,457
Sale of apartments	11	-	72,650	4,496
Maintenance – housing for the elderly		5,860	5,983	6,350
Income from property management		42,667	37,492	45,071
Gain from securities at fair value through profit or loss and other income	26	288,681	2,093	77,627
Increase in fair value of investment property, net	13	435,639	-	291,845
The Company's share of profits of equity accounted associates	12	36	-	299
		1,422,802	644,099	1,487,067
Expenses				
Hotel operations	27	255,134	165,936	584,733
Closing of hotels*	27	4,756	34,816	-
Hotel depreciation	14	114,210	121,414	135,016
Total expenses from hotel operations		374,100	322,166	719,749
Operation of other assets		28,790	30,947	53,926
Cost of apartments sold	11	-	58,663	3,251
Maintenance of housing for the elderly		7,770	7,670	7,696
Property management expenses		38,295	33,671	42,684
Depreciation general and administrative	14	14,817	14,686	14,497
General and administrative	28	72,581	80,907	81,230
Losses from securities at fair value through profit or loss and other expenses	26	-	81,890	1,026
Decrease in fair value of investment property	13	-	51,868	-
Company's share of losses of associates, net of tax		-	108	-
		536,353	682,576	924,059
Operating profit (loss)		886,449	(38,477)	563,008
Financing costs				
Financing income		253	2,282	82,312
Financing expenses		(159,229)	(143,021)	(236,225)
Financing expenses, net	29	(158,976)	(140,739)	(153,913)
Profit (loss) before taxes on income		727,473	(179,216)	409,095
Income tax saving (expenses)	30	(134,263)	30,709	(68,812)
Net profit (loss) for the year		593,210	(148,507)	340,283
Attributable to:				
The owners of the Company		528,465	(166,117)	317,377
Non-controlling interests		64,745	17,610	22,906
Net profit (loss) for the year		593,210	(148,507)	340,283
Net earnings (loss) per share - in NIS				
Basic and diluted	24	22.92	(7.14)	13.28

* In respect of keeping hotels temporarily closed as a result of the restrictions relating to the coronavirus, see Note 1D.

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

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	<u>Note</u>	2021 NIS thousands	2020 NIS thousands	2019 NIS thousands
Net profit (loss) for the year		593,210	(148,507)	340,283
Other comprehensive income (loss) items that after initial recognition in comprehensive income will be transferred to profit or loss				
Foreign currency translation differences for foreign operations	23B	(141,453)	37,005	(144,794)
Total other comprehensive income (loss) for the year that after initial recognition in comprehensive income will be transferred to profit or loss		(141,453)	37,005	(144,794)
Other comprehensive income (loss) items that will not be transferred to profit or loss, net of tax				
Remeasurement of defined benefit plan, net of tax	30F	561	(290)	(1,470)
Revaluation of fixed assets, net of tax	30F	217,696	(89,062)	148,658
Total other comprehensive income (loss) for the year that will not be transferred to profit or loss		218,257	(89,352)	147,188
Total comprehensive income (loss) for the year		670,014	(200,854)	342,677
Total comprehensive income (loss) attributable to:				
Owners of the Company		638,799	(204,501)	333,488
Non-controlling interests		31,215	3,647	9,189
Total comprehensive income (loss) for the year		670,014	(200,854)	342,677

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, 2021									Non-controlling interests NIS thousands	Total equity NIS thousands		
	Share capital NIS thousands	Share premium NIS thousands	Capital reserve from merger NIS thousands	Translation reserve from foreign operations NIS thousands	Reserve from transactions with non-controlling interests NIS thousands	Revaluation reserve for fixed assets, net of tax NIS thousands	Retained earnings NIS thousands	Total NIS thousands					
								Attributable to the owners of the Company					
Balance at January 1, 2021	36,115	233,099	279,426	(133,825)	4,567	744,612	3,286,536	4,450,530		464,393	4,914,923		
Comprehensive income (loss) for the year:													
Profit for the year	-	-	-	-	-	-	528,465	528,465		64,745	593,210		
Items of comprehensive income (loss):													
Re-measurement of defined benefit plan, net of tax	-	-	-	-	-	-	453	453		108	561		
Revaluation of fixed assets, net of tax	-	-	-	-	-	217,696	-	217,696		-	217,696		
Foreign currency translation differences for foreign operations	-	-	-	-	(107,815)	-	-	-	(107,815)	(33,638)	(141,453)		
Total comprehensive income for the year					638,799	528,918	217,696	-	(107,815)	670,014	31,215		
Transaction with owners that were recognized directly in equity:													
Acquisition of treasury shares (see Note 23E)	(9)	(648)	-	-	-	-	-	-	(657)	-	(657)		
Transaction with non-controlling interests	-	-	-	-	(4,857)	-	-	-	(4,857)	4,857	-		
Dividend distributed to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,263)	(4,263)		
Balance at December 31, 2021	36,106	232,451	279,426	(241,640)	(290)	962,308	3,815,454	5,083,815		496,202	5,580,017		

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

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

	For the year ended December 31, 2020									Non-controlling interests NIS thousands	Total equity NIS thousands		
			Capital reserve from merger NIS thousands	Translation reserve from foreign operations NIS thousands	Reserve from transactions with non-controlling interests NIS thousands		Revaluation reserve for fixed assets, net of tax NIS thousands	Retained earnings NIS thousands	Total NIS thousands				
	Share capital NIS thousands	Share premium NIS thousands			Attributable to the owners of the Company								
Balance at January 1, 2020	36,754	278,980	279,426	(162,639)	4,567	811,536	3,452,927	4,701,551		467,563	5,169,114		
Comprehensive income (loss) for the year:													
Loss for the year	-	-	-	-	-	-	-	(166,117)	(166,117)	17,610	(148,507)		
Items of comprehensive income (loss):													
Re-measurement of defined benefit plan, net of tax	-	-	-	-	-	-	(274)	(274)	(274)	(16)	(290)		
Revaluation of fixed assets, net of tax	-	-	-	-	-	(66,924)	-	-	(66,924)	(22,138)	(89,062)		
Foreign currency translation differences for foreign operations	-	-	-	-	28,814	-	-	-	28,814	8,191	37,005		
Total comprehensive loss for the year	-	-	-	-	28,814	-	(66,924)	(166,391)	(204,501)	3,647	(200,854)		
Transaction with owners that were recognized directly in equity:													
Acquisition of treasury shares (see Note 23E)	(639)	(45,881)	-	-	-	-	-	-	(46,520)	-	(46,520)		
Dividend distributed to non-controlling interests	-	-	-	-	-	-	-	-	-	(6,817)	(6,817)		
Balance at December 31, 2020	36,115	233,099	279,426	(133,825)	4,567	744,612	3,286,536	4,450,530		464,393	4,914,923		

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

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

	For the year ended December 31, 2019									Non-controlling interests NIS thousands	Total equity NIS thousands	
			Capital reserve from merger NIS thousands	Translation reserve from foreign operations NIS thousands	Reserve from transactions with non-controlling interests NIS thousands	Revaluation reserve for fixed assets, net of tax NIS thousands	Retained earnings NIS thousands	Total NIS thousands				
	Share capital NIS thousands	Share premium NIS thousands										
Attributable to the owners of the Company												
Balance at January 1, 2019	37,868	376,677	279,426	(48,484)	4,567	679,941	3,161,910	4,491,905		463,234	4,955,139	
Comprehensive income (loss) for the year:												
Profit for the year	-	-	-	-	-	-	317,377	317,377		22,906	340,283	
Items of comprehensive income (loss):												
Re-measurement of defined benefit plan, net of tax	-	-	-	-	-	-	(1,329)	(1,329)		(141)	(1,470)	
Revaluation of fixed assets, net of tax	-	-	-	-	-	131,595	-	131,595		17,063	148,658	
Foreign currency translation differences for foreign operations	-	-	-	(114,155)	-	-	-	-	(114,155)	(30,639)	(144,794)	
Total comprehensive income for the year	-	-	-	(114,455)	-	131,595	316,048	333,488		9,189	342,677	
Transaction with owners that were recognized directly in equity:												
Acquisition of treasury shares (see Note 23E)	(1,114)	(97,697)	-	-	-	-	-	(98,811)		-	(98,811)	
Dividend distributed	-	-	-	-	-	-	(25,031)	(25,031)		-	(25,031)	
Dividend distributed to non-controlling interests	-	-	-	-	-	-	-	-	(4,860)	(4,860)		
Balance at December 31, 2019	36,754	278,980	279,426	(162,639)	4,567	811,536	3,452,927	4,701,551		467,563	5,169,114	

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

Consolidated Statements of Cash Flows for the Year Ended December 31

	Note	2021 NIS thousands	2020 NIS thousands	2019 NIS thousands
Cash flows from operating activities				
Net profit (loss) for the year		593,210	(148,507)	340,283
Adjustments:				
Depreciation	14	129,027	136,100	149,513
Decrease (increase) in fair value of investment property		(435,639)	51,868	(291,845)
Amortization of costs of raising loans and debentures		1,907	2,862	-
Erosion of deposits, net		(557)	(859)	(765)
The Company's share of (profits) losses of equity accounted investees	12	(36)	108	(299)
Loss (gain) from securities and other investments	26	(286,492)	81,890	(71,241)
Capital gain on early repayment of debentures		-	(25)	-
Financing costs, net		156,507	145,688	146,891
Interest paid		(125,078)	(128,584)	(122,613)
Income tax paid		(55,693)	(23,153)	(14,800)
Income tax expense (income)	30	134,263	(30,709)	68,812
Receipt of housing for the elderly deposits		20	102	1,731
Repayment of housing for the elderly deposits		(717)	(3,978)	(2,933)
Investments in apartment inventory	11	-	(43)	(483)
Proceeds from sale of apartment inventory		30,178	42,472	4,538
Gain from sale of apartments		-	(13,987)	(1,245)
		140,899	111,245	224,441
Change in trade receivables and other receivables		(6,840)	(7,537)	(3,337)
Change in long-term receivables		(6,596)	(450)	173
Change in current liabilities		68,580	13,873	16,045
Change in hotelier inventory		374	1,059	(1,421)
Change in employee benefits		(2,099)	(2,675)	3,535
		53,419	4,270	14,995
Net cash from operating activities		194,318	115,515	239,436
Cash flows from investing activities				
Proceeds from sale of marketable securities	7	240,160	120,604	171,383
Investment in marketable securities	7	(416,469)	(42,656)	(178,580)
Receipts (payment) for derivatives, net		61,863	(23,117)	70,862
Dividends received		5,223	3,141	17,093
Investment in fixed assets		(6,423)	(11,140)	(18,490)
Investment in investment property		(321,818)	(396,297)	(171,994)
Change in long-term receivables, net		-	-	(34,409)
Change in restricted cash and deposits		-	(7,968)	15,602
Proceeds from sale of investment property less selling expenses		-	-	12,410
Receipts of VAT on investment property and fixed assets, net		(732)	57	4,866
Net cash used in investing activities		(438,196)	(357,376)	(111,257)

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)

	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities			
Credit from banks, net	413,606	218,696	(108,538)
Receipt of long-term loans from banks, less raising expenses	251,721	405,797	319,275
Repayment of long-term loans from banks	(816,888)	(22,529)	(67,962)
Proceeds from issuance of debentures (less issuance expenses)	648,191	-	238,061
Repurchase of own shares	(657)	(46,520)	(98,811)
Repayment of credit from suppliers in respect of construction	(24,334)	(71,231)	107,918
Repayment of own debentures	(229,161)	(214,309)	(200,888)
Dividend paid	-	-	(50,032)
Payment of principal of lease liabilities	(5,178)	(2,691)	(2,039)
Change in rent deposits, net	504	(1,077)	386
Dividend distributed to non-controlling interests	(3,509)	(6,817)	(4,860)
Net cash from (used in) financing activities	234,295	259,319	(83,326)
 Increase (decrease) in cash and cash equivalents	 (9,583)	 17,458	 44,853
Cash and cash equivalents at beginning of year	139,063	120,340	81,392
Effect of exchange rate fluctuations on cash and cash equivalents	(9,383)	1,265	(5,905)
 Cash and cash equivalents at end of year	 120,097	 139,063	 120,340

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 its address of record is 46 Rothschild Blvd., Tel Aviv. The consolidated financial statements of the Group as at December 31, 2021 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 generating 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 consolidated companies.
- (3) Consolidated companies/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 – Consolidated companies 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.

D. Effect of the coronavirus

In January 2020 the "coronavirus" (COVID-19) was discovered for the first time in the city of Wuhan in China, and it spread rapidly in China and later on to many other countries around the world including Israel.

Note 1 - General (cont'd)

D. Effect of the coronavirus (cont'd)

In 2020, Israel and the other countries in which the Company operates, like the rest of the countries around the world, experienced a deep crisis as a result of the coronavirus outbreak while in 2020 the authorities in Israel imposed severe restrictions that included, *inter alia*, restrictions on movement and gatherings and even lockdowns, closing hotels, closing schools and universities, restrictions on the number of people present at the work place as far as closing certain work places, allowing no more than a certain number of people to gather in the same area, closing businesses, entertainment venues, restaurants (for seated dining), fitness centers and other places, and cancelling flights to and from Israel and placing in quarantine people who entered Israel and/or who are a cause for concern, and so forth.

The last lockdown in Israel was imposed in December 2020 and lasted about two months, while from February 2021 the economy was allowed to gradually return to full activity and a significant part of the restrictions that had been imposed were lifted other than restrictions relating to incoming tourists that were in effect until March 2022. The level of infection began to rise again in Israel as from the end of June 2021 and decreased towards the end of the third quarter of 2021. At the end of November 2021 a new variant of the coronavirus was discovered and a new wave of infection began together with a sharp increase in the rate of infection and morbidity in Israel and the world, which as at the date of publishing these financial statements has been curbed and decreased significantly. As from the end of the aforesaid lockdown until the date of publishing these financial statements, the government has refrained from imposing significant restrictions on economic activity, other than the "green pass" restrictions, which too were cancelled at the beginning of March 2022. Furthermore, at the beginning of March 2022 Israel opened for unvaccinated foreign tourists subject to taking a coronavirus test.

In the reporting period the Company's hotels have been open without interruption since March 2021 after having been closed since September 2020.

The Company's hotels overseas were open throughout the reporting period subject to the local restrictions applicable to the hotel industry in each one of the countries. To the best of the Company's knowledge, in certain periods in 2021 those countries have made relaxations in the restrictions, and when the new variant spread at the end of 2021, the countries imposed temporary restrictions. As at the date of issuing these financial statements, to the best of the Company's knowledge, the economic activity in those countries has resumed fully and tourists are allowed to enter those countries subject to taking a coronavirus test.

To the best of the Company's knowledge most of the restrictions described above with respect to the countries in which the Company's hotels operate exist also in Switzerland.

The operating profitability of the Group's hotel operations in the reporting period continued to be adversely affected by the coronavirus events and its effects on, *inter alia*, tourism in Israel and Europe. The restrictions of the Israeli government that were a result of the rise in infection since June 2021 resulted in the cancelling of bookings of foreign tourists at the hotels in Jerusalem during the Tishrei holiday season. As mentioned above, as at the date of issuing these financial statements, the restrictions on incoming tourists have been lifted.

