

Translated from the Hebrew Original

Alrov Properties and Lodgings Ltd.
Consolidated Financial Statements
As of December 31, 2022

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



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

We have audited internal control components over financial reporting of Alrov Properties and Lodgings Ltd. and its subsidiaries (hereinafter "the Company") as of December 31, 2022. 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 19% and approximately 18% of the total consolidated assets and revenues, respectively, included in the consolidated financial statements as of December 31, 2022 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.



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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, 2022.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and our report dated March 26, 2023 expressed an unqualified opinion on those financial statements based on our audit and the reports of other auditors.

Somekh Chaikin
Somekh Chaikin
Certified Public Accountants (Isr.)

March 26, 2023



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

We have audited the accompanying consolidated statements of financial position of Alrov Properties and Lodgings Ltd. (hereinafter "the Company") as of December 31, 2022 and 2021 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, 2022. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain consolidated subsidiaries whose assets included in consolidation constitute approximately 19% and 22% of total consolidated assets as of December 31, 2022 and 2021, respectively, and whose revenues included in consolidation constitute approximately 18%, 13% and 15% of total consolidated revenues for the years ended December 31, 2022, 2021 and 2020, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our 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, 2022 and 2021 and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2022 in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements) - 2010.

Key audit matters

The key audit matters described hereunder are matters that were communicated or were required to be communicated to the Company's Board of Directors and which, according to our professional judgement, were very material to the current period audit of the consolidated financial statements. These matters include, *inter alia*, any matter that: (1) Relates, or may relate, to accounts or disclosures that are material to the financial statements; and (2) Involved especially challenging, subjective, or complex auditor judgment. A response to these matters is provided in the framework of our audit and the preparation of our opinion on the consolidated financial statements as a whole. Communication of the matters indicated hereunder does not change our opinion on the consolidated financial statements as a whole and does not constitute a separate opinion on these matters or on the accounts or disclosures to which they relate.

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Fair value estimate of investment property and properties classified as fixed assets (hotels)

Why this matter is a key audit matter

As described in Notes 3, 4, 13 and 14 of the consolidated financial statements, the Company measures investment property in accordance with the fair value model pursuant to IAS 40 *Investment Property* and the properties classified as fixed assets (hotels) in accordance with the revaluation model pursuant to IAS 16 *Property, Plant and Equipment* (hereinafter together: revalued properties).

The fair value of the investment property and aforesaid fixed assets that was recognized in the consolidated statement of financial position as at December 31, 2022 is NIS 9,865 million and NIS 5,254 million, respectively. The increase in the net fair value of investment property for the year ended December 31, 2022 that was recognized in the consolidated income statement for the year ended December 31, 2022 amounted to NIS 227 million, and the net increase in the fair value of the aforesaid fixed assets for the year ended December 31, 2022 that was recognized in the consolidated statement of other comprehensive income net of tax amounted to NIS 596 million.

In the process of estimating the fair value of these assets, management of the Company relies on, *inter alia*, external valuations that are performed by independent experts. The valuation of the revalued properties requires management and the independent experts to exercise judgement and use significant estimates.

Management of the Company and its experts examine various inputs and assumptions in order to estimate the fair value of the revalued properties, including:

- Specific information regarding each property and its characteristics such as location, rental income, occupancy rates, discount rates, operating profitability of the hotels, etc.
- Observable inputs for similar properties and recent comparable transactions on the market.

The fair value estimate of the revalued properties is a key audit matter in view of the materiality of these properties and in view of the significant judgement related to determination of the principal assumptions and estimates used in the fair value estimate. A change in these assumptions and estimates may have a material effect on the fair value of the revalued properties presented in the Company's financial statements. The audit of the fair value of the revalued properties involves significant auditor judgement as well as knowledge and experience for examining reasonableness of the assumptions and inputs that were used by management to determine the fair value of the revalued properties.

The response provided for addressing the key audit matter

The following are the main procedures we performed for addressing this key audit matter in the framework of our audit:

We examined the Company's process for calculating the fair value estimate and the design and operating effectiveness of certain internal controls that are related to determining the fair value estimate, including controls related to the following matters:

- The process applied by management for transferring the inputs to the valuers and regarding management's review of the value estimated by the external valuers;
- The examination by management of the Company of sample base inputs and principal assumptions that were used for calculating the fair value estimate;



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We performed substantive procedures for examining reasonableness of the fair value of the revalued properties, both in and outside of Israel, on the basis of representations we received. These procedures included, inter alia:

- Assessing the skills, independence and integrity of the independent experts that were appointed by the Company;
- Obtaining the valuations of the revalued properties and inquiring with management and the valuers acting on its behalf as regards material valuations so as to assess the reasonableness and consistency of principal assumptions regarding trends in the relevant market;
- Engaging external experts on our behalf for assessing the reasonableness of material valuations including reasonableness of the methodology that was used for measuring the value, principal assumptions and the results of the valuation as a whole;
- Comparing the final values of the valuations of the revalued properties with the values in the consolidated financial statements;

It is noted that part of the procedures indicated above were performed by other auditors in the Group.

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, 2022, and our report dated March 26, 2023 included an unqualified opinion on the effective maintenance of those components.


Somekh Chaikin
Certified Public Accountants (Isr.)

March 26, 2023

Consolidated Statements of Financial Position as at December 31

		2022	2021
	Note	NIS thousands	NIS thousands
Assets			
Cash and cash equivalents	6	158,557	120,097
Securities at fair value through profit or loss	7	781,549	859,962
Trade receivables	8	43,956	24,169
Other receivables, including derivative instruments	9	47,447	41,409
Current tax assets		4,290	5,687
Hotelier inventory	10	23,920	23,923
Investment property held for sale	13	-	34,886
Revalued amount of fixed assets held for sale	14	-	45,114
Total current assets		1,059,719	1,155,247
Investments in equity accounted investees	12	590	543
Other investments at fair value through profit or loss	19	5,370	5,378
Long-term receivables, including derivative instruments	34C, 33D-1	115,740	26,980
Investment property	13	9,864,665	8,840,801
Fixed assets at amortized cost	14	117,074	131,218
Fixed assets at fair value	14	5,253,972	4,429,551
Intangible assets	25	171,156	160,525
Total non-current assets		15,528,567	13,594,996
Total assets		16,588,286	14,750,243

Alfred Akirov – Chairman of the Board

Naomi Shpirer Belfer – Director

Meir Elhakham – Acting CEO and Financial Manager

Date of approval of the financial statements: March 26, 2023

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

Consolidated Statements of Financial Position as at December 31

	Note	2022 NIS thousands	2021 NIS thousands
Credit from banks	15	-	174,279
Current maturities of loans from banks	18	506,075	434,474
Current maturities of debentures	18	417,149	230,635
Short-term employee benefits		17,684	13,668
Trade payables	16	76,322	60,056
Other payables, including derivative instruments	17	319,956	288,693
Current tax liabilities		23,857	18,832
Total current liabilities		1,361,043	1,220,637
Loans from banks	18	5,372,403	5,607,284
Debentures	18	939,980	1,012,800
Other financial liabilities, including derivative instruments	20	73,120	55,269
Employee benefits	21	11,009	13,756
Deposits	22	18,945	16,764
Deferred tax liabilities	30	1,510,020	1,243,716
Total non-current liabilities		7,925,477	7,949,589
Total liabilities		9,286,520	9,170,226
Equity	23		
Share capital		36,106	36,106
Share premium		232,451	232,451
Capital reserve from merger		279,426	279,426
Revaluation reserve for fixed assets, net of tax		1,520,049	962,308
Translation reserve from foreign operations		(14,140)	(241,640)
Reserve from transactions with non-controlling interests		(105,547)	(290)
Retained earnings		3,931,829	3,815,454
Equity attributable to owners of the Company		5,880,174	5,083,815
Non-controlling interests		1,421,592	496,202
Total equity		7,301,766	5,580,017
Total equity and liabilities		16,588,286	14,750,243

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

Consolidated Income Statements for the Year Ended December 31

	Note	2022 NIS thousands	2021 NIS thousands	2020 NIS thousands
Revenues				
Hotel operations		697,434	278,334	151,418
Rent and housing for the elderly		380,511	371,585	374,463
Sale of apartments	11	-	-	72,650
Maintenance – housing for the elderly		1,543	5,860	5,983
Income from property management		52,193	42,667	37,492
Gain from securities at fair value through profit or loss and other income	26	9,298	288,681	2,093
Increase in fair value of investment property, net	13	227,512	435,639	-
The Company's share of profits of equity accounted associates	12	10	36	-
		1,368,501	1,422,802	644,099
Expenses				
Hotel operations	27	484,039	255,134	165,936
Closing of hotels	27	-	4,756	34,816
Hotel depreciation	14	107,771	114,210	121,414
Total expenses from hotel operations		591,810	374,100	322,166
Operation of other assets		29,234	28,790	30,947
Cost of apartments sold	11	-	-	58,663
Maintenance of housing for the elderly		2,149	7,770	7,670
Property management expenses		47,709	38,295	33,671
Depreciation general and administrative	14	13,693	14,817	14,686
General and administrative	28	106,372	72,581	80,907
Loss from securities at fair value through profit or loss and other expenses	26	221,277	-	81,890
Decrease in fair value of investment property	13	-	-	51,868
Company's share of losses of associates, net of tax		-	-	108
		1,012,244	536,353	682,576
Operating profit (loss)		356,257	886,449	(38,477)
Financing costs				
Financing income		100,289	*78,555	2,282
Financing expenses		(172,870)	*(237,531)	(143,021)
Financing expenses, net	29	(72,581)	(158,976)	(140,739)
Profit (loss) before taxes on income		283,676	727,473	(179,216)
Income tax saving (expenses)	30	(76,811)	(134,263)	30,709
Net profit (loss) for the year		206,865	593,210	(148,507)
Attributable to:				
The owners of the Company		147,854	528,465	(166,117)
Non-controlling interests		59,011	64,745	17,610
Net profit (loss) for the year		206,865	593,210	(148,507)
Net earnings (loss) per share - in NIS	24	6.41	22.92	(7.14)

* Reclassified.

