2021 ANNUAL REPORT

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DIC | DISCOUNT INVESTMENT CORPORATION

Discount Investment Corporation Ltd.

Financial Statements

December 31, 2021
(Audited)

*** The English version of this information as at December 31, 2021 is a translation of the Hebrew version of the financial statements of Discount Investment Corporation Ltd., and is presented solely for convenience purposes. Please note that the Hebrew version constitutes the binding version.**

TRANSLATION FROM HEBREW – IN THE EVENT OF ANY DISCREPANCY THE HEBREW SHALL PREVAIL

DIC | 2021

Discount Investment Corporation Ltd.

Financial Statements for the Year Ended December 31, 2021

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Attached documents

1. Financial statements as at December 31, 2021 of IDB Group U.S.A Investments Inc. (See Note 12.A.5. below).
2. Data regarding the Company's liabilities are attached to these financial statements, in accordance with Regulation 38E of the Securities Regulations, by way of reference to the aforementioned data which are included in the report regarding the corporation's liabilities, which was published on March 22, 2022 (reference number 2022-01-028200).

Auditors' Report to the Shareholders of Discount Investment Corporation Ltd.

We have audited the attached consolidated statements of financial position of Discount Investment Corporation Ltd. (hereinafter: the "Company") as at December 31, 2021 and 2020, as well as the consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2021. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We have not audited the financial statements of consolidated companies, including companies whose operations were discontinued, and whose assets as included in the consolidation constituted approximately 9% and approximately 9% of total consolidated assets as at December 31, 2021 and 2020, respectively, and whose income, including from discontinued operations, as included in the consolidation, constituted approximately 28%, approximately 28% and approximately 4% of total consolidated income for the years ended December 31, 2021, 2020 and 2019, respectively. We have also not audited the financial statements of investee companies accounted by the equity method, including companies whose operations were discontinued, the investment in which amounted to approximately NIS 282 million and approximately NIS 283 million as at December 31, 2021 and 2020, respectively, and where the Company's share in their net losses amounted to approximately NIS 32 million, approximately NIS 33 million and approximately NIS 46 million for the years ended December 31, 2021, 2020 and 2019, respectively. The financial statements of those companies were audited by other auditors, whose reports were presented to us, and our opinion, insofar as it refers to the amounts included for those companies, is based on the reports provided by the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards set forth in the Auditors' Regulations (Auditor's Mode of Performance), 5733-1973. According to these standards, we are required to plan the audit and perform it in order to obtain a reasonable measure of assurance about whether the financial statements are free of any material misrepresentation. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and information presented in the financial statements. An audit also includes performing an evaluation of the accounting principles used and of the significant estimates made by the Company's management, as well as an evaluation of the overall adequacy of presentation in the financial statements. We believe that our audit, and the reports provided by the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports provided by other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and of its consolidated companies as at December 31, 2021 and 2020, as well as their operating results, changes in equity and cash flows for each of the three years in the period ended on December 31, 2021, in accordance with international financial reporting standards (IFRS) and the provisions of the Securities Regulations (Yearly Financial Statements), 5770-2010.

We have also audited the Company's pro forma consolidated statements of financial position as at December 31, 2021, and the pro forma consolidated statements of income, for each of the three years in the period ended December 31, 2021, in connection with the transaction involving the acquisition of Gav-Yam, which are included in Note 33 to the consolidated reports (hereinafter: the "Pro Forma Reports"). These pro forma reports are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these pro forma reports, based on our audit.

We have not audited the financial statements of consolidated subsidiaries, whose assets as included in the consolidation constituted approximately 7% of total pro forma consolidated assets as at December 31, 2021, and whose income as included in the consolidation constituted approximately 21%, approximately 27% and approximately 4% of total pro forma consolidated income for the years ended December 31, 2021, 2020 and 2019, respectively. We have also not audited the financial statements of equity accounted investee companies, where the Company's share in their losses, as included in the pro forma reports, amounted to approximately NIS 30 million and approximately NIS 43 million for the years ended December 31, 2020 and 2019, respectively. The financial statements of those companies were audited by other auditors, whose reports were presented to us, and our opinion, insofar as it refers to the amounts included with respect to those companies, is based on the reports provided by the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards set forth in the Auditors' Regulations (Auditor's Mode of Performance), 5733-1973. According to these standards, we are required to plan the audit and perform it in order to obtain a reasonable measure of assurance about whether the financial statements are free of any material misrepresentation. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and information presented in the financial statements. An audit also includes performing an evaluation of the accounting principles used and of the significant estimates made by the Company's management, as well as an evaluation of the overall adequacy of presentation in the financial statements. We believe that our audit, and the reports provided by the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports provided by other auditors, the pro forma reports referred to above present fairly, in all material respects, the pro forma financial position of the Company and of its consolidated companies as at December 31, 2021, as well as their pro forma operating results in each of the three years during the period ended December 31, 2021, in accordance with the provisions of Regulation 9A of the Securities Regulations (Yearly Financial Statements), 5730-1970, based on the assumptions specified in Note 33.B.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Internal Controls over Financial Reporting", internal controls over financial reporting in the Company as at December 31, 2021, and our report dated March 22, 2022 includes an unqualified opinion regarding the effective existence of those controls.

Tel Aviv,
March 22, 2022

Kesselman & Kesselman
Certified Public Accountants
A member firm of PricewaterhouseCoopers International Limited

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Consolidated Statements of Financial Position

	Note	As at December 31 2021	2020[1]
		NIS millions	
Non-current assets			
Investments in investee companies accounted by the equity method	3	3,167	1,918
Financial assets measured at fair value through profit or loss		194	124
Loans, deposits, restricted deposits and debit balances		117	220
Right-of-use assets	7	869	882
Fixed assets	5	1,729	1,760
Investment property	6	23	2,926
Long term trade receivables	8	158	176
Inventory of real estate		24	69
Deferred expenses		423	414
Deferred tax assets	30.B.	6	5
Intangible assets	9	2,640	2,693
		9,350	11,187
Current assets			
Financial assets measured at fair value through profit or loss	4	399	296
Deposits and pledged and restricted deposits	10	300	558
Other receivables and debit balances		327	366
Current tax assets		20	16
Trade receivables and other income receivable	8	1,082	1,103
Inventory	11	240	219
Inventory of buildings for sale	11	65	50
Assets of disposal groups held for sale	12	3,695	1,268
Cash and cash equivalents	13	2,740	3,921
		8,868	7,797
Total assets		18,218	18,984

(1) Including operations of disposal groups held for sale, which are presented in 2021 as assets of disposal groups under current assets, see Note 12.B.1. below.

The accompanying notes to the condensed consolidated interim financial statements are an integral part hereof.

Consolidated Statements of Financial Position (Cont.)

		As at December 31	
		2021	2020[1]
	Note	NIS millions	
Capital			
Share capital	14	810	810
Capital reserves		4,029	4,075
Accumulated losses		(3,321)	(3,654)
Capital attributable to owners of the Company		1,518	1,231
Non-controlling interests	3.E.	2,856	2,079
		4,374	3,310
Non-current liabilities			
Debentures	15	7,534	8,741
Loans from banks and other financial liabilities	15	147	1,448
Lease liabilities	7	589	576
Derivatives		-	3
Provisions	16	40	92
Deferred tax liabilities	30.B.	566	477
Employee benefits	17	24	23
Other non-financial liabilities		13	15
		8,913	11,375
Current liabilities			
Current maturities of debentures	15	1,422	1,489
Credit from banking corporations and current maturities of loans from banks and others	15	268	380
Current maturities of lease liabilities	7	208	240
Other payables and credit balances	18	654	649
Trade payables	19	838	875
Derivatives		4	10
Current tax liabilities		33	9
Provisions	16	116	191
Liabilities of disposal groups held for sale	12	1,388	456
		4,931	4,299
Total capital and liabilities		18,218	18,984

Tzachi Nachmias	Doron Cohen	Baruch Itzchak
Chairman of the Board	General Manager	CFO

(1) Including operations of disposal groups held for sale, which are presented in 2021 as liabilities of disposal groups held for sale, under current liabilities, see Note 12.B.1. below.

Approval date of the financial statements: March 22, 2022

The accompanying notes to the condensed consolidated interim financial statements are an integral part hereof.

Consolidated Statements of Income

	Note	For the year ended December 31 2021	2020[2]	2019[1],[2]
		NIS millions		
Income				
Sales and services	23	5,378	4,840	4,351
The Group's share in the net profit of investee companies accounted by the equity method, net		339	-	-
Profit from realization and increase in the value of investments and assets, and dividends	25.A	186	64	108
Increase in fair value of investment property, net	6.C	585	2	67
Other income	25.C	241	41	25
Financing income	26.A	116	28	234
		6,845	4,975	4,785
Expenses				
Cost of sales and services	27	4,049	3,792	3,137
Research and development expenses		4	13	32
Selling and marketing expenses	28	689	600	669
General and administrative expenses	29	467	553	490
The Group's share in the loss of investee companies accounted by the equity method, net	24	-	15	19
Loss from realization, impairment, and write-down of investments and assets	25.B	41	113	735
Other expenses		33	5	6
Financing expenses	26.B	643	714	679
		5,926	5,805	5,767
Profit (loss) before taxes on income		919	(830)	(982)
Income (expenses) from taxes on income	30	(156)	20	(27)
Profit (loss) from continuing operations		763	(810)	(1,009)
Profit (loss) from discontinued operations, after tax	12	(96)	13	1,326
Net profit (loss) for the year		667	(797)	317
Net profit (loss) attributable to:				
The Company's owners		266	(555)	14
Non-controlling interests		401	(242)	303
		667	(797)	317
		NIS	NIS	NIS
Basic and diluted earnings (loss) per share attributed to the Company's owners	14.G.			
From continuing operations		2.3	(4.1)	(5.3)
From discontinued operations		(0.4)	0.2	5.4
		1.9	(3.9)	0.1

(1) Not including the results of Mehadrin and Golan, which were initially consolidated beginning on March 9, 2020 and August 26, 2020, respectively.

(2) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. below.

The accompanying notes to the condensed consolidated interim financial statements are an integral part hereof.

Consolidated Statements of Other Comprehensive Income

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Net income (loss) for the year	667	(797)	317
Other comprehensive income (loss) items which will not be transferred to profit and loss, net of tax			
Actuarial gains (losses) in defined benefit plan	(2)	2	(4)
The Group's share in other comprehensive income (loss) with respect to investee companies accounted by the equity method	-	-	(8)
Total other comprehensive income (loss) which will not be transferred to profit and loss	(2)	2	(12)
Other comprehensive income (loss) items after initial recognition under comprehensive income which have been transferred or will be transferred to profit and loss, net of tax			
Foreign currency translation differences for foreign operations	(58)	(104)	(165)
Net change in the fair value of cash flow hedging that was charged to profit or loss	2	-	-
Net change in the fair value of cash flow hedging which was carried to the cost of the hedged item	-	(2)	-
The Group's share in other comprehensive income (loss) with respect to investee companies accounted by the equity method	5	(17)	(30)
Total other comprehensive loss after initial recognition under comprehensive income which has been transferred or will be transferred to profit and loss	(51)	(123)	(195)
Total other comprehensive loss for the year, net of tax	(53)	(121)	(207)
Total net income (loss) for the year	614	(918)	110
Attributable to:			
The Company's owners	239	(639)	(125)
Non-controlling interests	375	(279)	235
Net income (loss) for the year	614	(918)	110
Net comprehensive income (loss) for the year attributed to owners of the Company, due to:			
Continuing operations	319	[(1)] (607)	[(1)] (788)
Discontinued operations	(80)	[(1)] (32)	[(1)]663
	239	(639)	(125)

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. below.

The accompanying notes to the condensed consolidated interim financial statements are an integral part hereof.

Consolidated Statements of Changes in Equity

	Attributable to the Company's owners												
	Share capital	Premium on shares	Reserves with respect to transactions with non-controlling interests	Reserves from translation difference	Hedging reserves	Reserves with respect to available-for-sale financial assets through other comprehensive income	Revaluation reserves	Controlling shareholder reserve	Treasury shares	Accumulated loss	Total capital attributable to the Company's owners	Non-controlling interests	Total capital
	NIS millions												
For the year ended December 31, 2021													
Balance as at January 1, 2021	810	4,449	69	(397)	(1)	(2)	68	4	(115)	(3,654)	1,231	2,079	3,310
Net income for the year	-	-	-	-	-	-	-	-	-	266	266	401	667
Other comprehensive loss for the year	-	-	-	(27)	1	-	-	-	-	(1)	(27)	(26)	(53)
Transactions with owners carried directly to equity, investments of owners and distributions to owners													
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(13)	(13)
Deconsolidation of Ispro (see Note 12.A.1. below)	-	-	-	-	-	-	(68)	-	-	68	-	-	-
Changes in interests in consolidated companies(1) (see Note 3.G. below)	-	-	41	7	-	-	-	-	-	-	48	395	443
Share-based payments given by consolidated companies	-	-	-	-	-	-	-	-	-	-	-	20	20
Balance as at December 31, 2021	810	4,449	110	(417)	-	(2)	-	4	(115)	(3,321)	1,518	2,856	4,374

(1) includes, inter alia, an issuance of shares to non-controlling interests in a consolidated company, and an acquisition as part of an issuance in a consolidated company.

Consolidated Statements of Changes in Equity (Cont.)

	Attributable to the Company's owners												
	Share capital	Premium on shares	Reserves with respect to transactions with non-controlling interests	Reserves from translation differences	Hedging reserves	Reserves with respect to available-for-sale financial assets through other comprehensive income	Revaluation reserves	Controlling shareholders reserve	Treasury shares	Accumulated loss	Total capital attributable to the Company's owners	Non-controlling interests	Total capital
	NIS millions												
For the year ended December 31, 2020													
Balance as at January 1, 2020	810	4,449	15	(293)	(2)	(2)	63	3	(115)	(3,104)	1,824	2,067	3,891
Loss for the year	-	-	-	-	-	-	-	-	-	(555)	(555)	(242)	(797)
Other comprehensive income (loss) for the year	-	-	-	(86)	1	-	-	-	-	1	(84)	(37)	(121)
Transactions with owners carried directly to equity, investments of owners and distributions to owners													
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(52)	(52)
Deconsolidation of Pocared due to loss of control	-	-	-	-	-	-	-	-	-	-	-	(13)	(13)
Consolidation of Mehadrin due to rise to control	-	-	-	-	-	-	-	-	-	-	-	387	387
Changes in interests in consolidated companies[(1)]	-	-	54	(18)	-	-	5	-	-	-	41	(55)	(14)
Share-based payments given by the Company	-	-	-	-	-	-	-	-	-	4	4	-	4
Share-based payments given by consolidated companies	-	-	-	-	-	-	-	-	-	-	-	24	24
Reserve from transactions with controlling shareholders	-	-	-	-	-	-	-	1	-	-	1	-	1
Balance as at December 31, 2020	810	4,449	69	(397)	(1)	(2)	68	4	(115)	(3,654)	1,231	2,079	3,310

(1) Includes, inter alia, effects due to the exercise of options by the Company and by non-controlling interests in a consolidated company, issuances of options to non-controlling interests in a consolidated company, and effects due to the expiration and exercise of share-based payment instruments in consolidated companies.

The accompanying notes to the condensed consolidated interim financial statements are an integral part hereof.

Consolidated Statements of Changes in Equity (Cont.)

	Attributable to the Company's owners												
	Share capital	Premium on shares	Reserves with respect to transactions with non-controlling interests	Reserves from translation differences	Hedging reserves	Reserves with respect to available-for-sale financial assets through other comprehensive income	Revaluation reserves	Controlling shareholders reserve	Treasury shares	Accumulated loss	Total capital attributable to the Company's owners	Non-controlling interests	Total capital
	NIS millions												
For the year ended December 31, 2019													
Balance as at January 1, 2019	810	4,449	9	(162)	-	(2)	88	3	(19)	(2,859)	2,317	4,024	6,341
Initial adoption of the amendment to IAS 28	-	-	-	-	-	-	-	-	-	(171)	(171)	(83)	(254)
Net income for the year	-	-	-	-	-	-	-	-	-	14	14	303	317
Other comprehensive loss for the year	-	-	-	(127)	(2)	-	-	-	-	(10)	(139)	(68)	(207)
Transactions with owners carried directly to equity, investments of owners and distributions to owners													
Dividend paid to the Company's owners	-	-	-	-	-	-	-	-	-	(104)	(104)	-	(104)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(201)	(201)
Acquisition of treasury shares	-	-	-	-	-	-	-	-	(96)	-	(96)	-	(96)
Consolidation of Mehadrin due to rise to control	-	-	-	-	-	-	-	-	-	-	-	278	278
Deconsolidation of Gav-Yam and Mehadrin due to loss of control	-	-	(4)	-	-	-	(27)	-	-	27	(4)	(2,329)	(2,333)
Changes in interests in consolidated companies[(1)]	-	-	10	(4)	-	-	2	-	-	-	8	132	140
Share-based payments given by the Company	-	-	-	-	-	-	-	-	-	(1)	(1)	-	(1)
Share-based payments given by consolidated companies	-	-	-	-	-	-	-	-	-	-	-	11	11
Balance as at December 31, 2019	810	4,449	15	(293)	(2)	(2)	63	3	(115)	(3,104)	1,824	2,067	3,891

(1) Includes, inter alia, an acquisition as part of an issuance in a consolidated company, and effects due to the expiration and realization of share-based payment instruments in consolidated companies.

The accompanying notes to the condensed consolidated interim financial statements are an integral part hereof.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2021	2020[2]	2019[1],[2]
	NIS millions		
Cash flows from operating activities			
Net profit (loss) for the year	667	(797)	317
Profit (loss) from discontinued operations, after tax	96	(13)	(1,326)
Profit (loss) from continuing operations	763	(810)	(1,009)
Adjustments:			
The Group's share in the loss (profit) of investee companies accounted by the equity method, net	(339)	15	19
Received dividends (including from other investments)	82	85	7
Realization losses (profits), decrease (increase) and write-downs, net, of investments, assets and dividends	(145)	49	627
Profit from sale of land option	(171)	-	-
Increase in fair value of investment property, net	(585)	(2)	(67)
Depreciation and amortization	958	981	915
Financing costs, net	527	686	445
Expenses (income) of tax on income, net	156	(20)	27
Income tax paid, net	(9)	(33)	(23)
Payments with respect to the settlement of derivatives	(5)	(3)	(10)
Share-based payment expenses	20	28	9
	489	1,786	1,949
Changes in other balance sheet items			
Decrease (increase) in other receivables and debit balances (including long-term amounts)	(70)	(49)	6
Decrease in trade receivables (including long term amounts)	11	202	215
Decrease (increase) in inventory (including long term amounts)	(16)	13	142
Change in benefits to employees	2	(8)	(1)
Decrease in trade payables	(27)	(3)	(53)
Decrease in other payables and credit balances, provisions and other liabilities (including long term amounts)	(31)	(88)	(52)
	(131)	67	257
Net cash from continuing operating activities	1,121	1,043	1,197
Net cash from discontinued operating activities	153	182	443
Net cash from operating activities	1,274	1,225	1,640
Cash flows for investing activities			
Long term deposits loans which were given	(29)	(4)	-
Consideration from the realization of loans which were given and long term deposits	9	10	-
Decrease (increase) in pledged and restricted deposits, net	(94)	21	9
Current investments, loans and short term deposits, net	293	1,145	(244)
Investments and loans, net, in investee companies accounted by the equity method	[3] (1,009)	(42)	(191)
Non-current investments	(17)	(12)	(1)
Investments in investment property and in fixed assets	(382)	(320)	(365)
Investments in intangible and other assets	(252)	(215)	(233)
Receipts (payments) with respect to the settlement of derivatives, net	(2)	1	9
Change in cash due to the initial consolidation of subsidiaries	(4)	(507)	-
Consideration from the realization of consolidated companies, net of cash spent within the framework of their deconsolidation	[3]658	(3)	-
Receipts from realization of non-current investments, including dividend from the realization	126	371	27
Receipts from realization of investment property, sale of land options, fixed assets and other assets	329	173	720
Taxes paid, net, with respect to investment property, fixed assets and other assets	(50)	(26)	(53)
Interest received	16	26	50
Net cash (used in) from continuing investing activities	(408)	618	(272)
Net cash (used in) from discontinued investing activities	(33)	1,446	(56)
Net cash (used in) from investing activities	(441)	2,064	(328)

Not including the liabilities of Mehadrin and Golan, which were initially consolidated beginning on March 9, 2020 and beginning on August 26, 2020, respectively.

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. below.

(2) Including the purchase of 14.7% of Gav Yam's issued share capital, see Note 3.G.2.A.1. below.

(3) Including consideration with respect to the realization of Ispro, see Note 12.A.1. below.

The accompanying notes to the condensed consolidated interim financial statements are an integral part hereof.

Consolidated Statements of Cash Flows (Cont.)

	For the year ended December 31		
	2021	2020[(2)]	2019[(1),(2)]
	NIS millions		
Cash flows for financing activities			
Non-current financial liabilities received	63	661	665
Repayment of non-current financial liabilities	(1,690)	(1,657)	(2,435)
Interest paid	(445)	(524)	(594)
Repayment of lease liabilities	(286)	(277)	(289)
Acquisition of treasury shares	-	-	(96)
Early redemption of debentures	-	(110)	-
Issuance of interests in consolidated companies to non-controlling interests	398	5	166
Current financial liabilities, net	45	3	(37)
Receipts, including exercised share options, from non-controlling interests in consolidated companies	27	74	4
Acquisition of shares in consolidated companies from non-controlling interests	(3)	(90)	(30)
Dividend paid to the Company's owners	-	-	(40)
Dividend to non-controlling interests in consolidated companies	(16)	(50)	(42)
Receipts (payments) with respect to the settlement of derivatives	2	(6)	(2)
Net cash used in continuing financing activities	(1,905)	(1,971)	(2,730)
Net cash used in discontinued financing activities	(81)	(85)	(581)
Net cash used in financing activities	(1,986)	(2,056)	(3,311)
Decrease in cash and cash equivalents from continuing operations	(1,192)	(310)	(1,805)
Increase (decrease) in cash and cash equivalents from discontinued operations	39	1,543	(194)
Increase (decrease) in cash and cash equivalents from continuing operations and discontinued operations	(1,153)	1,233	(1,999)
Balance of cash and cash equivalents at start of year	3,921	2,812	4,890
Effects of fluctuations in exchange rates on balances of cash and cash equivalents	(20)	(98)	(60)
Change in the balance of cash and cash equivalents presented under held for sale assets	(8)	(26)	(19)
Balance of cash and cash equivalents at end of year	2,740	3,921	2,812

(1) Not including the liabilities of Mehadrin and Golan, which were initially consolidated beginning on March 9, 2020 and beginning on August 26, 2020, respectively.

(2) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. below.

The accompanying notes to the condensed consolidated interim financial statements are an integral part hereof.

Note 1 - General

A. Discount Investment Corporation Ltd. ("DIC") is a company registered in Israel and incorporated in Israel, whose address is the ToHa Building, 114 Yigal Alon St., 27th floor, Tel Aviv. The Company is a holding company which invests, independently and through investee companies, in companies which are engaged in various segments of the Israeli economy. The Company generally invests in investee companies at a scope which gives it influence over their direction and management.

In March 2022, after the date of the statement of financial position, Property & Building completed a special tender offer which was published, for the acquisition of the control of Gav-Yam, such that Property & Building's stake increased to approximately 49.51% of Gav-Yam's issued capital, and Property & Building is continuing to work on completing the transaction involving the acquisition of Gav-Yam shares which constitute approximately 37.22% of Gav-Yam's issued capital, as stated in Note 3.G.2.A.2. below.

The Company's shares and debentures are listed for trading on the Tel Aviv Stock Exchange Ltd. (the "Stock Exchange").

Further to that stated in Note 1.A. to the financial statements for the year ended December 31, 2020 (the "Financial Statements for 2020"), regarding the process of receivership with respect to DIC shares, and regarding the approval which was given by the District Court of Tel Aviv-Yafo for the sale of the Company's shares to Mega Or Holdings Ltd. ("Mega Or") and a group of investors led by it, in accordance with its offers (the "Company Shares Sale Transaction"), and regarding the Competition Commissioner's conditional approval for the merger between Mega Or and the Company, on March 25, 2021 the first stage of the Company shares sale transaction was completed, which included the transfer of Company shares which constitute approximately 24.9% of DIC's issued and paid-up capital to Mega Or, and of Company shares which constitute approximately 22.5% of DIC's issued and paid-up capital to additional buyers.

On April 13, 2021, the Company received notice from the Competition Commissioner announcing the cancellation of the conditions for the merger, and on April 20, 2021 Mega Or completed an acquisition of an additional 5% of the Company's shares, such that, after the completion of the aforementioned additional acquisition, Mega Or holds 29.9% of the Company's issued capital. On April 21, 2021, Elco Ltd. ("Elco") received a decision of the Competition Commissioner which approved the merger between Elco and the Company. In June 2021, approval was received from the Ministry of Communication for the purchase of Company shares by Elco, and Elco completed the acquisition of Company shares which constitute approximately 29.8% of its issued capital. On March 15, 2021, approval was given by the Ministry of Communication for the transfer of the means of control of Cellcom and of additional companies from Cellcom Group, in a manner whereby Mega Or will hold up to 29.9% of the Company's means of control. According to the approval, Mega Or will be considered an "Israeli entity", as defined in Cellcom's mobile license (for details regarding the obligation of Israeli holding of Cellcom, see Note 3.F.3. below).

Following the completion of the transfer of the Company's shares to Mega Or, as stated above, and from that date onwards, the Company is a company without a controlling shareholder (according to the definition of the term "control" in the Securities Law, 5728-1968), and is not considered a "first tier company" (as this term is defined in the Law to Promote Competition and Reduce Concentration, 5774-2013 (the "Concentration Law")), and accordingly, the companies under its control which are reporting corporations according to the Securities Law are no longer subject to restrictions by virtue of the Concentration Law, in connection with the ability of the aforementioned companies to directly hold control of other tier companies.

Note 1 - General (Cont.)

B. Impact of the coronavirus pandemic

The novel coronavirus (COVID-19), which began spreading around the world in the first quarter of 2020, has been declared a global pandemic by the World Health Organization, and is considered an event with extensive macro-economic consequences, including consequences affecting the business continuity of many businesses, declines in consumption, dismissal of employees, volatility in exchange rates and in stock exchange indices in various countries, and other economic effects. Israel faced two difficult waves of infection in 2021, due to the emergence of the Alpha variant in the first quarter of the year, and the Delta variant at the end of the second quarter of the year. Towards the end of the year, another wave of infections began due to the Omicron variant, and as at the publication date of the financial statements, this wave of infections currently appears to be decreasing, and the rate of infections are decreasing. Despite hundreds of thousands of new cases of Omicron infections, most were not severe, and the government imposed insignificant restrictions to contain it. During the year the state worked on vaccinating the entire population (ages five and older) against the virus, including a third ("booster") shot, and even a fourth shot. Despite the high rate of vaccination, and due to the spread of different variants of the coronavirus, infection rates were high, as stated above. The Israeli economy presented a trend of recovery in 2021, relative to the previous year; however, as at the publication date of the report, it is not possible to predict the duration of the crisis, nor its full impact on business activity in Israel. The current profit forecast indicates continued recovery of the economy during 2022; however, it is not possible to predict if and when other variants of the coronavirus will develop, and whether economically significant restrictions will be imposed due to their spread.

Following instructions issued by the Ministry of Health and government authorities in the United States, which change frequently, the Group is continuing to closely monitor the effects of the coronavirus crisis on its business activities, and is continuously evaluating the effects of the crisis on its activities and results.

The coronavirus pandemic has a significant effect on volatility in capital markets. For details regarding the market value of the Company's main investments, see Note 3.D. below.

Described below are the effects on the Company's primary holdings:

Cellcom - In 2021, Cellcom continued to experience a significant decline in revenue from roaming services of outbound tourism and inbound tourism, relative to the period before the coronavirus crisis; however, due to partial resumption of outbound tourism, Cellcom recorded growth relative to 2020. Cellcom estimates that the significantly negative effect caused by roaming services on its operating results is expected to lessen, insofar as the restrictions on inbound and outbound traffic to and from Israel continue.

Regarding the restrictions on commerce and the closing of shopping malls, in light of the re-opening of the Israeli economy, the impact on Cellcom's operating results in 2021 was immaterial.

Cellcom has evaluated its sources of financing and liquidity, and believes that it has the financial strength needed to deal with the effects of the coronavirus crisis, due, inter alia, to the diversification of its operating segments, and the scope of its liquid balances.

Note 1 - General (Cont.)

B. Impact of the coronavirus pandemic (Cont.)

Property & Building - Property & Building believes that its financial strength and the status of its properties, cash balances, and the current cash flows which it is generating, will allow it to continue financing its activities and service its liabilities. For details regarding the impact of the coronavirus pandemic on Property & Building's activity, see Notes 12.A.5.G. and 12.B.1.E. below.

Gav-Yam - Gav-Yam is continuing its operating activities, subject to all of the government-issued restrictions and guidelines, including continued initiation, planning, construction, marketing and maintenance. while balancing Gav-Yam's commitment to protecting the health of all of its employees and the employees of the lessees of its properties, and the need for business continuity.

The management of Gav-Yam believes, in light of its financial strength, as reflected, inter alia, in its high balances of available cash and cash equivalents, its low leverage ratio, the average lifetime and distribution of its debt, the fact that all of its properties are unpledged, and in light of the geographical and sectoral diversification of Gav-Yam's properties, as well as their positions, locations, and occupancy rates, and the fact that the vast majority of the properties are used for hi-tech, office, industrial and logistical purposes (and not for commercial or retail purposes), as well as the quality of its lessees, that all of the above factors reduce the exposure of Gav-Yam's businesses to the crisis and/or to significant instability, and that it has tools at its disposal in order to appropriately respond to the coronavirus crisis.

Mehadrin - In the 2021/2022 season, which began in the third quarter of 2021, Mehadrin was able to prepare with workforce for its needs, and even used external packaging plants, due to the isolation of the some of the employees, and the discontinuation of work at some of Mehadrin's facilities. As at the date of the statement of financial position, there was no decline observed in the quality or quantity of fruit, and no change is expected in the foreseeable future; however, the effect of the pandemic's continuation over a prolonged period created international economic pressures, which led to an increase in oil prices, a shortage of boats and containers and supply disruptions, which led to a significant increase in transportation prices, and an increase in packaging prices. In light of the activities performed by Mehadrin to reduce the exposure to changes in costs, the above had no significant impact on Mehadrin's results in 2021. The coronavirus crisis has had, and may still have, negative consequences on Mehadrin's fields of activity, and as a result, on its business results - consequences which cannot currently be estimated; However, as at the approval date of the financial statements, in accordance with current information it has, Mehadrin does not expect any significant impact due to the above also on the first quarter for the first quarter of 2022.

It is noted that due to the fact that the event is outside of the Group's control, and due to the nature of the crisis, which involves uncertainty, as at the publication date of the report there is no certainty regarding the extent of the future impact on the economy, including, inter alia, the state of the markets, economic conditions in Israel and abroad, the scopes of unemployment, the scopes of private consumption, the concern regarding the development of a local or global recession, or another wave of the virus. These broad effects, if and insofar as they materialize, in whole or in part, could adversely affect the Group's business affairs and results.

Note 1 - General (Cont.)

C. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”).

These financial statements were prepared in accordance with the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

These financial statements were approved by the Company’s Board of Directors on March 22, 2022.

D. Main Definitions

(1) Consolidated companies - Entities controlled by the Company. Control exists when the Group is exposed to, or has rights to, the variable returns from its involvement in the investee company, and when it has the ability to affect those returns through its influence over the investee company. The evaluation of control includes taking into account real rights which are held by the Group and by others. See also Note 2.A. below.

(2) Associate Companies - Companies (including participation units in venture capital funds) which are held by the Company or its consolidated companies, directly or indirectly, and in which it has significant influence over their monetary and operational policy, and which are not consolidated companies. The aforementioned investments are presented according to the equity method.

(3) Joint Arrangement - An arrangement in which the Group has joint control over another party or parties, which was obtained through an agreement which requires the unanimous consent of all parties regarding the actions which significantly affect the arrangement’s returns.

(4) Joint Venture - A joint arrangement in which the parties have rights to the net assets attributed to the arrangement.

(5) Investee Companies - Consolidated companies, associate companies and joint ventures.

(6) Significant Influence - Voting rights of twenty percent or more, or the right to appoint twenty percent or more of the Board members, unless it is clearly apparent that significant influence does not exist. Such rights in lower rates may also be considered as conferring significant influence in cases where the influence is clearly apparent.

(7) The functional currency and presentation currency in these financial statements is the New Israeli Shekel, which is the Company’s functional currency, and the financial data included herein are rounded to the nearest million, except as specified otherwise. The New Israeli Shekel is the currency that represents the Company’s main operating economic environment.

(8) Financial Statements Regulations - the Securities Regulations (Annual Financial Statements), 5770-2010.

(9) Periodic and Immediate Reports Regulations - the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

(10) Companies Law - the Companies Law, 5759-1999.

(11) IFRS - International Financial Reporting Standards.

Note 1 - General (Cont.)

D. Main Definitions (Cont.)

(12) In these financial statements (hereinbefore and hereinafter):

The Company and/or DIC - Discount Investment Corporation Ltd. and/or its wholly owned headquarter companies, as applicable.
The Group - DIC and its consolidated companies;
IDB Development - IDB Development Corporation Ltd.;
Property & Building - Property & Building Corp. Ltd.;
Cellcom - Cellcom Israel Ltd.;
Golan - Golan Telecom Ltd.;
Shufersal - Shufersal Ltd.;
Elron - Elron Ventures Ltd.;
Epsilon - Epsilon Investment House Ltd.;
Gav-Yam - Gav-Yam Bayside Land Corporation Ltd.;
Ispro - Ispro The Israeli Properties Rental Corporation Ltd.;
Koor - Koor Industries Ltd. (a wholly owned subsidiary of DIC);
Mehadrin - Mehadrin Ltd.;
IDBG - IDB Group USA Investments Inc.

E. Basis for preparation of the financial statements

(1) Measurement basis

These financial statements were prepared in accordance with the historical cost of assets and liabilities, except with respect to the following derivative financial instruments: financial instruments, derivatives and others which were measured at fair value through profit and loss; financial instruments measured at fair value through other comprehensive income; liabilities with respect to share-based payment to be settled in cash; investment property; inventory; non-current assets and disposal groups held for sale; assets and liabilities with respect to employee benefits; deferred tax assets and liabilities; provisions and investments in investee companies accounted by the equity method.

For details regarding the measurement of these assets and liabilities, see Note 2 below regarding significant accounting policies.

Presented below are details regarding the CPI and the USD exchange rate, and the rates of change therein:

	CPI		
	Known index[1]	Index in lieu [1]	USD exchange rate
	Points		NIS
As at			
December 31, 2021	102.3	102.6	3.110
December 31, 2020	99.9	99.8	3.215
December 31, 2019	100.5	100.5	3.456
Changes during the year ended:			
December 31, 2021	2.4%	2.8%	(3.3%)
December 31, 2020	(0.6%)	(0.7%)	(7.0%)
December 31, 2019	0.3%	0.6%	(7.8%)

[1] According to the base average for 2020.

<u>Note 1 - General</u> (Cont.)

E. Basis for preparation of the financial statements (Cont.)

(2) <u>The operating cycle period and the expense analysis framework which were recognized in the statement of income</u>

The Group has two operating cycles. With reference to the activities of Property & Building Group in connection with the construction of buildings for sale, the operating cycle may continue for up to three years. With reference to the Group's other activities, the operating cycle is one year. Due to the foregoing, current assets and current liabilities include items which are designated and expected to be realized within the operating cycle period, as stated above. The analysis framework of expenses which were recognized in the statement of income is in accordance with a classification method which is based on the activity characteristic of the expense. Additional information regarding the characteristics of the expense is included, as relevant, in the notes to the financial statements.

(3) A. <u>Use of estimates and judgment</u>

In their preparation of the Group's financial statements in accordance with IFRS, the managements of the Company and of the investee companies are required to use judgment in estimates, approximations and assumptions, including actuarial estimates and assumptions, which affect the implementation of the accounting policy and the amounts of assets, liabilities, revenues and expenses, as well as capital components. It is hereby clarified that actual results, which are identified later, may differ from these estimates.

During the formulation of the accounting estimates which are used in the preparation of the Company's financial statements, the Company and the investee companies are required to make assumptions regarding circumstances and events which involve significant uncertainty. In exercising judgment regarding the determination of the estimates, managements rely on past experience, various facts, external factors and reasonable assumptions, in accordance with the appropriate circumstances of each estimate.

The estimates and their underlying assumptions which were used in the preparation of these reports are reviewed on a routine basis. Changes in accounting estimates are recognized in the period when the estimates were corrected, and in any future affected period.

Presented below is a description of the critical accounting estimates and significant judgments which were used in the preparation of these financial statements, regarding which, at the time of their formulation, management of the Company and the investee companies were required to make assumptions regarding circumstances and events involving significant uncertainty.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 1 - General (Cont.)

E. Basis for preparation of the financial statements (Cont.)

(3) A. Use of estimates and judgment (Cont.)

Estimate / judgment	Main assumptions	Possible implications	Main references
Recoverable amount of cash generating units (including those which include goodwill) of associate companies and of properties.	• Discount rate before tax and expected growth rate - with reference to cash generating units. • Discount rate after tax and expected growth rate - with reference to associate companies. • The determination of cash flows is based on past experience of the asset or similar assets, and no the best estimate of the Group regarding the economic conditions which will prevail. • Valuations of appraisers and external valuers regarding their fair value, after deducting the properties' realization costs.	Change in impairment loss.	Note 9.D. below regarding the impairment test of the goodwill and brand which are attributed to Cellcom, and the method used to determine the recoverable value of its activity.
The fair value measurement of investment property and investment property under construction, as determined by independent valuers with the appropriate professional skills	Expected rate of return on investment property. The capitalization rates which were used to measure fair value, and the expected rent with respect to the investment property.	Profit or loss with respect to change in the fair value of investment property and investment property under construction.	Note 2.F. below, and Note 6 below.
Existence of control, effective (de facto) control or significant influence.	Judgment applied regarding the method used to determine the Group's stake in the shares of the investee companies (in consideration of the existence and influence of potential voting rights which are significant), in the rights to appoint representatives for the entity which manages the companies (generally the Board of Directors) as a result of the bylaws of the investee companies, and agreements with other shareholders of the investee companies, in the composition and distribution of the rights of the other shareholders in the investee companies and voting patterns in general meetings, and the holding company's ability to determine the operational and financial policy of the investee companies, or to take part in the determination of such policy.	Accounting treatment of an investee company as a subsidiary, or as a company accounted by the equity method.	Note 2.A.1. and Note 2.A.7. below, regarding the accounting treatment of subsidiaries and investee companies accounted by the equity method. Note 34.B below, in connection with Gav-Yam. Comment (1) in Note 3.E. below, regarding the control of Cellcom and Mehadrin.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 1 - General (Cont.)

E. Basis for preparation of the financial statements (Cont.)

(3) A. Use of estimates and judgment (Cont.)

Estimate / judgment	Main assumptions	Possible implications	Main references
Qualitative considerations for determining whether or not the replacement of the debt instrument involves significantly different terms	The entire set of characteristics of the exchanged debt instruments, and the economic parameters represented therein: • Average lifetime of the exchanged liabilities; Extent of effects of the debt terms (linkage to index; Foreign currency; variable interest) on the cash flows from the instruments.	Classification of a debt instrument in a manner whereby it will not reflect the change in the debt terms, which will affect the method of accounting recording.	Note 2.C.3. below, regarding financial liabilities.
Determination of method for fulfillment of performance obligation	For the purpose of determining whether the control of goods or services is transferred to the customer over time, and as a result, that income should be recognized over time or at a single point in time (upon delivery), the Group relies on legal opinions, the provisions of the contract, and the relevant provisions of the law, in its determination regarding whether the Group has a the right to enforce the fulfillment of contract.	Change in the timing of recognition of income from apartment sales.	Note 2.U.5. below.
Valuation and estimated lifetimes of intangible assets.	• The estimated useful lifetime of intangible assets and expected market developments. • Expected cash flows from customer relations and other intangible assets and replacement value of brands.	• Incorrect allocation of the acquisition cost of investments in investee companies. • Recognition of accelerated or slow depreciation with respect to actual data.	Note 2.E and Note 9 below, regarding intangible assets.

Note 1 - General (Cont.)

E. Basis for preparation of the financial statements (Cont.)

(3) A. Use of estimates and judgment (Cont.)

Estimate / judgment	Main assumptions	Possible implications	Main references
Uncertain tax positions	• The degree of uncertainty regarding the acceptance of the Group's tax positions, and the risk that it will bear additional tax and interest expenses. The above is based on an analysis of several factors, including interpretations of tax laws and the Group's past experience, including regarding the classification of transferred tax losses. An estimate of the amount of transferred losses which could be used, the expected taxable income, the timing thereof and the amount of deferred taxes which are to be created.	• Recognition of additional expenses with respect to taxes on income. Changes in the amounts of tax assets with respect to transferred losses for tax purposes.	Note 30 below regarding taxes on income.
Estimated chances of contingent liabilities.	Whether it is more likely than not that economic resources will be spent with respect to legal claims which were filed against the Company and its investee companies, based on the opinion of their legal advisors.	Cancellation or creation of a provision with respect to a claim.	Note 22 below regarding oustanding claims and contingent liabilities.
Unasserted claims	Reliance on internal estimates of the handling entities and the managements of companies. Consideration of the estimated chance that a claim will be filed, and the claim's chances of success, if and insofar as it is filed.	In light of the preliminary stage of the investigation of the legal claims, actual results may differ from the assessment which was prepared during the stage when the claim had not yet been filed.	Note 22.C below regarding claims against the Company and its investee companies.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 1 - General (Cont.)

E. Basis for preparation of the financial statements (Cont.)

(3) A. Use of estimates and judgment (Cont.)

Estimate / judgment	**Main assumptions**	**Possible implications**	**Main references**
Assessment regarding whether cash flows with respect to financial assets include principal and interest only (SPPI)	Whether the business model assumes the collection of cash flows of principal and interest only, which will be paid on the date specified in the contractual terms.	insofar as the business model is to hold the financial assets in order to collect contractual cash flows, and their contractual terms include entitlement, on predefined dates, to cash flows which constitute only principal and interest with respect to the amount of unpaid principal, then the financial asset will be measured according to its amortized cost, and if not, it will be measured at fair value.	and Note 2.A.5. below regarding loans which were given to associate companies.
Determination of the lease period and appropriate rent	Exercise of extension options, or non-exercise of cancellation options. Extension options, or periods after the deadline for exercise of cancellation options, are included in the lease period only if is virtually certain that the lease will be extended (or not canceled).	Increase or decrease in the initial measurement of a right-of-use asset and lease liability, and in depreciation and financing expenses in subsequent periods.	Notes 2.G.2. and 7 below with respect to lease assets and liabilities.
Determination of the discount rate in leases	In cases where the interest rate implicit in the lease cannot be easily determined, the Group's incremental interest rate is used.	Increase or decrease in the initial measurement of a right-of-use asset and lease liability, and in depreciation and financing expenses in subsequent periods.	Notes 2.G.2. and 7 below with respect to lease assets and liabilities.
Classification of liabilities classified as held for sale	Assessment that the sale is expected as a transaction completed within one year.	Insofar as the sale is not expected to be executed as a transaction which was completed within one year, the Company will not classify the property / investment as held for sale and as a discontinued operation, and the property / investment will not be measured in accordance with the provisions of IFRS 5.	Notes 2.G. and 12 below.

Note 1 - General (Cont.)

E. Basis for preparation of the financial statements (Cont.)

(3) B. Change in estimate

On June 27, 2021, the Ministry of Communication decided to close the networks still operating on 2G and 3G technology (the "Old Technologies") on December 31, 2025 (including an option to move that date forward, subject to certain conditions, to January 1, 2025), with the intention of promoting the mobile telecommunication infrastructure in Israel, and to allocate radio frequencies in order to substantiate 4G and 5G technologies. Further to that decision, the Ministry of Communication decided to extend the period for allocation of frequencies which are used by Cellcom in the old technologies, for uses which will also be facilitated in more advanced technologies, until the end of 2030.

As a result, Cellcom changed the estimated useful lifetime of the equipment that Cellcom uses to operate Cellcom's 2G and 3G networks until the end of 2025, and extended the amortization period of the license fees with respect to Cellcom's 2G and 3G networks until the end of 2030.

The impact of these changes on the financial statements in the current year and in subsequent years is as follows:

	For the year ended December 31					
	2021	2022	2023	2024	2025	2026-2030
	NIS millions					
Decrease (increase) in depreciation expenses	12	12	3	(3)	(10)	(14)
Income (expenses) from taxes on income	(2)	(3)	(1)	1	2	4
Total	10	9	2	(2)	(8)	(10)
The Company's share	4	4	1	(1)	(4)	(4)

C. Determination of fair value

1. For the purpose of preparing the financial statements, the Group is required to determine the fair value of certain assets and liabilities. Additional information regarding the assumptions which were used in the determination of fair value is included in the following notes:
   A. Note 4 regarding financial assets measured at fair value through profit or loss;
   B. Note 5 regarding fixed assets purchased in a business combination;
   C. Note 6 regarding investment property;
   D. Note 9 regarding intangible assets;
   E. Note 20 regarding financial instruments.
   F. Annex B regarding share-based payment arrangements.
2. When determining the fair value of assets or liabilities, the Group uses observable market inputs as much as possible. Fair value measurements are divided into three levels in the fair value hierarchy, based on the inputs which were used in the evaluation, as follows:

   Level 1 - Quoted (non-adjusted) prices in an active market for identical assets or liabilities;

   Level 2 - Directly or indirectly observable market inputs, which are not included in Level 1 above;

   Level 3 - Fair value which is not based on observable market inputs.

Note 1 - General (Cont.)

E. Basis for preparation of the financial statements (Cont.)

(4) Evaluation of the materiality of asset valuations for the purpose of their disclosure or attachment

The Company evaluates the materiality of asset and liability valuations for the purpose of providing disclosure regarding them or attaching them to annual financial statements and interim statements, in accordance with Regulation 8B of the Periodic and Immediate Reports Regulations and Regulation 49 of the Periodic and Immediate Reports Regulations, respectively, and in accordance with legal position no. 105-23: parameters for evaluating the materiality of valuations, which was published by the Israel Securities Authority in July 2014. In general, a valuation is considered highly material if the subject of the valuation constitutes 10% or more of the Company's total assets in the statement of financial position as at the last day of the reporting period, or if the impact of the change in value, as a result of the valuation, on the net or comprehensive income attributed to the owners of the Company, as applicable, constitutes at least 10% of the net or comprehensive income attributed to the owners of the Company, respectively, for the reporting period (the "Resultant Test"), provided that, with respect to the resultant test, the impact of the change in value, as a result of the valuation of net or comprehensive income attributed to the owners of the Company, as applicable, constitutes at least 5% of capital attributed to the owners of the Company. A valuation which is not highly material will be considered material if it meets a quantitative threshold which constitutes half of the quantitative threshold which corresponds to the classification of a valuation as highly material, as stated above (in other words, 5% instead of 10%, and 2.5% instead of 5%).

The application of the resultant test to the materiality of a valuation in an interim period will be performed with respect to the net or comprehensive income attributed to the owners of the Company, which is expected for the current year, in its entirety.

If it is not possible to reasonably estimate the expected net income or comprehensive income for the current year in its entirety, the resultant test will be applied with respect to net or comprehensive income, as applicable, for the period of four quarters prior to the last day of the interim period. In case a valuation meets the resultant test for classification as "highly material" ("very highly material valuation in accordance with the resultant test"), the Company evaluates whether, based on qualitative considerations, it would be appropriate to determine that it is not highly material, and therefore, it will not be attached to the financial statements.

In accordance with the aforementioned legal position, the Company applies, as part of the above, as an additional test, the "normal earnings test", which constitutes an accepted indicator for evaluation of the results of holding companies of the Company's type. The normal earnings test is used by the Company in its evaluation of materiality and insignificance in other contexts as well. According to the aforementioned additional test, in the absence of other special qualitative considerations, a very highly material valuation according to the resultant test will not be considered highly material, and will not be attached to the financial statements, if the impact of the change on the value of the subject of the valuation attributed to the owners of the Company is less than 10% of the "annual normal earnings" attributed to the owners of the Company (which is earnings for the last four quarters), calculated based on an average of the absolute values of quarterly profit / loss attributed to the owners of the Company, in each of the last 12 quarters.

Note 1 - General (Cont.)

E. Basis for preparation of the financial statements (Cont.)

Additionally, in the absence of special qualitative considerations, a very highly material valuation according to the resultant test will not be considered highly material, and will not be attached to the financial statements, if the impact of the subject of the valuation on net or comprehensive income (attributed to the owners of the Company), as applicable, as included in the financial statements for the reporting period (annual or interim) in the current year, is less than 10% of net or comprehensive income (attributed to the owners of the Company) for the previous reporting year, and is not expected to exceed 10% of expected net or comprehensive income (attributed to the owners of the Company) of the next reporting year. In cases where, as a result of the implementation of these tests, a very highly material valuation is not attached according to the resultant test, disclosure is given for the foregoing in the Board of Directors' report, as required in the aforementioned legal position.

Qualitative considerations may lead to the attachment of a valuation, even if, in quantitative terms, it does not meet the tests for definition as "highly material".

(5) Attachment of reports of material associate companies and joint ventures

In connection with the adoption of Regulation 44 of the Periodic and Immediate Reports Regulations and Regulation 23 of the Financial Statements Regulations, regarding associate companies and joint ventures whose reports must be attached (1) due to the fact that the Company's investment in the associate company or joint venture, in absolute values, constitutes twenty percent or more of the total assets the Company's consolidated statement of financial position, or (2) due to the fact that the amount which was included in the statement of income with respect to the Company's investment in the associate company or joint venture constitutes, in absolute terms, twenty percent or more of the Company's profit or loss during the reporting period, in absolute terms.

During the interim period, the Company's share total profit or loss, in absolute terms, of the associate company or joint venture, during the four quarters ending on the date of the interim statement of financial position, constitute twenty percent or more of the total profit or loss, in absolute terms, of the corporation, throughout the four quarters ending on the date of the statement of financial position.

According to the Company's position, in the absence of special qualitative considerations, the financial statements of associate companies and joint ventures, in which the following three ratios have been cumulatively met, will be considered as insignificant reports relative to the Company's financial statements, and therefore, will not be attached to their financial statements, and summary information regarding them will not be given:

(A) The multiple of the total assets of the associate company or joint venture by the holding rate therein, with respect to all assets in the Company's statement of financial position, is lower than 0.5%;

(B) The multiple of the total income of the associate company or joint venture by the holding rate therein, with respect to all assets in the Company's consolidated statements of income for the reported quarter, is lower than 0.5%;

(C) The Company's share, net, in the results of the associate company or joint venture for the 4 last quarters, in absolute values, does not exceed 2%, of the Company's normal earnings.

Note 2 - Significant Accounting Policies

The accounting principles specified below were applied consistently to all periods presented in these consolidated financial statements. The accounting principles specified below refer, in the context of the consolidated financial statements, both to the Group's member companies and to investee companies accounted by the equity method. **In this note, issues presented in bold are those to which the Company has chosen to apply accounting alternatives which are permitted under accounting standards and/or issues regarding which no explicit provision exists in accounting standards, or in case of the early adoption of new accounting standards.** Such bold text serves for identification purposes only of the aforementioned issues, and does not attribute any additional importance to non-bold text.

A. Consolidated financial statements

The consolidated financial statements include the statements of companies over which the Company holds control (subsidiaries). Control exists when the Group is exposed, or holds rights, to variable returns from its involvement in the acquired entity, and when it is able to affect those returns through its influence over the acquired entity. The evaluation of control includes taking into account real rights which are held by the Group and by others. The group assesses whether it does or does not have control of a company in which it holds less than the majority of voting rights, inter alia, according to its share in the voting rights relative to the shares of other parties with voting rights, and the manner of distribution of the other holdings, as well as the voting patterns in previous shareholders' meetings. The consolidation of the financial statements is performed beginning on the date when control is obtained, until the date when control is lost.

Balances, material inter-company transactions and profit and loss due to transactions between the Group's member companies were canceled in the consolidated financial statements. Unrealized losses were canceled in the same manner which was used to cancel unrealized profits, so long as there is no evidence of impairment.

Business combinations and transactions with non-controlling interests

1. **Business combinations**

A business combination is a transaction or another event in which the buyer obtains control over one business or several businesses.

A business is an integrated system of operations and assets which can be operated and managed in order to achieve returns in the form of dividends, reduced costs or other economic benefits directly for investors or other owners, members or participants.

A business is comprised of an input and a substantive process which together contribute significantly to the ability to produce outputs.

The acquisition date is the date when the buyer obtained control of the acquired entity. The Company exercises judgment in determining whether it qualifies as a business, in determining the acquisition date, and in determining whether control has been obtained.

<u>Subsidiaries</u>

The financial statements of subsidiaries are included in the Company's consolidated financial statements beginning on the date when control is obtained, until the date when control is discontinued. The accounting policy of subsidiaries was changed if needed in order to adjust it to the accounting policy which was adopted by the Group.

Note 2 - Significant Accounting Policies **(Cont.)**

A. Consolidated financial statements (Cont.)

1. **Business combinations (Cont.)**

- The Group recognizes goodwill on the acquisition date according to the fair value of the consideration which was transferred, including amounts which were recognized with respect to any non-controlling interests in the acquired entity, and in consideration of the fair value as at the acquisition date of any capital interest in the acquired entity which was previously held by the Group, after deducting the net amount attributed in the acquisition to identifiable assets which were acquired and to liabilities which were accepted. The transferred consideration includes the fair value of the assets which were transferred to the previous owner of the acquired entity, liabilities which materialized for the buyer towards the previous owner of the acquired entity, and capital interests which were issued by the Group.

  If the Group performs a bargain purchase (a purchase which includes negative goodwill), it recognizes the profit which was created as a result in the statement of income on the acquisition date. Additionally, goodwill is not updated in subsequent periods with respect to the use of transferred losses for tax purposes which existed on the date of the business combination. The update to losses, as stated above, is applied to the statement of income.
- The buyer recognizes, on the acquisition date, the contingent liability which was accepted in a business combination, if there is a commitment in the present which is due to past events, and whose fair value is reliably measurable.
- In a business combination which is realized in stages, **the difference between the fair value as at the acquisition date of the capital interests in the acquired entity which were previously held by the Group and their book value as at that date is applied to the statement of income under the item for "profit from realization and increase in value of investments and assets, and dividends", unless the previous investment was classified under the category of fair value through other comprehensive income. In this situation, a resultant effect is not recognized.** Fair value, for this purpose, in case of a marketable asset, is its market value, except in cases where there is evidence which clearly indicates that the fair value the aforementioned asset is different from its market value.
- Acquisition-related costs which materialized for the buyer with respect to a business combination, such as agency fees, consulting fees, legal costs, valuations and other costs with respect to professional services or consulting services, excluding those associated with the issuance of debt or equity instruments in connection with the business combination, are recognized as an expense in the period when the services are received.
- Update to excess cost:

  If the preliminary accounting treatment in a business combination has not been completed by the end of the reporting period when the business combination occurred, the Group reports provisional amounts with respect to the items whose accounting treatment has not been completed. During the measurement period, which will not exceed one year after the acquisition date, the Group retroactively adjusts the provisional amounts which were recognized on the acquisition date, in order to reflect new information which has been obtained regarding the facts and circumstances which applies on the acquisition date, and which, had they been known, would have affected the measurement of the amounts which were recognized on that date.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

A. Consolidated financial statements (Cont.)

2. **Non-controlling interests**

Non-controlling interests, both in the capital of a subsidiary which is not attributable, directly or indirectly, to the parent company, and which include additional components, such as share-based payment to be settled with capital instruments of subsidiaries, and share options of subsidiaries.

<u>Measurement of non-controlling interests on the date of the business combination</u>

Non-controlling interests which are instruments which confer ownership rights in the present, and provide their holders with a share in net assets in case of liquidation (for example: ordinary shares), are measured on the date of the business combination at fair value, or according to their relative share in the recognized assets and liabilities of the acquired entity, based on each transaction separately. Selection of this accounting policy is not permitted for other instruments which meet the definition of non-controlling interests (for example, ordinary share options). These instruments are measured at fair value, or in accordance with the provisions of other relevant IFRS.

<u>Allocation of profit or loss and other comprehensive income among shareholders</u>

Profit or loss, and any component of other comprehensive income, are attributed to the owners of the Company and to non-controlling interests. The total profit or loss and other comprehensive income is attributed to the owners of the Company and to non-controlling interests, even if, balance of the balance of non-controlling interests is negative.

<u>Transactions with non-controlling interests, while retaining control</u>

Transactions with non-controlling interests while retaining control are treated as capital transactions. Any difference between the consideration which was paid or received, and the change in non-controlling interests, is applied to the **capital reserve with respect to transactions with non-controlling interests, under the capital attributed to owners of the Company**. The capital reserve with respect to transactions with non-controlling interests is not applied to the statement of income or to comprehensive income (including not upon realization of the subsidiary for which the reserve was created).

In case of changes to the holding rate of a subsidiary, while retaining control, the Company re-attributes the cumulative amounts which were recognized under other comprehensive income between the owners of the Company and non-controlling interests. The amount at which non-controlling interests are calculated is as follows:

In an increase in the holding rate, **according to the relative share of the acquired entity out of the balance of non-controlling interests in the consolidated financial statements before the transaction, including non-controlling interests which were attributed to originally attributed differences and to goodwill, with no changes to their values.**

In a decrease in the holding rate, **according to the relative share which was realized by the owner of the subsidiary in the net assets of the subsidiary, including goodwill and original attributed differences, if any, with no change to their value.** Cash flows from transactions with non-controlling interests while retaining control are classified under financing activities in the statement of cash flows.

Inter-company transactions which are attributed to the transfer of shares of subsidiaries (regardless of whether such transactions are performed in cash or through a share exchange) in which a change has occurred in the rate of non-controlling interests, are treated as transactions with non-controlling interests.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

A. Consolidated financial statements (Cont.)

3. Transactions resulting in the deconsolidation of financial statements

<u>Loss of control</u>

Upon loss of control, the Group writes off the assets and liabilities of the subsidiary, any non-controlling interests, and amounts which were recognized in capital reserves through other comprehensive income, with reference to that subsidiary. If the Group still has any remaining investment in the former subsidiary, the balance of the investment is measured at fair value on the date of loss of control. The difference between the consideration and the fair value of the balance of the investment, and the balances which were written off, is recognized under profit and loss **in the item for "profit from realization and increase in value of investments and assets, and dividends" or in the item for "loss from realization, impairment and write-down of investments and assets", as applicable.**

From that date onwards, the remaining investment is accounted by the equity method or as a financial asset, in accordance with the text of the Group's influence on the relevant investee company.

The amounts which were recognized in capital reserves through other comprehensive income with reference to that subsidiary are reclassified to profit or loss or to retained earnings, in the same manner which would have been required had the subsidiary independently realized the applicable assets or liabilities.

4. **Cancellation of inter-company transactions**

Unrealized profits due to transactions with associate companies and with joint ventures were canceled against the asset involved in the transaction, in accordance with the Group's rights in those investments. Unrealized losses were canceled in the same manner which was used to cancel unrealized profits, so long as there is no evidence of impairment.

5. **Investment in associate companies and joint ventures**

In the evaluation regarding the existence of significant influence over an associate company, potential voting rights are taken into account which are exercisable or convertible immediately into its shares. The investment in associate companies and joint ventures is accounted by the equity method and is recognized for the first time at cost. The cost of the investment includes transaction costs.

Transaction costs which are directly attributed to the expected acquisition of an associate company or joint venture are recognized as an asset under the item for deferred expenses in the statement of financial position. These costs are added to the cost of the investment on the acquisition date.

These financial statements include the Group's share in the profit and loss of associate companies and joint ventures **(including recognition of profit or loss with respect to the capital reserve in the capital reserve which was recorded by the associate companies and joint ventures with respect to transactions with non-controlling interests)** and under their other comprehensive income (loss), following the required adjustments in order to adjust their accounting policy to that of the Group, from the date when significant influence or joint control materialized, until the date when significant influence or joint control was discontinued. until January 1, 2019 (see below), When the Group's share in the losses exceeds the value of the Group's rights in a company accounted by the equity method, the book value of those rights (including long term loans, which constitute a part of the account with respect to the investment in the investee) was amortized to zero.

Note 2 - Significant Accounting Policies (Cont.)

A. Consolidated financial statements (Cont.)

5. **Investment in associate companies and joint ventures (Cont.)**

In cases where the Group's share in long term loans, which constitutes a part of the investment in the investee, is different from its share in the capital of the investee, the Group continues to recognize its shares in the losses of the investee, after amortizing to zero the capital investment, in accordance with the rate of its economic entitlement to the investment over the long term at that time. The Group does not recognize additional losses of the investee company, except insofar as the Group has an obligation to support the investee company, or if the Group has paid amounts for it, or has given loans to it.

In accordance with the amendment to IAS 28, the Group has been adopting, since January 2019, the provisions of IFRS 9 with respect to long term loans, the settlement of which is not planned, and which is unlikely to occur in the foreseeable future, which essentially constitute a part of the entity's net investment in the associate or joint venture. Accordingly, the provisions regarding classification and measurement (including the recognition of impairment of a loan according to IFRS 9) are applied for those loans before taking into account the share in the losses of that associate company or joint venture.

Loans which were given to investee companies, as stated above, are classified as financial assets which are presented at fair value through profit or loss, since they do not meet the definition provided in IFRS 9 for classification at amortized cost. **These foreign currency differences are applied to other comprehensive income.**

Excess cost in associate companies and joint ventures is presented as part of the investment. The excess acquisition cost of the investment in an associate company or joint venture beyond the Group's share in the fair value of the identifiable assets of the investee company (including intangible assets), after deducting the fair value of the identifiable liabilities of the investee company (after attribution of taxes) on the acquisition date is attributed to goodwill.

If the Group performs a bargain purchase (a purchase which includes negative goodwill), it recognizes the profit which was created as a result in the statement of income on the acquisition date. Additionally, goodwill is not updated in subsequent periods with respect to the use of transferred losses for tax purposes which existed on the date of the business combination. The update to losses, as stated above, is applied to the statement of income.

The excess cost which was attributed in the associate company or joint venture to identifiable assets and identifiable liabilities with a defined useful lifetime are amortized in accordance with the aforementioned useful lifetime. Goodwill and intangible assets with an undefined useful lifetime are not systematically amortized. For details regarding the impairment test of goodwill and intangible assets, as stated above, see section P. below.

