

RETAILORS LTD.

BOARD OF DIRECTORS' REPORT

AS OF SEPTEMBER 30, 2021

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RETAILORS LTD.

The Company's directors have pleasure in presenting the Board of Directors' report on the state of the Company's affairs for the periods of nine and three months ended September 30, 2021 ("**the reporting period**" and "**Q3 2021**", respectively), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

This Board of Directors' report has been prepared under the assumption that the IPO prospectus, the tender offer prospectus and the shelf prospectus of the Company which was published on May 13, 2021 ("**the Prospectus**", TASE reference: 2021-01-085359) are available to its readers.

The accompanying financial statements have been prepared in conformity with International Financial Reporting Standards ("**IFRS**"). See additional information in Note 2 to the Company's financial statements as of September 30, 2021 ("**the Financial Statements**").

Disclosure of the consequences of Covid-19 on the activity of the Company and investees ("**the Group**") is given in paragraph 1.4.1 below.

Since March 1, 2015, the Company has been controlled by Fox-Wizel Ltd. ("**Fox**") and consolidated in its financial statements.

A. THE BOARD OF DIRECTORS' EXPLANATIONS FOR THE STATE OF THE COMPANY'S AFFAIRS

1. Condensed description of the Group and its business environment

General

The Company was incorporated in Israel on December 11, 2008 as a private company limited by shares under the Companies Law under the name of Retailors Ltd. On May 13, 2021, the Company's shares were first sold to the public through share issuance and a tender offer and since May 19, 2021 its shares are traded on the Tel-Aviv Stock Exchange Ltd. (see additional information in Note 3i to the Financial Statements).

The Company is engaged in the retail sale of footwear products, sports apparel and sports accessories as well as leisure fashion through chain stores that are operated by the Company and its investees in Israel, Canada and Europe ("**Retailors chain**" or "**the chain**"). As of September 30, 2021, the chain has 96 directly operated stores in Israel, of which 23 are Nike stores, 65 Foot Locker stores and 8 Dream Sport stores. The Company also operates 4 temporary stores (pop-ups). The Company, through investees, also operates 9 and 18 Nike stores in Canada and Europe, respectively, and 9 Foot Locker stores in Europe. As part of its activity, the Company is negotiating to expand its business, among others by opening stores under its brands in Israel and outside Israel, including by setting up new stores and/or acquisition of franchisee stores in Europe through investees. See details of negotiations held in connection with the Energym transaction and negotiations held in connection with obtaining a license to resell the international Converse brand in Israel in paragraphs 1.4.12 and 1.4.13 below, respectively.

The Group buys and sells in the chain stores many different types of footwear and sportswear and athletic clothing as well as fashion and footwear items, the main ones being: sneakers and leisure fashion, running shoes and sportswear and sports accessories in the men, women and kids categories (see more information in paragraph 6.11 to Chapter 6 to the Prospectus).

As of September 30, 2021, the Group operates in two main areas of activities which constitute operating segments in its Financial Statements:

1.1 The segment of Nike

In this operating segment the Group is engaged in the development and operation of mono-brand stores for retail sale of footwear products, sports apparel and sports accessories of the Nike brand ("Nike") in Israel, Canada and Europe (Poland, Netherlands, Belgium and Germany and from 2021 also in Norway, Hungary, Czech, Slovakia and Sweden) in the men, women and kids categories. See more details in paragraph 6.4.1 to Chapter 6 to the Prospectus.

As of September 30, 2021, the Nike chain operated by the Company and investees consists of 50 stores as follows

	30.9.2020	31.12.2020	31.3.2021	30.6.2021	30.9.2021
Nike Israel	23	23	23	23	23
Nike Canada	9	9	9	9	9
Nike Europe	5	7	8	11	18
Total	37	39	40	43	50

1.2 The segment of Foot Locker

In this operating segment the Group is engaged in the development and operation of multi-brand stores in Israel and Europe (in Poland and Hungary) under the Foot Locker brand ("Foot Locker") for retail sale of footwear products, leisure and sports fashion of top international lifestyle and sports brands such as Adidas, Nike, Vans, Converse, New Balance and others as well as exclusive collections of sports apparel, sneakers and accessories in the men, women and kids categories. See more information in paragraph 6.4.2 to Chapter 6 to the Prospectus.