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>	2022 NIS thousands	2021 NIS thousands	2020 NIS thousands
Net profit (loss) for the year		206,865	593,210	(148,507)
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	331,184	(141,453)	37,005
Total other comprehensive income (loss) for the year that after initial recognition in comprehensive income will be transferred to profit or loss		331,184	(141,453)	37,005
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	1,229	561	(290)
Revaluation of fixed assets, net of tax	30F	595,866	217,696	(89,062)
Total other comprehensive income (loss) for the year that will not be transferred to profit or loss		597,095	218,257	(89,352)
Total comprehensive income (loss) for the year		1,135,144	670,014	(200,854)
Total comprehensive income (loss) attributable to:				
Owners of the Company		939,643	638,799	(204,501)
Non-controlling interests		195,501	31,215	3,647
Total comprehensive income (loss) for the year		1,135,144	670,014	(200,854)

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, 2022									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, 2022	36,106	232,451	279,426	(241,640)	(290)	962,308	3,815,454	5,083,815		496,202	5,580,017	
Comprehensive income (loss) for the year:												
Profit for the year	-	-	-	-	-	-	-	147,854	147,854	59,011	206,865	
Items of comprehensive income (loss):												
Re-measurement of defined benefit plan, net of tax	-	-	-	-	-	-	758	758	758	471	1,229	
Revaluation of fixed assets, net of tax	-	-	-	-	-	590,504	-	-	590,504	5,362	595,866	
Foreign currency translation differences for foreign operations	-	-	-	200,527	-	-	-	-	200,527	130,657	331,184	
Total comprehensive income for the year	-	-	-	200,527	-	590,504	148,612	939,643		195,501	1,135,144	
Transaction with owners that were recognized directly in equity:												
Acquisition of treasury shares (see Note 12C)	-	-	-	26,973	(105,353)	-	-	(78,380)	734,172	655,792		
Transaction with non-controlling interests	-	-	-	-	96	-	-	96	639	735		
Dividend	-	-	-	-	-	-	(65,000)	(65,000)	-	(65,000)		
Dividend distributed to non-controlling interests	-	-	-	-	-	-	-	-	(4,922)	(4,922)		
Realization of revaluation reserve for fixed assets	-	-	-	-	-	(32,763)	32,763	-	-	-		
Balance at December 31, 2022	36,106	232,451	279,426	(14,140)	(105,547)	1,520,049	3,931,829	5,880,174		1,421,592	7,301,766	

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, 2021									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, 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	-	-	-	-	(107,815)	-	217,696	528,918	638,799	31,215		670,014
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 Cash Flows for the Year Ended December 31

	Note	2022 NIS thousands	2021 NIS thousands	2020 NIS thousands
Cash flows from operating activities				
Net profit (loss) for the year		206,865	593,210	(148,507)
Adjustments:				
Depreciation	14	121,464	129,027	136,100
Decrease (increase) in fair value of investment property		(227,512)	(435,639)	51,868
Amortization of costs of raising loans and debentures		5,734	1,907	2,862
Erosion of deposits, net		129	(557)	(859)
The Company's share of (profits) losses of equity accounted investees	12	(10)	(36)	108
Loss (gain) from securities and other investments	26	221,277	(286,492)	81,890
Capital gain on early repayment of debentures		-	-	(25)
Financing costs, net		69,915	156,507	145,688
Interest paid		(124,975)	(125,078)	(128,584)
Income tax paid		(26,030)	(55,693)	(23,153)
Income tax expense (income)	30	76,811	134,263	(30,709)
Receipt of housing for the elderly deposits		614	20	102
Repayment of housing for the elderly deposits		(1,295)	(717)	(3,978)
Investments in apartment inventory	11	-	-	(43)
Proceeds from sale of apartment inventory		-	30,178	42,472
Gain from sale of apartments		-	-	(13,987)
Capital gain from sale of fixed assets and investment property		(908)	-	-
		322,079	140,899	111,245
Change in trade receivables and other receivables		(14,512)	(6,840)	(7,537)
Change in long-term receivables		3,241	(6,596)	(450)
Change in current liabilities		31,946	68,580	13,873
Change in hotelier inventory		482	374	1,059
Change in employee benefits		1,776	(2,099)	(2,675)
		22,933	53,419	4,270
Net cash from operating activities		345,012	194,318	115,515
Cash flows from investing activities				
Proceeds from sale of marketable securities	7	43,664	240,160	120,604
Investment in marketable securities	7	(188,155)	(416,469)	(42,656)
Proceeds from sale of investment property		57,977		
Proceeds from sale of fixed assets		37,523		
Receipts (payment) for derivatives, net		(9,244)	61,863	(23,117)
Dividends received		1,633	5,223	3,141
Investment in fixed assets		(18,447)	(6,423)	(11,140)
Investment in investment property		(145,535)	(321,818)	(396,297)
Change in long-term receivables, net		106	-	-
Change in restricted cash and deposits		-	-	(7,968)
Receipts of VAT on investment property and fixed assets, net		998	(732)	57
Net cash used in investing activities		(219,480)	(438,196)	(357,376)

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)

	2022	2021	2020
	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities			
Credit from banks, net	(211,254)	413,606	218,696
Receipt of long-term loans from banks, less raising expenses	600,364	251,721	405,797
Repayment of long-term loans from banks	(1,131,750)	(816,888)	(22,529)
Proceeds from issuance of debentures (less issuance expenses)	103,610	648,191	-
Repurchase of own shares	-	(657)	(46,520)
Repayment of credit from suppliers in respect of construction	(18,796)	(24,334)	(71,231)
Repayment of own debentures including repurchase	(55,184)	(229,161)	(214,309)
Issuance of subsidiary, Note 12C	655,792		
Dividend paid	(65,000)	-	-
Payment of principal of lease liabilities	(5,291)	(5,178)	(2,691)
Change in rent deposits, net	1,322	504	(1,077)
Dividend distributed to non-controlling interests	(4,597)	(3,509)	(6,817)
Net cash from (used in) financing activities	(130,784)	234,295	259,319
Increase (decrease) in cash and cash equivalents	(5,252)	(9,583)	17,458
Cash and cash equivalents at beginning of year	120,097	139,063	120,340
Effect of exchange rate fluctuations on cash and cash equivalents	43,712	(9,383)	1,265
Cash and cash equivalents at end of year	158,557	120,097	139,063

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, 2022 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.

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 26, 2023.

B. Functional and presentation currency

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

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

C. Basis of measurement

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

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

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

D. Operating cycle

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

E. Classification of expenses recognized in the statement of income

The classification of expenses recognized in the statement of income is based on the nature of the expense. This method of classification is appropriate for understanding the business of the Company, which provides a wide range of services.

Note 2 - Basis of Preparation (cont'd)

F. Use of estimates and judgments

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

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

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

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

Estimate	Principal assumptions	Possible effects	Reference
Fair value measurement of investment property	The expected yield and income on the investment property asset.	Gain or loss from a change in the fair value of investment property	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	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 18H.

H. Initial application of new standards

Amendment to IFRS 3, *Business Combinations*

The Amendment replaces the requirement to recognize liabilities from business combinations in accordance with the conceptual framework. 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. Application of the Amendment did not have a material effect on the financial statements. The Company applies the Amendment as from January 1, 2022.

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). Application of the Amendment did not have a material effect on the financial statements. The Company applies the Amendment as from January 1, 2022.

Note 2 - Basis of Preparation (cont'd)

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

Amendment to IAS 16, *Property, Plant and Equipment – Costs Directly Attributable to Property, Plant and Equipment*

The Amendment annuls the requirement by which in the calculation of costs directly attributable to fixed assets, the net proceeds from selling certain items that were produced while the Company tested the functioning of the asset should be deducted (such as samples that were produced when testing the equipment). Instead, such proceeds shall be recognized in profit or loss and the cost of the sold items will be measured according to the measurement requirements of IAS 2, *Inventories*. Application of the Amendment did not have a material effect on the financial statements. The Company applies the Amendment as from January 1, 2022.

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

1. Business combinations (cont'd)

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

On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

Furthermore, goodwill is not adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.

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

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

2. Subsidiaries

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

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.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

3. Non-controlling interests (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

B. Foreign currency (cont'd)

1. Foreign currency transactions (cont'd)

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

2. Foreign operations

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

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

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.

Note 3 - Significant Accounting Policies (cont'd)

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.

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.

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

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

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

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

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

Assessment whether cash flows are solely payments of principal and interest

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

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets

1. Recognition and measurement

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

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

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

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

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

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

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

2. Subsequent costs

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

3. Depreciation

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

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.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets (cont'd)

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

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

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

E. Intangible assets

Goodwill

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

F. Investment property

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

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

Investment property is initially measured at cost including capitalized borrowing costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The 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.

Note 3 - Significant Accounting Policies (cont'd)

F. Investment property (cont'd)

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

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

G. Hotelier inventory

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

H. Inventory of residential units

Inventory of residential units is measured at the lower of cost and net realizable value. The cost of inventory includes expenditure incurred in acquiring the inventories (including 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.

Note 3 - Significant Accounting Policies (cont'd)

J. Impairment (cont'd)

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

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

J. Impairment (cont'd)

2. Non-financial assets (cont'd)

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”).

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

L. Revenue (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

L. Revenue (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

N. Leases (cont'd)

Determining whether an arrangement contains a lease (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

N. Leases (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

P. Income tax expense (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

P. Income tax expense (cont'd)

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

Amendment to IAS 1, *Presentation of Financial Statements: Non-Current Liabilities with Covenants*

The Amendment replaces the requirements in Amendment to IAS 1, *Classification of Liabilities as Current or Non-Current* that was published in January 2020 as to the classification of liabilities with covenants. The recent amendment, which was published in October 2022, eliminates the 'hypothetical test' prescribed in that standard and states that covenants with which the entity must comply after the reporting date, do not affect classification of the liability as current or non-current. Additionally, the recent amendment adds disclosure requirements for liabilities subject to covenants within 12 months after the reporting date, such as disclosure regarding the nature of the covenants, the date they need to be complied with and facts and circumstances that indicate the entity may have difficulty complying with the covenants. The Amendment is effective for reporting periods beginning on or after January 1, 2024 with earlier application being permitted. If the Amendment is applied early, it is to be applied together with the rest of the provisions of the Amendment to IAS 1, *Classification of Liabilities as Current or Non-Current* that was issued in January 2020 and its effective date was postponed to January 1, 2024. The Amendment is applicable retrospectively, including an amendment to comparative data. The Company is examining the effects of the Amendment on the financial statements with no plans for early adoption.