Note 1 - General (cont'd)

D. Effect of the coronavirus (cont'd)

In the income generating activity the revenues from rent payments, including collection rates from tenants, have not been materially affected compared to the situation before the outbreak of the pandemic. Furthermore, it is noted that in the reporting period and proximate to the date of issuing the financial statements, execution of the lease agreements continued normally and other than in insignificant cases no tenants requested to cancel or terminate the lease term earlier than expected. Furthermore, the Company is not dependent on a material tenant. In order to get a full picture, it is noted that in several instances the Company, at the request of the tenants, agreed to spread immaterial amounts of payments.

As at the date of issuing the financial statements, the Company believes that notwithstanding the damage to its hotel operations it has good financial ability to deal with the effects of the coronavirus crisis and meet its commitments as they come due and to comply with financial covenants in the foreseeable future in view of, inter alia, its cash flow, the liquid means at its disposal including its cash balance, marketable securities, unutilized credit facilities (at the date of issuing the financial statements) and the spread of its operations, its leverage rate, its shareholders' equity, financing abilities, credit facilities and relationships with the lenders, and the aid packages of the relevant local authorities in the countries of operation of the Group. Nevertheless, due to the uncertainty at this time, it is not possible to assess with certainty the full effects of the events, and should this crisis intensify and/or continue for a long time, it may cause extensive damage to the economies of the countries in which the Group operates, to the Group's customers or suppliers and accordingly to the Company itself, and as a result direct damage to the Company's revenues, the value of its assets, its business results, financial position, and the cash flows generated by its operations.

As mentioned in Note 18.I to the financial statements, the Company is in compliance with all the financial covenants applicable to it as at December 31, 2021. See also Note 18.I(10) to the financial statements regarding waiver of a financial covenant in a consolidated company.

The Company is continuing to regularly monitor developments concerning the coronavirus pandemic and it holds regular assessments of the situation and is preparing for a range of different scenarios in order to provide solutions to such scenarios.

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 27, 2022.

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.

Note 2 - Basis of Preparation (cont'd)

B. Functional and presentation currency (cont'd)

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. This method of classification is appropriate for understanding the business of the Company, which provides a wide range of services.

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.

Note 2 - Basis of Preparation (cont'd)

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

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".
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, "Contingent Liabilities".

Note 2 - Basis of Preparation (cont'd)

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

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, on intangible assets from subsidiaries
- Note 13, on investment property
- Note 14, on fixed assets
- Note 33, on 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.

H. Initial application of new standards

Amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16, *Leases*, *Interest Rate Benchmark Reform – Phase 2* ("the Amendments")

The Amendments include practical expedients regarding the accounting treatment of modifications in contractual terms that are a result of the interest rate benchmark reform (a reform that in the future will lead to the replacement of interest rates such as the Libor and Euribor). These include:

- When certain modifications are made in the terms of financial assets or financial liabilities as a result of the reform, the entity shall update the effective interest rate of the financial instrument instead of recognizing a gain or loss.
- Certain modifications in lease terms that are a result of the reform shall be accounted for as an update to lease payments that depend on an index or rate.
- Certain modifications in terms of the hedging instrument or hedged item that are a result of the reform shall not lead to the discontinuance of hedge accounting.

Note 2 - Basis of Preparation (cont'd)

H. Initial application of new standards (cont'd)

All the Amendments are applied retrospectively by amending the opening balance of equity for the annual reporting period in which the amendment was adopted without a restatement of comparative data. Restatement of comparative data is allowed if this can be done without using "hindsight".

Application of the Amendments did not have a material effect on the financial statements.

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.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

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.

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, unless there is an agreement between the owners of the Company and the non-controlling interests that states otherwise.

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-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

B. Foreign currency (cont'd)

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.**

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

Initial recognition and measurement 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. A trade receivable without a significant financing component is initially measured at the transaction price. Receivables originating from contract assets are initially measured at the carrying amount of the contract assets on the date classification was changed from contract asset to receivables.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(1) Non-derivative financial assets (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 were 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.

All financial assets not classified as measured at amortized cost or fair value as described above, 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:

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

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

Assessment of the business model for debt assets (cont'd)

- 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.

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).

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

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

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

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.

(2) Non-derivative financial liabilities

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

Initial recognition of financial liabilities

The Group initially recognizes debt securities issued on the date that they originated. All other financial liabilities are recognized initially 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 recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

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

Subsequent measurement of financial liabilities (cont'd)

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.

Substantial modification in terms of debt instruments

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

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 amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts 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. Attributable transaction costs are recognized in profit or loss as incurred. 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 derivatives that do not serve hedging purposes 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.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(5) Share capital (cont'd)

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 classified as treasury shares.** 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.**

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.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets (cont'd)

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.

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 lands are depreciated over the lease term, 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.

Note 3 - Significant Accounting Policies (cont'd)

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 acquisition costs are included in the cost of the investment property at initial recognition,

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.

In subsequent periods the investment property is measured at fair value with any changes therein recognized in profit or loss. Furthermore, the acquisition costs are not part of the investment property's fair value.

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.

Note 3 - Significant Accounting Policies (cont'd)

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 prepaid 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

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. 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.

J. Impairment

1. Non-derivative financial assets

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.

Credit-impaired financial assets

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.

Note 3 - Significant Accounting Policies (cont'd)

J. Impairment (cont'd)

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

Credit-impaired financial assets (cont'd)

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.

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.

Determining cash-generating units

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").

Note 3 - Significant Accounting Policies (cont'd)

J. Impairment (cont'd)

2. Non-financial assets (cont'd)

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 to their present value using a pre-tax discount rate that reflects the market's assessments regarding the time value of money and the risks specific to the asset or cash-generating unit, for which the estimated future cash flows from the asset or cash-generating unit were not adjusted.

Allocation of goodwill to cash generating units

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 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. As regards cash-generating units that include goodwill, an impairment loss is recognized when the carrying amount of the cash-generating unit, after including the balance of goodwill, exceeds its recoverable amount. 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

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.

L. Revenue

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

L. Revenue (cont'd)

Identifying the contract (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

L. Revenue (cont'd)

Satisfaction of performance obligations (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

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. Grants that compensate the Group for expenses incurred are presented as a deduction from the corresponding expense.

N. Leases

Determining whether an arrangement contains a lease

On the inception date of the lease, the Group determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the following two rights throughout the lease term:

- (a) The right to obtain substantially all the economic benefits from use of the identified asset; and
- (b) The right to direct the identified asset's use.

For lease contracts that contain non-lease components, such as services or maintenance, that are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

Leased assets and lease liabilities

Contracts that award the Group control over the use of a leased asset for a period of time in exchange for consideration, are accounted for as leases. Upon initial recognition, the Group recognizes a liability at the present value of the balance of future lease payments (these payments do not include certain variable lease payments), and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments, plus initial direct costs incurred in respect of the lease.

Since the interest rate implicit in the Group's leases is not readily determinable, the incremental borrowing rate of the lessee is used. Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model, and depreciated over the shorter of the lease term or useful life of the asset.

The Group has elected to apply the practical expedient by which short-term leases of up to one year and/or leases in which the underlying asset has a low value, are accounted for such that lease payments are recognized in profit or loss on a straight-line basis, over the lease term, without recognizing an asset and/or liability in the statement of financial position.

Note 3 - Significant Accounting Policies (cont'd)

N. Leases (cont'd)

The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively.

Variable lease payments

Variable lease payments that depend on an index or a rate, are initially measured using the index or rate existing at the commencement of the lease and are included in the measurement of the lease liability. When the cash flows of future lease payments change as the result of a change in an index or a rate, the balance of the liability is adjusted against the right-of-use asset.

Other variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss in the period in which the event or condition that triggers payment occurs.

Depreciation of right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life.

Reassessment of lease liability

Upon the occurrence of a significant event or a significant change in circumstances that is under the control of the Group and had an effect on the decision whether it is reasonably certain that the Group will exercise an option, which was not included before in the lease term, or will not exercise an option, which was previously included in the lease term, the Group re-measures the lease liability according to the revised leased payments using a new discount rate. The change in the carrying amount of the liability is recognized against the right-of-use asset, or recognized in profit or loss if the carrying amount of the right-of-use asset was reduced to zero.

O. Financing income and expenses

Financing income comprises interest income on funds invested, dividend income and gains on 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 to qualifying assets, 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)

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, adjusted for treasury shares. 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) Amendment to IAS 1, *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current*

The Amendment replaces certain requirements for classifying liabilities as current or non-current. Thus for example, according to the Amendment, a liability will be classified as non-current when the entity has the right to defer settlement for at least 12 months after the reporting period, and it "has substance" and is in existence at the end of the reporting period. According to the Amendment, a right is in existence at the reporting date only if the entity complies with conditions for deferring settlement at that date. Furthermore, the Amendment clarifies that the conversion option of a liability will affect its classification as current or non-current, other than when the conversion option is recognized as equity.

Note 3 - Significant Accounting Policies (cont'd)

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

(1) **Amendment to IAS 1, *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current* (cont'd)**

The Amendment is effective for reporting periods beginning on or after January 1, 2023 with earlier application being permitted. The Amendment is applicable retrospectively, including an amendment to comparative data. The Group has not yet commenced examining the effects of applying the Amendment on the financial statements.

(2) **Amendment to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets***

According to the Amendment, when assessing whether a contract is onerous, the costs of fulfilling a contract that should be taken into consideration are costs that relate directly to the contract, which include as follows:

- Incremental costs; and
- An allocation of other costs that relate directly to fulfilling a contract (such as depreciation expenses for fixed assets used in fulfilling that contract and other contracts).

The Amendment is effective retrospectively for annual periods beginning on or after January 1, 2022, in respect of contracts where the entity has not yet fulfilled all its obligations. Early application is permitted. Upon application of the Amendment, the entity will not restate comparative data, but will adjust the opening balance of retained earnings at the date of initial application, by the amount of the cumulative effect of the Amendment. Application of the Amendment is not expected to have a material effect on the Company's financial statements.

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

The Amendment replaces the requirement to recognize liabilities from business combinations in accordance with the conceptual framework, the reason being that the interaction between those instructions and the guidance provided in IAS 37 regarding recognition of liabilities was unclear in certain cases.

The Amendment adds an exception to the principle for recognizing liabilities in IFRS 3. According to the exception, contingent liabilities are to be recognized according to the requirements of IAS 37 and IFRIC 21 and not according to the conceptual framework. The Amendment prevents differences in the timing of recognizing liabilities that could have led to the recognition of gains and losses immediately after the business combination (day 2 gain or loss). The Amendment also clarifies that contingent assets are not to be recognized on the date of the business combination.

The Amendment is effective for annual periods beginning on or after January 1, 2022. Application of the Amendment is not expected to have a material effect on the Company's financial statements.

(4) **Amendment to IAS 12, *Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

The Amendment narrows the scope of the exemption from recognizing deferred taxes as a result of temporary differences created at the initial recognition of assets and/or liabilities, so that it does not apply to transactions that give rise to equal and offsetting temporary differences.

Note 3 - Significant Accounting Policies (cont'd)

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

(4) Amendment to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (cont'd)

As a result, companies will need to recognize a deferred tax asset or a deferred tax liability for these temporary differences at the initial recognition of transactions that give rise to equal and offsetting temporary differences, such as lease transactions and provisions for decommissioning and restoration.

The Amendment is effective for annual periods beginning on or after January 1, 2023, by amending the opening balance of the retained earnings or adjusting a different component of equity in the period the Amendment was first adopted. Earlier application is permitted. The Group is examining the effects of the Amendment on the financial statements with no plans for early adoption.

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, at least once a year, 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 (see Note 14B) 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 transactions, 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.

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

B. Investment property (cont'd)

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 an entrepreneurial profit, taking into account a rate of return 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).

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.

Note 5 - Operating Segments (cont'd)

- (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 and as from 2019 investment in shares of Clal Insurance Enterprises.

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 2021 or in the years 2020 and 2019.

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.

Notes to the Financial Statements as at December 31, 2021

Note 5 - Operating Segments (cont'd)

Business segments

NIS thousands	Investment property 2021	Lodging overseas 2021	Lodging in Israel 2021	Securities 2021	Other 2021	Consolidated 2021
Segment revenues	848,109	190,418	87,916	286,364	7,642	1,420,449
Segment results before depreciation	781,024	29,873	(11,429)	286,364	(128)	1,085,704
Depreciation expenses	-	(87,168)	(27,042)	-	-	(114,210)
Segment results	781,024	(57,295)	(38,471)	286,364	(128)	971,494
Unallocated revenues						2,317
Unallocated expenses						(87,398)
Share in profits of equity-accounted associates						36
Operating profit						886,449
Allocated financing expenses, net	(26,981)					(26,981)
Unallocated financing expenses, net						(131,995)
Profit before tax						727,473
Taxes on income						(134,263)
Profit for the year						593,210
Segment results attributable to the owners of the Company	690,886	(45,836)	(38,471)	286,487	(128)	

Notes to the Financial Statements as at December 31, 2021

Note 5 - Operating Segments (cont'd)

Business segments

NIS thousands	Investment property 2020	Lodging overseas 2020	Lodging in Israel 2020	Securities 2020	Other 2020	Consolidated 2020
Segment revenues	410,291	96,989	54,429	-	80,297	642,006
Segment results before depreciation	293,805	(43,807)	(5,527)	(79,993)	13,964	178,442
Depreciation expenses	-	(88,657)	(32,757)	-	-	(121,414)
Segment results	293,805	(132,464)	(38,284)	(79,993)	13,964	57,028
Unallocated revenues						2,093
Unallocated expenses						(97,490)
Share in losses of equity-accounted associates						(108)
Operating loss						(38,477)
Allocated financing expenses, net	(47,727)		-	-	-	(47,727)
Unallocated financing expenses, net						(93,012)
Loss before tax						(179,216)
Taxes on income						30,709
Loss for the year						(148,507)
Segment results attributable to the owners of the Company	295,083	(105,971)	(38,284)	(79,996)	13,964	

Notes to the Financial Statements as at December 31, 2021

Note 5 - Operating Segments (cont'd)

Business segments

NIS thousands	Investment property 2019	Lodging overseas 2019	Lodging in Israel 2019	Securities 2019	Other 2019	Consolidated 2019
Segment revenues	703,134	422,144	275,778	72,267	12,620	1,485,943
Segment results before depreciation	606,524	31,642	81,547	72,267	1,673	793,653
Depreciation expenses	-	(95,860)	(39,156)	-	-	(135,016)
Segment results	606,524	(64,218)	42,391	72,267	1,673	658,637
Unallocated revenues						825
Unallocated expenses						(96,753)
Share in profits of equity-accounted associates						299
Operating profit						563,008
Allocated financing expenses, net	(40,952)	-	-	-	-	(40,952)
Unallocated financing expenses, net						(112,961)
Profit before tax						409,095
Taxes on income						(68,812)
Profit for the year						340,283
Segment results attributable to the owners of the Company	527,222	(51,374)	42,391	72,094	1,673	

Notes to the Financial Statements as at December 31, 2021

Note 5 - Operating Segments (cont'd)

NIS thousands	Investment property		Lodging overseas		Lodging in Israel		Securities		Other		Consolidated	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Segment assets	8,875,687	8,577,285	3,284,029	3,449,952	1,306,130	1,261,140	859,962	402,928	45,114	46,870	14,370,922	13,738,175
Investment in equity-accounted investees											543	570
Unallocated assets											378,778	426,774
Total assets											14,750,243	14,165,519
Segment liabilities											3,807,638	4,115,453
Unallocated liabilities											5,362,588	5,135,143
Total liabilities	3,807,638	4,115,453	-	-	-	-	-	-	-	-	9,170,226	9,250,596
Capital expenditure	338,166	480,583	948	9,801	4,409	8,922	* 416,036	42,180	417	839		

* See Note 7

Information on geographical segments

NIS thousands	Israel			Switzerland			France			UK			Netherlands			Other regions		
	2021	2020	2019	2021	2020	2019	2021	2020	2019	2021	2020	2019	2021	2020	2019	2021	2020	2019
External revenues	782,401	266,929	659,885	380,268	207,167	326,045	117,563	51,893	251,595	101,249	88,368	131,783	41,285	29,742	117,460	36	-	299
Segment assets	4,403,695	3,634,156	3,884,833	5,079,542	4,968,681	4,668,640	2,349,091	2,531,247	2,557,118	2,212,250	2,258,656	2,190,771	622,039	678,921	693,140	83,626	93,858	104,212

Notes to the Financial Statements as at December 31, 2021

Note 6 - Cash and Cash Equivalents

	December 31	
	2021	2020
	NIS thousands	NIS thousands
Bank balances	117,996	136,911
Call deposits	2,101	2,152
	120,097	139,063

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	
	2021	2020
	NIS thousands	NIS thousands
Current assets:		
Securities at fair value through profit or loss	859,962	402,928

The value of the portfolio consists of an investment of NIS 810 million in shares of Clal Insurance Enterprises, constituting about 15% of the shares of Clal Insurance Enterprises (December 31, 2020 –NIS 170 million, constituting about 5% of the shares of Clal). In addition, in 2021 the Company sold shares of Bank Leumi Le-Israel for NIS 240 million.