For details regarding the attribution of with respect to investment in associate companies and joint ventures, see section X. below.

For details regarding adjustments due to the translation of financial statements of associate companies and joint ventures, see section B. below.

Loans with characteristics of long term investments, which are intended to finance losses due to a capital deficit of those companies, which are provided by the Group to associate companies, constitute a part of the investment in investee companies an are presented under the item for investee companies accounted by the equity method.

In parallel, the financing income with respect to these loans is presented under the item for the Group's share in the net profit of equity accounted investee companies, net, instead of presentation under separate items.

Note 2 - Significant Accounting Policies (Cont.)

A. Consolidated financial statements (Cont.)

6. **Change in holding rates in associate companies and joint ventures accounted by the equity method, while retaining significant influence or joint control**

   In case of an increase of the stake in an associate company or joint venture accounted by the equity method, while retaining significant influence, the Group applies the acquisition method only with respect to the additional holding rates, whereas the previous holding remains unchanged.

   In case of a decrease in the holding rate of an equity accounted associate company or joint venture, while retaining significant influence or joint control, the Group derecognizes the proportional part of its investment, and recognizes the profit or loss from the sale under the item for "profit from the realization and increase in value of investments and assets, and dividends", or under the item for "loss from realization, impairment and write-down of investments and assets", as applicable.

   The cost of the rights which were sold, with respect to purchases which were executed in stages in the past, for the purpose of calculating profit or loss from the sale is determined according to a weighted average.

   Additionally, the relative share of the amounts which were recognized in capital reserves through other comprehensive income, with reference to that associate company or joint venture accounted by the equity method, or entity under joint control, is applied to the statement of income or to retained earnings.

7. **Loss of significant influence or joint control**

   The Group discontinues the application of the equity method beginning on the date when it lost significant influence over the associate company or the joint control over the joint venture, and accounts for the remaining investment as a financial asset, and in case of rise to control - as a subsidiary, as applicable.

   On the date of loss of significant influence or joint control, the Group measures the fair value of any remaining investment in the former associate company or joint venture. The Company recognizes in the statement of income in the item for "profit from realization and increase in value of investments and assets, and dividends", or in the item for "loss from realization, impairment and write-down of investments and assets", as applicable, any difference between the fair value of any remaining investment and any consideration from the realization of part of the investment in the associate company or joint venture, an the book value of the investment on that date.

   The amounts which were recognized through other comprehensive income, with reference to that associate company or joint venture, are reclassified to profit and loss or to retained earnings in the same manner as would have been required, had the associate company or joint venture independently realized the applicable assets or liabilities.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

B. Foreign currency

The functional currency is determined separately for each investee company, including an associate company presented in accordance with the equity method, and this currency is used to measure its financial position and operating results. When the functional currency of an investee company is different from that of the Company, the investee company constitutes a foreign operation whose financial statements data are translated for the purpose of including them in the Company's financial statements.

1. **Transactions in foreign currency**

Transactions in foreign currency are translated to the relevant functional currencies of the Group's member companies according to the exchange rate transactions as at the dates of the transactions, and for transactions which are distributed equally throughout the period - according to the average exchange rate during the period. Monetary assets and liabilities denominated in foreign currency, which exist as at the reporting date, are translated to the functional currency according to the exchange rate which is in effect as at that date. Non-monetary assets and liabilities which are measured at historical cost in the foreign currency are translated according to the exchange rate on the transaction date. Non-monetary assets and liabilities, which are denominated in foreign currencies and measured at fair value, are translated to the functional currency according to the exchange rate which is in effect on the date when the fair value was determined. Foreign currency differences due to the functional currency are generally recognized in profit and loss; however, such foreign currency differences are recognized under other comprehensive income (loss) when they are due to the translation of derivatives which are used in cash flow hedging, with respect to the effective part of the hedge, and with respect to equity financial instruments which were designated to fair value through other comprehensive income.

2. **Foreign operations**

Assets and liabilities of foreign operations, including goodwill and adjustments to fair value which were created in the acquisition, were translated to NIS according to the exchange rate which was in effect as at the reporting date. Income and expenses of foreign operations were translated to NIS according to the exchange rates which were in effect on the dates of the transactions.

Foreign currency differences with respect to the translation are recognized under other comprehensive income (loss) and are presented under capital in the translation reserve for foreign operations, ("Translation Reserve").

When a foreign operation is a subsidiary which is not wholly owned by the Group, the proportional part of the foreign currency differences with respect to the foreign operation is allocated to non-controlling interests.

The financial statements of a foreign operation which is not directly held are translated to NIS in accordance with the consolidation in stages method, according to which the financial statements of the foreign operation are first translated to the functional currency of the direct parent company, and are later translated to the functional currency of the ultimate parent company.

Therefore, upon realization of a foreign operation which is not directly held, the Group reclassifies to profit and loss the cumulative amount in the cumulative amount translation reserve in the direct parent company that holds the foreign operation.

Note 2 - Significant Accounting Policies (Cont.)

B. Foreign currency (Cont.)

If the functional currency of the directly held operation and the functional currency of the direct parent company are identical, the Group's policy is not to classify under profit and loss foreign currency differences which accrued in the translation reserve of the ultimate parent company with respect to the realization of the foreign operation which is indirectly held, as stated above.

Upon realization of a directly held foreign operation, which results in loss of control, or to loss of joint control or loss of significant influence, the cumulative amount in the translation reserve which is due to the foreign operation is reclassified to profit and loss as part of the profit or loss from the realization.

Additionally, in case of changes to the Group's stake in a subsidiary which includes a foreign operation, while retaining control of the subsidiary, a proportional part of the cumulative total of the foreign currency differences which were recognized under other comprehensive income (loss) is re-attributed to non-controlling interests.

When the Group realizes part of an investment which is a associate company or joint venture that includes a foreign operation, while retaining significant influence or joint control, the proportional part of the cumulative amount of foreign currency differences is reclassified under profit and loss.

In general, foreign currency differences with respect to loans which were received or provided to foreign operations, including foreign operations which are subsidiaries, are recognized under profit and loss in the consolidated reports.

When the settlement of loans which the Group received from a foreign operation, or provided to it, is not planned and not expected in the foreseeable future, profit and loss from foreign currency differences which are due to those monetary items are included as part of the investment in the foreign operation, net, and are recognized under other comprehensive income (loss), and are presented in capital, as part of the translation reserve. **The settlement of these loans is not considered realization of the investment, net, in the foreign operation**, and therefore, upon realization of the loans, as stated above, the foreign currency differences which were recognized with respect to other comprehensive income are not applied to profit and loss.

Note 2 - Significant Accounting Policies (Cont.)

C. Financial instruments

1. **Non-derivative financial assets**

A. **Initial recognition and measurement of financial assets**

The Group initially recognizes trade receivables and debt instruments which were issued on the date of their creation. Other financial assets are initially recognized on the trade date.

A financial asset is initially measured at fair value plus transaction costs, with respect to all financial assets which are not measured at fair value through profit or loss, excluding trade receivables. Financial assets measured at fair value through profit or loss are initially recognized at fair value, and the transaction expenses are applied to the statement of income. Trade receivables which do not include significant financing components are initially measured according to the transaction price. Receivables originating from contractual assets are initially measured according to the book value of the contractual assets on the date of change of classification from contractual assets to receivables.

B. **Write-off of financial assets**

Financial assets are written off when the Group's contractual rights to the cash flows which are due to the financial asset expire, or when the Group transfers the rights to receive the cash flows which are due to the financial asset in a transaction wherein all risks and benefits from the ownership of the financial asset have been effectively transferred.

If the Group essentially remains with all of the risks and benefits due to the ownership of the financial asset, the Group continues recognizing the financial asset.

C. **Classification of financial assets into groups**

On the date of initial recognition, financial assets are classified to one of the following measurement categories: amortized cost; fair value through other comprehensive income - investments in debt instruments; fair value through other comprehensive income - investments in equity instruments; or fair value through profit or loss.

Financial assets are not reclassified in subsequent periods, except if, and only if, the Group has changed its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the start of the first reporting period after the change in the business model.

A financial asset is measured at amortized cost if it fulfills the following two cumulative conditions, and if it is not intended for measurement at fair value through profit and loss:

- Held within the framework of a business model whose aim is to hold assets in order to collect the contractual cash flows; and
- The contractual terms of the financial asset grant entitlement, on predefined dates, to cash flows which constitute only principal and interest payments with respect to the unpaid principal.

A debt instrument is measured at fair value through other comprehensive income only if it fulfills the following two cumulative conditions, and if it is not designated for measurement at fair value through profit and loss:

- Held within the framework of a business model whose purpose is fulfilled both by collecting contractual cash flows and by selling financial assets; and

Note 2 - Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

1. **Non-derivative financial assets (Cont.)**

C. **Classification of financial assets into groups (Cont.)**

- The contractual terms of the debt instrument grant entitlement, on predefined dates, to cash flows which constitute only the principal and interest payments with respect to the unpaid principal amount.

In certain cases, on the date of initial recognition of an investment in a non-held for trading equity instrument, the Group chooses, irrevocably, to present subsequent changes in the fair value of the instrument under other comprehensive income. This choice is made based for each investment separately.

All financial assets which are not classified for measurement at amortized cost or at fair value through other comprehensive income, as described above, as well as financial assets designated to fair value through profit and loss, are measured at fair value through profit and loss. On the date of initial recognition, the Group designates financial assets fair value through profit and loss when the aforementioned designation significantly cancels or reduces an accounting mismatch.

The Group has balances of trade receivables and other receivables, and deposits which are held within the framework of a business model which is intended for the collection of contractual cash flows. The contractual cash flows with respect to these financial assets include only principal and interest payments which reflect a consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Assessment of the business model for debt assets

The Group assesses the purpose of the business model for which the financial asset is held on the level of the portfolio, since this best reflects the way in which the business is managed and information is provided to management. In the determination of the Group's business model, the following considerations are taken into account:

- The declared policies and goals with respect to the portfolio, and the actual implementation of the policy, including whether the strategy of management focuses on the receipt of contractual interest, on maintaining a certain interest profile, on adjusting the lifetime of the financial assets to the lifetime of any related liabilities or projected cash flows, or the realization of cash flows by selling the assets;
- The way in which the performance of the business model, and of the financial assets which are held according to that model, are assessed and reported to the entity's key management personnel;
- The risks which affect the performance of the business model (and of the financial assets which are held according to that business model), and the method for management of those risks;
- The way in which the business's executives are compensated (for example, whether the compensation is based on the fair value of the managed assets, or on the contractual cash flows which were collected); and
- The frequency, value and timing of sales of financial assets in previous periods, the reasons for the sales, and the expectations regarding future sales activity.

Transfers of financial assets to third parties in transactions which do not qualify for derecognition are not considered sales for the purpose of the assessment of the business model, consistently throughout the Group's recognition of those financial assets.

Note 2 - Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

1. **Non-derivative financial assets (Cont.)**

C. **Classification of financial assets into groups (Cont.)**

Financial assets which are held for trading or are managed, and whose performance is estimated based on fair value, are measured at fair value through profit and loss.

Assessment regarding whether cash flows include principal and interest only

For the purpose of evaluating whether the cash flows include principal and interest only, the "principal" means the fair value of the financial asset on the date of initial recognition. "Interest" is comprised of consideration for the time value of money, for the credit risk attributed to the unredeemed principal amount during a certain period of time, and for other basic risks and costs of the loan, as well as a profit margin.

In the evaluation regarding whether contractual cash flows constitute flows of principal and interest only, the Group evaluates the contractual terms of the instrument, and as part of the above, evaluates whether the financial asset includes a contractual condition which may change the timing or amount of the contractual cash flows, such that it does not fulfill the aforementioned condition. The Group takes into account the following considerations in its performance of this evaluation:

- Any conditional events which could change the timing or amount of the cash flows;
- Conditions which may change the stated interest rate, including variable interest;
- Characteristics of extension or prepayment; and
- Terms which restrict the Group's right to cash flows from defined assets (for example, non-recourse financial assets).

A prepayment characteristic is consistent with the principal and interest only criterion if the prepayment amount essentially represents unpaid amounts of principal and interest with respect to the unpaid amount of principal, which may include reasonable compensation, which is received or paid, with respect to the early termination of the contract.

Additionally, with respect to a financial asset which was purchased at a significant premium or discount relative to its contractual par value, a characteristic which permits or requires prepayment, in an amount which essentially represents the contractual par value and the contractual interest which has accrued but has not yet been paid (which may include reasonable compensation which is received or paid with respect to early termination) is consistent with the principal and interest only criterion, if the fair value of the prepayment term is immaterial at the time of initial recognition.

Note 2 - Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

1. **Non-derivative financial assets (Cont.)**

   D. **Subsequent measurement and profit and loss**

   Financial assets at fair value through profit or loss

   In subsequent periods, these assets are measured at fair value. Net profit and loss, including interest or dividend income, are recognized under profit and loss (excluding certain derivative instruments, which are designated as hedging instruments).

   Investments in equity instruments at fair value through other comprehensive income

   These assets are measured in subsequent periods at fair value. Dividends are recognized as income under profit or loss, unless the dividend clearly represents return of a part of the cost of an investment. Other net profit and loss are recognized in other comprehensive income, and are not reclassified to the statement of income.

   Financial assets at amortized cost

   These assets are measured in subsequent periods at amortized cost using the effective interest method, and after deducting impairment loss. Interest income, profit or loss from foreign currency differences and impairment are recognized under profit and loss. Any profit or loss due to derecognition is also recognized under profit and loss.

   Investments in debt instruments at fair value through other comprehensive income

   These assets are measured in subsequent periods at fair value. Interest income calculated using the effective interest method, profit or loss from foreign currency differences, and impairment, are recognized under profit and loss. Other net profit and loss are recognized under other comprehensive income. On the date of derecognition, profit and loss which have accrued under other comprehensive income are reclassified in the statement of income.

2. **CPI-linked assets and liabilities which are not measured at fair value**

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

3. **Financial liabilities**

   The Group has non-derivative financial liabilities, such as overdraft from banks, debentures issued by the Group, loans and credit from banking corporation and other credit providers, liabilities with respect to leases, trade payables and other payables.

   A. Initial recognition of financial liabilities

   The Group recognizes for the first time issued debt instruments on the date of their creation, according to their fair value on the trade date.

   Financial liabilities are recognized for the first time at fair value plus attributable transaction costs. Following initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

   Transaction costs which are directly attributed to an expected issuance of an instrument which will be classified as a financial liability are recognized as an asset in the statement of financial position. These transaction costs are deducted from the financial liabilities upon initial recognition, or are amortized as financing expenses in the issuance when the issuance is no longer expected to occur. **Upon an extension of a debenture series for cash, the debentures are measured for the first time according to their fair value, which is consideration which was received in the issuance (since this is the best market to which the issuer has immediate access), without any recognition of profit or loss with respect to the difference between the issuance consideration and the market value of the marketable debentures proximate to their issuance.**

<u>Note 2 - Significant Accounting Policies (Cont.)</u>

C. Financial instruments (Cont.)

3. **Financial liabilities (Cont.)**

B. Write-off of financial liabilities:

Financial liabilities are written off when the Group's liabilities, as specified in the agreement, expire, or when they have been settled or canceled.

C. Changes to terms of debt instruments

An exchange of debt instruments with materially different terms, between an existing borrower and a lender, is treated as settlement of the original financial liability and recognition of a new financial liability at fair value, while the difference is applied to the statement of income in the item for financing income or expenses. Additionally, significant changes in the terms of a current financial liability, or a part thereof, are treated as a settlement of the original financial liability and as recognition of a new financial liability.

The terms are significantly different even if the discounted present value of the cash flows, according to the new terms, including any fees which were paid, after deducting any fees which were received, and is discounted using the original effective interest rate, is different by at least ten percent than the discounted present value of the remaining cash flows of the original financial liability.

In addition to the quantitative test, as stated above, the Group also evaluates qualitative considerations in order to determine whether it involves an exchange of conditions with materially different terms, and as part of the above, an evaluation if performed regarding the entire set of characteristics of the exchanged debt instruments and the economic parameters embodied therein, which, if they are indeed significantly different from one another, may create a different economic risk for the holder of the debt instruments upon their exchange. These economic parameters include, inter alia, the average lifetime of the exchanged debt instruments and the extent of impact of the debt terms (such as linkage to the CPI, linkage to foreign currency, variable interest) on the cash flows from the instruments.

<u>Immaterial changes to terms of debt instrument</u>

In case of a change in terms (or exchange) of an immaterial debt instrument, the new cash flows are discounted by the original effective interest rate, where the difference between the present value of the financial liability with the new terms, and the present value of the original financial liability, are recognized under profit and loss.

D. Offsetting of financial instruments

A financial asset and financial liability are offset, and the amounts are presented net in the statement of financial position, when the Group has an immediately legally enforceable right to offset the amounts which were recognized, and an intent to settle the asset and liability on a net basis, or to realize the asset and settle the liability simultaneously.

Note 2 - Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

4. **Issuance of securities as a package**

Upon the issuance of securities as a package, the issuance consideration is initially attributed to financial liabilities which are measured periodically in fair value through profit and loss, and subsequently, to financial liabilities which are measured on the date of initial recognition only at fair value, and the value attributed to the equity component is calculated as residual value.

Direct issuance costs are specifically attributed to the securities with which they are identified. The common issuance costs are attributed to the securities on a proportionate basis, based on the method for attribution of the consideration from the issuance of the package, as described above.

5. **Derivative financial instruments, including hedge accounting**

The Group holds derivative financial instruments for the purpose of hedging against foreign currency risks and interest rate risks, as well as derivatives which are not used for hedging purposes.

Hedge accounting

The Group designates certain derivatives as hedging instruments, in order to hedge against changes in cash flows which are due to highly probable transactions, and which are due to changes in exchange rates and changes to the composition of the index, and cash flows with respect to CPI-linked loans.

On the date when the hedge relationship is created, the group documents its risk management purpose and strategy for executing the hedging. The Group also documents the economic link between the hedged item and the hedging instrument, including whether the changes in the cash flows of the hedged item and of the hedging instrument are offset one another.

Measurement of derivative financial instruments

Derivatives are initially recognized at fair value; Attributable transaction costs are carried to the statement of income upon their materialization. After initial recognition, derivatives are measured at fair value. Changes in fair value are accounted for as described below:

Fair value hedge

Changes in the fair value of a derivative financial instrument which is used as a fair value hedge are carried to the statement of income. Additionally, changes in fair value with respect to the hedged item, with reference to the hedged risks, are also carried in parallel to the statement of income, including an adjustment to the book value of the hedged item.

Cash flow hedging

When a derivative instrument is designated as a hedging instrument in cash flow hedging, the effective part of the changes in the derivative’s fair value is carried to other comprehensive income, directly to a hedging reserve. The effective part of the changes in a derivative’s fair value, which is carried to other comprehensive income, is limited to the cumulative change in the fair value of the hedged item (according to its present value), since the date when the hedge was created. With respect to the non-effective part, the change in fair value is immediately carried to the item for financing income and expenses in the statement of income.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 2 - Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

5. **Derivative financial instruments, including hedge accounting (Cont.)**

When the expected transaction results in the recognition of a non-financial item (for example, inventory), the amounts which accumulated in the hedging reserve and in the hedging cost reserve are included under the initial cost of the non-financial item, on the date of its recognition. For all hedges of other probably transactions, the amounts which ave accumulated in the hedging reserve and in the hedging cost reserve are reclassified to the statement of income in that period, or in those periods, during which the hedged future cash flows affect profit and loss.

If the hedge no longer meets the criteria for hedge accounting, or the hedging instrument has been sold, expired, canceled, or exercised, then treatment according to hedge accounting is canceled prospectively. When treatment according to hedge accounting is discontinued, the amounts which accumulated in the past in the hedging reserve and in the hedging cost reserve remain in the reserve, until the date when they are included in the initial cost of the non-financial item (for transactions hedges which result in the recognition of a non-financial item), or until the date when they are reclassified to the statement of income in the period, or in the periods, during which the hedged probable future cash flows affect profit and loss (for hedges of other cash flows).

Economic hedge

Hedge accounting is not applied to derivative instruments which are used for economic hedging of financial assets and liabilities denominated in foreign currency or linked to the consumer price index. Changes in the fair value of those derivatives are carried to the statement of income as financing income or expenses.

Derivatives which are not used for hedging purposes

Changes in the fair value of derivatives which are not used for hedging purposes are carried to the statement of income as financing income or expenses.

Note 2 - Significant Accounting Policies (Cont.)

D. Fixed assets

1. **Recognition and measurement**

Fixed asset items are measured at cost after deducting accumulated depreciation and accumulated impairment losses.

The cost of fixed assets includes costs which are directly attributed to the acquisition of the asset. The cost of independently created assets includes the cost of materials and direct work salary, as well as any additional cost which is directly attributed to the process of introducing bringing the asset to the location and condition which are required in order to for it to operate in the manner intended by management, as well as the estimate of decommissioning costs and removal of the items and restoration of the site where the item is located (when there is an obligation to dismantle and vacate, or to restore the site), as well as discounted borrowing costs. Acquisition costs of software which constitutes an inseparable part of the operation of the associated equipment is recognized as part of the cost of such equipment. Replacement parts, auxiliary equipment and backup equipment are classified as fixed assets when they meet the definition of fixed assets in accordance with IAS 16 otherwise, they are classified as inventory.

When significant parts of fixed assets (including costs of significant periodic tests), such as communication networks, have a different lifetime, they are treated as separate components (significant components) of the fixed assets, and in the foregoing case, each component is amortized according to its useful lifetime.

Changes in the obligation to dismantle and vacate items and to restore the site where they are located, excluding changes which are due to the passage of time, are added or deducted, as applicable from the cost of the asset, in the period when they occur. The amount which is deducted from the cost of the asset will not exceed its book value, and the remainder, if any, is applied immediately to the statement of income.

2. **Subsequent costs**

The cost to exchange a part of a fixed asset item and other subsequent costs are recognized as part of the book value of fixed assets if it is expected that the future economic benefit embodied therein will flow to the Group and if its cost is reliably measurable. The book value of a part of the replaced part of the fixed asset item is written off. Current maintenance costs of fixed asset items are applied to the statement of income upon their materialization.

3. **Depreciation**

Depreciation is the systematic allocation of the recoverable value of an asset throughout its useful lifetime. An asset is depreciated when it is available for use, i.e., when it has reached the location and condition which are required in order for it to operate in the manner intended by management.

Depreciation is applied to the statement of income (unless it is included in the book value of another asset) using the straight line method, throughout the estimated useful lifetime of each part among the items of the fixed asset, since this method best reflects the projected consumption pattern of the future economic benefits embodied in the asset. Assets leased through leases, including lands and leasehold improvements, are depreciated over the shortest period among the lease period and the useful lifetime of the assets, unless it is reasonably expected that the Group will receive ownership of the asset at the end of the lease period. Owned lands are not depreciated.

Costs of general economic renovations (overhaul) are amortized throughout the remaining useful lifetime of the relevant asset, or until the date of the next overhaul, whichever is earlier.

Note 2 - Significant Accounting Policies (Cont.)

D. Fixed assets (Cont.)

3. **Depreciation (Cont.)**

The estimated useful lifetime for the current reporting period and for the comparison periods are as follows:

	Years	
Buildings	5-50	(mostly 20 years)
Machines, facilities and equipment	3-20	(mostly 15 years)
Computers, office furniture, equipment and other	3-17	(mostly 15 years)
Telecommunication network	4-20	(mostly 12 years)
Television equipment and infrastructure	3-6	
Packaging plants	20-33	(mostly 25 years)
Installations and leasehold improvements	3-17	(mostly 15 years)

Estimates with respect to the depreciation method, useful lifetime and residual value are re-evaluated at least at the end of each reporting year, and are adjusted when required.

<u>**Note 2 - Significant Accounting Policies (Cont.)**</u>

E. Intangible assets

1. **Goodwill**

Goodwill which was created as a result of the acquisition of subsidiaries and the acquisition of activities as part of business combinations is presented under intangible assets. For details regarding the measurement of goodwill upon initial recognition, see section A.1. above.

Subsequent measurement

Goodwill is measured at cost, after deducting accumulated impairment losses, if any. Goodwill with respect to investments accounted by the equity method accounted by the equity method in the book value of the investment.

2. **Research and development**

Expenses associated with research activities operations in order to acquire scientific or technical knowledge and understanding are applied to the statement of income upon their materialization.

Development activities are activities associated with plans to produce new products or processes, or to implement a significant improvement of existing products or processes. Costs with respect to development activities are recognized as an intangible asset if and only if all of the following are fulfilled: the development costs are reliably measurable; the product or process are applicable in technical and commercial terms; a future economic benefit is expected to arise from the product; and the Group has the intention and sufficient sources to complete the development and to use or sell the asset.

Costs which were recognized as an intangible asset with respect to development activities include the cost of materials, direct labor costs, overhead costs which are directly attributed to preparation of the asset for its intended use, and discounted borrowing costs. Other costs with respect to development activities are applied to the statement of income upon their materialization.

Direct and indirect development costs which are due to the development of information system software for self use, and labor costs to employees who are engaged in the development of software programs during the development stage, and overhead costs which are directly attributable to the preparation of the asset for its intended use, are discounted and recognized as an intangible asset. These costs are amortized using the straight line method, beginning on the date when the asset becomes ready for use. With respect to these assets, impairment is evaluated once per year, until the date when they become available for use. Development costs which were previously recognized as an expense are not recognized as an asset in subsequent periods. Capitalized development costs are amortized from the point in time when the asset became available for use, i.e., when it entered the required location and condition in order for it to operate in the manner intended by management, throughout its useful lifetime.

In subsequent periods, development costs which were recognized as an intangible asset are measured at cost less accumulated amortization and impairment losses.

Development assets which are not yet available for use are tested for impairment once per year, in accordance with the provisions of International Accounting Standard (IAS) 36, Impairment of Assets.

Note 2 - Significant Accounting Policies (Cont.)

E. Intangible assets (Cont.)

3. **Incremental costs to obtain contract**

   Incremental costs to obtain contracts with customers are capitalized to an asset when it is expected that the Group will recoup those costs. Costs to obtain contracts which would have materialized regardless of whether or not the contract is obtained are recognized as an expense upon their materialization.

   Costs which have materialized to fulfill a contract with a customer are recognized as an asset when they: are directly attributed to a contract which the Group is able to specifically identify; create or improve the Group's resources which will serve to fulfill a performance obligation in the future; and when the costs are expected to be recouped. In any other case, these costs are recognized as an expense upon their materialization.

   Accordingly, incentives and incremental commissions which are paid to the Group's employees and to marketers with respect to the realization of contracts with customers are recognized as intangible assets. In subsequent periods, costs to obtain contracts are measured at cost less amortization in accordance with the expected service period with respect to those contracts, and accumulated impairment loss.

4. **Other intangible assets**

   A. Intangible assets which were acquired in a business combination are recognized at fair value on the acquisition date. After initial recognition, intangible assets which were acquired by the Group are measured at cost (including direct costs which are required in order to prepare the assets for operation), after deducting accumulated amortization (except with respect to intangible assets with an undefined lifetime), and after deducting impairment loss.

   B. Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit embodied in the asset with respect to which they were spent. All other costs, including costs associated with goodwill or independently developed brands, are applied to the statement of income upon their materialization.

   C. Customer relations - excess cost attributed in subsidiaries to customer relations. These customer relations have a defined lifetime.

   D. Brand - excess cost attributed in subsidiaries to a brand. Some brands have a defined undefined lifetime, while others have an undefined lifetime.

   E. Except for goodwill, and for some of the brands, which have an undefined lifetime, amortization is calculated in accordance with the economic benefit which is expected to arise from the assets in each period, based on the estimated useful lifetime of each group of assets, from the date when the assets are available for use (i.e., are in the location and condition required for them to operate). If an intangible asset includes several components with different estimated useful lifetimes, the significant components are amortized based on their estimated useful lifetimes. Intangible assets which are created in the Group's member companies are not systematically amortized so long as they are not available for use. Therefore, with respect to intangible assets which are not available for use, such as development costs, impairment is tested at least once per year, until the date when they become available for use.

Note 2 - Significant Accounting Policies (Cont.)

E. Intangible assets (Cont.)

4. **Other intangible assets (Cont.)**

The estimated useful lifetimes for the current reporting period and for the comparative periods of the main intangible assets are as follows:

	Years
Customer relations	5-15 (mostly 9 years)
Licenses and frequencies	14-25 (mostly 20 years)
Information systems and software programs	3-5
Technology, development in process, franchises and other	0-33 (mostly non-amortized)
Contract obtaining costs	2-3
Brands and trade names	0-10 (mostly non-amortized)

The systematic amortization of development in process, which was acquired in a business combination, begins at the start of sales due to the developed technology. The amortization period reflects the future useful lifetime, in accordance with the estimate of the period when sales will result from the developed technology.

Estimates regarding the amortization method, useful lifetime and residual value are re-evaluated at least at the end of each fiscal year, and are adjusted as required.

Goodwill, brands with undefined lifetimes and development in process with an undefined lifetime are not systematically amortized, but rather are evaluated at least once per year for impairment.

The estimated useful lifetime of intangible assets which are not amortized is evaluated by the Group at least once per year in order to determine whether the events and circumstances continue to support the determination that the intangible asset has an undefined lifetime.

Note 2 - Significant Accounting Policies (Cont.)

F. Investment property

Investment property is property (land or building - or part of a building - or both) which is held by the Group, as the owner or as a right-of-use asset, for the purpose of generating rental income, or for capital appreciation, or both, and not for any of the following purposes:

(1) Use in the production or provision of goods or services, or for administrative purposes: or

(2) Sale in the ordinary course of business.

Investment property is measured for the first time at cost, including discounted borrowing costs. Cost includes expenses which are directly attributed to the acquisition of investment property. The cost of investment property under self construction includes the cost of materials and direct labor and other costs which are directly attributed to bringing the asset to the location in order for it to operate in the manner intended by management. **In subsequent periods, investment property is measured at fair value, and changes in fair value are applied to the statement of income.**

Investment property under construction is measured by the Group as follows:

(1) At fair value (without discounting borrowing costs), when the fair value of the investment property under construction is reliably measurable; And -

(2) When the fair value is not reliably measurable, according to the fair value of the land, plus cost during the construction period until the earlier of either the construction end date and the date when they fair value is reliably measurable.

When a property used by the owner becomes investment property, to be measured at fair value, the property is re-measured at fair value, and is classified as investment property. Any profit created from the remeasurement is applied to other comprehensive income (loss), and is presented under the revaluation reserve, unless the profit cancels a previous impairment loss of the property, in which case the profit is first applied to profit and loss (up to the amount of the previous impairment loss). Any loss is directly attributed to profit and loss. When investment property which was classified in the past as fixed assets is sold, the revaluation reserve which is included in capital with respect to the investment property is transferred directly to retained earnings.

Upon transition from investment property measured at fair value to fixed assets (property used by owner), or to inventory, its cost for the purpose of the subsequent accounting treatment is determined according to the fair value on the date of the aforementioned transition. In case of a transition from inventory to investment property, which will be measured at fair value, any difference between the fair value of the property on the same date and its previous book value is applied directly to profit and loss.

The Group estimates the value of the investment property at least once per year, and when there are indications of changes in its value (whichever is earlier). The liability with respect to the payment of land betterment levies for investment property is recognized on the exercise date of the rights. Accordingly, as part of the measurement of fair value for investment property before the recognition of liabilities to pay land betterment levies, the negative cash flows attributed to the levies are included.

Right-of-use assets which meet the definition of investment property are presented in the statement of financial position as investment property.

The Group applies the fair value model set forth in IAS 40 with respect to its investment property, and accordingly, the Group applies the fair value model also to right-of-use assets which meet the definition of investment property in IAS 40.

Note 2 - Significant Accounting Policies (Cont.)

G. Leases

The group leases lands, telecommunication sites, buildings, machines, equipment and vehicles. The lease agreements are in force for various periods, and may include extension options.

The Group assesses, when engaging in the contract, whether the contract is a lease or includes a lease. A contract is a lease or includes a lease if the contract transfers the right to control the use of an identifiable asset for a certain period of time, with respect to consideration. The Group re-assesses whether a contract is a lease or includes a lease only if the contract terms have changed.

With respect to lease contracts in the mobile segment, in the group of telecommunication sites which include non-lease components, such as services or maintenance, which are associated with a lease component, the Group chose to treat the contract as a single lease component, without separating the components.

With respect to lease contracts in groups of office buildings, warehouses, service centers and vehicles which include non-lease components, such as services or maintenance, which are associated with a lease component, the Group chose to separate the lease components, and to treat the lease component separately.

On the date of initial recognition, the Group recognizes a lease liability in the amount of the present value of the future lease payments, including, inter alia, the price of exercising the extension options which are reasonably certain to be exercised.

In parallel, the Company recognizes a right-of-use asset in the amount of the lease liability, adjusted for any lease payments which have been paid on or before the commencement date, less any lease incentives which have been received, and plus any initial direct costs which have materialized for the Group.

Variable lease payments which are linked to the consumer price index are initially measured using the index which applies as at the lease commencement date, and are included in the calculation of the lease liability. When changes occur in the cash flows of the lease due to changes to the index, the Group remeasures the lease liability according to the updated contractual cash flows, as an adjustment to the right-of-use asset.

Variable lease payments which are not linked to an index or foreign currency are not included in the calculation of the lease liability, and are recognized in the statement of income in the period when the event occurred, or when the condition which activated those payments was fulfilled.

In cases where the interest rate implicit in the lease can be easily determined, the Group’s incremental interest rate is used. This interest rate is the rate which the Group would have been required to pay in order to borrow, for a similar period, and with similar collateral, the amounts which are required in order to obtain an asset with a similar value to that of the right-of-use assets in a similar economic environment.

The lease period is the period during which the lease is non-cancelable, including periods which are covered by an option to extend the lease, if it is reasonably certain that the Group will exercise the option, as well as periods which are covered by an option to cancel the lease, if it reasonably certain that the Group will not exercise that option.

After the lease commencement date, the Group measures right-of-use assets which do not meet the definition of investment property at cost, less accumulated depreciation and accumulated impairment loss, adjusted with respect to any remeasurement of the lease liability.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

G. Leases (Cont.)

The amortization of right-of-use assets which are not investment property is calculated according to the straight line method, throughout the estimated useful lifetime of the leased asset or of the lease period, whichever is shorter.

	Years
Telecommunication sites	1-15 (mostly 5 years)
Buildings	3-18 (mostly 10 years)
Vehicles	3
Land for orchards	25-39 (mostly 30 years)

As stated above, right-of-use assets which meet the definition of investment property are presented in the statement of financial position as investment property.

The interest on lease liabilities is recognized in the statement of income in each period during the lease period, in an amount which generates a fixed periodic interest rate on the remaining balance of the lease liability.

Payments with respect to short-term leases of equipment and vehicles, and payments with respect to leases in which the underlying asset is of a low value, are recognized according to the straight line method throughout the lease period, as an expense in the statement of income. Short-term leases are leases in which the lease period is 12 months or less.

In leases where the group sub-leases the asset, the Group classifies the sublease with respect to the right-of-use asset which is due to the primary lease, and not with respect to the underlying asset.

H. Deferred expenses

<u>Investments in holding orchards</u>

The Group's investments in holding orchards (which also include irrigation systems) are attributed to customer orchards which are transferred, in their entirety, to the Group's possession, as part of a multi-year agreement between the parties. In consideration of the turnover from the fruit, the Group covers the operating expenses of those orchards. Additionally, if the agreement so prescribes - an agreed-upon additional sum is paid to the customer.

Orchard processing agreements - are amortized from the date of their creation throughout the remaining period of the agreement, up to 23 years, at variable rates of approximately 0.7% to 6% per year.

<u>Transactions for the acquisition of irrevocable rights of use with respect to the capacity of submarine communication cables</u>

Transactions involving the acquisition of irrevocable rights of use with respect to the capacity of submarine communication cables are treated as service receipt transactions. The amount which was paid with respect to the use of the communication cables is recognized as a deferred expense, and is amortized in a straight line over the period specified in the agreement, which constitutes the estimated useful lifetime of those capacities.

I. Expenses associated with processing orchards in advance

Orchard processing expenses which are used in order to bring the fruit to its current location and condition, with respect to unharvested fruit until the cutoff date, are recorded as pre-processing expenses, and are carried to the statement of income based on the amount of fruit which was harvested until the cutoff date, which constitutes an approximation of the fruit sale rate. Fixed expenses are carried to the statement of income at the beginning of each season, while direct and variable expenses are carried to the statement of income according to the progress on harvesting the fruit during the season.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

J. Inventory

Inventory is measured as the lower of either cost and the net realizable value. The cost of inventory includes costs to acquire inventory and to bring it to its current location and condition. In case of in-process inventory, and finished goods inventory, cost includes the part attributed to manufacturing overhead, based on normal capacity.

The net realizable value (in sections J to M below) is the estimated selling price in the ordinary course of business, after deducting the estimated cost to completion and the estimated costs required to perform the sale. Net realizable value, as stated above, is evaluated on a routine basis, while taking into account the product type and age, in accordance with past experience which accumulated with respect to the lifetime of the product.

The cost of inventory is determined as follows: inventory of goods in stores and warehouses - according to the moving average method; inventory of raw materials and packaging - according to an moving average, or on a “first in - first out” basis, in accordance with the characteristics of the raw materials; Finished goods inventory and in-process inventory - at standard cost which reflects the average production cost for the period, or based on production expenses, where the raw materials and auxiliary component and is determined on a “first in - first out” basis, and the labor component and indirect expenses are determined based on a weighted average, or based on a moving average, in accordance with the characteristics of the finished product; Purchased products and replacement parts - on a “first in - first out” basis, or based on a moving average.

K. Inventory of cellphones and inventory used for landline communication

The inventory of cellphones, associated devices and replacement parts is presented at cost or at net realizable value, whichever is lower. **Cost is determined according to the moving average method**, and includes costs to acquire inventory and to bring it to its current location and condition.

The Group periodically evaluates the condition and age of inventory, and records provisions for impairment of inventory as needed.

L. Inventory of real estate and residential apartments

Inventory of real estate and residential apartments is measured as the lower of either cost and the net realizable value. Cost of inventory includes costs required to acquire the inventory (including prepared lease fees) and to bring it to its current location and condition. In case of in-process inventory and inventory of completed buildings, cost includes the attributed part of construction overhead.

In subsequent periods, with respect to apartments which have been sold, the inventory of real estate and residential apartments is applied to the cost of sales, in accordance with the rate of progress.

Real estate inventory which is acquired by the Group in a combination transaction in exchange for the provision of construction services to the seller of the land is recognized according to its fair value on the date when the terms of the agreement allow the Group to receive possession of the land, in parallel with the recognition of the undertaking to provide construction services. In cases where the value of the land is not reliably measurable, the Group estimates the fair value of the construction services which are given to the land owner.

In subsequent periods, the aforementioned liability is adjusted in order to reflect the significant financing component which is represented in the transaction.**The undertaking to provide construction services and real estate inventory are applied to income and cost of sales, respectively, in accordance with the rate of progress on the building in its entirety.**

Note 2 - Significant Accounting Policies (Cont.)

L. Inventory of real estate and residential apartments (Cont.)

Real estate inventory which is purchased by the Group in a receipts combination transaction, in which the Group undertakes to transfer cash according to the sale price of the apartments which will be built on the land, is measured according to the value of the financial liability which was created with respect to the expected future payments.

In subsequent periods, the financial liability is remeasured in accordance with the cash flows which are expected to be paid, discounted periodically by the original effective interest rate of the liability, and the change is recognized in the statement of income.

Method for allocation of costs to inventory of apartments in the entrepreneurial real estate segment

The Group attributes the costs to each sale agreement separately, as described below:

- Identifiable direct costs are allocated specifically to each apartment.
- **Land costs (including fees, levies and finance with respect to land) are attributed to each contract according to the selling price less construction costs with respect to the price of all apartments in the building, less construction costs.**
- **The other shared construction costs which are not attributable to a specific apartment are allocated according to the apartment area and the construction cost per square meter with respect to the building in its entirety.**

M. Inventory of fruit, pest control materials and packaging materials

The inventory of fruit, packaging materials and pest control materials is measured as the lower of either cost or the net realizable value. The cost of inventory is determined as follows:

(1) Inventory of fruit - according to the fruit’s purchase cost, or the cost which was invested in growing items which were transferred from biological assets, which reflect the fair value net of selling costs on the delivery date, plus other direct expenses.

(2) Inventory of packaging and pest control materials - according to the first in - first out (FIFO) approach.

Note 2 - Significant Accounting Policies (Cont.)

O. Discounting of borrowing costs

A qualifying asset is an asset regarding which a significant period of time is necessary in order to prepare it for its intended use, or for its sale.

Specific and non-specific borrowing costs were discounted for qualifying assets during the period required for completion and construction, until the date they are ready for their intended use or for their sale. Other borrowing costs are charged, upon their materialization, to financing expenses in the statement of income.

In the real estate segment, specific borrowing costs and non-specific borrowing costs were discounted for qualifying assets during the period required for completion and construction, until the date they are ready for their intended use. Non-specific borrowing costs are discounted in the same manner for the same investment in qualifying assets, or for that part thereof which is not financed with specific credit, using a rate which is the weighted average of the cost rates with respect to those credit sources whose costs were not specifically discounted. Foreign currency differences due to credit in foreign currency are discounted if they are considered adjustments to the interest cost. Other borrowing costs are applied to the statement of income upon their materialization.

In case the development of a qualifying asset is suspended, the discounting of borrowing costs is suspended during that period.

In inventory of buildings for sale, wherein the control of the sold apartments is transferred over time, the Group stops discounting borrowing costs on the date when the construction and sale of the project effectively began, which constitutes the date when the activities required for the sale effectively concluded.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 2 - Significant Accounting Policies (Cont.)

P. Impairment

1. **Non-derivative financial assets**

The Group recognizes a loss provision with respect to expected credit losses for financial assets which constitute debt instruments measured at amortized cost or at fair value through other comprehensive income, lease receivables and assets with respect to contracts with customers due to transactions which fall under the scope of IFRS 15.

Impairment of a financial asset which constitutes a debt instrument at fair value through other comprehensive income is recognized in the statement of income against other comprehensive income, and does not reduce the financial asset's book value in the statement of financial position.

The Group evaluates, on each date of the statement of financial position, whether a significant increase has occurred in the financial asset's credit risk since its date of initial recognition, on an individual basis or on a collective basis. For this purpose, the Group compares the risk of default in the financial instrument on the reporting date, to the risk of a default in the financial instrument on the date of initial recognition, while taking into account any reasonable information which can be substantiated, including forward looking information.

With respect to financial assets whose credit risk has increased significantly, on their date of initial recognition, the Group measures the loss provision in an amount equal to the expected credit loss throughout the instrument's entire lifetime. Otherwise, the loss provision will be measured in an amount equal to the expected credit losses in a 12 month period. The amount (or cancellation) of projected credit differences is carried to the statement of income.

With respect to financial instruments with a low credit risk, the Group assumes that the credit risk has not increased significantly since the date of initial recognition.

Notwithstanding the foregoing, **the Group always measures the loss provision in an amount equal to the expected credit loss throughout the instrument's entire lifetime, for trade receivables or assets with respect to contracts with customers which are due to transactions covered under IFRS 15, and for lease receivables arising from transactions covered under IFRS 16**.

Note 2 - Significant Accounting Policies (Cont.)

P. Impairment (Cont.)

2. **Non-financial assets**

A. **Timing of impairment test**

The book value of non-financial assets in the Group m which are not investment property, inventory and deferred tax assets, is evaluated on each reporting date in order to determine whether indicators of impairment exist. The aforementioned indicators which are evaluated by the Group with respect to the value of the investments include a decrease in prices on the stock exchange, ongoing losses in its investments, the branch where it performs its investing activities, the excess cost included in the investments, non-fulfillment of research and development goals or of the business plans of investee companies, and additional parameters.

If indicators of impairment exist, the estimated recoverable value of the asset is calculated. The Group estimates the recoverable value of goodwill and intangible assets with an undefined lifetime or which are not yet available for use, once per year, on a fixed date for each cash generating unit, or more frequently, if indicators of impairment exist.

B. **Determination of cash generating units**

For the purpose of implementing the impairment test, assets which cannot be specifically evaluated are joined together into the smallest possible group of assets which generate cash flows from ongoing use, which are primarily independent of other assets and other groups of assets ("Cash Generating Unit").

C. **Measurement of recoverable amount**

The recoverable amount of an asset or cash generating unit is the higher of either its value in use or its fair value, after deducting selling expenses. In the determination of value in use, the Group discounts the projected future cash flows which reflect the current condition of the asset, and represent the best estimate with respect to the economic conditions which will prevail during the asset's remaining useful lifetime.

The discounting of cash flows with respect to a cash generating unit is performed according to the discount rate before taxes, which reflects the estimate of market participants with respect to the time value of money and the specific risks attributed to the asset or cash generating unit, for which the future cash flows which are expected to arise from the asset or cash generating unit were not adjusted. In the impairment test of associate companies and joint ventures, cash flows are discounted according to the appropriate discount rate after tax.

Note 2 - Significant Accounting Policies (Cont.)

P. Impairment (Cont.)

2. **Non-financial assets (Cont.)**

D. Recognition of impairment loss

Impairment losses are recognized when the book value of the asset, or of the cash generating unit with which the asset is associated, exceeds the recoverable amount, and are carried to the statement of income. Impairment loss of an asset which was revalued in the past, with the revaluation carried to a capital reserve, are carried to other comprehensive income until the principal has been repaid, while the remainder is carried to the statement of income.

Goodwill purchased within the framework of a business combination is allocated for the impairment test of cash generating units, including those which existed in the Group also before the business combination, which are expected to create benefits from the synergy of the combination.

Each unit or group of units to which the aforementioned goodwill was allocated represents the lowest level in the Group at which goodwill is monitored for the purpose of reporting to internal management, and is no greater than an operating segment (according to the group of similar segments).

In cases where goodwill is not monitored for the purpose of internal reporting, the goodwill is allocated to operating segments (before grouping similar segments), and not to a cash generating unit (or group of cash generating units) which is lower than the operating segments.Impairment loss, if any, is allocated to decrease the book value of the assets of the unit (or group of units) in the following order: first, to decrease the book value of any goodwill which was allocated to the cash generating unit (or group of units), and then to the other assets of the unit (or group of units), proportionately according to the book value of each asset in the unit (or group of units).

For the purpose of applying the impairment test of goodwill attributed to cash generating units which are also held by non-controlling interests, which were measured for the first time according to the proportional part of those interests in the net assets of the acquired entity, the book value of the goodwill and the other excess costs which were allocated to the aforementioned cash generating unit are grossed up in order to include the goodwill and other excess costs which are attributed to the non-controlling interests. Subsequently, a comparison is performed between the aforementioned adjusted book value and the recoverable value of that unit, in order to determine whether its value has been impaired.

Goodwill and other excess costs are represented according to the stake in the entity to which they are attributed on January 1, 2010, or on the original date of recognition, whichever is later, and without taking into account control premiums, insofar as any are included in the balances of goodwill.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

P. Impairment (Cont.)

2. **Non-financial assets (Cont.)**

D. Recognition of impairment loss (Cont.)

<u>Allocation of impairment loss to non-controlling interests</u>

If impairment loss has been identified in a cash generating unit, as stated above, the impairment loss is allocated between the owners of the Company and non-controlling interests according to their relative shares in the goodwill and the other excess costs to which the impairment loss is attributed, before representation, as stated above. However, if impairment loss attributed to non-controlling interests refers to goodwill or to other excess costs which were not recognized in the consolidated financial statements of the parent company, the aforementioned impairment is not recognized as impairment loss. In such cases, only impairment loss pertaining to goodwill and other excess costs which were recognized in the Company's financial statements are recognized as impairment loss.

<u>Reversal of impairment loss</u>

Impairment loss of goodwill is not reversed. With respect to other assets, for which impairment losses were recognized in previous periods, on each financial reporting date, a test is performed regarding whether indicators exist that such losses have decreased, or no longer exist. Impairment loss is reversed if changes have occurred in the estimates which were used in the determination of the recoverable amount, only if the asset's book value, after reversal of the impairment loss, does not exceed its book value, after deducting depreciation or amortization, which would have been determined had impairment loss not been recognized.

Note 2 - Significant Accounting Policies (Cont.)

P. Impairment (Cont.)

3. **Investments in associate companies and joint ventures**

An impairment test with respect to an investment in an associate company or joint venture is performed only where there is objective evidence indicating impairment. Such objective evidence includes general information regarding the market, decline in stock exchange prices, ongoing losses in its investments the branch in which its investing activities take place, non-fulfillment of research and development goals of investee companies, significant deviation from the business plan of the investee companies, efforts to raise capital at a lower price than the value of the investment in the financial statements, and additional parameters.

Goodwill which constitutes a part of the account of the investment in the associate company or joint venture is not recognized as a separate asset, and therefore, impairment is not evaluated separately for it.

If objective evidence exists indicating impairment of the value of the investment, the Group estimates the recoverable amount of the investment which is the higher of either its value in use or its net selling price.

In its determination of the investment's value in use, the Group estimates its share in the present value of the estimated future cash flows, which are expected to be generated by the associate company or joint venture, including cash flows from its activities, and the consideration from the ultimate realization of the investment, or estimates the present value of the estimated future cash flows which are expected to result from the dividends which will be received, and from the final realization.

Impairment loss is recognized when the book value of the investment, after application of the equity method, exceeds the recoverable amount, **and is applied to the item for the Group's share in the loss of investee companies accounted by the equity method, net, in the statement of income.**

Impairment loss is not allocated to any asset, including to goodwill which constitutes a part of the account of the investment in the associate company or joint venture.

Impairment loss is canceled only if changes have occurred in the estimates which were used in the determination of the recoverable amount of the investment, from the date when the impairment loss was most recently recognized. The book value of the investment, after cancellation of impairment loss, will not exceed the book value of the investment which would have been determined according to the equity method had impairment loss not been recognized.

If excess costs are attributed to assets in the associate company or to assets in the joint venture, and the aforementioned company performs an amortization for impairment with respect to such assets, the Company amortizes the aforementioned attributed excess costs, and applies the amortization to the statement of income.

Q. Non-current assets and disposal groups held for sale

Non-current assets (or realization groups which are comprised of assets and liabilities) are classified as assets held for sale if it is highly probable that the recoupment of their amount will be implemented primarily through a sale transaction or a distribution to owners, and through ongoing use. When a company is committed to a sale plan which involves loss of control of a subsidiary, all of the assets and liabilities which are attributed to the subsidiary are classified as held for sale, will bear the Company will remain with any non-controlling interests in the former subsidiary after the sale.

Note 2 - Significant Accounting Policies (Cont.)

Q. Non-current assets and disposal groups held for sale (Cont.)

Immediately before their classification as held for sale, the assets (or the components of the disposal group) are measured according to the Group's accounting policy. Subsequently, the assets, the components of the realization group (or the Group which is intended for realization) are measured according to the lower of either book value or fair value, net of selling costs.

Any impairment loss of a group designated for realization is initially attributed to goodwill, and later, proportionately, to the remaining assets and liabilities, except that loss is not attributed to assets which are not covered under the measurement provisions of IFRS 5, such as: inventory, financial assets, deferred tax assets, employee benefit plan assets, investment property measured at fair value. Impairment losses which are recognized upon initial classification of an asset held for sale, as well as subsequent profit or loss due to the remeasurement, are applied to the statement of income. Profit is recognized up to the cumulative amount of the impairment loss which was recorded in the past.

In subsequent periods, depreciable assets classified as held for sale are not periodically depreciated, and investments in associate companies and joint ventures which are classified as held for sale are not accounted by the equity method.

Discontinued operations

Discontinued operations are a component of the Group's business operations which constitutes an operation which was realized or which is classified as held for sale, as stated above, and represents a significant separate business line, or a geographical area of an activity which is significant and separate. The classification as a discontinued operation is implemented on the date when the operation was realized, or when it meets the criteria for classification as held for sale, if this occurred previously.

Operating results which refer to discontinued operations are presented separately in the statement of income after deducting the tax impact, and also with respect to comparative figures which were restated for this purpose, as if the operation had been discontinued from the start of the earliest comparison period. Additionally, **the Company presents the cash flows which are attributed to a discontinued operation separately in the statements of cash flows, including reclassification of the comparative figures.** On this matter, see Note 12 below.

R. Share capital

Ordinary shares

Costs which are directly attributed to an issuance of ordinary shares and share warrants are presented as an amortization of capital.

Treasury shares

When share capital which was recognized under equity is re-purchased by the Company, the amount of consideration which was paid, including direct costs, is deducted from equity. **The repurchased shares are classified as treasury shares.** When treasury shares are sold or re-issued, the difference between the consideration which was received and the cost of the shares is carried to equity, after deducting incremental costs which are directly attributable to the transaction.

Note 2 - Significant Accounting Policies (Cont.)

S. Employee benefits

1. **Post-employment benefits**

The Group has several post-employment benefit plans for employees. The plans are generally financed by deposits to insurance companies or pension funds, and are classified as defined deposit plans and as defined benefit plans.

A. **Defined deposit plans**

A defined deposit plan is a post-employment plan according to which the Group pays fixed payments to a separate entity without having a legal or implicit obligation to pay additional payments. The Group's obligations to deposit in a defined deposit plan are applied as an expense to profit and loss on the date when the obligation to deposit materializes.

B. **Defined benefit plan**

A defined benefit plan is a post-employment benefit plan which is not a defined deposit plan. A net obligation of the Group which pertains to a defined benefit plan with respect to post-employment benefits, with respect to each plan separately, according to an estimate of the future amount of the benefit which will be owed to an employee in consideration of their services, in the current period and in previous periods. This benefit is presented according to present value, after deducting the fair value of the plan assets.

The Group determines the net interest on the liability (asset), net, with respect to a defined benefit, by multiplying the liability (asset), bet, with respect to that defined benefit, by the discount rate which was used in the measurement of the liability with respect to that defined benefit, as both were determined at the start of the annual reporting period.

The discount rate is determined according to the yield, as at the reporting date, of high quality CPI-linked corporate debentures whose currency is the NIS, and whose repayment dates are similar to the terms of the Group's liabilities on the same date. The calculations are conducted each year by a licensed actuary, according to the projected unit credit method.

When the results of the calculation indicate the creation of a net asset for the Group, an asset is recognized up to the net amount of the present value of available economic benefits in the form of reimbursement from the plan or reduction in future deposits to the plan. An economic benefit in the form of reimbursements or reduction of future deposits will be considered available to the Group when it is realizable during the plan's lifetime, or after the liability has been settled.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

S. Employee benefits (Cont.)

Remeasurement of the liability (asset), net, with respect to a defined benefit, includes actuarial profit and loss, return on plan assets (excluding interest), and any change in the impact on the asset ceiling (as relevant, excluding interest). **Re-measurements are applied immediately through other comprehensive income directly to retained earnings.**

Interest costs with respect to a defined benefit liability, interest income with respect to plan assets and interest with respect to the impact of the asset ceiling which were applied to the statement of income are presented under the items for financing income and expenses, respectively.

If an improvement or decrease has occurred in the benefits provided by the Group to employees, that part of the increased benefits pertaining to the past service of the employees, or profit or loss from the reduction, are immediately recognized in profit or loss when the amendment or reduction of the plan occurs.

The Group recognizes profit or loss from the settlement of a defined benefit plan when the settlement occurs. Profit or loss, as stated above, constitutes the difference between the settled part of the present value of the defined benefit liability on the settlement date, and the settlement price, including plan assets which were transferred.

The Group has managers' insurance policies which were issued before 2004, and in accordance with the policy terms, the real balance of profit which accrued on the severance pay component will be paid to the employee on the date of retirement. With respect to such policies, the plan assets include both the balance of the severance pay component and the real balance of profit which accrued (if any) on deposits to severance pay, until the date of the statement of financial position, and they are presented at fair value.

These plan assets are used for a defined benefit plan which includes two liability components: the defined benefit plan component with respect to the severance pay, which is calculated on an actuarial basis, as stated above, and an additional component which is the undertaking to pay the real balance of profit which has accrued (if any) on the date of the employee's retirement. This component is measured in the amount of the real balance of profit which has actually accrued as at the reporting date.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

S. Employee benefits (Cont.)

2. **Other long term employee benefits**

The Group's net liability with respect to long term employee benefits, which are not attributed to post-employment benefit plans, is in the amount of the future benefit owed to the employees with respect to services which were provided in the current period and in previous periods. The amount of these benefits is capitalized to its present value, less the fair value of the assets attributed to that liability.

The discount rate is determined according to the yield, as at the reporting date, of high quality CPI-linked corporate debentures whose currency is the NIS, and whose repayment dates are similar to the terms of the Group's liabilities on the same date. The calculation is performed using the projected unit credit method. Actuarial profit and loss are applied to the statement of income for the period when they were created.

3. **Severance benefits**

Severance benefits are recognized as an expense when the Group has clearly committed, with no real possibility of cancellation, to the dismissal of employees, before they have reached the conventional retirement date in accordance with a detailed formal plan, or to provide severance benefits as a result of an offer which was made to encourage voluntary retirement. Benefits which were given to employees with respect to voluntary retirement are applied as an expense when the Group has offered to employees a plan which encourages voluntary retirement, and when it is expected that the offer will be accepted and when the number of employees accepting the offer is reliably measurable.

4. **Short term employee benefits**

Liabilities with respect to short term employee benefits are measured on a non-discounted basis, and the expense is applied upon provision of the relevant service, or in case of non-accumulated absences (such as maternity leave) - in case of actual absence.

A provision with respect to short term employee benefits due to a cash bonus or a profit sharing plan is recognized according to the amount which is expected to be paid when the Group has a current legal or implicit liability to pay the aforementioned amount with respect to service which was given by the employee in the past, and when the liability is reliably measurable. The classification of employee benefits for purposes of measurement as short term benefits, or as other long term benefits, is determined according to the Group's forecast regarding the full settlement of the benefits.

5. **Share-based payment transactions**

The fair value on the grant date of share-based payments to employees is carried as a payroll expense, **in parallel the increase in retained earnings** during the vesting period, the period in which a requirement applies to fulfill all of the defined conditions for the vesting of the share-based payment arrangement.

The amount which was applied as an expense with respect to share-based payment bonuses, which are conditional upon vesting terms which constitute service terms, was adjusted in order to reflect the number of bonuses which are expected to vest.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

T. Provisions

A provision is recognized when the Group has a current legal or implicit liability, as a result of an event which occurred in the past, and which is reliably measurable, and when it is more likely than not that resources will be required in order to settle the liability. The provisions were determined by discounting future the cash flows **by the interest rate before tax which reflects the current market estimates regarding the time value of money and the specific risks of the liability, without taking into account the credit risk of the debtor company.** The book value of the provision is adjusted in each period in order to reflect the passage of time. The amount of the adjustment is recognized as financing expenses.

The Group recognizes an indemnification asset if and only if it is virtually certain that the indemnification will be received if the Company settles the liability. The amount which is recognized with respect to the indemnification does not exceed the amount of the provision.

1. **Warranty**

   The provision for warranty is recognized when the products or service, with respect to which the warranty was given, are sold. The provision is based on historical data and on the weighing of all possible results, including their probabilities.

2. **Onerous contracts**

   When the unavoidable costs with respect to the contract are expected to exceed the expected benefits from the contract, an onerous contract provision is recognized. The provision is measured according to the lower of either the present value of the projected cost to terminate the agreement, and the present value of the unavoidable costs (net of income) to continue fulfilling the agreement. **Unavoidable costs are costs which the Company cannot avoid, since it is bound by a contract.**

   When the total contract costs are expected to exceed the total contract income, the expected loss should be recognized as an expense immediately.

   The amount of such loss is determined without taking into account the following factors:

   (A) Whether work in connection with the agreement has commenced;
   (B) The completion stage of the activities in connection with the agreement;
   (C) The amount of profits which are expected to be created with respect to other contracts which are not treated as a single construction contract.

   Expected contract losses are identified with respect to expected contract costs, i.e., the total contract completion costs (including loading indirect costs).

Note 2 - Significant Accounting Policies (Cont.)

T. Provisions (Cont.)

3. **Contingent liabilities and legal claims**

Legal claims with unique characteristics are not joined together, and the need for recognition of provisions with respect to them is evaluated separately.

A claims is recognized when group the Group has a legal obligation in the present, or an implicit liability as a result of an event which occurred in the past, when it is more likely than not that the Group will require its economic resources in order to settle the liability, and when it is reliably measurable.

When the impact of the value of time is significant, the provision is measured in accordance with its present value. The amount of the provisions which were performed is based on an estimate of the degree of risk associated with each of the claims, when events which take place during the litigation may require a re-evaluation of such risk.

In estimates regarding the chances of legal claims which were filed against the Company and its investee companies, the companies rely on the opinions of their legal advisors. These opinions of the legal advisors are based on their best professional judgment, in consideration of the stage of the proceedings, and on their accumulated legal experience on the various issues. The results of the claims will be determined in the courts.

The Group is involved in legal proceedings which were recently filed, although at this stage it is not possible to estimate their chances (see also Note 22.C. below).

A provision with respect to unasserted claims is recognized in accordance with the claim's overall chances of success, if filed, against the Group's member companies (which is based on the probability of the filing of the claim and the claim's chances of success).

4. **Expenses payable with respect to fruit purchases**

Once the fruit is accepted for packaging, an advance is paid to Migdal with respect to the fruit, depending on the fruit's variety and quality. Additionally, a provision is made to supplement the price according to costing data which are available to the Group as at the cutoff date. These provisions, which were paid after the reporting date, are recorded if they have already been paid under trade payables, and if the provision is included under the item for payables with respect to fruit purchases, under the payables section.

U. Revenue

1. **Identification of contract**

The Group handles a customer contract only upon fulfillment of all of the following conditions:

(A) The parties to the contract have approved the contract (in writing, verbally or in accordance with other standard business practices), and are obligated to fulfill the undertakings which have been assigned to them;

(B) The Group is able to identify the rights of each party, with respect to the products or services which will be transferred;

(C) The Group is able to identify the payment terms with respect to the goods or services which will be transferred;

(D) The contract is of a commercial nature (in other words, the risk, timing and amount of the entity's future cash flows are expected to be changed as a result of the contract); and

(E) The Group is expected to collect the consideration which it is entitled to receive with respect to the goods or services which will be transferred to the customer.

Note 2 - Significant Accounting Policies (Cont.)

U. Revenue (Cont.)

For the purpose of determining the fulfillment of condition (E), the Group evaluates, inter alia, the percentage of advance payments which were received, and the method for distribution of payments in the contract, prior experience with the customer, its situation, and the existence of sufficient collateral.