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)

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. Application of the aforesaid Amendment is not expected to have a material effect on the financial statements.

Amendment to IFRS 16, Leases: Lease Liability in a Sale and Leaseback

The amendment clarifies the accounting treatment of variable payments of a seller-lessee in a sale and leaseback transaction. According to the amendment, a seller-lessee shall include estimates of variable lease payments upon the initial measurement of the lease liability, and subsequent to initial recognition, it shall apply the subsequent measurement requirements to the lease liability, in a way that it does not recognize any gain or loss that relates to the right-of-use it retains.

The amendment is applicable for reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The amendment is applicable retrospectively, for sale and leaseback transactions that occurred after the adoption of IFRS 16, including an amendment to comparative data.

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.

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

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.

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.
- (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 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 2022 or in the years 2021 and 2020.

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, 2022

Note 5 - Operating Segments (cont'd)

Business segments

NIS thousands	Investment property 2022	Lodging overseas 2022	Lodging in Israel 2022	Securities 2022	Other 2022	Consolidated 2022
Segment revenues	<u>660,702</u>	<u>424,551</u>	<u>280,779</u>	<u>-</u>	<u>2,294</u>	<u>1,368,326</u>
Segment results before depreciation	<u>583,759</u>	<u>100,804</u>	<u>120,486</u>	<u>(220,898)</u>	<u>145</u>	<u>584,296</u>
Depreciation expenses	<u>-</u>	<u>(81,782)</u>	<u>(25,989)</u>	<u>-</u>	<u>-</u>	<u>(107,771)</u>
Segment results	<u>583,759</u>	<u>19,022</u>	<u>94,497</u>	<u>(220,898)</u>	<u>145</u>	<u>476,525</u>
Unallocated revenues						<u>165</u>
Unallocated expenses						<u>(120,443)</u>
Share in profits of equity-accounted associates						<u>10</u>
Operating profit						<u>356,257</u>
Allocated financing expenses, net	<u>(44,983)</u>					<u>(44,983)</u>
Unallocated financing expenses, net						<u>(27,598)</u>
Profit before tax						<u>283,676</u>
Taxes on income						<u>(76,811)</u>
Profit for the year						<u>206,865</u>
Segment results attributable to the owners of the Company	<u>497,705</u>	<u>19,022</u>	<u>94,497</u>	<u>(220,929)</u>	<u>145</u>	

Notes to the Financial Statements as at December 31, 2022

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, 2022

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, 2022

Note 5 - Operating Segments (cont'd)

NIS thousands	Investment property		Lodging overseas		Lodging in Israel		Securities		Other		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Segment assets	9,864,665	8,875,687	3,641,432	3,284,029	1,774,302	1,306,130	781,549	859,962	-	45,114	16,061,948	14,370,922
Investment in equity-accounted investees											590	543
Unallocated assets											525,748	378,778
Total assets											16,588,286	14,750,243
Segment liabilities											3,514,309	3,807,638
Unallocated liabilities											5,772,211	5,362,588
Total liabilities	3,514,309	3,807,638	-	-	-	-	-	-	-	-	9,286,520	9,170,226
Capital expenditure	149,680	338,166	3,523	948	28,500	4,409	187,785	416,036	110	417		

Information on geographical segments

NIS thousands	Israel			Switzerland			France			UK			Netherlands			Other regions		
	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
External revenues	691,216	782,401	266,929	222,780	380,268	207,167	273,456	117,563	51,893	82,948	101,249	88,368	98,091	41,285	29,742	10	36	-
Segment assets	4,986,787	4,403,695	3,634,156	5,941,145	5,079,542	4,968,681	2,726,546	2,349,091	2,531,247	2,169,639	2,212,250	2,258,656	690,336	622,039	678,921	73,833	83,626	93,858

Notes to the Financial Statements as at December 31, 2022

Note 6 - Cash and Cash Equivalents

	December 31	
	2022	2021
	NIS thousands	NIS thousands
Bank balances	156,540	117,996
Call deposits	2,017	2,101
	158,557	120,097

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	
	2022	2021
	NIS thousands	NIS thousands
Current assets:		
Securities at fair value through profit or loss	781,549	859,962

The value of the portfolio consists of an investment of NIS 657 million in shares of Clal Insurance Enterprises, constituting about 15% of the shares of Clal Insurance Enterprises (December 31, 2021 –NIS 810 million, constituting about 15% of the shares of Clal).

In addition, in 2022 the Company purchased shares of Bank Leumi Le-Israel in the amount of NIS 112 million and sold shares of Bank Leumi Le-Israel for NIS 44 million. See Note 18.F hereunder regarding the pledged securities.

Note 8 - Trade Receivables

Composition:	December 31	
	2022	2021
	NIS thousands	NIS thousands
Hotel guests	28,480	8,424
Property renters	17,528	18,119
Less – provision for impairment	(2,052)	(2,374)
	43,956	24,169

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, 2022

Note 9 - Other Receivables, Including Derivative Instruments

Composition:	December 31	
	2022	2021
	NIS thousands	NIS thousands
Government institutions	3,504	2,561
Short-term loans and deposits	5,575	6,350
Prepaid expenses	10,887	11,406
Income receivable	4,004	6,532
Derivative financial instruments	12,726	4,896
Other*	10,751	9,664
	47,447	41,409

* 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	
	2022	2021
	NIS thousands	NIS thousands
Inventory of food and beverages	4,328	3,383
Inventory of hotelier equipment	19,592	20,540
	23,920	23,923

Note 11 - Apartments Inventory

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, 2022

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>
2022										
France	Associate company: Properteam Regs Sarl	34% <u>1,888</u>	<u>546</u>	<u>2,434</u>	<u>700</u>	-	<u>700</u>	<u>2,371</u>	<u>(2,336)</u>	<u>35</u>
		<u>1,888</u>	<u>546</u>	<u>2,434</u>	<u>700</u>	-	<u>700</u>	<u>2,371</u>	<u>(2,336)</u>	<u>35</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>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>
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>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>

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	
		2022	2021
Alrov Resorts (1993) Ltd.	Israel	100.00%	100.00%
Tatza Holdings (1994) Ltd.	Israel	90.00%	90.00%
Property Investment Holding BV	Netherlands	76.00%	76.00%
Epic Suisse AG, see paragraph C hereunder	Switzerland	56.50%	77.80%
Sutton Investment Group Limited	UK*	82.00%	82.00%
Constable Real BV	UK*	80.80%	80.80%
Wimbledon BV	UK*	80.80%	80.80%
George V Project Management BV	France*	79.84%	79.84%
Epworth Building Limited	UK*	79.84%	79.84%
Fitzroy Properties (2022) Limited	UK	79.84%	79.84%
LOCKA Holding BV	Netherlands**	80.00%	80.00%
Hotel Lutetia Financing, Limited Partnership	Israel	100.00%	100.00%
The SET Hotel Management Company Limited	UK**	85.00%	85.00%
Lodging 2020 L.P. – partnership	BVI	99.99%	100.00%
Lodging Aviation L.P. – partnership	Gibraltar	100.00%	100.00%
Nofei Hasharon Senior Citizen Residential Home Ltd.	Israel		
Elkanit Maintenance and Management Ltd.	Israel	100.00%	100.00%
46 Rothschild Avenue Management & Maintenance Ltd.	Israel	79.00%	100.00%
Alrov Ventures Ltd.	Israel	100.00%	79.00%
Alrov Rothschild Avenue (1989) Ltd.	Israel	100.00%	100.00%
Hashda Holdings (1993) Ltd.	Israel	100.00%	100.00%
Alrov Properties and Construction (1983) Ltd.	Israel	100.00%	100.00%
Alrov Towers Management and Operation Ltd.	Israel	100.00%	100.00%
H.M. Holdings Ltd.	Israel	100.00%	100.00%

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

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

C. Issuance of subsidiary on Swiss stock exchange

On May 25, 2022 a Swiss subsidiary of the Company, EPIC Suisse AG, carried out an initial public offering of its shares on a Swiss stock exchange.

As a result of the aforesaid issuance, the public was issued 2,686,567 new shares of the subsidiary at a price of CHF 68 (about NIS 237) per share. Furthermore, out of 298,507 additional shares that were granted as an option to the oversubscription for one month from the issuance date, 143,509 shares were exercised at the offering price of CHF 68 per share, so that the total amount of shares that were issued in the issuance, after exercising the aforesaid option, amounted to 2,830,076 shares at the offering price of CHF 68 per share and as a result the issuance amounted to CHF 192,445 thousand (about NIS 670,595 thousand) before issuance expenses. The public holds 27.4% of the subsidiary after the issuance. The Company holds 56.5% of the subsidiary.

The subsidiary's major shareholders (the Company and a third party) did not sell their current holdings in the subsidiary in the issuance. After the issuance the Company continues to control the subsidiary. Furthermore, the aforesaid shareholders agreed to not sell their current holdings in the subsidiary in the first 12 months after the initial trading date of the subsidiary's shares, subject to certain exclusions.

Note 12 - Investee Companies (cont'd)

C. Issuance of subsidiary on Swiss stock exchange (cont'd)

As a result of the issuance the Company's equity (including non-controlling interests) increased at the issuance date by an amount of CHF 188,197 thousand (about NIS 655,792 thousand), being CHF 192,445 thousand (about NIS 670,594 thousand) as aforesaid net of issuance expenses in the amount of CHF 4,248 thousand (about NIS 14,803 thousand) in respect of the issuance of new shares. Furthermore, as a result of the issuance the Group recognized a decrease in the debit balance of the translation reserve from foreign operations in the amount of NIS 26,973 thousand, a decrease in the capital reserve from transactions with non-controlling interests in the amount of NIS 105,353 thousand and a decrease in the equity attributable to the owners in the amount of NIS 78,380 thousand.