Note 8 - Trade Receivables

	December 31	
	2021	2020
	NIS thousands	NIS thousands
Composition:		
Hotel guests	8,424	1,714
Property renters	18,119	18,713
Less – provision for impairment	(2,374)	(3,294)
	24,169	17,133

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

Notes to the Financial Statements as at December 31, 2021

Note 9 - Other Receivables, Including Derivative Instruments

Composition:	December 31	
	2021	2020
	NIS thousands	NIS thousands
Government institutions	2,561	2,601
Short-term loans and deposits	6,350	7,265
Prepaid expenses	11,406	17,015
Income receivable	6,532	* 36,508
Derivative financial instruments	4,896	2,127
Other**	9,664	12,483
	41,409	77,999

* Immaterial adjustment due to reclassification.

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

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	
	2021	2020
	NIS thousands	NIS thousands
Inventory of food and beverages	3,383	3,244
Inventory of hotelier equipment	20,540	21,950
	23,923	25,194

Notes to the Financial Statements as at December 31, 2021

Note 11 - Apartments Inventory

	December 31	
	2021	2020
	NIS thousands	NIS thousands
A. <u>Composition:</u>		
Balance as at January 1	-	58,620
Costs invested during the period:		
Construction	-	43
	<hr/>	<hr/>
Less -	-	58,663
Amounts recognized in profit or loss for delivery of apartments	<hr/>	<hr/>
	-	(58,663)
Balance as at December 31	<hr/>	<hr/>
	-	-

	December 31	
	2021	2020
	NIS thousands	NIS thousands
B. <u>Additional information</u>		
Sales contracts signed during the year ended December 31	-	72,650

In 2020, all the Company's inventory of apartments at the Mamilla Complex in Jerusalem was sold for a total of NIS 72.6 million (excluding VAT). Accordingly, in 2020 the Company recognized a profit in the amount of NIS 14 million from the sale of apartments. According to the sale contract an amount of NIS 42.4 million was received in 2020 and the balance of NIS 30.2 million (which in the balance sheet as at December 31, 2020 was recorded in the other receivables item as part of current assets) was received in 2021.

Notes to the Financial Statements as at December 31, 2021

Note 12 - Investee Companies

A. Summary financial data regarding equity-accounted associate companies

<u>Country of incorporation</u>	<u>Percentage ownership</u>	<u>Current assets</u>	<u>Non-current assets</u>	<u>Total assets</u>	<u>Current liabilities</u>	<u>Non-current liabilities</u>	<u>Total liabilities</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Net profit</u>
2021										
France	Associate company: Properteam Regs Sarl	34% <u>2,148</u>	<u>116</u>	<u>2,264</u>	<u>667</u>	-	<u>667</u>	<u>2,436</u>	<u>(2,318)</u>	<u>118</u>
			<u>116</u>	<u>2,264</u>	<u>667</u>	-	<u>667</u>	<u>2,436</u>	<u>(2,318)</u>	<u>118</u>
2020										
France	Associate company: Properteam Regs Sarl	34% <u>2,335</u>	<u>523</u>	<u>2,858</u>	<u>1,183</u>	-	<u>1,183</u>	<u>2,596</u>	<u>(2,903)</u>	<u>(307)</u>
			<u>523</u>	<u>2,858</u>	<u>1,183</u>	-	<u>1,183</u>	<u>2,596</u>	<u>(2,903)</u>	<u>(307)</u>
2019										
France	Associate company: Properteam Regs Sarl	34% <u>3,024</u>	<u>184</u>	<u>3,208</u>	<u>1,256</u>	-	<u>1,256</u>	<u>3,945</u>	<u>(3,058)</u>	<u>887</u>
			<u>184</u>	<u>3,208</u>	<u>1,256</u>	-	<u>1,256</u>	<u>3,945</u>	<u>(3,058)</u>	<u>887</u>

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
2021		
Alrov Resorts (1993) Ltd.	Israel	100.00%
Tatza Holdings (1994) Ltd.	Israel	90.00%
Property Investment Holding BV	Netherlands	76.00%
Epic Suisse AG	Switzerland	77.80%
Sutton Investment Group Limited	UK	* 82.00%
Constable Real BV	UK	* 80.80%
Wimbledon BV	UK	* 80.80%
George V Project Management BV	France	* 79.84%
Epworth Building Limited	UK	* 79.84%
LOCKA Holding BV	Netherlands	80.00%
The SET Hotel Management Company Limited	UK	85.00%
Lodging 2020 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 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%
2020		
Alrov Resorts (1993) Ltd.	Israel	100.00%
Tatza Holdings (1994) Ltd.	Israel	90.00%
Property Investment Holding BV	Netherlands	76.00%
Epic Suisse AG	Switzerland	77.80%
Sutton Investment Group Limited	UK	* 82.00%
Constable Real BV	UK	* 80.80%
Wimbledon BV	UK	* 80.80%
George V Project Management BV	France	* 79.84%
Epworth Building Limited	UK	* 79.84%
LOCKA Holding BV	Netherlands	80.00%
The SET Hotel Management Company Limited	UK	85.00%
Lodging 2020 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%

* The holding rate includes shares held directly and indirectly in the investee companies.

** Is in a voluntary liquidation proceeding.

Note 13 - Investment Property

A. Movement in carrying amount

	December 31	
	2021	2020
	NIS thousands	NIS thousands
Balance as at January 1	8,577,285	8,073,977
Additions	338,166	480,585
Disposals	-	-
Exchange differences, net	(475,403)	74,591
Changes in fair value	435,639	(51,868)
Balance as at December 31*	<u>8,875,687</u>	<u>8,577,285</u>

* The Group's investment property is comprised of right-of-use assets in the amount of NIS 252,531 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 1,572 to NIS 2,689 (2020: NIS 820 to NIS 2,671)
Switzerland: CHF 84 to CHF 360 (2020: CHF 94 to CHF 360)
France: EUR 93 to EUR 724 (2020: EUR 93 to EUR 731)
UK: GBP 583 to GBP 2,138 (2020: GBP 581 to GBP 2,215)
- Cash flow discount rate
Israel: 5.5% to 6.5% (2020: 6.25%-6.5%)
Switzerland: 2.7% to 4% (2020: 2.85%-4.4%)
France: 3.15% to 9.1% (2020: 3.15%-9.1%)
UK: 3.75% to 5.62% (2020: 3.75%-5.60%)

The Company prepared valuations for income-generating properties as at December 31, 2021. According to these valuations the Company recorded positive revaluation in the reporting year in the amount of NIS 435,639 thousand most of which derived from the Company's properties in Israel and Switzerland in the amount of NIS 439,440 following a slight decrease in the discount rates.

As a result of the coronavirus crisis as described in Note 1.D, in 2020 the Company examined the effects of the coronavirus pandemic on its properties by means of, inter alia, external valuers. In the framework of these examinations and taking into consideration the effects of the coronavirus pandemic, an analysis was performed of the nature and mix of the tenants at the various properties including their financial strength, collection rates and the effect of the crisis on the renewal of existing contracts and rental of available space. According to the valuations that were performed as at December 31, 2020, in 2020 the Company recorded negative valuation in the amount of NIS 51,868 thousand most of which derived from the negative valuation of the Company's properties in London in the amount of NIS 86,114 thousand. The main reasons for this negative valuation are: a slight increase in the discount rates, a decrease in forecasted rent payments mainly from available space.

It is also noted that in the reporting period and proximate to the date of issuing the financial statements, execution of the rent agreements continues as usual, and no tenants have requested to cancel or terminate the rent earlier than expected. Furthermore, the Company is not dependent on any material tenant. So as to complete the picture, it is noted that in several cases, at the request of the tenants, the Company agreed to spread an immaterial amount of payments.

The estimated fair value would increase if:

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

Note 13 - Investment Property (cont'd)

B. Determination of fair value (cont'd)

(4) Valuation processes used by the Company

The fair value of the investment property is determined regularly by external independent appraisers 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 discount rate of 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		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Rental income on investment property	412,470	410,291	406,754
Direct operating expenses deriving from investment property that generated rental income during the period	(67,085)	(64,618)	(77,271)
	<u>345,385</u>	<u>345,673</u>	<u>329,483</u>

D. Sale of material properties

In October 2019 the Company sold investment property in France in consideration of € 3.2 million (NIS 12 million), according to the carrying amount on the Company's books as at June 30, 2019. The carrying amount on the Company's books was € 2.8 million as at December 31, 2018.

E. Acquisition of material properties

In March 2021 the Company acquired an additional income-generating property in Switzerland in the amount of CHF 77 million (NIS 282 million) including acquisition costs in the amount of CHF 1.4 million (NIS 5 million).

In January 2020 the Company acquired additional property in London (Epworth) in consideration of £ 77 million, which is equivalent to NIS 339 million (including acquisition costs in the amount of £ 4 million, which is equivalent to NIS 18 million), by means of a special purpose company that was incorporated for the purpose of the acquisition, of which PIH holds 84% and 16% is held by means of the Company's direct investment in the company that holds the property, so that the Company effectively owns 79.8% of the property.

Note 13 - Investment Property (cont'd)

E. Acquisition of material properties (cont'd)

In December 2018 the Company signed an agreement for the lease of land in Switzerland 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 thousand (NIS 49,459 thousand) against a liability for future minimum lease payments. See also Note 20.

By the end of December 2020 the Company completed the construction work of two income generating properties in Switzerland (one on the aforesaid land). During 2019 and 2020 the Company invested in both properties amounts of CHF 32.7 million (NIS 117 million) and CHF 15.7 million (NIS 57 million), respectively.

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).

H. Income generating property owned by the Company

- As to rights in real estate in Switzerland, see Note 13.E above.
- As to the real estate rights in the UK, see Note 14.D below.
- As to rights in real estate in the Mamilla Commercial District in Jerusalem, see Note 14.C below.
- The other real estate rights of the Company's investment property are proprietary.

Notes to the Financial Statements as at December 31, 2021

Note 14 - Fixed Assets

A. Composition:

	Land and buildings at fair value	Machinery, equipment and appliances	Hotelier machinery and furniture	Office furniture and equipment	Vehicles and aircraft	Total
	NIS thousands					
Cost/ deemed cost						
Balance as at January 1, 2020	4,789,497	17,541	182,560	21,982	131,844	5,143,424
Additions	16,167	114	2,504	226	2,251	21,262
Less disposals	-	-	-	-	-	-
Fair value revaluation of fixed assets	(229,937)	-	-	-	-	(229,937)
Effect of changes in exchange rates	(8,750)	-	-	95	-	(8,750)
Balance as at December 31, 2020	<u>4,566,977</u>	<u>17,655</u>	<u>185,064</u>	<u>22,303</u>	<u>134,095</u>	<u>4,926,094</u>
Balance as at January 1, 2021	4,566,977	17,655	185,064	22,303	134,095	4,926,094
Additions	3,217	76	1,932	2,158	2,501	9,884
Less disposals	-	-	-	-	-	-
Fair value revaluation of fixed assets	181,457	-	-	-	-	181,457
Effect of changes in exchange rates	(276,986)	-	-	(83)	(250)	(277,319)
Balance as at December 31, 2021	<u>4,474,665</u>	<u>17,731</u>	<u>186,996</u>	<u>24,378</u>	<u>136,346</u>	<u>4,840,116</u>
Accumulated depreciation						
Balance as at January 1, 2020	-	15,412	133,529	16,636	25,377	190,954
Depreciation for the year	113,871	418	9,001	945	11,865	136,100
Less disposals	-	-	-	-	-	-
Fair value revaluation of fixed assets	(113,871)	-	-	-	-	(113,871)
Balance as at December 31, 2020	-	<u>15,830</u>	<u>142,530</u>	<u>17,581</u>	<u>37,242</u>	<u>213,183</u>
Balance as at January 1, 2021	-	15,830	142,530	17,581	37,242	213,183
Depreciation for the year	107,977	374	7,593	419	12,664	129,027
Less disposals	-	-	-	-	-	-
Fair value revaluation of fixed assets	(107,977)	-	-	-	-	(107,977)
Classification of fixed assets from cost to fair value	-	-	-	-	-	-
Balance as at December 31, 2021	-	16,204	150,123	18,000	49,906	234,233

Note 14 - Fixed Assets (cont'd)

A. Composition: (cont'd)

	Land and buildings at fair value	Machinery, equipment and appliances	Hotelier machinery and furniture	Office furniture and equipment	Vehicles and aircraft	Total
	NIS thousands					
Carrying amounts						
As at December 31, 2021*	4,474,665	1,527	36,873	6,378	86,440	4,605,883
As at January 1, 2020	4,789,497	2,129	49,031	5,346	106,467	4,952,470
As at December 31, 2020	4,566,977	1,825	42,534	4,722	96,853	4,712,911

* The carrying amount of right-of-use assets included in the categories of land and buildings at fair value, office furniture and equipment and vehicles and aircraft is NIS 303,969 thousand, NIS 3,128 thousand and NIS 3,257 thousand, respectively.