As of September 30, 2021, the Foot Locker chain operated by the Company and investees consists of 74 stores as follows

	30.9.2020	31.12.2020	31.3.2021	30.6.2021	30.9.2021
Foot Locker Israel	56	58	62	65	65
Foot Locker Europe	-	7	7	8	9
Total	56	65	69	73	74

1.3 The Company has another activity that does not aggregate to a reportable segment in its Financial Statements, as detailed below

Since May 27, 2020, the Company operates multi-brand stores in Israel under the name of Dream Sport ("**Dream Sport**") for retail sale of a variety of footwear products, professional sport clothing and accessories of top international sports brands. Dream Sport stores market collections of footwear, clothing and accessories classified into different professional categories depending on the type of sports and performance characteristics. These include collections relating to basketball, football, running, indoors, outdoors and leisure sports fashion. See more information in paragraph 6.5 to Chapter 6 to the Prospectus.

As of September 30, 2021, the other activity that does not aggregate to a reportable segment consists of 8 stores as follows

	30.9.2020	31.12.2020	31.3.2021	30.6.2021	30.9.2021
Dream Sport	3	4	6	7	8

In addition, as of September 30, 2021, the Company operates 4 temporary stores (pop-ups).

The Company's evaluations on stores expected to be opened by the Company by December 31, 2021 and December 31, 2022:

	No. of stores on 30.9.2021	Expected no. of stores on 31.12.2021*	Expected no. of stores on 31.12.2022	Expected no. of stores opened in 2022	Signed contracts for stores expected to be opened in 2022
Nike Israel	23	23	24	1	1
Nike Canada	9	9	12	3	-
Nike Europe	18	19	33-38	14-19	6
Foot Locker Israel	65	68	75-77	7-9	1
Foot Locker Europe	9	14	32-40	18-26	2
Dream Sport	8	8	12	4	2
Total	132	141	188-203	47-62	12

* Based on signed contracts/actual store opening.

The Company's evaluations of the potential growth in the number of stores as elaborated above represent forward-looking information, as defined in the Israeli Securities Law, 1968 ("the Securities Law"), whose materialization is uncertain and which may not materialize or may materialize in a different manner as a result of circumstances that are not under the Company's control, as explained in paragraph 6.29.1 to Chapter 6 to the Prospectus.

1.4 Material events during the reporting period

1.4.1 Disclosure of the consequences of the spread of Covid-19 on the Group's activity

During 2020 and Q1 2021, the Government of Israel took various measures to contain the spread of Covid-19 and its consequences in Israel. In this framework, severe restrictions were imposed on citizen mobility, prohibiting gatherings, limiting the number of workers allowed to enter the workplace premises, closing commercial centers including malls and open shopping centers and prohibiting operation of businesses that were defined nonessential.

The following are the opening and closing periods of the stores in Israel in 2020 and Q1 2021:

Country	Lockdown	Date of closing all commercial centers	Reopening of the majority of commercial centers (*)	Number of days the stores remain closed	Total days
Israel	Lockdown I	15.3.2020	7.5.2020	53	190
	Lockdown II	18.9.2020	8.12.2020	81	
	Lockdown III	27.12.2020	21.2.2020	56	

(*) On April 28, 2020, the Company's street-side stores and stores in commercial centers have gradually reopened and on May 7, 2020, the Company's stores in malls have reopened subject to compliance with the guidelines and restrictions imposed to ensure public health, among others, in relation to the number of staff and customers.

On November 8, 2020, the Company's street-side stores reopened and on November 16, 2020 also stores in open malls have reopened and on December 8, 2020, most of the Company's stores in Israel have reopened.

The following are the number of days the Group's stores remained closed in the reporting periods and in the corresponding periods of last year:

Country	Number of days lockdown 1-9/2021	Number of days lockdown 1-9/2020	Number of days lockdown 7-9/2021	Number of days lockdown 7-9/2020
Israel	51	66	-	13
Canada	129-149	98	-	-
The Netherlands (*)	61	48	-	-
Belgium (*)	-	54	-	-
Germany (*)	129	53	-	-
Poland (**)	75-82	-	-	-
Hungary (**)	30	-	-	-

(*) The activities in Germany, the Netherlands and Belgium were acquired on March 1, 2020 and the period of lockdown in the above table refers to the period from acquisition until September 30, 2020.

(**) The Group did not operate the stores in Poland and Hungary in the nine months ended September 30, 2020.

See information regarding the impact of the lockdowns in Israel and abroad in Note 1a to the Company's annual financial statements as of December 31, 2020.

The impact of Lockdown III in Israel on the Company

Following a significant rise in morbidity, on December 27, 2020, the Government of Israel decided to impose restrictions on economic activity and gatherings and also ban commercial activity. Accordingly, all Group's stores in Israel closed.