In the prospectus, the subsidiary noted that it intends to distribute a fixed dividend in the amount of CHF 3 per share in respect of 2022 (the Company's share is CHF 17.5 million considering its holdings), and after then, according to the dividend policy that was adopted, the distribution target will be an annual dividend of at least 80% of the funds from operations (FFO) of the subsidiary subject to approval of the distribution by the subsidiary's board of directors (FFO is defined as the company's operating profits neutralized by depreciation and the increase/decrease in the fair value of investment property, and less financing expenses and tax payments).

Note 13 - Investment Property

A. Movement in carrying amount

	December 31	
	2022	2021
	NIS thousands	NIS thousands
Balance as at January 1	8,875,687	8,577,285
Additions	163,577	338,166
Disposals	(57,432)	-
Classification to fixed assets	(13,900)	-
Exchange differences, net	669,221	(475,403)
Changes in fair value	227,512	435,639
Balance as at December 31*	9,864,665	8,875,687

* 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.

Note 13 - Investment Property (cont'd)

B. Determination of fair value (cont'd)

(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 techniques 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.

Significant unobservable inputs

- Market rent per sq. m.
Israel: NIS 1,765 to NIS 2,883 (2021: NIS 1,572 to NIS 2,689)
Switzerland: CHF 85 to CHF 359 (2021: CHF 84 to CHF 360)
France: EUR 94 to EUR 749 (2021: EUR 93 to EUR 724)
UK: GBP 583 to GBP 2,100 (2021: GBP 581 to GBP 2,138)
- Cash flow discount rate
Israel: 5.5% to 6.5% (2021: 5.5%-6.5%)
Switzerland: 2.65% to 4% (2021: 2.7%-4%)
France: 2.9% to 8.25% (2021: 3.15%-9.1%)
UK: 3.75% to 6.12% (2021: 3.75%-5.62%)

The Company prepared valuations for income-generating properties as at December 31, 2022. According to these valuations the Company recorded net positive revaluation in the reporting year in the amount of NIS 227,512 thousand most of which derived from a positive revaluation of the Company's properties in Israel in the amount of NIS 263,817 thousand.

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.

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		
	2022	2021	2020
	NIS thousands	NIS thousands	NIS thousands
Rental income on investment property	432,315	412,470	410,291
Direct operating expenses deriving from investment property that generated rental income during the period	(76,943)	(67,085)	(64,618)
	355,372	345,385	345,673

D. Sale of material properties

An office building was sold in France in the reporting year in consideration of € 6 million (NIS 22 million) compared with a valuation of € 5 million as at December 31, 2021.

In the reporting year the Nofei Hasharon property and the adjacent area that is rented out to Holmes Place in Netanya were sold for the price of NIS 80 million.

E. Acquisition of material properties

In the reporting year the Company acquired a building adjacent to a distribution center in Switzerland in the amount of CHF 5.6 million (NIS 21 million).

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).

Note 13 - Investment Property (cont'd)

E. Acquisition of material properties (cont'd)

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.

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.

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.

F. For information on pledged investment property, see Note 18.F.

G. 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, 2022

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, 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
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	4,474,665	17,731	186,996	24,378	136,346	4,840,116
Balance as at January 1, 2022						
Additions	14,564	43	3,378	560	2,382	20,927
Less disposals	(45,221)	(16)	-	(872)	-	(46,109)
Classification from investment property	13,900	-	-	-	-	13,900
Fair value revaluation of fixed assets	654,602	-	-	-	-	654,602
Effect of changes in exchange rates	141,462	-	-	7	362	141,831
Balance as at December 31, 2022	5,253,972	17,758	190,374	24,073	139,090	5,625,267
Accumulated depreciation						
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)
Balance as at December 31, 2021	-	16,204	150,123	18,000	49,906	234,233
Balance as at January 1, 2022						
Depreciation for the year	100,698	304	7,005	646	12,811	121,464
Less disposals	(436)	(10)	-	(768)	-	(1,214)
Fair value revaluation of fixed assets	(100,262)	-	-	-	-	(100,262)
Balance as at December 31, 2022	-	16,498	157,128	17,878	62,717	254,221

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, 2022**	5,253,972	1,260	33,246	6,195	76,373	5,371,046
As at January 1, 2021	4,566,977	1,825	42,534	4,722	96,853	4,712,911
As at December 31, 2021	4,474,665	1,527	36,873	6,378	86,440	4,605,883

* 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 307,052 thousand, NIS 2,723 thousand and NIS 3,042 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, 2022 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, 2022. In the framework of these valuations, among other things, 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 development 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).

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.

	December 31, 2022		December 31, 2021	
	Level 3	Total	Level 3	Total
NIS thousands				
Fixed assets at fair value	5,253,972	5,253,972	4,474,665	4,474,665

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

Valuation techniques for determining fair value

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

Significant unobservable inputs

Future operating profitability in Israel – The operating profitability of hotels increased in 2022 compared with 2019 (before the coronavirus pandemic) in view of a trend that began at the beginning of this year of a considerable rise in the average price per night compared with 2019 (before the coronavirus). According to the Company's valuers, these prices are expected to stay at that level, and this generates a positive contribution to future operating profitability (according to the characteristics of each hotel) along with a stabilization and rise in occupancy rates to the rates that existed before the coronavirus crisis. The underlying assumption of the valuations are that the hotels in Israel will maintain the operating profitability that was achieved in 2019 discounted at a rate of 6.5%, with the expected addition to operating profitability which reflects the operating profitability surplus of 2022 discounted at a rate of 7.5% and an additional expected profit from one of the hotels according to the forecast for 2023 discounted at a rate of 9.5%.

Average price per night: in 2019 – NIS 1,321-1,383, in 2022 – NIS 1,597-NIS 1,763; average occupancy rate in 2019: 61%-69%, in 2022: 51%-52%. Lower or higher expected operating surpluses would have lowered or raised the aggregate value of the two hotels in Israel by 3%. 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%.

Note 14 - Fixed Assets (cont'd)

B. Determination of fair value

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

Significant unobservable inputs

Future operating profitability overseas - The future cash flow takes into consideration a gradual increase in operating profitability according to the characteristics of each hotel. It is noted that a trend began in 2022 of an increase of tens of percent in average prices per night compared with 2019 (before the coronavirus). According to the Company's valuers, these prices are expected to stay at that level and even rise in the years of the forecast, and this generates a positive contribution to future operating profitability. 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 overseas: in 2023 51%-65% and after then 60% to 70% (2021: 55% to 75%).
- Discount rate of cash flows overseas: 3.7% to 6.5% (2021: 3.5%-6.25%). An increase or decrease of 0.25% in the discount rates would have lowered or raised the value of the hotels by 6%-7%, respectively.
- Average price per night overseas: NIS 2,694 to NIS 4,604 (2021: NIS 1,968 to NIS 3,463).

The estimated fair value would increase if:

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

(3) Valuation processes used by the Company

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

The principal unobservable inputs are as follows:

- The 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.

Note 14 - Fixed Assets (cont'd)

D. In August 2008, the Company and Barco Investments B.V., a subsidiary of the Company (hereinafter: "Barco"), entered into an agreement (hereinafter: "the Agreement") with the representatives of Crown Estate (in charge of the Crown's assets) (hereinafter: "the Crown") in relation to a property located on Regent Street in Central London, historically known as "Café Royal" (hereinafter: "the Property") which is part of a freehold complex of the Crown. Barco is wholly owned by Locka. The Agreement 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 2022 the Company recorded an increase of NIS 596 million in the revaluation reserve, net of tax. The carrying amount of the fixed assets as at December 31, 2022, which is presented at the fair value that would have been recognized had the assets been presented under the cost model, is NIS 3,856 million.

F. As at December 31, 2022, fixed-asset items in the amount of NIS 3,642,315 thousand (December 31, 2021: NIS 2,479,339 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, 2022, 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 1,145 million (approximately GBP 259 million value of the hotel and GBP 12 million the commercial area at the self use of the hotel). In the reporting year the Company recorded a gain from positive revaluation of the hotel in the amount of GBP 71 million net of tax (revaluation gain of NIS 51 million net of tax in 2021), which was recorded within other comprehensive income in a capital reserve for revaluation of fixed assets.

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, 2022 the value of the hotel is estimated to be € 473 million (NIS 1,775 million). In the reporting year the Company recorded a gain from positive revaluation in the amount of NIS 127 million, net of tax, in respect of the hotel (revaluation gain of NIS 80 million, net of tax, in 2021), which was recorded within other comprehensive income in a capital reserve for revaluation of fixed assets.

I. According to a valuation that was prepared by an independent external appraiser, as at December 31, 2022 the value of the David Citadel Hotel in Jerusalem is estimated to be NIS 1,286.5 million. In the reporting year the Company recorded a gain from positive revaluation in the amount of NIS 284 million, net of tax, in respect of the hotel (revaluation gain of NIS 31 million, net of tax, in 2021), which was recorded within other comprehensive income in a capital reserve for revaluation of fixed assets.

Note 14 - Fixed Assets (cont'd)

J. In the reporting year the Nofei Hasharon property and the adjacent area that is rented out to Holmes Place in Netanya were sold for the price of NIS 80 million.