When a customer contract does not meet the above criteria, any consideration which has been received from the customer is recognized as a liability until the foregoing conditions have been met, or upon the occurrence of one of the following events: there are no commitments left for the Group to transfer goods or services to the customer, and the entire consideration which was guaranteed by the customer has been received, and cannot be returned; or the contract was canceled, and the consideration which was received from the customer cannot be returned.

2. **Grouping of contracts**

The Group groups two or more contracts which were entered into on the same date, or on a proximate date, with the same customer (or with related parties of the customer), and handles them as a single contract, upon the fulfillment of one or more of the following criteria:

(A) Negotiations regarding the contracts are conducted as a single package, with a single commercial purpose;

(B) The total consideration which will be paid in one contract depends on the price or performance of the other contract; or

(C) The goods or services which were guaranteed in the contracts (or certain goods or services which were guaranteed in each of the contracts) constitute a single performance obligation.

3. **Identification of performance obligations**

The Group estimates, on the date of entry into the agreement, the goods or services which were guaranteed in a contract with the customer, and identifies as a performance obligation any guarantee to transfer to the customer one of the following two things:

(A) Goods or services (or a package of goods or services) which are separate; or

(B) A series of separate goods or services which are effectively identical, and which have the same pattern of transfer to the customer.

The Group identifies goods or services which have been guaranteed to the customer as separate, when the customer is able to derive benefit from the goods or services themselves, or along with other resources which are easily obtainable by the customer, and when the Group's guarantee to transfer the goods or services to the customer is identifiable separately from the other guarantees in the contract. In order to evaluate whether a guarantee to transfer goods or services is separately identifiable, the Group evaluates whether a material service is provided involving combining the goods or services with other goods or services which were guaranteed in the contract, into a combined product for which the customer entered into the contract.

Option to purchase additional goods or services

An option which gives a customer the right to purchase additional goods or services constitutes a separate performance obligation in the contract only if the option gives the customer a significant right which it would not have received had it not entered into the original contract.

Note 2 - Significant Accounting Policies (Cont.)

U. Revenue (Cont.)

3. **Identification of performance obligations (Cont.)**

Determination of the transaction price

The transaction price is the total consideration which the Group expects to be entitled to receive in consideration of the transfer of goods or services which have been guaranteed to the customer, except for amounts which were collected in favor of third parties. When determining the transaction price, the Group takes into account the effects of all of the following: variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration payable to the customer.

4. **Variable consideration**

The transaction price includes fixed amounts and amounts which may change as a result of discounts, reimbursements, credits, price concessions, incentives, performance bonuses, claims and disputes, as well as changes to the contract, whose consideration has been agreed upon by the parties.

The Group includes, in the transaction price, all or part of the variable consideration, only when it is highly probable that significant cancellation of the total cumulative income which was recognized will not occur, when the uncertainty associated with the variable consideration will be found out later on. At the end of each reporting period, the Group updates, if necessary, the estimated total of the variable consideration which was included in the consideration for the transaction.

In the retail segment, variable consideration is primarily due to volume discounts which the group offers to its customers. The Group estimates the amount of variable consideration by using the most likely amount method, since this method best describes the amount of consideration which it will be entitled to receive.

Existence of a significant financing component

For the purpose of measuring the transaction price, the Group adjusts the total consideration which was guaranteed with respect to the effect of the time value of money, if the timing of the payments, which was agreed upon between the parties, provides to the customer or the Group a significant benefit in terms of financing, in which cases the contract includes a significant financing component. In the assessment of whether a contract includes a significant financing component, the Group evaluates, inter alia, the forecasted time between the date when the Group transfers the goods or services which were guaranteed to the customer, and the date when the customer pays for those goods or services, as well as the difference, if any, between the total guaranteed consideration, and the selling price in cash of the guaranteed goods or services.

When the contract includes a significant financing component, the Group recognizes the total consideration using the discount rate which would be reflected in a separate financing transaction between it and the customer, on the date of the agreement. The financing component is recognized as interest income or expense during the period according to the effective interest method.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

U. Revenue (Cont.)

4. **Variable consideration (Cont.)**

   In cases where the difference between the date of receipt of payment, and the date when the goods or service are transferred to the customer is one year or less, the Group applies the practical expedient set forth in the standard, and does not separate a significant financing component.

   Non-cash consideration

   Non-cash consideration is measured at fair value. When it is not possible to reasonably measurable the fair consideration's value, the Group indirectly measures the consideration with respect to the separate selling price of the goods or services which were guaranteed to the customer.

5. **Date of revenue recognition (fulfillment of performance obligation)**

   Income is recognized when the Group fulfills a performance obligation by transferring the control of goods or services which were guaranteed to the customer.

   <u>Measurement of progress on the fulfillment of a performance obligation</u>

   When measuring the progress of performance using a method which is based on inputs, cost which has materialized and is not proportional to the progress on the fulfillment of the performance obligation is not taken into account in the measurement of the completion rate. In such cases, the Group recognizes revenue in an amount equal to the cost of goods which were used to fulfill the performance obligation (performance obligation, zero margin), upon the fulfillment of the following conditions: the goods are not separate; The customer is expected to gain control of the goods a significant period of time before receiving the relevant services; The cost of the goods is significant relative to the total expected contract costs; And the Group acquires the goods from a third party, and is not significantly involved in the production and manufacturing of the goods.

   In the service provision segment, the total consideration in certain contracts includes a variable component and a variable component (such as management fees which are conditional upon income). Fixed amounts are recognized in a straight line over the period when the services are provided. Variable amounts are for the period generally in the period when the relevant services were provided, if they are attributable to the Group's efforts to fulfill the performance obligation in that period, and if the method of recognition, as stated above, reflects the amount which the Group is entitled to receive in consideration of the provision of services to the customer.

   Additionally, in cases where the Group is entitled to receive consideration from the customer, in an amount which directly corresponds to the value for the customer of the Group's performance, which was completed until that date, the Group adopts the practical expedient prescribed in the standard, and recognizes income in the amount for which the Group is entitled to submit an invoice.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

U. Revenue (Cont.)

6. **In the Group's real estate segment**

The Group is required to estimate, with respect to each contract with a customer, whether it is fulfilling the over time or at a single point in time (upon delivery), in order to determine the appropriate method for recognition of income.

The Group fulfills the performance obligation and recognizes revenue over time if one of the following criteria is fulfilled:

A. The customer receives and consumes simultaneously the benefits which are provided by the Group's performance, insofar as the Group is the performing entity.

B. The Group's performance creates or improves a property (for example, work in progress) which is controlled by the customer, during the creation or improvement thereof.

C. The Group's performance does not create an asset with alternative use for the Group, and the Group has the right to enforceable payment with respect to performance which was completed until that date.

Income from rent and management fees

Rent from investment property and management fees for the routine operation of properties are recognized under profit and loss using the straight line method throughout the lease period. Lease incentives which were provided are recognized as an inseparable part of the total income from rent throughout the lease period.

Services

Income is recognized over time in the reporting period when the services were provided, since the customer receives and consumes simultaneously the benefits which are provided by the Group's performance, when the Group provides those services.

Sale of inventory of real estate and residential apartments

The Group has reached the conclusion that its sale contracts with customers in the entrepreneurial real estate segment in Israel, based on regulation the provisions of the law and the relevant regulations in Israel, and based on legal opinions which were received, an asset has not been created with an alternative use for the Group, and it has the right to enforce the fulfillment of the contract. In these circumstances, the Group recognizes revenue over time. When the aforementioned conditions have not been met, the revenue is recognized at a single point in time.

The Company recognizes revenues with respect to each contract separately, provided that the amounts which were received, as at the reporting date, with respect to the contract, represent 15% or more of the total contract amount. The Group determines the amount of revenue from each contract in accordance with the transaction price with each customer separately.

Note 2 - Significant Accounting Policies (Cont.)

U. Revenue (Cont.)

6. **In the Group's real estate segment (Cont.)**

C. (Cont.)

Recognition of revenue from combination transactions

Real estate inventory which is acquired by the Group in a combination transaction in exchange for the provision of construction services to the seller of the land is recognized according to its fair value on the date when the terms of the agreement allow the Group to receive possession of the land, in parallel with the recognition of the undertaking to provide construction services. In cases where the value of the land is not reliably measurable, the Group estimates the fair value of the construction services which are given to the land owner.

In subsequent periods, the aforementioned liability is adjusted in order to reflect the significant financing component which is represented in the transaction. The undertaking to provide construction services and real estate inventory are applied to income and cost of sales, respectively, in accordance with the rate of progress on the inventory in its entirety.

Measurement of performance progress

The Group determines the rate of progress according to which revenue is recognized with respect to each sale contract as the rate of progress of the building in its entirety. The rate of progress was determined in accordance with the ratio between the construction costs which actually materialized (excluding payments with respect to land and financing) and the scope of the contract of the developing contractor at base prices (not including land costs and financing costs).

Method of presentation of income receivable and advance payments from customers

Income receivable constitutes an asset which is recognized when the Group is entitled to receive consideration with respect to a real estate property which the Group has transferred to the customer.

Advance payments from apartment buyers constitute liabilities with respect to contracts, and represent the consideration which the Group received before it transferred the real estate property to the customer.

Note 2 - Significant Accounting Policies (Cont.)

U. Revenue (Cont.)

7. **In the Group's telecommunications segment**

   Income due to the provision of telecommunication services, which include mobile services, internet services, international call services, landline telephony services, reciprocal connectivity, roaming services, content and value added services, transmission services and television over internet services, is recorded upon the provision of the services proportionately until the transaction completion stage, when all of the criteria for the recognition of revenue have been fulfilled.

   The sale of equipment to the customer is performed without a contractual obligation of the customer to acquire services in a minimum amount for a predefined period. As a result, the Group considers the equipment transaction as a separate transaction, and recognizes the revenues from equipment in accordance with the value of the transaction on the date when the equipment is transferred to the customer. Revenues from services are recognized and recorded upon the provision of the services.

8. **Incremental costs to obtain contract**

   Incremental costs to obtain contracts with customers are recognized as assets when it is considered likely that the Group will recoup those costs. Costs to obtain contracts which would have materialized regardless of whether or not the contract is obtained are recognized as an expense upon their materialization (see also section E.3. above).

   Costs which have materialized to fulfill a contract with a customer, and which do not fall under the scope of another standard, are recognized as an asset when they: are directly attributed to a contract which the Group is able to specifically identify; create or improve the Group's resources which will serve to fulfill a performance obligation in the future; and when the costs are expected to be recouped. In any other case, these costs are recognized as an expense upon their materialization.

   Costs which have been discounted as an asset are depreciated to the statement of income on a systematic basis which is consistent with the transfer of the goods or services to which the asset is attributed.

   In each reporting period, the Group evaluates whether the asset's book value, which was recognized as stated above, exceeds the balance of the consideration which the entity expects to receive in consideration of the goods or services to which the asset is attributed, less the costs which are directly attributable to the provision of those goods or services, which were not recognized as expenses, and if necessary, impairment loss is recognized in the statement of income.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

U. Revenue (Cont.)

8. **Incremental costs to obtain contract (Cont.)**

In the real estate initiation segment, the Group determines the cost attributed to each sale contract separately in accordance with the following:

A. Land costs (including fees, levies and land financing) - these costs will be attributed to each agreement in accordance with the value of the unit which is the subject of that agreement, relative to the value of the project in its entirety. The aforementioned value is primarily affected by the location of the unit in the building, the designation of the unit and the area of the unit.

B. Construction costs - in accordance with the size of the unit and the construction cost per square meter, as arising from the Group's agreements with its executing contractors.

Incremental costs to obtain contracts with customers are recognized as assets when it is considered likely that the Company will recoup those costs. Accordingly, commissions which are paid to marketers and agents with respect to the sale of residential apartments are recognized as an asset upon the signing of the sale contract, and are amortized as selling expenses in accordance with the rate of progress, for apartments which were sold over time.

9. **Warranty**

For the purpose of assessing whether a warranty provides a separate service to the customer, and therefore constitutes a separate performance obligation, the Group evaluates, inter alia, the following characteristics: whether the customer has the possibility to purchase a warranty separately; Whether the warranty is required by law; the length of the liability coverage period and the nature of the activities which the Group guarantees to perform under the liability contract.

Within the framework of contracts with customers, the Group provides warranty services to customers in accordance with the contract, the provisions of the law or the standard practice in the branch. The warranty services are given in order to guarantee the quality of work and the fulfillment of the specification which was agreed upon between the parties, and do not constitute an additional service which is given to the customer. In such cases, the Group does not identify the warranty as a separate performance obligation, but rather treats it in accordance with the provisions of IAS 37, and recognizes a provision for warranty, according to the estimated cost of the aforementioned services.

10. **Sales with right of recourse**

For contracts which allow the customer to return purchased goods, income is recognized in the amount regarding which it is highly probable that a significant cancellation of the amount of accumulated income which were recognized will not occur. Therefore, the amount of recognized income is adjusted with respect to the expected returns, which have been estimated based on historical data and past experience. Returned goods are only replaced for new goods. In such cases, a liability for returns, and an asset with respect to the right to receive back the products, are recognized.

Note 2 - Significant Accounting Policies (Cont.)

U. Revenue (Cont.)

11. **Contractual assets and contractual liabilities**

A contractual asset is recognized when the Group has the right to receive consideration with respect to goods or services which the Group has transferred to the customer, while this right is conditional upon a different entity than the passage of time, for example, the Group's future performance. The contractual assets are classified to the item for receivables when the rights with respect thereto become unconditional.

Contractual liabilities are recognized when the Group is obligated to transfer goods or services to the customer, for which it has not received consideration (or when the amount's due date has arrived).

Offsetting of contractual assets and contractual liabilities

An asset and liability with respect to the same contract are presented net in the statement of financial position. However, a contractual asset and liability arising from different contracts are presented gross in the statement of financial position.

12. **Primary supplier or agent**

When the Group is the primary supplier, it recognizes the revenues according to the gross total consideration, if the Group is obligated to arrange for another party to provide those goods or services, then the Group is an agent, and therefore recognizes the revenue according to the net amount of the commission.

The Group is the primary supplier when it controls the guaranteed goods or service before hey are transferred to the customer. Indicators showing that the Group controlled the goods or service before the transfer thereof to the customer include, inter alia, the following: the Group is the main party responsible for fulfilling the contractual obligations; The Group bears inventory risk before the goods or services have been transferred to the customer; And the Group has discretion regarding the determination of prices for the goods or services.

Within the framework of contract projects in which the work is performed through subcontractors, the Group serves as the primary supplier, while its obligation is to provide the contract services itself, and therefore the income is recognized in the gross amount of the consideration.

In the property rental and management segment, the Group provides electricity and management services for the lessees. In cases where the Group is unable to direct the transferred service to the customer, and essentially serves as an agent, the revenue is recognized on a net basis. In other cases, the income is recognized on a gross basis.

13. **Recognition of revenue with respect to contracts which were signed following progress on performance**

In the real estate initiation segment, in cases where the Group begins performing actions in connection with an expected contract before a binding contract has been signed with the customer, when signing the contract, the Group recognizes the revenue on a cumulative ("catch up") basis which reflects the performance obligations which were partially completed or completed as at the signing date of the agreement.

Note 2 - Significant Accounting Policies (Cont.)

V. Cost of Sales

1. Cost of sales in the Group in connection with the provision of communication services primarily includes end user equipment acquisition costs, payroll and associated expenses, value added services expenses, royalties expenses, routine licensing fees, expenses with respect to reciprocal and roaming connections, rental costs of mobile sites, depreciation and amortization expenses and maintenance expenses, which are directly associated with the provision of the services.
2. Discounts from suppliers - the Group recognizes discounts which are received from its suppliers as a reduction of the purchase cost. Therefore, part of the discounts with respect to that part of the purchase which is added to the closing inventory is attributed to inventory, and the remaining part of the discounts reduces the cost of sales.
   Some of the discounts are discounts at a fixed rate which is not dependent upon the scope of acquisitions, some in a variable amount (this discount is calculated as a fixed percentage of total acquisitions from the supplier), and are recognized upon the performance of the relative purchases which entitled the Group to the aforementioned discounts.

W. Financing income and expenses

Financing income includes interest income and linkage differentials with respect to financial assets, dividend income and interest with respect to marketable securities (excluding from associate companies and joint ventures, from financial assets presented at fair value through profit and loss which do not constitute a part of the Group’s liquid resources, and excluding dividends which clearly constitute recoupment of investment), increase in the fair value of financial assets presented at fair value through profit and loss (**which also include income from dividends and interest**), which constitute a part of the Group’s liquid resources, profits from foreign currency differences and hedging instruments which are recognized in profit and loss, profit from early redemption of debentures, decrease in the fair value of financial liabilities measured at fair value through profit and loss, and interest income from sales on credit.

Interest income is recognized upon accrual, using the effective interest method. Income from dividends is recognized on the date when the Group obtains the right to receive payment. If the dividend was received with respect to marketable shares, the Group recognizes the dividend income on the ex date.

Interest income with respect to loans which have characteristics of long term capital investments to investee companies accounted by the equity method are canceled against the Group’s share in the (profit) loss of investee companies accounted by the equity method, net.

Financing expenses include interest expenses and linkage differentials on loans which were received, changes with respect to the value of time in provisions and with respect to deferred consideration, decrease in the fair value of financial assets presented at fair value through profit and loss **which constitute a part of the Group’s liquid resources,** impairment losses of financial assets (excluding losses with respect to impairment of trade receivables, which are presented under general and administrative expenses), losses from hedging instruments which are recognized under profit and loss, increase in the fair value of financial liabilities measured at fair value through profit and loss, and losses from foreign currency differences. Borrowing costs which are not capitalized to qualifying assets are applied to the statement of income using the effective interest method.

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

Note 2 - Significant Accounting Policies (Cont.)

W. Financing income and expenses (Cont.)

Profit and loss from foreign currency differences with respect to financial assets and liabilities and hedging instruments are reported net as financing income or financing expenses, depending on the fluctuations in the exchange rate, and depending on their position (profit or loss, net).

The statements of cash flows include the presentation of interest which was received within the framework of cash flows from investing activities. Interest paid and dividends paid are presented under cash flows from financing activities Accordingly, borrowing costs capitalized to qualifying assets are presented together with the interest which was paid under cash flows from financing activities.

X. Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are applied to the statement of income, unless the tax is due to a business combination, or are applied directly to capital or to other comprehensive income (loss) if they are due to items which are recognized directly under capital or other comprehensive income (loss).

Current tax is the tax amount which is expected to be paid (or received) on he taxable income for the year, calculated according to the tax rates which apply under the laws which were enacted or effectively enacted as at the date of the statement of financial position. Current taxes also include taxes with respect to previous years.

The group offsets current tax assets and liabilities if a legally enforceable right exists to offset current tax assets and liabilities, and if there is an intention to settle current tax assets and liabilities on a net basis, or if the current tax assets and liabilities are settled simultaneously.

A provision with respect to uncertain tax positions, including additional tax expenses and interest, is recognized when it is more likely than not that the Group will require economic resources to settle the liability.

The recognition of deferred taxes applies with respect to temporary differences between the book value of assets and liabilities for the purpose of financial reporting and their value for tax purposes. The Group does not recognize deferred taxes with respect to the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities in a transaction which does not constitute a business combination, and which does not affect accounting profit and profit for tax purposes, and differences due to investment in subsidiaries, in joint arrangements and in associate companies, if the Group controls the difference reversal date, and if it is expected that they will not reverse in the foreseeable future, whether by way of realization of the investment or by way of a dividend distribution with respect to the investment.

The measurement of deferred taxes reflects the tax implications which will result from the way in which the Group expects, upon conclusion the reporting period, to repay or settle the book value of the assets and liabilities. With respect to investment property which is measured using the fair value model, there is a refutable assumption according to which the book value of the investment property will be repaid by a sale. Deferred taxes are measured according to the tax rates which are expected to apply on the date when they are expected to be realized, based on the laws which were enacted, or effectively reporting date, as at the reporting date.

Note 2 - Significant Accounting Policies (Cont.)

X. Taxes on income (Cont.)

A deferred tax asset is recognized in the books with respect to transferred losses, tax benefits and deductible temporary differences, when it is expected that taxable income will arise in the future, against which it will be possible to use them, in consideration of the current tax losses which are expected materialize during the tax year when the temporary differences will be used, and against which they can be used. Deferred tax assets are evaluated on each reporting date, and if the attributed tax benefits are not expected to materialize, they are amortized.

Deferred tax assets which were not recognized are re-evaluated on each reporting date, and are recognized if the expectation has changed such that taxable income is expected to arise in the future, against which they can be used.

The Group offsets deferred tax assets and liabilities if a legally enforceable right exists to offset current tax assets and liabilities, and if they are attributed to the same taxable income by the same tax authority in the same assessee company, or in different companies, which intend to settle current tax assets and liabilities on a net basis, or if the deferred tax assets and liabilities are settled simultaneously.

The Group may be required to pay a tax addition in case of dividend distributions by the Group's member companies.

This tax addition is not included under deferred taxes, when the policy of the Group's member companies is not to cause, in the foreseeable future, a dividend distribution which involves a tax addition for the receiving company. In cases where an investee company is expected to distribute dividends from profits due to which the dividend involves a tax addition for the Company, the Company creates a tax reserve with respect to the tax addition which the Company may be required to pay with respect to the aforementioned dividend.

Additional taxes on income which are due to dividend distributions by the Group's member companies are applied to the statement of income on the date when the liability to pay the relevant dividend is recognized. Deferred taxes with respect to inter-company transactions in the consolidated financial statements are tax rate according to tax rate which applies to the buyer entity.

Y. Segmental reporting

Operating segments are reported according to the same basis which is used for the purpose of the internal reports which are submitted to the Company's Chief Operating Decision Maker, who is responsible for allocating resources to the Company's operating segments, and assessing their performance.

<u>Note 2 - Significant Accounting Policies</u> (Cont.)

Z. New standards and amendments to existing standards which have not yet been adopted

1. **"Presentation of Financial Statements" (the "Amendment to IAS 1")**

   The amendment to IAS 1 clarifies the guidelines for the classification of liabilities as current or non-current in the statement of financial position. The amendment clarifies, inter alia, that:

   A. Liabilities will be classified as non-current if the entity has a substantive right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The amendment also clarifies that the entity's intention regarding exercising the right is irrelevant for the purpose of classifying the liability, and cancels the reference to the existence of an unconditional right.

   B. Substantive rights, as stated above, exist only if the entity fulfills the relevant conditions as at the balance sheet date.

   C. The "settlement" of the liability includes settlement by way of cash payment, other economic resources, or equity instruments of the entity. However, conversion rights with respect to convertible instruments which have been classified to equity do not affect the classification of the liability with respect to the instrument.

   The amendment to IAS 1 will be adopted retrospectively with respect to annual periods beginning on or after January 1, 2023. In accordance with the provisions of the amendment, early adoption is permitted. The Company is evaluating the implications of the standard for the financial statements.

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

   IAS 37 defines an "onerous contract" as a contract in which all unavoidable costs required to fulfill the contractual obligations exceed the economic benefits which are expected to be received thereunder. The unavoidable costs under the contract reflect the smallest net cost of leaving it, which is the lower of either the cost to fulfill the contract, and damages and penalties for not fulfilling it.

   The amendment to IAS 37 clarifies the significance of the term "cost to fulfill a contract". In accordance with the amendment, the cost of fulfilling a contract is comprised of the costs which are directly attributable to the contract. Costs directly attributable to the contract include the combination of:

   A. Incremental costs to fulfill the contract (such as direct costs with respect to work and materials);

   B. Allocation of other costs directly associated with the fulfillment of the contract (such as the allocation of a proportional part of the depreciation of fixed assets which is used to fulfill the contract).

   The amendment also clarifies that, before recognizing a provision with respect to an onerous contract, the entity must test for and recognize impairment with respect to any asset which is used in the fulfillment of the contract, and not only with respect to assets which have been designated to the contract.

Note 2 - Significant Accounting Policies (Cont.)

Z. New standards and amendments to existing standards which have not yet been adopted (Cont.)

2. (Cont.)

The amendment to IAS 37 will be adopted with respect to annual periods beginning on or after January 1, 2022. In accordance with the provisions of the amendment, early adoption is permitted. The amendment will be adopted retrospectively, only for contracts in which the entity has not yet completed all of the applicable performance obligations on the date of the amendment's initial adoption, while carrying the cumulative effect of the initial adoption to the opening balance of retained earnings (or to another component of equity, as relevant) on the date of initial adoption. The initial adoption of the amendment to IAS 37 is not expected to have a significant impact on the Company's financial statements.

3. Amendment to International Financial Reporting Standard (IFRS) 3, Business Combinations (the "Amendment to IFRS 3")

The amendment updates IFRS 3 such that it refers to the conceptual framework of financial reporting which was published in 2018, for the purpose of determining which acquired assets and assumed liabilities fulfill the definitions of assets and liabilities. Prior to the amendment, reference was made to the conceptual framework of financial reporting which was published in 2001.

The amendment also adds to IFRS 3 a demand stipulating that, with respect to events covered under IAS 37 or IFRIC 21, a buyer will apply the provisions of IAS 37 in order to determine whether, as at the acquisition date, there is a present obligation due to past events, or the provisions of IFRIC 21 in order to determine whether the obligating event which creates an undertaking to pay the fee occurred until the acquisition date (respectively) instead of the provisions of the conceptual framework.

The amendment also clarifies and adds to IFRS 3 an explicit statement that a buyer may not recognized contingent assets, as defined in IAS 37, on the acquisition date.

The amendment to IFRS 3 will be adopted with respect to annual periods beginning on or after January 1, 2022. The standard will be adopted for business combinations whose acquisition dates were in annual periods beginning on or after January 1, 2022. In accordance with the provisions of the amendment, early adoption is permitted, provided that the entity has adopted, on the date of initial adoption of the amendment, or previously, all other amendments to International Financial Reporting Standards regarding references to the conceptual framework, according to the 2018 version. The initial adoption of the amendment to IFRS 3 is not expected to have a significant impact on the Company's financial statements.

4. Amendment to International Financial Reporting Standard (IFRS) 9, Financial Instruments (the "Amendment to IFRS 9")

The amendment to IFRS 9 determines which grounds are included in the 10% test for the purpose of writing off a financial liability, as stated in Note 2.C.3. above. In accordance with the provisions of the amendment to IFRS 9, costs and fees which are paid to third parties (and not to the lender) are not included in the 10% test. The amendment to IFRS 9 will be adopted with respect to annual periods beginning on or after January 1, 2022. In accordance with the provisions of the amendment, early adoption is permitted. The amendment will be applied to changes or amendments which have been made to financial liabilities at the beginning of the annual period when the amendment was first applied, or afterwards.

Note 2 - Significant Accounting Policies (Cont.)

Z. New standards and amendments to existing standards which have not yet been adopted (Cont.)

5. **Amendment to IAS 12, Income Taxes (the "Amendment to IAS 12")**

The amendment to IAS 12 clarifies that the exemption from the creation of deferred taxes due to the initial recognition of an asset or liability in a transaction which does not constitute a business combination, does not affect accounting gains at the time of the transaction, and also does not affect the taxable income or tax loss at the time of the transaction (exemption from initial recognition), cannot be applied to transactions which, upon their initial recognition, create taxable temporary differences and deductible temporary differences in identical amounts.

Transactions of this kind include, for example, lease transactions where, on the date of their initial recognition by the lessee, the lessee recognizes a right-of-use asset in an amount equal to the balance of the lease liability; and situations involving the recognition of liabilities with respect to liquidation, removal and restoration, which are recognized against fixed assets.

The amendment to IAS 21 will be adopted with respect to annual periods beginning on or after January 1, 2023. In accordance with the provisions of the amendment, early adoption is permitted. The amendment will be applied to all transactions beginning from the start of the earliest reporting period which is presented in the financial statements when the amendment was first applied. Additionally, in the financial statements where the amendment is first applied, the entity is required to recognize, at the beginning of the earliest presented reporting period:

A. A deferred tax asset, to the extent that taxable income is expected to arise against which it will be possible to use the deductible temporary difference, and a deferred tax liability, with respect to all of the deductible and taxable temporary differences in connection with:
   - Right-of-use assets and lease liabilities; and
   - Liabilities with respect to liquidation, removal and restoration, and similar liabilities, as well as the corresponding amount which was recognized as part of the cost of the relevant asset.

B. The cumulative impact of the initial adoption, as an adjustment of the opening balance of retained earnings (or another component of equity, if relevant) as at that date.

The initial adoption of the amendment to IAS 12 is not expected to have a significant impact on the Company's financial statements.

Note 3 - Investments in Investee Companies

For the list of the main companies in the Group, see Annex A to the financial statements.

A. Composition of investments in investee companies accounted by the equity method

	As at December 31	
	2021	2020
	NIS millions	
Investment in stocks [1]	3,111	1,551
Loans [2]	56	367
Total	3,167	1,918
[1] The aforementioned value includes the balance of excess cost in the amount of	1,225	643

[2] Loans:

	As at December 31		
	2021		2020
	Interest rates	Total	Total
	%	NIS millions	
In USD or linked thereto	0	56	367

Some of the loans are measured at fair value, see Note 2.A.5. above.

B. Movement in investment in investee companies accounted by the equity method (in this section: the "Associate Companies")

	For the year ended December 31	
	2021	2020
	NIS millions	
Balance at start of year	1,918	3,676
Investment in Gav-Yam	[1]1,005	-
Investments	74	42
Changes in loans, net	(7)	1
Recognized dividends	(78)	(102)
The Group's share in the profits of associates, net	339	[2]29
Decrease in investment due to rise to control of Mehadrin	-	(214)
Increase in investments due to the initial consolidation of Mehadrin, which holds associate companies	-	105
Increase in investment due to loss of control of a consolidated company, and the presentation thereof as an associate company	-	42
An increase in investment due to change in classification of an investment in a financial asset through profit or loss, to investment in an associate company	5	-
Change in investment as a result of sale and issuance to third party	6	(229)
Sale of the investment in Shufersal (see Note 12.B.3. below)	-	(1,403)
Capital reserves from translation differences with respect to associate companies	6	(19)
The Group's share in hedging reserves of associate companies	-	(3)
Carried to controlling shareholders reserve	-	1
Classified under assets held for sale	(96)	-
Other changes	(5)	(8)
Balance at end of year	3,167	1,918

(1) See Note 3.G.2.A.1. below.
(2) Includes profit in the amount of NIS 44 million, which is presented under the item for profit from discontinued operations.

Note 3 - Investments in Investee Companies (Cont.)

C. Data regarding associate companies and joint ventures (Cont.)

1. **Summary information regarding material associate companies and joint ventures**

This section includes details regarding associate companies and joint ventures which fulfill one or more of the following tests:

- The Company's share in the investment amount in the associate company or joint venture (through concatenation) exceeds 10% of the capital attributed to the owners of the Company in the relevant consolidated statement of financial position;
- The Company's share in the results of the associate company or joint venture (through concatenation) exceeds 10% (in absolute values) of the representative annual profit during the relevant year, as specified in Note 1.E.(4) above;
- Qualitative considerations.

Summary information regarding Gav-Yam, a material associate company.

	Gav-Yam (1)	
Holding company	Property & Building	
Operating segment	Real estate	
Country of incorporation and main place of business activities	Israel	
Rate of ownership in capital and in voting rights	44.51% (1),(4)	29.93%
	As at December 31	
	2021	2020
	NIS millions	
Current assets	1,211	2,649
Non-current assets	10,595	(2)8,602
Total assets	11,806	11,251
Current liabilities	975	1,043
Non-current liabilities	6,251	(2)6,592
Total liabilities	7,226	7,635
Total assets, net	4,580	3,616
The Group's share in assets, net	1,605	828
Excess cost, net	1,184	590
Value of the associate company in the Group's books	2,789	1,418
Market value of Property & Building's stake in Gav-Yam (3)	3,666	1,675

(1) Until September 1, 2019, Gav-Yam was a consolidated company in the financial statements. For details regarding the deconsolidation of Gav-Yam, see Note 12.B.2. below.
(2) Reclassified.
(3) The market value of Gav-Yam's holding rate in Gav-Yam as at March 20, 2022 (according to a holding rate of 49.51%) is NIS 4,131 million.
(4) For details regarding the acquisition of approximately 14.61% of Gav-Yam's issued capital by Property & Building in April 2021, see Note 3.G.2.A.1. below. For details regarding the completion of a tender offer for the acquisition of 5% of Gav-Yam's issued capital by Property & Building, and Property & Building's engagement in a transaction to acquire Gav-Yam shares which constitute approximately 37.22% of Gav-Yam's issued capital, after the date of the statement of financial position, see Note 34.B. and Note 3.G.2.A.2. below, respectively.

Note 3 - Investments in Investee Companies (Cont.)

C. Data regarding associate companies and joint ventures (Cont.)

	Gav-Yam		
	For the year ended December 31		
	2021	2020	2019[1]
	NIS millions		
Total revenues	1,959	702	941
Income for the year	1,260	331	564
Other comprehensive income	-	-	-
Total comprehensive income for the year	1,260	331	564
Property & Building's share in the comprehensive income of Gav-Yam	427	82	207
Adjustments with respect to excess cost, net	17	25	9
Property & Building's share in the comprehensive income of Gav-Yam, as presented in the books	444	107	216

(1) Until September 2019, Gav-Yam was a consolidated company in the financial statements.

2. **Aggregate information regarding immaterial associate companies and joint ventures**

Aggregate amounts including adjustment to the ownership rates which are held by the Group:

	As at December 31		
	2021	2020[1]	2019[1]
	NIS millions		
Total book value of the investments	378	337	236
The Group's share in loss for the year from continuing operations	(44)	(52)	(51)
The Group's share in profit for the year from discontinued operations [2]	-	44	-
The Group's share in total loss for the year	(44)	(8)	(51)
The Group's share in other comprehensive income (loss) from continuing operations	11	(17)	(2)
The Group's share in other comprehensive loss from discontinued operations[2]	-	(3)	-
The Group's share in other comprehensive income (loss)	11	(20)	(2)
The Group's share in total comprehensive loss	(33)	(28)	(53)

(1) In accordance with their determination as immaterial associate companies and joint ventures in the financial statements for the years 2020 and 2019, respectively.

(2) Not including capital gains from the realization of investments.

Note 3 - Investments in Investee Companies (Cont.)

D. Details regarding investments in investee companies directly held by DIC in the consolidated balance sheet as at December 31, 2021

	Stake in share capital and in voting rights	Scope of investment in investee	Reserves (1)	Total	Market value of shares listed on the Tel Aviv Stock Exchange as at 31.12.2021	Market value of shares listed on the Tel Aviv Stock Exchange as at 20.3.2022	Country of incorporatic
	%	NIS millions					
Primary consolidated companies *							
Property & Building	63.2	1,680	312	1,992	2,080	2,145	Israel
Cellcom (In voting rights - 48.0%)	46.0	1,216	2	1,218	1,312	1,344	Israel
Elron	60.1	184	108	292	337	312	Israel
Mehadrin	44.5	339	3	342	268	271	Israel
Epsilon	68.8	61	-	61			Israel
Other investee companies *		27	(6)	21			
Total		3,507					

* Investments in consolidated companies do not include headquarter companies wholly owned by DIC. The data presented above include investments through a wholly owned headquarter company of DIC. The scope of the investment in consolidated companies is calculated as the net total of all assets, less total liabilities, including goodwill, based on the consolidated reports, attributed to the owners of the Company.

(1) In case of the sale of some of the existing shares in consolidated companies, without discontinuing the Company's consolidation, in its financial statements, of the financial statements of the companies in which the transactions are executed (sales to non-controlling interests), these capital reserves will be charged to the capital reserve with respect to transactions with non-controlling interests. In case of the realization of investments in associates, or in case of the realization of investments in consolidated companies, including through liquidation or abandonment, and in case the Company does not have plans to restart the activity, those capital reserves will be carried to the statement of income, or to retained earnings. For details regarding the HSBC Tower and IDBG, see also Notes 12.B.1.A. and 12.A.5.A. below, respectively.

(2) The Company and some of its investee companies are subject to legal restrictions with respect to the performance of new investments or the increase of new investments in investee companies, in certain cases. Additionally, various legal provisions and some of the terms of the licenses in the telecommunications segment, which were given to Cellcom, include prohibitions against cross ownership, which may restrict the Company's ability to leverage business opportunities for new investments, or to increase existing investments in this segment.

(3) The Company's investments in investee companies include, inter alia, companies regarding which the sale of their shares is subject to certain restrictions. Regarding Cellcom - DIC is especially subject to a restriction on its ability to sell some of its shares in Cellcom to non-Israeli entities. See section F.3. below.

Note 3 - Investments in Investee Companies (Cont.)

E. Data regarding subsidiaries

Details regarding subsidiaries in which the non-controlling interests are material

This section includes details regarding subsidiaries, as at the date of the relevant statement of financial position, whose non-controlling interests constitute at least 10% of the capital attributed to the owners of the Company and/or where the profit (loss) in the relevant year which is attributed to non-controlling interests constitutes at least 10% (in absolute values) of the representative annual profit in the relevant year, as specified in Note 1.E.(4) above.

The data includes adjustments to fair value, goodwill and other adjustments, which are included in the Company's consolidated financial statements.

Data from the financial statements of companies whose functional currency is a foreign currency - assets and liabilities were translated according to the relevant representative exchange rates as at December 31, and resultant and cash flow items were translated according to the average exchange rates for the year.

Data for subsidiaries which are held indirectly by the Company are included in the data for subsidiaries directly held by the Company.

	As at December 31, 2021							For the year ended December 31, 2021										
	Stake in the share capital and voting rights of non-controlling interests	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Total assets net	Book value of non-controlling interests	Sales and services [3]	Profit	Other comprehensive income (loss)	Total comprehensive income (loss)	Income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to non-controlling interests	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Net increase in cash and cash equivalents	Dividends to non-controlling interests
	%	NIS millions																
Property & Building	36.8	5,243	2,940	2,151	3,285	2,747	1,067	76	642	(31)	611	262	(16)	244	(217)	(441)	(414)	5
Cellcom [1],[2]	54.0	1,800	5,234	1,710	2,992	2,332	1,116	4,108	27	(1)	26	15	(1)	1,052	(192)	(933)	(73)	-
Elron	39.9	267	182	23	33	393	209	-	45	(15)	30	34	(7)	(18)	(37)	136	81	-
Mehadrin[1]	55.5	646	816	455	239	768	428	1,225	141	(6)	135	79	(3)	(5)	101	(3)	93	-
Other subsidiaries which have immaterial non-controlling interests							36					11	1					8
Total in the Company's consolidated financial statements							2,856					401	(26)					13

(1) Notwithstanding the fact that DIC holds less than half of the voting rights in Cellcom and in Mehadrin, the Company estimates that it holds effective control of them (inter alia, due to the Group's high holding rate of their voting rights, the distribution of the other voting rights, and in light of the voting patterns in the general shareholder meetings of those companies), and therefore, their financial statements were consolidated in the Company's financial statements.

(2) Holding rate of non-controlling interests in Cellcom's voting rights - 52.0%.

(3) Sales of the subsidiary, as included under the item for sales and services in the Company's consolidated statement of income.

Note 3 - Investments in Investee Companies (Cont.)

E. Data regarding subsidiaries (Cont.)

Details regarding subsidiaries in which the non-controlling interests are material (Cont.)

	As at December 31, 2020							For the year ended December 31, 2020										
	Stake in the share capital and voting rights of non-controlling interests	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Total assets net	Book value of non-controlling interests	Sales and services [3]	Loss	Other comprehensive loss	Total comprehensive loss	Loss attributed to non-controlling interests	Other comprehensive loss attributed to non-controlling interests	Cash flows from operating activities	Cash flows from investing activities	Cash flows for financing activities	Net increase in cash and cash equivalents	Dividends to non-controlling interests
	%	NIS millions																
Property & Building	25.9	3,249	4,718	1,250	4,973	1,744	474	208[4]	(376)	(103)	(479)	(106)	(26)	271	1,044	(1,060)	255	47
Cellcom [1],[2]	53.9	2,299	5,322	1,929	3,401	2,291	1,087	3,684	(170)	-	(170)	(92)	-	960	(982)	(265)	(287)	-
Elron	38.9	118	154	14	5	253	136	-	(73)	(20)	(93)	(36)	(11)	(41)	40	(2)	(3)	-
Mehadrin[1]	55.5	503	824	426	271	630	350	823	(4)	-	(4)	(10)	-	(17)	25	(75)	(67)	-
Other subsidiaries which have immaterial non-controlling interests							32					2	-					5
Total in the Company's consolidated financial statements							2,079					(242)	(37)					52

(1) Notwithstanding the fact that DIC holds less than half of the voting rights in Cellcom and in Mehadrin, the Company estimates that it holds effective control of them (inter alia, due to the Group's high holding rate of their voting rights, the distribution of the other voting rights, and in light of the voting patterns in the general shareholder meetings of those companies), and therefore, their financial statements were consolidated in the Company's financial statements.

(2) Holding rate of non-controlling interests in Cellcom's voting rights - 51.8%.

(3) Sales of the subsidiary, as included under the item for sales and services in the Company's consolidated statement of income.

(4) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. below.

Note 3 - Investments in Investee Companies (Cont.)

E. Data regarding subsidiaries (Cont.)

Details regarding subsidiaries in which the non-controlling interests are material (Cont.)

	As at December 31, 2019							For the year ended December 31, 2019										
	Stake in the share capital and voting rights of non-controlling interests	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Total assets net	Book value of non-controlling interests	Sales and services [3]	Net income (loss)	Other comprehensive loss	Total comprehensive income (loss)	Income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to non-controlling interests	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Net increase in cash and cash equivalents	Dividends to non-controlling interests
	%	NIS millions																
Property & Building	31.2	3,943	5,462	1,272	5,795	2,338	758	500[6]	1,172	(160)	1,012	506[4]	(50)	642	114	(1,331)	(575)	199[5]
Cellcom [1] [2]	54.0	2,759	4,867	1,826	3,502	2,298	1,082	3,708	(713)	(4)	(717)	(149)	(2)	1,036	(560)	(672)	(196)	-
Elron	38.9	199	194	31	7	355	193	-	(107)	(31)	(138)	(59)	(17)	(53)	(59)	74	(38)	-
Other subsidiaries which have immaterial non-controlling interests							34					5	1					2
Total in the Company's consolidated financial statements							2,067					303	(68)					201

(1) Notwithstanding the fact that DIC holds less than half of the voting rights in Cellcom, the Company estimates that it holds effective control of it (inter alia, due to the Group's high holding rate of its voting rights, the distribution of the other voting rights, and in light of the voting patterns int he general meetings of it shareholders), and therefore, its financial statements were consolidated in the Company's financial statements.

(2) Holding rate of non-controlling interests in Cellcom's voting rights - 51.7%.

(3) Sales of the subsidiary, as included under the item for sales and services in the Company's consolidated statement of income.

(4) Including profit in the amount of NIS 179 million, which is attributed in the statement of income of Property & Building to non-controlling interests in subsidiaries of Property & Building.

(5) Including dividends in the amount of NIS 102 million, which were distributed by subsidiaries of Property & Building to non-controlling interests, and including a total of NIS 62 million - the value of Mehadrin shares which were distributed by Property & Building to non-controlling interests.

(6) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations. See Note 12.B.1. below.

Note 3 - Investments in Investee Companies (Cont.)

F. Additional details regarding the investments of the Company and investee companies

1. In December 2013, The Law to Promote Competition and Reduce Concentration, 5774-2013, was published in the Official Gazette (hereinafter, in this section: the "Law").
   A. According to the provisions of the law, a pyramid structure for the control of "reporting corporations" (in general, corporations whose securities have been offered to the public, and are held by the public) is restricted to 2 tiers of reporting corporations (where a first tier company may not include a reporting corporation which does not have a controlling shareholder), and so long as a second tier company is considered by law to be a second tier company, it may not control reporting corporations. The law includes provisions in case of control of a reporting corporation in violation of the law, which mostly include a requirement to deposit the said means of control with a trustee in order for them to be sold, in accordance with instructions which the trustee will receive from the court.
   B. For details regarding the sale of some of the Company's shares to Mega Or and a group of investors led by it (the "Mega Or transaction"), see Note 1.A. above.
   C. Following the completion of the Mega Or transaction, as described in Note 1.A. above, DIC is considered a company without a controlling shareholder, and is not considered a first tier company, and accordingly, its investee companies whose securities are listed on the stock exchange are not subject to restrictions pursuant to the Concentration Law, in connection with the ability of those companies to hold control of other tier companies.
2. Various restrictions by virtue of the law, or in accordance with the directives of various regulatory authorities, as well as various contractual restrictions and legal proceedings which are being conducted against the Company and/or its investee companies, may restrict the ability of the Company and of its investee companies to realize current investments, or to realize holdings in investee companies as a security in favor of the repayment of their liabilities, and may restrict their ability to take advantage of business opportunities for new investments, or to increase current investments. Additionally, the Company and some of its investee companies are subject to restrictions by law or in accordance with the directives of various regulatory authorities with respect to their business activities, and regarding the implementation of new investments or the increase of current investments in the investee companies, in certain cases, including the need to obtain approvals or permits from various regulatory authorities in connection with passing the threshold of holdings beyond the rates prescribed in law, such as provisions from the telecommunications segment, directives pertaining to antitrust issues, directives pertaining to the oversight of prices of products and services, directives pertaining to consumer issues and restrictions due to benefits or authorizations from the tax authorities.
3. In 2017, Cellcom's mobile license was amended such that it includes an obligation for a reduced Israeli holding of 5% of the issued capital of Cellcom and other means of control, beginning on January 31, 2018.

Note 3 - Investments in Investee Companies **(Cont.)**

F. Additional details regarding the investments of the Company and investee companies (Cont.)

In July 2020, the Ministry of Communication decided to amend Cellcom's license, such that the requirement for a minimum holding of 5% of the license holder's issued capital and each of the means of control by Israeli entities (citizens and residents of Israel) who are among the founding shareholders or their representatives, and for the appointment of one tenth of the Board members by Israeli entities, as stated above, would be canceled, upon the receipt of alternative instructions to the license holder, from the General Security Service. As at proximate to the publication date of the financial statements, Cellcom had not yet received such instructions. See also Note 31.C below. See also Note 1.A above regarding the Mega Or transaction.

Additionally, various provisions of the law and conditions of some of the licenses in the telecommunications segment, which were given to several investee companies of the Company, include restrictions on cross ownerships (which mean, in general, holdings in the means of control of competing corporations). Some of the Company's investee companies also have activities abroad. These companies are affected by the state of the economy (including changes in exchange rates and in inflation rates), by the political situation and by legislative and regulatory arrangements in these countries.

4. The Company and some of its investee companies are affected by the Proper Banking Management Directives which are issued by the Commissioner of Banks in Israel, including, inter alia, restrictions on the scope of loans which a banking corporation in Israel may provide to a "single borrower", a single "group of borrowers", and to the largest "groups of borrowers" in the banking corporation (as these terms are defined in the aforementioned directives). The Company and some of its investee companies are considered a single "group of borrowers" for this purpose.

   These restrictions may impose difficulties on the ability of the Company and some of its investee companies to borrow additional amounts from banks in Israel, on their ability to refinance debt through bank credit, on their ability to perform investments for which bank credit is required, on their ability to invest in companies which have taken out credit in a larger scope than certain banks in Israel, and on their ability to perform certain business activities in collaboration with entities which have taken credit, as stated above.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021

1. Cellcom

A. In July 2019, Cellcom and the Israel Infrastructure Fund (the "IIF") completed the investment transaction in I. B. C. Israel Broadband Company (2013) Ltd. ("IBC"). After the closing of the transaction, Cellcom and the IIF held, jointly and through a limited partnership which is jointly owned in equal parts, 70% of the share capital of IBC, such that Cellcom indirectly held 35% of the voting rights in IBC, and accounts for the investment using the equity method.
In February 2021, Hot's investment transaction in IBC was completed, such that Cellcom, from that date onwards, indirectly holds approximately 23.3% of IBC's capital and voting rights. Due to the decrease in Cellcom's stake in IBC, in 2021 Cellcom recorded non-recurring income in the amount of NIS 11 million, which was recorded under the item for other income. The Company's share in the profit was NIS 5 million. For additional details, see Note 22.B.1.D. below.

B. In November 2020, Marathon 018 Xfone Ltd. ("Xfone") stopped executing some of the payments to Cellcom in accordance with the network hosting and sharing agreement. In September 2021, Cellcom engaged in an agreement to amend the terms of its sharing and use agreement with Xfone, with a corporation controlled by Mr. Yariv Lerner and Klirmark Capital (the "Corporation"). In October 2021, the Court approved a proposal which the corporation had submitted for the acquisition of two thirds of Xfone's share capital, and a proposed debt settlement of Xfone's creditors which the corporation had submitted jointly with Xfone and Xfone's controlling shareholders, according to which Xfone will be bound by the updated sharing agreement. For additional details, see Note 22.B.1.C. below.

C. In August 2020, the transaction involving the acquisition of Golan's entire issued share capital was completed. Upon the completion of the acquisition, Cellcom holds 100% of Golan shares, and beginning from the acquisition date, the balance sheet balances and operating results of Golan are included in the Company's financial statements.
The Ministry of Communication approved the transaction subject to certain conditions, including Golan temporarily becoming a virtual operator (MVNO), and a demand that Golan reimburse monetary benefits which were received in the past, according to the Ministry of Communication, in light of the acquisition, in the amount of approximately NIS 75 million (the "Repayment Amount"). The transaction was approved in accordance with those terms. Golan recognized a provision in the financial statements (prior to its consolidation by Cellcom) with respect to the repayment amounts. The repayment amount was paid to the Ministry of Communication in accordance, with its demand, in 2021. Cellcom filed an administrative petition against the Ministry of Communication's decision to order Cellcom to repay a part of the repayment amount.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

1. Cellcom (Cont.)

C. (Cont.)

1. Assets and liabilities which were acquired on the date of initial consolidation:

	Values recognized in the initial consolidation
	NIS millions
Non-current assets	
Fixed assets and other intangible assets	70
Right-of-use assets	14
Customer relations (included under the item for intangible assets)	110
Brand (included under the item for intangible assets)	35
Current assets	
Trade receivables	40
Cash and cash equivalents	5
Other current assets	70
Non-current liabilities	
Lease liabilities	11
Deferred tax liabilities	20
Other non-current liabilities	56
Loan from Cellcom	136
Current liabilities	
Lease liabilities	3
Other payables and credit balances	177
Other current liabilities	82
Total identifiable assets, net	(141)
Goodwill	754
Total consideration	613

2. Change in cash on the date of initial consolidation:

	NIS millions
Consideration paid	(613)
Cash in Golan	5
Total	(608)

<u>Note 3 - Investments in Investee Companies</u> (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

2. Property & Building

A. <u>Gav-Yam</u> -

1. On April 18, 2021, Property & Building engaged with three institutional entities (the "Sellers") in agreements for the acquisition of Gav-Yam shares (the Transaction"). As part of the transaction, which was closed on April 27, 2021, Property & Building acquired, in total, from the three sellers, approximately 14.61% the sellers of Gav Yam's issued share capital, in consideration of a cash payment in the amount of NIS 937 million (subject to certain adjustments which were determined with respect to the share price in connection with certain additional purchases of Gav-Yam shares, if any, during the six month period from the signing date of the agreements, and as extended in October 2021, until December 31, 2021, and as extended again in February 2022, subject to the completion of the tender offer which Property & Building published for Gav-Yam shares, as stated in Note 34.B. below. In March 2022, after the date of the statement of financial position, Property & Building paid to the foregoing institutional entities an additional total of NIS 31 million). In parallel, Property & Building issued to the sellers shares of Property & Building which constituted (after their allocation) approximately 14.7% of Property & Building's capital, in consideration of a cash payment of approximately NIS 353 million. Property & Building also sold to one of the sellers, in consideration of a cash payment of NIS 80 million, all of the securities of Sela Capital Real Estate Ltd. ("Sela Capital") which were owned by Property & Building.
   The addition to Property & Building's capital with respect to the shares which were issued, as stated above, was included in Property & Building's financial statements, according to their fair value on the issuance date, and the derecognition of Sela Capital's securities was calculated according to the fair value of the securities on the date of their delivery to the sellers. The difference between their value, as stated above, and the cash amount which was received with respect to them, was carried as additional consideration with respect to Gav-Yam shares which were purchased in the transaction.

   On April 29, 2021, Property & Building acquired approximately 0.12% of Gav-Yam's issued share capital, in consideration of a total of approximately NIS 7.5 million.
   After the completion of the foregoing transactions, Property & Building held a stake of 44.61%, and as at December 31, 2021, Property & Building held approximately 44.51% of Gav-Yam's issued capital, DIC's stake in Property & Building decreased to approximately 63.2%, and DIC recorded, in the second quarter of 2021, an increase in capital attributed to the Company's owners in the amount of NIS 45 million.

   The investment in Gav-Yam is presented in the financial statements according to the equity method.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

2. Property & Building (Cont.)

A. Gav-Yam (Cont.)

For details regarding Property & Building's engagement in an agreement to purchase Gav-Yam shares which constitute approximately 37.22% of Gav-Yam's issued and paid-up capital, for a total consideration of NIS 3.1 billion, subject to adjustments, and for details regarding the completion of a special tender offer which was published by Property & Building for the purchase of 5% of Gav-Yam shares, after the date of the statement of financial position, see section B2 below.

Property & Building executed a temporary project involving the allocation of the consideration in the aforementioned transactions, with respect to the acquisition of the aforementioned Gav-Yam shares (14.73%), in which Property & Building recognized fair value adjustments to tangible and intangible assets and liabilities of Gav-Yam, as follows:

	NIS millions
Proceeds from the purchase	1,005
Property & Building's share (14.73%) in Gav-Yam's net assets as at the closing date of the transaction	428
Excess cost	577
Excess cost attributed to:	
Goodwill	608
Debentures	(57)
Real estate inventory[(1)]	13
Deferred taxes	13
	577

The determination of the fair value of the assets and liabilities is subject to a final assessment of the allocation of the investment, which has not yet been completed as at the publication date of the report. The fair value of the assets and liabilities can be finally adjusted up to 12 months after the purchase date.

(1) Does not include the final assessment of the revaluation of real estate inventory, which is in assessment stages. Upon the final update to the fair value of the aforementioned real estate inventory, the value of the attributable goodwill will be updated accordingly.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

2. Property & Building (Cont.)

B. Gav-Yam (Cont.)

2. On December 25, 2021 (the "Agreement Date"), Property & Building engaged in an agreement, in accordance with a resolution of Property & Building's Board of Directors, with Equity Finance and Investment Ltd (a company wholly owned and controlled by Mr. Aharon Frankel - the "Seller"), which holds shares which constitute approximately 37.22% of Gav-Yam's issued and paid-up capital (the "Sold Shares"), for the purchase of the sold shares (the "Agreement"), the main provisions of which are as follows:

In consideration of the sold shares, Property & Building will pay to the seller a total of NIS 3.1 billion (the "Consideration"), subject to the following adjustments:

- Insofar as, after the agreement date and until the date of its closing, Gav-Yam distributes a cash dividend, the total dividend per share, multiplied by the number of sold shares will be subtracted from the consideration. In February 2022, Gav-Yam distributed a dividend in the amount of NIS 400 million. Property & Building's share in the aforementioned dividend was NIS 178 million.
- The FFO amount which will be recorded in Gav-Yam's reports, from September 9, 2021 until the closing date, times the rate of the sold shares out of Gav-Yam's issued capital on the relevant date (the "Additional FFO"), will be added to the consideration. Insofar as the closing date takes place in the months May-June 2022, the additional FFO with respect to those months will be multiplied by 1.5, and insofar as the closing date is July 1, 2022 or thereafter, the additional FFO with respect to the aforementioned additional period will be multiplied by 2.

Suspensory conditions - The closing of the agreement is conditional upon the fulfillment of the suspensory conditions (the "Suspensory Conditions"), according to the deadlines specified below and specified in the agreement (the "Suspensory Conditions Deadlines"), which include:

- Completion of a special tender offer of Gav-Yam shares - Property & Building will publish a special tender offer, addressed to Gav-Yam shareholders, stating that Property & Building offers to purchase 5% of the voting rights in Gav-Yam, for a consideration in cash which will be determined in its discretion (the "Tender Offer"). The seller irrevocably notified Property & Building that it would not accept the tender offer. In March 2022, after the date of the statement of financial position, a special tender offer which was published by Property & Building for the purchase of 5% of Gav-Yam's issued share capital and voting rights, was accepted. For details, see Note 34.B below.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

2. Property & Building (Cont.)

C. Gav-Yam (Cont.)

- Approval from the Competition Commissioner - Property & Building and Gav-Yam will submit merger notices to the Competition Commissioner, in order to receive her approval for the transaction addressed in the agreement. On January 11, 2022, after the date of the statement of financial position, the Competition Commissioner's approval was received.
- Receipt of a letter of intent from the entity that provided financing to the seller, regarding the removal of the pledge on the sold shares. In January 2022, a letter was received, the aforementioned letter of intent was received.

Shortly after the signing of the agreement, Property & Building deposited with the trustee for the execution of the transaction (the "Trustee") a total of NIS 100 million, and proximate to the publication of the tender offer, Property & Building deposited with the trustee an additional total of NIS 365 million (a total of NIS 465 million; jointly: the "Advance Payment"). The advance payment will be transferred to the seller, in whole or in part, only in the cases specified in sections in the following sections.

In accordance with the provisions of the agreement, during the interim period until the completion or termination of the agreement, as specified below, the parties will not acquire, and the seller will not sell, Gav-Yam shares, and the parties will not make offers to purchase Gav-Yam shares, and will not convene meetings of Gav-Yam shareholders for the appointment of directors, and will not contact Gav-Yam with a request to appoint additional directors on their behalf (except for the replacement of a director serving on behalf of the ordering party), and will not engage in voting agreements with respect to Gav-Yam shares. Additionally, the parties undertook not to cause any significant change to the management of Gav-Yam's activities and business affairs.

Deadlines for closing the agreement -

- The closing of the transaction will be executed within two business days after the date of fulfillment of the suspensory conditions, and Property & Building has exercised its right to postpone the closing date such that it will be no later than 90 days after the completion date of the tender offer.
- Notwithstanding the foregoing, in case, until the closing date, a significantly negative economic event occurs, or significant financial difficulties occur, in Israel or foreign markets, which have a significantly adverse impact on Property & Building's ability to raise debt, Property & Building will be entitled to postpone the closing date by 45 days, beginning from the aforementioned deadline for completion. Insofar as this postponement period is before July 1, 2022, the additional FFO will be paid from the beginning of the postponement period until June 30, 2022, times 2 (instead of the multiple of 1.5, as stated above), and from July 1, 2022 until the actual completion date, multiplied by 2.25 (instead of the multiple of 2, as stated above).

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

2. Property & Building (Cont.)

A. Gav-Yam (Cont.)

2. (Cont.)

Non-completion of the agreement -

- Insofar as the suspensory conditions have been fulfilled, and Property & Building has not closed the agreement until the deadline for closing (including the possibilities to postpone it, as stated above and below), the advance payment will be transferred by the trustee to the seller, in accordance with the provisions of the agreement. The transfer of the advance payment to the seller will constitute liquidated damages, with no right for any additional remedies ("Liquidated Damages").
- Notwithstanding the foregoing, if the completion of the agreement is not possible, due to the circumstances specified in the agreement (restrictions), an additional 45 day extension will be given, and insofar as the restrictions have not been lifted during that time, a mechanism was determined, according to which Property & Building will be entitled to terminate the agreement by paying the liquidated damages, or to allow the seller to choose between half of the amount of liquidated damages, or purchasing the shares which were purchased by Property & Building in the tender offer / private offer at a price of 90 percent of what was paid by Property & Building, such that, afterwards, Property & Building's holdings will fall below 45%.

Property & Building intends to finance the foregoing transaction using its own sources, and by taking loans from institutional investors. See Note 34.A below).

Upon the completion of the tender offer, as stated above, in March 2022, after the date of the statement of financial position, all of the suspensory conditions which were determined in the share purchase agreement were fulfilled. Property & Building's stake in Gav-Yam increased to approximately 49.51% of Gav-Yam's issued capital. Accordingly, from that date onwards, Property & Building controls Gav-Yam, and Property & Building and DIC will begin consolidating Gav-Yam's financial statements in their financial statements.

As a result, Property & Building is expected to record, in the first quarter of 2022, profit with respect to the difference between the value of the investment in Gav-Yam shares in Property & Building's books, before the aforementioned purchase, and the fair value of the aforementioned investment in Gav-Yam on the date of rise to control. DIC is expected to record its share in the foregoing profit in accordance with its stake in Property & Building, approximately 63.2%. This profit estimate will be calculated based on the difference between the value of Property & Building's investment in Gav-Yam on the date of rise to control, and the value of that investment according to the last closing price of Gav-Yam stock on the stock exchange, on the date of rise to control. For additional details, see Note 34.B below.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

2. Property & Building (Cont.)

A. Gav-Yam (Cont.)

2. (Cont.)

For details regarding pro forma reports, as defined in Regulation 9(A) of the Periodic and Immediate Reports Regulations, which are intended to reflect the Group's operating results, based on the assumption that the abovereferenced Gav Yam transaction was already executed in January 1, 2019, see Note 33 below.

3. In 2021, Gav-Yam conducted valuations with respect to all of its revenue-generating properties. The increase in fair value was mostly due to the reduction of the capitalization rates which were used by the external valuers in the valuations of most of Gav-Yam's properties; the real increase in rent which is collected in its various properties; and the increase of the CPI, since the previous valuation. Fair value is estimated using the revenue discounting method: the valuation model based on the present value of the estimated NOI from the property. The valuation of real estate is based on the net annual cash flows, discounted by the discount rate which reflects the specific risks embodied therein. When rental agreements effectively exist, where the payments with respect to them are different from appropriate rent, adjustments are implemented in order to reflect the actual rent payments during the period of the agreement.

The valuations take into account the types of lessees who are actually occupying the leased property, or who are responsible for fulfilling the rental obligations, or those who may be in the leased property after the rental of an available property, and the remaining economic lifetime of the property, in the cases where those parameters are relevant.