Note 14 - Fixed Assets (cont'd)

B. Determination of fair value

(1) Fair value hierarchy

In order to examine the value of the Group's hotels as at December 31, 2021 the Company engaged external valuers as it does every year and obtained full valuations for the five hotels of the Group and accordingly adjusted the value of the fixed assets as at December 31, 2021. In the framework of these valuations and taking into consideration the effects of the coronavirus pandemic as mentioned in Note 1.D above, the relevant macro aspects were examined in each county, indications of market prices of transactions in the current period were examined, an assessment was made regarding the rate of recovery of hotel operations in the forthcoming years and the specific features of each of the Group's hotels were examined (such as location, quality, character, guest mix, and so forth).

In 2020, following the coronavirus crisis, the Company examined the effects of the coronavirus pandemic on its assets by means of, *inter alia*, external valuers.

As mentioned in Note 1.D, the damage to tourism in Israel and in Europe as a result of the coronavirus pandemic has led to considerable uncertainty as to how the hotel sector will operate and also regarding the rate of returning to activity after the reopening of the hotels in and subsequent to the reporting period. As at December 31, 2021 and the date of issuing the financial statements, all the Group's hotels are open.

As aforesaid, the present period is characterized by uncertainty regarding the continued spreading of the coronavirus and its intensity. The Company will continue to follow developments in the tourism and hotel sectors in the forthcoming periods and will examine any relevant matters that arise when examining the fair value of its assets on the next reporting dates.

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, 2021		December 31, 2020	
	Level 3	Total	Level 3	Total
Fixed assets at fair value	4,474,665	4,474,665	4,566,977	4,566,977

(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.

Note 14 - Fixed Assets (cont'd)

B. Determination of fair value (cont'd)

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

Significant unobservable inputs

Future operating profitability in Israel – The future cash flow takes into consideration a gradual recovery, such that in the first forecast year (2022) the operating profitability will be low compared to past performance of the hotels and will reflect average occupancy rates of 47%-57%. For the purpose of the second forecast year (2023), the expected operating surpluses are similar to 2018-2019 and as from the third forecast year the operating surpluses will be similar to 2019. As aforesaid, the prolonging of the crisis and the manner of returning to activity may have an effect on future operating surpluses. A 5% decrease or increase in the forecasted operating surpluses would have lowered or raised the aggregate value of the two hotels in Israel by 5%.

Future operating profitability overseas - The future cash flow takes into consideration a gradual recovery, such that in the first forecast year (2022) the operating profitability is expected to continue to be relatively low (€5-9 thousand according to the characteristics of each hotel). As from the second forecast year (2023) the operating profitability is assumed to be 20% to 60% higher than in the first forecast year (according to the characteristics of each hotel), and stabilization is expected towards 2024-2025. After that a growth rate of between 2% and 2.5% per year is assumed. A 5% decrease or increase in the forecasted operating surpluses would have lowered or raised the aggregate value of the hotels by 5%.

- Occupancy rate of the hotels in Israel: in 2022 47%-57% and after then 61% to 69% (2020: 61% to 69%).
- Occupancy rate of the hotels overseas: in 2022 55%-66% and after then 63% to 75% (2020: 35% to 78%).
- Discount rate of cash flows in Israel: 6.5% (2020: 6.5% to 7%). A decrease or increase of 0.25% in the discount rate would have raised or lowered the aggregate value of the two hotels by 4%.
- Discount rate of cash flows overseas: 3.5% to 6.25% (2020: 3.5%-6%). An increase or decrease of 0.25% in the discount rates would have lowered or raised the value of the hotels by 7%, respectively.
- Average price per night in Israel: NIS 1,148 to NIS 1,546 (2020: NIS 1,128 to NIS 1,247).
- Average price per night overseas: NIS 1,968 to NIS 3,463 (2020: NIS 1,936 to NIS 3,806).

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.

Note 14 - Fixed Assets (cont'd)

B. Determination of fair value (cont'd)

(3) Valuation processes used by the Company (cont'd)

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. As from 2015 the Company's subsidiary Alrov Mamilla Commercial District (1993) Ltd. holds land lease rights for a period of 100 years in the Mamilla complex in Jerusalem, on which there is a hotel and commercial district that it owns. The other real estate rights of the Company's fixed assets are proprietary.

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 related 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 (which commenced 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.

E. Pursuant to the valuations of the hotels in Israel and overseas, in 2021 the Company recorded an increase of NIS 218 million in the revaluation reserve, net of tax. The carrying amount of the fixed assets as at December 31, 2021, which is presented at the fair value that would have been recognized had the assets been presented under the cost model, is NIS 3,636 million.

F. As at December 31, 2021, fixed-asset items in the amount of NIS 2,479,339 thousand (December 31, 2020: NIS 4,522,255 thousand) are pledged to secure borrowings from banks (see Note 15, Borrowings from Banks, as to the terms of the credit).

G. As at December 31, 2021, the balance of Café Royal London plus a commercial area for self use, in the balance sheet of the Company, at fair value, is NIS 1,090 million (approximately GBP 248 million value of the hotel and GBP 13 million the commercial area at the self use of the hotel). These balances include a revaluation reserve in the amount of NIS 98 million (approximately GBP 23 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, as at December 31, 2021 the value of the hotel is estimated to be € 438 million (NIS 1,542 million).

Note 14 - Fixed Assets (cont'd)

H. (cont'd)

In the reporting year the Company recorded a gain from positive revaluation in the amount of NIS 80 million, net of tax, in respect of the hotel (negative valuation of NIS 18 million, net of tax, in 2020), which was recorded within other comprehensive income in a capital reserve for revaluation of fixed assets.

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, 2021	December 31	
		2021	2020
		NIS thousands	
Short-term loans – in Israel			
Unlinked	1.45-1.65%	151,195	104,528
Denominated in Euros	1.24%	23,084	804,423
		174,279	908,951

Short-term bank loans in the amount of NIS 174 million are secured by a fixed charge on marketable shares that are used by the Company as investment in securities, the carrying amount of which is NIS 488 million as at December 31, 2021.

As to financial covenants undertaken by the Group towards banks, see Note 18.I.

Notes to the Financial Statements as at December 31, 2021

Note 16 - Trade Payables

Composition:

	December 31	
	2021	2020
	NIS thousands	NIS thousands
Open debts	45,740	26,258
Debts in respect of investment in real estate	12,418	32,626
Checks and notes payable	1,898	3,276
	60,056	62,160

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

Note 17 - Other Payables, Including Derivative Instruments

Composition:

	December 31	
	2021	2020
	NIS thousands	NIS thousands
Interest payable	7,117	7,310
Accrued expenses	96,466	103,595
Deferred income	22,909	29,760
Government institutions	18,912	11,683
Employees and accrued benefits	21,824	13,424
Customer advances	7,662	12,845
Derivative financial instruments	5,121	3,662
Deposits	8,825	9,708
Current lease liability	3,645	4,021
Other payables and credit balances*	96,212	56,543
	288,693	252,551

* The balance as at December 31, 2021 and 2020 includes amounts of NIS 95,000 thousand and NIS 55,000 thousand, respectively, that were received from Karta. See also Note 30.B(3).

The Group's exposure to currency and liquidity risks related to some of 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, 2021	December 31	
		2021	2020
		NIS thousands	
Non-convertible debentures			
Linked to the Consumer Price Index	0.5% - 2.4%	1,233,427	806,913
Debenture raising, discount and premium expenses		10,008	1,916
		1,243,435	808,829
		230,635	214,958
Less current maturities		1,012,800	593,871
Loans from banks			
Linkage basis:			
In NIS	1.70%	301,021	216,684
Exchange rate of the Euro	1.35%-1.85%	1,149,922	1,035,937
Exchange rate of the Swiss franc	0.53%-1.2%	2,607,434	2,624,734
Exchange rate of the Pound Sterling	1.72%-3.09%	1,993,139	2,073,503
Less – Loan raising expenses		9,758	12,061
		6,041,758	5,938,797
		434,474	459,629
Less current maturities		5,607,284	5,479,168

B. 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. 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, 2021, the balance of the debentures (Series C) is a par value of NIS 37,565 thousand.

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

C. 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. In the reporting year an additional expansion was made in the amount of NIS 32,000 thousand. In 2020 the Group purchased NIS 77 thousand par value of the debentures. As at December 31, 2021, the balance of the debentures (Series D) is a par value of NIS 345,234 thousand.

D. Non-convertible debentures (Series E)

On December 15, 2019 NIS 240 million par value of debentures (Series E) of NIS 1 par value each was issued and listed for trade on the Stock Exchange in consideration of NIS 240 million. The debentures bear an annual interest rate of 1.5% and are linked (principal and interest) to the Consumer Price Index. The debentures are redeemable in seven annual installments on December 31 in each of the years 2021 through 2027. The interest on the debentures is payable in semi-annual installments every calendar year on the unpaid balance of principal on June 30 and on December 31 in each of the years 2020 through 2027. In 2020 the Group purchased NIS 120 thousand par value of the debentures. As at December 31, 2021, the balance of the debentures (Series E) is a par value of NIS 228,000 thousand.

E. Non-convertible debentures (Series F)

On November 25, 2021 NIS 606.04 million par value of debentures (Series F) of NIS 1 par value each was issued and listed for trade on the Stock Exchange in consideration of NIS 621 million. The debentures bear a fixed annual interest rate of 0.5% and are linked (principal and interest) to the Consumer Price Index. The debentures are redeemable in three installments in the amount of 1% of principal on October 1 of each of the years 2024 through 2026, with 97% of the principal being redeemable on October 1, 2027. The interest on the debentures is payable in semi-annual installments every calendar year on the unpaid balance of principal on April 1 and on October 1 in each of the years 2022 through 2027.

The Company created the following liens in favor of the trustee of the Series F debentures:

- 100% of the shares of L.Hotel Holding BV which is held by Locka Holding BV, a subsidiary of the Company.
- 100% of the participation units of Hotel Lutetia Financing – Limited Partnership, which is held by the Company and its subsidiary.
- All the Company's rights and receipts pursuant to a loan agreement between the Company (the lender) and the partnership (the borrower) by which the Company granted the partnership a loan constituting the proceeds from the issuance of the Series F debentures.
- All the partnership's rights and receipts pursuant to the loan agreement between it and L Hotel SNC.
- The Company undertakes that as long as the Series F debentures are outstanding it will be able to create a floating lien (current) on all the Company's assets and rights only under certain limitations.

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

F. Loans from banks

Long-term loans from banks in the amount of NIS 6,041,758 thousand (including current maturities of long-term loans in the amount of NIS 434,474 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 11,341,124 thousand as at December 31, 2021.

In 2021 financing was obtained for an income-generating property in Switzerland that was purchase in the reporting year as mentioned in Note 13.E above. The property was financed by a loan in the amount of CHF 53 (approximately NIS 182 million) at a fixed interest rate of 0.95% p.a. for a period of 5 years. In 2020 financing was obtained for an income-generating property in the UK that was purchased that year as described in Note 13.E above. The property was financed by a loan in the amount of £ 44.6 million (approximately NIS 196 million) at variable interest for a period of 5 years. As at December 31, 2021 the interest rate of the loan is 1.75%.

G. Refinancing

In 2021 the Company refinanced two office buildings in France in the aggregate amount of € 12 million (approximately NIS 45 million) at variable interest until 2033 (as at December 31, 2021 the interest rate is 1.8%). In 2019, the Company refinanced an office building in France in the aggregate amount of € 41.5 million (approximately NIS 158 million) at variable interest for a period of 5 years (as at December 31, 2021, the interest rate is 1.90%).

H. Borrowings from banks

A loan in the amount of € 85 million (approximately 318 million) that financed the Conservatorium hotel in Amsterdam was repaid in 2021. Concurrently, an agreement was reached to refinance the property by an amount of € 110 million for a period of 28 months, which will be signed after the date of issuing the financial statements. Furthermore, in the reporting period a loan in the amount of € 120 million that financed the Lutetia hotel in Paris was repaid and a bridge loan in the amount of € 125 million was taken in its place until raising the Series F debentures as described in paragraph E above.

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.

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

I. Financial covenants (cont'd)

- 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 instances, 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.
 - 4) A subsidiary provided a guarantee in the total amount of CHF 5 million in favor of the property company to secure part of the debt to the financial institution.
 - 5) On June 1, 2014, the Company published a shelf offering report under a shelf 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:
 - a. 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.
 - b. 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.
 - c. The net financial debt divided by the operating surplus as per the annual consolidated financial statements of the Company exceeds 25.To the date of the report, the Company is in compliance with said covenants.
 - 6) On January 8, 2018, the Company published a shelf offering report under a shelf prospectus dated May 27, 2015, which prescribes, *inter alia*, quantitative financial covenants for the Company's debentures (Series D) for preventing a dividend distribution or buy-back by the Company:
 - a. If the ratio of the net financial debt of the Company to the net total equity and indebtedness (CAP) of the Company exceeds 68% before or after the distribution.
 - b. If the equity of the Company (including minority interests) is less than NIS 3 billion after the dividend distribution.
 - c. The Company is not allowed to distribute a dividend from revaluation gains.

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

I. Financial covenants (cont'd)

6) (cont'd)

Furthermore, if any of the following occurs the interest on the unpaid principal of the debentures (Series E) will increase by 0.25%:

- a. The ratio of the net financial debt of the Company to the net total equity and indebtedness (CAP) of the Company exceeds 70% for one quarter.
- b. The equity of the Company (including minority interests) is less than NIS 2.3 billion.
- c. The net financial debt divided by the operating surplus as per the annual consolidated financial statements of the Company exceeds 25.

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

7) On December 11, 2019, the Company published a shelf offering report under a shelf prospectus dated August 28, 2019, which prescribes, *inter alia*, quantitative financial covenants for the debentures (Series E) of the Company:

- a. If the ratio of the net financial debt of the Company to the net total equity and indebtedness (CAP) of the Company exceeds 71% for the duration of two quarters, the Company will be prevented from distributing dividends or buying back its own shares.
- b. If the equity of the Company (including minority interests) is less than NIS 2.3 billion for the duration of more than two quarters, the Company will be prevented from distributing profits within their meaning in the Companies Law – 1999.

8) On November 15, 2021, the Company published a shelf offering report under a shelf prospectus dated August 28, 2019, which prescribes, *inter alia*, quantitative financial covenants for the debentures (Series F) of the Company:

- a. If 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 quarters, this will be cause for immediate repayment. If the ratio is higher than 67% the Company will be prevented from distributing dividends or buying back its own shares.
- b. If the equity of the Company (including minority interests) is less than NIS 2.5 billion for the duration of more than two quarters, this will be cause for immediate repayment. If it is less than NIS 3.2 billion, the Company will be prevented from distributing dividends or buying back its own shares.
- c. If the LTV ratio of the Café Royal property in England is higher than 75% for the duration of two quarters this will be cause for immediate repayment.
- d. If the net financial debt of the Company divided by the surplus (as defined in the deed) according to the Company's consolidated financial statements is higher than 30 this will be cause for immediate repayment.

9) A subsidiary of the Company has made an undertaking to a bank, pursuant to which it is obligated to comply with the following financial covenants:

- a. The ratio of the Company's equity to total balance sheet will not fall below 15%.
- b. The LTV ratio of the Café Royal property in England will not exceed 65%.

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

As at December 31, 2021 the Company is in compliance with all the covenants mentioned in paragraphs 7-9 above.