Similar as in previous lockdowns, in Q1 2021 the Company made several cost-saving moves which included, among others, putting all Company's employees and managers on unpaid leave, with the exception of a limited number of employees and managers mostly at the Company's headquarters, which operated only in a limited basis (in scale and salary) for the sake of business continuity. Further, the Company's management (including the Company's CEO and other officers) informed on temporary and partial waiver of salary during the period.

Further, during the reporting period, the Company has reached agreements with most of the lessors in Israel that no rent payments and management fees (part or full) will be due for the period in which operation of stores was banned (from December 27, 2020).

On February 21, 2020, trade restrictions were lifted and all Company's stores in malls in Israel reopened, subject to compliance with the guidelines and restrictions imposed to ensure public health, among others, in relation to the number of staff and customers and the Company's employees and managers returned to work on a regular basis. In March and April 2021, mainly due to the extensive national vaccination campaign, the market began gradually reopening and almost returned to normal activity.

The impact of Covid-19 on the Group's stores abroad

Similar to what was happening in Israel, many countries around the world have responded in the same way as Israel and imposed various restrictions on trade following the spread of Covid-19:

Europe

The Group's stores in Belgium moved on March 27, 2021 to operate in the format of shopping by appointment and on April 26, 2021 stores reopened fully.

The Group's stores in the Netherlands closed on December 15, 2020 and reopened on March 3, 2021 with restrictions of shopping by appointment and limited number of customers allowed inside at any time. On April 28, 2021, the Group's stores in the Netherlands reopened fully.

The Group's store in Germany closed on December 16, 2020 and reopened on March 8, 2021 with restrictions of shopping by appointment and limited number of customers. Despite the above and pursuant to the decision of the local authority, the Group's store in Germany closed again on March 20, 2021 and reopened on May 22, 2021 with restrictions of limited number of customers allowed inside at any time (until mid-July).

The Group's stores in Poland closed from December 25, 2020 until February 1, 2021 and closed again from March 14, 2021 until March 22, 2021 and reopened on May 4, 2021.

The Group's stores in Hungary closed on March 8, 2021 and reopened on April 7, 2021.

Canada

Some of the Group's stores in Canada closed on November 23 2020 and other stores closed during December and entirely closed on December 26, 2020. The Group's stores in Canada reopened gradually from February 16, 2021 until the reopening of all of the Group's stores in Canada on March 8, 2021. The Group's stores in Canada closed again on April 8, 2021 and reopened on June 30, 2021.

The subsidiaries in Canada and Europe reached various agreements with lessors regarding discounts on rent payments for the period in which operation of stores was banned and some also for the period after the stores reopened. According to the agreements, discounts on rent payments and management fees are for several months.

Government support

Subsidiaries in Europe and Canada are entitled to receive support grants from the relevant countries for employees' salary expenses, loss of income and one-time expenses. In the periods of nine and three months ended September 30, 2021, the subsidiaries recognized such grants against a deduction in selling and marketing expenses of approximately NIS 12,544 thousand and NIS 1,165 thousand, respectively.

In addition, as part of the Government of Israel financial plan to help large business (with annual turnover of over NIS 400 million) that have been affected by the Covid-19 crisis, property tax relief will be given for the months which have significantly impacted the Company's revenues (in the relevant months). Accordingly, in Q2 2021, the Company recognized a deduction in selling and marketing expenses of approximately NIS 1,200 thousand.

The balances of cash and short-term investments of the Company and subsidiaries totaled approximately NIS 695.4 million as of September 30, 2021.

Total short-term credit in the consolidated financial statements was approximately NIS 1.9 million as of September 30, 2021.

For paying the Company's working capital, in 2020, the Company took an owner's loan from the parent company, Fox, which has been repaid in full in March 2021.

The Company's management estimates that its balance of cash and cash equivalents, low leverage ratio and capital raised in May 2021 (issuance of its shares to the public and allocation to Foot Locker Inc., see also Note 3i to the Financial Statements), mitigate the exposure to financial instability caused by Covid-19.

In view of the significant increase in Covid-19 cases in Israel in July 2021, the Government of Israel decided to tighten domestic restrictions, expand the "green pass" and start to apply the "purple pass" in malls and places of commerce on August 18, 2021. Recently, in view of the extensive booster vaccination campaign implemented in Israel, there was a dramatic drop in the number of Covid-19 cases.

As of the reporting date, all of the Group's stores in Israel and abroad are open in accordance with the relevant guidelines and regulations for containment of Covid-19.