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:

	December 31	
	2022	2021
	NIS thousands	
Short-term loans – in Israel		
Unlinked	-	151,195
Denominated in Euros	-	23,084
	<hr/>	<hr/>
	-	174,279

Note 16 - Trade Payables

Composition:

	December 31	
	2022	2021
	NIS thousands	NIS thousands
Open debts	63,653	45,740
Debts in respect of investment in real estate	11,369	12,418
Checks and notes payable	1,300	1,898
	<hr/>	<hr/>
	76,322	60,056

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	
	2022	2021
	NIS thousands	NIS thousands
Interest payable	18,447	7,117
Accrued expenses	103,710	96,466
Deferred income	22,566	22,909
Government institutions	16,839	18,912
Employees and accrued benefits	27,683	21,824
Customer advances	10,748	7,662
Derivative financial instruments	5,718	5,121
Deposits	433	8,825
Current lease liability	4,489	3,645
Other payables and credit balances*	109,323	96,212
	319,956	288,693

* The balance as at December 31, 2022 and 2021 includes amounts of NIS 104,000 thousand and NIS 95,000 thousand, respectively, that were received from Karta. See also Note 31.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, 2022	December 31	
		2022	2021
		NIS thousands	
Non-convertible debentures			
Linked to the Consumer Price Index	0.5% - 2.4%	1,348,423	1,233,427
Debenture raising, discount and premium expenses		8,706	10,008
		1,357,129	1,243,435
Less current maturities		417,149	230,635
		939,980	1,012,800
Loans from banks			
Linkage basis:			
In NIS	1.70%	268,604	301,021
Exchange rate of the Euro	1.35%-1.85%	1,440,359	1,149,922
Exchange rate of the Swiss franc	0.53%-1.8%	2,273,668	2,607,434
Exchange rate of the Pound Sterling	1.72%-3.09%	1,902,196	1,993,139
Less – Loan raising expenses		6,349	9,758
		5,878,478	6,041,758
Less current maturities		506,075	434,474
		5,372,403	5,607,284

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. In accordance with the aforesaid payment schedule all the debentures (Series C) were redeemed during the year.

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 2020 the Group purchased NIS 77 thousand par value of the debentures. In 2021 an additional expansion of NIS 32,000 thousand was issued. In December 2022 the Company purchased NIS 14,334 thousand par value of the debentures. As at December 31, 2022, the balance of the debentures (Series D) is a par value of NIS 330,945 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. In the reporting year an expansion of NIS 100,000 thousand par value of the debentures (Series E) was issued. As at December 31, 2022, the balance of the debentures (Series E) is a par value of NIS 328,000 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 5,878,478 thousand (including current maturities of long-term loans in the amount of NIS 506,074 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 amounts to NIS 12,827,687 thousand as at December 31, 2022. The Company has unutilized credit facilities with banks in the amount of NIS 527 million as at December 31, 2022 against which in addition to the aforesaid charge there is a lien also on securities in the amount of NIS 310 million.

In 2021 financing was obtained for an income-generating property in Switzerland that was purchased 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, 2022 the interest rate of the loan is 5.07%.

G. Refinancing

In the reporting year the Company refinanced three properties in the UK in the aggregate amount of GBP 82 million (approximately NIS 347 million) at the same interest terms of the previous financing agreements. The financing period is until June 30, 2027 (as at December 31, 2022, the interest rate is 5.07%).

In the reporting period the Company refinanced the Conservatorium Hotel in Amsterdam in the amount of € 110 million (approximately NIS 400 million). According to the financing agreement 95% of the principal is payable by October 29, 2024. The loan is at variable interest, with the interest rate being 3.82% as at December 31, 2022. In December 2021 the financing loan of the Conservatorium Hotel in Amsterdam in the amount of € 85 million (approximately 318 million) was repaid.

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, 2022 the interest rate is 3.51%).

In 2021 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.

H. 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 balance sheet 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.

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

H. Financial covenants (cont'd)

1) (cont'd)

If the Company violates or fails to comply with any of its undertakings to the bank, the bank shall be entitled to call for the immediate repayment of the amounts provided as part of the banking services or any part thereof and to employ any means that it finds appropriate to ensure their collection. To the date of the report, the Company is in compliance with its undertaking to the banks.

2) In connection with borrowings from banks in Israel, the Company has undertaken as follows:

1. The annual rental that is received from the rent of certain properties will at no time fall below a specified amount; 2. To provide to the bank every agreed-upon period, an up-to-date valuation of the real estate, confirming, *inter alia*, that the value of the real estate is not less than a specified amount; 3. The equity of the Company will not fall below NIS 1,250 million at any time; 4. The equity of the Company (excluding minority interests) deriving from operations in Israel, as calculated based on the reports of the Company, will at all times amount to at least 15% of total balance sheet 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, a 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 bank requirements.

4) 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.

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.

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

H. Financial covenants (cont'd)

- 5) 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.
- 6) 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 Lutetia Hotel in France 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.
- 7) 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%.
- 8) 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"). In 2021 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.

As at December 31, 2022 the Company is in compliance with all the covenants mentioned in paragraphs 5-8 above.

- I. According to an agreement between a bank 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 credit facility was reduced by 2.5% and on May 2, 2022 it was reduced by another 2.5% (a moving up of this 2.5% reduction instead of the reduction scheduled for April 1, 2023).

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

I. (cont'd)

As at December 31, 2022 the credit facility amounts to NIS 1,494 million and is subject to additional conditions and financial covenants as follows:

1. The ratio of equity (excluding non-controlling interests) to total balance sheet will not fall below 15% at all times, and the equity (excluding non-controlling interests) will be no less than NIS 1,250 million.
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.

In accordance with understandings reached with the bank subsequent to the date of the statement of financial position, the Company no longer has any commitments with respect to the shares of Clal as described in this paragraph 3.

As at December 31, 2022 the Company is in compliance with all the aforesaid conditions.

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

	December 31	
	2022	2021
	NIS thousands	
Non-marketable shares	1,670	1,670
Venture capital funds	3,700	3,708
	5,370	5,378

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	
	2022	2021
	NIS thousands	
Loans from others	5,482	5,016
Lease liability	52,019	48,015
Liability in respect of financial instruments	15,619	89
Long-term deferred income	-	2,149
	73,120	55,269

B. Loans from others

	December 31	
	2022	2021
	Nominal interest as at December 31, 2022	NIS thousands
Loans in Euros received from related parties at variable interest*	3.52%	5,482
Total loans received from related parties		5,482
		5,016

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

C. Lease liability

Composition

	December 31	
	2022	2021
	NIS thousands	
For lease of motor vehicles	2,934	2,213
For lease of offices	3,348	4,038
For lease of land	50,226	45,409
	56,508	51,660
Less current liabilities presented as part of payables and credit balances including derivative instruments	(4,489)	(3,645)
	52,019	48,015

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	
	2022	2021
	NIS thousands	
Up to half a year	1,648	1,471
7 to 12 months	2,867	2,206
Two to five years	15,426	14,719
6 to ten years	13,826	12,403
More than 10 years	51,653	48,562
	85,420	79,361

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	
	2022	2021
	NIS thousands	
Housing for the elderly deposits (1)	-	8,336
Rent deposits (2)	14,446	12,567
Maintenance deposits (3)	4,932	4,686
	19,378	25,589
Less – current deposits	433	8,825
Total deposits	18,945	16,764

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. In the reporting period the Nofei Hasharon sheltered housing property was sold and accordingly there are no housing for the elderly deposits as at December 31, 2022.

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.

In the reporting period the Nofei Hasharon sheltered housing property was sold and accordingly there are no housing for the elderly deposits as at December 31, 2022 (December 31, 2021 – NIS 8,174 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.

In the reporting period the Nofei Hasharon sheltered housing property was sold and accordingly there are no housing for the elderly deposits as at December 31, 2022 (December 31, 2021 – NIS 162 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, 2022

Note 23 - Equity

A. Share capital

	December 31		
	2022	2021	2020
	Shares of NIS 1 par value		
Issued and paid-in share capital as at January 1	23,053,922	23,059,439	23,467,057
Repurchase of shares*	-	(5,517)	(407,618)
Issued and paid-in share capital as at December 31	23,053,922	23,053,922	23,059,439
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		
	2022	2021	2020
	NIS thousands		
Subsidiaries: P.I.H. B.V. and Epic Suisse	332,042	(157,924)	37,257
Subsidiary: Locka Holding	(2,120)	19,835	671
Subsidiary: The Set	19	(22)	(11)
Subsidiaries directly held by the Company	1,243	(3,342)	(912)
	331,184	(141,453)	37,005

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 3.D.

D. Dividends

In the reporting year the Company declared dividends in the amount of NIS 65 million. The Company did not declare any dividend in the years 2020-2021.

Note 23 - Equity (cont'd)

E. Repurchase of shares

On February 3, 2019 the Company's Board of Directors decided to approve an additional plan for the repurchase of Company shares in the amount of NIS 30 million. The plan is effective from February 4, 2019 to February 4, 2020. 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. See Note 36 hereunder regarding a plan to repurchase debentures of the Company subsequent to the date of the statement of financial position.

See Note 36 hereunder regarding a repurchase subsequent to the date of the statement of financial position.

Note 24 - Earnings per Share

Basic earnings per share

The calculation of basic earnings per share as at December 31, 2022 was based on a profit of NIS 147,854 thousand (2021: profit of NIS 528,465 thousand; 2020: loss of NIS 166,117 thousand) attributable to the Company's ordinary shareholders divided by a weighted average number of ordinary shares outstanding of 23,054 thousand shares (2021: 23,054 thousand shares; 2020: 23,264 thousand shares), calculated as follows:

	Year ended December 31		
	2022	2021	2020
	NIS thousands		
Profit (loss) used to calculate diluted earnings per share	147,854	528,465	(166,117)
Profit (loss) attributable to ordinary shareholders (diluted)	147,854	528,465	(166,117)

Notes to the Financial Statements as at December 31, 2022

Note 24 - Earnings per Share (cont'd)

Weighted average number of ordinary shares

	Year ended December 31		
	2022	2021	2020
	Thousands of shares of NIS 1 par value		
Balance as at January 1	23,054	23,059	23,467
Effect of Company shares held by the Company	-	(5)	(203)
Weighted average number of ordinary shares used to calculate basic earnings per share	23,054	23,054	23,264

Diluted earnings (loss) per share

The calculation of diluted earnings per share as at December 31, 2021 was based on a profit of NIS 147,854 thousand (2021: profit of NIS 528,465 thousand; 2020: loss of NIS 166,117 thousand) attributable to the Company's ordinary shareholders divided by a weighted average number of ordinary shares outstanding of 23,054 thousand shares (2021: 23,054 thousand shares; 2020: 23,264 thousand shares), calculated as follows:

	Year ended December 31		
	2022	2021	2020
	NIS thousands		
Profit (loss) used to calculate diluted earnings per share	147,854	528,465	(166,117)
Profit (loss) attributable to ordinary shareholders (diluted)	147,854	528,465	(166,117)

	Year ended December 31		
	2022	2021	2020
	Thousands of shares of NIS 1 par value		
Weighted average number of ordinary shares used to calculate diluted earnings per share	23,054	23,059	23,467
Effect of Company shares held by the Company	-	(5)	(203)
Weighted average number of ordinary shares used to calculate diluted earnings per share	23,054	23,054	23,264

Note 25 - Intangible Assets

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 J.L.L. 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, 2022, 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:

	2022	2021
Discount rate for the representative period	5.95%	5.75%
Perpetual discount rate	3.70%	3.50%

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

	Year ended December 31		
	2022	2021	2020
	NIS thousands		
Income			
From securities, net	-	286,364	-
Capital gain	908	-	-
Other income	8,390	2,317	2,093
	9,298	288,681	2,093
Expenses			
From securities, net	221,277	-	79,992
Impairment loss on investments	-	-	1,898
	221,277	-	81,890

Notes to the Financial Statements as at December 31, 2022

Note 27 - Hotel Operation Costs and Expenses

	Year ended December 31		
	2022	2021	2020
	NIS thousands		
Cost of services			
Payroll and related expenses	199,790	99,834	70,238
Food and beverages	44,389	22,877	14,584
Other expenses	36,344	16,515	7,684
	280,523	139,226	92,506
Operating expenses			
Payroll and related expenses	62,262	41,210	33,984
Energy	22,024	15,727	12,723
Property maintenance	37,734	20,353	17,062
Taxes and insurance	21,569	14,573	12,414
Advertising, marketing and public relations	9,881	4,231	5,561
General expenses	50,046	24,570	26,502
	203,516	120,664	108,246
	484,039	259,890	200,752
Less hotel closing expenses	-	4,756	34,816
Total hotel operation costs	484,039	255,134	165,936

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		
	2022	2021	2020
	NIS thousands		
Salaries and related expenses			
Management fees to companies controlled by interested parties	41,136	30,266	28,201
Consulting, legal and audit fees	1,019	923	3,310
Directors' fees	29,354	22,765	27,978
Rent	892	802	881
Impairment loss (gain) on trade receivables	403	381	384
Advertising and public relations	175	(1,789)	2,468
Donations	733	279	299
Other	10,055	7,443	7,043
	22,605	11,511	10,343
	106,372	72,581	80,907

* In 2022 including issuance expenses in the amount of CHF 5.9 million (NIS 21 million) of a subsidiary in Switzerland. See also note 12.C above.

Note 29 - Financing Income and Expenses

A. Recognized in profit or loss:

	Year ended December 31		
	2022	2021	2020
	NIS thousands		
Income			
From bank deposits	172	26	22
Derivative financial instruments	98,549	-	-
From others	1,568	227	2,260
	100,289	253	2,282
Expenses			
From long-term bank loans (1)	43,238	200,490	97,718
From debentures (2)	82,544	33,153	14,352
From short-term borrowings from banks and others	121	146	69
From revaluation of deposits	337	96	1
Derivative financial instruments	36,104	-	24,171
To others	10,526	3,646	6,710
	172,870	237,531	143,021
Financing expenses, net	72,581	158,976	140,739
(1) Including amortization of deferred expenses	1,976	3,603	5,354
(2) Including amortization of deferred expenses and discount/(premium)	3,758	(1,696)	(2,492)

B. Recognized directly in comprehensive income

Income (expenses) in respect of currency translation differences of foreign operation	331,184	(141,453)	37,005
Attributable to:			
Owners of the Company	200,527	(107,815)	28,814
Non-controlling interests	130,657	(33,638)	8,191
	331,184	(141,453)	37,005

* Reclassified.

Notes to the Financial Statements as at December 31, 2022

Note 30 - Taxes on Income

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

	Year ended December 31		
	2022	2021	2020
	NIS thousands		
Current tax expense (income)			
For the current period	25,931	14,831	(5,026)
For prior years	-	(68)	26,108
	25,931	14,763	21,082
Deferred tax expense (income)			
Creation and reversal of temporary differences	62,489	120,373	(49,849)
Change in tax rates	(11,609)	(873)	(1,942)
	50,880	119,500	(51,791)
Income tax expense (income)	76,811	134,263	(30,709)

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		
	2022	2021	2020
	NIS thousands		
Profit (loss) before taxes on income	283,676	727,473	(179,216)
Primary statutory tax rate	23.0%	23.0%	23.0%
Theoretical tax calculated according to the Company's primary tax rate	65,245	167,319	(41,220)
Additional tax (tax saving) in respect of:			
Different tax rate of foreign subsidiaries, including adjustments for foreign exchange differences	(9,118)	(21,781)	(6,435)
Change in deferred taxes as a result of the changes in the purchasing power	(2,623)	(450)	341
Non-deductible expenses, including an impairment provision for investments	12,059	501	17,039
Tax exempt income and preferred income	(2)	1	(147)
Neutralization of tax calculated in respect of the Company's share in profits of associates	-	(8)	(22)
Change in losses carried forward for which deferred taxes were not recognized	17,100	(13,992)	8,378
Taxes in respect of previous years	-	(68)	26,108
Deferred taxes in respect of previous years	1,102	994	(34,174)
Changes in the tax rates	(11,609)	(873)	(1,942)
Other	4,657	2,620	1,365
	76,811	134,263	(30,709)

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 2020-2022: 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 – 25.8%; Switzerland – 16.5% on average, England – 19%.

In the reporting period the tax rate in one of the cantons in Switzerland was reduced from 18.5% to 15.07%. As a result of the aforesaid reduction the Company recorded income from taxes following a decrease in the deferred tax liability in the amount of CHF 3.3 million (NIS 12 million).

In 2021 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 2021 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, 2021					
Changes recognized in profit or loss	(1,277,029)	3,839	165,339	9,627	(1,098,224)
Deferred taxes in respect of					
remeasurement of defined benefit plan carried to other comprehensive income	(107,104)	141	25,305	(38,715)	(120,373)
Currency translation differences in respect of deferred foreign tax					
Effect of change in the tax rate					
Deferred taxes in respect of revaluation of fixed assets carried to other comprehensive income					
	(67,714)	-	-	-	(67,714)
Balance of deferred tax asset (liability)					
as at December 31, 2021					
Changes recognized in profit or loss	(1,400,667)	3,825	182,214	(29,088)	(1,243,716)
Deferred taxes in respect of					
remeasurement of defined benefit plan carried to other comprehensive income	(97,802)	(81)	(20,621)	56,015	(62,489)
Effect of change in the tax rate					
Deferred taxes in respect of revaluation of fixed assets carried to other comprehensive income					
	11,609	(282)	-	-	(282)
Balance of deferred tax asset (liability)					
as at December 31, 2022					
Changes recognized in profit or loss					
Deferred taxes in respect of					
remeasurement of defined benefit plan carried to other comprehensive income					
Effect of change in the tax rate					
Deferred taxes in respect of revaluation of fixed assets carried to other comprehensive income					
	(159,000)	-	-	-	(159,000)
Deferred taxes in respect of prior years					
Currency translation differences in respect of deferred foreign tax					
	5,069	-	(65,833)	-	(60,764)
Balance of deferred tax asset (liability)					
as at December 31, 2022					
	<u>(1,640,791)</u>	<u>3,462</u>	<u>100,382</u>	<u>26,927</u>	<u>(1,510,020)</u>

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	
	2022	2021
	NIS thousands	
Losses for tax purposes	37,974	18,104
	37,974	18,104

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, 2022 amount to NIS 1,513 million (2021: NIS 1,498 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 177 million (2021: NIS 86 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 2017 other than one subsidiary with closed assessments until and including tax year 2018 and another subsidiary with closed assessments until 2020 inclusive.

Note 30 - Taxes on Income (cont'd)

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

	2022		
	Before tax	Tax benefit (expense)	Net of tax
Revaluation reserve for fixed-asset items	754,866	(159,000)	595,866
Remeasurement of defined benefit plan	1,511	(282)	1,229
Total taxes in respect of components of other comprehensive income	756,377	(159,282)	597,095

	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)

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 21,862 thousand.

To secure a payment in connection with arbitration - NIS 3,003 thousand.

To institutions (mainly municipalities and the Ministry of Tourism) – NIS 3,209 thousand.

To secure a sales agreement - NIS 200 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).

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 399 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. 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 aforesaid including the signing of the indemnification deed, in conformity with generally accepted accounting principles Alrov Commercial District did not recognize income in respect of the amounts received.

Throughout the years 2020-2022 the Jerusalem District Court decided on additional distributions at the same terms as the aforesaid 2015 distribution including against the signing of an indemnification agreement at the same terms described above. According to those decisions, the State of Israel and Alrov Commercial District each received NIS 35 million, NIS 40 million and NIS 9 million in 2020, 2021 and the reporting year, respectively, whereas the Jerusalem Municipality received a total amount of NIS 39.6 million. In view of the aforesaid including 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, 2022 the liability to Karta that is included in payables amounts to NIS 104 million (see also Note 17 above).

As at the date of issuing the financial statements, the parties are in an advanced stage of negotiating understandings between them regarding the final amounts due to each party and conclusion of the dispute. The Company believes that insofar as an understanding is reached between the parties as aforesaid, it will recognize a gain in respect of the amounts agreed between the parties. The Company will continue to examine developments in this respect in each reporting period.

- (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).

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

B. Commitments (cont'd)

(5) (cont'd)

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.

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.

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

B. Commitments (cont'd)

(6) (cont'd)

- 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.
- 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 2016, as part of the aforesaid collaboration a new Swiss-resident company was established, SwissPic Holdings AG, which later changed its name to Epic Suisse AG. Before the issuance the Company and Epic Luxembourg held 77.8% and 22.2%, respectively, in the share capital of Epic Suisse. On May 25, 2022 Epic Suisse issued its share capital for the first time on a stock exchange in Switzerland (Six Swiss Exchange). For further details see Note 12.C above.