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

I. Financial covenants (cont'd)

10) In other cases the companies undertook that the loan and interest payments would amount to a certain minimum percentage from the revenues in those years ("debt service coverage ratio"). A subsidiary of the Company received from the entity that granted it a loan including annual debt service coverage ratio financial covenants, a waiver from measuring the financial covenants for one additional year such that they will be measured beginning from July 2022.

J. According to an agreement between Bank Hapoalim and Group companies, in December 2021 the credit facility of the Mamilla complex in Jerusalem was extended until January 5, 2024 while on January 2, 2022 the Company will repay 2.5% of the credit facility and on January 5, 2023 another 2.5%. It was also agreed to increase the credit facility to an amount of NIS 1,572 million subject to additional conditions and financial covenants as follows:

1. A precondition for using a credit facility of NIS 115 million (out of the increase in the credit facility in the amount of NIS 239 million as described above) is that it be after repayment of NIS 400 million of the bank's loan to the Company in the amount of € 125 million (in relation to the Lutetia hotel).
2. Commitment of the relevant subsidiaries to maintain an LTV ratio of 80%.
3. Commitment of the Company to not withdraw shares of Clal Insurance Enterprises Ltd. (hereinafter: "Clal") that are deposited in the Company's bank account at a rate of 7.5%, and that the amount of the shares in the account be no less than 7.5% of the issued and paid in share capital of Clal, and that the value of the said shares of Clal be no less than NIS 300 million.

Various cure provisions were also provided should the Company fail to comply with the ratio and value of the Clal shares, as described above.

As at December 31, 2021 the Company is in compliance with all the aforesaid conditions.

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

	December 31	
	2021	2020
	NIS thousands	
Non-marketable shares	1,670	1,670
Venture capital funds	3,708	3,164
	5,378	4,834

Note 20 - Other Financial Liabilities, Including Derivative Instruments

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.

A. Composition

	December 31	
	2021	2020
	NIS thousands	
Loans from others	5,016	5,518
Lease liability	48,015	51,083
Liability in respect of financial instruments	89	12,494
Long-term deferred income	2,149	7,503
	55,269	76,598

B. Loans from others

	December 31	
	2021	2020
	Nominal interest as at December 31, 2021	
Loans in Euros received from related parties at variable interest*	1.85%	5,016
Total loans received from related parties		5,016
		5,518

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

C. Lease liability

Composition

	December 31	
	2021	2020
	NIS thousands	
For lease of motor vehicles	2,213	2,564
For lease of offices	4,038	3,253
For lease of land	45,409	49,287
	51,660	55,104
Less current liabilities presented as part of payables and credit balances including derivative instruments	(3,645)	(4,021)
	48,015	51,083

For details on future payments of lease liability including financing, see Note 33.B.

Note 20 - Other Financial Liabilities, Including Derivative Instruments (cont'd)

C. Lease liability (cont'd)

Future minimum lease payments

	December 31	
	2021	2020
	NIS thousands	
Up to half a year	1,471	1,551
7 to 12 months	2,206	2,509
Two to five years	14,719	14,377
6 to ten years	12,403	13,712
More than 10 years	48,562	54,707
	79,361	86,856

D. Liability in respect of financial instruments

As regards a liability in respect of financial instruments in Switzerland in connection with interest rate swap transactions, see Note 33.D, Financial Instruments.

Note 21 - Employee Benefits

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

Note 22 - Deposits

	December 31	
	2021	2020
	NIS thousands	
Housing for the elderly deposits (1)	8,336	9,563
Rent deposits (2)	12,567	13,451
Maintenance deposits (3)	4,686	4,461
	25,589	27,475
Less – current deposits	8,825	9,708
Total deposits	16,764	17,767

Note 22 - Deposits (cont'd)

(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 less amounts the Company deposited in a trust account as security in accordance with the provisions of the Sheltered Housing Law.

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 Sheltered Housing 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. In 2020 the Company deposited in a trust account an amount of NIS 7,965 thousand that constitutes 40% of the amounts of the deposits it received, this as security for the tenants in accordance with the provisions of the Sheltered Housing Law. The balance of the amounts deposited as security in trust accounts as at December 31, 2021 is NIS 6,900 thousand.

The net balance of the deposits as at December 31, 2021 – NIS 8,174 thousand (December 31, 2020 – NIS 9,166 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, 2021 – NIS 162 thousand (December 31, 2020 – NIS 397 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.

Notes to the Financial Statements as at December 31, 2021

Note 23 - Equity

A. Share capital

	December 31		
	2021	2020	2019
	Shares of NIS 1 par value		
Issued and paid-in share capital as at January 1	23,059,439	23,467,057	24,178,620
Repurchase of shares*	(5,517)	(407,618)	(711,563)
Issued and paid-in share capital as at December 31	23,053,922	23,059,439	23,467,057
Authorized share capital	100,000,000	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		
	2021	2020	2019
	NIS thousands		
Subsidiaries: P.I.H. B.V. and Epic Suisse	(157,924)	37,257	(121,064)
Subsidiary: Locka Holding	19,835	671	(20,973)
Subsidiary: The Set	(22)	(11)	(2)
Subsidiaries directly held by the Company	(3,342)	(912)	(2,755)
	(141,453)	37,005	(144,794)

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

The Company did not declare any dividend in the reporting year and in 2020. In 2019 the Company declared dividends in the amount of NIS 29,891 thousand.

Note 23 - Equity (cont'd)

E. Repurchase of shares

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 from February 4, 2019 to February 4, 2020. On July 3, 2019 the Company's Board of Directors decided to approve another plan for the repurchase of Company shares in the amount of NIS 30 million. The plan is effective from July 4, 2019 to July 4, 2020. On August 25, 2019 the Company's Board of Directors decided to approve another plan for the repurchase of Company shares in the amount of NIS 30 million. The plan is effective from August 26, 2019 to August 26, 2020. Furthermore, on October 6, 2019 the Company's Board of Directors decided to approve another plan for the repurchase of Company shares in the amount of NIS 30 million. The plan is effective from October 7, 2019 to October 7, 2020.

On June 4, 2020 the Company's Board of Directors decided to approve another plan for the repurchase of Company shares in the amount of NIS 10 million. The plan is effective from June 8, 2020 to June 8, 2021. On August 23, 2020 the Company's Board of Directors decided to approve a plan for the repurchase of Company shares in the amount of NIS 15 million. The plan is effective from August 25, 2020 to August 25, 2021. On November 29, 2020 the Company's Board of Directors decided to approve a plan for the repurchase of Company shares in the amount of NIS 15 million. The plan is effective from December 1, 2020 to December 1, 2021.

Within the framework of the aforesaid repurchase plans, in the years 2020 and 2021, the Company repurchased (treasury shares) a par value of NIS 408 thousand in consideration of NIS 46,520 thousand and a par value of NIS 6 thousand in consideration of NIS 657 thousand, respectively.

Note 24 - Earnings per Share

Basic earnings per share

The calculation of basic earnings per share as at December 31, 2021 was based on a profit of NIS 528,465 thousand (2020: loss of NIS 166,117 thousand; 2019: profit of NIS 317,377 thousand) attributable to the Company's ordinary shareholders divided by a weighted average number of ordinary shares outstanding of 23,054 thousand shares (2020: 23,264 thousand shares; 2019: 23,902 thousand shares), calculated as follows:

	Year ended December 31		
	2021	2020	2019
	NIS thousands		
Profit (loss) used to calculate diluted earnings per share	528,465	(166,117)	317,377
Profit (loss) attributable to ordinary shareholders (diluted)	528,465	(166,117)	317,377

Notes to the Financial Statements as at December 31, 2021

Note 24 - Earnings per Share (cont'd)

Weighted average number of ordinary shares

	Year ended December 31		
	2021	2020	2019
	Thousands of shares of NIS 1 par value		
Balance as at January 1	23,059	23,467	24,179
Effect of Company shares held by the Company	(5)	(203)	(277)
Weighted average number of ordinary shares used to calculate basic earnings per share	<u>23,054</u>	<u>23,264</u>	<u>23,902</u>

Diluted earnings (loss) per share

The calculation of diluted earnings per share as at December 31, 2021 was based on a profit of NIS 528,465 thousand (2020: loss of NIS 166,117 thousand; 2019: profit of 317,377 thousand) attributable to the Company's ordinary shareholders divided by a weighted average number of ordinary shares outstanding of 23,054 thousand shares (2020: 23,264 thousand shares, 2019: 23,902 thousand shares), calculated as follows:

	Year ended December 31		
	2021	2020	2019
	NIS thousands		
Profit (loss) used to calculate diluted earnings per share	528,465	(166,117)	317,377
Profit (loss) attributable to ordinary shareholders (diluted)	<u>528,465</u>	<u>(166,117)</u>	<u>317,377</u>

	Year ended December 31		
	2021	2020	2019
	Thousands of shares of NIS 1 par value		
Weighted average number of ordinary shares used to calculate diluted earnings per share	23,059	23,467	24,179
Effect of Company shares held by the Company	(5)	(203)	(277)
Weighted average number of ordinary shares used to calculate diluted earnings per share	<u>23,054</u>	<u>23,264</u>	<u>23,902</u>

Note 25 - Subsidiaries

A. Lutetia

1. Acquisition of Lutetia

On April 20, 2010 the Company, by means of Locka Holding BV, which is held at the rate of 80%, entered into an agreement to acquire 100% of the shares of a company (hereinafter: "the acquiree"), which holds all the rights in the luxury hotel Lutetia in the prestigious quarter of St-Germain in Paris, France, and operates and manages the asset. Goodwill was recognized in the framework of the acquisition that is mainly attributable to the unique location and nature of the property.

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, 2021, 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:

	2021	2020
Discount rate for the representative period	5.75%	6.00%
Perpetual discount rate	3.50%	3.50%

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

	Year ended December 31		
	2021	2020	2019
	NIS thousands		

Income

From securities, net	286,364	-	72,267
Capital gain	-	-	4,654
Other income	2,317	2,093	706
	288,681	2,093	77,627

Expenses

From securities, net	-	79,992	-
Impairment loss on investments	-	1,898	1,026
	-	81,890	1,026

Notes to the Financial Statements as at December 31, 2021

Note 27 - Hotel Operation Costs and Expenses

	Year ended December 31		
	2021	2020	2019
	NIS thousands		
Cost of services			
Payroll and related expenses	99,834	70,238	239,982
Food and beverages	22,877	14,584	52,907
Other expenses	16,515	7,684	42,480
	139,226	92,506	335,369
Operating expenses			
Payroll and related expenses	41,210	33,984	78,267
Energy	15,727	12,723	21,843
Property maintenance	20,353	17,062	45,597
Taxes and insurance	14,573	12,414	23,623
Advertising, marketing and public relations	4,231	5,561	17,391
General expenses	24,570	26,502	62,643
	120,664	108,246	249,364
Less hotel closing expenses	259,890	200,752	584,733
Total hotel operation costs	4,756	34,816	-
	255,134	165,936	584,733

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

Note 28 - General and Administrative Expenses

Composition:

	Year ended December 31		
	2021	2020	2019
	NIS thousands		
Salaries and related expenses			
Management fees to companies controlled by interested parties	30,266	28,201	34,285
Consulting, legal and audit fees	923	3,310	3,326
Directors' fees	22,765	27,978	24,785
Rent	802	881	948
Impairment loss (gain) on trade receivables	381	384	324
Advertising and public relations	(1,789)	2,468	511
Donations	279	299	400
Other	7,443	7,043	7,893
	11,511	10,343	8,758
	72,581	80,907	81,230

Note 29 - Financing Income and Expenses

A. Recognized in profit or loss:

	Year ended December 31		
	2021	2020	2019
	NIS thousands		
Income			
From bank deposits	26	22	
Derivative financial instruments	-	-	79,342
From others	227	2,260	2,970
	253	2,282	82,312
Expenses			
From long-term bank loans (1)	200,490	97,718	207,724
From debentures (2)	33,153	14,352	24,591
From short-term borrowings from banks and others	146	69	124
From revaluation of deposits	96	1	7
Derivative financial instruments	(78,302)	24,171	-
To others	3,646	6,710	3,779
	159,229	143,021	236,225
Financing expenses, net	158,976	140,739	153,913
(1) Including amortization of deferred expenses	5,354	5,354	4,388
(2) Including amortization of deferred expenses and discount/(premium)	(2,492)	(2,492)	(4,388)

B. Recognized directly in comprehensive income

Income (expenses) in respect of currency translation differences of foreign operation	(141,453)	37,005	(144,794)
Attributable to:			
Owners of the Company	(107,815)	28,814	(114,155)
Non-controlling interests	(33,638)	8,191	(30,639)
	(141,453)	37,005	(144,794)

Note 30 - Taxes on Income

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

	Year ended December 31		
	2021	2020	2019
	NIS thousands		
Current tax expense (income)			
For the current period	14,831	(5,026)	22,527
For prior years	(68)	26,108	-
	14,763	21,082	22,527
Deferred tax expense (income)			
Creation and reversal of temporary differences	120,373	(49,849)	61,109
Change in tax rates	(873)	(1,942)	(14,824)
	119,500	(51,791)	46,285
Income tax expense (income)	134,263	(30,709)	68,812

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		
	2021	2020	2019
	NIS thousands		
Profit (loss) before taxes on income	727,473	(179,216)	409,095
Primary statutory tax rate	23.0%	23.0%	23.0%
Theoretical tax calculated according to the Company's primary tax rate	167,319	(41,220)	94,092
Additional tax (tax saving) in respect of:			
Different tax rate of foreign subsidiaries, including adjustments for foreign exchange differences	(21,781)	(6,435)	(27,588)
Change in deferred taxes as a result of the changes in the purchasing power	(450)	341	548
Non-deductible expenses, including an impairment provision for investments	501	17,039	3,526
Tax exempt income and preferred income	1	(147)	(3,683)
Neutralization of tax calculated in respect of the Company's share in profits of associates	(8)	(22)	(63)
Change in losses carried forward for which deferred taxes were not recognized	(13,992)	8,378	7,546
Taxes in respect of previous years	(68)	26,108	-
Deferred taxes in respect of previous years	994	(34,174)	5,725
Changes in the tax rates	(873)	(1,942)	(14,824)
Other	2,620	1,365	3,533
	134,263	(30,709)	68,812

Note 30 - Taxes on Income (cont'd)

C. Details regarding the tax environment of the Group

(1) Corporate tax rate

Presented hereunder are the tax rates relevant to the Company in the years 2019-2021: 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.

(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.

(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 laws 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 – 25%-25.825%; Netherlands – 25%; Switzerland – 16.5% on average, England – 19%.

In the second quarter of 2019 legislation proceedings were completed that reduced the corporate tax rate in the cantons of Clarus, Geneva and St. Galen in Switzerland as from 2020 and in Zurich as from 2021. Following the legislation amendment in Switzerland, during 2019 the Company recorded a decrease in deferred tax liabilities against tax income in the amount of CHF 4.3 million (NIS 15 million).

In the reporting year the corporate tax rate in England was updated to 25% in effect from April 1, 2023. As a result of the update in legislation, in the reporting year the Company recorded an increase in deferred tax liabilities in the amount of NIS 3.3 million (an amount of NIS 4.2 million was recorded against a decrease in other comprehensive income and an amount of NIS 0.9 million against income from taxes).