The market value of rental figures includes a wide range, in all areas and all uses, and was due, inter alia, to the variability in the quality, age and finishing level of the various leased properties. The average rent in the different areas in office and hi-tech areas are in the range of NIS 54-85 per month per square meter, and for industrial and logistics uses - in the range of NIS 29-44 per month per square meter. When determining the value of office buildings, buildings designated for the hi-tech industry, and commercial buildings (which are mostly located in the center areas and in hi-tech parks, with high quality lessees), capitalization rates of 5.75%-9% were mostly uses, while workshop, storage and industrial buildings (which are mostly located in the periphery areas) were mostly valued according to capitalization rates of 5.5%-7%. The valuation of Gav-Yam's investment property under construction is based on the estimated fair value of the investment property after its construction has been completed, less the present value of the estimated construction costs which are expected to arise for the purpose of completing it, while taking into account the capitalization rate, which is adjusted with respect to the property's relevant risks and characteristics, and the timing of the completion of construction.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

2. Property & Building (Cont.)

The construction cost per square meter varies from project to project, depending on the intended use, and is mostly in the range of NIS 3,500 - 6,500 per square meter, on a core and shell basis. In 2021 Gav-Yam included in its financial statements income from the increase in value of real estate, with respect to the revaluation of revenue-generating properties in the amount of NIS 1,004 million, the revaluation of land designated for the construction of revenue-generating properties in the amount of NIS 237 million, and the revaluation of properties under construction in the amount of NIS 25 million. Property & Building attributed a part of the increase in fair value of the foregoing investment property to Property & Building's share in net assets as at the acquisition date Gav-Yam shares, through allocation of the consideration which Property & Building paid with respect to Gav-Yam shares, as stated in section 1 above. Property & Building's share in the aforementioned net revaluation amounted to NIS 325 million, with the Company's share being NIS 205 million, and was included in the Company's statements of income under the item for the Group's share in the net profits of equity accounted investee companies, net.

D. Residential construction in Israel

1. On August 17, 2021, Property & Building's Board of Directors resolved, inter alia, to instruct Property & Building's management to begin the process of evaluating the realization of all or some of Property & Building's holdings in its activity in the residential construction segment in Israel, in a single transaction, or in several transactions. As at the publication date of the report, there is no certainty that the process described above will mature into negotiations, or regarding the signing of a binding agreement (or binding agreements), or regarding the timing and conditions of the aforementioned agreement (or agreements), if signed. The aforementioned sale is subject to the approval of Property & Building's Board of Directors, in consideration of, inter alia, market conditions and the terms of the transaction (or transactions) in question, if any, and will also be subject to the terms which will be agreed upon in possible transactions of this kind, and in accordance with the law.
2. For details regarding Property & Building's engagement (through its subsidiary), in March 2022, after the date of the statement of financial position, in a sale agreement with a third party which is unaffiliated with Property & Building, for the sale of all of its interests and liabilities in connection with land reserves, including with residential designation, located near Mandarin Hotel in North Tel Aviv-Yafo, in its current condition ("as is"), for a total consideration of NIS 347 million, see Note 12.A.6. below.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

3. **Mehadrin**

During the years 2018 and 2019, land recoupment agreements were signed between Mehadrin and the Israel Land Authority, which included the establishment of binding provisions regarding the recoupment of land to the Authority, with a total area of approximately 575 dunams. Due to their change in designation in the preferred residential housing program in Lod - Nir Tzvi - International Quarter, and regarding Mehadrin's rights to purchase from the Authority the leasing rights with respect to several lots in the program, for the construction of 750 residential units which are tender-exempt, and for the payment of full capitalized leasing fees and development expenses. in October 2021, following a competitive process, Mehadrin signed an agreement with an unrelated third party, for the sale of all of Mehadrin's rights in connection with the option, for a total consideration of NIS 181 million.

In December 2021 the agreement was completed, and the entire consideration was paid to Mehadrin. With respect to the above, Mehadrin recorded, in 2021, net profit in the amount of NIS 130 million; the Company's share in the profit was NIS 58 million.

4. **Elron**

A. In April 2021, Elron issued approximately 8.9 million ordinary shares for a total consideration, net of issuance costs, in the amount of NIS 110 million. In the issuance DIC acquired 4.9 million shares at a cost of NIS 62 million. As a result of the above, DIC's stake in Elron's issued share capital decreased by approximately 1.0%, to approximately 60.1%, and DIC recorded, in 2021, an increase in capital attributed to the Company's owners in the amount of NIS 2 million.

B. Cartiheal (2009) Ltd. ("Cartiheal") is a company developing an implant to treat cartilage and bone injuries at weight bearing joints, such as the knee. As at December 31, 2021, Cartiheal is held by Elron at a rate of approximately 27% of its issued share capital, and the investment therein is accounted by the equity method.

In July 2020, Cartiheal and its shareholders, including Elron, signed binding agreements (the "Agreements") with Bioventus LLC ("Bioventus"), which is a current shareholder in Cartiheal, regarding the investment in and sale option of Cartiheal, in which the following points were agreed upon:

1. Bioventus will invest in Cartiheal a total of up to USD 20 million (a total of USD 15 million was invested immediately, and an additional total of USD 5 million is subject to Cartiheal's discretion). As a result of the aforementioned investment, Elron's stake in Cartiheal's issued share capital decreased from approximately 29% to approximately 27%, and to approximately 25% fully diluted.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

4. **Elron (Cont.)**

B. (Cont.)

2. Bioventus was given an exclusive option to acquire 100% of Cartiheal's share capital (the "Call Option"), and Cartiheal was given the exclusive option to sell 100% of its share capital to Bioventus (the "Put Option"). The call option is exercisable from the date of the investment, while the put option will be exercisable subject to the success of the pivotal clinical trial, including success on certain secondary trial goals, and subject to the receipt of FDA approval for Cartiheal's Agili-C device, as defined in the agreements. The call option and put option will expire 45 days after FDA approval is received and standard closing terms have been met.

   In case the call option or put option are exercised, Elron's expected share in the total consideration from the sale of Cartiheal will amount to a total sum of USD 126 million, comprised of (1) a total of USD 90 million, which will be paid on the closing date of the acquisition; and (2) a total of USD 36 million, which will be paid on the date when sales of Agili-C, and other income from the technologies of other Cartiheal technologies, generate revenue of at least USD 100 million, during a period of 12 consecutive months.

   In August 2021, Cartiheal announced that it had received the statistical report which was prepared by an external lender entity, which summarized the final results of the pivotal clinical trial, which indicated fulfillment of the goal of the main trial, as well as the four sub-goals, which constituted, including empirically, an indication of success in the trial, as defined in the agreements. Additionally, following an evaluation of the statistical report, notified announced that it had decided to continue with the investment transaction and the sale option, and in accordance with the agreements, it deposited in escrow a total of USD 50 million, in order to secure the exercise of the call option and put options.

   In September 2021 Cartiheal completed the submission of marketing approval to the FDA.

   There is no certainty regarding the exercise of the call option or put option, or the timing thereof. The investment is Cartiheal is continuing to be accounted by the equity method. The balance of the investment in Elron's books as at December 31, 2021 was NIS 2 million.

   In accordance with the provisions of IFRS 9, the call option and put option constitute financial instruments at fair value through profit and loss, which are of immaterial value as at the signing of the agreements, and whose measurement did not have a net effect on the Group's profit or loss.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

4. **Elron (Cont.)**

C. Alcide.IO Ltd. ("Alcide") is a company developing and providing a security platform for Kubernetes, from the development stages to the runtime environment. As at December 31, 2020, Alcide was held by Elron at a rate of approximately 30% of its issued share capital, and the investment in Alcide was accounted by the equity method.

In January 2021, Alcide and its shareholders (including Elron) signed a binding agreement for the sale of Alcide's entire share capital (the "Transaction"), and in parallel, the transaction was completed. In accordance with the transaction, Elron received, in February 2021, out of the consideration in the transaction, a total of USD 12 million. With respect to the foregoing transaction, Elron recognized, in 2021, net profit in the amount of NIS 32 million. The Company's share in the profit amounted to NIS 20 million.

D. Securedtouch Inc. ("Securedtouch") is a company which is developing and providing a solution which allows building a unique user profile, based on the user's physical interaction with the mobile device. Until its sale, Securedtouch was held by RDC (a subsidiary of Elron which is held by it at a rate of 50.1%) at a rate of approximately 28% of its issued share capital, and the investment therein was accounted for at equity.

In June 2021, the agreement for the sale of all of Securedtouch's sales was completed (the "Transaction"). In accordance with the transaction, RDC's share in the consideration amounted to a total of USD 11 million. As a result of the transaction, in 2021 Elron recognized profit attributable to Elron's shareholders in the amount of NIS 17 million. The Company's share in the profit was NIS 10 million.

E. Ironscales Ltd. ("Ironscales") is a company which is developing and providing a cloud-based solution (SaaS) which is intended to protect organizations against phishing attacks. Until the investment transaction and the partial sale in December 2021 (see below), Ironscales was accounted for according to the equity method. After the transaction, Ironscales is held by RDC at a rate of approximately 8% of its issued share capital, and is accounted for at fair value through profit and loss.

In December 2021, a Ironscales completed a raising round (in which RDC some of the shares which it held).

Following the partial sale of the shares, and the measurement of the balance of the investment at fair value through profit and loss, Elron recognized net profit attributable to Elron shareholders in the amount of NIS 17 million. The Company's share in the profit was NIS 10 million.

Note 3 - Investments in Investee Companies (Cont.)

G. Development of investments in investee companies - main changes in investments in 2021 (Cont.)

5. **Dividends received**

Cash dividends which were received by DIC from directly held investee companies:

	For the year ended December 31, 2021		For the year ended December 31, 2020	
	Amount distributed	The Company's share	Amount distributed	The Company's share
	NIS millions			
Consolidated companies				
Property & Building	-	-	100	69
Epsilon	12	8	5	3
Associate companies				
Shufersal	(2)	(2)	80	21 (1)
		8		93

(1) Presented under cash flows as a discontinued operation.
(2) The investment in Shufersal was sold in July 2020, see Note 12.B.3. below.

Note 3 - Investments in Investee Companies (Cont.)

H. Presented below are details regarding the liquid resources, the net financial debt of the Group's member companies, and significant restrictions on the transfer of resources between entities within the Group, which mostly pertain to the restriction on cash transfers as at December 31, 2021 (NIS millions):

Name of company	Liquid resources	Gross financial debt (1)	Financial debt, net	Total restricted / pledged deposits	Total liabilities in the statement of financial position which are subject to restrictions (1)	Restriction	Note
DIC:							
Financial debt, net	782	(2,825)	(2,043)				
Restrictions on the transfer of resources					1,917	Financial covenants: • Grounds for demanding early repayment in case of a change in control; - Restrictions in connection with the creation of a general pledge (floating pledge); - Restrictions on dividend distributions. - Fulfillment of financial covenants.	15.C.2.
Cellcom: Financial debt, net	667	(2,756)	(2,089)				
Restrictions on the transfer of resources					2,756	Financial covenants: - Grounds for demanding early repayment, including due to a cross default, discontinuation of rating, certain financial ratios, a "going concern" remark, or real concern of non-fulfillment of material undertakings with respect to debentures; - Restrictions on dividend distributions; - Non-creation of pledges; - Fulfillment of the financial covenants as a condition for an issuance of debentures. In February 2022, after the date of the statement of financial position, Cellcom engaged with an institutional entity in a framework agreement for the provision of credit in the amount of NIS 250 million, including financial covenants, inter alia, a restriction on the creation of pledges, restrictions on profit distribution, and other financial covenants. For additional details, see Note 34.G. below.	15.D.1.

(1) Principal, accrued interest and linkage differentials as at December 31, 2021.

For additional details regarding guarantees and pledges, see Note 21 below.

Note 3 - Investments in Investee Companies (Cont.)

H. Presented below are details regarding the liquid resources, the net financial debt of the Group's member companies, and significant restrictions on the transfer of resources between entities within the Group, which mostly pertain to the restriction on cash transfers as at December 31, 2021 (NIS millions): (Cont.)

Name of company	Liquid resources	Gross financial debt [1]	Financial debt, net	Total restricted / pledged deposits	Total liabilities in the statement of financial position which are subject to restrictions [1]	Restriction	Note
Property & Building: Financial debt, net In Property & Building and its wholly owned subsidiaries	1,288	(3,345)	(2,057)				
Restrictions on the transfer of resources of Property & Building and its wholly owned property companies					2,259	Financial covenants in connection with debentures: - Grounds for demanding early repayment, including due to a cross default, discontinuation of rating, reduction of rating and change of control which results in a reduction of rating; - Fulfillment of minimum equity requirements and certain financial ratios; - Restrictions in connection with the creation of pledges; - Restrictions on dividend distributions.	15.D.2. 21.C.
				2,749	1,174	Financial covenants in connection with a bank loan: • A mortgage on the HSBC building, and pledges on rental agreements and rent from the building, etc.; - Grounds for demanding early repayment, including due to a cross default.	12.B.1.B.
						In January 2022, after the date of the statement of financial position, Property & Building engaged in an institutional loan agreement which includes financial covenants, inter alia, an undertaking not to perform a distribution in an amount exceeding NIS 100 million in a calendar year. For additional details, see Note 12.A.5. below.	
Mehadrin: Financial debt, net	170	(360)	(190)		285	Financial covenants in connection with loans from banks and financial institutions: - Grounds for demanding early repayment, including in case of a change in control of Mehadrin, and the right to interest in arrears; - Fulfillment of minimum equity requirements and certain financial ratios; - Restrictions on dividend distributions and on the repayment of shareholder loans; - Restrictions on the provision of loans and factoring guarantees; - Maintaining currency hedges; - Restrictions on transactions with related parties and on changes to structure and control; - Restrictions in connection with the creation of pledges.	15.D.3.
Elron: Liquid resources							
In Elron	149	-	149				
RDC Rafael Development Corporation Ltd. [2]	109	(26)	83				
	258	(26)	232				

[1] Principal, accrued interest and linkage differentials as at December 31, 2021.
[2] Held by Elron at a rate of 50.1%.
For additional details regarding guarantees and pledges, see Note 21 below.

Note 4 - Financial Assets Measured at Fair Value Through Profit or Loss

Current investments

	As at December 31	
	2021	2020
	NIS millions	
Government debentures and short term bills	60	1
Corporate debentures	102	70
Mutual fund participation certificates	196	59
ETF's	9	-
Stocks	17	140
Options	-	25
Derivatives which are not used for hedging and other purposes	15	1
	399	296

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 5 - Fixed Assets

A.

	Buildings	Machines, facilities and equipment	Telecommunication network	Television equipment and infrastructure	Packaging plants	Computers, office furniture, equipment and other	Installations and leasehold improvements	Total
	NIS millions							
Cost								
Balance as at January 1, 2020	135	58	5,043	409	-	235	90	5,970
Additions	3	-	168	123	6	20	6	326
Additions due to business combination	217	126	78	-	448	38	1	908
Write-offs [(1)]	-	-	(17)	(53)	(10)	(43)	(22)	(145)
Write-offs due to deconsolidation	-	-	-	-	-	(13)	(1)	(14)
Impact of changes in exchange rates	-	(1)	-	-	-	-	-	(1)
Balance as at January 1, 2021	355	183	5,272	479	444	237	74	7,044
Additions	7	-	222	114	3	16	3	365
Addition due to business combination	-	2	-	-	-	-	-	2
Write-offs [(1)]	-	-	(4)	-	-	(15)	(1)	(20)
Impact of changes in exchange rates	(2)	-	-	-	-	-	-	(2)
Classified under assets held for sale	(30)	(26)	-	-	-	(2)	-	(58)
Balance as at December 31, 2021	330	159	5,490	593	447	236	76	7,331

[(1)] The Group derecognizes assets which have been fully depreciated and which are not being used by the Group.

Note 5 - Fixed Assets (Cont.)

A. (Cont.)

	Buildings	Machines, facilities and equipment	Telecommunication network	Television equipment and infrastructure	Packaging plants	Computers, office furniture, equipment and other	Installations and leasehold improvements	Total
	NIS millions							
Accumulated depreciation and impairment loss								
Balance as at January 1, 2020	87	52	3,933	177	-	159	68	4,476
Depreciation for the year	8	1	239	114	6	28	8	404
Additions due to business combination	133	106	34	-	252	33	-	558
Write-offs	-	-	(17)	(53)	(10)	(43)	(22)	(145)
Write-offs due to deconsolidation	-	-	-	-	-	(10)	(1)	(11)
Impairment loss	1	-	-	-	-	-	-	1
Impact of changes in exchange rates	1	-	-	-	-	(1)	1	1
Balance as at January 1, 2021	230	159	4,189	238	248	166	54	5,284
Depreciation for the year	10	1	221	121	6	25	7	391
Write-offs	-	-	(4)	-	-	(15)	(1)	(20)
Impact of changes in exchange rates	(1)	-	-	-	-	-	-	(1)
Classified under assets held for sale	(28)	(22)	-	-	-	(2)	-	(52)
Balance as at December 31, 2021	211	138	4,406	359	254	174	60	5,602

Note 5 - Fixed Assets (Cont.)

A. (Cont.)

	Buildings	Machines, facilities and equipment	Telecommunication network	Television equipment and infrastructure	Packaging plants	Computers, office furniture, equipment and other	Installations and leasehold improvements	Total
	NIS millions							
Book value:								
As at December 31, 2020	125	24	1,083	241	196	71	20	1,760
As at December 31, 2021	119	21	1,084	234	193	62	16	1,729

B. In the ordinary course of business, the Group acquires some of the fixed assets on credit. The acquisition cost which has not yet been paid as at December 31, 2021 amounted to NIS 155 million (December 31, 2020 - NIS 167 million).

C. For details regarding pledges, see Note 21 below.

Note 6 - Investment Property

A. Composition

Movement in the book value of investment property

	Buildings for rent
	NIS millions
Balance as at January 1, 2020	3,389
Acquisitions and investments in current assets	9
Additions due to business combination	15
Net translation differences due to the translation of financial statements of foreign operations	(205)
Decrease in fair value, net	(282)
Balance as at January 1, 2021	2,926
Reclassification of amounts from rental income receivable to investment property	89
Acquisitions and investments in current assets	63
Increase in fair value, net	547
Net translation differences due to the translation of financial statements of foreign operations	(89)
Classification as assets of disposal group held for sale[1]	(3,513)
Balance as at December 31, 2021	23

(1) For details regarding the classification of revenue-generating real estate properties in Israel and the HSBC Tower in New York as assets of a disposal group held for sale, see Notes 12.A and B below.

Note 6 - Investment Property (Cont.)

B. Determination of fair value

1. Data regarding the measurements of fair value of investment property

Property type	Valuation techniques for the determination of fair value	Significant unobservable inputs				Reciprocal relationship between significant unobservable inputs and measurement of fair value
		Cash flow discount rate (% per year)				
				2020		
				Range	Weighted average	
Rental properties	Fair value is estimated using the revenue discounting method: the valuation model based on the present value of the estimated NOI from the property. The valuation of real estate is based on the net annual cash flows, discounted by the discount rate which reflects the specific risks embodied therein. When rental agreements effectively exist, where the payments with respect to them are different from appropriate rent, adjustments are implemented in order to reflect the actual rent payments during the period of the agreement.	**Revenue-generating properties in Israel**	For office purposes	7.3%	7.3%	The estimated fair value will increase if: The cash flow discount rate will decrease.
			For commercial purposes	5.3% to 8.9%	7.1%	
			For industrial purposes	8.5%	8.5%	
		Revenue-generating properties in the United States	For office purposes Current - Realization -	6.25% 4.75%	5.34%	The estimated fair value will increase if: The current discount rate and/or the discount rate in the year of sale decrease. (2)
		Value of rent (NIS per square meter per month)				
	The valuations take into account the types of lessees who are actually occupying the leased property, or who are responsible for fulfilling the rental obligations, or those who may be in the leased property after the rental of an available property, including the division of responsibility between the Group and the Lessee with respect to holding the property and the remaining economic lifetime of the property, in the cases where those parameters are relevant.	**Revenue-generating properties in Israel**	For office purposes	NIS 58 to NIS 80	NIS 67	The estimated fair value will increase if: The market value of rent payments increases.
			For commercial purposes	NIS 11 to NIS 190	NIS 63	
			For industrial purposes	NIS 21	NIS 21	The estimated fair value will increase if: The market value of rent payments increases. (1)
		Revenue-generating properties in the United States (2)	For office purposes	NIS 320 to NIS 460	NIS 361	

(1) There is no internal reciprocal relationship between the material unobservable inputs.
(2) Including rental income with respect to expenses in the year of sale.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 6 - Investment Property (Cont.)

B. Determination of fair value (Cont.)

2. Valuation processes which are applied in the Group

The fair value of investment property is determined by independent external valuers, with the appropriate qualifications and experience for the type of property involved in the valuation, and its location. External valuations are performed at least once per year, or when indications of changes in value exist (whichever is earlier). All of the valuations are evaluated by the managements of the Group's member companies and are subsequently reported to their financial statements review committees.

The primary unobservable market inputs refer to the following factors:

- Discount rates which are based on professional publications in the relevant markets, if any, and comparison to similar transactions, with the required adjustments.
- The market value of rent payments (market rent), based on professional publications in the relevant markets and comparison to similar transactions, with the required adjustments.
- Construction costs per square meter, based on agreements with performance contractors and a detailed budget for each project.

3. **Adjustments to book value**

Presented below are details regarding significant adjustments to a valuation which was received for the purpose of presenting investment property in the financial statements.

	As at December 31	
	2021	2020(2)
	NIS millions	
Fair value as reported by external valuers (1)	23	3,035
After deducting amounts applied to income receivable with respect to rent according to the straight line method	-	(109)
Fair value, as presented in the financial statements	23	2,926
(1) Including fair value which was calculated not by external valuers, in accordance with observed transactions in an active market	-	13

(2) Including the HSBC Tower activity, which was classified in 2021 as an asset of a disposal group held for sale.

Note 6 - Investment Property (Cont.)

C. Amounts recognized in the statement of income

	For the year ended December 31		
	2021	2020[(2)]	2019[(2)]
	NIS millions		
Rental income from investment property	40	101	151
Direct operating expenses due to investment property [(1)]	12	27	33
Increase in fair value of investment property, net	585[(3)]	2	67

Profit with respect to revaluations to fair value

	For the year ended December 31		
	2021	2020[(2)]	2019[(2)]
	Buildings for rent		
	NIS millions		
Changes in fair value attributed to unrealized investment properties, net	585[(3)]	2	30
Changes in fair value attributed to realized investment properties	-	-	37
Total	585	2	67

(1) Including expenses in immaterial amounts with respect to investment property which did not generate rental income.

(2) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. below.

(3) See Notes 12.A.2, 3 and 4 below.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 7 - Lease Assets and Liabilities

A. Right-of-use assets

	Telecommunication sites(1)	Buildings (2)	Land for orchards (3)	Vehicles (4)	Other	Total
	NIS millions					
Cost						
Balance as at January 1, 2020	737	224	-	52	-	1,013
Additions with respect to new agreements, changes to agreements and revaluation	94	15	11	36	6	162
Purchase in business combination	-	72	189	5	2	268
Write-offs with respect to concluded agreements	(65)	(7)	-	(10)	-	(82)
Write-offs due to deconsolidation	-	(4)	-	-	-	(4)
Balance as at January 1, 2021	766	300	200	83	8	1,357
Additions with respect to new agreements, changes to agreements and revaluation	88	208	8	20	1	325
Write-offs with respect to concluded agreements	(100)	(109)	(1)	(14)	-	(224)
Impact of changes in exchange rates	-	(1)	-	-	-	(1)
Transfer to held-for-sale assets	-	(4)	-	-	-	(4)
Balance as at December 31, 2021	754	394	207	89	9	1,453
Depreciation						
Balance as at January 1, 2020	169	56	-	14	-	239
Depreciation for the year	168	66	5	26	-	265
Purchase in business combination	-	18	35	1	1	55
Write-offs with respect to concluded agreements	(59)	(6)	-	(10)	-	(75)
Changes to agreements	(3)	(3)	-	-	-	(6)
Write-offs due to deconsolidation	-	(3)	-	-	-	(3)
Balance as at January 1, 2021	275	128	40	31	1	475
Depreciation for the year	129	70	9	29	1	238
Write-offs with respect to concluded agreements	(98)	(15)	-	(11)	-	(124)
Changes to agreements	(4)	-	-	-	-	(4)
Transfer to held-for-sale assets	-	(1)	-	-	-	(1)
Balance as at December 31, 2021	302	182	49	49	2	584
Book value as at December 31, 2020	491	172	160	52	7	882
Book value as at December 31, 2021	452	212	158	40	7	869

Note 7 - Lease Assets and Liabilities (Cont.)

A. Right-of-use assets (Cont.)

(1) **Communication sites** - Cellcom's mobile network equipment, including base sites which are distributed throughout the country, which provide telecom coverage for the vast majority of inhabited regions in Israel. Cellcom rents from various entities (including from local authorities, government entities such as the Israel Land Administration, and private entities) sites for the construction, maintenance and operation of base sites which are used for its mobile data network. The lease agreements in this regard are mostly for periods ranging from two to five years, with an option to extend for similar periods, and with options of termination, under certain conditions. In certain agreements, the lessor is entitled to terminate the agreement at any time, and for any reason whatsoever, subject to advance notice.

(2) **Buildings** - The Group leases buildings which include, inter alia, offices in Israel and abroad, and leases for agricultural activity which is performed in packaging plants and refrigeration facilities.

(3) **Land for orchards** - Mehadrin leases orchards with a total area of 11,700 dunams, of which 11,502 dunams are leased from the Israel Land Authority, and 196 dunams are privately owned. Out of these agreements, 9,380 dunams (2020 - 9,551 dunams) are leased for 49 year periods, ending in 2002-2021, with an option to extend by an additional 49 year period, and 2,122 (2020 - 1,953 dunams) dunams are leased under 49 year agreements ending in 2009-2056, without an option to extend the lease period.
Mehadrin also leases holding orchards (holding orchards are customer orchards which are transferred in their entirety to Mehadrin's possession, as part of a multi-year agreement between the parties). In consideration of the turnover from the fruit, Mehadrin covers the operating expenses of those orchards, and if the agreement prescribes it, an agreed-upon additional sum is paid to the customer.

(4) **Vehicles** - The Group leases vehicles from several different leasing companies, and from time to time changes the number of vehicles, in accordance with its current needs. The leased vehicles are identified, and the leasing companies cannot replace them, except in case of defects.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 7 - Lease Assets and Liabilities (Cont.)

B. Lease liabilities

	Telecommunication sites	Buildings	Land for orchards	Vehicles	Other	Total
			NIS millions			
Balance as at January 1, 2020	571	203	-	39	-	813
Additions with respect to new agreements, changes to agreements and revaluation	94	11	4	38	6	153
Purchase in business combination	-	55	44	4	1	104
Write-offs	(6)	-	-	(1)	-	(7)
Financing expenses with respect to lease liabilities	21	7	1	1	1	31
Lease payments	(168)	(79)	(1)	(26)	(1)	(275)
Write-offs due to deconsolidation	-	(2)	-	-	-	(2)
Impact of changes in exchange rates	-	-	(1)	-	-	(1)
Balance as at December 31, 2020	512	195	47	55	7	816
Current maturities of lease liabilities	135	69	6	28	2	240
Long term lease liabilities	377	126	41	27	5	576
Book value as at December 31, 2020	512	195	47	55	7	816
Additions with respect to new agreements, changes to agreements and revaluation	98	220	-	17	1	336
Write-offs	(1)	(92)	-	(3)	-	(96)
Financing expenses with respect to lease liabilities	18	9	2	1	-	30
Lease payments	(168)	(79)	(6)	(31)	(2)	(286)
Impact of changes in exchange rates	-	(3)	-	-	-	(3)
Balance as at December 31, 2021	459	250	43	39	6	797
Current maturities of lease liabilities	105	69	5	27	2	208
Long term lease liabilities	354	181	38	12	4	589
Book value as at December 31, 2021	459	250	43	39	6	797

* For an analysis of the repayment dates of the Group's lease liabilities, including principal and interest payable, see Note 20.F. below.

C. Payments with respect to options to extend leases which were not taken into account in the calculation of lease liabilities

Range of years	December 31, 2021
	NIS millions
Up to 5 years	56
5 to 10 years	6
10 to 15 years	5
15 to 20 years	22
Over 20 years	12
Total	101

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 8 - Trade Receivables and Other Income Receivable

A. Long term trade receivables

	As at December 31	
	2021	2020
	NIS millions	
Long term trade receivables	410	523
After deducting deferred interest income	(9)	(13)
After deducting the provision for credit losses	(8)	(10)
After deducting current maturities	(235)	(324)
	158	176

The balance of long term trade receivables is with respect to equipment sales in payments made by Cellcom (mainly in 36 payments), and whose present values as at December 31, 2021 and as at December 31, 2020 were calculated according to annual discount rates of 3.3%.

B. Current trade receivables

Composition

	As at December 31	
	2021	2020
	NIS millions	
Trade receivables	708	705
Credit card companies	242	231
Apartment buyers	3	13
Current maturities of long term trade receivables	235	324
After deducting the provision for credit losses	(106)	(170)
	1,082	1,103

Note 9 - Intangible Assets

A.

	Goodwill	Brands and trade names	Licenses and frequencies	Customer relations	Information systems and software programs	Technology, development in process, franchises and other	Contract obtaining costs	Total
	NIS millions							
Cost								
Balance as at January 1, 2020	2,698	280	552	264	359	64	396	4,613
Acquisitions and additions	-	-	38	-	67	-	131	236
Write-offs	-	(4)	-	-	(70)	-	-	(74)
Impact of changes in exchange rates	-	-	-	-	-	(2)	-	(2)
Deconsolidation	-	-	-	-	(14)	(49)	(3)	(66)
Purchase in business combination	754	36	45	138	22	-	62	1,057
Balance as at January 1, 2021	3,452	312	635	402	364	13	586	5,764
Acquisitions and additions	-	-	-	-	61	-	135	196
Write-offs	-	-	-	-	(25)	-	-	(25)
Purchase in business combination	5	1	-	-	-	-	-	6
Balance as at December 31, 2021	3,457	313	635	402	400	13	721	5,941

In the ordinary course of business, the Group acquires some of the intangible assets on credit. The acquisition cost which has not yet been paid as at December 31, 2021 amounted to NIS 29 million (as at December 31, 2020 - NIS 67 million).

Note 9 - Intangible Assets (Cont.)

A. (Cont.)

	Goodwill	Brands and trade names	Licenses and frequencies	Customer relations	Information systems and software programs	Technology, development in process, franchises and other	Contract obtaining costs	Total
	NIS millions							
Amortization and impairment losses								
Balance as at January 1, 2020	1,629	48	431	264	158	1	233	2,764
Amortization for the year	-	1	16	7	101	-	132	257
Write-offs	-	(3)	-	-	(69)	-	-	(72)
Deconsolidation	-	-	-	-	(6)	-	(1)	(7)
Purchase in business combination	-	-	45	26	15	-	43	129
Balance as at January 1, 2021	1,629	46	492	297	199	1	407	3,071
Amortization for the year	-	-	17	21	74	-	143	255
Write-offs	-	-	-	-	(25)	-	-	(25)
Balance as at December 31, 2021	1,629	46	509	318	248	1	550	3,301
Book value								
As at December 31, 2020	1,823	266	143	105	165	12	179	2,693
As at December 31, 2021	1,828	266	126	84	153	12	171	2,640

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 9 - Intangible Assets (Cont.)

B. The fair value of intangible assets which were purchased in various business combinations was estimated on the date of each business combination as follows:

Brands and trade names

Fair value was estimated using the relief from royalty approach, according to which the fair value of the asset is estimated according to an evaluation of royalties, which theoretically would have been paid to a third party with respect to the use of the asset. The economic value of the brand is due to the fact that the ownership thereof exempts the property owner from the need to pay such royalties to a third party with respect to the use of the property. The rate of royalties used in the determination of the fair value of the brands is 0.2%-2% (mostly 1%-1.5%) of expected income.

C. Additional details regarding primary cash generating units which include goodwill or an intangible asset with an undefined lifetime

- Goodwill and brand with undefined lifetimes which are attributed to Cellcom amount, as at December 31, 2021, to NIS 1,796 million and NIS 231 million, respectively.
  Cellcom's enterprise value, which is based on Cellcom's value on the stock exchange as at December 31, 2021 (with the required adjustments) is higher than the value of that activity in the Company's financial statements as at December 31, 2021, as specified in section D below.
- Goodwill is attributed to the Epsilon activity in the Company's financial statements as at December 31, 2021 in the amount of NIS 37 million. The recoverable amount of Epsilon's activity, in accordance with an economic paper which was prepared as at December 31, 2021 by an external valuer using the to value in use method, was lower than the value of the aforementioned activity in these financial statements, and therefore impairment was not recognized with respect to the aforementioned goodwill.

D. Impairment test of investee companies in 2021

In light of that stated in Note 22.B.1.C. below, in connection with insolvency proceedings in Xfone, the Company performed, in the second quarter of 2021, an impairment test of the goodwill and brand, net of tax, attributed to Cellcom.

The value of the assets attributed to Cellcom's activity, less the liabilities attributed to Cellcom's activity in the Company's financial statements as at June 30, 2021, is NIS 5,665 million, which is lower than the recoverable value of the Cellcom activity as estimated in the economic paper as at June 30, 2021, in the amount of NIS 6,536 million as at that date. Therefore, impairment of the aforementioned goodwill and brand were not recognized.

In accordance with Regulation 49(A) of the Reporting Regulations, the aforementioned economic paper was attached to the Company's financial statements as at June 30, 2021, which were published on August 19, 2021 (reference number 2021-01-068089).

DIC performed, in the fourth quarter of 2021, an annual test of the impairment of the goodwill and brand attributed to Cellcom. The value of the assets attributed to Cellcom's activity, less the liabilities attributed to Cellcom's activity in the Company's financial statements as at December 31, 2021, is NIS 5,578 million (calculated according to Cellcom's equity as at that date, in the amount of NIS 1,921 million, plus the goodwill and brand, net of tax, which are attributed to Cellcom in the Company's financial statements, in the amount of NIS 846 million, and plus Cellcom's debentures in the amount of NIS 2,811 million in Cellcom's financial statements as at that date), lower than the recoverable amount of the Cellcom activity, which was estimated, as at December 31, 2021, at a total of NIS 5,845 million (calculated according to the market value of Cellcom's share capital as at December 31, 2021, in the amount of NIS 2,855 million, plus the market value of Cellcom's debentures, in the amount of NIS 2,990 million as at that date). Impairment with respect to the aforementioned goodwill and brand was therefore not recognized.

For details regarding the book value and market value of the Company's investment in Cellcom as at December 31, 2021, and proximate to the publication date of the report, see Note 3.D. above.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 10 - Deposits and Pledged and Restricted Deposits

	As at December 31	
	2021	2020
	NIS millions	
Deposits in banks	125	402
Pledged and restricted deposits	175[(2)]	156[(1)]
	300	558

(1) Mostly with respect to real estate.
(2) Including NIS 100 million, which are deposited with the trustee for the execution of a transaction involving an offer to purchase Gav-Yam shares, see Note 3.G.2.A.2. above.

Note 11 - Inventory and Inventory of Buildings for Sale

A. Inventory

	As at December 31	
	2021	2020
	NIS millions	
Telephones and other communication equipment (mostly with respect to Cellcom's mobile and internet activities) of Cellcom	98	83
Inventory of fruit, packaging materials and pest control materials	142	136
	240	219

B. Inventory of buildings for sale

	As at December 31	
	2021	2020
	NIS millions	
Invested costs:		
Land	29	8
Construction and others	17	27
Amounts carried to the statement of income in accordance with the provisions of IFRS 15	(8)	(33)
	38	2
Inventory of completed buildings	38	60
Provision for impairment of completed buildings	(11)	(12)
	65	50

	For the year ended December 31	
	2021	2020
	NIS millions	
Movement in inventory of buildings for sale:		
Balance as at January 1	50	105
Additions	47	28
Transfer from fixed assets and real estate	4	-
Write-offs [(1)]	(36)	(83)
Balance as at December 31	65	50
(1) Including with respect to a provision for impairment in the amount of	1	1

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Discontinued Operations

The properties of Property & Building's revenue-generating real estate activities in Israel, the HSBC Tower, IDBG, and some of Property & Building's activities in the residential segment in Israel, are presented in the statement of financial position as at December 31, 2021 as assets of disposal groups held for sale. The results of the HSBC Tower, the Gav-Yam activity until August 31, 2019 and Shufersal's activity until July 26, 2020, are presented as discontinued operations in the statements of income, while the comparative figures with respect to the results of the HSBC Tower for the years ended December 31, 2020 and 2019 were restated separately from continuing operations. For details regarding the results of discontinued operations, see section B. below.

- Revenue-generating properties of Property & Building in Israel - see section A.2. to section A.4. below;
- IDBG - see section A.5. below;
- Some of Property & Building's activity in the residential segment in Israel - see section A.6. below;
- HSBC Tower - see section B.1. below;
- Gav-Yam until August 31, 2019 - see section B.2. below;
- Shufersal until July 26, 2020 - see section B.3. below.

Presented below is the composition of assets and liabilities of disposal groups held for sale with respect to the foregoing companies, and others:

	As at December 31	
	2021	**2020**
	NIS millions	
Assets of disposal groups classified as held for sale		
Investment in equity accounted investee[(1)]	96	-
Investment property	3,513	1,268
Other receivables and debit balances	33	-
Inventory of real estate and buildings for sale	44	-
Other assets	9	-
Total assets of disposal groups held for sale	3,695	1,268
Liabilities of disposal groups held for sale		
Other payables and credit balances	171	-
Liabilities to banking corporations and financial institutions	1,173	300
Deferred tax liability	-	109
Provisions (see Note 12.B.1.D. below)	41	-
Other liabilities	3	47
Total liabilities of disposal groups held for sale	1,388	456

(1) For details regarding the terms of a loan to an investee, see section 5.E. below.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and liabilities of disposal groups held for sale

1. Ispro

On April 8, 2020, Property & Building entered into an agreement with Messrs. Kidan Dahari and Yaron Adiv, third parties which are unrelated to Property & Building (the "Buyers"), under which the buyers will acquire Property & Building's entire stake in Ispro shares, which constitute 100% of Ispro's issued capital, and will acquire (by way of assignment) Property & Building's rights by virtue of shareholder's loans which it provided to Ispro (the balance of which, not including accrued interest, as at December 31, 2020, amounts to approximately NIS 221 million, the "Shareholder's Loan"), in consideration of a total of NIS 800 million (the "Consideration") and the "Sale Agreement", respectively), and additional consideration which will be calculated according to the cash flow from the Ispro activity, excluding non-recurring effects (FFO according to the definition in the agreement), from the signing date of the agreement until the end of 2020.

On March 24, 2021 the transaction was completed, and Property & Building transferred all of its rights in Ispro to the buyers, and received the balance of consideration, in the amount of NIS 650 million, gross (in addition to a total of NIS 150 million which was received in 2020), and Property & Building also received a total of NIS 18 million, additional consideration which was calculated according to the cash flows from the Ispro operation, without non-recurring effects (FFO, as defined in the sale agreement) until the end of 2020, as a dividend which was distributed by Ispro, as part of the completion of the transaction. In consideration of the fact that, as at December 31, 2020, the Company has provided the balance of Ispro's assets and liabilities which are presented as assets and liabilities held for sale, including the shareholder's loan, in the amount of NIS 818 million, the Company did not carry profit or loss in the financial statements for 2021 with respect to the completion of the sale transaction.

Concentration of balances as at the date of deconsolidation

	As at the date of deconsolidation
	NIS millions
Cash consideration which was received from the sale, net of transaction costs	808[(1)]
Assets and liabilities which were written off [(2)]	
Assets of disposal groups held for sale	1,254
Liabilities of disposal groups held for sale	443
	811

(1) A total of NIS 150 million was received in 2020.
(2) The assets and liabilities were written off according to their values as at March 24, 2021.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

1. Ispro (Cont.)

Mega Or claim

Further to that stated in Note 3.G.2.E. to the Company's financial statements for 2020, regarding Mega Or's fundamental breaches of the Mega Or agreement, and regarding Property & Building's engagement, on April 8, 2020, in an agreement with Messrs. Kidan Dahari and Yaron Adiv, in April 2020 Mega Or and Big Shopping Centers Ltd. (in this note - the "Plaintiffs") filed claim against Property & Building, its subsidiary and Messrs. Kidan Dahari and Yaron Adiv (the "Defendants" and the "Claim", respectively), along with a motion for a provisional injunction on an ex parte basis, in which it was requested, inter alia, to prevent Property & Building from executing an alternative transaction (the "Motion for a Provisional Injunction").

In the claim, the Court was requested to issue a permanent injunction against the defendants, to prevent the execution of the new agreement, and the signing and execution of any other transaction for the sale of Ispro shares to the defendants, as well as various declaratory orders according to which, as asserted, the plaintiffs had not breached the Mega Or agreement, Property & Building had performed a fundamental breach of the Mega Or agreement and the duty of good faith to fulfill it, as well as a declaration that a change for the worse had occurred, as defined in the Mega Or agreement. The Court was also requested to issue an order applying the terms of the new agreement to the Mega Or agreement, or alternatively, to issue any other remedy to protect the plaintiffs' rights. The motion for a temporary injunction was dismissed by the Court, further to the Court's order that the plaintiffs announce whether they insist on their request, and regarding the holding of a hearing in the presence of the parties, the plaintiffs notified the Court that they did not insist on their request, but insisted on their claim. Property & Building rejects the plaintiff's claims in the claim, and will work to protect all of its rights vis-à-vis the plaintiffs.

On August 27, 2020, Property & Building and the subsidiary filed a statement of defense, in which they rejected the assertions in the claim, and brought preliminary assertions for the summary dismissal of the claim. They also filed a statement of counterclaim against Mega Or and Big (the "Counterclaim"). In the counterclaim, Property & Building and the subsidiary petitioned, inter alia, for the payment of a total of approximately NIS 100 million to Property & Building and to the subsidiary, with respect to damages which they incurred due to material and fundamental breaches of the Mega Or agreement, and due to actions and omissions of theirs, all without prejudice to the right of Property & Building and the subsidiary to amend the statement of counterclaim, and to split the remedies, insofar as may be necessary, and to file additional claims.

On October 19, 2020, Mega Or notified Property & Building of the termination of the Mega Or agreement (which, as stated in Note 3.G.2.E. to the Company's financial statements for 2020, had already been terminated by Property & Building and the subsidiary).

<u>Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations</u> (Cont.)

A. <u>Assets and Liabilities of Disposal Groups Held for Sale</u> (Cont.)

1. Ispro (Cont.)

<u>Mega Or claim</u> (Cont.)

On October 20, 2020, and after Mega Or notified Property & Building of the termination of the Mega Or agreement, the plaintiffs filed with the Court a motion to amend the statement of claim, in which they stated, inter alia, that in light of their termination of the agreement, they are no longer requesting the remedy involving adjustment of the agreement and the remedy of preventing the counter transaction, and instead of they are demanding monetary relief involving reimbursement of expenses and legal fees (in an immaterial amount), and also adding to the current remedies, that the agreement had been terminated by them lawfully. On November 23, 2020, the Court determined that the amendment to the statement of claim which had been requested by the plaintiffs should be permitted, subject to the payment of expenses in favor of the defendants (in an immaterial amount). On January 6, 2021, Mega Or and Big filed an amended statement of claim. On March 17, 2021, Property & Building filed a revised statement of defense in response to the revised statement of claim which was filed by Mega Or and Big.

Additionally, further to (A) Property & Building's demand towards the trustee in the Mega Or agreement (the "Trustee"), to transfer to it (as partial compensation) the first deposit which Mega Or deposited with him, in the amount of NIS 15 million, as part of the Mega Or agreement, and (B) Mega Or's objection to transfer the first deposit to Property & Building as compensation, as stated above, in April 2020 the trustee filed with the Court a motion in which the Court was requested to issue instructions to the trustee regarding the way to handle the aforementioned deposit. Mega Or filed a motion to stay these proceedings until a decision has been reached regarding its claim, alleging the existence of pending proceedings. Property & Building objected to the motion to stay the proceedings. In the hearing which was held on April 11, 2021, in a proceeding which was filed by the trustee, the Court's proposal to unify the proceedings was accepted, for the purpose of rapid adjudication of the two proceedings.

Further to the Court's instructions on April 11, 2021, the respondents initiated mediation proceedings, which have not yet been completed. As a precaution, the required resolutions regarding the management of the proceedings (in court and in mediation) vis-à-vis Mega Or and Big are passed by Property & Building's Audit Committee.

<u>Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations</u> (Cont.)

A. <u>Assets and Liabilities of Disposal Groups Held for Sale</u> (Cont.)

2. Nechasim House

On October 19, 2021, Property & Building published a request for offers to purchase all of its interests in Nechasim House, a revenue-generating real estate property, with potential for betterment, on HaMasger St. in Tel Aviv-Yafo, which it held (the "Property"), for the period specified therein. On December 2, 2021, following a competitive process which Property & Building conducted, Property & Building engaged (in accordance with the resolution of Property & Building's Board of Directors) with a third party which is unaffiliated with Property & Building (the "Buyer") in a sale agreement (the "Sale Agreement") for the sale of all Property & Building's ownership rights in the property (including all of the interests and liabilities under the lease agreements and the management agreement which applies to the property), for a total consideration of approximately NIS 390 million (the "Consideration").

In accordance with the provisions of the sale agreement, the consideration will be paid to Property & Building in two payments - the first payment in the amount of approximately NIS 117 million (approximately 30% of the consideration) was paid to Property & Building on the signing date of the agreement; and the second payment, in the amount of approximately NIS 273 million (approximately 70% of the consideration) was paid to Property & Building in February 2022, after the date of the statement of financial position, on the date when the property was transferred to the buyer.

As a result of the aforementioned sale, Property & Building determined the value of the property, in the statement of financial position as at December 31, 2021, according to the sale price in the transaction, and recorded, in its financial statements for 2021, net profit in the amount of NIS 281 million. The Company's share in the profit was NIS 178 million.

3. Avgad House

In October 2021 Property & Building engaged in an agreement to sell its holdings in Avgad House in Ramat Gan to a third party (which is unaffiliated with Property & Building), for a total consideration of NIS 95 million. The first payment, in the amount of NIS 29 million (approximately 30% of the consideration) was paid to Property & Building on the signing date of the agreement; and the second payment, in the amount of NIS 66 million (approximately 70% of the consideration) was paid to Property & Building in January 2022, after the date of the statement of financial position, on the date when the property was delivered to the buyer.

Accordingly, Property & Building included, in 2021, profit from the increase in value of investment property in the amount of NIS 6 million; the Company's share in the profit was NIS 4 million. The aforementioned sale was completed in January 2022, after the date of the statement of financial position.

<u>Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations</u> (Cont.)

A. <u>Assets and Liabilities of Disposal Groups Held for Sale</u> (Cont.)

4. Romano House

In February 2022, after the date of the statement of financial position, Property & Building published a request for offers to purchase all of its interests in Romano House, a revenue-generating real estate property with potential for optimization on Yafo St. in Tel Aviv-Yafo (the "Property"), in which Property & Building holds approximately 72.2% of the rights (indirectly, through a subsidiary which is owned by other shareholders - the "Subsidiary"), and in accordance with the resolution of Property & Building's Board of Directors, Property & Building engaged, in March 2022, after the date of the statement of financial position, together with the other shareholders in the subsidiary (in consideration of the subsidiary's voluntarily liquidation) (Property & Building and the other shareholders, as stated above - the "Sellers") with a third party which is unaffiliated with Property & Building (the "Buyer"), in a sale agreement (the "Sale Agreement") for a total consideration of NIS 371 million (Property & Building's share - NIS 268 million), plus CPI linkage differentials, and plus VAT (the "Consideration"). In accordance with the provisions of the sale agreement, the sellers will sell to the buyer all of the sellers' interests and liabilities in the property (including all of the interests and liabilities according to the lease agreements) including a protected lease) and other agreements, as well as the management agreement which applies to the property), in their current condition ("as is"), and directly.

The consideration will be paid to the sellers in three payments - the first payment in the amount of NIS 37 million (which constitutes approximately 10% of the consideration, the Company's share - NIS 27 million) was paid to Property & Building on the signing date of the agreement; the second payment in the amount of NIS 37 million (which constitutes approximately 10% of the consideration, Property & Building's share - NIS 27 million) will be paid to the sellers within 30 days after the signing of the sale agreement; the third payment in the amount of NIS 297 million (approximately 80% of the consideration, Property & Building's share - NIS 214 million) will be paid to the sellers until the date when the property is transferred to the buyer; (except for certain amounts, the transfer of which to Property & Building is subject to approval from the Municipality, and approvals from the Tax Authority regarding the payment of land appreciation tax and purchase tax, in accordance with the standard practice). To secure the payment of the consideration, the buyer provided an unconditional autonomous bank guarantee in the amount of NIS 35 million. In accordance with the foregoing sale agreement, the closing of the transaction and the transfer of the property will be effected up to 90 days after the signing date of the sale agreement. As a result of the aforementioned sale, Property & Building determined the property's value in the statement of financial position as at December 31, 2021 according to the sale price in the transaction, and included, in its financial statements for 2021, its share in the net profit with respect to the revaluation of investment property, in the amount of NIS 157 million. The Company's share in net profit was NIS 99 million. It is hereby clarified that there is no certainty regarding the completion of the transaction, due to factors which are not under Property & Building's control, including due to a breach of the provisions of the sale agreement by the buyer.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG

IDB Group USA Investments Inc. ("IDBG") (a company owned by Property & Building (74.18%) and IDB Development (25.82%)) holds, as at December 31, 2021, all of the interests in Great Wash Park LLC ("GW").

A. Sale agreement

In March 2021, IDBG's Board of Directors decided that, along with the continued investment in the optimization of IDBG's properties, IDBG will take the required action to prepare for the sale of its properties, depending on (among other considerations) market conditions. As part of a competitive process which was held, IDBG engaged, in December 2021, in a sale agreement (the "Sale Agreement") with an entity unaffiliated with Property & Building (the "Buyer"), for the sale of all of its interests and liabilities (indirectly) in the Tivoli project (a commercial and office project) in Las Vegas, Nevada, and in land reserves adjacent to the Tivoli project (jointly: the "IDBG Properties") in their current condition ("as is"), for a total consideration of USD 216 million (the "consideration" and the "Transaction", respectively).

In accordance with the terms of the sale agreement, the buyer deposited with a trustee a hard (irrevocable) deposit in the amount of USD 10 million (the "Deposit"). Once the transaction enters into effect (i.e., as at the date of the court's approval, as specified below), a 30 day due diligence process will begin. The transaction closing date will be 60 days after the end of the aforementioned due diligence period.

The closing of the transaction is subject to the condition that, up to 5 business days before the closing date, as determined in the sale agreement, IDBG will transfer to the buyer approvals from 70% of the tenants in the Tivoli project regarding the transfer of ownership, in accordance with the terms of the sale agreement, and will not be received the foregoing approvals are not received, the agreement will be terminated, and the deposit will be returned to the buyer.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

A. Sale agreement (Cont.)

Until the closing date of the transaction, and in order to execute the sale agreement in accordance with its terms, Property & Building and IDBG will be required to repay a loan from an institutional entity in the amount of NIS 162 million (the "Institutional Loan"), and a loan which was taken by IDBG from an American bank, in the amount of USD 73 million (the "Loan from the American Bank"). For details regarding the institutional loan and the loan from the American bank, see sections B and C below. In accordance with the indemnification agreement, as specified in sections C.2. and C.4. below, Property & Building repaid the aforementioned institutional loan in January 2022, after the date of the statement of financial position, and Property & Building is considered as having provided the institutional loan directly to IDBG, and is entitled to the repayment funds on the transaction closing date.

On February 25, 2022, after the date of the statement of financial position, IDBG engaged in an amendment to the sale agreement, in which it was determined that the transaction closing date would be postponed to March 31, 2022; the closing date in connection with some of the land reserves which are adjacent to the Tivoli project, as stated above, was accelerated to February 28, 2022, in a manner whereby IDBG will sell and transfer, on that date, to a related company of the buyer (the "Land Buyer"), all of its interests and liabilities in some of the land reserves which are adjacent to the Tivoli project (the "Land"), for a total consideration of USD 4.5 million, which will be credited on account of the consideration (the "Consideration for the Land"). As at the publication of the financial statements, the consideration for the land has been transferred to a trustee to effect the closing, as stated above.

The land buyer deposited with a trustee an additional deposit, which was provided proximate to the signing of the sale agreement, of an additional USD 5 million (the "Deposit for the Land") (such that the aforementioned deposit amounted to a total of USD 15 million).

Insofar as the transaction is not closed in accordance with the agreed-upon conditions, the land will be sold back to IDBG by the land buyer, and will be transferred to IDBG, IDBG will return to the land buyer the consideration for the land (after deducting expenses which it spent in connection with the engagement in the amendment to the agreement), and the deposit for the land will be returned to it.

Subject to the closing of the transaction, IDBG expects to receive net cash flows in the amount of USD 91 million. After the repayment of the loan from the American bank, as stated above; the repayment of the institutional loan; and other selling costs.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

A. Sale agreement (Cont.)

In consideration of the expected consideration from the transaction, and in light of the costs specified above, Property & Building included, in its financial statements for 2021, net loss in the amount of NIS 62 million, the Company's shares in the net loss - NIS 39 million, recorded in the financial statements under discontinued operations, which pertains to the decrease in value of a loan which Property & Building gave to IDBG, and the fair value adjustment thereof at year-end.

In consideration of the balance of Property & Building's investment in IDBG, as recorded in Property & Building's books as at December 31, 2021 (approximately NIS 96 million), Property & Building is expected to record, on the transaction closing date, gain from sale of IDBG properties in the amount of NIS 115 million (the Company's share in the expected profit - NIS 73 million), which reflects the difference between the net proceeds which are expected to be received from IDBG, and the value, in Property & Building's books, of the investment in IDBG. The carrying of the aforementioned profit is attributed, inter alia, to the accounting method with respect to the investment in IDBG, in accordance with the instructions for implementing the amendment to International Accounting Standard (IAS) 28, as stated in Note 2.A.5. above.

Property & Building's investment in IDBG includes the balance of a negative translation reserve for foreign operations ("Translation Reserve"), the balance of which, as at December 31, 2021, amounted to NIS 156 million (the Company's share in the principal - NIS 99 million). In accordance with the Group's accounting policy, as stated above, the balance of the translation reserve, as at the closing date of the transaction, will be carried as loss in the Company's statement of income, with no effect on the balance of the Company's shareholders' equity.

As at the publication date of the financial statements, IDBG and the buyer are working towards closing the transaction. The closing of the sale transaction in accordance with the amendment to the agreement is uncertain, and it is possible that it will not be closed, due to factors which are not under the control of Property & Building and/or IDBG.

In light of the aforementioned sale, the investment in IDBG is presented in the Company's statement of financial position as at December 31, 2021 as an asset of disposal groups held for sale.

<u>Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations</u> (Cont.)

A. <u>Assets and Liabilities of Disposal Groups Held for Sale</u> (Cont.)

5. IDBG (Cont.)

B. <u>Bank loan</u>

GW, which holds the rights in the Tivoli project, has a loan which was received from a local bank in the United States (the "Bank Loan" and "Bank Lender", respectively), the balance of which, as at the reporting date, was approximately USD 72.4 million. The loan agreement was signed in December 2018, for a period of three years, repayable on January 1, 2022. The bank loan bears fixed annual interest at a rate of 5.75%. Upon the provision of the bank loan, the lending bank deposited a total of USD 10 million out of the balance of the loan, in a reserve deposit for leasehold improvements (TI). The balance of the reserve as at December 31, 2021 amounted to USD 2.9 million. The entire project is pledged in favor of the lending bank, through a first ranking pledge. IDBG is a guarantor for the bank loan.

The bank loan was signed in parallel with a loan which was received from an Israeli institutional entity (the "Institutional Loan"), and the indemnification agreement which is described in section C.2. below.

In May 2020, the lending bank approved for GW to finance the interest payment for the months May, June and July 2020, out of the reserve deposit.

In accordance with the loan agreement, GW undertook to fulfill an LTV ratio (as defined in the loan agreement) which will not exceed 40%, based on a valuation which the lender will consider satisfactory, in its exclusive and absolute discretion. The loan agreement determines that the evaluation will be performed only if required by the bank. If the bank requires an evaluation of this kind, and the ratio is higher than 40%, GW will be required to partially repay the loan, to a level which will allow it to meet the condition. The LTV ratio, calculated as at December 31, 2021, based on the valuation of GW and the calculation prepared Property & Building's management, is 35%.

The bank loan includes an evaluation mechanism, according to which GW undertook, throughout the entire loan period, to maintain the property's DSCR at no less than 1.3. The evaluation of the coverage ratios will begin on December 31, 2021, in accordance with the operating results in the 12 months preceding the date of the evaluation. If the ratio falls below 1.3, then subject to the lending bank's requirements, the borrower will be required to immediately partially repay the balance of the bank's loan, to a balance which will allow the borrower to fulfill the aforementioned coverage ratio. According to the calculation of Property & Building's management, as at December 31, 2021 the DSCR was approximately 1.6.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

B. Bank loan

If GW or IDBG have committed a fundamental breach or fundamental omission, with respect to any debt in an amount exceeding USD 100.000 thousand, the lending bank will have the option to demand the immediate repayment of the bank loan, unless GW or IDBG (as applicable) have disputed the occurrence of the breach, and the creditor in question has not received a ruling allowing it to enforce its rights with respect to the breach.

In August 2021, IDBG signed a third update to the bank loan agreement, which includes, inter alia, the following main changes:

1. The loan repayment date was extended from January 1, 2022 to January 1, 2023;
2. The interest rate was changed to 4.7%. The balance of the loan, in the amount of USD 69.3 million, was increased in the amount of USD 4 million, which will be used for leasehold improvements, rental agent fees, and closing costs. The net balance, in the amount of USD 3.8 million, was deposited in an account under the bank's control, and will be released upon the full repayment of the institutional loan.
3. If the loan is repaid before May 1, 2022, a prepayment penalty of 0.5% will be paid.
4. An option will be given for an additional 12 month extension until January 1, 2024, in accordance with the terms of the loan agreement.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

C. Institutional loan

1. On January 6, 2019, IDBG signed an update to an institutional loan agreement dated January 3, 2017, from an Israeli financing entity (the "Institutional Lender"), in the amount of USD 153 million (the "Institutional Loan Agreement"), as specified below:

Principal terms of the loan agreement

A. The principal of the institutional loan, in the amount of NIS 153 million, will be repaid in a single payment at the end of 24 months (on January 6, 2021), and includes an interest reserve cushion in the amount of USD 1.2 million. The institutional loan bears fixed annual interest at a rate of 5.93% (the "Loan Interest"), or at a rate of 7.93% in case of a default event, as specified in this section below, to be repaid once every three months; the loan will be used to finance the Tivoli project and/or to finance any action or purpose which is associated with the construction and rental of the project.

   In October 2020, IDBG used NIS 3.1 million out of the interest reserve to make the current interest payment.

B. Collateral was provided in favor of the institutional lender as follows: Single first priority pledge on all of IDBG's rights in GW; First priority mortgage on the land of IDBG with an area of approximately 8 acres, designated for residential purposes, in Las Vegas, USA; general first priority pledge on all assets, funds, property and rights, of any kind whatsoever, which belong to IDBG now or in the future; a pledge on IDBG's rights to IDBG's bank account; and guarantees, jointly and severally, which were originally provided by Property & Building and IDB Development for the entire sum of the guaranteed amounts (the "Guarantee"), accompanied by undertakings of Property & Building and IDB Development not to transfer their holdings in IDBG to third parties, in any manner which is not in accordance with the provisions of the loan agreement. The lender will be entitled to forfeit any of the collateral in accordance with an order which will be determined by it.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

C. Institutional loan (Cont.)

Principal terms of the loan agreement (Cont.)

The guarantee

A. Each of the guarantors, jointly and severally, provided in favor of the lender a perpetual guarantee to secure the repayment of all amounts which are owed and/or which will be owed to the institutional lender by IDBG in connection with the institutional loan agreement, and which will be in effect until after the repayment of the entire amounts of the loan, or until the institutional lender has given its approval for the cancellation of the letter of guarantee.

B. The institutional lender will be entitled to demand the payment of the guarantee in any of the following cases: (1) If IDBG has not fulfilled the full and accurate payment of any of the payments in accordance with the loan agreement when they come due; and/or (2) If a demand has been made for the immediate repayment of the loan in accordance with the grounds and conditions specified in the institutional loan agreement.

C. The institutional loan agreement includes sections containing standard representations, grounds for demanding immediate repayment, provisions regarding early repayment, and indemnification sections in favor of the lender. The grounds for demanding repayment in accordance with the agreement include, inter alia, grounds stipulating that insofar as the foreign banking corporation has announced a demanding the immediate repayment of the bank loan to GW, in an amount exceeding USD 1 million, the foregoing will constitute a default event also within the framework of the loan of the Israeli financing entity, and will allow the announcement of a demand for the immediate repayment also with respect to the loan of the Israeli financing entity.

D. In connection with the institutional loan, IDBG undertook to fulfill, at all times, an LTV ratio (as defined in the agreement) of no more than 50%, which is evaluated according to IDBG's last quarterly reports. It is noted that in light of the engagement of IDBG and the institutional lender in a second addendum to the agreement, there was no need to evaluate this ratio (see also section E below).

E. IDBG's undertaking towards the institutional lender will take precedence over its undertakings to repay the shareholder loans, which were provided to it Property & Building and IDB Development, including in accordance with the agreement for the provision of the credit facility by Property & Building in the amount of USD 50 million (as specified in section D below).

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

C. Institutional loan (Cont.)

2. Indemnification agreement (see update in section 3.D. below):

A. Property & Building, IDB Development and IDBG engaged in an indemnification agreement which determines that in case the guarantee is forfeited in a non-equal manner (i.e., the lender collects from one of the parties an amount exceeding its relative share in IDBG), the party which paid more than its share in the forfeiture of the guarantee (the "Excess Amount") will have right of recourse towards the other party, and priority in receiving the balance of the excess amount from the receipts of IDBG, in a manner which will compensate it for each such overpayment (the "Indemnification Agreement").

B. In case either of the parties effectively has effectively borne the excess amount towards the lender, the party which paid a lower part of its share will indemnify the first party for the excess amount, within seven (7) days after the date of the first party's initial demand, and with respect to any damage and expense which it has incurred due to its payment of the excess amount. Beginning from the date of creation of the excess amount, until its full repayment, the excess amount will bear annual interest at a rate of the loan plus 3%.

C. Additionally, in case of a distribution or repayment of shareholder's loans (or any other debt), which IDBG will perform to its shareholders, the party which paid the excess amount will have priority up to the full repayment of the excess amount. The payable balance of the forfeited guarantee would be in accordance with the terms of the current shareholders' loans.