The Covid-19 crisis is a dynamic event and the extent of its impact on the Group's results in the remaining 2021 and onward depends, among others, on the scope and severity of the restrictions imposed or lifted and how long will it take to return to regular activity.

The potential effects of the spread of Covid-19 on the Group's activity and how the Group will respond to the Covid-19 crisis in the future, as described above and below, is a forward-looking information, as defined in the Securities Law, whose realization is uncertain and beyond the Company's control. Such information is based on the Company's assessments and forecasts available at the time the report is published which depend, among others, on the way in which the virus will be transmitted in the future and the corresponding measures taken in Israel and around the world which could have a significant effect on the Group's activity. Currently, the Company is unable to estimate the possible consequences on its future operations and results because the degree of impact on the Group's activity depends, among others, on the level and extent of their realization.

- 1.4.2** On February 16, 2021, an amendment to the agreements regarding the option granted to Leumi Partners under the original agreement and the shareholders' agreement, as elaborated in Note 3a to the Financial Statements, was signed. On May 13, 2021, shortly before the publication of the Prospectus, the Company allocated to Leumi Partners shares, according to the above amendment to the agreements, and Leumi Partners sold those shares in a tender offer.

- 1.4.3** As for information regarding an update of the employment terms of Mr. Tomer Czapnik, CEO Retailors Nike Stores International, the son-in-law of Mr. Harel Wizel, who is the Chairman of the Company's Board and one of the controlling shareholders in Fox, the controlling shareholder in the Company, including the approval to allocate to Mr. Czapnik RSUs after the completion of the offering to the public, see Note 3b to the Financial Statements.
- 1.4.4** As for information regarding the agreement between the Company, the parent company Fox and Foot Locker Retail Inc. ("**Foot Locker Inc.**") for the allocation of the Company's shares to Foot Locker Inc. and Fox undertaking to vote for the election of the candidate of Foot Locker Inc. as a director or to allow Foot Locker Inc. to appoint an observer on the Company's Board and the completion of the allocation of Company's shares to Foot Locker Inc. in consideration of approximately NIS 221.8 million on May 13, 2021 with the publication of the Prospectus, see Note 3c to the Financial Statements.
- 1.4.5** As for information regarding agreements with Fox for management and consulting services, service and burden and customers' club, see Notes 3e and 3f to the Financial Statements.
- 1.4.6** As for information regarding the agreement with Terminal X Online Ltd., a company controlled by Fox, regarding e-commerce sites under the "Foot Locker" brand, which began operating on October 7, 2021, and the "Dream Sport" brand, see Note 3d to the Financial Statements.
- 1.4.7** As for information regarding the demarcation agreement with Fox, the controlling shareholder in the Company, and the conflict of interest agreement pertaining to officers in Fox group who may be appointed as officers in the Company, see Note 3h to the Financial Statements.
- 1.4.8** As for information regarding a planned private placement of RSUs to Messer. Mr. Danny Gaoni, Operations Manager of Nike Israel, Foot Locker Israel and Dream Sport and to the Company's CEO, Mr. Dov Schneidman, and to Mr. Tomer Czapnik (see 1.4.3 above), after the completion of the offering to the public, see Note 3g to the Financial Statements.
- 1.4.9** As for information regarding the issuance of the Company's shares and their registration for trade on the Tel-Aviv Stock Exchange, see Note 3i to the Financial Statements.
- 1.4.10** As for information regarding agreements for the acquisition of the activity of five Nike stores in Europe (two stores in Hungary, two in the Czech Republic and one in Slovakia) by a subsidiary and the completion of the transaction on July 15, 2021, see Note 3j to the Financial Statements.
- 1.4.11** As for information regarding the early repayment of the Company's loans, see Note 3k to the Financial Statements.

- 1.4.12** As for information regarding the approval of the appointments of Messer. John Maurer, Noa Landau and Keren Kurtz Zilber as directors of the Company, of Mr. Israel Yaakobi as an independent director of the Company and of Messer. Orit Alster and Dalia Tal as external directors of the Company in addition to directors serving in the Company, by the Company's general meeting, which was held on August 16, 2021, see Note 3n to the Financial Statements.
- 1.4.13** As for information regarding the Company's signing of a nonbinding MOU in connection with the Energym transaction and the negotiations held between the parties for updating the transaction outline, see Note 3o to the Financial Statements.
- 1.4.14** As for information regarding the negotiations held between the Company and Converse Inc. for obtaining an exclusive license to resell the Converse brand in Israel, see Note 3p to the Financial Statements.
- 1.4.15** As for information regarding the appointment of an internal auditor of the Company, see paragraph 10 below.
- 1.5. As for information regarding material legal proceedings, including class actions filed against the Company, see Note 3l to the Financial Statements and Note 17a to the Company's financial statements as of December 31, 2020.**