Note 30 - Taxes on Income (cont'd)

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				
Balance of deferred tax asset (liability)					
as at January 1, 2020					
Changes recognized in profit or loss	(1,318,674)	4,250	131,580	11,874	(1,170,970)
Deferred taxes in respect of	6,615	(494)	45,975	(2,247)	49,849
remeasurement of defined benefit plan carried to other comprehensive income	-	78	-	-	78
Currency translation differences in respect of deferred foreign tax	6,084	5	(12,216)		(6,127)
Effect of change in the tax rate	1,942	-	-	-	1,942
Deferred taxes in respect of revaluation of fixed assets carried to other comprehensive income	27,004	-	-	-	27,004
Balance of deferred tax asset (liability)					
as at December 31, 2020					
Changes recognized in profit or loss	(1,277,029)	3,839	165,339	9,627	(1,098,224)
Deferred taxes in respect of	(107,104)	141	25,305	(38,715)	(120,373)
remeasurement of defined benefit plan carried to other comprehensive income	-	(122)	-	-	(122)
Effect of change in the tax rate	873	-	-	-	873
Deferred taxes in respect of revaluation of fixed assets carried to other comprehensive income	(67,714)	-	-	-	(67,714)
Currency translation differences in respect of deferred foreign tax	50,307	(33)	(8,430)	-	41,844
Balance of deferred tax asset (liability)					
as at December 31, 2021					
	(1,400,667)	3,825	182,214	(29,088)	(1,243,716)

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	
	2021	2020
	NIS thousands	
Losses for tax purposes	18,104	17,568
	18,104	17,568

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 losses that as at December 31, 2021 amount to NIS 1,498 million (2020: NIS 1,494 million).

The balances of carry-forward losses and deductions are linked to the CPI through to the end of 2007, with the exception of subsidiaries that maintain their accounts in foreign currency, for which such items are linked to the exchange rate of the foreign currency.

The balance of the losses for which deferred taxes were not created is NIS 86 million (2020: NIS 85 million).

E. Tax assessments

The Company has received final assessments through tax year 2018.

Other subsidiaries in Israel have received assessments that are considered to be final through tax year 2016 other than one subsidiary with closed assessments until and including tax year 2018.

Note 30 - Taxes on Income (cont'd)

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

	2021		
	Before tax	Tax benefit (expense)	Net of tax
Revaluation reserve for fixed-asset items	289,547	(71,851)	217,696
Remeasurement of defined benefit plan	683	(122)	561
Total taxes in respect of components of other comprehensive income	290,230	(71,973)	218,257

	2020		
	Before tax	Tax benefit (expense)	Net of tax
Revaluation reserve for fixed-asset items	(116,066)	27,004	(89,062)
Remeasurement of defined benefit plan	(368)	78	(290)
Total taxes in respect of components of other comprehensive income	(116,434)	27,082	(89,352)

	2019		
	Before tax	Tax benefit (expense)	Net of tax
Revaluation reserve for fixed-asset items	184,055	(35,397)	148,658
Remeasurement of defined benefit plan	(1,832)	362	(1,470)
Total taxes in respect of components of other comprehensive income	182,223	(35,035)	147,188

Note 31 - Contingent Liabilities, Commitments and Pledges

A. Contingent liabilities

(1) 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 21,683 thousand.
To secure a payment in connection with arbitration - NIS 2,816 thousand.
To institutions (mainly municipalities and the Ministry of Tourism) – NIS 641 thousand.
To secure a sales agreement - NIS 200 thousand.
To tenants in connection with a project of housing for the elderly - NIS 1,395 thousand.

(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 for other subsidiaries.
- 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 0.7 million.

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

(3) Arbitration proceeding against Karta

In November 1998, the Company's subsidiary Alrov Mamilla Commercial District (1993) Ltd. (hereinafter: "Alrov Commercial District"), which presently hold the Mamilla commercial district in Jerusalem, initiated an arbitration proceeding against Karta Central Jerusalem Development Company Ltd. (hereinafter: "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.

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

B. Commitments (cont'd)

(3) Arbitration proceeding against Karta (cont'd)

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, 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).

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. Following a meeting of creditors on March 6, 2007 at the offices of the official receiver, 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 March 29, 2019 the Company received the decision of the Special Administrator by which the Special Administrator had approved most of 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, after offsetting debts of Alrov to Karta in liquidation, as decided by the Special Administrator, is NIS 118,915 thousand.

In 2019 the Special Administrator issued decisions in writing regarding the debt claim of the State of Israel and of the Jerusalem Municipality. Alrov, the Municipality and the State filed appeals with the Jerusalem District Court on the decisions of the Special Administrator while each of the aforesaid three parties is appealing separately both the decision of the Special Administrator on its case and the decision of the Special Administrator with respect to the other two parties.

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 of NIS 20 million, to each of the three creditors: the Jerusalem Municipality, the State of Israel and Alrov Commercial District 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.

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

B. Commitments (cont'd)

(3) Arbitration proceeding against Karta (cont'd)

In view of the signing of the indemnification deeds, in conformity with generally accepted accounting principles Alrov Commercial District did not recognize income in respect of the amounts received so that as at December 31, 2021 the liability to Karta that is included in payables amounts to NIS 95 million (see also Note 17 above).

(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 the Company and a company controlled by him ("the Management Company") by which, inter alia, the Management Company will provide management services, by means of 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.

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, payable by the Company to the Management Company. The management arrangements approved in said general meeting are 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). On July 9, 2019 the Company's general meeting approved the terms of service of Mr. Alfred Akirov as aforesaid until December 31, 2020.

On January 6, 2021, the general meeting of the Company's shareholders decided to approve the management arrangements between the Company and Mr. Akirov (including by means of a company acting on his behalf), at the same terms as the previous management arrangement, for a period of three years effective from the end of the previous management arrangement, i.e. from December 31, 2020.

The Company's Audit Committee and Board of Directors decided that Locka would be responsible for 30% of the cost of the management fee charged by the company controlled by Mr. Akirov.

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

B. Commitments (cont'd)

(5) (cont'd)

Further to the approval of the general meeting on January 6, 2021 as aforesaid, the Company's Board of Directors approved that with respect to the portion attributable to the Company (70% of the cost of his salary), as from 2021 the Chairman of the Board would be engaged through a personal employment contract (instead of the management agreement) and the Company would not bear any additional cost, in respect of the compensation according to the said employment agreement.

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 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.

On March 25, 2019 Mr. Meir Elhakham was appointed as the acting CEO of the Company, in addition to being the Company's Financial Manager, for which he will not be entitled to any additional compensation.

(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 € 7.9 million, which will be increased from time to time based on the linkage mechanism that is set out in the Agreement.

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 oversee the efforts to locate properties for acquisition (in 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) € 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. 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 does not constitute a breach of Sections 104B that apply to Epic Suisse.

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

B. Commitments (cont'd)

(6) (cont'd)

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

In 2019 the Company and the Partner signed an additional addendum to the Agreement by which the parties would act to issue securities of Epic Suisse on a stock exchange in Switzerland (as described and subject to that detailed in paragraph 7), while the agreements described above will continue to apply with any necessary changes until the issuance of Epic Suisse on a stock exchange in Switzerland as above, subject to the following adjustments: (a) The Company will provide all the shareholders' loans needed for the operations in Switzerland while shortly after the issuance of Epic Suisse on a stock exchange in Switzerland, insofar as issued, the Company will be returned all the amounts due to it in respect of the shareholders' loans including interest; (b) The provisions of the agreements regarding a minimum dividend will continue to apply until the issuance date (insofar as issued), the minimum annual dividend amounting to € 8.2 million; (c) Partner management fees – As from January 2020 and until the end of 2020, in addition to the management fees that are paid to the Partner pursuant to the agreements described above, the Partner will be entitled to additional management fees from Epic Suisse. It was also determined that insofar as the additional management fees due to it from Epic Suisse are higher than CHF 80,000 per year, the difference (meaning any amount exceeding CHF 80,000 per year) will be deducted from the management fees paid to the Partner pursuant to the aforesaid agreements. It was also agreed that as from January 1, 2021 and for as long as the issuance of Epic Suisse does not occur, the management fees due to the Partner will be adjusted as prescribed in the aforesaid agreements (meaning without the additional management fees due to the Partner in 2020 and/or upon the issuance of Epic Suisse). The other provisions, including mutual right of refusal, tag along right, drag along right and PUT right will continue to apply for as long as Epic Suisse is a private company and those provisions will continue to apply, mutatis mutandis, with respect to the activity carried out outside of Switzerland through P.I.H. Property Investment Holding BV. Furthermore, the Company has reached understandings with the Partner by which in new transactions executed outside of Switzerland the Partner will not be required to provide shareholders' loans and its interest in the new properties will be about 20%.

- (7) Mr. Ben Moshe serves as the Company's Director of Real Estate Operations in Israel. The salary cost of Mr. Ben Moshe in 2021 amounted to NIS 1,850 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.

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

B. Commitments (cont'd)

(8) (cont'd)

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.

On January 6, 2021 the general meeting of the Company's shareholders approved an extension in the Company's arrangement with Mrs. Chava Akirov (the wife of Mr. Akirov) as Positioning and Standards Trustee of the Group's hotels, at a Deputy CEO level, for a period of three years beginning from the end of the previous arrangement, meaning as from January 1, 2021.

(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 July 1, 2021, 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.

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.

(10) On June 7, 2007 the Company issued a transaction report, which included an invitation to a general meeting of shareholders which on its agenda was approval of a transaction with a controlling shareholder: a founders' agreement of a new company (Locka) between the Company and Mr. Georgi Akirov and a third party unrelated to the Company's controlling shareholder, which includes, inter alia, a framework transaction by which the shareholders will finance the operations of Locka by means of a loan and/or guarantees against a back-to-back payment plus a margin in favor of the Company ("Locka 2007 report").

On July 22, 2007 the Company's general meeting of shareholders approved the Locka transaction and throughout the period it was extended from time to time (in 2014 and in 2017) according to relaxations in transactions regulations. As a result of questions and answers that were issued by the Securities Authority in May 2019 on a related matter, insofar as the Company intends to continue the Locka transaction in its present format, it plans, for the record and in accordance with its corporate governance, to respect the position of the Authority, and therefore bring it to the approval of its general meeting by the end of June 2020 (several approvals were subsequently received to continue the transaction for interim periods).

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

B. Commitments (cont'd)

(10) (cont'd)

On July 22, 2020 the Locka transaction expired and the Company's Board of Directors decided to examine continuation of the Locka transaction on the level of the relations between the Company and Mr. Georgi Akirov.

Further to the aforesaid decision of the Company's Board of Directors, the Locka transaction was extended for two interim periods, with various adjustments and restrictions in those periods.

On March 25, 2021 the Company's general meeting of shareholders approved as follows: (a) the arrangement that is the subject matter of the Locka transaction between Mr. Georgi Akirov and the Company; and without derogating from the generality of the approval (b) the framework transaction described hereunder – all as explained below ("the Arrangement"):

The definitions provided in this section are for the purpose of this section alone:

"The Interested Party" is Mr. Georgi Akirov; **"the Company's margin"** means that Locka will pay the Company all the costs associated with provision of the loan to the Company by the financer, and will pay the Company interest that is 0.5% per year higher than the interest rate the financer charges the Company (**"the additional margin"**). Insofar as guarantees are required for providing the financing, they will be treated in the same manner. Furthermore, according to the Locka transaction the consideration the Company receives for the services is determined at market terms plus a profit of cost+5%; **"Locka invitation"** means the Company's invitation regarding the Arrangement that was issued by it on March 18, 2021.

1. The shares of the Interested Party in Locka will not confer any rights and/or duties in Locka and/or pursuant to the Locka transaction (**"the Interested Party's shares"**) and the following provisions shall apply: (a) The Interested Party may not sell and/or transfer the Interested Party's shares (without derogating from the provisions of item 2 hereunder); (b) The Company shall not be subject to any restriction with respect to its shares in Locka and/or making any decision and/or taking any action in Locka (sale of operation, merger, etc.) where it is clarified that in such a case the restrictions that apply to the Interested Party's shares according to the Arrangement will continue to apply; (c) In the event of Locka being sold, the Company has the right, without needing the consent of any other, to force the sale (drag along) of the Interested Party's shares as part of the sale of Locka against payment of the par value of the Interested Party's shares alone (an insignificant amount). In this respect it is noted that in order to execute the Arrangement, according to the Company's advisors and the understandings between the parties, the parties will have to enter into an addendum to the founders' agreement of the Locka transaction (**"Addendum to the Locka Agreement"**) and to update the association documents of Locka so as to reflect and enable the aforesaid Arrangement according to the relevant laws applicable to Locka and the Locka transaction, while in this respect a summary of the Arrangement mechanism will be included according to advice that was received by the Company: (a) the Addendum to the Locka Agreement will arrange and set forth the provisions included in items 1 and 2 of this paragraph (10); the articles of association of Locka (a Dutch company) will be amended such that a term will be added that the provisions of the founders' agreement and of the Addendum to the Locka Agreement will apply by reference.

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

B. Commitments (cont'd)

(10) (cont'd)

2. The Interested Party's shares will return to conferring all the rights and duties attached to them upon the occurrence of at least one of the following alternatives (these alone):
 - a. Should the Company's interested party, within 12 months from March 25, 2021 ("the entitling period") request to avoid the dilution included in the Arrangement (even though he has no obligation to do so according to law or according to the Locka transaction), he is permitted (including by means of selling all or part of his shares to a third party that provides the financing) to actually and directly (and without the Company being a party or responsible for this) provide financing to Locka in an amount pro-rata to his interest (15%), that matches the financing that was provided (and/or will be provided) by the Company to Locka (guarantees, financing, shareholders' loans, etc.) while as at December 31, 2020 the amount attributable to exercising the right (including guarantees) is € 87.7 million ("the entitlement"), in which case the Interested Party's shares will automatically begin to confer all the rights and duties attached to the Locka shares without the need for any additional approval. It is clarified that at the end of the entitling period, insofar as the entitlement was not realized, the said entitlement of the Company's interested party shall expire automatically.
 - b. Should at any time (with no time limit) all the approvals required pursuant to the Companies Law are received, including the approval of the Company's general meeting of shareholders according to chapter five of part six of the Companies Law and all subject to the conditions determined by the general meeting, if any, and according to the sole discretion of the general meeting.
3. The existing arrangements regarding priority of payments, including before executing any distribution in the Company, will continue to apply, according to the waterfall payment, as follows: (a) repayment of the Company's loans in excess of its relative share (beyond the amount of the shareholders' loans subject to the maximum loans amount); (b) repayment of the maximum amount of the shareholders' loans (\$ 10 million) and pro-rata to the portion of the amount provided by each shareholder.
4. Taking into account the Company's corporate governance, for transparency purposes (even though the Company believes that there is no excess affiliation with the Company's interested party including after applying the aforesaid in item 1 and, *inter alia*, taking note of that said in item 5), during the entitling period the 'framework transaction' shall apply, such that loans and/or guarantees and/or services provided to Locka, and for the record subject to a ceiling of up to an additional € 250 million beyond that existing in the entitling period, according to the financing and consideration mechanism including insofar as the entitlement is realized against the Company's margin, will be considered a framework transactions according to the Companies Regulations (Relaxations in Transactions with Interested Parties) – 2000, and insofar as loans and/or guarantees and/or services are provided by the Company, from time to time, there will be no need for the approval of the Company's general meeting of shareholders, rather the Company's Board of Directors and Audit Committee will be required to approve each one of these actions in advance.