On June 27, 2019, Maalot reduced the rating of IDB Development's debentures (Series I), which is a guarantor (jointly and severally with Property & Building) towards the lender, from BB to CC (it is noted that the rating was reduced to C in March 2020). In accordance with the loan agreement, the aforementioned reduction of rating allowed the lender to demand the immediate repayment of the loan, and resulted in an increase of the interest rate to 7.93%.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

C. Institutional loan (Cont.)

3. Second addendum to the institutional loan agreement

On January 6, 2021, a second addendum to the institutional loan agreement (the “Second Addendum”) was signed, under which it was stated that the total loan amount was increased from NIS 153 million to NIS 162 million, due in a single payment at the end of 12 months (i.e., on January 6, 2022). The balance of the new loan includes an interest cushion for current use in the amount of NIS 5.4 million.

The loan will bear fixed annual interest at a rate of 5% and in case of certain events, as defined in the addendum, the interest rate may be increased up to 7% (not including interest in arrears). No changes were made to the collateral which has been provided to the lender, except that, in place of the guarantees (which were provided by Property & Building and by IDB Development, jointly and severally), a guarantee of Property & Building only will be given, for the entire secured amounts.

A. IDBG undertook to fulfill an LTV ratio (as defined in the institutional loan agreement) no more than 55%. Any increase of 5% over 55% will lead to an interest rate increase of 0.25%, up to a cumulative total of 1%. An increase of the LTV to a level over 75% will signify the institutional lender’s entitlement to demand the immediate repayment of the institutional loan.

B. Any reduction of Property & Building’s credit rating below A (or a similar rating by another rating company) will lead to an increase of 0.35% in the interest rate (and an increase of the credit rating will lead to a corresponding decrease in the interest rate). In any case, the overall interest rate will not exceed 7.0% (except in case of interest in arrears);

C. A decrease in Property & Building’s equity below NIS 900 million, or a reduction of Property & Building’s credit rating below BBB, will signify the institutional lender’s entitlement to demand the immediate repayment of the loan;

<u>Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations</u> (Cont.)

A. <u>Assets and Liabilities of Disposal Groups Held for Sale</u> (Cont.)

5. IDBG (Cont.)

C. <u>Institutional loan</u> (Cont.)

3. <u>Second addendum to the institutional loan agreement</u> (Cont.)

D. Indemnification agreement - The previous mutual indemnification agreement between Property & Building, IDB Development and IDBG was replaced with a new indemnification agreement between Property & Building and IDBG, according to which, if at any time the guarantee is forfeited, and the loan amount (all or part) is repaid by Property & Building, then Property & Building will be considered as having provided the institutional loan directly to IDBG. Property & Building will be able to benefit from all of the provisions which apply to the institutional lender, as if Property & Building had signed the second addendum vis-à-vis IDBG. However, the sale of IDBG's assets will only be done in accordance with a joint decision of IDBG's shareholders, in accordance with the current shareholders agreement, and Property & Building will have priority in the receipt of funds from IDBG. For the avoidance of doubt, all of Property & Building's rights will in any case be subordinated to the rights of the bank loan.

E. Property & Building and IDB Development undertook towards the institutional lender that so long as the loan agreement (including the addendum) remains in effect, will not be required to repay funds on account of the shareholder loans, as defined above. Any debt of IDBG towards Property & Building and IDB Development will be subordinated and deferred after the repayment of the debts in accordance with the institutional loan agreement (including the addendum).

F. In August 2021, the parties signed an update to the new indemnification agreement, in which it was determined, inter alia, that if, as a condition for the refinancing or the extension of the current bank loan, the lender demands the repayment of the institutional loan, Property & Building will repay the loan, not including interest payments and any prepayment penalties). Repayment in this way by Property & Building will be considered as if the guarantee which was given by Property & Building for IBDG's liabilities by virtue of the institutional loan agreement had been realized, with respect to the aforementioned amounts which it paid with respect to the guarantee. Additionally, inter alia, the parties agreed to add the following conditions: (A) the interest during the first 12 months will be similar to the current interest on the institutional loan; (B) After the end of the period of the first 12 months, if the loan has not been repaid in full by IDBG, the interest will be updated according to the interest rate practiced in the market for similar loans from third parties. The agreement also includes a mechanism for determining the interest rate in case of the parties do not agree.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

G. As stated in section 5.A. above, in January 2022, after the date of the statement of financial position, Property & Building repaid the aforementioned institutional loan in January 2022, after the date of the statement of financial position, and Property & Building is considered as having provided the institutional loan directly to IDBG, and is entitled to repayment amounts on the transaction closing date.

D. Framework agreement

On September 20, 2015, approval was given by Property & Building's general meeting, in accordance with section 275 of the Companies Law, after approval was given by Property & Building's Audit Committee and Board of Directors, for the engagement in an agreement (the "Agreement") for the provision of a collateral facility in favor of a financing entity and/or for the provision of credit in the total amount of up to USD 50 million (the "Facility"), of which USD 25 million is with respect to IDB Development's share) between Property & Building (the lender) and IDBG (the borrower), IDB Development and Meniv Investments Ltd. ("Meniv"), which is a wholly owned subsidiary of IDB Development.

The agreement included a conversion mechanism, according to which, at the end of the loan period, or earlier upon the occurrence of a breach event (the "Loan Termination Date"), insofar as there will still be a priority amount which has not been repaid to Property & Building, the parties will act in accordance with the conversion mechanism specified in the agreement, in a manner whereby the entire debt balance will be converted to share capital of IDBG, which will be allocated by IDBG to Property & Building and to Meniv, and to their transferees (according to their proportional part in the debt balance), and in favor of the repayment of shareholder's loans which will be allocated by IDBG to Property & Building and to IDB Development and to their transferees. The value of IDBG and the conversion ratio will be determined by an external valuer in accordance with the mechanism specified in the agreement.

The entire facility has been used through the provision of credit in the amount of USD 50 million.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

D. Framework agreement (Cont.)

On September 20, 2019, the loan period concluded, and in accordance with the provisions of the framework agreement, the mechanism specified in the agreement, according to which IDBG will allocate to Property & Building additional shares of IDBG, was activated. Additionally, in accordance with the same mechanism, the terms of the entire balance of debt which was provided by Property & Building in accordance with the framework agreement will be changed to the same terms as the current shareholder loans, and Property & Building's share in the right to receive the repayment of these shareholder loans will be in accordance with Property & Building's updated stake in IDBG's share capital, after the performance of the aforementioned allocation. During the period until the implementation of the update in practice, the balance of debt in accordance with the framework agreement will continue accruing interest in accordance with the provisions of the agreement. On February 17, 2020, the allocation and the change in the loan terms, as stated above, were implemented in practice. The ratio which was used to perform the allocation was determined according to the average of three valuations which were prepared by external independent valuers, which determined that, after the performance of the aforementioned allocation, Property & Building's interests in the share capital of IDBG will amount to 74.18%, and the Company's interests in the share capital of IDBG will amount to 25.82%.

Property & Building continued accounting for its investment in IDBG as a joint venture accounted by the equity method, due to the existence of a shareholders agreement between Property & Building and IDB Development regarding the parties' holdings in IDBG, according to which so long as each of the parties holds at least 25% of the interests in IDBG, no changes will be made to the composition of IDBG's Board of Directors.

Until the date of the aforementioned change, the shareholder's loans which Property & Building had previously given to IDBG were presented at fair value through profit or loss, and the debt in accordance with the framework agreement was presented at amortized cost, which, as at the date of the change, was identical to its fair value. Since the date of the aforementioned change, all of the shareholder's loans which Property & Building provided to IDBG are presented as at fair value through profit or loss. In light of the foregoing, the activation of the mechanism had no effect on results.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

E. Loans from shareholders

Property & Building and IDB Development provided loans to IDBG for the purpose of project financing. In January 2019 Property & Building and IDB Development amortized a part of the balance of the loan and the accrued interest, except for the balance of loan principal in the amount of approximately USD 100 million (Property & Building's share - USD 50 million). The shareholder loans bear interest of 6.14% beginning from January 2019, and are repayable on December 31, 2034. See section 5.D. of this note for details regarding the realization of the loan facility.

On March 5, 2021, an additional update to the shareholder loan agreement (the "Update to the Agreement") was signed, in which the parties amended the shareholder loan agreement. As part of the update to the agreement it was determined, inter alia, that the only source for the repayment of the loans is IBDG's real estate properties (the Tivoli project), which are held directly or through shares (the "Recourse Assets"). It was clarified that the shareholder loans constitute non-recourse loans, such that the borrowers will not have right of recourse with respect to the shareholder loans (or with respect to any amount that is owed in accordance with the shareholder loans agreement), with respect to any other asset of IDBG, except for the recourse assets.

In case IDBG sells (directly or indirectly) all or some of the recourse assets, the amount of the shareholder loans, and any interest which has not yet been paid and accrued in respect thereof, up to the amount of the proceeds from the aforementioned sale, will be demanded for immediate repayment, in accordance with a decision of Property & Building and IDB Development, subject to the priority which has been given to the financing entities, and provided that this does not adversely affect IDBG's ability to fulfill tax payments, employee salaries and IDBG's current payments in connection with the assets which it uses for its operating activities.

F. **Attachment of financial statements of a material joint venture**

Attached to these financial statements are the financial statements as at December 31, 2021, of IDBG, a material associate which is accounted for at equity.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

G. Impact of the coronavirus pandemic - Due to the coronavirus crisis, and after the center in the Tivoli project was mostly closed beginning on March 24, 2020, In accordance with the authorities' directives on May 9, 2020 and following coordination and adjustments, the center was re-opened on May 15, 2020, subject to restrictions which were announced by the authorities. On June 1, 2021, the authorities lifted all of the restrictions, and on July 20, 2021, following another wave of coronavirus infections, new restrictions were imposed in connection with mask wearing in certain locations. These guidelines have been updated several times since then. The occupancy rate in the project before the coronavirus crisis began was approximately 73%. During the closure period, several lessees encountered difficulties, and some announced the discontinuation of their activity in the project. Several tenants also announced that they would not extend their lease agreements in the project, which are about to expire. However, during the same period, several new contracts were signed, such that the project's occupancy rate was around 78% as at the end of December 2021.

As at proximate to the publication date of the report, approximately 98% of rent billed with respect to 2021 has been collected. As at the publication date of the financial statements, IDBG is working to complete the sale of its assets, as stated in section A. above, and it believes that even if the sale is not completed, based on the aforementioned sale agreement, the project's cash flow forecast will allow it to remain with cash inflows in 2022.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

5. IDBG (Cont.)

H. Presented below is a summary of the details of IDBG, a significant joint venture, as at December 31, 2021 and 2020 (operating results for the years 2019-2021) (without adjustment for the ownership rates which are held by Property & Building) (NIS millions):

	2021	2020
Operating segment	Real estate and residential	
Country of incorporation	United States	
Main location of the business operation	United States	
Rate of ownership in capital (%)	74.18	
Rate in voting rights (%)	50	50
Cash and cash equivalents	26	23
Current assets	718	29
Non-current assets	-	770
Current financial liabilities (excluding trade payables, other payables and provisions)	680	153
Total current liabilities (including shareholder loans)	718	196
Non-current financial liabilities (excluding trade payables, other payables and provisions)	-	603
Total non-current liabilities	-	603
Total net assets (liabilities) (total assets less total liabilities)	-	-
The Group's share in net assets (liabilities)	-	-
Shareholder's loans which were given by Property & Building	211	281
Adjustment for the Group's share in net assets	(115)	(118)
Value of the joint venture in the books	96	163

	2021	2020	2019
Income	45	38	45
Financing income, net (1)	66	67	15
Loss from continuing operations and total comprehensive loss(1)	-	(3)	(16)
The Group's share in comprehensive loss	-	(2)	(8)
The Group's share in net loss including finance income with respect to shareholder loans	(61)	(69)	(32)
(1) Including finance income with respect to shareholder loans in the amount of	81	88	52

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

A. Assets and Liabilities of Disposal Groups Held for Sale (Cont.)

6. Residential construction in Israel

Further to that stated in Note 3.G.2.B.1. above, regarding the resolution of Property & Building's Board of Directors to instruct Property & Building's management to begin the process of evaluating the disposal of Property & Building's holdings in all or part of its activity in the residential construction segment in Israel, some of the residential construction activities in Israel, which Property & Building intends to realize, are presented in the Company's statement of financial position as at December 31, 2021, as assets and liabilities of disposal groups held for sale.

In February 2022, after the date of the statement of financial position, a wholly owned subsidiary of Property & Building (the "Subsidiary") published a request for offers to purchase all of its interests in land reserves, including those with residential designation, located near Mandarin Hotel in North Tel Aviv-Yafo, in which Property & Building holds, through the subsidiary, approximately 46% of the interests in a land division with an area of approximately 27 dunams (the subsidiary's share - approximately 13 dunams; the "Land"). On March 7, 2022, Property & Building's Board of Directors approved its engagement (through the subsidiary) in a sale agreement (the "Sale Agreement") with a third party, which is unaffiliated with Property & Building (the "Buyer"), for the sale of all of its interests and liabilities in connection with the land, in its current condition ("as is"), for a total consideration of NIS 347 million, plus CPI linkage differentials, and plus VAT (the "Consideration"). The consideration will be paid in two payments - the first payment in the amount of NIS 69 million (which constitutes approximately 20% of the consideration) was paid on the signing date of the sale agreement, in escrow, to the subsidiary's representative; and the second payment in the amount of NIS 278 million (which constitutes approximately 80% of the consideration) will be paid on the date when the land is transferred to the subsidiary. The engagement in the sale agreement, and its entry into effect, are conditional upon the fulfillment of suspensory conditions pertaining to registering the subsidiary at the Land Registry as the owner of the land, following an update, as required, at the Tax Authority, regarding transfers from a trustee to a beneficiary in accordance with the provisions of section 69 of the Land Taxation Law (Betterment and Purchase), 5723-1963 (the "Suspensory Condition") by no later than 12 months after the signing date of the sale agreement. Insofar as the suspensory condition is not fulfilled within the aforementioned time period, the subsidiary will be entitled, in its exclusive discretion, to extend the deadline for fulfillment of the suspensory condition by another 90 day period. In accordance with the sale agreement, as stated above, the closing of the transaction and the transfer of possession of the land will be performed by no later than 60 days after the fulfillment date of the suspensory condition in practice, but no less than 60 days after the signing date of the sale agreement. Property & Building is expected to record, with respect to the transaction, on the transaction closing date, profit (after tax) in the amount of NIS 261 million. DIC's share in the profit is expected to be NIS 165 million.

It is hereby clarified that there is no certainty regarding the closing of the transaction, due to the non-fulfillment of the suspensory condition, or due to factors which do not depend on the subsidiary, including due to a breach of the provisions of the sale agreement by the buyer.

<u>Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations</u> (Cont.)

B. <u>Discontinued operations</u>

1. HSBC Tower

A. <u>Sale agreement</u>

On July 1, 2021, Property & Building's Board of Directors instructed Property & Building's management to begin the process of evaluating the disposal of Property & Building's holdings in HSBC Tower. For this purpose, Property & Building engaged, in September 2021, with real estate investment bankers, which accompanied Property & Building through the process of evaluation and sale of HSBC Tower. On December 2, 2021, Property & Building engaged (through a wholly owned subsidiary) in a sale agreement (the "Sale Agreement") for the sale of all of its interests and liabilities in the tower, in its current condition ("as is"), subject to the repayment of a loan from an American bank, as stated in section B. below, the balance of which, as at December 31, 2021, was approximately USD 377 million, to a buyer which is a third party unaffiliated with Property & Building, for a total consideration of USD 855 million (the "Consideration"), subject to the adjustments which were determined in the sale agreement. In accordance with the provisions of the sale agreement, the buyer deposited with a trustee, on account of the consideration, a hard (irrevocable) deposit in the amount of USD 30 million. Additionally, in accordance with the provisions of the sale agreement, the transaction closing date was expected to be April 1, 2022. The buyer was also given the possibility to postpone the closing date by two periods of 30 days each, in exchange for increasing the hard deposit in the amount of USD 5 million with respect to each extension (i.e., in case of realization of the possibility which was given to the buyer to postpone the closing date, twice, by 30 days each time, the total deposit amount will be USD 40 million). On March 20, 2022, after the date of the statement of financial position, the buyer notified Property & Building of the postponement of the closing date to May 1, 2022. In parallel with its notice, the buyer increased the hard (irrevocable) deposit which was deposited with the trustee by USD 5 million, and it now stands at a total of USD 35 million.

Subject to the completion of the transaction, Property & Building expects to receive net cash flows in the amount of USD 330 million, which are equivalent, as at proximate to the publication date of the report, to NIS 1.1 billion - after the repayment of the aforementioned bank loan; Estimated payments to tax authorities; Payments of tax withheld at source; Payment to Rock Real Estate Partners Limited, as stated in section D. below; Sale costs and fees.

In consideration of the expected consideration from the transaction, and in light of the costs specified above, Property & Building included, in its financial statements for 2021, net loss in the amount of USD 35 million (NIS 108 million), the Company's share in the loss amounted to NIS 68 million, recorded under discontinued operations.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

B. Discontinued operations (Cont.)

1. HSBC Tower (Cont.)

Property & Building's investment in companies which directly and indirectly hold the tower (the "American Companies") includes the negative balance of the translation reserve for foreign operations (the "Translation Reserve"), the balance of which, as at December 31, 2021, in Property & Building's financial statements, amounted to NIS 265 million. The Company's share in the principal was NIS 157 million. In accordance with the Company's accounting policy, as stated in Note 2.A.3. above, the balance of the translation reserve, as at the closing date of the transaction, will be carried as loss in the Company's statement of income, with no effect on the balance of capital attributable to the Company's owners.

As at the publication date of the financial statements, Property & Building and the buyer are working towards closing the transaction. The closing of the sale transaction is uncertain, and it is possible that it will not be closed, due to factors which are outside of Property & Building's control.

In light of the aforementioned sale, the activity of the HSBC Tower is presented, in the Company's statement of financial position as at December 31, 2021, as assets and liabilities of disposal groups held for sale, and the operating results for the year ended December 31, 2021, were classified as a discontinued operation in the Company's statements of income. The comparative figures in the statements of income and in the statement of cash flows were adjusted retrospectively, in order to also present the activity of HSBC Tower separately from continuing operations.

Notes to the Consolidated Financial Statements as at December 31, 2021

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

B. Discontinued operations (Cont.)

1. HSBC Tower (Cont.)

B. Material credit - credit for the HSBC Tower in New York

On June 28, 2012, two American corporations which are wholly owned (indirectly) by Property & Building (452 Fifth Owners LLC ("**452 Owners**") and its wholly owned subsidiary, jointly: the "**Property Companies**"), engaged with the American bank J.P. Morgan Chase Bank, N.A. (the "**Bank**"), in agreements for the provision of a loan in the total amount of USD 400 million, the main terms of which are specified below:

Name of lender	- J.P. Morgan Chase Bank, N.A.
Loan receipt date	- June 2012.
Original loan amount	- USD 400 million The loan is comprised of a primary loan in the amount of USD 300 million (the "Primary Loan") and a secondary loan in the amount of USD 100 million (the "Secondary Loan").
Balance of the loan as at the date of the statement of financial position	- USD 377 million (NIS 1,173 million).
Principal repayment date	- The principal of the primary loan is repayable beginning from the sixth year after its provision, in accordance with a 30 year amortization schedule, in monthly payments. The principal balance of the loan is due in a single payment at the end of the loan period, on July 1, 2022.
Interest rate	- Fixed annual interest at an average rate of 5.04% (calculated according to 360 days per year - reflects an effective interest rate of 5.23% per year). The interest is paid on a monthly basis.
Linkage mechanism	- The loan is in USD.
Collateral	- To secure the repayment of the primary loan, a first priority mortgage was recorded on the HSBC Tower and the land on which it was built, as well as additional pledges according to the conventional practice in rental agreements and the rent due to the property, on the bank accounts associated with the operation of the property, pledge of insurance receipts, rights to tax refunds in connection with the property, etc. To secure the repayment of the secondary loan, a first priority pledge was recorded with respect to all of the rights in 452 Owners.
Right of recourse to the Company	- The loan is non-recourse towards Property & Building and/or towards the property companies. A wholly owned subsidiary of Property & Building, which wholly owns the property, indirectly (the "Subsidiary") provided a guarantee, unrestricted in amount, for the payment of all losses which may be incurred by the bank as a result of special cases only which were defined (carve out guarantee), which are acceptable cases in agreements of this kind (such as fraud, misrepresentation, etc.). Property & Building also provided a carve out guarantee, restricted up to an amount of USD 125 million. Additionally, each of the property companies and the subsidiary undertook to indemnify the bank with respect to any losses which it may incur, with no restriction as to amount, as a result of cases pertaining to dangerous materials and the environment.
Cross default mechanism	- Any breach the primary loan will constitute a breach of the secondary loan, but not vice versa.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

B. Discontinued operations (Cont.)

1. HSBC Tower

B. Material credit - Credit for the HSBC Tower in New York (Cont.)

Presented below are details regarding the main terms of the loan (Cont.)

Additional restrictions

1. All receipt funds which are due to the operation of the HSBC Tower are deposited in designated accounts which are pledged to Morgan Bank. These funds are transferred throughout the lifetime of the loan to the 452 Owners following the routine repayment of the loan principal and the interest with respect to it. In the following cases, the receipt of funds held in the designated accounts between increased until the event has been corrected or discontinued:
   - Any breach of the agreement will constitute grounds for demanding the immediate repayment of the loan.
   - Any insolvency and/or bankruptcy proceedings of 452 Owners.
   - In the event that the quarterly debt service coverage ratio (the ratio between the net operating income for the period and the total principal and interest payments with respect to the loan in the same period) is lower than 1.05.
     - In case of non-renewal of the lease agreement by HSBC bank (the primary lessee in the building), or the vacation of the area of the leased property before the end of the lease period, without replacement with another lessee, in accordance with the terms which were specified in the agreement.
2. Acceptance of loans and additional debts by the property company requires the bank’s approval; however, additional financing may be received, subject to the fulfillment of certain criteria as determined in the agreement.
3. Additional pledges on or in connection with the HSBC Tower may not be created.
4. The ownership rights with respect to the HSBC Tower and the associated rights are transferable subject to the assignment of the loan and the bank’s consent. The bank’s consent will not be required in case of a transfer of rights, insofar as Property & Building (directly or indirectly) continues holding at least 25% of the HSBC tower and its associated rights, and continues holding the control of 452 Owners. There are no restrictions on a change in the holdings of Property & Building, so long as Property & Building remains a public company.
5. Engagements with material lessees, related parties or in connection with main parts of the HSBC Tower are subject to approval from the bank.
6. Securities of the 452 Owners cannot be sold, transferred, pledged or issued, save as stated above, and excluding other permitted transfers.
7. The form of incorporation of the property companies may not be changed, and they undertook to operate in a single area of engagement as the building corporation, and not to change the operating segment.

Grounds for demanding the immediate repayment of the credit

In case of a breach of the aforementioned restrictions in connection with a pledge on the building or a transfer of the rights thereto, without the bank’s advance consent, and upon the fulfillment of certain conventional grounds in agreements of this kind, the bank will be entitled to demand the immediate repayment of the loan, to make use of the funds which are deposited in the aforementioned designated accounts, to seize the control of the building and to manage it, and to work to forfeit the guarantees. The property company fulfills all of the aforementioned restrictions.

Compliance with covenants and restrictions on distribution

the borrower undertook that the property’s debt service coverage ratio (DSCR) will not fall below 1.05, according to a quarterly assessment. If the property companies does not fulfill this test, a cash sweep mechanism will be activated, under which the bank will now allow distributions from the property (“Lock-Up Period”). The cash flows from operating activities which will arise for the borrower during the lock-up period will be deposited in a separate account, and will be used by the borrower for the purpose of its operating activities, without the possibility of distributing it to the parent company. The loan agreement includes a mechanism for releasing the cash sweep.

As at December 31, 2021, the lender is fulfilling the required ratio (DSCR) for the fourth quarter of 2021 - 1.38).

<u>Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations</u> (Cont.)

B. <u>Discontinued operations</u> (Cont.)

1. HSBC Tower (Cont.)

C. <u>Fair value update</u>

In the second quarter of 2021 the value of HSBC Tower was updated in accordance with a valuation prepared by an independent valuer in the United States, to USD 865 million. Due to the update to the valuation of HSBC Tower, net profit arose for Property & Building in the second quarter of 2021 in the amount of NIS 10 million, with the Company's share in the profit being NIS 7 million, mostly due to the reduction of the capitalization rate by 0.25%, the increase in the growth forecasts and rental prices in the coming years, relative to the decrease in the probability of the renewal of new contracts, and the decrease in the effective occupancy rate over the years. The valuation was prepared by discounting the future cash flows which are expected to arise from the property. The capitalization rate which was used by the valuer was 6%, and assumed NOI during the realization year was USD 58.5 million.

As at December 31, 2021, the tower's value was set, in consideration of the expected consideration from the transaction, as stated in section A above.

D. <u>Provision with respect to agreement with Rock Real</u>

In 2009, the Audit Committee and Board of Directors of Property & Building approved the engagement of Property & Building in an agreement with Rock Real Estate Partners Limited ("Rock Real"), under which Rock Real will initiate and offer to Property & Building, from time to time, to acquire rights to real estate properties outside of Israel ("real estate properties"), will assist in negotiations in connection with the acquisition of the real estate properties and in the receipt of financing to acquire them, will accompany and coordinate the acquisition until its completion, will provide strategic consulting services with respect to the management and betterment of real estate properties, and will assist in the identification of transactions for the sale of the real estate, and the implementation thereof, in accordance with the requirements of Property & Building (the "Agreement"). In consideration of each of the transactions for the acquisition of real estate properties in which Property & Building will engage and which have been offered to it by Rock Real, and accompanied by it, as stated above, Property & Building will pay to Rock Real a consideration at a rate of 12% of the profit which will materialize for Property & Building with respect to the real estate property (i.e., total income after deducting all investments and expenses with respect to the property).

Payment will be effected only upon the sale of the real estate property or if, before the sale of the real estate asset, Property & Building recoups its entire investment and expenses with respect to the purchase of the real estate asset and its management in real values, including from current revenues and from refinancing as part of non-recourse loans to Property & Building, all in accordance with the conditions and in the manner of the accounting set out in the aforesaid agreement.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

B. Discontinued operations (Cont.)

1. HSBC Tower (Cont.)

D. Provision with respect to agreement with Rock Real (Cont.)

The agreement was approved in the general shareholders' meeting of Property & Building in December 2009, for a period of five years; however, upon the entry into effect of Amendment 16 to the Companies Law, and in accordance with transitional provisions therein, the agreement expired in December 2012 (three years after the date of its initial approval).

In January 2017, the Board of Directors of Property & Building adopted a legal opinion (the "Opinion") according to which, inter alia, in light of Amendment 16 to the Companies Law, which requires the ratification of transactions which were approved in accordance with section 270(4) of the Companies Law once every three years, the agreement expired three years after its original date of approval, i.e., in December 2012, and therefore, Property & Building contacted Rock Real in order to determine the consideration which Rock Real will be entitled to receive in light of the expiration of the agreement, with respect to the HSBC Tower. Rock Real rejected the assertions of Property & Building and requested the appointment of an arbitrator to resolve the dispute.

In March 2021, after arbitration proceedings were conducted between the parties for the purpose of reaching a determination regarding the disputes between the parties, the arbitration decision was given, which was approved by the Court, which accepted, inter alia, Property & Building's legal position, and determined that the agreement had expired. It was therefore ruled that Rock Real is not entitled to the full fee which was specified in the agreement (12% of profit arising for Property & Building with respect to the aforementioned property), but rather to a fee at a rate of 6% of the profit from the real estate property, to be paid in accordance with the provisions of the agreement, and according to the calculation method and payment method defined therein, if and when profit has arisen from the real estate property, until the date of the property's sale.

In accordance with the provisions of IAS 37, Property & Building adopted the arbitration decision, in the calculation of the provision as at December 31, 2020. Property & Building recorded income / expense and a liability with respect to Rock Real's services, in parallel with the recording of an increase / decrease in the asset's fair value, and the current profit arising therefrom.

The balance of the provision as at December 31, 2021 is NIS 41 million (December 31, 2020 - NIS 53 million).

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Income with respect to decrease of the provision for Rock Real services	11	96	11
The Company's share income	7	71	8

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

B. Discontinued operations (Cont.)

1. HSBC Tower (Cont.)

E. Impact of the coronavirus pandemic

In accordance with the instructions of the United States government, the management of HSBC Tower is continuing to closely monitor the impact of the coronavirus crisis on its business activities, and it has been in direct contact with its lessees since the beginning of the coronavirus crisis. All of the office tenants in the tower have paid all of their liabilities in accordance with the lease agreements in 2021. As at the reporting date, the collection rate in 2021 was 100% of total rent. The management of HSBC Tower is unable to estimate the duration of the effects of the coronavirus pandemic on its activity, since it depends on future developments which cannot be predicted at this time. The management of HSBC Tower believes that its financial strength, liquidity and current cash flows will allow it to continue financing its activity and service its liabilities.

2. Gav-Yam

On July 1, 2019 and September 1, 2019, Property & Building sold approximately 11.7% and approximately 5.1%, respectively, of Gav-Yam's issued share capital, such that its stake in Gav-Yam decreased from approximately 51.7% to approximately 34.9%. The net consideration with respect to the aforementioned sales amounted to a total of NIS 678 million. The aforementioned sales of Gav-Yam shares caused Property & Building to lose control of Gav-Yam. As a result of the loss of control, as stated above, beginning on September 1, 2019, DIC discontinued consolidating the reports of Gav-Yam in its consolidated financial statements, and is presenting the investment in Gav-Yam according to the equity method.

As a result of the above, profit was recorded in the consolidated report for 2019 in the amount of NIS 834 million, under the item for profit from discontinued operations, after tax. The Company's share in the aforementioned profit is NIS 557 million. Due to the sale of Gav Yam shares by Property & Building, as stated above, Gav Yam's operating results until August 31, 2019 are presented as a discontinued operation.

3. Shufersal

On July 26, 2020, DIC sold its entire stake in Shufersal (approximately 26% of its issued capital), for a total net consideration of approximately NIS 1,447 million. Due to the sale, DIC included in 2020 profit in the amount of approximately NIS 39 million. This profit was included under the item for "profit from discontinued operations, after tax".

Following the sale of the Company's entire stake in Shufersal, as stated above, the Shufersal operation is presented as a discontinued operation.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

B. Discontinued operations (Cont.)

4. Presented below are details regarding discontinued operations

	For the year ended December 31, 2021
	HSBC Tower
	NIS millions
Income	
Sales and services	241
Other income	11
Financing income	1
	253
Expenses	
Cost of sales and services	114
Decrease in fair value of investment property	145
Financing expenses	66
	325
Loss before taxes on income	(72)
Taxes on income	(24)
Loss from discontinued operations for the year	(96)
Loss from discontinued operations for the year attributable to:	
The Company's owners	(57)
Non-controlling interests	(39)
	(96)
Other comprehensive loss for the period from discontinued operations attributed to:	
The Company's owners	(23)
Non-controlling interests	(17)
	(40)

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

B. Discontinued operations (Cont.)

4. Presented below are the results of discontinued operations (Cont.)

	For the year ended December 31, 2020		
	HSBC Tower (1)	Shufersal	Total(1)
		NIS millions	
Income			
Sales and services	251	-	251
The Group's share in the profit of investee companies accounted by the equity method, net	-	44	44
Profit from realization and increase in the value of investments and assets, and dividends	-	39	39
Other income	96	-	96
Financing income	3	-	3
	350	83	433
Expenses			
Cost of sales and services	111	-	111
Decrease in fair value of investment property, net	279	-	279
Financing expenses	72	-	72
	462	-	462
Profit (loss) before taxes on income	(112)	83	(29)
Taxes on income	42	-	42
Profit (loss) from discontinued operations for the year	(70)	83	13
Profit (loss) from discontinued operations for the year attributed to:			
The Company's owners	(52)	83	31
Non-controlling interests	(18)	-	(18)
	(70)	83	13
Other comprehensive income (loss) for the year from discontinued operations attributable to:			
The Company's owners	(66)	3	(63)
Non-controlling interests	(23)	-	(23)
	(89)	3	(86)

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

B. Discontinued operations (Cont.)

4. Presented below are the results of discontinued operations (Cont.)

	For the year ended December 31, 2019			
	HSBC Tower (1)	Gav-Yam	Shufersal	Total(1)
	NIS millions			
Income				
Sales and services	270	359	-	629
Increase in fair value of investment property, net	39	231	-	270
The Group's share in the profit of investee companies accounted by the equity method, net	-	8	56	64
Profit from realization and increase in the value of investments and assets, and dividends	-	834(2)	-	834
Other income	11	-	-	11
Financing income	2	28	-	30
	322	1,460	56	1,838
Expenses				
Cost of sales and services	121	41	-	162
Selling and marketing expenses	-	5	-	5
General and administrative expenses	-	18	-	18
Financing expenses	75	106	-	181
	196	170	-	366
Profit before taxes on income	126	1,290	56	1,472
Taxes on income	(43)	(103)	-	(146)
Profit from discontinued operations for the year	83	1,187	56	1,326
Profit from discontinued operations for the year attributed to:				
The Company's owners	57	653	56	766
Non-controlling interests	26	534	-	560
	83	1,187	56	1,326
Other comprehensive loss for the year from discontinued operations attributed to:				
The Company's owners	(94)	-	(9)	(103)
Non-controlling interests	(43)	-	-	(43)
	(137)	-	(9)	(146)

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

(2) Capital gains from loss of control of Gav-Yam

Note 12 - Assets and Liabilities of Disposal Groups Held for Sale and Results of Discontinued Operations (Cont.)

B. Discontinued operations (Cont.)

5. Presented below are data regarding net cash are attributed to discontinued operations:

	For the year ended December 31		
	2021	2020(1)	2019(1)
	NIS millions		
Net cash from operating activities	153	182	443
Net cash (used in) from investing activities	(33)	1,446	(56)
Net cash used in financing activities	(81)	(85)	(581)
Change in cash and cash equivalents from discontinued operations	39	1,543	(194)

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

Note 13 - Cash and Cash Equivalents

	As at December 31	
	2021	2020
	NIS millions	
Balances in banks	727	442
Demand deposits	2,013	3,479
	2,740	3,921

For details regarding linkage bases of cash and cash equivalents, see Note 20.E. below.

Note 14 - Capital

A. Share capital, in thousands of shares with a par value of NIS 1 each

	Ordinary shares	
	2021	2020
Issued and paid-up share capital as at January 1	153,732	153,653
Exercise of share warrants during the year	-	79
Issued and paid-up share capital as at December 31	153,732	153,732
Treasury shares	(12,209)	(12,209)
Listed equity	141,523	141,523
Registered capital as at January 1 and December 31	200,000	200,000

All of the Company’s ordinary shares are listed for trading on the Tel Aviv Stock Exchange, and are registered by name.

Note 14 – Capital (Cont.)

Capital management policy

The policy of DIC management and of the management of its subsidiaries is to maintain a stable capital base in order to maintain their ability to continue their activities, in order to allow them to generate returns for their shareholders, service their liabilities to other interested parties therein, such as credit providers and their employees, and in order to support their future business development.

The Board of Directors of DIC and the boards of directors of its subsidiaries supervise the amounts of dividend distributions to their shareholders, while evaluating their ability to fulfill their current and expected liabilities when they come due. As part of the above, an evaluation is conducted, inter alia, regarding the cash requirements of the Group's member companies, and their potential to generate cash, as reflected in certain financial ratios and financial covenants, and an evaluation is also performed regarding the fulfillment of financial covenants which the Group's member companies are obligated to fulfill within the framework of financing documents and issued debentures, as specified in Note 15 above.

B. For details regarding options which were granted by the Company to the Company's General Manager, see Note 31.B.4. and Annex B below.

C. In May 2019, DIC published a shelf prospectus based on its financial statements as at December 31, 2018, according to which DIC will be entitled to offer to the public, inter alia, shares, debentures convertible into shares, non-convertible debentures, warrants exercisable into shares and into debentures, and marketable securities. In May 2021, the Israel Securities Authority approved an extension of the Company's shelf prospectus, dated May 22, 2019, for one additional year. Accordingly, the Company will be able to offer securities in accordance with the shelf prospectus until May 21, 2022.

D.

- The Company did not distribute dividends in 2021 and 2020.
- On January 17, 2019, DIC's Board of Directors resolved to perform a dividend distribution in cash in the amount of NIS 0.275 per share, reflecting a total of approximately NIS 40 million, as well as a payment in kind dividend of 0.585 par value, per share, of IDB Development's debentures (Series I), reflecting a total of NIS 64 million, according to the market value of the debentures (Series I) on the distribution date. The total sum of the distributed dividend amounted to NIS 104 million, which was paid on February 3, 2019.

E For details regarding subsidiaries in which the non-controlling interests are material, see Note 3.E above.

F. For details regarding the options plans of subsidiaries, see Annex B below.

Note 14 - Capital (Cont.)

G. Earnings (loss) per share

1. Basic earnings (loss) per share, based on the following figures:

	For the year ended December 31		
	2021	2020(1)	2019(1)
	NIS millions		
A. **Earnings (loss) attributed to holders of ordinary shares**			
Profit (loss) attributable to holders of ordinary shares from continuing operations	266	(586)	(752)
Difference with respect to the Company's share in the results of investee companies	-	-	(3)
Profit (loss) attributable to holders of ordinary shares from continuing operations	266	(586)	(755)
Profit (loss) attributed to holders of ordinary shares from discontinued operations	(57)	31	766
B. **Weighted average of number of ordinary shares, in thousands of shares with a par value of NIS 1 each**			
Balance as at January 1	141,523	141,444	151,477
Impact of warrants exercised into shares	-	73	-
Impact of the acquisition of treasury shares	-	-	(9,591)
Weighted average of number of ordinary shares used to calculate basic earnings per share	141,523	141,517	141,886

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

2. Diluted earnings (loss) per share, based on the following figures:

	For the year ended December 31		
	2021	2020(1)	2019(1)
	NIS millions		
A. **Earnings (loss) attributed to holders of ordinary shares (diluted)**			
Profit (loss) attributable to holders of ordinary shares from continuing operations	266	(586)	(752)
Difference with respect to the Company's share in the results of investee companies	-	-	(3)
Profit (loss) attributed to holders of ordinary shares (diluted) from continuing operations	266	(586)	(755)
Profit (loss) attributed to holders of ordinary shares (diluted) from discontinued operations	(57)	31	766
B. **Weighted average of number of ordinary shares, in thousands of shares (diluted)**			
Weighted average of number of ordinary shares used to calculate basic earnings per share	141,523	141,517	141,886
Impact of warrants	673	-	835
Weighted average of number of ordinary shares used to calculate diluted earnings per share	142,196	141,517	142,721

The average market value of the Company's shares, for the purpose of calculating the diluting effect of the warrants for shares, was based on quoted market prices for the period during which the warrants were outstanding.

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

Note 14 - Capital (Cont.)

H. Movement in comprehensive income (loss)

	For the year ended December 31								
	2021			2020			2019		
	Total capital attributed to the Company's owners	Non-controlling interests	Total capital	Total capital attributed to the Company's owners	Non-controlling interests	Total capital	Total capital attributed to the Company's owners	Non-controlling interests	Total capital
	NIS millions								
Net profit (loss) for the year	266	401	667	(555)	(242)	(797)	14	303	317
Other components of comprehensive income (loss)									
Foreign currency translation differences for foreign operations, net of tax	(30)	(28)	(58)	(67)	(37)	(104)	(99)	(66)	(165)
The Group's share in other comprehensive income (loss) with respect to investee companies accounted by the equity method	3	2	5	(17)	-	(17)	(38)	-	(38)
Other items of other comprehensive loss	-	-	-	-	-	-	(2)	(2)	(4)
Other comprehensive loss for the year, net of tax	(27)	(26)	(53)	(84)	(37)	(121)	(139)	(68)	(207)
Total comprehensive income (loss) for the year	239	375	614	(639)	(279)	(918)	(125)	235	110

Note 15 - Debentures, Loans from Banks and Other Financial Liabilities at Amortized Cost

A. Non-current liabilities

1. Debentures

	As at December 31	
	2021	2020
	NIS millions	
Debentures[(a)]	8,956	10,230
After deducting current maturities	(1,422)	(1,489)
	7,534	8,741

(A) Debentures:

	Series	Linkage base	Stated interest %	Principal repayment date	As at December 31, 2021 Par value	Book value
					NIS millions	
1. **Company** (see also section C. below)	Series F	CPI	4.95	2025-2017	734	901
	Series J	Unlinked	4.80	2026-2021	1,417	1,430
	Series K	Unlinked	3.40	2027-2023	500	497
					2,651	2,828
	Current maturities					(511)
						2,317
2. Property & Building (See also section D.2 below)	Series D	CPI	4.95	2025-2020	878	1,091
	Series F	CPI	4.95	2023-2015	247	263
	Series G	Unlinked	7.05	2025-2015	264	278
	Series H	CPI	2.85	2029-2018	66	68
	Series I	Unlinked	3.95	2029-2018	1,669	1,672
					3,124	3,372
	Current maturities					(528)
						2,844
3. Cellcom (See also section D.1. below)	Series H	CPI	1.98	2024-2018	456	450
	Series I	Unlinked	4.14	2025-2018	450	442
	Series J	CPI	2.45	2026-2021	88	90
	Series K	Unlinked	3.55	2026-2021	604	601
	Series L	Unlinked	2.50	2028-2023	1,225	1,173
					2,823	2,756
	Current maturities					(383)
						2,373
Total	Debentures					8,956
	Current maturities					(1,422)
						7,534

Note 15 - Debentures, Loans from Banks and Other Financial Liabilities at Amortized Cost (Cont.)

A. Non-current liabilities (Cont.)

1. Debentures (Cont.)

	Series	Linkage base	Stated interest %	Principal repayment date	As at December 31, 2020 Par value	Book value
					NIS millions	
4. **Company** (see also section C. below)	Series F	CPI	4.95	2025-2017	1,079	1,291
	Series J	Unlinked	5.05	2026-2021	1,955	1,975
					3,034	3,266
	Current maturities					(587)
						2,679
5. Property & Building (See also section D.2 below)	Series D	CPI	4.95	2025-2020	1,098	1,334
	Series F	CPI	4.95	2023-2015	371	387
	Series G	Unlinked	7.05	2025-2015	330	351
	Series H	CPI	2.85	2029-2018	68	68
	Series I	Unlinked	3.95	2029-2018	1,721	1,725
					3,588	3,865
	Current maturities					(526)
						3,339
6. Cellcom (See also section D.1. below)	Series H	CPI	1.98	2024-2018	608	579
	Series I	Unlinked	4.14	2025-2018	563	550
	Series J	CPI	2.45	2026-2021	103	104
	Series K	Unlinked	3.55	2026-2021	711	707
	Series L	Unlinked	2.50	2028-2023	1,225	1,159
					3,210	3,099
	Current maturities					(376)
						2,723
Total	Debentures					10,230
	Current maturities					(1,489)
						8,741

Note 15 - Debentures, Loans from Banks and Other Financial Liabilities at Amortized Cost (Cont.)

A. Non-current liabilities (Cont.)

2. Loans from banks and other financial liabilities:

	As at December 31	
	2021	2020
	NIS millions	
Loans from banks and financial institutions (1)	202	1,637
Loans from others	26	-
After deducting current maturities	(82)	(230)
	146	1,407
Liabilities with respect to combination transactions (2)	9	14
Other liabilities	1	42
After deducting current maturities	(9)	(15)
	1	41
Total	147	1,448

(1) **Loans from banks and financial institutions**

	Linkage base	Interest As at December 31 2021	As at December 31	
			2021	2020
		%	NIS millions	
Cellcom	Unlinked		-	188
Property & Building (see also section D.2.C. below)	USD		-	1,227
Mehadrin	Unlinked	2.5-5.4	152	159
	EUR	0.9-3.5	40	53
Others	Unlinked	2.9-3.3	10	7
	USD		-	3
			202	1,637

(2) **Liabilities with respect to combination transactions**

	As at December 31	
	2021	2020
	NIS millions	
Balance of the liability with respect to construction services*	15	14
* Includes a balance which is presented under non-current liabilities, in the item for other non-financial liabilities	6	-

Note 15 - Debentures, Loans from Banks and Other Financial Liabilities at Amortized Cost (Cont.)

B. Current liabilities

	As at December 31	
	2021	2020
	NIS millions	
1. Current maturities of debentures	1,422	1,489
2. Credit from banking corporations and current maturities of loans from banks and others		
Loans from banks and financial institutions and current maturities		
Current maturities of loans banks and financial institutions	82	230
Short-term loans(1)	177	128
	259	358
Other short term liabilities and current maturities		
Current maturities of other liabilities	9	15
Other short term liabilities	-	7
	9	22
	268	380

(1) Interest rate as at December 31, 2021 - 1.2%-2.3%.

C. Main changes in 2021 in the long term liabilities and financial covenants of DIC

1. In September 2021, DIC issued NIS 500 million par value of debentures (Series K), a new series which was listed on the stock exchange, by way of an exchange offer, against approximately NIS 162 million par value of DIC debentures (Series F) and against approximately NIS 254 million par value of DIC debentures (Series J). The debentures (Series F and Series J) which were purchased according to the exchange offer were canceled and delisted from the stock exchange.
   The exchange of some of the debentures (Series F and Series J) with debentures (Series K), which have significantly different terms, was accounted for as the settlement of the original existing financial liability (debentures (Series F and Series J)), and the recognition of a new financial liability at fair value (debentures (Series K)). The difference between the settlement of the liability and the recognition of the liability, as stated above, in the amount of NIS 38 million, was recorded as non-cash loss in 2021.
   The debentures (which are not CPI-linked) bear fixed (unlinked) annual interest at a rate of 3.4% (effective interest rate of 3.5%). The interest will be paid in two payments each year, on December 31, 2021 and on June 30 and December 31 of each of the years 2022 to 2027 (inclusive). The principal of the debentures is repayable in five annual payments, four payments at a rate of 10% of the principal will be paid on December 31 of each of the years 2023 to 2026 (inclusive), and one payment at a rate of 60% of the principal will be paid on December 31, 2027.

Note 15 - Debentures, Loans from Banks and Other Financial Liabilities at Amortized Cost (Cont.)

C. Main changes in 2021 in the long term liabilities and financial covenants of DIC (Cont.)

2. Terms of the debentures (Series J) and (Series K) (the "Debentures")

Presented below are details regarding the main terms of the debentures (Series J and K) which were issued by DIC - debentures which are not secured by any collateral.

In accordance with the provisions of the deeds of trust, the interest rate which will be paid to the debenture holders (Series J and K) will be adjusted in the following cases: in case of a reduction in the rating given for the debentures by one notch or more below a rating of ilBBB, the stated interest rate will be increased by 0.25% per year, and by a rate of 0.25% per year with respect to each additional reduced rating notch, up to a maximum cumulative interest addition of 1% and 0.75% for the debentures (Series J) and (Series K), respectively, for one year, at the most.

Additionally, the interest rate will be adjusted in case of non-fulfillment by DIC of the financial covenants, if DIC fails to meet any of the financial covenants specified below:

A. DIC's net asset value falls below NIS 1.1 billion, and additionally, the ratio between the net financial debt and DIC's asset value increases beyond 75% and 70% of the debentures (Series J) and (Series K), respectively.
B. The ratio between DIC's net financial debt and its asset value exceeds 85% and 82.5%, with respect to the debentures (Series J) and (Series K), respectively.
C. The ratio between DIC's capital and DIC's total balance sheet falls below 12.5% and 16% with respect to the debentures (Series J) and (Series K), respectively.

Insofar as DIC deviates from any of the financial covenants, which will be evaluated as at the date of the financial statements (quarterly and/or annual), the stated interest rate will increase at a rate of 0.25% per year with respect to a deviation from any of the financial covenants specified in sections A and C above (if the covenant specified in section C above is canceled, the interest rate with respect to the deviation from the provisions of section A above will be updated to 0.5%), and a rate of 0.5% per year with respect to any deviation from the financial covenant specified in section B above.

The additional interest with respect to a deviation from the financial covenants referenced in sections A-C above will be at a maximum additional interest of 1% per year.

It is hereby clarified that if and insofar as an adjustment of the interest rate is required, in accordance with the mechanism described in sections A-C above, and in accordance with the mechanism described regarding a change in the debentures' rating, as stated above, then in any case, the maximum joint cumulative rate of the additional interest will not exceed 1.75% per year above the original stated interest rate (4.8% and 3.4% with respect to the debentures (Series J) and (Series K), respectively).

Additionally, with respect to the debentures (Series K), DIC undertook to fulfill a financial covenant which stipulated that the ratio between DIC's capital and DIC's total balance sheet, on a standalone basis, will be no less than 15%, for a period of two consecutive quarters. Failure to fulfill the foregoing covenant will constitute grounds for demanding immediate repayment of the debentures (Series K).

Note 15 - Debentures, Loans from Banks and Other Financial Liabilities at Amortized Cost (Cont.)

C. Main changes in 2021 in the long term liabilities and financial covenants of DIC (Cont.)

2. Terms of the debentures (Series J and Series K) (the "Debentures") (Cont.)

DIC also undertook, with respect to the debentures (Series K), that at any time it will have (standalone) sufficient liquid resources to pay the next interest payment with respect to the debentures (Series K).

Additionally, restrictions were established regarding a distribution in which DIC undertakes not to perform a distribution (including by way of buyback of its shares), other than subject to the fulfillment of all of the following conditions:

- After the distribution, capital attributed to DIC shareholders will not fall below NIS 1.1 billion.
- At the time of the announcement, and following the aforementioned distribution, none of the grounds for demanding immediate repayment of the debentures have been met.
- At the time of the declaration regarding the distribution, DIC is fulfilling all of its undertakings regarding principal and/or interest payments.
- With respect to the debentures (Series K), after the distribution the ratio between net financial debt and DIC's asset value will not exceed 70%, in accordance with its last published consolidated financial statements, on the date preceding the resolution regarding the distribution, and after deducting the distribution amount.

Additionally, DIC undertook not to pledge all of its assets under a general floating pledge without receiving advance consent from the meeting of debenture holders for this purpose. Notwithstanding the foregoing, DIC will be entitled to create a general floating pledge on all or some of its assets in favor of a financing entity which will provide financing to DIC itself, with no need to receive consent from the meeting of debenture holders, provided that concurrently with the creation of a floating pledge, as stated above, DIC also creates a pledge of the same type and priority in favor of the debenture holders, pari-passu.

Furthermore, in addition to the standard grounds for demanding immediate repayment (including, inter alia, various enforcement and receivership actions against DIC, a significant deterioration in DIC's business affairs, and substantial concern of insolvency, delisting, merger subject to exceptions, and other situations), the debentures will be demanded for immediate repayment upon the occurrence of any of the cases specified in the deeds of trust.

DIC is fulfilling the aforementioned financial covenants as at December 31, 2021.

On May 10, 2021, S&P Maalot raised the rating of the Company's debentures from il/BBB- (Negative) to il/BBB (Stable). Following the increase in rating, the interest rate applicable to the Company's debentures (Series J) was decreased, beginning on May 10, 2021, from 5.05% to 4.80%.

3. Presented below are the ratings of the Company's debenture series as at December 31, 2021 and December 31, 2020 and as at the approval date of these financial statements:

Debenture series	Rating company	Last rating date	As at the approval date of these financial statements	As at December 31, 2021	As at December 31, 2020
Series F and J	Standard & Poor's Maalot Ltd. ("Maalot")	May 2021	BBB (Stable)	BBB (Stable)	il/BBB- (Negative)
Series K	Standard & Poor's Maalot Ltd. ("Maalot")	July 2021	BBB	BBB	

Note 15 - Debentures, Loans from Banks and Other Financial Liabilities at Amortized Cost (Cont.)

D. Main changes in 2021 in the long term liabilities and financial covenants of DIC's investee companies

1. **Cellcom**

Cellcom undertook to fulfill financial covenants and other restrictions in connection with the debentures (Series H-L) which are not secured by pledges and include standard conditions, such as the following:

- An undertaking to avoid a distribution of over 95% of the distributable profits in accordance with the Companies Law (the "Profits"); Provided that (1) if Cellcom's ratio of net debt to EBITDA exceeds a ratio of 3.5:1, Cellcom will not distribute more than 85% of the earnings; (2) If Cellcom's ratio of net debt to EBITDA exceeds a ratio of 4:1, Cellcom will not distribute more than 70% of the earnings; and (3) Cellcom's ratio of net debt to EBITDA exceeds a ratio of 5:1, or 4.5:1 during four consecutive quarters, Cellcom will not distribute dividends.
- Undertaking regarding the rating of the debentures by a rating company (insofar as the matter is under Cellcom's control).
- Undertaking to pay additional interest at a rate of 0.25% with respect to a decrease of two notches in the rating of the debentures (Series H to K), and 0.5% with respect to a decrease of two notches in the rating of the debentures (Series L), relative to their rating prior to the issuance. Any additional reduction of the debentures' rating will result in an additional interest payment of 0.25%, up to a maximum addition of 1%.
- An undertaking by Cellcom not to issue additional debentures from any of the series if Cellcom does not fulfill the financial covenants, or if the aforementioned issuance causes a reduction of the debentures' rating.
- The ratio of net debt to EBITDA is the ratio between Cellcom's net debt to adjusted EBITDA, during a period of 12 consecutive months, after neutralizing one-time events. In this regard, "net debt" is defined as credit and loans from banking corporations and from others (excluding lease liabilities due to the adoption of the provisions of IFRS 16), as well as liabilities with respect to debentures, after deducting cash and cash equivalents and current investments in marketable securities.
- Adjusted EBITDA - Represents the profit before interest (financing expenses, net), taxes, other income (expenses) which are not part of Cellcom's operating activities (including expenses with respect to legal claims, which are included under the item for other expenses), depreciation and amortization, profit (loss) from associate companies and share-based payments. Also including other income (expenses) which are a part of Cellcom's operating activities, such as interest with respect to sale transactions in payments and expenses with respect to voluntary retirement.

Cellcom's debentures also include default events, including:

- A negative pledge undertaking, subject to certain exceptions. Failure to fulfill this undertaking will be considered grounds for demanding immediate repayment.
- A demand for repayment of another debt of Cellcom by another lender which is not a provider (cross default), except with respect to debt in the amount of NIS 150 million or less. The restriction on the aforementioned debt repayment demand will not apply to a cross default which was caused due to another one of Cellcom's debenture series.
- In case Cellcom stops operating in the mobile telecom segment and/or stops holding its mobile license for a period exceeding 60 days.

Note 15 - Debentures, Loans from Banks and Other Financial Liabilities at Amortized Cost (Cont.)

D. Main changes in 2021 in the long term liabilities and financial covenants of DIC's investee companies (Cont.)

1. **Cellcom (Cont.)**

   Cellcom's debentures also include default events, including: (Cont.)

   - Suspension of trading of the debentures on the Tel Aviv Stock Exchange for a period exceeding 45 days.
   - Performance of a distribution which does not fulfill Cellcom's undertaking regarding the restrictions on the distribution of profit.
   - Non-rating of the debentures for a period exceeding 60 days.
   - A motion or court order regarding a stay of proceedings against Cellcom, or the filing of a motion for a creditors' settlement.
   - Sale of a significant part of Cellcom's assets, or a merger (excluding certain exceptions).
   - Failure to publish financial statements on time.
   - A ratio of net debt to Adjusted EBITDA exceeding 1:5, or exceeding 1:4.5 for four consecutive quarters.
   - Failure to fulfill Cellcom's negative pledge undertaking.
   - A significant change for the worse in Cellcom's business affairs, as compared with its situation on the issuance date of the debentures, and the existence of a real concern that Cellcom will be unable to repay the debentures on time.
   - The existence of a real concern that Cellcom will not service its material liabilities towards the debenture holders.
   - The inclusion of a remark in Cellcom's financial statements regarding a concern as to Cellcom's ability to continue operating as a going concern, for a period of two consecutive quarters.
   - Breach of Cellcom's undertakings with respect to the issuance of additional debentures.

   As at December 31, 2021, Cellcom is fulfilling the determined covenants.

2. **Property & Building**

   A. During the months April and May 2020, Property & Building performed swap transactions to exchange CPI-linked NIS cash flows with fixed NIS cash flows with respect to debentures (Series D) of Property & Building. The total sum of the transactions, as at December 31, 2021, amounted to a total of NIS 0.87 billion. The transactions are accounted for as an economic hedge transaction, to which hedge accounting is not applied. Against these transactions, Property & Building pledged deposits, as at December 31, 2021, in the amount of NIS 38 million, which are subject to a mark to market mechanism.

Note 15 - Debentures, Loans from Banks and Other Financial Liabilities at Amortized Cost (Cont.)

D. Main changes in 2021 in the long term liabilities and financial covenants of DIC's investee companies (Cont.)

2. Property & Building (Cont.)

B. Presented below are details regarding the main terms in connection with the debentures which were issued by Property & Building (unspecified series are not secured by any pledges, and do not require compliance with financial covenants):

- Collateral: The debentures of Property & Building are not secured by any pledges, except for the debentures (Series F and G), regarding which Property & Building has undertaken not to pledge its assets (excluding certain exceptions which were specified in the deed of trust), beyond the existing pledges on the issuance date of the aforementioned debentures. Property & Building is entitled to cancel its undertaking not to create pledges, subject to the creation of collateral in favor of the trustee for the debentures, as specified in the deed of trust. Additionally, in connection with the debentures (Series H and I), Property & Building undertook not to create a floating pledge on all of its assets unless it creates a collateral in favor of the debenture holders (Series H and I), as specified in the deed of trust.
- Financial covenants: in connection with the debentures (Series H and I), Property & Building undertook to fulfill the following financial covenants:

Description of the covenant	Threshold specified in the covenant
Minimum capital attributed to the shareholders of Property & Building	NIS 700 million (Series F and G) NIS 900 million (Series H and I)
The maximum ratio between the net financial debt and the total assets of Property & Building, in consolidated terms, net	75%
The maximum ratio between the net financial debt and the EBIDTA of Property & Building, in consolidated terms	17

  The financial covenants are evaluated on a quarterly basis, based on the audited or reviewed consolidated financial statements of Property & Building. As at December 31, 2021, Property & Building is fulfilling the aforementioned financial covenants.
- Additional restrictions: Property & Building undertook not to perform a distribution if, as a result, the ratio of its net financial debt to its total net assets, in consolidated terms, exceeds 70%, or if the capital attributed to its shareholders falls below NIS 900 million (with respect to the debentures (Series F and G) or below NIS 1.1 billion with respect to the debentures (Series H and I).
  Regarding Series F, G, H and I, if Property & Building's credit rating is reduced by two notches relative to the base rating (A1) which was determined on the date of the aforementioned issuance (meaning a reduction below a rating of A3), the interest rate with respect to the debentures from the aforementioned issuance will increase by 0.5%. With respect to any decrease in rating by an additional notch, the interest rate with respect to the debentures from the aforementioned issuance will fall by an additional 0.25%, but no more than 1% cumulatively. In 2020 the rating of Series F, G, H and I was reduced to ilA2 (negative).

Note 15 - Debentures, Loans from Banks and Other Financial Liabilities at Amortized Cost (Cont.)

D. Main changes in 2021 in the long term liabilities and financial covenants of DIC's investee companies (Cont.)

2. **Property & Building (Cont.)**

B. (Cont.)

- Grounds for demanding the immediate repayment of the debentures: In addition to standard grounds for immediate repayment (including, inter alia, insolvency events and various enforcement actions against Property & Building, a significant deterioration in its business affairs, and a real concern of non-repayment, delisting from trading, merger subject to exceptions, change to its area of engagement, etc.), a demand will be made for the immediate repayment of the aforementioned debentures in the following cases:
  - Non-fulfillment of the aforementioned financial covenants during two consecutive quarters.
  - Cross-default - if one series of the debentures of Property & Building, or a bank loan at a scope of over NIS 300 million, is demanded for immediate repayment.
  - Reduction of the credit rating of Property & Building below Baa2 (with respect to debenture Series F and G), and below Baa3 (with respect to debenture Series H and I), or discontinuation of the provision of a rating by a rating company.
  - Change in control - with respect to the debentures (Series H and I) - if the control of Property & Building has been transferred from DIC, and the transfer of control has caused a reduction of the rating of the aforementioned debentures below their rating prior to the aforementioned transfer of control.

C. For details regarding the main terms in connection with bank loans which were received by GW, the institutional loan which was received by IDBG, and the bank loan with respect to the HSBC tower in New York, see Notes 12.A.5.B. and 12.A.5.C. above, and 12.B.1.B above, respectively.

3. **Mehadrin**

A. Presented below are details regarding financial covenants in connection with Mehadrin's long-term loans and credit:

- Mehadrin's tangible equity will be no less than a total of NIS 300 million.
- The ratio of tangible equity to tangible balance sheet will be no less than 25%.
- The ratio between Mehadrin's net financial debt to EBITDA in the 4 preceding quarters will not exceed 5.
- The lender has the right to demand the immediate repayment of the loan upon the fulfillment of the grounds specified in the agreement, including in case of a change in control of Mehadrin, and is also entitled to interest in arrears.
- A dividend distribution and the repayment of shareholder loans will only be permitted subject to Mehadrin's fulfillment of the financial covenants.
- Mehadrin accepted additional main undertakings, including certain restrictions on the provision of loans and guarantees, factoring, maintaining currency hedges, restrictions on transactions with related parties, and restrictions on changes to structure and control, in accordance with conditions which were agreed upon.

B. As at December 31, 2021, Mehadrin is fulfilling the aforementioned financial covenants.

Note 16 - Provisions

Composition

	Site dismantling and restoration (a)	Legal claims (b)	Contractual liabilities and onerous contracts (c), (d)	Other provisions	Total
			NIS millions		
Balance as at January 1, 2021	30	71	170	12	283
Provisions which were created during the period	1	52	2	3	58
Provisions which were realized during the period	-	(4)	(76)(1)	-	(80)
Provisions which were canceled during the period	(2)	(34)	(27)	-	(63)
Changes with respect to foreign currency differences	-	-	(1)	-	(1)
Classification as liabilities as held for sale	-	-	(41)(2)	-	(41)
Balances as at December 31, 2021	29	85	27	15	156
Current	-	85	27	4	116
Non-current	29	-	-	11	40
Balances as at December 31, 2021	29	85	27	15	156
Balances as at December 31, 2020	30	71	170	12	283
Current	-	71	117	3	191
Non-current	30	-	53	9	92
Balances as at December 31, 2020	30	71	170	12	283

(1) In 2021 Golan paid a total of NIS 75 million to the Ministry of Communication, in accordance with its demand, as part of the conditions for approval of the transaction involving Cellcom's acquisition of Golan, that Golan will repay monetary benefits which were received in the past. Golan filed an administrative petition against the Ministry of Communication's decision to order Golan to repay some of the aforementioned amount. See Note 3.G.1.C. above.