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

B. Commitments (cont'd)

(7) Mr. Ben Moshe serves as the Company's Director of Real Estate Operations in Israel. The salary cost of Mr. Ben Moshe in 2022 amounted to NIS 2,050 thousand.

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

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

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, at the same terms.

(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 Set Hotels 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.

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

B. Commitments (cont'd)

(10) In accordance with the founders' agreement of Locka, the parties will be allotted ordinary shares at the following rates: the Company – 80%; Mr. Georgi Akirov – 15%; the third party – 5%. On March 25, 2021 a special majority of the Company's general meeting of shareholders approved, inter alia, the arrangement that is the subject matter of the Locka transaction between Mr. Georgi Akirov and the Company ("the Arrangement") by which, inter alia, the 15% shares of Mr. Georgi Akirov in Locka will not confer any rights and/or duties in Locka and/or pursuant to the Locka transaction (this along with other restrictions and instructions regarding the shares of Mr. Georgi Akirov in Locka as aforesaid) and these will return conferring to Mr. Georgi Akirov all the rights and duties attached to them only upon the occurrence of one of the following events: (a) In the event that within 12 months from March 25, 2021 ("the entitling period") Mr. Georgi Akirov requests to avoid the dilution included in the Arrangement he is permitted (including by means of selling all or part of his shares in Locka to a third party, who will provide 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 in that period) by the Company to Locka (guarantees, financing, shareholders' loans, etc.). (b) In the event that 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.

On March 27, 2022 Mr. Georgi Akirov notified the Company that he 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 was March 25, 2022. Therefore, as from that date (meaning after the end of the entitling period), the shares of Mr. Georgi Akirov in Locka no longer confer any rights and/or duties in Locka and/or pursuant to the Locka transaction, and as from that date the holdings of Mr. Georgi Akirov in Locka are attributed to the Company in addition to the Company's shares in Locka.

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" and "the Capital Market Authority") 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.

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

B. Commitments (cont'd)

(11) (cont'd)

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%. 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"). 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.

On November 19, 2022 the Company submitted to the Tel Aviv-Jaffa District Court a motion to issue an order for disclosure and inspection of documents¹ before filing a derivative claim against Clal, the CEO of Clal and five present directors of Clal (of the seven directors serving at that time), including the chairman of the board. According to the motion, the purpose of the requested information is to enable the Company to examine the possibility of filing a derivative claim with respect to both adequacy of the approval of the Max transaction and accordingly its validity and/or the damages and expenses that were incurred by Clal as a result of moving forward with the Max transaction, and with respect to the duty of an insurance company to act to terminate the service of anyone who breached their duties towards Clal including with respect to fortifying management's control as a company without a controlling interest and/or who failed it with inadequate corporate governance. In the motion the Company noted that if after the requested disclosure of documents, it is found that the board of directors did not apply the business judgement rule and the full/enhanced fairness of the Max transaction is not proven, then Clal may have a claim against the officers for a considerable amount of damages. As at the date of the financial statements, the aforesaid proceeding is underway and no decision has as yet been made.

On December 25, 2022 a reply was received from the Capital Markets Authority that includes the position of the Committee for the Reduction of Concentration by which, at this time, (a) it has no intention of providing an interpretation that is different from that of the Committee for the Reduction of Concentration by which Clalbit Finance Ltd. should be considered a non-financial entity and not a financial entity pursuant to chapter D of the Concentration Law; (b) the arrangement by which all the means of control in Clal Insurance are held by the applicants who are individuals (meaning the Akirov family members) by means of companies controlled by them is possible; (c) it has no intention of granting a conditional control permit in Clal Insurance.

¹ Including minutes and documents that were exchanged with third parties in relation to the transaction of Clal Insurance in August 2022 to acquire all the shares of Warburg Pincus Financial Holdings (Israel) Ltd., which holds Max IT Finance Ltd. and other companies ("the Max transaction"), and all the documents relating to the allegations of the Company (Alrov) regarding the specific events indicated in the motion.

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

B. Commitments (cont'd)

(11) (cont'd)

On February 26, 2023 Clal transferred to the Company a copy of a notice from Bank of Israel, from the Supervisor of Banks ("the Bank of Israel notice"). According to the Bank of Israel notice, among other things: further to a permit that was granted by the Bank of Israel Governor to Clal Insurance, pursuant to the Banking (Licensing) Law – 1981 ("the Banking Law"), to control and hold means of control in Max IT Finance Ltd. and Warburg Pincus Financial Holding (Israel) Ltd., and Clal Insurance becoming a clearing holding entity upon the permit coming into effect ("the Max determining date") – Bank of Israel notified, *inter alia*, that it will not initiate and will not recommend exercising any enforcement measures against a shareholder of Clal Insurance that on the determining date holds means of control in Clal Insurance at a rate that requires a permit from the Bank of Israel Governor (above 5%) subject to meeting cumulative conditions which include whether the shareholder in Clal Insurance intends to submit, within 30 days from the Max determining date, a request for a permit to hold means of control in a clearing holding entity pursuant to the Banking law or whether it intends to reduce its holdings, within 30 days from the Max determining date, to a rate that does not exceed 5% of the means of control in Clal Insurance.

As at the date of issuing these financial statements: (a) the Max transaction has not yet been completed, (b) the Company is continuing to examine its investment in Clal Insurance, including the matter of the Max transaction and of exhausting its rights as a shareholder and in accordance with and subject to the holding permit, (c) the Company has not yet exhausted the matter of the request for a control permit in Clal Insurance that was submitted to the Commissioner of the Capital Market, Insurance and Savings.

It is clarified that there is no certainty regarding receipt of the control permit in Clal Insurance and no certainty that it will be received, 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, 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.

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

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, 2022, the amounts of claims made under Legal Claims that had been filed against the Group in various regards aggregate approximately NIS 9 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 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 no hearing has as yet been held on the matter and no decision has as yet been made.

(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.

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

C. Claims (cont'd)

(3) (cont'd)

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.

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 is 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. On March 28, 2022 the Company filed an amended response to the amended derivative motion. On June 1, 2022 a pretrial was held on the matter. As at the date of the financial statements the Court has scheduled an internal reminder for the case for April 15, 2023.

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, 2022 amount to NIS 6,576,983.

(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.

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

D. Pledges

(2) (cont'd)

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.

Note 32 - Financial Risk Management (cont'd)

B. Credit risk (cont'd)

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, 2022, the consolidated financial statements of the Company show negative working capital in the amount of NIS 301 million (December 31, 2021 - NIS 65 million) and continuous positive cash flows from operating activities.

The Company has had a negative working capital for several years (except in the second quarter of 2022), 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. These reasons led the Company in the past to decide on the continuation of financing with short-term credit when obtaining credit from Israeli banks. The Company recently began financing part of its short-term loans with long-term credit. 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 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 interest rates on short-term credit that in recent years were lower than those 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, the positive cash flow from operating activities and the value of the securities that do not serve as collateral, and based on all of the aforesaid, the Board of Directors determined that the existence of negative working capital is not indicative of a liquidity problem in the Company.

Guarantees

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

Note 32 - Financial Risk Management (cont'd)

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, insofar as the transactions are covered by a future anticipated inflow including from the Company's hotels. The Board of Directors reports once a quarter on developments in this area.
- (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	
	2022	2021
	NIS thousands	
Cash and cash equivalents	158,557	120,097
Trade receivables	43,956	24,169
Other receivables	36,561	30,003
	239,074	174,269

Note 33 - Financial Instruments (cont'd)

A. Credit risk (cont'd)

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	
	2022	2021
	NIS thousands	
Israel	69,644	45,732
France	45,270	24,737
Switzerland	101,535	69,622
United Kingdom	20,484	28,966
The Netherlands	2,141	5,212
	239,074	174,269

(2) Aging of debts and impairment losses

Presented below is the aging of trade receivables:

	December 31			
	2022		2021	
	Gross	Impairment	Gross	Impairment
Not past due	28,850	-	10,729	-
Past due 0-30 days	10,762	-	7,335	-
Past due 31-120 days	3,975	-	2,708	-
Past due 121-365 days	461	-	3,385	-
Past due more than one year	1,960	2,052	2,386	2,374
	46,008	2,052	26,543	2,374

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

	December 31	
	2022	2021
	NIS thousands	
Balance as at January 1	2,374	3,294
Impairment loss recognized	175	(1,789)
Bad debts	-	-
Other	(497)	869
Balance as at December 31	2,052	2,374

Notes to the Financial Statements as at December 31, 2022

Note 33 - Financial Instruments (cont'd)

B. Liquidity risk

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

	December 31, 2022						
	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							
Trade payables	76,322	76,322	76,322	-	-	-	-
Other payables *	276,435	276,435	276,435	-	-	-	-
Debentures	1,357,129	1,383,727	204,408	223,568	87,666	868,085	-
Bank loans	5,878,478	6,430,529	282,955	386,582	3,000,910	1,743,259	1,016,823
Loans from others	5,482	6,444	96	96	193	6,059	
Lease liability	56,508	85,420	2,663	2,552	4,504	10,223	65,478
Derivative financial liabilities							
Forward foreign currency contracts	21,337	21,337	5,641	76	399	15,221	-
Total	7,671,691	8,280,214	848,520	612,874	3,093,672	2,642,847	1,082,301

	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

* 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, 2022						
	NIS		Foreign currency				
	Unlinked	CPI-linked	GBP	Euro	CHF	Dollar	Total
Current assets:							
Cash and cash equivalents	16,662	-	9,338	37,414	77,629	17,514	158,557
Securities at fair value through profit or loss	781,549	-	-	-	-	-	781,549
Trade receivables	18,542	116	7,566	5,762	4,773	7,197	43,956
Other receivables	7,557	2,056	3,577	4,237	19,133	-	36,560
Non-current assets:							
Other investments at fair value through profit or loss	5,370	-	-	-	-	-	5,370
Long-term receivables	3,789	-	2,364	7,000	102,587	-	115,740
Current liabilities:							
Borrowings from banks in Israel	-	-	-	-	-	-	-
Current maturities of debentures	-	(416,354)	-	-	-	-	(416,354)
Current maturities of borrowings from banks	(1)	-	(8,085)	(114,591)	(385,072)	-	(507,749)
Trade payables	(17,636)	(214)	(18,615)	(30,665)	(9,083)	(109)	(76,322)
Other payables *	(166,991)	(16,991)	(29,836)	(71,832)	(39,209)	(3,467)	(328,326)
Non-current liabilities:							
Debentures	-	(932,069)	-	-	-	-	(932,069)
Bank loans	(268,603)	-	(1,894,111)	(1,325,768)	(1,888,596)	-	(5,377,078)
Other financial liabilities	-	(7,792)	(796)	(15,311)	(49,221)	-	(73,120)
Deposits	-	(7,571)	(4,521)	(6,853)	-	-	(18,945)
	380,238	(1,378,819)	(1,933,119)	(1,510,607)	(2,167,059)	21,135	(6,588,231)

* Other payables include short-term employee benefits.