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

B. Commitments (cont'd)

(10) (cont'd)

4. (cont'd)

Upon receiving approval to execute those actions, the Company will issue an immediate report in accordance with regulation 37A(5) of the Securities Regulations (Periodic and Immediate Reports) – 1970 ("the framework transaction"). The aforesaid mechanism is in accordance with the mechanism of the framework transaction that is the subject matter of the 2007 report that is attached to the Locka invitation.

It is noted that the Company's margin that is the subject matter of the 2007 report was determined taking into account, inter alia, that: (a) The consideration the Company receives for the services is determined at market terms plus a profit of cost+5%; (b) The Company receives the additional margin in respect of the provision of guarantees and/or loans (while in fact the money is provided by the bank and accordingly the loan is the same as guarantees) in a company in which it holds most of the rights and is a material subsidiary that over the years presented no risk and/or exposure including now. Taking into consideration, inter alia, the actual extent of the Company's rights in Locka, the Company has a smaller risk to exposure from the financing than the larger risk to not continue advancing and developing Locka and its business which is one of the Company's growth engines; (c) The Company's margin was determined already in the 2007 report with the approval of the Company's general meeting; (d) The Company's margin was determined taking into consideration all the terms of the Arrangement as well as the terms of the Locka transaction; (e) The overall terms of the framework transaction which include also the Company's margin, reflect customary engagements and terms in transactions of this type; (f) The Company's margin reflects fair and reasonable terms under the circumstances; (g) Taking note of an arithmetic and economic test and lack of any interest of the Interested Party to transfer value to Locka instead of to the Company taking into consideration the holding structure of the Company and Locka.

5. After the entitling period, the Interested Party's shares (and for as long as the Interested Party's shares remain with no rights and/or duties), the Locka transaction and the founders' agreement of the Locka transaction (other than the Addendum to the Locka Transaction) will not confer to the Interested Party any rights and/or duties, and there will be nothing to prevent and no additional approval will be required, according to the Companies Law and at all, for any transaction and/or engagement between the Company and Locka (including, with subsidiaries of Locka) and, inter alia, there will be no restriction and no additional approval will be required for the provision of any financing and/or guarantees, etc. by the Company to Locka (including to any subsidiary of Locka).

6. Other matters that were included in the report and in the meeting:

(a) In view of the Arrangement and taking note that no distributions were executed in Locka in the interim period and in the additional interim period, there is no relevance to retroactive effect.

(b) The Arrangement that was approved by the general meeting on March 25, 2021 is an arrangement that improves even the dilution arrangement described in paragraph 1.19(B) of the Locka invitation (among other things as expressed in the position of the ad-hoc committee that is

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

B. Commitments (cont'd)

(10) (cont'd)

6. Other matters that were included in the report and in the meeting: (cont'd)

(b) (cont'd)

mentioned in the Locka invitation), received the consent of the interested party, *inter alia*, taking into account: (1) the good of the Company and its assets; (2) the need for approval by a special majority of the general meeting which was received in order to continue engaging Locka and continue providing Locka financing (taking note of, *inter alia*, the coronavirus crisis and its effect on Locka's area of activity, the hotel industry), along with the talks and negotiations that the Company held with representatives of Clal Insurance Enterprises Holdings Ltd. as described in the Locka invitation and in conformity with corporate governance as set forth in the Companies Law – while discontinuance of the financing could cause material damage to the Company and Locka.

(c) The conduct of the Company and its organs in all that concerns the Locka transaction and preparation of the Arrangement that was approved by the general meeting on March 25, 2021 is according to the Companies Law, and took into account only the good of the Company and its assets. Furthermore, the Arrangement is consistent with the Company's position in the derivative motion proceeding from May 25, 2019 (the Company's objection due to, *inter alia*, the matter being before the general meeting according to corporate governance as prescribed in the Companies Law) as was presented to the honorable court and even carries out in practice the Company's position before the court on the matter of the derivative motion (the Company's objection as aforesaid).

(d) It is further clarified that the Arrangement and its necessity consider, *inter alia*, the Company's corporate governance and its position that the position of the Securities Authority in the questions and answers from May 2019 (question no. 14.a101) should be respected and therefore the Locka transaction cannot be extended any more as a framework transaction without being brought to the approval of the Company's general meeting of shareholders (without derogating from the normative legal effect of the Securities Authority's positions, as set forth, *inter alia*, on the Authority's website) and accordingly the Company considers the Locka transaction (which is the customary and accepted practice in the market and in the Company) which conferred rights and duties to the Interested Party including in respect of him being an active partner that contributes to building the equity with unique professional values, as having expired after 13 years, meaning on July 22, 2020 (without derogating from the extensions of the Locka transaction in the interim periods), and therefore it was brought to the approval of the general meeting on March 25, 2021.

(e) According to the approval of the general meeting from March 25, 2021 and for as long as Mr. Georgi Akirov has not exercised the "entitlement" (per the definition of this term) that is the subject matter of the Arrangement before the end of the "entitling period" (per the definition of this term), the Company's holding rate in the issued and paid-in share capital of Locka will be 80%.

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

B. Commitments (cont'd)

(10) (cont'd)

6. Other matters that were included in the report and in the meeting: (cont'd)

(f) The Arrangement came to life because of the regulatory circumstances associated with Locka being a private subsidiary of a public company (the Company) and the Interested Party being a related party of the Company's controlling shareholder, and the Arrangement does not derogate from the binding contractual relationship that is the subject matter of the founders' agreement between the Company and the third party including the financing provisions; and accordingly, other than as provided in the Arrangement, this does not derogate from any right, allegation and/or claim of the Company and/or Interested Party between themselves and/or between the third party.

(g) The details provided above regarding the Arrangement and the framework transaction are exhaustive and will not include any provisions and/or conditions that confer rights and/or duties that were not stipulated including, but not limited to, and for clarity it is noted that other than and without derogating from the Arrangement and the framework transaction, there are no additional terms that derogate from the rights and/or claims of the Company and/or the Interested Party between themselves and/or between the third party and/or any party with the other, if at all, including with respect to rights of any of the parties, the Arrangement, the framework transaction, legal proceedings, the derivative motion, and so forth.

In the meantime, on March 27, 2022 the Company reported that further to the aforesaid, and also according to the notice he provided the Company, Mr. Georgi Akirov did not exercise the "entitlement" (per the definition of this term above) that is the subject matter of the Arrangement before the end of the "entitling period" (per the definition of this term above) that ends on March 27, 2022.

Furthermore, on March 27, 2022 Mr. Georgi Akirov notified the Company that in view of him not exercising the "entitlement" with respect to the Locka shares as described above, for reasons of appearance and for the sake of order, he agrees to apply to his shares in the hotel management company The Set the Arrangement that applied to his shares in Locka such that, subject to receiving all the approvals required in the Company, the provisions described above in paragraph 10 shall apply to his shares in The Set, with any necessary changes, other than the "entitling period" per its definition above in this paragraph 10. It is clarified that the matter will be brought before the competent organs of the Company according to law.

(11) On April 5, 2020 Mr. Alfred Akirov, Georgi Akirov and Sharon Akirov (in this paragraph: "the applicants") received from the Commissioner of the Capital Market, Insurance and Savings ("the Commissioner") a permit to hold means of control in Clal Insurance of up to 10% including by means of the Company. As from October 26, 2020, the Company became an interested party in Clal Insurance because of its holdings.

On July 1, 2021 the applicants received from the Commissioner a permit to increase the means of control they hold in Clal Insurance to up to 15% and on December 2, 2021 the applicants submitted to the Commissioner a request to receive a permit to hold means of control in Clal Insurance ("the Clal Insurance control permit").

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

B. Commitments (cont'd)

(11) (cont'd)

On December 12, 2021 the Company reported on an inquiry of the Securities Authority concerning regulatory matters relating to the Concentration Law. In March 2022 a legal reply was received from the Capital Markets Authority that rejects the arrangement that was proposed for receiving the Clal Insurance control permit and as at the date of issuing these financial statements, the parties are continuing regulatory discussions regarding the proposed arrangement and/or other arrangements connected to receiving the Clal Insurance control permit as aforesaid.

It is clarified that there is no certainty regarding receipt of the control permit, the manner of receiving it and its terms, and the timing of receiving the Clal Insurance control permit and it is possible that the aforesaid will not be realized because of, *inter alia*, the existing regulation and/or a change in regulation and/or other matters that are not under the control of the Company and, it is clarified that even if the applicants receive the Clal Insurance control permit it has not yet been decided to actually purchase more than 15% of the shares of Clal Insurance and there is no certainty that more than 15% of the shares of Clal Insurance (fully or partly) will actually be purchased. So as to remove any doubt, even if the Clal Insurance control permit is received (which as aforesaid there is no certainty it will be received) there is no commitment to actually purchase shares of Clal Insurance. The timing of purchasing shares of Clal Insurance, the means of exercising the Clal Insurance control permit and the rest of its terms are subject to the existence of appropriate market conditions, the regulation that exists at that time, the Company's discretion including receiving all the approvals required by law.

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, 2021, the amounts of claims made under Legal Claims that had been filed against the Group in various regards aggregate approximately NIS 16 million. 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) On May 29, 2019 a claim and motion to certify it as a derivative claim was filed with the economic department of the Tel Aviv-Jaffa District Court by two of the Company's shareholders against the Chairman of the Board (the Company's controlling shareholder), the Company's director of hotel operations (Mr. Georgi Akirov, the son of the Company's controlling shareholder) ("the director of hotel operations") and against some of the directors who served and/or presently serve in the Company ("the motion").

The motion involves a framework transaction that was approved by the Company's general meeting of shareholders on July 22, 2007 regarding the incorporation and operation of a new company, Locka Holding BV ("Locka"), in which the Company holds 80% of its shares, the director of hotel operations holds 15% of its shares and an unrelated third party holds 5% of its shares, that will engage in the acquisition, modification, rental, commerce and related activities

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

C. Claims

(2) (cont'd)

involving hotel real estate assets overseas, and includes instructions regarding the shareholders investments in Locka and the financing of its operations, and pursuant to it the Company provides Locka guarantees and/or loans ("Locka transaction"), in exchange for Locka paying the Company back to back all the costs involved in the provision of the loan to the Company by a lender plus an additional margin (interest) for the Company's benefit.

In short, the motion alleges (as denied) that the Locka transaction was not duly approved by the general meeting, that the transaction was not approved by the general meeting since November 15, 2011 and that the transaction was unduly extended from time to time. Among other things the Court is requested to declare that the transaction is illegal and to issue an order instructing the director of hotel operations to provide his share of the Locka financing and that the Company be compensated for its alleged damages.

On August 12, 2021 the Tel Aviv District Court accepted the motions to dismiss in limine and ordered to strike out the derivative claim.

On November 11, 2021 the Company was delivered a copy of the appeal that had been filed by the derivative plaintiffs with the honorable Supreme Court, and a hearing on the matter is scheduled for October 3, 2022.

(3) On March 7, 2021 a motion to certify a derivative claim was filed with the economic department of the Tel Aviv-Jaffa District Court. The subject of the derivative motion (which is denied) is, *inter alia*, that the acquisitions of shares of Clal Insurance by Alrov are transactions that require approvals according to chapter five of part 6 of the Companies Law due to the existence of a personal interest, and that since the necessary approvals were not obtained the transaction is an illegal transaction that caused the Company damages. In addition, in the derivative motion it is requested to issue to the Company an order to dispose of its shares in Clal Insurance, to compel the respondents to compensate the Company and that the Company's chairman of the Board return the compensation he had received for his service in the years 2019-2021.

In the reporting year the Company submitted its response to the claim and subsequently the applicant submitted its reply to the aforesaid response. On January 6, 2022 a pretrial was held. On January 13, 2022 the applicant announced that in the framework of the derivative motion it did not claim relief of cancelling transactions and that it waives additional relief in the derivative motion since it has become redundant. On January 30, 2022 the Company filed its reply in which it noted, *inter alia*, that under the circumstances of the matter and in view of the applicant's notice it must amend the derivative motion. On January 31, 2022 the Court decided, *inter alia*, to allow the applicant to file an amended derivative motion within 14 days. On February 15, 2022 the applicant provided the Company an amended derivative motion. The Company is required to file an amended response by March 27, 2022. A pretrial on the matter is scheduled for April 26, 2022.

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, 2021 amount to NIS 6,861,046.

(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.

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 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, 2021, the consolidated financial statements of the Company show negative working capital in the amount of NIS 65 million (December 31, 2020 - NIS 1,288 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 has recently increased its long-term financing on account of the short-term financing and as a result the negative working capital in the consolidated financial statements decreased to an amount of NIS 65 million as at December 31, 2021. The Company regularly reviews this policy.

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. 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, even taking into consideration the effect of the coronavirus crisis as described in Note 1.D.

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

Note 32 - Financial Risk Management (cont'd)

D. Market risks (cont'd)

(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	
	2021	2020
	NIS thousands	
Cash and cash equivalents	120,097	139,063
Trade receivables	24,169	17,133
Other receivables	30,003	76,937
	174,269	233,133

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	
	2021	2020
	NIS thousands	
Israel	45,732	67,199
France	24,737	35,230
Switzerland	69,622	104,135
United Kingdom	28,966	21,097
The Netherlands	5,212	5,472
	174,269	233,133

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			
	2021		2020	
	Gross	Impairment	Gross	Impairment
NIS thousands				
Not past due	10,729	-	7,626	-
Past due 0-30 days	7,335	-	3,098	-
Past due 31-120 days	2,708	-	4,504	-
Past due 121-365 days	3,385	-	2,521	616
Past due more than one year	2,386	2,374	2,678	2,678
	26,543	2,374	20,427	3,294

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

	December 31	
	2021	
	NIS thousands	2020
Balance as at January 1		
Impairment loss recognized	3,294	3,350
Bad debts	(1,789)	2,468
Other	-	(2,524)
Balance as at December 31	869	-
	2,374	3,294

Notes to the Financial Statements as at December 31, 2021

Note 33 - Financial Instruments (cont'd)

B. Liquidity risk

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

	December 31, 2021						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	NIS thousands						
Non-derivative financial liabilities							
Bank credit	174,279	176,787	1,254	175,533	-	-	-
Trade payables	60,056	60,056	60,056	-	-	-	-
Other payables *	249,356	249,356	249,356	-	-	-	-
Debentures	1,243,435	1,278,213	47,496	197,050	213,820	173,641	646,206
Bank loans	6,041,758	6,211,835	249,733	258,509	556,502	3,588,728	1,558,363
Loans from others	5,016	5,479	46	46	93	5,294	-
Lease liability	51,660	79,361	2,132	2,044	3,734	10,414	61,037
Derivative financial liabilities							
Interest rate swaps not used for hedging	5,210	5,210	2,676	2,444	535	1,606	(2,051)
Total	7,830,770	8,066,297	612,749	635,626	774,684	3,779,683	2,263,555

	December 31, 2020						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	NIS thousands						
Non-derivative financial liabilities							
Bank credit	908,951	912,529	3,007	909,522	-	-	-
Trade payables	62,160	62,160	62,160	-	-	-	-
Other payables *	202,263	202,263	202,263	-	-	-	-
Debentures	808,829	849,591	46,179	184,052	225,198	296,050	98,112
Bank loans	5,938,797	6,248,475	60,298	489,795	1,588,206	2,924,366	1,185,810
Loans from others	5,518	6,066	55	55	109	5,847	-
Lease liability	55,104	86,856	2,206	2,210	4,682	9,340	68,418
Derivative financial liabilities							
Interest rate swaps not used for hedging	16,156	16,156	1,839	1,821	3,511	7,146	1,839
Total	7,997,778	8,384,096	378,007	1,587,455	1,821,706	3,242,749	1,354,179

* Including interest payable on debentures.