(2) See Note 12 above for details regarding the classification of liabilities of the HSBC Tower activity under held for sale liabilities.

(A) Site dismantling and restoration - the Group's member companies are required to recognize certain costs with respect to the settlement of assets and restoration of sites where the assets were located. The aforementioned expenses are calculated based on the value of the dismantling in the current year, while taking into account the best estimate of possible changes in price, inflation, etc., and are discounted by the risk free interest rate. The forecast with respect to the scope of settled or created assets is updated in accordance with regulatory changes and expected technological requirements.

Note 16 – Provisions (Cont.)

(B) Legal claims - In the ordinary course of business, legal claims are filed against the Group's member companies, including motions to approve claims as class actions with respect to some of them. In cases where provisions are required to cover the exposure as a result of such claims, provisions were included which are adequate in the opinion of the Group's member companies, based on, inter alia, legal opinions with respect to the chances of the claims. For details regarding claims and contingent liabilities - see Note 22 below.

(C) Contractual liabilities - Provisions with respect to contractual obligations and other exposures include a number of liabilities which are due to a contractual obligation or legislation, which include a component of significant uncertainty regarding the timing and amounts which are required to settle the liability.

Onerous contracts - Rental agreements with respect to the rental of commercial and storage areas which are non-cancellable. See also Note 2.T.2. above.

Note 17 - Employee Benefits

Employee benefits include post-employment benefits, other long term benefits, severance benefits, short term benefits and share-based payments. The Group's liabilities regarding the termination of employer - employee relationship, with respect to its employees in Israel, are calculated in accordance with Israeli law regarding severance pay.

With respect to post-employment benefits to employees, the Group's member companies have defined benefit plans with respect to which they deposit amounts in appropriate insurance policies. Additionally, the Group has defined deposit plans with respect to some of its employees, who are subject to section 14 of the Severance Pay Law, 5723-1963. For details regarding share-based payments, see Annex B below.

For details regarding DIC's engagement, in January 2022, with Property & Building, in a cost distribution agreement (services agreement), beginning on July 1, 2021, see Note 31.B.1.(B). below.

	As at December 31	
	2021	2020
	NIS millions	
A. **Employee benefits which are presented under non-current liabilities**		
Present value of defined benefit liabilities (post-retirement)	50	57
Fair value of plan assets	(35)	(43)
Liability which was recognized with respect to defined benefit plan	15	14
Liability with respect to other long term other benefits	9	8
Total	24	22
Less excess plan assets, which are presented under the item for long term debit balances	-	1
Total	24	23
B. **Short term employee benefits presented under current liabilities**		
Under the item for other payables and credit balances - liabilities to employees (see Note 18 below)	155	155

Note 18 - Other Payables and Credit Balances

	As at December 31	
	2021	2020
	NIS millions	
Other payables and credit balances		
Expenses payable	87	39
Interest payable	57	65
Liabilities to employees (mostly with respect to salary)	155	155
Accrued income and advance payments from customers	68	92
Advance payments from real estate buyers (Notes 12.A.2 and 3 above)	146	-
Advance payments from buyers of investee company (Note 12.A.1. above)	-	150
Institutions	42	44
Advance payments from apartment buyers	16	3
Provision for the completion of construction works	10	16
Liabilities with respect to construction services	6	-
Deposits from lessees	-	7
Payables with respect to fruit purchases	18	32
Related parties and interested parties, including equity accounted investee companies	18	18
Various payables and credit balances	31	28
	654	649

Note 19 - Trade Payables

	As at December 31	
	2021	2020
	NIS millions	
Open accounts	471	410
Expenses payable with respect to suppliers	366	465
Checks payable	1	-
	838	875

The balance of trade payables as at December 31, 2021 includes credit with respect to supplier discount transactions in the amount of approximately NIS 37 million (in 2020 - NIS 30 million).

Note 20 - Financial Instruments

A. Management of financial risks

The Group is exposed to the following risks which are due to the use of financial instruments:

- Credit risk.
- Market risk (which includes currency risk, interest rate risk and other price risk).
- Liquidity risk.

DIC does not determine the risk management policy of its investee companies.

The individual responsible for managing market risks in DIC is Mr. Baruch Itzchak, the Company’s CFO.

The treatment of the issue of financial exposures, formulation of strategies and protection, supervision over their implementation and provision of an immediate response to extraordinary developments in the various markets is available to the supervisor of risk management in DIC, who acts in consultation with the members of the Company’s Board of Directors and its committees.

In accordance with the resolution of the Board of Directors, the Company’s management, at its discretion, may use derivative financial instruments for the purpose of reducing, as necessary, exposures which arise from time to time as a result of DIC’s financial structure.

The analysis of exposures and risks in this note does not include an analysis of the assets and liabilities of disposal groups held for sale, unless stated otherwise.

1. **Risk management policy of DIC**

Market risks - DIC is directly exposed to market risks as a result of changes in the exchange rate and in the inflation rate in Israel, and as a result of market variables which affect the markets where its holdings are traded, and as a result, on the value thereof. DIC is also indirectly exposed to various market risks different the performance of its investee companies.

Approximately 32% of DIC’s total debt as at December 31, 2021 is in CPI-linked debentures in NIS, and approximately 68% of the balance of debt is in unlinked debentures. The debentures bear fixed interest, and their fair value is affected from time to time by interest rate changes in the market.

Direct effects of NIS exchange rates - As at December 31, 2021, DIC held cash and securities in USD, not including investments in stocks, mutual funds and ETF’s, in the amount of USD 2 million.

Direct exposure to increases in the index - As at December 31, 2021, DIC has debt with respect to CPI-linked debentures at a scope of NIS 908 million, with an average lifetime of approximately 2.5 years.

<u>Note 20 - Financial Instruments</u> **(Cont.)**

A. Management of financial risks (Cont.)

1. **Risk management policy of DIC (Cont.)**

As at December 31, 2021, and proximate to the approval date of these financial statements, DIC has no hedging transactions through the acquisition of CPI forward contracts. However, DIC evaluates, from time to time, the implementation of hedges, as stated above, in accordance with market conditions.

<u>Exposure to fluctuations in the market values of DIC properties and in the effect of market variables on such values</u> - DIC does not perform hedging activities against these exposures.

<u>Exposure to changes in interest rates</u> - Debentures issued by DIC, principal and linkage (without a premium / discount), which amount as at December 31, 2021 to NIS 2,825 million, and bear fixed interest, and therefore are not exposed to fluctuations in cash flows with respect to interest rate changes. DIC did not implement hedges against the exposure of the value which is due to the fixed interest rates on its debentures.

The developments in the capital market after the date of the statement of financial position due to the coronavirus pandemic, as stated in Note 1.B. above, could have negative effects on the Company's liquidity, business position, credit rating, ability to raise financing, and the terms of such financing.

Credit risks - Credit risks - In accordance with the policy of the Board of Directors, DIC management invests its liquid surpluses in an effort to achieve adequate returns thereupon, through an appropriate application of the return to risk ratios. DIC holds cash balances in short term deposits in several of the most reputable financial institutions in Israel, at a scope which is no less than DIC's liquidity needs for a range of half a year. Additionally, in accordance with DIC's policy, it is entitled to invest its liquid surpluses in mutual funds, ETF's, stocks, government debentures and corporate debentures in Israel and abroad, which have an Israeli rating of Investment Grade or higher, and in other financial instruments with high rates of return. The maximum scope of the exposure to stocks, stock ETF's, and other high-return financial instruments, will not exceed 30% of the Company's liquid surplus, beyond its liquidity needs in a range of half a year, as stated above.

The maximum rate of securities of one corporate issuer which DIC holds in the portfolio does not exceed 10% of the investment portfolio value. Inter alia, DIC's investment in debentures of member companies of its groups which are affiliated with it is restricted a total of up to NIS 100 million, in debentures with high yield to maturity.

DIC performs transactions with derivative financial instruments only through banking corporations and entities which are committed to maintaining a certain level of securities, according to scenarios. Beyond the above, DIC has no other material financial assets which are exposed to credit risks.

Note 20 - Financial Instruments (Cont.)

A. Management of financial risks (Cont.)

1. **Risk management policy of DIC (Cont.)**

Liquidity risk - DIC's policy is to act to ensure that it will have sufficient liquid resources to service its liabilities in a timely manner. As part of the above, DIC strives to maintain an adequate cash balance, as stated above, with respect to credit risks. It is noted that as at December 31, 2021, DIC has a balance of liquid resources in the amount of NIS 782 million. The total repayments of principal and interest with respect to DIC's debt in 2022 and 2023 amount to NIS 643 million and NIS 669 million, respectively. DIC routinely reviews its future cash flow forecast and the sources which are available to it, including, inter alia, the following sources:

- Expected dividends from investee companies - in connection with the above, DIC monitors the profitability of investee companies, their available cash flow and their ability to distribute dividends.
- Debt restructuring - the Company evaluates, from time to time, the possibility of receiving loans or loans secured by pledges on assets from financial institutions or institutional entities, for an extension of an existing debenture series, or for an issuance of a new debenture series.
- Realization of holdings in investee companies - DIC is able to realize a few percent or more of the share capital of investee companies, while retaining control or significant influence over them, and also its ability to realize all or most of its holdings in the shares of one of the investee companies. It is noted that DIC holds control, or is a material shareholder, of large public companies which are leaders in their fields, whose shares have a high degree of marketability, and DIC's holdings in them are not pledged subject to any specific pledge.

It is also noted that the net asset value of DIC as at proximate to the approval date of these financial statements (which is based on the market value of its primary investments according to their average market value during the five trading days which preceded the above date) amounts to of NIS 2,091 million.

2. **Risk management policy of DIC's primary subsidiaries**

A. **Cellcom**

Credit risk - Cellcom management has a credit policy and continuously monitors Cellcom's exposure to credit risk. Cellcom's credit risk is primarily due to customer debts towards Cellcom.

Cellcom conducts a credit risk assessment with respect to its customers, and adjusts credit limits, or demands collateral against credit, in accordance with the risk level of each individual customer. Cellcom management routinely monitors trade receivables, other receivables and debit balances, and contract assets. Cellcom is exposed to credit risks, primarily due to its activities in Israel.

Most of Cellcom's cash and cash equivalents are deposited in the major banking institutions in Israel.

The credit risk with respect to balances of trade receivables is limited due to the composition of the customer base, which includes a broad distribution and large number of individual customers and businesses. Cellcom evaluates the customer's credit risk before engaging in sales based on various parameters regarding the customer's financial position, credit scoring, the purchase amount, and the customer's segment. Customer ratings are determined using quantitative and qualitative data which may predict the risk of default.

Note 20 - Financial Instruments (Cont.)

A. Management of financial risks (Cont.)

2. **Risk management policy of DIC’s primary subsidiaries (Cont.)**

A. **Cellcom (Cont.)**

Assessment of expected credit losses for corporate and private customers - Cellcom records credit losses with respect to existing balances based on historical statistics which predict the loss from credit risk and the expected collection, and exercises discretion based on past experience. Cellcom makes use of a data matrix which is based, inter alia, on the aging of customer debts, in order to measure the expected credit loss, which is comprised of a large number of small debt accounts.

The calculation of default rates is done by weighing the debtor’s probabilities regarding various default events, from the full collection of the debt, until it is eliminated.

Liquidity risk - The surplus cash which is held by Cellcom, and which is not required to finance its operating activities, was invested in interest bearing investment channels, such as short term deposits. These investment channels are chosen in accordance with the future forecasts with respect to Cellcom’s cash requirements for the purpose of servicing its liabilities.

Cellcom evaluates routine forecasts regarding its liquidity requirements in order to verify that it has sufficient cash for its operational requirements. These forecasts take into account factors such as Cellcom’s plans to use the debt to finance its activities, the fulfillment of binding financial covenants, and the fulfillment of external requirements, such as laws or regulations.

Market risk - Cellcom buys and sells derivatives in the ordinary course of business, and accepts financial liabilities for the purpose of managing market risks. These transactions are executed in accordance with the policy which was determined by Cellcom’s Board of Directors.

Interest rate and index risk - Cellcom is exposed to fluctuations in the interest rate, including changes in the consumer price index (the “CPI”), due to the fact that some of its debentures are CPI-linked. As part of the risk management policy, Cellcom executes, from time to time, forward transactions which partially hedge its exposure to changes in the CPI. These transactions are executed in accordance with the policy which was determined by Cellcom’s Board of Directors.

Currency risk - Cellcom’s operating profit and cash flows are exposed to currency risk (mostly the USD), primarily due to payments for acquisitions from mobile devices, network equipment, purchasing of television content, purchasing of telecommunication bandwidth, and international roaming service activity. Cellcom also maintains accounts in currencies other than Cellcom’s functional currency, mostly in USD. Within the framework of the policy regarding hedging of financial exposures, Cellcom performs forward transactions and options in order to partially hedge its exposure to fluctuations in exchange rates.

Note 20 - Financial Instruments (Cont.)

A. Management of financial risks (Cont.)

2. **Risk management policy of DIC's primary subsidiaries (Cont.)**

B. **Property & Building**

The activity of Property & Building in Israel is mostly financed through long term loans at fixed interest, in NIS or CPI-linked. In 2021, Property & Building's revenues in Israel were mostly linked to the consumer price index or to the construction input price index. The liquid resources are invested for short periods, mostly in NIS and USD deposits, and in marketable securities. Property & Building's activities in the United States are financed, when possible, on USD credit.

For details regarding the sale of revenue-generating real estate properties in Israel and abroad, see Note 12 above.

Market risks - In accordance with its method of operation, Property & Building is exposed to market risks due to changes in external factors, such as activity in the real estate branch of the economy, changes in the index, changes in the cost of building index, and changes on the level of the market interest rate. Property & Building is also exposed to changes in foreign currency exchange rates, mostly the USD, within the framework of its foreign investments, an exposure which is due both to the operating activities of its investee companies abroad, holdings in foreign currency, and the financing methods of the investments.

Property & Building diversifies the financing sources and credit types, and routinely evaluates the credit terms in the various alternatives, and the estimates regarding changes in the projected inflation rates and the market interest rate.

Property & Building's policy on this matter, as at the reporting date, is to protect against the economic exposure; however, Property & Building's Board of Directors may, from time to time, in case of a change in circumstances, or in its discretion, change this policy.

In accordance with the extent of the current exposure, Property & Building estimated that there is no need to use derivative instruments for the purpose of hedging against market risks, except for a swap transaction which Property & Building executed to hedge against its exposure to the CPI, see Note 15.D.2.A. above.

With respect to liquid resources, foreign currency exchange rates within the framework of foreign investments (mostly in the United States), Property & Building worked to reduce the exposure by investing in companies whose functional currency is the foreign currency in the target countries, and by matching the linkage basis of the investments to those of the income and, as much as possible, also of the financing sources. Due to the sale of properties in the United States, the HSBC Tower and IDBG, as stated in Notes 12.B.1. and 12.A.5. below, responsibility, the consideration for which will be received in USD, Property & Building executed, in December 2021 and in January and February 2022, after the date of the statement of financial position, hedging (forward) transactions on the USD exchange rate. As at the publication date of the report, Property & Building has executed hedging transactions on the USD exchange rate in the total amount of USD 340 million, according to an average exchange rate of 3.2081 NIS per USD, payable on April 5, 2022.

Note 20 - Financial Instruments (Cont.)

A. Management of financial risks (Cont.)

2. **Risk management policy of DIC's primary subsidiaries (Cont.)**

B. **Property & Building (Cont.)**

Interest rate risks - The interest rate risk of Property & Building is primarily due to long term liabilities (debentures and loans, mostly at fixed interest rates.

Credit risks - Regarding cash surpluses, the investment of Property & Building is to invest its liquid resources in NIS and USD bank deposits for short periods in defined channels, at a scope of up to 50% of its balances of liquid resources. Property & Building's policy also allows the investment of up to approximately 35% of the cash surplus in government and corporate debentures, stocks, ETF's and mutual funds, in accordance with the covenants specified in Property & Building's investment policy, also including investments in a cumulative total of up to approximately NIS 200 million, in marketable securities of real estate companies in Israel or abroad.

The policy of Property & Building also allows other investments, to a flexible degree, at a scope of up to 15% of its liquid resources, in accordance with resolutions of Property & Building's Board of Directors, of which up to a total of NIS 100 million (and in any case, no more than 15% of the balances of liquid resources) will be invested flexibly in various investments, in accordance with joint decisions of Property & Building's Chairman of the Board and General Manager.

C. **Elron**

Credit risks - Elron invests its liquid resources in stable channels. Elron's policy is to diversify its investments among various institutions. The majority of its cash balances and deposits are held in different financial institutions with high credit ratings. Additionally, as at December 31, 2021, Elron invested USD 9 million in corporate debentures with an international rating of "Investment Grade" or higher, most of which have a rating of A- or higher.

Currency risk - The functional currency of Elron and of most its investee companies is the USD. Accordingly, Elron and its investee companies work to ensure, as much as possible, that most if their assets and liabilities, and most of their income and expenses, are in USD or linked to the USD.

Interest rate risk - as part of risk management, Elron invests some of the balance of its liquid resources in USD debentures linked to changes in the LIBOR interest rate or with fixed interest rates, and in short term deposits with fixed interest rates.

Note 20 - Financial Instruments (Cont.)

A. Management of financial risks (Cont.)

2. **Risk management policy of DIC's primary subsidiaries (Cont.)**

D. **Mehadrin**

Credit risks - Mehadrin monitors the credit risk of customers in accordance with their credit characteristics. Customers who are rated "high risk" are classified under a separate list, and beginning from the date of that rating, sales are made on a prepaid basis.

Mehadrin generally does not require collateral for negative balances of trade receivables and other receivables.

Liquidity risk - Mehadrin uses activity-based to price its products and services, which helps it to monitor the cash flow requirements, and to maximize the cash returns on its investments.

Mehadrin verifies the existence of sufficient levels of on demand cash for the payment of expected operating expenses, including the amounts which are required to fulfill the liabilities and financial covenants, and for this purpose, has arranged unsecured credit facilities with banks and other credit providers.

Market risks - The purpose of market risk management is to manage and oversee the exposure to market risks within the framework of generally accepted parameters, while maximizing returns.

Mehadrin buys and sells derivatives in the ordinary course of business, and accepts financial liabilities for the purpose of managing market risks.

Currency risk - Mehadrin is exposed to currency risk with respect to sales, purchases and loans denominated in currencies other than the appropriate functional currencies of Mehadrin and its investee companies, mostly including the NIS, but also the USD. The currencies which are used to denominate most of the transactions are the NIS, EUR, USD and GBP. To reduce Mehadrin's exposure to changes in the aforementioned currency rates relative to the NIS, Mehadrin takes action on several levels: paying suppliers in the export currencies, taking out loans in the currencies, using financial derivatives which mostly involve pegging to a minimum exchange rate vs. the NIS, in order to hedge against extreme increases of the NIS vs. the export currencies.

Mehadrin also hedges, from time to time, some of its exposure to foreign currency, and uses various instruments to hedge the exchange rates for the purpose of hedging against its currency risk, with repayment dates of less than one year after the reporting date. These transactions constitute economic hedge transactions only.

Note 20 - Financial Instruments (Cont.)

B. Credit risks

As at December 31, 2021, cash and cash equivalents in the consolidated report amounted to a total of NIS 2,740 million; current investments, not including derivatives, amounted to NIS 384 million; and short term deposits, not including restricted and pledged deposits, amounted to NIS 125 million. The deposits are deposited in highly reputable financial corporations.

Income from sales and services of consolidated companies are primarily due to customers in Israel. The consolidated companies monitor, on an ongoing basis, the customer debts, and the financial statements of the aforementioned companies include provisions for doubtful debts which adequately reflect, in accordance with the assessment of the consolidated companies, the loss embodied in doubtful debts.

The consolidated companies have no significant concentrations of credit risk, due to the policy of the consolidated companies, which ensures that sales are performed, for the most part, in cash or through credit cards, and in the real estate sector, are guaranteed by the sold units themselves until their delivery, which is performed only once payment for them has been completed.

Maximum exposure to credit risk

		As at December 31	
		2021	2020
		NIS millions	
Non-current assets	Other investments	3	3
	Loans, deposits, restricted deposits and debit balances	42	135
	Long term trade receivables	158	176
Current assets	Current investments, not including derivatives[(1)]	162	71
	Deposits and pledged and restricted deposits	300	558
	Financial receivables	86	123
	Trade receivables	1,082	1,103
	Cash and cash equivalents	2,740	3,921
Derivatives	Options and forward contracts on exchange rates and the index	59	1
		4,632	6,091

(1) Not including shares, participation certificates in mutual funds, investment funds and ETF's.

Maximum exposure to credit risk with respect to customers, receivables, loans and other investments, by geographical region

	As at December 31	
	2021	2020
	Book value	
	NIS millions	
Israel	4,217	4,891
United States	361	1,162
Euro bloc countries	11	8
Great Britain	18	8
Other areas	25	22
	4,632	6,091

Note 20 - Financial Instruments (Cont.)

B. Credit risks (Cont.)

Maximum exposure to credit risk with respect to customers, receivables, loans and other investments, by counterparty

	As at December 31 2021	As at December 31 2020
	Book value	
	NIS millions	
Financial corporations	3,040	4,480
Wholesale customers	21	21[(2)]
Retail customers	116	70[(2)]
End customers	699	806
Debentures which were issued by corporations [(1)]	102	70
Short term bills and debentures which were issued by Government of Israel	60	1
Loans, investments and other receivables	194	263[(2)]
Lessees	3	15
Communication operators	155	134
Credit card companies	242	231
	4,632	6,091
(1) Of which, debentures rated A- or higher	92	29

(2) Reclassified.

Aging of the maximum exposure to credit risk

	2021 Gross	2021 Provision for credit losses	2021 Total	2020 Gross	2020 Provision for credit losses	2020 Total
	NIS millions					
Not in arrears	4,647	(109)	4,538	5,969	(32)	5,937
Arrears of 0-30 days	34	-	34	29	-	29
Arrears of 31-120 days	53	(2)	51	31	(1)	30
Arrears of over 120 days	19	(10)	9	249	(154)	95
	4,753	(121)	4,632	6,278	(187)	6,091

Movement in the provision for credit losses with respect to balances of trade receivables, other receivables and loans which were given during the year

	As at December 31 2021	As at December 31 2020
	NIS millions	
Balance as at January 1	187	186
Increase in credit loss expenses	3	36
Write-off of lost debts	(69)	(35)
Balance as at December 31	121	187

Note 20 - Financial Instruments (Cont.)

C. Market risks

1. Interest rate risks

Value risk due to changes in the interest rate is primarily due to long term liabilities (debentures and loans), mostly at fixed interest.

Some of the long term loans bear variable interest. In this case, the Group is exposed to cash flow risk with respect to changes in the interest rate, as specified below:

Presented below are details regarding the interest type of the Group's interest-bearing financial instruments

	As at December 31	
	2021	2020
	Book value	
	NIS millions	
Instruments bearing fixed interest		
Financial assets(1)	1,992	3,324
Financial liabilities	(9,185)	(11,864)
	(7,193)	(8,540)
Instruments bearing variable interest		
Financial assets	569	1,125
Financial liabilities	(180)	(104)
	389	1,021

(1) Primarily deposits which are included under cash and cash equivalents

Fair value sensitivity analysis with respect to instruments with fixed interest rates measured at fair value

Changes in interest rates would have increased or decreased capital and net profit as follows:

	As at December 31			
	2021		2020	
	Profit or loss	Capital	Profit or loss	Capital
	NIS millions			
Absolute increase of 1%	(4)	(4)	(1)	(1)
Absolute decrease of 1%	4	4	1	1

2. Price risk - sensitivity analysis

A. Changes in the fair value of securities measured at fair value through profit and loss would have affected profit and loss in the following amounts, after tax:

	Increase (decrease) in profit and loss		
	2021	2020	2019
	NIS millions		
Increase of 5%	20	14	89
Increase of 10%	43	28	170
Decrease of 5%	(20)	(14)	(89)
Decrease of 10%	(43)	(28)	(170)

B. Changes in the fair value of financial assets designated to fair value through other comprehensive income would have affected capital in immaterial amounts.

Note 20 - Financial Instruments (Cont.)

C. Market risks (Cont.)

3. **Index and foreign currency risk - sensitivity analysis**

Changes in the exchange rate of the following currencies, and changes in the index as at December 31, would have increased (decreased) capital and profit or loss in the amounts presented below. This analysis was performed assuming that all other variables, and particularly the interest rates, remained fixed. The analysis includes effects with respect to assets and liabilities of disposal groups held for sale, see Note 12 above.

	Change in currency exchange rate / Change in index	As at December 31			
		2021		2020	
		Capital	Profit (loss)	Capital	Profit (loss)
		NIS millions			
Index	1%	(35)	(35)	(42)	(42)
USD	5%	77	22	123	59
Index	2%	(70)	(70)	(84)	(84)
USD	10%	155	45	244	116
Index	(1%)	35	35	42	42
USD	(5%)	(77)	(22)	(123)	(59)
Index	(2%)	70	70	84	84
USD	(10%)	(155)	(45)	(244)	(116)

The analysis was performed with respect to monetary financial instruments only. Shares, participation certificates in mutual funds, investment funds and ETF's were not taken into account in this sensitivity analysis.
Changes in the exchange rates of other currencies had no significant impact on capital or on profit or loss.

The Group finances a significant part of its activities using CPI-linked loans and foreign currency. As a result, the Group is exposed to changes in the index and in exchange rates. In order to partially hedge against these liabilities, the Group acquired contracts to hedge against increases in the index and changes in exchange rates. Details provided below:

Positions in derivatives as at December 31

	2021		2020	
	CPI / NIS			
	Par value	Fair value	Par value	Fair value
	NIS millions			
Futures contracts for hedging purposes, non-hedge accounting [(1)]	1,104	59	1,153	(5)

These contracts are intended to protect the CPI-linked liabilities such that in case the actual CPI increases at a higher rate than the index which was determined in the agreement, the Group will receive the difference; In the opposite case, the Group pays the difference.

(1) Mostly with respect to swap transactions which were performed by Property & Building, see Note 15.D.2.A. above.

Note 20 - Financial Instruments (Cont.)

D. Market risks (Cont.)

3. **Index and foreign currency risk - sensitivity analysis** (Cont.)

	2021		2020	
	USD / NIS			
	Par value	Fair value	Par value	Fair value
	NIS millions			
Derivatives for hedging purposes:				
Forward contracts on exchange rates - non-hedge accounting [(1)]	81	(4)	92	(5)
Put options on foreign currency - non-hedge accounting	70	-	2	-
Forward contracts on exchange rates - hedge accounting	-	-	59	(3)

(1) In December 2021 until February 2022, Property & Building executed USD hedging transactions in the total amount of approximately USD 340 million, at an average USD exchange rate of NIS 3.2081, payable on April 5, 2022. The fair value of the transactions which were executed in December 2021 is insignificant.

	2021		2020	
	EUR / NIS			
	Par value	Fair value	Par value	Fair value
	NIS millions			
Derivatives for hedging purposes:				
Call options on foreign currency - non-hedge accounting	9	-	28	1
Put options on foreign currency - non-hedge accounting	9	-	28	-

Note 20 - Financial Instruments (Cont.)

D. 1. Fair value of financial instruments for disclosure purposes only

	As at December 31, 2021					
		Fair value [c]				
	Book value	Level 1	Level 2	Level 3	Total	Discount rate used in the calculation of fair value
	NIS millions					
Financial liabilities						
Debentures [a],[b]	9,011	9,817	-	-	9,817	(1.2%)-2.9%
Long term loans from banks, financial institutions and others [b],[c]	230	-	230	-	230	0.9%-5.3%
	9,241	9,817	230	-	10,047	

	As at December 31, 2020					
		Fair value [c]				
	Book value	Level 1	Level 2	Level 3	Total	Discount interest rate which was used in the calculation of fair value
	NIS millions					
Financial liabilities						
Debentures [a],[b]	10,291	10,979	-	-	10,979	0.7%-4.1%
Long term loans from banks, financial institutions and others [b],[c]	1,641	-	1,648	-	1,648	0.9%-5.3%
	11,932	10,979	1,648	-	12,627	

(a) Book value including current maturities and accrued interest. Fair value as at the cutoff date includes principal and interest which were paid after the cutoff date, and whose ex date occurred before.

(b) The fair value of debentures traded on the stock exchange was estimated based on their quoted price, and the interest rate with respect to them reflects the yield to maturity embodied in the aforementioned quoted price. The fair value of long term loans from banks is estimated using the future cash flow discounting method, with respect to the principal and interest components, which are discounted according to the market interest rate as at the measuring date.

(c) For details regarding the various levels of the fair value hierarchy, see Note 1.E.(3).C. above.

Note 20 - Financial Instruments (Cont.)

D. (Cont.)

2. Fair value hierarchy of financial instruments measured at fair value

For details regarding the various levels of the fair value hierarchy, see Note 1.E.3.(C) above.

The fair value of financial assets measured at fair value is determined with reference to their quoted closing bid price as at the date of the statement of financial position, and in the absence of such a quoted price - using other conventionally accepted valuation methods, in consideration of the majority of observable market inputs (such as use of the interest curve).

Financial instruments measured at level 2

	As at December 31	
	2021	2020
	NIS millions	
Financial assets	88	15
Financial liabilities	(4)	(13)

Financial instruments measured at fair value level 2 include, inter alia:

- Forward contracts whose fair value is estimated based on quotes by banks / brokers or by discounting the difference between the forward price specified in the contract and the current forward price with respect to the remainder to maturity of the contract period, while using appropriate market interest rates for similar instruments, includes the required adjustments with respect to the parties' credit risks, when appropriate.
- Options on foreign currency whose fair was determined according to the Black-Scholes model.

The probability of the quotes is evaluated by discounting the estimated future cash flows, based on the conditions and the period to redemption of each contract, and while using the market interest rates of a similar instrument on the measuring date.

The Group's remaining financial instruments are measured at fair value level 1, except as specified in the following tables:

Financial instruments measured at fair value level 3

	For the year ended December 31, 2021		
	Financial assets measured at fair value through profit or loss		
	Investments and derivatives	Loans to associate companies	Total
	NIS millions		
Balance as at January 1, 2021	121	367	488
Total income (loss) recognized:			
Under profit and loss [a]	5	(61)	(56)
Under other comprehensive income (in the item for the reserves from translation differences)	(3)	(11)	(14)
Investments	17	-	17
Redemptions	(25)	(13)	(38)
Conversion to capital	-	(15)	(15)
Transfer from level 3	(7) [c]	-	(7)
Transition to initial measurement at fair value level 3	18	-	18
Balance as at December 31, 2021	126	267[d]	393
[A] Total profit for the period included under the income statement with respect to held assets as at December 31, 2021:			
Financing income	2	-	2
Net loss from realization and increase (decrease) in the value of investments and assets	4	-	4
The Group's share in the loss of investee companies accounted by the equity method, net	-	(61)	(61)

[B] Not including income from dividends in the amount of NIS 2 million.

[C] On June 20, 2021, the shares of Libra Insurance Company Ltd. ("Libra") were listed on the Tel Aviv Stock Exchange. DIC held 4.7% of Libra's share capital as at December 31, 2021, and the investment is accounted for as a financial asset at fair value. In 2021, DIC included profit in the amount of NIS 18 million under the item for gain on disposal and appreciation of investments and assets, and dividends, due to the revaluation of the investment, in accordance with its market value as at December 31, 2021. As a result, the investment measurement hierarchy was classified to fair value at level 1.

[D] Including a loan to IDBG in the amount of NIS 211 million, which is presented under the item for assets of disposal groups held for sale. For additional details, see Note 12.A.5. above.

Note 20 - Financial Instruments (Cont.)

D. (Cont.)

2. Fair value hierarchy of financial instruments measured at fair value (Cont.)

Financial instruments measured at fair value level 3 (Cont.)

	For the year ended December 31, 2020		
	Financial assets measured at fair value through profit or loss		
	Investments and derivatives	Loans to associate companies	Total
	NIS millions		
Balance as at January 1, 2020	156	210	366
Total income (loss) recognized:			
Under profit and loss [a]	(37)	(69)	(106)
Under other comprehensive income (in the item for the reserves from translation differences)	(6)	(29)	(35)
Investments	12	-	12
Redemptions	(6)	(4)	(10)
Deconsolidation	-	15	15
Transition to initial measurement at fair value level 3	2	244[c]	246
Balance as at December 31, 2020	121	367	488
(A) Total profit for the period included under the income statement with respect to held assets as at December 31, 2020:			
Net loss from realization and increase (decrease) in the value of investments and assets	(37)	-	(37)
The Group's share in the loss of investee companies accounted by the equity method, net	-	(69)	(69)

(B) Not including income from dividends in the amount of NIS 16 million.

(C) Due to the classification of a loan facility which Property & Building provided to IDBG at level 3, in light of its fair value measurement.

1) The Group holds several private companies, where the fair value of the investment in them was estimated using the following valuation methods:

- The cash flow discounting method was applied with respect to the ability of the companies under valuation to estimate their future cash flows.
- Transactions method - according to this method, the value of the Group's investments in the companies which form the subject of the valuation was estimated based on a price that was determined in recent transactions with their securities, while performing relevant adjustments.
- Option pricing model - an option pricing model which is based on the Black-Scholes model or on the binomial model. This method is based on the assumption that the securities of an entity may be regarded as call options for the value of the entire entity.
- The value of investments in venture capital funds which are not registered for trading is determined based on the Group's share in the capital funds based on their financial statements, which are based on fair value or valuations of their investments.

Fair value sensitivity analysis with respect to financial instruments measured at fair value level 3

Although in the Company's opinion, the fair value amounts determined for measurement and/or disclosure purposes are appropriate, the use of different assumptions or different measurement methods may change the fair value amounts.

With respect to financial instruments classified at level 3 of the fair value hierarchy, the possible effect as a result of a reasonable change in the non-observed data is immaterial.

Note 20 - Financial Instruments (Cont.)

E. Linkage bases of assets and liabilities on a consolidated basis

	As at December 31, 2021					
	CPI-linked	In USD or linked thereto	In other currency	Unlinked	Non-monetary items [(a)]	Total
	NIS millions					
Assets [(b)]						
Investments in investee companies accounted by the equity method	-	-	-	-	3,167[(c)]	3,167
Other investments, including derivatives	44	3	-	3	144	194
Loans, deposits, pledged and restricted deposits and debit balances and long term debit balances	2	12	-	47	75	136
Fixed assets and investment property	-	-	-	-	1,752	1,752
Long term trade receivables	-	-	-	393	-	393
Right-of-use assets	-	-	-	-	869	869
Inventory of real estate	-	-	-	-	24	24
Deferred expenses	-	-	-	-	423	423
Deferred tax assets	-	-	-	-	6	6
Intangible assets	-	-	-	-	2,640	2,640
Other short term investments	64	33	-	80	222	399
Short term deposits and pledged and restricted deposits	-	129	-	165	-	294
Other receivables and debit balances	-	2	4	67	241	314
Current tax assets	20	-	-	-	-	20
Trade receivables	3	72	53	719	-	847
Inventory and inventory of buildings for sale	-	-	-	-	305	305
Cash and cash equivalents	-	522	86	2,132	-	2,740
Held-for-sale assets	-	-	-	-	3,695	3,695
Total	133	773	143	3,606	13,563	18,218
Liabilities [(b)]						
Debentures	2,864	-	-	6,092	-	8,956
Loans from banks and financial institutions and other long term financial liabilities	12	26	40	160	-	238
Lease liabilities	739	36	6	16	-	797
Other non-financial liabilities	-	-	-	-	19	19
Long term provisions	-	-	-	29	11	40
Deferred tax liabilities	-	-	-	-	566	566
Employee benefits	-	-	-	24	-	24
Short term loans and credit	-	-	4	173	-	177
Other payables and credit balances	13	2	2	394	237	648
Trade payables	-	206	10	622	-	838
Short term derivatives	-	4	-	-	-	4
Current tax liabilities	33	-	-	-	-	33
Short term provisions	32	-	-	84	-	116
Held for sale liabilities	-	-	-	-	1,388	1,388
Total	3,693	274	62	7,594	2,221	13,844
Difference	(3,560)	499	81	(3,988)	11,342	4,374

(a) Including shares, participation certificates in mutual funds, investment funds, ETF's and monetary items which were removed from the application of IFRS 7.

(b) Non-current assets and liabilities in this table include current maturities with respect to them.

(c) Includes loans in the amount of NIS 56 million, linked to the USD exchange rate.

Note 20 - Financial Instruments (Cont.)

E. Linkage bases of assets and liabilities on a consolidated basis (Cont.)

	As at December 31, 2020					
	CPI-linked	In USD or linked thereto	In other currency	Unlinked	Non-monetary items [a]	Total
	NIS millions					
Assets [b]						
Investments in investee companies accounted by the equity method	-	-	-	-	1,918 [c]	1,918
Other investments, including derivatives	-	2	-	3	119	124
Loans, deposits, pledged and restricted deposits and debit balances and long term debit balances	1	109	-	50	84	242
Fixed assets and investment property	-	-	-	-	4,686	4,686
Long term trade receivables	-	-	-	500	-	500
Right-of-use assets	-	-	-	-	882	882
Inventory of real estate	-	-	-	-	69	69
Deferred expenses	-	-	-	-	414	414
Deferred tax assets	-	-	-	-	5	5
Intangible assets	-	-	-	-	2,693	2,693
Other short term investments	-	38	1	33	224	296
Short term deposits and pledged and restricted deposits	-	64	-	494	-	558
Other receivables and debit balances	-	9	-	91	242	342
Current tax assets	14	2	-	-	-	16
Trade receivables	13	45	36	685	-	779
Inventory and inventory of buildings for sale	-	-	-	-	269	269
Cash and cash equivalents	-	1,168	46	2,707	-	3,921
Held-for-sale assets	-	-	-	-	1,268	1,268
Total	28	1,437	83	4,563	12,873	18,984
Liabilities [b]						
Debentures	3,763	-	-	6,467	-	10,230
Loans from banks and financial institutions and other long term financial liabilities	4	1,271	53	368	-	1,696
Lease liabilities	746	43	7	20	-	816
Other non-financial liabilities	-	-	-	-	16	16
Long term provisions	-	53	-	30	9	92
Deferred tax liabilities	-	-	-	-	477	477
Employee benefits	-	-	-	23	-	23
Short term loans and credit	-	-	-	135	-	135
Other payables and credit balances	16	22	-	367	243	648
Trade payables	-	206	17	652	-	875
Short term derivatives	2	8	-	-	-	10
Current tax liabilities	9	-	-	-	-	9
Short term provisions	38	-	-	153	-	191
Held for sale liabilities	-	-	-	-	456	456
Total	4,578	1,603	77	8,215	1,201	15,674
Difference	(4,550)	(166)	6	(3,652)	11,672	3,310

(a) Including shares, participation certificates in mutual funds, investment funds, ETF's and monetary items which were removed from the application of IFRS 7.

(b) Non-current assets and liabilities in this table include current maturities with respect to them.

(c) Includes loans in the amount of NIS 367 million, linked to the USD exchange rate.

Note 20 - Financial Instruments (Cont.)

F. Liquidity risk

	As at December 31, 2021							
	Book value (1)	Total cash flow forecast (2)	First year	Second year	Third year	Fourth year	Fifth year	Over 5 years
	NIS millions							
Non-derivative financial liabilities								
Debentures	9,011	(10,267)	(1,754)	(1,957)	(1,759)	(1,581)	(1,169)	(2,047)
Loans from banks and financial institutions and other long term financial liabilities	240	(257)	(96)	(93)	(30)	(6)	(32)	-
Lease liabilities	797	(906)	(226)	(177)	(173)	(86)	(68)	(176)
Short term loans and credit	177	(177)	(177)	-	-	-	-	-
Other financial payables and credit balances	354	(354)	(354)	-	-	-	-	-
Trade payables	838	(838)	(838)	-	-	-	-	-
Financial liabilities - derivative instruments								
Other derivatives	4	(4)	(4)	-	-	-	-	-
	11,421	(12,803)	(3,449)	(2,227)	(1,962)	(1,673)	(1,269)	(2,223)

(1) The book value includes current maturities and accrued interest as at December 31, 2021, while the cash flow forecast includes all future interest payments.
(2) The cash flow forecast was calculated based on the index, the interest rates and the known exchange rates as at December 31, 2021.

	As at December 31, 2020							
	Book value (1)	Total cash flow forecast (2)	First year	Second year	Third year	Fourth year	Fifth year	Over 5 years
	NIS millions							
Non-derivative financial liabilities								
Debentures	10,291	(11,962)	(1,921)	(1,853)	(1,969)	(1,771)	(1,592)	(2,856)
Loans from banks and financial institutions and other long term financial liabilities	1,697	(1,819)	(325)	(1,411)	(44)	(17)	(17)	(5)
Lease liabilities	816	(914)	(247)	(184)	(113)	(141)	(55)	(174)
Short term loans and credit	135	(135)	(135)	-	-	-	-	-
Other financial payables and credit balances	340	(340)	(340)	-	-	-	-	-
Trade payables	875	(875)	(875)	-	-	-	-	-
Financial liabilities - derivative instruments								
Forward contracts on the index	5	(5)	(2)	(1)	(1)	(1)	-	-
Other derivatives	8	(8)	(8)	-	-	-	-	-
	14,167	(16,058)	(3,853)	(3,449)	(2,127)	(1,930)	(1,664)	(3,035)

(1) The book value includes current maturities and accrued interest as at December 31, 2020, while the cash flow forecast includes all future interest payments.
(2) The cash flow forecast was calculated based on the index, the interest rates and the known exchange rates as at December 31, 2020.

Note 20 - Financial Instruments (Cont.)

G. Changes in financial liabilities whose cash flows are classified as cash flows from financing activities:

	Short term loans from banks, financial institutions and others	Loans from banks, financial institutions and others	Debentures	Lease liabilities	Financial liabilities - derivative instruments	Total
	NIS millions					
Balance as at January 1, 2021	(135)	(1,641)	(10,291)	(816)	(13)	(12,896)
Cash flows which were received	(50)	(90)	-	-	(2)	(142)
Cash flows which were paid	14	351	1,856	286	4	2,511
Additions with respect to new agreements, changes to agreements and revaluation	-	-	-	(336)	-	(336)
Write-offs with respect to leases	-	-	-	96	-	96
Amounts applied to the statement of income	(6)	(67)	(576)	(30)	(2)	(681)
Amounts applied to other comprehensive income	-	43	-	-	-	43
liabilities of disposal groups classified as held for sale	-	1,173	-	3	-	1,176
Others	-	2	-	-	9	11
Additions due to business combination	-	(2)	-	-	-	(2)
Balance as at December 31, 2021	(177)	(231)	(9,011)	(797)	(4)	(10,220)

	Short term loans from banks, financial institutions and others	Loans from banks, financial institutions and others	Debentures	Lease liabilities	Financial liabilities - derivative instruments	Other liabilities	Total
	NIS millions						
Balance as at January 1, 2020	(32)	(1,835)	(11,031)	(813)	(5)	(1)	(13,717)
Cash flows which were received	(17)	(27)	(583)	-	-	-	(627)
Cash flows which were paid	18	515	1,770	275	14	-	2,592
Additions with respect to new agreements, changes to agreements and revaluation	-	-	-	(153)	-	-	(153)
Write-offs with respect to leases	-	-	-	7	-	-	7
Amounts applied to the statement of income	(14)	(98)	(436)	(31)	(21)	-	(600)
Amounts applied to other comprehensive income	-	92	-	1	-	-	93
Others	-	(1)	(11)	-	(1)	1	(12)
Additions due to business combination	(90)	(287)	-	(104)	-	-	(481)
Deconsolidation	-	-	-	2	-	-	2
Balance as at December 31, 2020	(135)	(1,641)	(10,291)	(816)	(13)	-	(12,896)

Note 20 - Financial Instruments (Cont.)

H. Offsetting of financial assets and financial liabilities

Presented below are details regarding the book value of recognized financial instruments which were offset in the statement of financial position:

	As at December 31, 2021			As at December 31, 2020		
	Gross amounts of assets (liabilities) which were recognized	Gross amounts of financial assets (liabilities) which were recognized and offset in the statement of financial position	Net amounts of financial assets (liabilities) which were presented in the statement of financial position	Gross amounts of assets (liabilities) which were recognized	Gross amounts of financial assets (liabilities) which were recognized and offset in the statement of financial position	Net amounts of financial assets (liabilities) which were presented in the statement of financial position
	NIS millions					
Financial assets						
Trade receivables	241	(123)	118	209	(193)	16
Financial liabilities						
Trade payables and expenses payable	(158)	123	(35)	(216)	193	(23)

Note 21 - Guarantees and Pledges

A. Guarantees with respect to loans which were received from banking corporations

Guarantor	Details	Amount of the guarantee As at December 31, 2021 NIS millions
1. Property & Building and its material consolidated companies	Carve out guarantee with respect to a loan from a banking corporation. See also Note 12.B.1.B. above	389
2. Property & Building and its material consolidated companies	Guarantee to an associate company with respect to loans received by an associate company	18
3. Property & Building	Guarantee with respect to a loan taken out by IDBG. See also Note 12.A.5.C. above	162
4. Mehadrin and its consolidated companies	Guarantee to banks for loans which were given to joint ventures	24

B. Other guarantees

Guarantor	Details	Amount of the guarantee As at December 31, 2021 NIS millions
1. Consolidated companies of Property & Building	Guarantees and insurance policies provided by banks and insurance companies at the request of consolidated companies of Property & Building to secure the funds of apartment buyers, in accordance with the Sales Law, 5735-1974.	41
2. Property & Building and its material consolidated companies	Bank guarantees to institutions, service providers, land owners and others in their ordinary course of business	27
3. Cellcom and its consolidated companies	Bank guarantees in favor of government institutions	37
4. Cellcom and its consolidated companies	Bank guarantees in favor of suppliers and others	123
5. Mehadrin and its consolidated companies	Bank guarantees in favor of third parties	3
6. Mehadrin and its consolidated companies	Guarantees towards third parties	1

C. Pledges

1. To secure the repayment of liabilities, several consolidated companies created fixed pledges and/or floating pledges on their assets (including shares, real estate properties, investment properties and fixed assets).
2. Certain companies in the Group undertook not to create pledges on their assets in favor of third parties, without receiving advance written consent from the lenders (negative pledge), and, in certain cases, the creation or realization of pledges is subject to regulatory approvals, including in accordance with the terms of various permits and/or licenses. For details regarding negative pledge undertakings, as stated above, see Note 15.D. above.
3. To secure loans which were received by subsidiaries of Property & Building (some wholly owned) from banks, the balance of which, as at December 31, 2021, amounted to NIS 1,224 million, and to secure guarantees which were given as specified in sections A. and B.1. and B.2. above, subsidiaries of Property & Building pledged real estate properties with a book value of approximately NIS 2,659 million. For details regarding pledges in connection with the GW loan, see Note 12.A.5.B. above.
4. For details regarding pledged deposits, see Note 10 above.

Note 22 – Contingent Liabilities, Engagements and Claims

A. Contingent liabilities

- The Group issued, to certain corporate officers and employees, and to certain corporate officers and employees in a number of the Company's investee companies, advance letters of indemnification to indemnify those corporate officers with respect to their liability for actions taken by virtue of their aforementioned positions, subject to certain conditions, and with respect to certain monetary liabilities which will apply to them within the framework of their aforementioned liability, and for which, by law, indemnification can be given. See also Note 31.B.2.(B) below.
- Within the framework of economic papers, and economic opinions which were prepared for the Company by external experts, the Company gave those experts an undertaking to indemnify them for damages which they may incur as a result of third party claims against them, with respect to those economic papers and economic opinions.

Note 22 – Contingent Liabilities, Engagements and Claims (Cont.)

B. Engagements

1. Cellcom

A. Cellcom has undertakings in connection with a license which was provided to it in 1994, of which the primary ones include:

1. Not to pledge any of the assets which are used for the implementation of the license without the advance consent of the Ministry of Communication.
2. The shared equity of all Cellcom shareholders, together with Cellcom's equity, will not fall below USD 200 million. For this purpose, any shareholder who holds less than 10% of Cellcom's capital rights will not be taken into account.

According to Cellcom's assessment, it is fulfilling the aforementioned undertakings.

B. As at December 31, 2021, Cellcom and its investee companies have undertakings to acquire equipment for the telecommunication networks, equipment for mobile telephones and for the maintenance of software programs and systems, content and associated services, in the amount of NIS 573 million.

C. Sharing agreement with Marathon (Xfone):

The agreement regarding sharing of the 4G and 5G networks, and hosting services for the 2G and 3G networks, entered into effect in April 2017. Updates to the agreement entered into effect in March 2022 (the "Closing Date").

In November 2020, Xfone stopped making payments to Cellcom in accordance with the sharing agreement, and in January 2021 it notified Cellcom of the termination of the agreements, alleging a fundamental breach thereof by Cellcom. In February 2021, Cellcom filed a claim for the enforcement of the sharing agreement.

In June 2021, a stay of proceedings order was given at Xfone's request, for the purpose of formulating a debt settlement with the consent of the guaranteed creditor (Mizrahi Bank), pursuant to the Insolvency and Economic Rehabilitation Law, 5778-2018, and the Insolvency and Economic Rehabilitation Law (Amendment No. 4 - Transitional Provision - New Coronavirus), 5781-2021, including the legal proceedings which Cellcom initiated against Xfone, and the cancellation of the temporary liens which had been imposed by Cellcom, and a settlement manager was appointed.

On September 24, 2021, Cellcom engaged in an agreement to amend the terms of its sharing and usage agreement with Xfone (the sharing and usage agreement, following the aforementioned update - the "Updated Sharing Agreement") with a corporation controlled by Mr. Yariv and Klirmark Capital (the "Corporation"). On October 12, 2021, the corporation submitted an offer to acquire two thirds of Xfone's share capital (the balance will remain held by Xfone's controlling shareholder) and, in collaboration with Xfone and Xfone's controlling shareholder, submitted a proposed debt settlement with Xfone's creditors (the "Debt Settlement"), according to which Xfone would be bound by the updated sharing agreement. On October 17, 2021, the Court approved the debt settlement which was proposed jointly by the corporation, Xfone and Xfone's controlling shareholder (after the creditors meeting approved the debt settlement), and the corporation's tender offer.

Beginning on June 17, 2021 (the appointment date of the settlement manager) in accordance with a directive issued by the settlement manager, Xfone paid to Cellcom monthly amounts according to the arrangement that was reached vis-à-vis the settlement manager.

Note 22 – Contingent Liabilities, Engagements and Claims (Cont.)

B. Engagements (Cont.)

1. Cellcom (Cont.)

C. (Cont.)

In 2021 Cellcom made an adjustment to the balance of debt vis-à-vis Xfone, in order to reflect the arrangements which were specified in the updated sharing agreement, and carried a provision in the amount of NIS 14 million in the statement of income. The total revenue from Xfone which was included in the financial statements to the financial statements for the year ended in 2021 amounted to approximately NIS 57 million.

Presented below are the main terms of the updated sharing agreement

1. Regulation of the use of the parties' relevant frequencies; Management and operation through a shared corporation (the "Shared Corporation"); Regulation of the parties' holdings in the shared network's active components; Regulation of future investments in the shared network's active components; Regulation of the indefeasible rights of use (IRU), with respect to the foregoing components, of each sharing party, towards the other sharing party; Provision of indefeasible rights of use (IRU) by Cellcom to Xfone and to the shared corporation with respect to the shared network's passive components; Regulation of services which will be given by Cellcom to the shared corporation as a subcontractor; Arrangements regarding the parties' separation; And arrangements regarding the addition of another sharing partner. The sharing agreement includes an undertaking by Xfone to obtain, from the Ministry of Communication, an amended mobile license and the allocation of frequencies by virtue of the last frequencies tender, and to pay the license fees, and the frequency fees with respect thereto, to the Ministry of Communication.
2. Agreement period - The agreement will be in effect for a period of 10 years after the completion date. This period will be extended by additional periods, unless one of the parties has announced otherwise. For details regarding the circumstances in which Xfone will have the possibility to shorten the agreement period to seven years, see section 4 below.
3. Consideration - The annual consideration which Cellcom will receive during the period of the agreement with Xfone includes: (1) payment for IRU to the shared network's active and passive components, (2) payment for a certain share of Xfone in the cost of the shared network's active components beginning from the completion date, and (3) payment for participation in the routine operating costs of the shared network and of Cellcom's 2G and 3G networks, depending on the number of Xfone subscribers. Cellcom estimates that the total consideration from the sharing agreement, which also includes participation in the purchasing of equipment for the shared network, will amount, during the agreement period (10 years), to a total of NIS 400 to 600 million. Cellcom believes that the discounts specified in section 4 below, if given, will not significantly change Cellcom's estimate regarding the total consideration from the sharing agreement, while the shortening of the agreement, if it occurs, will proportionately reduce the total consideration.

Note 22 – Contingent Liabilities, Engagements and Claims (Cont.)

B. Engagements (Cont.)

1. Cellcom (Cont.)

C. (Cont.)

Presented below are the main terms of the updated sharing agreement (Cont.)

4. Call option, loan option and put option - Clear Telecommunication Holdings Limited Partnership - Xfone's controlling shareholder after the completion of the aforementioned creditors' settlement ("Clear") was given the possibility to obligate Cellcom to acquire Xfone's entire (100%) share capital, during a period of three to five and a half years after the transaction closing date, in consideration of a total of approximately NIS 130 million (which may increase in certain circumstances) the "Call Option"). Insofar as the aforementioned call option, which is conditional on the receipt of regulatory approvals from the Ministry of Communication and the Competition Commissioner, is not exercisable, Clear was given the possibility to obligate Cellcom to provide to Xfone an interest-bearing loan of the same amount, against collateral, the amount of which was agreed upon between the parties, and subject to the provisions of any applicable law (the "Loan Option") Cellcom is unable to estimate whether the call option will be exercised, and if so, whether the required approvals for its exercise will be received, and under what conditions.

In certain circumstances, in case it is not possible to exercise the call option which was given to Cellcom, nor the loan option, Xfone will be entitled to certain discounts with respect to incremental payments which it will be required to pay to Cellcom, and it will be entitled to shorten the agreement period by three years (to seven years). Insofar as Xfone chooses to shorten the sharing agreement, as stated above, Cellcom was given the possibility to obligate Xfone's shareholders to sell to Cellcom Xfone's entire issued and paid-up share capital, for a total consideration of NIS 130 million, subject to regulatory approvals (the "Put Option"). Cellcom is unable to estimate whether circumstances will be fulfilled which give the right to discounts, to shorten the agreement, or to the put option, whether those rights will be exercised, and insofar as the put option is exercised - whether the regulatory approvals required for it to be exercised will be received, and under what conditions.

D. In July 2019, Cellcom completed the investment transaction in IBC (the "Transaction"). The transaction includes several agreements, which primarily include the following:

1. Partnership agreements - Cellcom and the IIF engaged in agreements for the formation of a limited partnership, jointly owned in equal parts, which would acquire 70% of the share capital of IBC (the "Buyer" or the "IBC Partnership").
2. Share purchase agreement (SPA) - The buyer, IBC, the Israel Electric Corporation (the "IEC") and other main shareholders and creditors of IBC entered into an agreement for the acquisition of 70% of the issued and paid-up share capital of IBC, through the buyer's investment in IBC, for a total sum of NIS 110 million (of which Cellcom paid half) (the "Consideration"). Most of the amount was given as a shareholder's loan (the loans were given at interest rates of 4% to 6% above the highest senior debt). The remaining 30% of IBC's issued and paid-up share capital will be held by the IEC.

Note 22 – Contingent Liabilities, Engagements and Claims (Cont.)

B. Engagements (Cont.)

1. Cellcom (Cont.)

D. (Cont.)

3. Shareholders agreement - The buyer and the IEC (which will hold 70% and 30% of IBC's share capital, respectively) engaged in a shareholders agreement. The agreement formalizes the management of IBC, including certain arrangements with respect to the financing of IBC, and dilution (and non-dilution, in certain circumstances) of the shareholders not participating in the financing.
4. IRU agreement - Cellcom and IBC engaged in an agreement in which Cellcom purchased indefeasible rights of use (IRU) (the Group's undertaking amounted to 15%, until the completion of the transaction involving Hot's investment in IBC, and now amounts to 10% of households in connected buildings) of the households in buildings which are connected to IBC's fiber optic infrastructure, which will be distributed by IBC over the next 15 years (including an option to extend by additional periods, without additional consideration, except for the payment of annual maintenance fees). The consideration for the IRU is subject to the actual distribution of home pass technology by IBC, and will be paid in 36 quarterly installments (over 9 years), in addition to the payment of annual maintenance fees. To secure the payment under this agreement, Cellcom undertook to provide a bank guarantee up to an maximum sum of approximately NIS 35 million.
5. Services agreement with the IEC - The services agreement with the IEC includes updated and improved prices and arrangements with respect to IBC's exclusive right to distribute optical fiber over the IEC's power grid, as well as other services which are provided by the IEC to IBC in this regard.
6. Additionally, in July 2019, the Group and IBC completed a transaction for the sale of Cellcom's independent optical fiber infrastructure in residential areas to IBC, in consideration of a total of approximately NIS 180 million. The IRU agreement, including the Group's undertaking to acquire indefeasible rights of use with respect to a certain percentage of the households in the buildings which are connected to IBC's optical fiber infrastructure (as specified above) applies also to the infrastructure which was acquired from Cellcom.
7. In September 2020, Cellcom engaged, together with the IIF, in investment agreements with Hot Cable Telecommunication Systems Ltd. (together with its related entities) ("Hot") in IBC. In addition to standard and customary conditions, the transaction includes an undertaking to significantly increase the distribution of IBC's fiber optic network (approximately 1.7 million households) in the coming years, and the following main points:
   A. Investment agreements - between the IBC Partnership and Hot, under which Hot will become an equal partner in the IBC Partnership (such that each of the partners will indirectly hold 23.3% of IBC's share capital), by making an investment which will be essentially identical to the investment which was made by Cellcom and the IIF, until the transaction completion date. The investment agreements also include additional corporate governance rights, and other mechanisms.
   B. Agreement regarding the purchase of IRU in IBC's fiber optic infrastructure - between IBC and Hot, in which Hot undertook to acquire indefeasible rights of use in IBC's fiber optic network.

Note 22 – Contingent Liabilities, Engagements and Claims (Cont.)

B. Engagements (Cont.)

1. Cellcom (Cont.)

D. (Cont.)

7. (Cont.)

C. Services agreement - between IBC and Hot, in which IBC undertook to purchase certain services from Hot, and was entitled to purchase additional services.

D. IBC also undertakes to continue purchasing certain services from Cellcom which Cellcom provides to it after the completion date.

The transaction was closed in February 2021, after the required regulatory approvals were received.

2. Property & Building

A consolidated company of Property & Building engages, in the ordinary course of business, in combination transactions with land owners (including "vacation-construction" projects) according to which, Property & Building the acquisition of the land, the sellers receive some of receipts from the project and/or some of the units which will be built. The transactions are partially conditional upon the approval of a zoning plan for residence on the land.

C. Claims

The Company and the Group's member companies are involved in legal claims, or various legal proceedings are pending against them ("Legal Claims"). The costs which may arise from legal claims are provided in the financial statements of the Company or of the relevant member companies in the Group, as applicable, only if "it is more likely that not" (i.e., likelihood greater than 50%) that liability will arise due to past events, and the liability amount is quantifiable or estimable within a reasonable range. The amounts of the provisions which were performed are based on an estimate of the Group's relevant member companies, regarding the extent of risk of each of the claims (excluding some of the claims, regarding which, due to the preliminary stage of the handling thereof, it is not possible to estimate their chances of success). On this matter, it should be noted that events which occur during litigation may require re-evaluation of this risk. The estimates of the Group's relevant member companies regarding the risk are based both on the opinions of their legal advisors and on the estimate of the relevant member companies in the Group, regarding the amounts of the reasonable settlement arrangements which those companies are expected to bear, if the aforementioned settlement arrangements are agreed to by both parties. The following claims are presented at amounts that are correct as at the date of their filing, unless noted otherwise.

Note 22 – Contingent Liabilities, Engagements and Claims (Cont.)

C. Claims (Cont.)

1. DIC

The financial statements of DIC as at December 31, 2021 do not include provisions with respect to legal claims against DIC.

Presented below is a description of the pending claims against DIC, classified in accordance with groups with similar characteristics:

Group of claims	Description of claims	Original claim amount NIS millions
Claim and motion to approve it as a class action	A claim against the Company, the Company's former controlling shareholder, and directors and corporate officers of the Company, which includes assertions, inter alia, against the respondents' conduct, regarding the non-performance of proactive steps in order to keep DIC stock on the wherein it was traded, once the public holdings therein did not meet the threshold which was determined and entered into effect on February 1, 2018.	18
Employee claims	Employee claims against the Company	1
Total		19

2. Claims against investee companies

A. **Claims against Cellcom**

1. The provision which was included in Cellcom's financial statements as at December 31, 2021, with respect to all of the claims against Cellcom, amounted to a total of NIS 82 million.

   Presented below is a description of the pending claims against Cellcom, classified by groups with similar characteristics:

Group of claims	Claim amount	Amount of exposure to claims whose chances cannot yet be estimated	Total
	NIS millions		
Consumer claims	1,697 (2),(1)	35	1,732
Other claims	12	-	12
Total	1,709	35	1,744

(1) Including class actions against Cellcom and additional defendants together in the total amount of NIS 700 million, in which an amount claimed from Cellcom was not specified, and two additional claims against Cellcom and additional defendants together, in which the amount claimed from Cellcom was estimated by the plaintiffs as a total of NIS 10 million.

(2) There are additional claims pending against Cellcom, with respect to which the claim amount was not specified, to which Cellcom has additional exposure.

Note 22 – Contingent Liabilities, Engagements and Claims (Cont.)

C. Claims (Cont.)

2. Claims against investee companies (Cont.)

A. **Claims against Cellcom (Cont.)**

2. Presented below are details regarding the amount and quantity of contingent liabilities against Cellcom which are in effect as at December 31, 2021, distributed by claim amount:

Claim amount	Number of claims	Claim amount (NIS millions)
Up to NIS 100 million(1)	47	479
NIS 100 million to NIS 500 million	2	555
Claims in which the claim amount was not specified	16	-
Claims against Cellcom and additional defendants together in which the amount claimed separately from Cellcom was not specified	2	700
Claims against Cellcom and additional defendants together, in which the amount claimed separately from Cellcom was specified	2	10
Claims in which the amount claimed from Cellcom and additional defendants was not specified	5	-
Total	74	1,744

(1) Including 34 claims which were presented against Cellcom by employees, subcontractors, providers, property renters, authorities and others, at a scope of NIS 12 million.