Notes to the Financial Statements as at December 31, 2022

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, 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)
	<u>292,042</u>	<u>(1,258,436)</u>	<u>(2,008,778)</u>	<u>(1,223,044)</u>	<u>(2,627,496)</u>	<u>10,162</u>	<u>(6,815,550)</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, 2022					
	Currency/ linkage receivable	Currency/ linkage payable	Date of expiration	Amount receivable	Amount payable	Fair value
				Foreign currency thousands	NIS thousands	NIS thousands
Instruments not used for hedging:						
Forward foreign currency contracts	NIS	EUR	2023	289,565	78,632	(5,553)
	NIS	GBP	2023	91,587	21,652	(165)
	NIS	EUR	2024	9,091	2,538	(399)
	NIS	EUR	2025	9,060	2,520	(343)
	NIS	EUR	2026	9,030	2,499	(251)
	NIS	EUR	2027	602,528	166,660	(14,626)

Note 33 - Financial Instruments (cont'd)

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

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

Instruments not used for hedging:	December 31, 2021					
	Currency/ linkage receivable	Currency/ linkage payable	Date of expiration	Amount receivable	Amount payable	Fair value NIS thousands
	Foreign currency thousands					
Forward foreign currency contracts	NIS NIS	EUR CHF	01-02/2022 01/2022	1,118,768 17,039	316,321 5,049	5,046 (150)

(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 2021.

	December 31, 2022	
	Equity	Profit or (loss)
	NIS thousands	
2% increase in the CPI	(21,168)	(21,168)
5% increase in the exchange rate of:		
The U.S. dollar	814	814
The Euro	(27,337)	(27,337)
The pound sterling	(25,742)	(25,742)

	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)

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	
	2022	2021
	Carrying amount	
	NIS thousands	
Fixed-rate instruments		
Financial liabilities	<u>3,099,221</u>	<u>2,882,058</u>
Variable-rate instruments		
Financial liabilities	<u>4,142,939</u>	<u>4,583,790</u>

(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 2021.

	December 31, 2022			
	Profit or (loss)		Equity	
	Increase in interest	Decrease in interest	Increase in interest	Decrease in interest
NIS thousands				
Variable rate instruments	(5,302)	5,302	(5,302)	5,302

	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

Note 33 - Financial Instruments (cont'd)

D. Interest rate risk (cont'd)

Interest rate swap contracts not used for hedging

	December 31	
	2022	2021
	NIS thousands	
Within 12 months	12,727	(5,120)
Within 1-4 years	64,014	(3,599)
Within 5 years and longer	27,579	6,812
	104,320	(1,907)
Value of contracts for which the transactions were executed	871,712	777,894

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			
	2022		2021	
	Level *	Carrying amount	Fair value	Carrying amount
		NIS thousands		
Debentures	1	1,356,183	1,250,844	1,233,803
Loans in France, England and Switzerland at fixed interest	2	1,747,367	1,682,925	1,647,023
		3,103,550	2,933,769	2,880,826
				2,950,822

* 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, 2022 and December 31, 2021.

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, 2022			
	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)	781,549	-	-	781,549
	781,549	-	-	781,549

Other investments at fair value through profit or loss

Non-marketable shares, including venture capital funds	-	-	5,370	5,370
	-	-	5,370	5,370

Derivative financial assets

Forward contracts not used for hedging (b)	-	104,320	-	104,320
	-	104,320	-	104,320

Derivative financial liabilities

Forward foreign currency contracts (c)	-	21,337	-	21,337
	-	21,337	-	21,337

	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
	859,962	-	-	859,962

Other investments at fair value through profit or loss

Non-marketable shares, including venture capital funds	-	-	5,378	5,378
	-	-	5,378	5,378

Derivative financial assets

Forward contracts not used for hedging (b)	-	4,896	-	4,896
	-	4,896	-	4,896

Derivative financial liabilities

Interest rate swaps not used for hedging (c)	-	5,210	-	5,210
	-	5,210	-	5,210

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, 2022 and December 31, 2021.
- 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					
	2022		2021		2020	
	Number of People	Amount	Number of people	Amount	Number of people	Amount
		NIS thousands		NIS thousands		NIS thousands
Short-term employee benefits	4	8,683	4	7,839	4	7,417
Post-employment benefits	2	235	2	230	2	217
		8,918		8,069		7,634

Notes to the Financial Statements as at December 31, 2022

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					
	2022		2021		2020	
	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	8	892	6	802	6	881

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

	December 31	
	2022	2021
	NIS thousands	
Other receivables	1,461	1,133
Long-term receivables *	2,590	5,129
Loans from others **	5,482	5,016

* A loan to non-controlling interests that is included in long-term receivables bears interest at the rate of 2.285%.

** 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		
	2022	2021	2020
	NIS thousands		
Revenues			
From property management	167	160	168
Financing income	33	25	18
Expenses			
Salaries and other (1)	8,645	7,814	5,013
Management fees to companies controlled by interested parties (2)	996	948	3,305
Directors' fees	892	802	881
Financing expenses	144	122	157

(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, 2022		Year ended December 31, 2021	
	Debentures*	Bank loans and borrowings*	Debentures*	Bank loans and borrowings*
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance as of January 1	1,243,435	6,216,037	808,829	6,847,748
Borrowings from banks, net	-	(498,333)	-	421,437
Receipt of long-term bank loans net of loan acquisition costs	-	600,364	-	251,721
Repayment of long-term bank loans	-	(837,014)	-	(816,888)
Proceeds from issuance of debentures (net of issue costs)	103,610	-	648,191	-
Repayment of debentures	(55,143)	-	(229,161)	-
Revaluation of financial liabilities	63,251	393,666	17,272	(491,584)
Amortization of discount, premium and deferred expenses	1,976	3,758	(1,696)	3,603
Balance as of December 31	1,357,129	5,878,478	1,243,435	6,216,037

* Includes current maturities of debentures and loans

Note 36 - Subsequent Events

- A. On January 4, 2023 the Company's Board of Directors approved a plan to repurchase up to NIS 100 million debentures of the Company (Series D, E, F). The plan is in effect from January 5, 2023 until December 31, 2023.
- B. On January 22, 2023 the Company repurchased NIS 2,000,00 par value of the Company's shares in an off-floor transaction in consideration for NIS 285 million. Furthermore, the aforesaid sale transaction includes an adjustment mechanism by which in the event of the Company becoming a private company by January 21, 2025 (meaning shares are not held by the public) at a price per share that is higher than NIS 142.5 (plus adjustments for dividend distribution) the seller will be entitled to receive from the Company an additional amount in respect of each share that is sold in an amount equal to 10% of the delisting price. Furthermore, on March 26, 2023 the Company's Board of Directors approved a repurchase plan in the amount of NIS 40 million for one year.
- C. 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, 2023), a pre-tax loss in the amount of NIS 72 million was recorded on the Company's securities.
- D. Subsequent to the date of the statement of financial position, the Company refinanced loans in Switzerland in the total amount of CHF 75.1 million (NIS 297 million) for a period of between 5 and 7 years at variable and fixed interest of up to 2.3%.
- E. Subsequent to the date of the statement of financial position the Board of Directors decided to distribute dividends in the amount of NIS 5 million.

Notes to the Financial Statements as at December 31, 2022

Note 37 - List of Investee Companies

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

Consolidated companies:

	Year ended December 31			
	2022		2021	
	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
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
Hotel Lutetia Financing - Limited Partnership European Property Investment Corporation Limited	100	100	100	100
P.I.H. Property Investment Holding B.V.	76	76	76	76
Clan Alpine Properties B.V. *	-	-	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 Latrion 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, 2022

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			
	2022		2021	
	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	56.5	56.5	77.8	77.8
Epic Three Property Investment AG	56.5	56.5	77.8	77.8
Epic Five Property Investment AG	56.5	56.5	77.8	77.8
Epic Seven Property Investment AG	56.5	56.5	77.8	77.8
Epic Nine Property Investment AG	56.5	56.5	77.8	77.8
Epic Ten Property Investment AG	56.5	56.5	77.8	77.8
Epic Eleven Property Investment AG	56.5	56.5	77.8	77.8
Epic Twelve Property Investment AG	56.5	56.5	77.8	77.8
Epic Sixteen Property Investment AG	56.5	56.5	77.8	77.8
Epic Nineteen Property Investment AG	56.5	56.5	77.8	77.8
Epic Twenty Property Investment AG	56.5	56.5	77.8	77.8
Epic Twenty One Property Investment AG	56.5	56.5	77.8	77.8
Epic Twenty Two Property Investment AG	56.5	56.5	77.8	77.8
Epic Twenty Three Property Investment AG	56.5	56.5	77.8	77.8
Epic Suisse Property Management GmbH	56.5	56.5	77.8	77.8
The SET Hotel Management Company Limited	85	85	85	85
Locka Holding B.V.	80	80	***	80
Epic Suisse AG	56.5	56.5	77.8	77.8
Barco Investments B.V.	80	80	80	80
Conservatorium B.V.	-	-	**	-
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	56.5	56.5	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
Fitzroy Properties (2022) Limited	79.84	79.84	-	-
Associates				
Properteam Regs Sarl	34	25.8	34	25.8

* The company was voluntarily liquidated.

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

* The company was merged with PIH Property Investment Holding BV.

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