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, 2021						
	NIS		Foreign currency				
	Unlinked	CPI-linked	GBP	Euro	CHF	Dollar	Total
Current assets:							
Cash and cash equivalents	7,012	-	19,868	23,791	62,115	7,311	120,097
Securities at fair value through profit or loss	859,962	-	-	-	-	-	859,962
Trade receivables	11,178	116	6,491	1,755	4,302	327	24,169
Other receivables	15,222	1,897	2,611	4,401	3,205	2,669	30,005
Non-current assets:							
Other investments at fair value through profit or loss	5,378	-	-	-	-	-	5,378
Long-term receivables	6,838	-	2,344	4,553	13,245	-	26,980
Current liabilities:							
Borrowings from banks in Israel	(151,195)	-	-	(23,084)	-	-	(174,279)
Current maturities of debentures	-	(229,617)	-	-	-	-	(229,617)
Current maturities of borrowings from banks	(4,852)	-	(188,503)	(22,771)	(220,286)	-	(436,412)
Trade payables	(6,404)	(214)	(26,523)	(17,895)	(8,875)	(145)	(60,056)
Other payables *	(154,928)	(17,804)	(12,781)	(56,444)	(48,873)	-	(290,830)
Non-current liabilities:							
Debentures	-	(1,003,810)	-	-	-	-	(1,003,810)
Bank loans	(296,169)	-	(1,804,636)	(1,127,151)	(2,387,148)	-	(5,615,104)
Other financial liabilities	-	(1,900)	(3,172)	(5,016)	(45,181)	-	(55,269)
Deposits	-	(7,104)	(4,477)	(5,183)	-	-	(16,764)
	292,042	(1,258,436)	(2,008,778)	(1,223,044)	(2,627,496)	10,162	(6,815,550)

* Other payables include short-term employee benefits.

Notes to the Financial Statements as at December 31, 2021

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, 2020						
	NIS		Foreign currency				
	Unlinked	CPI-linked	GBP	Euro	CHF	Dollar	Total
Current assets:							
Cash and cash equivalents	7,277	-	17,809	27,064	84,750	2,163	139,063
Securities at fair value through profit or loss	402,928	-	-	-	-	-	402,928
Trade receivables	5,773	184	1,136	5,610	4,143	287	17,133
Other receivables	50,305	1,210	2,152	8,028	15,242	-	76,937
Non-current assets:							
Other investments at fair value through profit or loss	4,834	-	-	-	-	-	4,834
Long-term receivables	-	-	2,455	6,121	184	-	8,760
Current liabilities:							
Borrowings from banks in Israel	(104,528)	-	-	(804,423)	-	-	(908,951)
Current maturities of debentures	-	(213,591)	-	-	-	-	(213,591)
Current maturities of borrowings from banks	(17,865)	-	-	(6,278)	(437,467)	-	(461,610)
Trade payables	(6,327)	-	(10,045)	(22,298)	(22,193)	(1,297)	(62,160)
Other payables *	(109,240)	(39,201)	(21,489)	(53,570)	(58,025)	-	(281,525)
Non-current liabilities:							
Debentures	-	(593,322)	-	-	-	-	(593,322)
Bank loans	(198,819)	-	(2,073,503)	(1,029,659)	(2,187,267)	-	(5,489,248)
Other financial liabilities	-	(1,870)	(55)	(5,518)	(61,653)	-	(69,096)
Deposits	-	(6,979)	(5,059)	(5,729)	-	-	(17,767)
	<u>34,338</u>	<u>(853,569)</u>	<u>(2,086,599)</u>	<u>(1,880,652)</u>	<u>(2,662,286)</u>	<u>1,153</u>	<u>(7,447,615)</u>

* 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, 2021					
	Currency/ linkage receivable	Currency/ linkage payable	Date of expiration	Amount	Amount	Fair value NIS thousands
				receivable	payable	
Instruments not used for hedging:						
Forward foreign currency contracts	NIS	EUR	01-02/2022	1,118,768	316,321	5,046
	NIS	CHF	01/2022	17,039	5,049	(150)

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, 2020					
	Currency/ linkage receivable	Currency/ linkage payable	Date of expiration	Amount receivable	Amount payable	Fair value NIS thousands
	Foreign currency thousands					
Instruments not used for hedging:						
Forward foreign currency contracts	NIS	EUR	01/2021	707,813	178,922	2,127

(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 2020.

	December 31, 2021	
	Equity	Profit or (loss)
	NIS thousands	
2% increase in the CPI	(19,292)	(19,292)
5% increase in the exchange rate of:		
The U.S. dollar	391	391
The Euro	(33,033)	(33,033)
The pound sterling	(29,720)	(29,720)

	December 31, 2020	
	Equity	Profit or (loss)
	NIS thousands	
2% increase in the CPI	(13,098)	(13,098)
5% increase in the exchange rate of:		
The U.S. dollar	44	44
The Euro	(26,975)	(26,975)
The pound sterling	(30,590)	(30,590)

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	
	2021	2020
	Carrying amount	
	NIS thousands	
Fixed-rate instruments		
Financial liabilities	2,882,058	2,152,860
Variable-rate instruments		
Financial liabilities	4,583,790	5,510,275

(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) Cash flow 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 2020.

	December 31, 2021			
	Profit or (loss)		Equity	
	Increase in interest	Decrease in interest	Increase in interest	Decrease in interest
NIS thousands				
Variable rate instruments	(2,354)	2,354	(2,354)	2,354

	December 31, 2020			
	Profit or (loss)		Equity	
	Increase in interest	Decrease in interest	Increase in interest	Decrease in interest
NIS thousands				
Variable rate instruments	(2,662)	2,662	(2,662)	2,662

Note 33 - Financial Instruments (cont'd)

D. Interest rate risk (cont'd)

Interest rate swap contracts not used for hedging

	December 31	
	2021	2020
	NIS thousands	
Within 12 months	(1,504)	(3,661)
Within 1-4 years	(1,057)	(10,657)
Within 5 years and longer	2,001	(1,836)
	<u>(560)</u>	<u>(16,154)</u>
Value of contracts for which the transactions were executed	<u>777,894</u>	<u>463,214</u>

The Company executes interest rate swap transactions in Switzerland for variable-rate loans where it swaps the base interest rate with a fixed interest rate, the result being that the total financing cost of those loans is only the amount of the margin.

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:

Financial liabilities:	December 31			
	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS thousands			
Debentures	1	1,233,803	1,285,583	808,989
Loans in France, England and Switzerland at fixed interest	2	<u>1,647,023</u>	<u>1,665,239</u>	1,355,048
		<u>2,880,826</u>	<u>2,950,822</u>	2,164,037
				2,200,633

* As to the fair value hierarchy, see Note 2.F.

See Note 4, Determination of Fair Value.

Note 33 - Financial Instruments (cont'd)

E. Fair value (cont'd)

(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, 2021 and December 31, 2020.

The fair value of loans is determined by discounting cash flows at the variable rate of loans with the closest duration.

(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, 2021			
	Level 1 NIS thousands	Level 2 NIS thousands	Level 3 NIS thousands	Total NIS thousands
Securities at fair value through profit or loss				
Marketable shares (a)	859,962	-	-	859,962
	<u>859,962</u>	<u>-</u>	<u>-</u>	<u>859,962</u>
Other investments at fair value through profit or loss				
Non-marketable shares, including venture capital funds	-	-	5,378	5,378
	<u>-</u>	<u>-</u>	<u>5,378</u>	<u>5,378</u>
Derivative financial assets				
Forward contracts not used for hedging (b)	-	4,896	-	4,896
	<u>-</u>	<u>4,896</u>	<u>-</u>	<u>4,896</u>
Derivative financial liabilities				
Interest rate swaps not used for hedging (c)	-	5,210	-	5,210
	<u>-</u>	<u>5,210</u>	<u>-</u>	<u>5,210</u>
	December 31, 2020			
	Level 1 NIS thousands	Level 2 NIS thousands	Level 3 NIS thousands	Total NIS thousands
Financial assets at fair value through profit or loss				
Marketable shares (a)	402,298	-	-	402,298
	<u>402,298</u>	<u>-</u>	<u>-</u>	<u>402,298</u>
Other investments at fair value through profit or loss				
Non-marketable shares, including venture capital funds	-	-	4,834	4,834
	<u>-</u>	<u>-</u>	<u>4,834</u>	<u>4,834</u>
Derivative financial assets				
Forward contracts not used for hedging (b)	-	2,127	-	2,127
	<u>-</u>	<u>2,127</u>	<u>-</u>	<u>2,127</u>
Derivative financial liabilities				
Interest rate swaps not used for hedging (c)	-	16,156	-	16,156
	<u>-</u>	<u>16,156</u>	<u>-</u>	<u>16,156</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)

- a. The fair value of marketable shares is recognized according to their fair value on the stock exchange as at December 31, 2021 and December 31, 2020.
- b. 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.
- c. 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.

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					
	2021		2020		2019	
	Number of People	Amount NIS thousands	Number of people	Amount NIS thousands	Number of people	Amount NIS thousands
Short-term employee benefits	4	7,839	4	7,417	4	8,134
Post-employment benefits	2	230	2	217	2	229
		<u>8,069</u>		<u>7,634</u>		<u>8,363</u>

Notes to the Financial Statements as at December 31, 2021

Note 34 - Related and Interested Parties (cont'd)

B. Benefits to key management personnel (including directors) (cont'd)

Benefits to directors that are not employed by the Group include:

	Year ended December 31					
	2021		2020		2019	
	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	6	802	6	881	6	948

C. The statement of financial position includes balances with interested and related parties as follows:

	December 31	
	2021	2020
	NIS thousands	
Other receivables	1,133	838
Long-term receivables *	5,129	6,432
Loans from others **	5,016	5,518

* 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.

D. The income statements include transactions with interested and related parties, as follows:

	Year ended December 31		
	2021	2020	2019
	NIS thousands		
Revenues			
From property management	160	168	167
Financing income	25	18	15
Expenses			
Salaries and other (1)	5,490	5,013	5,724
Management fees to companies controlled by interested parties (2)	3,272	3,305	3,327
Directors' fees	802	881	948
Financing expenses	122	157	111

(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, 2021		Year ended December 31, 2020	
	Debentures*	Bank loans and borrowings*	Debentures*	Bank loans and borrowings*
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance as of January 1	808,829	6,847,748	1,028,779	6,241,928
Borrowings from banks, net	-	421,437	-	218,696
Receipt of long-term bank loans net of loan acquisition costs	-	251,721	-	405,797
Repayment of long-term bank loans	-	(816,888)	-	(22,529)
Proceeds from issuance of debentures (net of issue costs)	648,191	-	-	-
Repayment of debentures	(229,161)	-	(214,309)	-
Revaluation of financial liabilities	17,272	(491,584)	(3,149)	(1,498)
Amortization of discount, premium and deferred expenses	(1,696)	3,603	(2,492)	5,354
Balance as of December 31	<u>1,243,435</u>	<u>6,216,037</u>	<u>808,829</u>	<u>6,847,748</u>

* Includes current maturities of debentures and loans

Note 36 - Subsequent Events

- A. Subsequent to the date of the statement of financial position up to proximate to the date of signing the financial statements (based on quotes at the end of the trading day on March 23, 2021), a pre-tax loss in the amount of NIS 59 million was recorded on the Company's securities.
- B. On February 28, 2022 an agreement was signed for the sale of Nofei Hasharon and the adjacent area that is rented out to Holmes Place in Netanya for the price of NIS 80 million. The transaction will be closed on March 31, 2022. Accordingly, these properties are presented within current assets at the aforesaid amount.
- C. In its meeting on March 27, 2022 the Board of Directors decided to distribute a dividend in the amount of NIS 50 million.
- D. Further to that mentioned in Note 18.D above, in February 2022 the Company expanded the Series E debentures by an amount of NIS 100,000 thousand in consideration for NIS 104,400 thousand.

Notes to the Financial Statements as at December 31, 2021

Note 37 - List of Investee Companies

Presented below is a list of the companies in the Group:

Consolidated companies:

	Year ended December 31			
	2021		2020	
	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. (in voluntary liquidation)	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
להניבס כאן את לוטיסיה	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
Fonciere Ventadoor SCI	76	76	76	76

(1) A subsidiary of Alrov Rothschild Avenue (1989) Ltd.

(2) A subsidiary of Inimor Ltd.

Notes to the Financial Statements as at December 31, 2021

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			
	2021		2020	
	Percentage of voting rights	Rate of participation in profits	Percentage of voting rights	Rate of participation in profits
Fonciere de Flander SCI	76	76	76	76
Epic One Property Investment AG	77.8	77.8	77.8	77.8
Epic Two Property Investment AG	*	-	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
Epic Five Property Investment AG	77.8	77.8	77.8	77.8
Epic Seven Property Investment AG	77.8	77.8	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 Fifteen Property Investment AG	*	-	77.8	77.8
Epic Sixteen Property Investment AG	77.8	77.8	77.8	77.8
Epic Eighteen Property Investment AG	*	-	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	77.8	77.8	77.8	77.8
Epic Twenty Two Property Investment AG	77.8	77.8	77.8	77.8
Epic Twenty Three Property Investment AG	77.8	77.8	77.8	77.8
Epic Suisse 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
Epic Suisse AG	77.8	77.8	77.8	77.8
Barco Investments B.V.	80	80	80	80
Conservatorium B.V.	**	-	80	80
Conservatorium Properties B.V.	80	80	80	80
L Hotel Holding SAS	80	80	80	80
L hotel SNC	80	80	80	80
Lodging 2020 L.P.	99.99	99.99	99.99	99.99
Lodging Aviation L.P.	100	100	100	100
PIH Luxembourg	77.8	77.8	77.8	77.8
Café Royal Management Limited	80	80	80	80
Sutton Investment Group Limited	82	82	82	82
(CR) Constable Real BV	80.8	80.8	80.8	80.8
Wimbledon BV	80.8	80.8	80.8	80.8
George V Project Management BV	79.84	79.84	79.84	79.84
Penrite Assets Corporation S.A.R.L	79.84	79.84	79.84	79.84
Coccinelle SA	79.84	79.84	79.84	79.84
Epworth Building Limited	79.84	79.84	79.84	79.84
Associates				
Properteam Regs Sarl	34	25.8	34	25.8

* The company was merged into a different company in the same country.

** The company was voluntarily liquidated.

*** See also Note 31.B.(10)