3. In June 2021, a ruling was given by Central District Court regarding a class action which was filed against Cellcom in December 2014, alleging that Cellcom had collected from its customers payment with respect to a full monthly billing cycle, even if they disconnected during it, and not at the end, which requires Cellcom to pay a sum of NIS 32 million (including compensation for the plaintiff, and legal fees). Cellcom requested, and received, a stay of execution with respect to the payment of the foregoing amount, and in October 2021, filed an appeal against the ruling with the Supreme Court. In light of the ruling, Cellcom included, under the item for other expenses in 2021, the entire aforementioned amount.

4. **Details regarding claims subsequent to the date of the statement of financial position**

After the date of the statement of financial position, 2 claims and motions to approve them as class actions were filed against Cellcom in an amount which was estimated by the plaintiffs at a total of NIS 47 million. At this preliminary stage, it is not possible to estimate their chances of success. Additionally, 7 claims and motions to approve them as class actions were approved, in a total amount which was estimated by the plaintiffs at a total of NIS 448 million.

Note 22 – Contingent Liabilities, Engagements and Claims (Cont.)

C. Claims (Cont.)

2. Claims against investee companies (Cont.)

B. **Claims against Property & Building**

1. Presented below is a description of pending claims against Property & Building, classified by groups with similar ownership characteristics:

Group of claims	Balance of the provision	Amount of exposure to claims whose chances cannot yet be estimated	Total
		NIS millions	
Claims of executing contractor	-	23	23
Claims of apartment buyers	1	8	9
General claims	-	1	1
Total	1	32	33

2. Presented below are details regarding the quantity and amount of Property & Building's contingent liabilities as at December 31, 2021, distributed by claim amount:

Claim amount	Number of claims	Claim amount (NIS millions)
Up to NIS 100 million	37	33

3. For details regarding a statement of claim and a motion to approve the claim as a class action against Property & Building and against Aharon Frankel and accompany owned by him, in which it was asserted, inter alia, that the special tender offer which was published after Property & Building's engagement in the purchase transaction was executed after Property & Building had effectively already passed the holdings threshold of 45% of Gav-Yam's share capital, and acquired control of it, unlawfully, in bad faith, while discriminating against the minority interests in Gav-Yam, see Note 34.C. below.

Note 23 - Sales and Services

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Telecommunication services	2,958	2,819	2,791
Sale of communication equipment	1,187	910	964
Income from the agriculture segment (1)	1,041	823	-
Building rentals (2)	40	101(5)	151(5)
Sale of apartments and real estate (4)	44	109	336
Income from management and consulting fees of an investment house	75	55	50
Others	33	23	59
	5,378	4,840	4,351

(1) With respect to the initial consolidation of Mehadrin in March 2020.
(2) Presented below is the minimum future rent which is expected to be received due to rental agreements which are in effect as at December 31:

	For the year ended December 31		
	2021(3)	2020(5)	2019(5)
	NIS millions		
First year	1	48	122
Second year	-	41	87
Third year	-	28	67
Fourth year	-	18	40
Fifth year	-	15	24
Over five years	-	30	34
	1	180	374

(3) For details regarding transactions to realize investment property of Property & Building, see Note 12 above.
(4) Presented below are the revenues which are expected to be recognized in the coming years, which are associated with performance obligations which have not yet been completed, with respect to apartments which were sold as at that date:

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
First year	22	8	47
Second year	22	-	6
Third year and thereafter	4	-	-
	48	8	53

(5) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

Note 24 - The Group's Share in the Profit (Loss) of investee companies Accounted by the Equity Method, Net

Profit (loss) based on the equity method

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
The Group's share in the profit (loss) of investee companies accounted by the equity method, net	323	(15)	(28)
Amortization of excess cost with respect to associate companies	16	-	9
Total profit (loss) based on the equity method, net	339	(15)	(19)

Note 25 - Profit (Loss) from Increase in Value (Impairment), Realization and Write-down of Investments and Assets, and Dividends

A. Profit from realization and increase in the value of investments and assets, and dividends

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Profit from realization of investments in investee companies	138(1)	16	-
profit from loss of significant influence of associates	18	-	-
Profit from increase in value of investments are measured at fair value through profit or loss	28	7	17
Gain from rise to control of Mehadrin	-	7	-
Profit due to loss of control of Pocared	-	10	-
Dividend income and cash distributions from financial assets measured at fair value through profit or loss	2	16	8
Profit from realization of assets	-	8	9
Profit from the allocation of negative value to goodwill in the allocation of excess cost to the investment in Mehadrin	-	-	72
Other	-	-	2
	186	64	108

(1) See Notes 3.G.4.C.-E. above.

B. Loss from realization, impairment, and write-down of investments and assets

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Loss from realization of investments in investee companies	11	34	-
Impairment loss of investments are measured at fair value through profit or loss	22	40	30
Loss from impairment of assets and investments	2	1	606(1)
Loss due to rise to control	-	-	22
Loss from the measurement assets and liabilities held for sale at fair value	6	38	74
Loss from realization of assets	-	-	1
Other	-	-	2
	41	113	735

(1) Impairment loss of goodwill attributed to Cellcom in the amount of NIS 606 million. The Company's share in the loss amounted to NIS 517 million.

Note 25 - Profit (Loss) from Increase in Value (Impairment), Realization and Write-down of Investments and Assets, and Dividends (Cont.)

C. Other income

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Sale of land option	173[(1)]	-	-
Profit from executing contractor in the mobile segment	39	23	2
Interest income with respect to sale transactions in installments in the mobile segment	12	18	23
Other	17	-	-
	241	41	25

(1) See Note 3.G.3. above.

Note 26 - Financing Income and Expenses

A. Financing income

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Financial assets and financial liabilities at fair value through profit or loss			
Change, net, in the fair value of financial assets	31	-	103
Net positive change in the fair value of financial assets, including instruments for cash flow hedging which were transferred from capital	60	-	-
Loans and receivables and financial instruments at amortized cost			
Interest income from deposits in banks	11	10[(1)]	29[(1)]
Interest income from loans and debit balances receivable	11	10	10
Profit from early redemption of debentures	-	7	78
Other			
Interest income from associate companies	-	1	12
Other financing income	3	-	2
Total financing income	116	28	234

Note 26 - Financing Income and Expenses (Cont.)

B. Financing expenses

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Financial liabilities measured at amortized cost			
Interest expenses and linkage differentials on financial liabilities, including amortization of deferred expenses	553	493(1)	590(1)
Interest expenses and linkage differentials with respect to finance leases	27	26	24
Loss with respect to exchange of debenture series	38(2)	-	-
Financial assets and financial liabilities at fair value through profit or loss			
Net negative change in the fair value of financial assets, including instruments for cash flow hedging which were transferred from capital	-	21	12
Change, net, in the fair value of financial assets	-	55	-
Other			
Net loss from change in foreign currency exchange rates	15	104	38
Commissions	1	-	-
Other financing expenses	9	15	15
Total finance expenses	643	714	679

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.
(2) See Note 15.C.1. above.

Note 27 - Cost of Sales and Services

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Cost of end user equipment and communication services			
Cost of end user equipment and materials	1,004	784	711
Payroll and other associated expenses	162	199	232
Payments to communication operators	792	795	763
Cost of content services	228	261	267
Depreciation and amortization	565	597	601
Rent and associated expenses	88	66	64
Royalties and fees	90	86	85
Others	65	43	46
	2,994	2,831	2,769
Cost of sold apartments and land			
Construction costs	18	48	158
Land	13	26	87
Others	-	14	45
	31	88	290
Asset maintenance cost			
Work salary	1	4(1)	5(1)
Other costs	11	23(1)	28(1)
	12	27	33
Agricultural produce (2)			
Purchase cost of agricultural produce	480	387	-
Materials	52	38	-
Payroll and associated expenses	148	109	-
Exterior works	38	27	-
Export expenses	241	228	-
Credit losses	1	2	-
Depreciation and amortization	36	27	-
Changes in inventory	(6)	1	-
	990	819	-
Other costs	22	27	45
Total	4,049	3,792	3,137

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

(2) With respect to the initial consolidation of Mehadrin in March 2020.

Note 28 - Selling and Marketing Expenses

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Payroll, salary and associated expenses[(1)]	300	261	315
Advertising	59	43	60
Depreciation and amortization	197	167	155
Commissions and royalties to marketers	83	83	88
Commissions	22	19	18
Others	28	27	33
	689	600	669
[(1)] Including salary with respect to share-based payment	4	4	-

Note 29 - General and Administrative Expenses

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Payroll and salaries [(1)]	177	182	155
Welfare and related payments for employees	25	31	27
Consulting and legal	31	53	55
Directors' compensation	7	9	6
Depreciation and amortization	141	169	152
Related expenses with respect to rentals	30	27	23
Credit losses	5	34	29
Donations	-	5	5
Insurance policies	14	24	10
Others	37	19	28
	467	553	490
[(1)] Including salary with respect to share-based payment	12	21	1

Note 30 - Taxes on Income

A. Composition

	For the year ended December 31		
	2021	2020[(1)]	2019[(1)]
	NIS millions		
Current tax expenses (income)			
Taxes with respect to current period	83	39	31
Adjustments with respect to previous years, net	(6)	3	(2)
Total current tax expenses	77	42	29
Deferred tax expenses (income)			
Change to deferred taxes with respect to temporary differences	79	(60)	(2)
Deferred taxes with respect to previous years	-	(2)	-
Total deferred tax expenses (income)	79	(62)	(2)
Total income tax expenses (income)	156	(20)	27

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

Note 30 - Taxes on Income (Cont.)

B. Deferred tax assets and liabilities

(1) Deferred tax assets and liabilities which were recognized

	Fixed assets	Intangible assets	Employee benefits	Financial instruments	Deductions and carryforward losses for tax purposes	Investment property	Others	Total
	NIS millions							
Movement in deferred tax asset (liability)								
Balance as at January 1, 2020	(170)	(72)	8	(5)	378	(713)	41	(533)
Changes applied to the statement of income	15	2	-	6	(10)	93	-	106
Changes applied to other comprehensive income	-	-	-	-	(18)	39	(1)	20
Business combinations	(58)	(21)	3	(1)	10	-	2	(65)
Balance as at December 31, 2020	(213)	(91)	11	-	360	(581)	42	(472)(2)
Changes applied to the statement of income	10	(4)	-	(1)	86	(156)	(34)	(99)
Changes applied to other comprehensive income	-	-	-	-	(10)	18	1	9
Other changes	-	-	-	-	-	-	2	2
Balance as at December 31, 2021	(203)	(95)	11	(1)	436	(719)	11	(560)(2)

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

	As at December 31	
	2021	2020
	NIS millions	
Under deferred tax assets	6	5
Under deferred tax liabilities	(566)	(477)
	(560)	(472)

Note 30 - Taxes on Income (Cont.)

B. Deferred tax assets and liabilities (Cont.)

(2) Temporary differences for which deferred taxes were not recognized

Deferred tax assets were not recognized with respect to the following temporary differences:

	As at December 31	
	2021	2020
	NIS millions	
Deductible temporary differences	5,542	5,582(1)
Losses for tax purposes	11,505	11,698
	17,047	17,280

(1) Reclassified.

Deferred tax assets were not recognized with respect to these temporary differences, since it is not expected that the temporary difference will reverse in the foreseeable future, and that there will be taxable income in the foreseeable future against which it will be possible to use the tax benefits.

As at December 31, 2021 and 2020, the Group has no temporary differences which are attributed to investments in investee companies, which would have required the recognition of deferred tax liabilities, in consideration of transferred losses for tax purposes.

The aforementioned temporary differences do not include temporary differences which are attributed to subsidiaries of the Company, when the Group has the ability to control their reversal method.

C. Tax rates which apply to the income of the Group's member companies

The relevant corporate tax rate in Israel in the years 2019-2021 is 23.0%.

Current taxes for the reporting periods are calculated in accordance with the tax rate presented above.

Note 30 - Taxes on Income (Cont.)

D. Non-application of International Financial Reporting Standards (IFRS) for tax purposes

In January 2012, Amendment 188 to the Income Tax Ordinance (New Version), 5721-1961 (the "Ordinance") was published in the Official Gazette, which included an amendment to section 87A of the Ordinance, in a manner which determined in a transitional provision that Accounting Standard 29 - "adoption of International Financial Reporting Standards (IFRS)", published by the Israel Accounting Standards Board, will not apply with respect to the determination of the taxable income with respect to the tax years 2010 and 2011, even if this standard was applied in the financial statements (the "Transitional Provision"). On July 31, 2014, amendment 202 to the Ordinance was published, in which the validity of the transitional provision was extended with respect to the tax years 2012 and 2013.

In 2014, an updated Law Memorandum was published in amendment of the Income Tax Ordinance (the "Law Memorandum"), due to the adoption of IFRS in the financial statements. In general, the Law Memorandum adopts IFRS. However, in accordance with the Law Memorandum, several amendments were proposed to the Income Tax Ordinance, which will serve to clarify and determine the method for calculation of taxable income for tax purposes, in cases involving uncertainty, and where IFRS are inconsistent with the principles of the tax approach in Israel. The legislative procedures with respect to the Law Memorandum have not yet been completed, and are unlikely to be completed in the near future.

Due to the non-completion of the legislative procedures with respect to the Law Memorandum, Company management estimates that the transitional provisions which were determined for the years 2007 to 2013 will eventually be extended also to the years 2014 to 2021. In light of the above, Company management expects that, at this stage, the new legislation will not apply to tax years prior to the 2022 tax year.

E. Further to that stated in Note 1.A. above regarding the appointment of receivers for Company shares which constitute approximately 82% of its issued capital, and regarding the approval of the offer of Mega Or and ELCO to acquire the aforementioned shares of the Company, in 2020 and 2021 Property & Building's management evaluated events involving a "change in ownership", as defined in section 382 of the Internal Revenue Service tax code ("IRS").

These changes in ownership re-quantify the ability to use the carryforward tax losses of PBC USA Investments Inc. ("PBC USA"), a wholly owned company of Property & Building which indirectly holds the HSBC Tower, and restrict the ability of PBC USA to use them in order to offset the taxable income during the period of approximately 7 years after the change in ownership. The foregoing restriction has a cash flow effect only, since it pertains to the amount of loss which can be deducted from taxable income each year separately, in the aforementioned 7 year period, and does not restrict the total amount of loss carried forward to future years. Furthermore, if the real estate property is sold, the aforementioned deduction limit does not apply. After that period, the limit will be effectively removed.

Note 30 - Taxes on Income (Cont.)

F. Adjustment between the theoretical tax amount on income before taxes on income and tax expenses

	For the year ended December 31		
	2021	2020[(1)]	2019[(1)]
		NIS millions	
Profit (Loss) before tax, as reported in the statement of income	919	(830)	(982)
The Group's principal tax rate	23%	23%	23%
Tax calculated according to the Group's principal tax rate	212	(190)	(226)
Tax (tax savings) with respect to:			
The Group's share in the (profit) loss after tax, in the tax exempt (profit) realization and amortization of investee companies, net	(84)	12	123
Adjustments with respect to different tax rates in subsidiaries operating abroad	5	1	-
Taxes with respect to investee companies, the investment in which was sold or is for sale	7	-	24
Changes in temporary difference for which deferred tax are not recognized	(7)	81	40
Losses, tax benefits and temporary differences from previous years with respect to which deferred taxes were not recorded	6	(7)	(8)
Losses and current benefits for tax purposes with respect to which a deferred tax asset was not recognized, and credits for which a tax benefit was not recognized	21	62	30
Unrecognized expenses	8	16	21
Tax exempt income	-	-	(2)
Taxes with respect to previous years	(6)	11	(2)
Other differences	1	(6)	27
Expenses (income) from taxes on income	156	(20)	27

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

G. Final tax assessments

- The Company has tax assessments which are final, or are considered final, up to and including the tax year 2016.
- Most of the Group's member companies have tax assessments which are final or considered final up to and including 2016-2019.
- Tax reports which were filed until the end of 2017, are considered a final assessment in accordance with section 145 of the Income Tax Ordinance.

H. Losses and deductions for tax purposes carried forward to future years

- The Company has losses for tax purposes which are transferable to subsequent years, which amount, as at the date of the statement of financial position, to NIS 6,369 million (in 2020 - NIS 6,285 million).
- The Group has losses for tax purposes which are transferable to subsequent years, which amount, as at the date of the statement of financial position, to NIS 12,261 million (in 2020 - NIS 12,548 million).

Note 31 - Related Parties and Interested Parties

Further to that stated in Note 1.A. to the Company's annual financial statements for 2020, regarding the issuance of a ruling by the Court of Tel Aviv-Yafo (the "Court"), on September 25, 2020, according to which an order was given to initiate proceedings against IDB Development, as well as an order to liquidate it, and regarding the receivership process with respect to the Company's shares, in which the Court gave a decision to sell the Company's shares to Mega Or and a group of investors led by it (the "Sale Transaction"), from the completion date of the first stage of the sale transaction, on March 25, 2021, in which approximately 24.9% of the Company's issued capital was transferred to Mega Or and to additional buyers, and from that date onwards, the Company is a company without a controlling shareholder (according to the definition of the term "control" in the Securities Law). As at the reporting date, the Company is held, inter alia, by Mega Or (which holds approximately 29.9% of the Company's issued capital), and Elco Ltd. (which holds approximately 29.8% of the Company's issued share capital, and has been an interested party in the Company since June 3, 2021). It is noted that, in light of the fact that Mega Or and Elco are considered as the Company's controlling shareholders in accordance with the provisions of section 268 of the Companies Law (Mega Or since April 20, 2021, and Elco since June 3, 2021), and with respect to the manner of approval of transactions between a public company and its controlling shareholder, exclusively, transactions of the Company with Mega Or and/or Elco and/or corporations under their control and/or other transactions in which Mega Or and/or Elco (including corporations under their control, as stated above) have a personal interest, are classified and approved in accordance with the provisions of the Fifth Chapter of the Companies Law.

A. Non-extraordinary insignificant transactions

(1) The Company's Audit Committee established guidelines and rules for classifying a transaction of the Company or of its consolidated company with an interested party as an insignificant transaction as prescribed in Regulation 41(a3)(1) of the Financial Statements Regulations. These rules and guidelines are also used to evaluate the scope of the disclosure which is required in a periodic report and in a prospectus (including in shelf offering reports) with respect to a transaction of the Company, entities under its control and related companies to its controlling shareholder or regarding which the controlling shareholder has a personal interest in the approval of the aforementioned transaction, as specified in Regulation 22 of the Periodic and Immediate Reports Regulations, and in Regulation 54 of the Securities Regulations (Details of Prospectus and Draft of Prospectus – Structure and Form), 5729 - 1969 (hereinafter: the "Prospectus Details Regulations") (the types of transactions specified in the aforementioned financial statement regulations, periodic reports regulations and prospectus details regulations are hereinafter referred to as "Interested Party Transactions"). The guidelines are also used to determine the method for approval of interested party transactions.

These rules are applied in connection with transactions between the Company and related parties and between related parties themselves. The aforementioned rules and guidelines were updated in March 2022.

Note 31 - Related Parties and Interested Parties (Cont.)

A. Non-extraordinary insignificant transactions (Cont.)

(2) To the best of the Company's knowledge, the Company and its consolidated companies engage or have engaged in non-extraordinary insignificant transactions with interested parties of the Company, transactions of this kind between the Company and related parties of the Company, including among themselves (including joint ventures between companies which have interests in the Company and/or in IDB Development), in their ordinary course of business, and they have, or may have, commitments to engage in transactions of this kind, including transactions of the following kinds and with the following characteristics: **(A)**Transactions involving the purchase or sale of products, services, and raw materials (such as telecommunication products and services, data storage services and alternative backup site services, refrigeration and rental services, pest control and packaging materials, fruits, vegetables and food products, and other shelf products, including commissions with respect to such transactions and services); **(B)** Transactions to purchase hosting services; **(C)** Transactions involving the rental of real estate properties (including subleases) and property management services; **(D)** Distribution of fiber optic infrastructure; **(E)** Investment banking services, consulting services, underwriting and securities distribution services; **(F)** Holding, from time to time, of units of investment funds and mutual funds which are managed by interested parties, and management of securities deposits in Israel and around the world, as well as other liquid balances.

It is noted that during the reporting period, and until the approval date of the rules and guidelines in March 2022, the aforementioned rules and guidelines included additional types of transactions (as specified in Note 31.A.(2) to the Company's annual financial statements for 2020), in which the Company and its consolidated companies approved insignificant transactions in 2021 with interested parties of DIC group, including the Company, during the periods which are relevant to this note.

(3) According to the criteria and guidelines which were in effect during the reporting period, if no special qualitative considerations arise from the overall circumstances of the matter, an interested party transaction that is not an extraordinary transaction (i.e. – it is executed in the ordinary course of business, at market terms and is not supposed to have a material effect on the profitability, assets or liabilities of the Company) is considered insignificant if the relevant ratio calculated for the transaction is less than 0.5%, or if the amount of the transaction does not exceed NIS 8 million (with this amount being adjusted according to the rate of increase, from time to time, of the known consumer price index, relative to the start of 2010). As at December 31, 2021, this amount stands at NIS 8.7 million (the "Insignificance Threshold Amount").

For every interested party transaction that is being examined for insignificance, one or more of the ratios relevant to the specific transaction will be calculated on the basis of the most recent audited or reviewed consolidated financial statements of the Company: (a) for purchases of fixed assets ("non-current asset") – the amount of the transaction compared to total assets in the statement of financial position that is included in the most recent consolidated financial statements of the Company; (b) for sales of fixed assets ("non-current asset") – The profit/loss from the transaction compared to the average annual profit (i.e., over four quarters) during the last 12 quarters for which audited or reviewed consolidated financial statements of the Company were published.

Note 31 - Related Parties and Interested Parties (Cont.)

A. Non-extraordinary insignificant transactions (Cont.)

(3) (Cont.)

For this purpose, the profit/loss from the transaction, and the profit/loss in each quarter, will be taken into account according to their absolute value; (c) for the acceptance of financial liabilities – the scope of the transaction compared to total liabilities in the statement of financial position included in the most recent consolidated financial statements; (D) When buying / selling products (excluding fixed assets) or services - The scope of the transaction vs. total operating expenses or income (including from discontinued operations) from sales of products or services, as applicable, during the last four quarters for which the Company's audited or reviewed consolidated financial statements have been published.

With respect to multi-year transactions, the scope of the transaction will be calculated for the purpose of evaluating the insignificance on an annual basis. For example, in a multi-year rental transaction, the scope of the transaction will amount to the rent paid annually.

In cases where the Company believes that all the aforementioned quantitative ratios are irrelevant to the insignificance examination of the interested party transaction, the transaction will be considered insignificant on the basis of some other relevant ratio to be determined by the Company, providing that the relevant ratio calculated for the transaction is less than 0.5%, or if the amount of the transaction does not exceed the insignificance threshold. The qualitative examination of an interested party transaction may lead to classification of the transaction as a transaction that is not insignificant, notwithstanding the foregoing. As an example only, an interested party transaction is usually not considered insignificant if it is perceived by management of the Company as being a significant event and is a basis for making management decisions, or if interested parties are expected to receive from the interested party transaction benefits that it is important they be reported to the public.

Separate transactions that are inter-dependent, so that they are in fact a part of the same engagement (such as concentrated negotiations regarding all the transactions) shall be examined as one transaction. An interested party transaction that was classified as insignificant by an investee company of the Company will also be considered insignificant at the level of the Company. A transaction which was classified, as stated above, by the investee company as not insignificant, or which was not classified by the investee company at all, shall be examined according to the relevant criteria at the level of the Company.

The Company's Audit Committee shall each year review the implementation of the instructions of these criteria and guidelines by the Company, and shall conduct a sample examination of transactions in which the Company is a direct party and which were classified as insignificant transactions according to the instructions of the procedure. As part of the sample assessment of such transactions, the Audit Committee shall review, among other things, the manner in which the prices and other terms of the transactions were determined, under the circumstances of the matter, and shall assess the impact of the transaction on the financial position and operating results of the Company.

Note 31 - Related Parties and Interested Parties (Cont.)

A. Non-extraordinary insignificant transactions (Cont.)

(3) (Cont.)

The actions of the Audit Committee as set out in this paragraph, including the aforementioned sample assessment, the manner in which the assessment was made and a summary of the results and conclusions of such assessment shall be disclosed in the periodic report of the Company. Accordingly, in March 2022, the sample assessment was presented before the Company's Audit Committee, along with the method by which it was performed and a summary of its results and conclusions, as follows: a list was presented of transactions that were executed by the Company and the wholly owned headquarter companies of the Company with interested parties and related companies in 2021, during the relevant period, including the name of the related party, the nature of the engagement and the amount of the transaction or transactions in the aforesaid year. A sample of such transactions was also analyzed and compared with price proposals, as required, or approvals which were received from the related party at the time of examining the transactions in question, or as part of annual approval. The Company's Audit Committee will evaluate the need to update the provisions of the aforementioned policy once per year, in consideration of interested party transactions in which the Company engages, and changes in the relevant provisions of the law, which will require approval from the Audit Committee at least once per year.

(4) The classification of a transaction as insignificant was made on the basis of the aforementioned criteria and guidelines that were valid on the date of the transaction, as relevant.

In this note, the identification of interested parties and the identification of transactions with related parties or transactions in which interested parties have a personal interest, did not include, in general, taking into account transactions with third parties due to the fact that the securities of those third parties are held by institutional entities which are held by the Group within the framework of non-nostro holdings (such as provident funds and mutual funds), and therefore, this note also does not include details regarding transactions and balances with the aforementioned third parties.

Furthermore, this note does not provide disclosure of transactions with consolidated companies which are not reflected in these consolidated financial statements (excluding extraordinary transactions which took place in 2021, or which are ongoing.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date

1. (A) Agreement for the distribution of uses and office expenses

On August 29, 2019 (and as updated on November 26, 2019), the Audit Committee[1] approved (as a non-extraordinary transaction in which the Company's controlling shareholder and officers have a personal interest) the Company's engagement with IDB Development, Property & Building, Gav-Yam and Elron, in an agreement for the distribution of uses and office expenses in the shared offices to which the Company moved its offices in the ToHa project on 114 Yigal Alon St. in Tel Aviv, in accordance with a lease agreement in which the Company engaged with Gav-Yam and Amot Investments Ltd., for the rental of offices and parking spaces for the period beginning on July 1, 2019, and ending after 15 years, with the possibility of two option periods (of approximately 5 years each) (the "Lease Agreement"). The agreement formalizes the method for distribution of the costs associated with the leased property, the associated costs and the adjustment costs, in a manner which reflects the proportional part of each of the parties to this agreement to the leased areas (the "Expense Distribution Agreement").

DIC and IDB Development were considered a single party for the purpose of dividing the payment of the shared expenses between the parties to the agreement, and bore the shared expenses in accordance with the service cost allocation ratio, as defined in the cost distribution agreement (services agreement) in which they engaged, and which was in effect until September 25, 2020, as specified above and below (as of the date of engagement and during the period of the agreement: 60% DIC and 40% IDB Development). For additional details, see Note 31.B.1.(B). below. In November 2019, the Board of Directors of IDB Development approved its engaged in the expense distribution agreement. Further to the approval which was given by the Audit Committee and Board of Directors in August 2021, for the Company's engagement in a cost distribution agreement (services agreement) with Property & Building (the "Services Agreement"), as specified in Note 31.B.1.(B) below, the expense distribution agreement was updated such that the Company and Property & Building will be considered a single party for the purpose of the division of the payment of the shared expenses between the parties to the agreement, and will bear the shared expenses according to the service cost allocation ratio, as defined in the services agreement (as of the date of the engagement, 50% DIC and 50% Property & Building), with no change to the expense distribution agreement relative to the current expense distribution agreement. It is noted that the above also applies, inter alia, to the settling of accounts between DIC and Property & Building in connection with the sublease agreement in which DIC engaged with a sublessee which is unaffiliated with the Company, with respect to half of the leased area (which is the maximum possible area in accordance with the lease agreement, for engagement in a sublease agreement), beginning on January 1, 2022.

[1] This approval was also received from the other participating companies, in accordance with the decisions of their competent organs, as applicable.

<u>Note 31 - Related Parties and Interested Parties</u> (Cont.)

B. <u>Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date</u> (Cont.)

1. (Cont.)

Each of the parties to the expense distribution agreement will bear the costs of the leased property, with respect to their share in the office areas and parking spaces which have been assigned to them according to a diagram, in accordance with the terms of the lease agreement. The leasehold costs with respect to the shared areas, which will be used by all of the parties to the expense distribution agreement, and associated expenses (e.g., cleaning, insurance, logistical services, kitchen services and routine maintenance) will be paid by the parties according to the ratio between the number of employees who are employed by each party in the office areas, and all of the employees who are employed by all of the parties to the agreement regarding the distribution of expenses in the office areas, without taking into account the staff of employees who serve all of the parties in the office areas (e.g., logistical services cleaning staff, and routine maintenance). An arrangement was also reached regarding the division of leasehold costs with respect to corporate officers and employees who hold office / work, as applicable, in several companies which are the parties to the expense distribution agreement. The parties to the expense distribution agreement will also bear, each according to its proportional part, as specified above, the costs of the adjustment works with respect to the office areas, including payments to executing contractors, purchases of furniture, electrical products and other equipment, as well as consulting, management and supervision services. With respect to 2020 and for the period from July to December 2019, the Company's share (60%) in rent and related payments, as specified above, amounted to NIS 2.4 million and NIS 0.9 million, respectively. With respect to the period from January 1, 2021 to June 30, 2021, and with respect to the period from July 1, 2021 to December 31, 2021, the Company's share (50%) in the rent and associated payments, as stated above, amounted to NIS 1.7 million and NIS 0.8 million, respectively.

On November 26, 2019 and November 28, 2019, as part of the expense distribution agreement, the Company's Audit Committee and Board of Directors, respectively, approved the Company's engagement with Elron (a subsidiary of the Company) in connection with indemnification for rent associated with Elron's offices in Azrieli Towers, insofar as they are not leased to a third party, beginning in January 2020, in an immaterial sum, without addressing the question of whether the engagement constitutes an extraordinary engagement in which the Company's controlling shareholder and officers have a personal interest. The aforementioned engagement was also approved by Elron's competent organs.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

1. (Cont.)

(B) Cost distribution agreement (services agreement)

Further to a previous agreement with IDB Development (for details, see Note 31.B.1.(B) to the Company's financial statements for 2019), on June 25 and 29, 2020, the Company's Audit Committee and Board of Directors approved, respectively, approved updates to the terms of the Company's engagement with IDB Development in the cost distribution agreement (services agreement), for a three year period beginning on July 1, 2020 (the "Updated Services Agreement with IDB Development"), and which concluded on September 25, 2020, as specified above and below. The services agreement with IDB Development included, inter alia, a stipulation that, instead of the allocation ratio with respect to the cost of the shared services, as specified in the services agreement, according to which the Company bore 60% of the compensation cost of the service providers (as defined in the above note), and IDB Development bore 40% of said cost, in consideration of the performance of the shared work, IDB Development would pay to the Company a fixed annual payment in the amount of NIS 3.3 million with respect to the first year (i.e., July 1, 2020 to June 30, 2021), and a total of NIS 2.5 million beginning from the end of the first year (plus VAT). Accordingly, further to the mechanism which was specified in the agreement regarding the distribution of uses and office expenses, as specified in Note 31.B.1.(A) to the annual financial statements for 2019, the cost ratio between the Company and IDB Development was updated such that, with respect to the costs addressed in the aforementioned agreement, IDB Development paid an annual cost of NIS 700 thousand (plus VAT) with respect to the first year (beginning on July 1, 2020) and NIS 500 thousand with respect to the second year and thereafter. The engagement in accordance with the updated services agreement with IDB Development, as stated above, was approved in August 2020 by the Company's general meeting (by a majority among the shareholders who had no personal interest in the decision), and was approved by the competent organs of IDB Development.

In October 2020, the trustee of IDB Development notified DIC of the termination of the updated services agreement and the annexes thereto, beginning on September 25, 2020. In light of the above, in the financial statements for 2020, the Company included a provision for doubtful debts in the amount of NIS 7 million, with respect to IDB Development's unsecured debt towards the Company. On November 5, 2020, the Company submitted a debt claim in connection with IDB Development's debt to the Company.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

1. (Cont.)

(B) Cost distribution agreement (services agreement) (Cont.)

On August 19, 2021, the Company's general meeting approved (after receiving approval from the Audit Committee on August 16, 2021) the Company's engagement in a cost distribution agreement (services agreement) (the "Agreement") with Property & Building, for a period of three years from July 1, 2021 to June 30, 2024 (the "**Agreement Period**"). The agreement will enter into effect on the date of receipt of the Tax Authority's approval, as specified below, and will apply retroactively beginning on July 1, 2021. Under the agreement, DIC will provide to the Company and Property & Building, through service providers which will be appointed by the Company, in its exclusive discretion (except regarding the position of Property & Building's General Manager), shared services of various officers, including, inter alia, the General Manager, CFO, VP Accounting, VP Legal and Company Secretariat, as well as assistance and consulting services on various subjects, including accounting, finance, treasury, economic and accounting services, legal department and Company Secretariat, compliance services, business and management consulting, reporting to Israeli authorities, management, planning, budget, strategy and business development services, bookkeeping, payroll, secretarial and administration, as well as IT services (the "Shared Services"). DIC will provide the shared services to Property & Building during the period of the agreement, in the scope which will be reasonably required for their execution, as will be determined from time to time by Property & Building's competent organs, in accordance with its needs. The shared services will be provided to Property & Building through office holders who will be appointed by DIC, and replaced by it if necessary, in its exclusive discretion, provided that they have the ability, know-how and experience required to provide the shared services (the "Service Providers"). For details regarding the position of the Company's General Manager, in parallel his tenure in DIC, as the General Manager of Property & Building, beginning in July 2021, and for his terms of tenure and employment, see section B.4. below. Under the agreement, Property & Building will transfer all of its employees to DIC (including the ownership of the existing external funds, provident funds, pension funds, managers' insurance policies and study funds in connection with those employees), and they will become employees of DIC, while maintaining their continuity of rights (subject to the receipt of approval from the Tax Authority for this purpose), and DIC will bear all of the costs and/or liabilities with respect to them which are due to the employer - employee relationship in accordance with the law, or in accordance with their employment terms, or in accordance with standard practice, if any, with respect to the period after the date of their transfer to the Company.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

1. (Cont.)

(B) Cost distribution agreement (services agreement) (Cont.)

The agreement formalizes the distribution of the scope of employment and the total compensation cost of the service providers (employer's cost with respect to payroll expenses, including social benefits, fringe benefits and bonuses, paid. Officer bonuses will be paid by each company separately, according to parameters which will be determined by the relevant company, as well as equity compensation), which DIC will effectively pay in each calendar quarter (the "Compensation Cost Of The Service Providers") between the parties, in a manner whereby Property & Building will bear 50% of the compensation cost of the service providers, and DIC will bear 50% of that cost (the "Service Allocation Ratio"). Accordingly, in exchange for the receipt of the services, Property & Building pays to DIC a quarterly payment in an amount equal to the service allocation ratio times the total compensation cost of the service providers. It was further determined that once per calendar year (beginning one year after the date when the general meeting of Property & Building approved the agreement), the Audit Committees of Property & Building and of DIC will hold a discussion, in which each of them will evaluate the scope of the shared services which DIC provided, in practice, to Property & Building, including that the scope of the shared services (weighted annually, and with respect to all of the providers of the shared services), has not deviated from the service allocation ratio, in consideration of, inter alia, the scope and characteristics of the activities of Property & Building and DIC (as applicable) during the aforementioned period. This annual evaluation will include an evaluation, in both companies, on the department level, of the scope of the work which was invested in practice for each of the engaging companies, the costs of the services, and the distribution of the costs between Property & Building and DIC, as derived from the scopes of work and the costs of the aforementioned service providers. In case of a deviation from the amount which was agreed upon in that agreement (50% for Property & Building and 50% for DIC), the parties will work to update the services agreement, insofar as may be required, in accordance with the provisions of the agreement. It is hereby clarified that insofar as any changes occur in the scope of the shared services which DIC provided, in practice, to Property & Building, in a manner which constitutes a deviation of no more than 20% from the service allocation ratio, the approval of the updated service allocation ratio will be presented for approval to Property & Building's Audit Committee and DIC's Audit Committee only.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

1. (Cont.)

(B) Cost distribution agreement (services agreement) (Cont.)

Additionally, in accordance with the agreement, the determination and approval of the terms of tenure and employment of those service providers who are officers (including amendments and updates thereof, if any, from time to time), will be implemented, in general, in DIC's exclusive discretion, provided that the determination and/or amendment and/or update will be at a rate of no more than 10% of the total cost of the terms of tenure and employment of the service providers in question, on the date of the engagement in the agreement, and that the updated terms are consistent with the Company's compensation policy. Any determination and/or amendment and/or update at a rate exceeding 10% on the date of engagement in the aforementioned agreement will be presented for approval to the competent organs of DIC and Property & Building. It was further determined in the agreement that prior to the foregoing determination and/or approval and/or amendment and/or update and/or new engagement in connection with the terms of tenure and employment of any of the service providers who serve as officers, from time to time (this condition will not apply to the determination of targets for officer bonuses, which will be performed by each of the companies independently, and will be paid separately, as stated above), DIC's Compensation Committee will conduct a non-binding consultation with Property & Building's Compensation Committee, and will also take into account its opinion (with no obligation to receive Property & Building's opinion), as part of the evaluations which it considers in connection with the above, and provided that the foregoing corresponds to the officer compensation policies of DIC and of Property & Building (as they stand from time to time), and does not deviate from the restrictions specified in the compensation policy (excluding the possibility to deviate from it in accordance with the legally required approvals).

The engagement in the agreement was approved by Property & Building's general meeting in January 2022.

The Company's compensation cost for service providers with respect to the period from July 1, 2021 to December 31, 2021, amounted to a total of approximately NIS 1 million.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation

(a) Insurance of officers' liability

Policies for 2019-2020 - In accordance with a framework resolution which was approved by the Company's general meeting in May 2017 (for details, see Note 31.B.2.(A) to the Company's financial statements for 2019, the "2017 Framework Decision"), on March 19, 2019, the Company's Board of Directors approved, following the approval of the Company's Audit Committee and Compensation Committee (from March 2019), in accordance with the provisions of the Expedients Regarding Transactions with Interested Parties Regulations, 5760-2000 (the "Expedient Regulations"), the Company's engagement in liability insurance policies for the Company's officers, including for officers who are and/or whose relatives are among the Company's controlling shareholders, with Clal Insurance Company Ltd. ("Clal Insurance") (which was, as at the date of the agreement, (indirectly) controlled by IDB Development) (a company which was, as at the date of the agreement, (indirectly) controlled by the Company's controlling shareholder), for the periods from April 1, 2019 up to and including March 31, 2020, under the following liability limits: (1) A basic policy for the Company's division (including the Company and its wholly owned companies (the "Company's Division"), with an insurance limit of USD 50 million, which was obtained in parallel with basic insurance policies that were obtained by the IDB Development division (IDB Development and its wholly owned companies, the "IDB Development Division") and by the other divisions, as specified in subsection (2) below; (2) A collective policy (the "Collective Policy") which is shared by the Company's Division, the IDB Development division, and the other divisions (which included the Property & Building division (Property & Building and certain of its investee companies) and the Shufersal division (Shufersal, which was an interested party in the Company on the date of the transaction, and certain of its investee companies)), with a liability limit of USD 90 million; and (3) Additional insurance coverage up to a total amount of USD 90 million to supplement the insurance limit of the aforementioned collective insurance policy, insofar as the insurance limit thereunder will be used partially or in full. The approved insurance premiums (including fronting fees of Clal Insurance, at a rate of 10%), and the other terms, as specified above, are in accordance with the terms which were determined in the 2017 framework decision.

On April 24, 2019, the Company's Board of Directors approved (after approval for this purpose was received from the Company's Compensation Committee and Audit Committee), in accordance with the provisions of the Expedient Regulations, the extension of the framework transaction by four additional months, until July 31, 2020, in order to allow the Company to obtain an insurance policy in accordance with the 2017 framework decision, for a period of 16 months, beginning on April 1, 2019, instead of the insurance period (of 12 months only). The premiums which the Company paid with respect to the aforementioned policies for 2019-2020 amounted to approximately USD 790 thousand (including 10% fronting fees for Clal Insurance).

The coverage under the policy for 2019-2020 was prepared through Clal Insurance, with the support of reinsurers at a rate of 100%.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

(a) Insurance of officers' liability (Cont.)

Policies for 2020-2021 - On August 13, 2020, the Company's Board of Directors approved (after approval for this purpose was received from the Company's Compensation Committee and Audit Committee), in accordance with the Regulations 1(4) and 1.B.1. of the Expedient Regulations, the following: (1) To approve (and ratify) the extension of the policies for 2019-2020 by 14 additional days, until August 14, 2020 (instead of July 31, 2020), with no change to the policy terms, and for an additional proportional premium (according to the premium specified in the policies for 2019-2020), in the amount of USD 23 thousand; (2) To approve exercising the right which was available to the Company under the policies for 2019-2020, and in accordance with the Company's compensation policy, and to approve the acquisition of insurance coverage according to which, beginning from the end of the insurance period of the Company's policies for 2019-2020 (i.e., beginning on August 15, 2020), the aforementioned insurance policies will be expanded such that they will include a discovery period, and will provide insurance coverage for an additional seven year discovery period in connection with claims which were initially filed during the foregoing discovery period, with respect to actions which were performed prior to the effective date. In other words, converting the current insurance policies into run-off policies of sorts, with a period seven years after the initial date of the discovery period, with respect to events which occurred from December 1, 2013 up to and including August 14, 2020, under the same liability limits as those which applied to the policies for 2019-2020 which concluded on August 14, 2020, as stated above (including the seven year discovery period) (the "Extended Discovery Period"). The premium which will be paid with respect to the aforementioned extended discovery period is approximately USD 1.3 million (non-recurring). With respect to the foregoing, the Company recorded, in 2020, an expense in the amount of NIS 5 million. With respect to the share of Shufersal Ltd. (which is not participating in the activation of the extended discovery period), DIC, IDB Development and Property & Building paid a proportional premium (pro-rata); (3) To approve the Company's engagement in an officers' liability insurance policy, including for officers who are controlling shareholders of the Company and/or relatives of theirs (from time to time) with Clal Insurance and a group of insurers in the international insurance market, for the period from August 15, 2020 up to and including August 14, 2021 (the "Insurance Period"). The engagement involved an officers' liability insurance policy which will be shared by the Company and its wholly owned companies, with a liability limit in the amount of up to USD 20 million per claim and cumulatively (the "Policy for 2020-2021"), plus additional reasonable defense expenses, including beyond the aforementioned liability limit, in the event that the total loss, including the defense expenses, exceeds the aforementioned liability limit.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

(a) Insurance of officers' liability (Cont.)

Policies for 2020-2021 (Cont.)

The policy for 2020-2021 was prepared in parallel with separate insurance policies which were prepared by IDB Development division and its wholly owned companies, and by Property & Building and some of its investee companies, under similar conditions. The policy for 2020-2021 (as well as each of the policies of IDB Development and Property & Building) establishes a term stipulating that the insurer's liability with respect to claims shared by two or more than the aforementioned policies will not exceed the liability limit of the policy for 2020-2021 (which was increased to USD 30 million, as specified below).

The deductible with respect to any claim under the policy for 2020-2021 is USD 150 thousand (except with respect to claims filed in the United States or in Canada on all matters associated with securities laws, in which case the deductible amount will be USD 500 thousand; or USD 350 thousand, insofar as the case involves another claim filed in the United States or in Canada). In accordance with the authorization for Company management to work towards increasing the liability limit with respect to the policy for 2020-2021, the Company approved the extension of the liability limit in the policy for 2020-2021 in the additional sum of USD 10 million, to a total of USD 30 million. The premiums which were paid by the Company with respect to the policy for 2020-2021, for the insurance period, with a liability limit of USD 30 million, amounted to a total of approximately USD 1.6 million (including fronting fees).

The Company also engaged in a directors and officers liability insurance policy of the "Side A" type, with a liability limit of USD 10 million per claim and cumulatively, for the insurance period, covering claims against the Company's officers, including officers who are controlling shareholders of the Company and/or relatives of theirs (who hold office from time to time), in case the liability limits for 2020-2021 have been exhausted, and the Company is unable to indemnify the directors and officers. The premiums which were paid by the Company with respect to this policy amount to a total of USD 400 thousand (including fronting fees). The premium and deductible amounts specified in policy for 2020-2021 are higher than the maximum premium and deductible amounts which were specified, at that time, in the Company's compensation policy.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

(a) Insurance of officers' liability (Cont.)

Policies for 2020-2021 (Cont.)

Therefore, the Company engaged in the aforementioned insurance policy for 2020-2021, in accordance with the approval of the Company's Compensation Committee, Audit Committee and Board of Directors, and worked in parallel to convene a general meeting of the Company's shareholders, whose agenda will include an update to the Company's compensation policy such that the limits which were determined with respect to the insurance premiums and the deductible will be erased, the Company's Compensation Committee will be authorized to determine the premium and deductible amounts according to the market conditions as at the purchase date of the insurance policies in accordance with the update to Legal Staff Resolution No. 101-21: Compensation policy (best practice), dated July 1, 2020, in order to for the approval of the engagement in the policy for 2020-2021 to meet the terms of expedient 1B.1 of the Expedient Regulations. On September 24, 2020, the general meeting of the Company's shareholders approved the aforementioned update to the Company's compensation policy.

In accordance with the terms of the policy for 2020-2021, a change in control of the Company constitutes a "transaction" event, which activates a section stating that the policy will be restricted, beginning from the date of the transaction event, to claims which have been filed during the remainder of the insurance period, due to unlawful actions which were performed prior to the date of the aforementioned transaction event. With respect to the foregoing, the Company recorded, in the fourth quarter of 2020, an expense in the amount of NIS 6 million. On November 20, 2020, the Court gave a decision regarding the approval of the sale of the Company's control shares to Mega Or, which constituted a "transaction" event, as stated above. The Company received from the insurers an offer to prepare a liability insurance policy for the Company's officers, including officers who are and/or whose relatives are controlling shareholders of the Company (who hold office from time to time), for the period from the date of the occurrence of the transaction event (the date when the directors on behalf of the controlling shareholder were replaced), until 12 months later (the "New Insurance Period"). The engagement will pertain to an officers' liability insurance policy which will be shared by the Company and its wholly owned companies, with a liability limit in the amount of USD 15 million per claim and cumulatively (the "New Policy for 2020-2021"), plus additional reasonable defense expenses, including beyond the aforementioned liability limit, in the event that the total loss, including the defense expenses, exceeds the aforementioned liability limit. The new policy for 2020-2021 includes an exception stipulating that the transfer of control (50% of the shares or of the right to appoint directors) in DIC, with the approval of the Court, will not constitute a transaction event for the purpose of the policy. Provided that the policy does not apply to any claim which has been filed by or initiated by the controlling shareholder, or any other party on its behalf, with respect to unlawful actions which were performed prior to the acquisition of ownership or voting rights, as stated above.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

   (a) Insurance of officers' liability (Cont.)

   Policies for 2020-2021 (Cont.)

   The deductible with respect to any claim under the new policy for 2020-2021 is USD 150 thousand (except with respect to claims filed in the United States or in Canada on all matters associated with securities laws, in which case the deductible amount will be USD 500 thousand; or USD 350 thousand, insofar as the case involves another claim filed in the United States or in Canada). The premiums which the Company paid with respect to the new policy for 2020-2021 for the new insurance period, with a liability limit of USD 15 million, amount to a total of approximately USD 900 thousand (including fronting fees).

   The Company's engagement in the policy foe 2020-2021 was approved by the Company's Compensation Committee in accordance with Regulation 1B.1 of the Expedient Regulations in December 2020.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

(a) Insurance of officers' liability (Cont.)

Policies for 2021-2022

On November 18, 2021, the Company's Compensation Committee approved, in accordance with the Company's compensation policy and Regulation 1.B.1. of the Expedient Regulations, the Company's engagement in a directors and officers liability insurance policy, including for officers who are controlling shareholders of the Company and/or relatives of theirs (from time to time), with respect to the period from November 20, 2021 up to and including November 30, 2022 (the "Insurance Period"). The engagement involved an officers' liability insurance policy which will be shared by the Company and its wholly owned companies, with a liability limit in the amount of USD 15 million per claim and cumulatively (the "Policy for 2021-2022"), plus additional reasonable defense expenses, including beyond the aforementioned liability limit, in the event that the total loss, including the defense expenses, exceeds the aforementioned liability limit. The deductible with respect to any claim under the policy is USD 150 thousand (except with respect to claims filed in the United States or in Canada on all matters associated with securities laws, in which case the deductible amount will be USD 500 thousand; or USD 350 thousand, insofar as the matters involves another claim filed in the United States or in Canada). The premiums which the Company paid with respect to the policy for 2021-2022, for the insurance period, with a liability limit of USD 15 million, amounted to a total of USD 956 thousand (including fronting fees) (the amount of the aforementioned premium which the Company paid last year, with respect to the insurance period).

Further to the approval of the Company's Compensation Committee on December 6, 2021, in accordance with the Company's compensation policy and Regulation 1B1. of the Expedient Regulations, on December 23, 2021, the Company expanded the liability limit of the insurance policy in the additional amount of USD 5 million, beyond the sum of USD 15 million in the additional annual premium, in the amount of approximately USD 275 thousand.

(b) Indemnity of officers

Following changes in legislation in connection with the indemnification of corporate officers in the corporation, and in accordance with the approval of the Company's general meeting on November 24, 2011 (after approval for this purpose was received from the Company's Audit Committee and Board of Directors), the Company provided new letters of indemnity to directors in the Company, to corporate officers in the Company who are, or whose relatives are, at that time, controlling shareholders therein, and to other corporate officers in the Company regarding whom the controlling shareholders at the time may be considered as being interested parties in the provision of letters of indemnity to them, who hold office and/or who will hold office from time to time. Additionally, in accordance with the approval of the Company's Board of Directors' from November 2011, the Company provided new letters of indemnity to additional corporate officers.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

(B) Indemnity of officers (Cont.)

The maximum indemnification amount, in accordance with the new letters of indemnity, is a total amount equal to 25% of the capital attributed to the Company's shareholders in accordance with its last financial statements (annual or quarterly) which are known before the actual payment of indemnification.

It is noted that the provisions of the new letters of indemnity take precedence over any previous undertaking or agreement (before the signing of the new letters of indemnity), whether in writing or verbally, between the Company and the aforementioned directors / corporate officers regarding the matters specified in the new letters of indemnity, including with respect to events which occurred prior to the signing of the new letters of indemnity, and before indemnification has been requested from the Company with respect to them. The foregoing is subject to the stipulation that the previous indemnification letter which was provided to the aforementioned directors / officers, if provided, will remain in effect, subject to any law, with respect to any event that occurred before the signing of the new indemnification letter (even if the indemnification with respect to which was requested from the Company after the signing of the new indemnification letter) if the terms of new indemnification letter impair the terms of indemnification of the said director / officer with respect to such an event.

The total insurance benefits which the Company will receive from time to time, if any, within the framework of the corporate officers' liability insurance with respect to one or more of the events specified in the addendum to the new letters of indemnity, are not included under the aforementioned maximum indemnification amount limit. Accordingly, in cases where insurance benefits are paid to the Company within the framework of the corporate officers liability insurance policy, and are transferred by the Company to its corporate officers, those transferred payments will not reduce the aforementioned maximum indemnification amount (for details regarding the Company's corporate officers' liability insurance, see section B.2.(A) above).

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

(B) Indemnity of officers (Cont.)

In May 2016, the general meeting of the Company's shareholders approved (after approval for this purpose was received from the Company's Compensation Committee and the Board of Directors), the provision of letters of indemnity to corporate officers in the Company among the Company's controlling shareholders, and/or to their relatives, who hold office and/or who will hold office in the Company from time to time, and to corporate officers in the Company regarding whom the Company's controlling shareholders may be considered as having a personal interest in the provision of letters of indemnity to them, who hold office and/or who will hold office in the Company from time to time, with respect to their actions (including before the provision of the letter of indemnity) by virtue of their service in the Company, and with respect to their actions by virtue of their service at the request of the Company as corporate officers in another company whose shares are held by the Company, or in which the Company has any interest, under identical conditions to the wording of the current letter of indemnity which was approved by the Company's general meeting on November 24, 2011. The Company's Audit Committee, in its meeting on November 2011, established, in accordance with its authority by virtue of section 275 (a1)(2) of the Companies Law, the period during which events occurring therein will be will be subject to the letters of indemnity which were given and which will be given, from time to time, to corporate officers regarding whom the Company's controlling shareholders may be considered as having a personal interest in the provision of letters of indemnity to them, and determined that period will conclude on November 30, 2020, and noted that this period of time is appropriate and reasonable, in light of the circumstances.

Accordingly, after the date of the meeting, the Company issued the aforementioned letters of indemnity to its corporate officers, including to corporate officers who were controlling shareholders in the Company or their relatives during the relevant period, and to corporate officers in the Company regarding which the controlling shareholders in the Company may have been considered as parties interested in the approval of the provision of letters of indemnity to them.

Former controlling shareholders in the Company and/or their relatives, who are not employed therein, who served in the past as directors or other corporate officers in subsidiaries and/or related companies of the Company, received from certain companies among them letters of indemnity, according to the conventional practice in those companies. Subsidiaries of the Company provided letters of indemnity to their corporate officers. These letters of indemnity were restricted to certain events, and the maximum indemnification amount was also restricted. Additionally, general meetings of additional member companies in the Group also approved, in light of the aforementioned changes in legislation, the provision of new letters of indemnity to their directors and corporate officers, including those who are their controlling shareholders or relatives thereof, or regarding whom their controlling shareholders may be considered as having a personal interest in the provision of the letters of indemnity to them.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

(B) Indemnity of officers (Cont.)

On April 30, 2019, the general meeting of DIC's shareholders re-approved the provision of letters of indemnity to corporate officers of the Company who are among the Company's controlling shareholders, as they stand from time to time, and/or their relatives, who currently hold office and/or who may hold office in the Company from time to time, and to corporate officers in the Company regarding whom the Company's corporate officers may be considered as having a personal interest in the provision of letters of indemnity to them, who hold office and/or who may hold office in the Company from time to time, for an additional period of three additional years, of an identical wording as that of the Company's current letter of indemnity, beginning on May 23, 2019.

On August 26, 2021, the general shareholders' meeting of DIC approved and ratified the provision of letters of indemnity, in the same wording as the Company's current letter of indemnity, to Mr. Tzachi Nachmias, the Company's Chairman of the Board and Mega Or's controlling shareholder, and to Mr. Michael (Mikey) Zelkind, a director in the Company and Elco's (joint) controlling shareholder, who are the Company's primary shareholders, and who are the Company's controlling shareholders, as this term is defined in section 268 of the Companies Law, and for the purpose of the chapter regarding transactions with interested parties only (due to their status as shareholders who hold 25% of the Company's shares (and in the absence of another holding exceeding 50% of its shares), beginning on April 1, 2021 and June 16, 2021 (the commencement dates of Mr. Nachmias and Mr. Zelkind's tenure as directors in the Company), respectively.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

(c) Release for officers

The Company provided in the past, in accordance with a decision of the general meeting from 2001, letters of release to its corporate officers, including corporate officers who are controlling shareholders in the Company, or their relatives, as well as corporate officers regarding whom the Company's controlling shareholders may be considered as having a personal interest in the provision of the letters of release to them, with respect to an exemption from any liability towards the Company for any damage which may be caused due to a breach of their duty of care towards it, in actions performed in good faith. The aforementioned letters of release to the controlling shareholders and their relatives expired in November 2011, in accordance with the provisions of the Companies Law on the matter. In November 2011, the Company's Audit Committee decided to set a period until November 2020, during which events occurring therein will be subject to the aforementioned letters of release, with respect to directors and other corporate officers in the Company regarding whom the controlling shareholders may be considered as having a personal interest in the provision of the aforementioned letters of release to them.

In the Company's compensation policy (which was last approved by the Company's general meeting on February 1, 2022), it was determined that letters of release which are given thereunder will not apply to any decision or transaction in which the controlling shareholder or any officer of the Company (including any officer to whom the letter of release was not granted) have a personal interest.

On August 26, 2021, DIC's general meeting approved the provision of letters of release, in the same wording as the letters of release for all of the Company's officers, to Mr. Tzachi Nachmias, the Company's Chairman of the Board and Mega Or's controlling shareholder, and to Mr. Michael (Mikey) Zelkind, a director in the Company and Elco's (joint) controlling shareholder, who are the Company's primary controlling shareholders, and who are also the Company's controlling shareholders as this term is defined in section 268 of the Companies Law, and for the purpose of the chapter regarding transactions with interested parties only (due to their status as shareholders who hold 25% of the Company's shares (and in the absence of another holding exceeding 50% of its shares), beginning on April 1, 2021 and June 16, 2021 (the commencement dates of Mr. Nachmias and Mr. Zelkind's tenure as directors in the Company), respectively.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

(D) Directors' compensation

(1) On March 19, 2019, the Company's Board of Directors approved (after approval for this purpose was received from the Company's Compensation Committee in March 2019), in accordance with Expedient Regulations, the payment of compensation to all of the Company's directors who currently hold office and/or who may hold office from time to time in the Company, including outside directors, and including directors who currently hold office and/or who may hold office in the future who are controlling shareholders in the Company, from time to time, and/or their relatives (as this term is defined in the Companies Law), or regarding whom the controlling shareholder has a personal interest in the provision of compensation to them, for a period of three (3) additional years, beginning on April 18, 2019. The directors' compensation which will be paid to each aforementioned director with respect to their service constitutes annual compensation and compensation for participation in meetings of the Board of Directors and its committees, according to the "maximum amount", as defined in the Companies Regulations (Rules Regarding Compensation and Expenses of External Director), 5760-2000 (the "Compensation Regulations"), in accordance with the classification of each aforementioned director as an expert director or non-expert director, and according to level at which the Company will be classified (i.e., in accordance with its equity in the previous financial year), which applies at that time in accordance with the Compensation Regulations.

Directors' compensation for directors who are employed or who provide services for a salary to the Company's controlling shareholder or to a company controlled by the Company's controlling shareholder, which is not the Company or a company controlled by the Company, will be paid to the entity as instructed by the employer or the company receiving the aforementioned services, unless the director in question has instructed otherwise. The Company will not pay directors' compensation to directors who are employed for a salary (which does not constitute directors' compensation) in the Company or in a company under its control, or who will be entitled to receive separate compensation (which does not constitute directors' compensation or expenses for the fulfillment of their position as director) from the Company or from a company under its control with respect to the fulfillment of their position therein, so long as they are employed for a salary, or are entitled to receive the aforementioned separate compensation.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

2. Insurance of officers' liability, letters of indemnity, letters of release from liability to officers and payment of directors' compensation (Cont.)

(D) Directors' compensation

(2) On March 22, 2022 the Board of Directors approved, after receiving the Compensation Committee's approval on March 21, 2022, in accordance with Regulations 1B(3) and 1A(2) of the Expedient Regulations, the granting of compensation to all of the Company's directors who hold office and/or who will hold office from time to time in the Company, including a director who currently holds office and/or who may hold office from time to time who is one of and/or a representative of the Company's controlling shareholders, from time to time, and/or any relative of theirs (as this term is defined in the Companies Law), or regarding whom the controlling shareholders have a personal interest in providing the compensation to them, according to the "maximum amount" pursuant to the Compensation Regulations, for an additional period of three (3) years, beginning on April 17, 2022, under the same conditions as those which were determined in its resolution dated March 19, 2019, as specified above. As at the present date, the foregoing decision pertains to the following directors: Messrs. Tzachi Nachmias (Chairman of the Board) and Michael Zelkind.

(3) In the years 2021, 2020 and 2019, the Company received from its investee companies directors' compensation with respect to the tenure of its interested parties as directors in those companies, in the total amount of NIS 656 thousand, NIS 523 thousand and NIS 339 thousand, respectively.

(4) Various investee companies of the Company pay compensation to their directors in accordance with the Compensation Regulations, and the directors serving therein also include directors in the Company.

(5) For details regarding the compensation which was received by Mr. Tzachi Nachmias, the Company's Chairman of the Board and Mega Or's controlling shareholder, and Mr. Michael (Mikey) Zelkind, a director in the Company and Elco's (joint) controlling shareholder, companies which are the Company's primary controlling shareholders, and which are also the Company's controlling shareholders, as this term is defined in section 268 of the Companies Law, and for the purpose of the chapter regarding transactions with interested parties only (due to their status as shareholders who hold 25% of the Company's shares (in the absence of another holding exceeding 50% of its shares), with respect to their tenure in the Company and in its investee companies during the reporting period, see section E.3.D. below.

(6) For details regarding compensation which was received by the Company's former controlling shareholder and his relatives, with respect to their tenure in the Company and in its investee companies during the reporting period, see section E.3.D. below.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

3. Terms of tenure and employment of the Company's Chairman

On January 14, 2021, DIC's general meeting approved, after receiving approval from DIC's Board of Directors and Compensation Committee in December 2020, the Company's engagement in an agreement regarding the provision of Chairman services by Dr. Yoram Turbowicz (whose tenure as a director in the Company concluded on April 1, 2021), which include: (A) scope of the position: the Chairman services will be given in a 80% position; (B) Employment period: Beginning on November 20, 2020; (C) Fixed salary: With respect to his services, the Chairman of the Board will be entitled to monthly management fees in the amount of NIS 135 thousand, plus duly calculated VAT, linked to increases in the consumer price index (the management fees will be paid instead of directors' compensation). (D) Variable bonus - annual bonus: The Chairman will be entitled to an annual bonus beginning in 2021, which will not exceed 3 times the monthly management fees. The annual bonus will be based on measurable targets, which will be approved each year by the Compensation Committee and the Board of Directors, in accordance with the provisions of the Company's compensation policy, and in accordance with the Company's work plan and strategy. (E) Termination of the agreement and advance notice: The engagement for the receipt of Chairman services will be in effect for an indefinite period beginning on November 20, 2020. Each party will be entitled, at any time, and unilaterally, to notify the other party of the termination of the employment agreement, by giving written notice three months in advance. (F) The employment agreement includes provisions regarding confidentiality, and regarding non-competition, non-application of an employer-employee relationship, and intellectual property rights. Furthermore, by virtue of Dr. Turbowicz's status as an officer of the Company, the Chairman of the Board Was included in the Company's standard arrangements regarding insurance, indemnification and release, in accordance with previous resolutions of the Company.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

4. Terms of tenure and employment of the Company's General Manager

In June 2020, DIC's general meeting approved, after approval was received from DIC's Board of Directors and Compensation Committee, the terms of tenure and employment of Mr. Doron Cohen, the Company's General Manager, which include:

(A) Scope of position: The General Manager will be employed in the Company in full time (100%) position; (B) Employment period: The General Manager will be employed by DIC beginning on March 15, 2020 (the "Tenure Commencement Date"). (C) Fixed salary: The monthly base salary will amount to NIS 120 thousand. The salary will be linked to increases in the consumer price index. (D) Fringe benefits: Social and fringe benefits according to DIC's standard practice, as well as loss of working capacity insurance. The Company's General Manager will also be entitled to a vehicle, according to the grade which will be practiced in the Company from time to time, with respect to members of management; grossing-up of tax with respect to the vehicle's value; and reimbursement of expenses with respect to the vehicle's maintenance and use (e.g., insurance, fuel, etc.). (E) Variable component - equity compensation: The General Manager received 2,500,000 unlisted options (the "Options"), which are exercisable into 2,500,000 ordinary shares with a par value of NIS 1 each of DIC. The total benefit value of the options as at the date of the general meeting's approval is NIS 4.0 million, according to the B&S model.

As stated in Note 1.A above, in November 2020 Mr. Eduardo Elsztain ceased being the Company's controlling shareholder, and all of the aforementioned options vested, and the Company recorded, in the fourth quarter of 2020, an expense in the amount of NIS 4 million.

(F) Variable component - annual bonus: The General Manager will be entitled to an annual bonus, beginning in 2020, which will not exceed 12 monthly salaries, subject to the fulfillment of the conditions specified in the compensation policy, as amended from time to time, including, inter alia, with respect to the minimum conditions.

The annual bonus will be based on measurable targets, which will be approved each year in accordance with the provisions of the compensation policy and in accordance with the Company's work plan and strategy. (F) Termination of the agreement and advance notice: each party will be entitled, at any time, and unilaterally, to notify the other party of the termination of the employment agreement, by giving written notice six months in advance; (G) The employment agreement includes provisions regarding confidentiality, and regarding non-competition and intellectual property rights. Furthermore, by virtue of the status of the Company's General Manager as an officer of the Company, the General Manager was included in the Company's standard arrangements regarding insurance, indemnification and release, in accordance with previous resolutions of the Company.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

4. Terms of tenure and employment of the Company's General Manager (Cont.)

   It is noted that further to the resolution of the Company's Board of Directors to work towards the consolidation of functions in DIC and in Property & Building, including, inter alia the appointment of joint officers for tenure in the two companies, and the distribution of costs between them (according to a rate which will be agreed upon between the parties), subject to the approval of the two companies' competent organs, and concurrently, to work towards the appointment of Mr. Doron Cohen, as the General Manager of Property & Building, in parallel with his continued tenure as the General Manager of DIC (this appointment was approved in July 2021 by Property & Building's Board of Directors), in August 2021, the Company's Board of Directors approved (after receiving approval from the Audit Committee) the Company's engagement in a cost distribution agreement (services agreement) (the "Services Agreement") with Property & Building, for a period of three years from July 1, 2021 to June 30, 2024, as specified in section B.1.(B). above. In accordance with the services agreement, the General Manager will be employed in Property & Building in a 50% position, and Property & Building will pay half of the transaction costs in accordance with the aforementioned services agreement (except with respect to equity compensation and the annual bonus), subject to the possibility of adjusting the scope of employment according to the service allocation ratio, as specified in the aforementioned note. On January 25, 2022, Property & Building's general meeting approved (after approval was received for this purpose from its the Compensation Committee and the Board of Directors in December 2021) Mr. Doron Cohen's terms of tenure and employment, as stated above.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

5. Appointment of Chairman of the Board and General Manager for the Company, and approval of their terms of tenure and employment

On March 20, 2022, after the date of the statement of financial position, the Company's Board of Directors resolved to appoint Mr. Doron Cohen, the Company's General Manager, to the position of Chairman of the Board, and the appointment of Ms. Nataly Mishan-Zakai as DIC's General Manager, beginning on July 1, 2022 (or on an earlier date, insofar as the parties reach an agreement on the matter in advance, which DIC will announce). concurrently, the Board of Directors of DIC resolved to work towards the appointment of Messrs. Cohen and Mishan-Zakai to those positions in Property & Building, in parallel with their tenure in those positions in DIC (these appointments were approved on March 20, 2022 by Property & Building's Board of Directors). The scope of employment of Messrs. Cohen and Mishan-Zakai in the Company will be in accordance with the service allocation ratio (as of the present date - 50%), as determined in the cost distribution agreement (services agreement) between the Company and Property & Building (the "Services Agreement"), and Property & Building will bear half of the transaction costs in accordance with the aforementioned services agreement (except with respect to the equity compensation and annual bonus), as specified in section 1.(B) above.

On March 21, 2022 and March 22, 2022, the Compensation Committee and Board of Directors of DIC, respectively, approved the terms of tenure and employment of Messrs. Cohen and Mishan-Zakai. On March 22, 2022, Property & Building's Compensation Committee and Board of Directors approved the terms of tenure and employment, including the payment, by the Company and Property & Building, of the proportional part of the compensation cost with respect to the employment of Messrs. Cohen and Mishan-Zakai (as of the present date - 50%), in accordance with the aforementioned services agreement. It is noted that, concurrently with the publication of this report, DIC and Property & Building published an immediate report convening a special general meeting of the Company, whose agenda will include the terms of tenure and employment of Messrs. Cohen and Mishan-Zakai, which include:

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

5. Appointment of Chairman of the Board and General Manager for the Company, and approval of their terms of tenure and employment (Cont.)

(A) Terms of tenure and employment of the Chairman of the Board - (1) Scope of employment: according to the service allocation ratio (as of the present date - 50%), as determined in the service agreement; (2) Employment period - The Chairman will be employed as DIC's Chairman of the Board for an indefinite period, beginning on July 1, 2021, or an earlier date, insofar as the parties have reached an agreement on the matter in advance, and concurrently with the commencement of tenure of the Company's General Manager; (3) Fixed salary: The monthly base salary will be in the amount of NIS 120 thousand. The salary will be linked to increases in the index (with the base index being the index for February 2020, as published on March 15, 2020 (in accordance with the commencement date of his tenure as the Company's General Manager)); (4) Fringe benefits: The Chairman will be entitled to social and fringe benefits according to DIC's standard practice, as well as loss of working capacity insurance. The General Manager will also be entitled to a vehicle of the grade practiced in the Company from time to time for members of management, grossing-up of tax with respect to the vehicle's value, and the Company will bear all expenses with respect to the maintenance and use of the vehicle (insurance, gas, etc.), and for a cellphone and the grossing-up of tax with respect to the use of the cellphone, and for other fringe benefits according to the Company's standard practice; (5) Variable component - annual bonus: The Chairman will be entitled to an annual bonus, beginning in 2022 (proportionately according to his period of tenure as Chairman during that year), which will not exceed 12 monthly salaries (gross), of which the entitlement to 9 salaries (gross) will be based on the fulfillment of measurable quantitative targets in accordance with DIC's compensation policy, pertaining to return on equity, as follows: return on equity of 5% - will grant entitlement to 5 salaries; Return on equity of 6% - signifies entitlement to 6 salaries; Return on equity of 7% - signifies entitlement to 7 salaries; Return on equity of 8% - signifies entitlement to 8 salaries; Return on equity of 10% - signifies entitlement to 9 salaries. The fulfillment rate of the return on equity target range, as specified above, will be calculated on a linear basis.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

5. Appointment of Chairman of the Board and General Manager for the Company, and approval of their terms of tenure and employment (Cont.)

The entitlement to 3 additional salaries will be based on measurable targets, which will be approved each year in accordance with the provisions of DIC's compensation policy and in accordance with the Company's work plan and strategy, and subject to the fulfillment of the preconditions specified in the Company's compensation policy, as it stands from time to time. It is clarified that insofar as Property & Building's insofar as approves the Chairman of the Board's terms of tenure and employment, Property & Building will pay its proportional part, which will be calculated by multiplying the service allocation ratio attributed to Property & Building in the services agreement, by the annual bonus cap specified in the Chairman's employment agreement, in accordance with measurable targets which will be approved by the competent organs of Property & Building; (6) Termination of the agreement and advance notice: each party will be entitled, at any time, and unilaterally, to notify the other party of the termination of the employment agreement, by giving written notice six months in advance; (7) The employment agreement includes provisions regarding confidentiality, and regarding non-competition and intellectual property rights. Furthermore, by virtue of the status of the Chairman of the Board's status as an officer of the Company, the Chairman was included in the Company's standard arrangements regarding insurance, indemnification and release, in accordance with previous resolutions of the Company.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

5. Appointment of Chairman of the Board and General Manager for the Company, and approval of their terms of tenure and employment (Cont.)

   (B) Terms of tenure and employment of the Company's General Manager - (1) Scope of employment: according to the service allocation ratio, in accordance with the services agreement (as of the present date - 50%), as determined in the service agreement; (2) Employment period - The General Manager will be employed by DIC for an indefinite period, beginning on July 1, 2021, or an earlier date, insofar as the parties have reached an agreement on the matter in advance, and concurrently with the commencement of tenure of the Company's Chairman of the Board (and the conclusion of his tenure as the Company's General Manager); (3) Fixed salary: The monthly base salary will amount to NIS 120 thousand. The salary will be linked to increases in the CPI (with the base index being the known index on the actual tenure commencement date). (4) Fringe benefits: The General Manager will be entitled to social and fringe benefits according to DIC's standard practice, as well as loss of working capacity insurance. The General Manager will also be entitled to a vehicle of the grade practiced in the Company from time to time for the General Manager, grossing-up of tax with respect to the vehicle's value, and the Company will bear all expenses with respect to the maintenance and use of the vehicle (insurance, gas, etc.), and for a cellphone and the grossing-up of tax with respect to the use of the cellphone, and for other fringe benefits according to the Company's standard practice; (5) Variable component - annual bonus: The General Manager will be entitled to an annual bonus beginning in 2022 (proportionately according to the tenure period during that year), which will not exceed 9 monthly salaries (gross), where except for a total of up to 3 salaries (gross), which may be discretionary, the annual bonus will be based on measurable targets which will be approved each year in accordance with the provisions of DIC's compensation policy, and in accordance with the Company's work plan and strategy. The General Manager's entitlement to the variable bonus will be subject to the minimum conditions specified in the Company's compensation policy, as it stands from time to time.

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

5. Appointment of Chairman of the Board and General Manager for the Company, and approval of their terms of tenure and employment (Cont.)

It is clarified that insofar as Property & Building's general meeting approves the General Manager's terms of tenure and employment, Property & Building will pay its proportional part, which will be calculated by multiplying the service allocation ratio attributed to Property & Building in the services agreement, by the annual bonus cap specified in the General Manager's employment agreement, in accordance with measurable targets which will be approved by Property & Building's competent organs; (6) Equity compensation - Including 711,169 options, which are exercisable into 711,169 ordinary Company shares, which constitute (based on the theoretical assumption of full exercise) approximately 0.5% of the Company's issued and paid-up share capital (after deducting dormant shares) (approximately 0.49%, fully diluted), according to an exercise price per option of NIS 10.78, and 22,217 options, which are exercisable into 22,217 ordinary shares of Property & Building, which constitute (based on the theoretical assumption of full exercise) approximately 0.3% of Property & Building's issued and paid-up share capital (approximately 0.3%, fully diluted), according to an exercise price per option of NIS 456.5, which will be granted in 5 series, as specified below. All of the option series will be exercisable until the end of 6 years after the tenure commencement date. The options will be granted in 5 series, as specified below:

Note 31 - Related Parties and Interested Parties (Cont.)

B. Transactions with controlling shareholders or in which controlling shareholders have a personal interest and which are included in Section 270(4) of the Companies Law, that were entered into in 2021 or between the end of the reporting period and the date of submission of the report or that are in effect on the reporting date (Cont.)

5. Appointment of Chairman of the Board and General Manager for the Company, and approval of their terms of tenure and employment (Cont.)

	Percent of total options	Vesting date
First series	20%	One year after the tenure commencement date
Second series	20%	Two years after the tenure commencement date
Third series	20%	Three years after the tenure commencement date
Fourth series	20%	Four years after the tenure commencement date
Fifth series	20%	Five years after the tenure commencement date

(1) The exercise prices will be subject to adjustments with respect to dividend distributions, bonus shares, rights issues, and stock splits and consolidations. It is noted that the exercise prices reflect the higher of either the average share price of the shares during the last 30 trading days before the date of the Board of Directors' resolution, and the share price according to the closing price on the day before the Board of Directors' resolution.

(2) The options will be exercisable allocation of shares an allocation of shares in an amount which reflects the amount of the financial benefit represented in the options on the exercise announcement date ("cashless exercise").

The total benefit value of the options for the Company's shares and Property & Building's shares, as at the approval date of the boards of directors of the Company and Property & Building, is NIS 2.7 and 3.2 million, respectively, based on the B&S model. The total benefit value of the foregoing options will be determined on the approval date of the general meetings of each of the companies. The Company and Property & Building will each bear its share in the benefit of the aforementioned equity compensation. (7) Termination of the agreement and advance notice: each party will be entitled, at any time, and unilaterally, to notify the other party of the termination of the employment agreement, by giving written notice six months in advance; (8) The employment agreement includes provisions regarding confidentiality, and regarding non-competition and intellectual property rights. Furthermore, by virtue of the status of the Company's General Manager as an officer of the Company, the General Manager will be included in the Company's standard arrangements regarding insurance, indemnification and release, in accordance with previous resolutions of the Company.

Note 31 - Related Parties and Interested Parties (Cont.)

C. Transactions with investee companies and others

In connection with the Israeli holding requirement which is included in Cellcom's general license for the provision of cellular telephone services, and following the approval of the Ministry of Communication, on January 9, 2018, the Company's Board of Directors approved, after approval for this purpose was received from the Company's Audit Committee, the Company's engagement in a memorandum of understanding, in which the Company transferred (through Koor (a company wholly owned by the Company)) Cellcom shares which represent 5% of its issued share capital, by way of a loan transaction, to two private companies which were incorporated in Israel, whose purpose is the holding of Cellcom shares, and which constitute the "Israeli entities", as defined in Cellcom's mobile license (2.5% of Cellcom's issued share capital each), in accordance with the principles of the agreement which was signed between the parties. The shareholder of one of the foregoing companies served, on the date of the engagement, as an alternate director in the Company and in IDB Development, and as a director (Vice Chairman) in Cellcom; and the shareholder in the second company served, on the date of the engagement, as a director in the Company and in IDB Development. Upon the completion of the transfer of the Company's shares to Mega Or (approximately 29.9% of the Company's issued capital in April 2021, as specified above and in Note 1.A. above, and in consideration of the fact that, upon the completion of the transfer of the aforementioned shares, Mega Or is considered a "founding shareholder or replacement thereof", along with Koor), and as an "Israeli entity", the Company gave notice (through Koor) of the termination of the engagement in a loan transaction in accordance with the memorandum of understanding which was signed with the aforementioned "Israeli entities".

D. Transactions which are not listed in section 270(4a) of the Companies Law, and which are not insignificant, in amounts exceeding NIS 8.7 million per single transaction

1. Mehadrin recorded revenues from the sale of fruits to an investee and a joint venture which is accounted for at equity, in 2021 and during the period from March 9, 2020 (the date of Mehadrin's initial consolidation in the Company's financial statements (the "Initial Consolidation Date of Mehadrin") to December 31, 2020, in the amount of NIS 69 million and NIS 28 million, respectively.
2. A joint venture accounted by the equity method sold fruit to Mehadrin in 2021 and during the period from March 9, 2020, the date of Mehadrin's initial consolidation, to December 31, 2020, in the amount of NIS 30 million and NIS 37 million, respectively.

Note 31 - Related Parties and Interested Parties (Cont.)

E. Additional details regarding transactions with related parties and interested parties

1. **Balances which, as at the date of the statement of financial position, constitute related parties or interested parties**

	Interest rate as at December 31	As at December 31	
	2021	2021	2020
	%	NIS millions	
Loans to as equity accounted investee companies[(1),(2)]:			
Linked to the USD	0-6.14	267	367
Trade receivables, other receivables and debit balances:			
Related parties		25	24
Other payables and credit balances:			
Related parties (Note 18 above)		18	18
Other payables and credit balances:			
Interested parties		1	-

(1) Including an investee which is presented as an asset of a disposal group held for sale.
(2) See also Notes 3.A. and 12.A.5.E. above.

2. **Expenses**

	Consolidated report for the year ended December 31					
	2021	2020	2019	2021	2020	2019
	Number of recipients			NIS millions		
A. Benefits with respect to the employment of key management personnel[(1)]:						
Short term benefits	1	2	2	4	4	2
Share-based payment	-	1	2	-	4	-
B. Benefits with respect to directors who are not employed (director's fees from the Company and consolidated companies)	13	15	8	4	4	3

(1) In 2020, with respect to the Company's General Manager whose tenure concluded on March 15, 2020, and with respect to the Company's General Manager whose tenure commenced on March 16, 2020. In 2019, With respect to the Company's General Manager whose tenure concluded on January 10, 2020, and with respect to the Company's former General Manager, who commenced his tenure on December 12, 2019.

Note 31 - Related Parties and Interested Parties (Cont.)

E. Additional details regarding transactions with related parties and interested parties (Cont.)

3. Transactions between related parties and interested parties, which were described in the chapter regarding related parties and interested parties in the Company's financial statements for 2020

	Nature of the transaction	Related party / interested party **	For the year ended December 31 2020*	2019
			Amounts of transactions for which disclosure was given in the reports for 2019	
			NIS millions	
A.	Company's share in agreement for the distribution of uses and office expenses	DIC / IDB Development	-	3
B.	The Company's share (60%) in the cost distribution agreement	DIC / IDB Development	8	14
C.	Insurance policies with Clal Insurance			
	- Insurance premiums paid by Shufersal and Property & Building to Clal Insurance	Clal Insurance / Shufersal and Property & Building	-	0.879
	- Series of property and liability insurance policies which Shufersal purchased from Clal Insurance	Clal Insurance / Shufersal	-	11
D.	Directors' compensation and reimbursement of paid expenses			
	- Eduardo Elsztain	Controlling shareholder	0.496	0.473
	- Alejandro Elsztain	Brother of controlling shareholder	1.456	1.334
	- Diana Dan Elsztain	Sister of controlling shareholder	0.320	0.192
E.	Imports of beef by Shufersal	Foreign company controlled by the controlling shareholder / Shufersal	13	40
F.	Payment for IT services	Elron / DIC	0.012	0.159
G.	Donation to IDB Community Foundation (R.A.)	DIC / IDB Development	0.15	2
H.	Rental income with respect to rental areas between Shufersal and investee companies	Shufersal and investee companies	9.5	23
I.	Interest income with respect to loans to IDBG	Property & Building / IDB Development	2	30
J.	Transactions in connection with real estate projects in Las Vegas, USA - see Notes 3.G.2.A.2;4 and 6 to the financial statements for 2019	Property & Building / IDB Development		

* The figures are with respect to amounts which were received in 2020, until the conclusion date of the agreements / the date when they were no longer related parties or interested parties, as applicable.

** Related party / interested party - refers to the relevant periods which are presented in this table.

4. For details regarding the Company's subsidiaries and associates, see Note 3.D above and Annex A below.

Note 32 - Segments

A. General

In these financial statements, the Company applied IFRS 8, Operating Segments. In accordance with that standard, segmental information is presented with respect to the Company's operating segments which are based on the Company's internal and managerial reports (Management Reports").

In these reports, the segmentation of the Company's operations into reportable operating segments, in accordance with IFRS 8, is derived from management's reports, which are based on DIC's investment in some of the companies which it owns, including associate companies (hereinafter: the "Segment Companies").

The segmental results specified below include both the Company's share in the net profit (loss) of the segment company, and DIC's profit (loss) from the realization, amortization or impairment of the segment company, if any.

Information regarding the assets and liabilities of the segment companies, as specified below, includes the total assets or liabilities of the segment companies in accordance with their financial statements, as applicable.

Since 2021, the Company has included Epsilon as an operating segment which does not fulfill the quantitative tests prescribed in IFRS 8, as a reportable segment, and it is presented together with the Elron segment, under other segments. The comparative figures were restated and include the Epsilon segment together with the Elron segment, under other segments.

B. Method of presentation of segmental results

- The segmental results specified below include the various items of profit and loss of the segment companies (in consideration of the fair value adjustments of DIC), and after deducting the shares of other shareholders - constitute DIC's share in the net profit (loss) of the segment companies, if any.
- The item for the Group's share in the net profit (loss) of investee companies accounted by the equity method, net, the item for profit from realization of investments and assets, dividends and profit due to change in control, and the item for loss from realization and write-down of investments and assets also included the profit or loss, as applicable, which arose for DIC from the realization, write-down or impairment of its investment in the segment companies.

Note 32 - Segments (Cont.)

B. Method of presentation of segmental results (Cont.)

Segmental results in 2021

	Cellcom	Property & Building	Mehadrin	Others	Adjustments for the consolidation	Consolidated
	NIS millions					
Income						
Sales and services	4,108	44	1,041	75	110	5,378
The Group's share in the net profit of investee companies accounted by the equity method, net	-	446	-	-	(107)	339
Profit from realization and increase in the value of investments and assets, and dividends	11	-	-	154	21	186
Increase in fair value of investment property, net	-	-	4	-	581	585
Other income	51	-	173	-	17	241
Financing income	3	81	11	11	10	116
	4,173	571	1,229	240	632	6,845
Expenses						
Cost of sales and services	2,963	31	990	-	65	4,049
Research and development expenses	-	-	-	-	4	4
Selling and marketing expenses	666	2	-	12	9	689
General and administrative expenses	306	26	27	67	41	467
The Group's share in the loss of investee companies accounted by the equity method, net	5	-	2	40	(47)	-
Loss from realization, impairment, and write-down of investments and assets	-	-	-	32	9	41
Decrease in fair value of investment property, net	7	-	-	-	(7)	-
Other expenses	19	-	13	-	1	33
Financing expenses	168	227	18	2	228	643
	4,134	286	1,050	153	303	5,926
Profit before taxes on income	39	285	179	87	329	919
Income tax expenses	(12)	(19)	(38)	(20)	(67)	(156)
Profit from continuing operations	27	266	141	67	262	763
Profit (loss) from discontinued operations, after tax	-	376	-	-	(472)	(96)
Net income (loss) for the year	27	642	141	67	(210)	667
Share of other shareholders in profit	15	262	79	45	-	401
Segmental results for 2021 - attributed to the owners of the Company	12	380	62	22	(210)	266
Depreciation and amortization	896	2	52	2		
Interest income	-	9	11	1		
Interest expenses	140	210	13	1		

Note 32 - Segments (Cont.)
B. Method of presentation of segmental results (Cont.)
Segmental results in 2020

	Cellcom	Property & Building	Mehadrin	Shufersal (1)	Others(4)	Adjustments for the consolidation (4),(5)	Consolidated(5)
	NIS millions						
Income							
Sales and services	3,676	377	1,175	7,420	55	(7,863)	4,840
The Group's share in the net profit of investee companies accounted by the equity method, net	-	40	11	-	-	(51)	-
Profit from realization and increase in the value of investments and assets, and dividends	-	-	15	39(2)	30	(20)	64
Increase in fair value of investment property, net	-	-	-	4	-	(2)	2
Other income	38	96	-	-	-	(93)	41
Financing income	10	10	6	12	4	(14)	28
	3,724	523	1,207	7,475	89	(8,043)	4,975
Expenses							
Cost of sales and services	2,800	206	1,134	5,453	-	(5,801)	3,792
Research and development expenses	-	-	-	-	8	5	13
Selling and marketing expenses	580	3	-	1,506	5	(1,494)	600
General and administrative expenses	357	33	25	125	65	(52)	553
The Group's share in the loss of investee companies accounted by the equity method, net	14	-	-	14	50	(63)	15
Loss from realization, impairment, and write-down of investments and assets	-	34	-	-	16	63	113
Decrease in fair value of investment property, net	-	273	-	-	-	(273)	-
Other expenses	-	-	4	1	1	(1)	5
Financing expenses	182	367	25	122	4	14	714
	3,933	916	1,188	7,221	149	(7,602)	5,805
Profit (loss) before taxes on income	(209)	(393)	19	254	(60)	(441)	(830)
Income (expenses) from taxes on income	39	30	(1)	(53)	(1)	6	20
Profit (loss) from continuing operations	(170)	(363)	18	201	(61)	(435)	(810)
Profit (loss) from discontinued operations, after tax	-	(13)	-	-	-	26	13
Net income (loss) for the year	(170)	(376)	18	201	(61)	(409)	(797)
Share of the other shareholders in (profit) loss	(92)	(106)	12(3)	118	(29)	(145)	(242)
Segmental results for 2020 - attributed to the owners of the Company	(78)	(270)	6	83	(32)	(264)	(555)
Depreciation and amortization	924	2	54	388	4		
Interest income	5	10	6	2	2		
Interest expenses	125	245	27	105	-		

(1) Discontinued segment. The data for Shufersal is in accordance with Shufersal's financial statements as at June 30, 2020. Shufersal's operating results are presented in the statements of income under discontinued operations, see Note 12.B.3. above.
(2) Profit from realization of investment in Shufersal in the amount of NIS 39 million, see Note 12.B.3. above.
(3) Includes, inter alia, Mehadrin's profit until the date of the rise to control in March 2020.
(4) Reclassified due to the presentation of Epsilon under other segments.
(5) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

Note 32 - Segments (Cont.)
B. Method of presentation of segmental results (Cont.)
Segmental results in 2019

	Cellcom	Property & Building (1)	Shufersal	Others(4)	Adjustments for the consolidation (4),(5)	Consolidated(5)
	NIS millions					
Income						
Sales and services	3,708	627	13,360	50	(13,394)	4,351
The Group's share in the net profit of investee companies accounted by the equity method, net	-	44	-	-	(44)	-
Profit from realization and increase in the value of investments and assets, and dividends	-	-	-	15	93	108
Increase in fair value of investment property, net	-	81	39	-	(53)	67
Other income	-	11	-	-	14	25
Financing income	49	52	20	13	100	234
	3,757	815	13,419	78	(13,284)	4,785
Expenses						
Cost of sales and services	2,725	419	9,751	-	(9,758)	3,137
Research and development expenses	-	-	-	25	7	32
Selling and marketing expenses	610	7	2,884	7	(2,839)	669
General and administrative expenses	329	33	204	67	(143)	490
The Group's share in the loss of investee companies accounted by the equity method, net	10	-	6	56	(53)	19
Loss from realization, impairment, and write-down of investments and assets, and change in control	(3)606	-	-	13	116	735
Other expenses	20	-	3	1	(18)	6
Financing expenses	193	287	279	3	(83)	679
	4,493	746	13,127	172	(12,771)	5,767
Profit (loss) before taxes on income	(736)	69	292	(94)	(513)	(982)
Income (expenses) from taxes on income	23	(58)	(38)	(3)	49	(27)
Profit (loss) from continuing operations	(713)	11	254	(97)	(464)	(1,009)
Profit from discontinued operations, after tax	-	(2)1,161	-	-	165	1,326
Net income (loss) for the year	(713)	1,172	254	(97)	(299)	317
Share of the other shareholders in (profit) loss	(149)	506	198	(56)	(196)	303
Segmental results for 2019 - attributed to the owners of the Company	(564)	666	56	(41)	(103)	14
Depreciation and amortization	898	5	745	6		
Amortization for impairment, net	(3)609	-	-	-		
Interest income	11	27	18	5		
Interest expenses	150	303	230	-		

(1) Gav-Yam's operating results are presented in the statements of income until the date of loss of control under discontinued operations.
(2) Including profit from the sale of Gav-Yam shares and the loss of control of Gav-Yam in the amount of NIS 834 million. The Company's share in the profit amounted to NIS 557 million.
(3) Including impairment loss of goodwill attributed to Cellcom, which was recognized in the statement of income in the amount of NIS 606 million; the Company's share in the loss amounted to NIS 517 million.
(4) Reclassified due to the presentation of Epsilon under other segments.
(5) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

Note 32 - Segments (Cont.)

C. Composition of the adjustments to the sales and services item in the consolidated report

	For the year ended December 31		
	2021	2020	2019
		NIS millions	
Reversal of amounts with respect to the Shufersal operation [(1)]	-	(7,420)	(13,360)
Reversal of amounts with respect to the Mehadrin operation before the rise to control [(2)]	-	(352)	-
Adjustments with respect to activities which are presented in Property & Building's reports as discontinued operations.	32	82	143
Adjustments with respect to the presentation of the HSBC operation as a discontinued operation	-	[(4)] (251)	[(4)] (270)
Other adjustments	78	[(3)]78	[(3)]93
	110	(7,863)	(13,394)

(1) The Shufersal operation is presented under discontinued operations, see Note 12.B.3. above.
(2) The Mehadrin activity was consolidated beginning on March 9, 2020.
(3) Reclassified due to the presentation of Epsilon under other segments.
(4) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

D. Composition of adjustments to the segmental results attributed to the owners of the Company in the consolidated report:

	For the year ended December 31		
	2021	2020	2019
		NIS millions	
Inclusion of the results of DIC headquarters (general and administrative, financing and taxes)	(243)	(254)	(161)
Other adjustments	33	[(1)] (10)	[(1)]58
	(210)	[(1)] (264)	[(1)] (103)

(1) Reclassified due to the presentation of Epsilon under other segments.

E. Segmental balance sheet data
As at December 31, 2021

	Cellcom	Property & Building	Mehadrin	Others	Adjustments	Consolidated
			NIS millions			
1. **Segmental assets** [(a)]	6,570	8,183	1,357	554	1,554	18,218
2. **Segmental liabilities**	4,649	5,436	662	95	3,002	13,844
3. Adjustments to fair value, goodwill and excess cost attributed to the segment	410	-	73	-		
[(a)] Including investments in investee companies accounted by the equity method	134	2,837	99	97		

Note 32 - Segments (Cont.)

E. Segmental balance sheet data (Cont.)

As at December 31, 2020

	Cellcom	Property & Building	Shufersal	Others	Adjustments	Consolidated
	NIS millions					
1. **Segmental assets [a]**	7,157	7,967	1,222	(1)364	(1)2,274	18,984
2. **Segmental liabilities**	5,277	6,223	665	(1)51	(1)3,458	15,674
3. Adjustments to fair value, goodwill and excess cost attributed to the segment	410	-	73	-		
[a] Including investments in investee companies accounted by the equity method	131	1,623	96	65		

(1) Reclassified due to the presentation of Epsilon under other segments.

F. Composition of the adjustments to the segmental assets in the consolidated report:

	As at December 31	
	2021	2020
	NIS millions	
Inclusion of adjustments to fair value of assets of subsidiaries and goodwill with respect to them in DIC	595	595
Inclusion of other assets of DIC headquarters	873	1,586
Inclusion of the investment amount in associate companies based on their book value, as included in these financial statements	9	8
Other adjustments	77	(1)85
	1,554	(1)2,274

(1) Reclassified due to the presentation of Epsilon under other segments.

G. Composition of adjustments to segmental liabilities in the consolidated report

	As at December 31	
	2021	2020
	NIS millions	
Inclusion of the liabilities of DIC headquarters	2,862	3,308
Inclusion of adjustments to the fair value of liabilities of subsidiaries in DIC	86	85
Other adjustments	54	(1)65
	3,002	(1)3,458

(1) Reclassified due to the presentation of Epsilon under other segments.

Note 32 - Segments (Cont.)

H. Capital investments

	Cellcom	Property & Building	Mehadrin	Shufersal	Others
	NIS millions				
2021	560	4	27	-	-
2020	499	17	23	(1) 256	1
2019	562	41	-	636	-

(1) The data for Shufersal are in accordance with Shufersal's financial statements for the six month period ended June 30, 2020.

I. Types of products and services from which the reportable segments derive their income:
Cellcom - Mobile telephone call services, content and value added services, other services and income from the sale of end user equipment in the mobile segment, as well as internet services, landline telephony services, international calls and television over internet services, transmission services, landline end user equipment and associated services.
Property & Building - rental of revenue-generating properties and residential construction.
Mehadrin - Agriculture, revenue-generating properties, refrigeration facilities (refrigeration holding services) and water supply for agricultural irrigation and freshwater pumping.
Shufersal - Retail and rental of revenue-generating properties

J. Additional information regarding products and services of the Group's member companies

		For the year ended December 31		
		2021	2020	2019
		NIS millions		
Income from sales and services to external customers				
Communication -	Mobile communication services and other services	1,872	1,666	1,680
	Landline communication services	1,086	1,153	1,111
	Sale of communication equipment	1,187	910	964
Real estate -	Building rentals	40	(2) 101	(2) 151
	Sale of apartments and real estate	44	109	336
Agriculture (1) -	Sale of agricultural produce	991	782	-
	Refrigeration services	38	31	-
	Sale of water	12	10	-
Finance -	Management and consulting fees of an investment house	75	55	50
Other products		33	23	59
		5,378	4,840	4,351

(1) With respect to the initial consolidation of Mehadrin in March 2020.
(2) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.

Note 32 - Segments (Cont.)

K. Additional information by geographical regions geographical the Group's member companies

1. The revenues which are reported in the financial statements were produced in the country where the Company is domiciled - Israel, as well as the following foreign countries:

	For the year ended December 31		
	2021	2020	2019
	NIS millions		
Israel	4,557	4,172	4,304
United States	107	[1]76	[1]47
Euro bloc countries [2]	479	370	-
Great Britain[2]	152	98	-
Others[2]	83	124	-
	5,378	4,840	4,351

(1) Adjusted retrospectively due to the presentation of the HSBC Tower activity under discontinued operations, see Note 12.B.1. above.
(2) With respect to the initial consolidation of Mehadrin in March 2020.

2. Non-current assets

	As at December 31	
	2021	2020
	NIS millions	
Israel	5,697	6,097
United States	2	2,638
Euro bloc countries	9	9
	5,708	8,744

Non-current assets include investment property, fixed assets, right-of-use assets, real estate inventory, deferred expenses and intangible assets.

Note 33 - Pro Forma Data Regarding Gav-Yam

A. General

These pro forma reports were prepared in accordance with Regulation 9A of the Periodic and Immediate Reports Regulations, and pertain to the acquisition of control of Gav-Yam by Property & Building, as stated in Note 34.B. below. The purchase transaction constitutes a material business combination requiring the presentation of pro forma reports, as defined in the Periodic and Immediate Reports Regulations.

B. Assumptions used in the preparation of the pro forma reports

The pro forma financial statements were prepared in order to reflect the Company's financial position as at December 31, 2021, and the Company's operating results during the three years ended December 31, 2021 based on the assumption that the Gav-Yam transaction, as stated above, was already executed on January 1, 2019 (the "Pro Forma Commencement Date"). The pro forma data include the purchase of 5% of the voting rights in Gav-Yam as part of the tender offer, which was completed after the date of the statement of financial position, as stated in Note 34.B below, and the expected purchase of 37.22% of Gav-Yam shares from a company owned and controlled by Mr. Frankel, as stated in Note 3.G.2.A.2. above, such that Property & Building holds, for the purpose of this pro forma report, approximately 86.73% of Gav-Yam's issued capital, beginning from the pro forma commencement date.

Pro forma figures are, by nature, based on assumptions, estimates and approximations, as specified below, and the pro forma data should therefore not be considered as necessarily reflecting the Company's representative and/or future operating results in subsequent periods.
The pro forma financial statements were prepared based on the following assumptions:

(1) The pro forma financial statements are based on the Company's consolidated financial statements and Gav-Yam's consolidated financial statements as at and for the year ended December 31, 2021, which were prepared in accordance with International Financial Reporting Standards (IFRS).

(2) The Company's pro forma statement of financial position as at December 31, 2021 was prepared based on the assumption that the purchase took place on December 31, 2021. The pro forma statements of income were prepared based on the assumption that the purchase transaction took place on January 1, 2019.

Note 33 - Pro Forma Data Regarding Gav-Yam (Cont.)

C. Pro forma adjustments:

(1) Before acquiring the control of Gav-Yam, as stated above, Property & Building held Gav-Yam, during the pro forma reporting years, as follows:

- Until July 2019, 51.7% of Gav Yam's issued share capital; in the months July and September 2019, Property & Building sold approximately 11.9% and approximately 5.1% of Gav Yam's issued share capital, respectively, such that Property & Building's stake in Gav-Yam decreased to approximately 34.9%.
- In 2020, Property & Building sold approximately 4.96% of Gav Yam's issued share capital, such that Property & Building's stake in Gav-Yam decreased to approximately 29.9%.
- In April 2021, Property & Building acquired approximately 14.7% of Gav Yam's issued share capital, such that Property & Building's stake in Gav-Yam increased to approximately 44.61%. Property & Building's stake in Gav-Yam as at December 31, 2021 was 44.51%.

Accounting treatment applied by the Company to the investment in Gav-Yam dung the reporting years in its consolidated financial statements:

In the Company's statements of income for 2019, the Gav-Yam activity was presented, until August 31, 2019, under discontinued operations, and from that date onwards, the investment was presented according to the equity method, and equity gains were included in the consolidated statements of income with respect to that investment.

Adjustments which were made for the purpose of the pro forma report:

For the purpose of the pro forma statement of financial position as at December 31, 2021, the investment in Gav-Yam, which was presented according to the equity method in the amount of NIS 2,789 million, was derecognized. Additionally, for the purpose of the pro forma statements of income, the equity gains and operating results of Gav-Yam, which were included under discontinued operations, which were recognized, as stated above, in all of the reporting years, were canceled.

It is noted that, in the pro forma statements of income, the profit from the loss of control of Gav-Yam was canceled, which had been recorded in 2019, in the amount of NIS 834 million, DIC's share in the profit - NIS 557 million, and the loss with respect to the sale of approximately 4.96% of Gav-Yam shares, which the Company recorded in 2020, in the amount of NIS 34 million, DIC's share in the loss - NIS 23 million, was canceled.

Note 33 - Pro Forma Data Regarding Gav-Yam (Cont.)

C. Pro forma adjustments (Cont.)

(2) Excess cost:

A. The excess of acquisition cost over the identifiable net assets in the books of Gav-Yam was calculated based on the data as at December 31, 2021. The excess cost amounted to a total of approximately NIS 4,825 million. as at the approval date of the financial statements, Property & Building not yet completed the allocation of the acquisition cost of Gav-Yam shares to the identifiable assets and liabilities. For the purpose of the pro forma reports, the excess cost was temporarily attributed to goodwill (NIS 5,090 million); to debentures (NIS 386 million); to real estate inventory (NIS 46 million); and to deferred taxes (NIS 75 million), based on a temporary paper regarding the allocation of the consideration, which was prepared for the purpose of Property & Building's purchase of Gav-Yam shares in April 2021, as stated in Note 3.G.2.A.1. above.

B. The amortization of excess cost for the period from January 1, 2019 to December 31, 2021 was calculated according to the estimated expected useful lifetime of the excess cost as at the acquisition date.

C. The attribution of taxes on the excess cost attributable to the debentures and to real estate inventory was calculated according to a tax rate of 23%.

(3) Investment property:

The investment property of Gav-Yam which is used by the Group's member companies (NIS 53 million) was presented in the pro forma statement of financial position as at December 31, 2021 under fixed assets. Revaluations of investment property which were recorded in Gav-Yam's financial statements, and which are used by the Group's member companies, were canceled in the pro forma statements of income.

(4) The purchase cost was financed as follows:

A. A total of NIS 450 million through the receipt of a loan from an institutional entity (see Note 34.A. below), and a total of NIS 200 million was assumed as raising of additional financing for Property & Building. It was assumed that the loans are not linked, and bear interest at an average rate of approximately 3.2%.

B. A total of NIS 178 million from a dividend, which was received from a dividend in the amount of NIS 400 million, which was distributed by Gav-Yam in the first quarter of 2022.

C. A total of NIS 1,000 million out of Property & Building's own sources;

D. It was assumed that the balance of the purchase cost, in the amount of NIS 1,622 million, was financed out of the sale of revenue-generating properties in Israel and in the United States, and the sale of the Tivoli project in Las Vegas, as stated in Note 12 above. In the pro forma statement of financial position as at December 31, 2021, the balance of the aforementioned purchase cost was offset from the balance of assets of disposal groups held for sale.

E. The pro forma statements of income included theoretical finance expenses according to the effective interest rate on the credit which was taken out for the purpose of the pro forma report, with respect to the entire amount of the purchase cost, in order to reflect, in the reports, the effect as if the purchase cost had been raised on January 1, 2019.

Note 33 - Pro Forma Data Regarding Gav-Yam (Cont.)

C. Pro forma adjustments (Cont.)

(5) Capital attributed to owners:

Capital attributed to the Company's owners in the pro forma statement of financial position as at December 31, 2021 includes:

A. Completion of the tender offer - Property & Building's profit from the rise to control amounted to NIS 897 million, while the Company's share in the profit was NIS 567 million, which represents the difference between the value of Property & Building's investment in Gav-Yam shares, before the purchase of the tender offer (according to its value in the Company's books as at December 31, 2021, less Property & Building's share in the dividend which Gav-Yam distributed in February 2022, and plus additional payment to institutional investors, as stated in Note 3.G.2.A.1. above), and the fair value of the foregoing investment in Gav-Yam, beginning from the date of rise to control.

B. Completion of the acquisition of Frankel shares - A transaction with non-controlling interests, while retaining control, was accounted for as an equity transaction - the difference between the transaction consideration (including adjustments to the transaction price, as stated in Note 3.G.2.A.2. above, with respect to the dividend which Gav-Yam distributed in the first quarter of 2022, and adjustments to the FFO of Gav-Yam, for the period from September 9, 2021 to December 31, 2021), and the change in non-controlling interests (which includes Property & Building's acquired share in the fair value of non-controlling interests), in the positive amount of NIS 12 million (the Company's share - NIS 8 million), which was carried (the part which was attributed to the Company, as stated above) to the share of the Company's owners in equity, to a positive capital reserve with non-controlling interests.

Note 33 - Pro Forma Data Regarding Gav-Yam (Cont.)

D. Statement of Financial Position as at December 31, 2021

	Before the pro forma event	Gav-Yam data	Adjustments with respect to pro forma data	Pro forma data
	NIS millions			
Non-current assets				
Investments in equity accounted investee companies	3,167	147	(2,789)	525
Financial assets measured at fair value through profit or loss	194	-	-	194
Loans, deposits, restricted deposits and debit balances	117	45	-	162
Right-of-use asset	869	-	(18)	851
Fixed assets	1,729	54	54	1,837
Investment property	23	10,345	(54)	10,314
Long term trade receivables	158	-	-	158
Inventory of real estate	24	-	46	70
Deferred expenses	423	-	-	423
Deferred tax assets	6	-	-	6
Intangible assets	2,640	3	5,090	7,733
	9,350	10,594	2,329	22,273
Current assets				
Financial assets measured at fair value through profit or loss	399	-	-	399
Deposits and pledged and restricted deposits	300	668	-	968
Other receivables and debit balances	327	61	-	388
Current tax assets	20	13	-	33
Trade receivables and other income receivable	1,082	6	-	1,088
Inventory	240	-	-	240
Inventory of buildings for sale	65	-	-	65
Assets of disposal groups held for sale	3,695	-	(1,622)	2,073
Cash and cash equivalents	2,740	464	(1,400)	1,804
	8,868	1,212	(3,022)	7,058
Total assets	18,218	11,806	(693)	29,331
Capital				
Share capital	810	170	(170)	810
Capital reserves	4,029	309	(301)	4,037
Retained earnings	(3,321)	3,132	(2,565)	(2,754)
Capital attributable to owners of the Company	1,518	3,611	(3,036)	2,093
Non-controlling interests	2,856	969	1,400	5,225
	4,374	4,580	(1,636)	7,318
Non-current liabilities				
Debentures	7,534	4,872	386	12,792
Loans from banks and other financial liabilities	147	-	650	797
Lease liabilities	589	1	(18)	572
Provisions	40	-	-	40
Deferred tax liabilities	566	1,309	(75)	1,800
Employee benefits	24	1	-	25
Other non-financial liabilities	13	68	-	81
	8,913	6,251	943	16,107
Current liabilities				
Current maturities of debentures	1,422	611	-	2,033
Credit from banking corporations and current maturities of loans from banks and others	268	-	-	268
Current maturities of lease liabilities	208	-	-	208
Other payables and credit balances	654	281	-	935
Trade payables	838	67	-	905
Derivatives	4	-	-	4
Current tax liabilities	33	13	-	46
Provisions	116	3	-	119
Liabilities of disposal groups held for sale	1,388	-	-	1,388
	4,931	975	-	5,906
Total capital and liabilities	18,218	11,806	(693)	29,331

Note 33 - Pro Forma Data Regarding Gav-Yam (Cont.)

E. Consolidated Statements of Income

Statements of Income for the Year Ended December 31, 2021

	Before the pro forma event	Gav-Yam data	Adjustments with respect to pro forma data	Pro forma data
	NIS millions			
Income				
Sales and services	5,378	599	-	5,977
The Group's share in the profit of equity accounted investee companies, net	339	23	(444)	(82)
Profit from realization and increase in the value of investments and assets, and dividends	186	71	(71)	186
Increase in fair value of investment property, net	585	1,266	(5)	1,846
Other income	241	-	-	241
Financing income	116	7	-	123
	6,845	1,966	(520)	8,291
Expenses				
Cost of sales and services	4,049	82	-	4,131
Research and development expenses	4	-	-	4
Selling and marketing expenses	689	12	-	701
General and administrative expenses	467	37	-	504
Loss from realization, impairment, and write-down of investments and assets	41	-	-	41
Other expenses	33	-	-	33
Financing expenses	643	219	58	920
	5,926	350	58	6,334
Profit (loss) before taxes on income	919	1,616	(578)	1,957
Income (expenses) from taxes on income	(156)	(356)	7	(505)
Profit (loss) from continuing operations	763	1,260	(571)	1,452
Loss from discontinued operations, after tax	(96)	-	-	(96)
Net profit (loss) for the year	667	1,260	(571)	1,356
Net profit (loss) attributable to:				
The Company's owners	266	1,092	(842)	516
Non-controlling interests	401	168	271	840
	667	1,260	(571)	1,356

Note 33 - Pro Forma Data Regarding Gav-Yam (Cont.)
E. Condensed Statements of Income (Cont.)

Statements of Income for the Year Ended December 31, 2020

	Before the pro forma event	Gav-Yam data	Adjustments with respect to pro forma data	Pro forma data
	NIS millions			
Income				
Sales and services	4,840	579	-	5,419
The Group's share in the profit of equity accounted investee companies, net	-	15	(15)	-
Profit from realization and increase in the value of investments and assets, and dividends	64	-	-	64
Increase in fair value of investment property, net	2	109	3	114
Other income	41	-	-	41
Financing income	28	-	-	28
	4,975	703	(12)	5,666
Expenses				
Cost of sales and services	3,792	71	-	3,863
Research and development expenses	13	-	-	13
Selling and marketing expenses	600	8	-	608
General and administrative expenses	553	33	-	586
The Group's share in the loss of equity accounted investees, net	15	-	92	107
Loss from realization, impairment, and write-down of investments and assets	113	-	(34)	79
Other expenses	5	-	-	5
Financing expenses	714	156	64	934
	5,805	268	122	6,195
Profit (loss) before taxes on income	(830)	435	(134)	(529)
Income (expenses) from taxes on income	20	(104)	(11)	(95)
Profit (loss) from continuing operations	(810)	331	(145)	(624)
Profit from discontinued operations, after tax	13	-	-	13
Net profit (loss) for the year	(797)	331	(145)	(611)
Net profit (loss) attributable to:				
The Company's owners	(555)	260	(208)	(503)
Non-controlling interests	(242)	71	63	(108)
	(797)	331	(145)	(611)

Note 33 - Pro Forma Data Regarding Gav-Yam (Cont.)

E. Condensed Statements of Income (Cont.)

Statements of Income for the Year Ended December 31, 2019

	Before the pro forma event	Gav-Yam data	Adjustments with respect to pro forma data	Pro forma data
	NIS millions			
Income				
Sales and services	4,351	549	-	4,900
The Group's share in the profit of equity accounted investee companies, net	-	10	(10)	-
Profit from realization and increase in the value of investments and assets, and dividends	108	22	-	130
Increase in fair value of investment property, net	67	359	(10)	416
Other income	25	-	-	25
Financing income	234	36	-	270
	4,785	976	(20)	5,741
Expenses				
Cost of sales and services	3,137	61	-	3,198
Research and development expenses	32	-	-	32
Selling and marketing expenses	669	7	-	676
General and administrative expenses	490	30	-	520
The Group's share in the loss of equity accounted investees, net	19	-	66	85
Loss from realization, impairment, and write-down of investments and assets	735	-	-	735
Other expenses	6	-	-	6
Financing expenses	679	153	64	896
	5,767	251	130	6,148
Profit (loss) before taxes on income	(982)	725	(150)	(407)
Income tax expenses	(27)	(161)	(8)	(196)
Profit (loss) from continuing operations	(1,009)	564	(158)	(603)
Profit (loss) from discontinued operations, after tax	1,326	-	(1,187)	139
Net profit (loss) for the year	317	564	(1,345)	(464)
Net profit (loss) attributable to:				
The Company's owners	14	464	(951)	(473)
Non-controlling interests	303	100	(394)	9
	317	564	(1,345)	(464)

Note 34 - Events After the Date of the Statement of Financial Position

A. Further to that stated in Note 3.G.2.A.2. above, regarding the agreement to purchase shares of Gav-Yam, in which Property & Building engaged, in consideration of payment of a total of NIS 3.1 billion (subject to adjustments) (the "Purchase Transaction"), in January 2022 Property & Building engaged with an institutional entity in a loan agreement (the "Financing Entity" and the "Loan Agreement", respectively), regarding the acceptance of a loan in the amount of NIS 450 million (the "Loan"), which is not secured by any collateral, for a period of 18 months, and bearing annual interest of 3.043% (unlinked) (and a mechanism for increasing the interest rate in case of a reduction of Property & Building's rating). The loan will be repaid in a single payment on the final repayment date (i.e., in July 2023), and interest with respect thereto will be paid by Property & Building in semi-annual payments.

The loan agreement also includes undertakings by Property & Building to fulfill financial covenants which are identical to the financial covenants which are included in Property & Building's debentures (Series H and Series I), as stated in Note 15.D.2.B. above, pertaining to an undertaking to maintain minimum equity of NIS 900 million ratio of net financial debt to total assets of 75%; and ratio of net financial debt to EBITDA of 1:17.

The loan agreement also includes, inter alia, an undertaking by Property & Building not to perform a distribution exceeding a total of NIS 100 million in a calendar year, and Property & Building also undertook to refrain from executing a disposition, and that Property & Building will not sell and/or provide an undertaking to sell and/or assign and/or pledge the Gav-Yam shares which it holds, which are worth (according to stock exchange trading data), on the grant date of the loan, NIS 900 million (in other words, 23.3 million Gav-Yam shares - the "Clean Shares"), where the number of clean shares will be no less than 10% of Gav-Yam's issued and paid-up capital. Property & Building will also be entitled to prepay the balance of the loan, where it was determined, inter alia, that a prepayment penalty will not apply in the following cases: (1) 15 months have passed since the provision date of the loan; (2) 9 months have passed since the provision date of the loan, and the request for prepayment was due to the cancellation and/or non-completion of the purchase transaction, where the cancellation and/or non-completion, as stated above, are done in circumstances not involving a deliberate action or omission of Property & Building.

Note 34 - Events After the Date of the Statement of Financial Position (Cont.)

B. Further to that stated in Note 3.G.2.A.2. above, regarding the agreement to purchase Gav-Yam shares in which the Company engaged (the "Share Purchase Agreement"), in March 2022 a special tender offer was accepted which had been published by Property & Building for the purchase of 5% of Gav-Yam's issued share capital and voting rights, at a price per share of NIS 41, and for a total consideration of NIS 440 million. Upon the completion of the aforementioned purchase, on March 8, 2022 (the "Date of Rise to Control"), Property & Building's stake in Gav-Yam increased from 44.51% to approximately 49.51%, in capital and voting rights, and from that date onwards, the Company will consolidate Gav-Yam's financial statements in its financial statements. As a result, Property & Building is expected to record, in the first quarter of 2022, profit with respect to the difference between the value of the investment in Gav-Yam shares in Property & Building's books, before the aforementioned purchase, and the fair value of the aforementioned investment in Gav-Yam on the date of rise to control. This profit estimate will be calculated based on the difference between the value of the Company's investment in Gav-Yam on the date of rise to control, and the value of that investment according to the last closing price of Gav-Yam stock on the stock exchange, on the date of rise to control. In accordance with the share price of Gav-Yam on the stock exchange on the date of rise to control (NIS 37.07 per share), and according to Gav-Yam's audited financial statements as at December 31, 2021 (in consideration of the excess cost attributed to Gav-Yam in Property & Building's books, and less the dividend which was paid to Property & Building by Gav-Yam during the first quarter of 2022), Property & Building is expected to record profit estimated at a total of approximately NIS 900 million, and the Company's share in the expected profit - approximately NIS 570 million. The foregoing profit estimate is subject to changes in the value of Property & Building's investment in Gav-Yam, and in Gav-Yam's capital, from December 31, 2021 until the date of rise to control. Additionally, the Company will measure, in the consolidated financial statements, on the date of rise to control, the non-controlling interests, in accordance with their fair value, according to the last closing price of Gav-Yam shares on the stock exchange, on the date of rise to control.

Note 34 - Events After the Date of the Statement of Financial Position (Cont.)

C. Further to that stated in Note 3.G.2.A.2. above, regarding a transaction involving the purchase of Gav-Yam shares by Property & Building from a company wholly owned and controlled by Mr. Aharon Frankel (the "Purchase Transaction" and "Frankel", respectively), and further to the results of the special tender offer to purchase Gav-Yam shares, as specified in section B. above, on March 13, 2022 Property & Building received a motion to approve a claim as a class action, which had been filed with the District Court of Tel Aviv-Yafo, against Property & Building and against Frankel (the "Motion"). In the motion it was asserted, inter alia, in summary, that the special tender offer which was published after Property & Building's engagement in the purchase transaction, was executed after Property & Building had effectively already crossed the threshold of a 45% stake in Gav-Yam's share capital, and had acquired the control thereof (notwithstanding the fact that the tender offer constituted a suspensory condition for the purchase transaction), unlawfully, in bad faith, and while discriminating against Gav-Yam's shareholders. In light of the foregoing, it was alleged that an order should be issued declaring that all of Gav-Yam shares which were purchased by Property & Building (allegedly) in the purchase transaction, and Gav-Yam shares which were purchased as part of the special tender offer, are dormant shares (which will not give Property & Building any rights). Along with the request to declare the shares as dormant, an additional remedy was also requested, that Property & Building be ordered to purchase all of the shares which are held by public shareholders in Gav-Yam (based on the estimated fair value of the shares, or by way of a full tender offer, and including the supplementation of the consideration for those who accepted the special tender offer); or alternatively, to order monetary compensation for the minority shareholders in Gav-Yam (who held its shares on December 25, 2021).

D. For details regarding IDBG's engagement in an amendment to the sale agreement involving the realization of IDBG's assets, in February 2022, see Note 12.A.5.A. above.

E. For details regarding Property & Building's engagement with a third party, which is unaffiliated with Property & Building, in a agreement for the sale of all of Property & Building's interests in Romano House, a revenue-generating real estate property with potential for betterment, on Yafo St. in Tel Aviv-Yafo, which is held around 72.2% by Property & Building, for a total consideration of NIS 371 million (Property & Building's share in the consideration - NIS 268 million), see Note 12.A.4. above.

F. For details regarding DIC's engagement with Property & Building, in January 2022, in a cost distribution agreement (services agreement), beginning on July 1, 2021, see Note 31.B.1.(B) above.

G. In February 2022, Cellcom engaged with an institutional entity group (the "Lender") in a framework agreement regarding the provision of credit, up to a total of NIS 250 million, for a period of 24 months after the date of provision of the credit facility.
The agreement is not secured by any collateral, and includes standard conditions and undertakings, including a restriction on the creation of pledges, subject to certain exceptions, restrictions on the distribution of profits, financial covenants and default events generally also apply to Cellcom's debentures (Series H - L), as specified in Note 15.D.1. above, subject to non-material certain changes, and the possibility of early redemption, under certain conditions.

H. For details regarding Property & Building's engagement (through its subsidiary), in a sale agreement with a third party which is unaffiliated with Property & Building, for the sale of all of its interests and liabilities in connection with land reserves, including with residential designation, located near Mandarin Hotel in North Tel Aviv-Yafo, in its current condition ("as is"), for a total consideration of NIS 347 million, see Note 12.A.6. above.

Annex A - List of Primary Companies as at December 31, 2021

1. **Subsidiaries directly consolidated by DIC**

	Stake in share capital and in voting rights December 31	
	2021	2020
	%	
Property & Building	63.2	74.1
Cellcom [(1),(2),(3)]	46.0	46.1
Elron	60.1	61.1
Mehadrin[(2)]	44.5	44.5
Epsilon	68.8	68.8
Bartan Holdings and Investments Ltd. [(4)]	55.7	55.7
Microwave Networks Inc. (MNI) [(3)]	99.8	99.8

(1) Stake in voting rights - 48.0% (as at December 31, 2020 - 48.2%).
(2) Notwithstanding the fact that DIC holds less than half of the voting rights in Cellcom and in Mehadrin, the Company estimates that it holds effective control of them (inter alia, due to the Group's high holding rate of their voting rights, the distribution of the other voting rights, and in light of the voting patterns int he general meetings of their shareholders), and therefore, their financial statements were consolidated in the Company's financial statements.
(3) Held through Koor.
(4) Including holding through Property & Building Ltd.

2. **Companies which were consolidated by the Company's consolidated companies**

This section specifies subsidiaries which were consolidated by the Company's consolidated companies ("Second Tier Subsidiaries"), insofar as they are material only, and fulfilled in 2021 one or more of the tests specified below:

A. The Company's share (through concatenation) in the investment amount in the second tier subsidiary exceeds 10% of the capital attributed to the owners of the Company in the relevant consolidated statement of financial position.

B. The Company's share (through concatenation) in the results of the second tier subsidiary, as reflected in the financial statements of the consolidated company, exceeds 10% (in absolute values) of the representative annual profit during the relevant year, as specified in Note 1.E.4. above.

	Stake in share capital and voting rights December 31		
	2021	2020	2019
	%		
By Property & Building			
Hadarim Properties Ltd.	100.0	100.0	100.0
PBC USA Investments Inc.	100.0	100.0	100.0
Neveh-Gad Construction and Development Ltd.	100.0	100.0	-[(1)]
Traders House Ltd.	72.0	-[(1)]	-[(1)]
By Cellcom			
Cellcom Landline Telecommunication (Limited Partnership)	100.0	100.0	100.0
Golan [(2)]	100.0	100.0	-
By Mehadrin [(2)]			
Pri Or Ltd.	99.9	99.9	-

(1) The Company did not fulfill the foregoing tests during the relevant year.
(2) Mehadrin and Golan were initially consolidated in March 2020 and in August 2020, respectively.

Annex B - Share-Based Payments

The Group's main options plans for employees as at December 31, 2021

The fair value of the warrants which were provided to employees is measured using the Black-Scholes model. The assumptions of the model include the share price on the measuring date, the exercise price of the instrument, expected volatility (based on the weighted average of the historical volatility of the Company's shares over the projected period of the warrants, and adjusted to expected changes due to publicly available information), the weighted average of the expected lifetime of the instruments (based on past experience and the general conduct of the warrant holders), and the risk-free interest rate (based on government debentures). The service terms are not taken into account upon the determination of fair value.

Presented below are details regarding the Group's options plans for employees as at December 31, 2021:

Capital as at December 31, 2021	DIC	Cellcom(2)	Mehadrin	Elron
Total number of issued and paid-up shares, less treasury shares	141,522,567	163,325,450	3,324,824	51,920,867
Total capital attributed to owners	1,518	1,921	693	312
General plan details				
Plan approval year	2020	2016-2021	2021	2018
Maximum contractual lifetime of the warrants from the date of their allocation (in years)	5-7(3)	4-8	5	5
Vesting				
Number of vesting years after the allocation date	-(3)	2-5	3	3
Vesting date of the first tranche - end of year after the allocation date	-(3)	1	1	1
Vesting date of the last tranche - end of year after the allocation date	-(3)	2-5	3	3
Number of options vesting at the end of each year	-(3)	33%-20%	33%	33%
Exercise price (with respect to the current options as at December 31, 2021)				
Basic exercise price per share on the allocation date of the options (in NIS)	6.2-8.3	11.4-30.0	149	13.3-6.8
Adjustment of the exercise price to dividend distributions	Yes	Yes	Yes	Yes
Adjustment of the exercise price to changes in the index	No	No	No	No
Share price on the stock exchange (with respect to current options as at December 31, 2021)				
On the allocation date (date of approval by the Board of Directors) (in NIS)	5.35	11.4-27.8	150.6	6.2-12.2
Movement in the number of outstanding options in 2021				
Balance as at January 1, 2020	2,500,000	14,493,000	-	5,023,582
Allocated during the year	-	2,300,000	165,886	84,981
Exercised during the year	-	(1,274,000)	-	-
Expired or forfeited during the year	-	(1,074,000)	-	-
Balance as at December 31, 2021	2,500,000(5)	14,445,000	165,886	5,108,563
Additional data as at December 31, 2021				
Exercise price of the outstanding options (in NIS)	6.2-8.3	11.4-30	149	6.8-13.3
Weighted average of exercise price of the outstanding options	NIS 7.2	NIS 14.9	NIS 149	NIS 9.1
Number of exercisable options	2,500,000(5)	3,557,000	-	5,023,582
Weighted average of exercise price of the exercisable options	NIS 7.2	NIS 14.7	-	9.1
Weighted average of remaining lifetime of the outstanding options (in years)	4.1(3)	3.8	4.5	2.7
Benefit embodied in options which were allocated (including with respect to concluded plans)				
Income (expense) recorded in 2021 (NIS millions)	-	(15)	(3)	-
Expense recorded in 2020 (NIS millions)	(4)(4)	(20)	-	(4)
Income (expense) recorded in 2019 (NIS millions)	1(1)	(8)	-	2

(1) Includes income in the amount of NIS 2 million, with respect to the expiration of options in January 2020 to the Company's outgoing General Manager and to the Company's outgoing CFO.

(2) Including plans with respect to restricted shares.

(3) The remaining outstanding options as at December 31, 2021 were granted to the Company's General Manager. Following the change in the Company's controlling shareholder, all of the options vested. For details, see Note 31.B.4. above.

(4) Including an expense in the amount of NIS 3 million with respect to the accelerated vesting of options to the Company's General Manager. See Note 31.B.4. above.