2. **Below is the structure of activities of the Company according to the presentation in segment and accounting reporting**

	Accounting reporting					
	Foot Locker	Nike	Other	Total before adjustments based on 100% of operations	Adjustments to operating results, no equity	Total consolidated financial statements
Revenues from sales and services	Foot Locker Israel, Foot Locker Europe	Nike Israel, Nike Canada, Nike Europe (*)	Dream Sport	Subtotal – Foot Locker, Nike and other	Less - 100% of sales - Foot Locker Europe	Sales - Foot Locker Israel, Nike Israel, Nike Canada, Nike Europe, Dream Sport
Gross profit	Foot Locker Israel, Foot Locker Europe	Nike Israel, Nike Canada, Nike Europe (*)	Dream Sport	Subtotal - Foot Locker, Nike and other	Less - 100% of gross profit - Foot Locker Europe	Gross profit - Foot Locker Israel, Nike Israel, Nike Canada, Nike Europe, Dream Sport
Operating income	Foot Locker Israel, Foot Locker Europe	Nike Israel, Nike Canada, Nike Europe (*)	Dream Sport	Subtotal - Foot Locker, Nike and other	Less - 100% of operating income (*) Add - 49% of equity earnings to a company - Foot Locker Europe	Operating income - Foot Locker Israel, Nike Israel, Nike Canada, Nike Europe, Dream Sport Add - 49% of equity earnings to a company - Foot Locker Europe

(*) The activity – Nike Europe – comprises the companies Retailors-FL NK Ventures B.V. and Retailors Europe B.V..

The Group's business results according to operating segments (for the periods of nine and three months ended September 30, 2021 and 2020 (NIS in thousands))

In furtherance to the application of IFRS 11, the results of the reported company (Foot Locker Europe) are accounted for using the equity method.

In order to present segment reporting results based on the areas of operation of the Company and the information that is reviewed by the chief operating decision maker (the CODM) the data for sales and segment income of the reported company using the equity method are presented at full holding rate (100%) and a corresponding adjustment of sales and segment income was made to present the segment's results based on the actual holding rate under the 'adjustments' column.

	1-9/2021					
	Nike (Nike Israel, Nike Canada, Nike Europe)	Foot Locker (Foot Locker Israel)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Total revenues	382,880	327,871	62,341	773,092	(17,578)	755,514
% of total revenues	49.5%	42.4%	8.1%	100%	-	100%
Gross profit	204,629	155,429	25,930	385,988	(8,323)	377,665
Operating income (loss)	67,603	21,280	(5,274)	83,609	2,958	86,567
Profit margin	17.7%	6.5%	(8.5%)	10.8%	-	11.5%

	1-9/2020					
	Nike (Nike Israel, Nike Canada, Nike Europe)	Foot Locker (Foot Locker Israel)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Total revenues	239,388	216,204	11,406	466,998	-	466,998
% of total revenues	51.3%	46.3%	2.4%	100%	-	100%
Gross profit	125,393	100,763	4,916	231,072	-	231,072
Operating income (loss)	36,133	20,671	168	56,972	-	56,972
Profit margin	15.1%	9.6%	1.5%	12.2%	-	12.2%

	7-9/2021					
	Nike (Nike Israel, Nike Canada, Nike Europe)	Foot Locker (Foot Locker Israel)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Total revenues	198,150	125,240	26,653	350,043	(8,488)	341,555
% of total revenues	56.6%	35.8%	7.6%	100%	-	100%
Gross profit	108,770	59,897	10,657	179,324	(4,138)	175,186
Operating income (loss)	44,666	7,002	(3,062)	48,606	740	49,346
Profit margin	22.5%	5.6%	(11.5%)	13.9%	(8.7%)	14.4%

	7-9/2020					
	Nike (Nike Israel, Nike Canada, Nike Europe)	Foot Locker (Foot Locker Israel)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Total revenues	114,793	87,110	10,139	212,042	-	212,042
% of total revenues	54.1%	41.1%	4.8%	100%	-	100%
Gross profit	60,873	41,165	4,382	106,420	-	106,420
Operating income (loss)	22,501	8,994	483	31,978	-	31,978
Profit margin	19.6%	10.3%	4.8%	15.1%	-	15.1%

Following are details of the change in same-store sales in each of the Company's operating segments for 2021 and 2019 (**)(***):

Same-store sales for the nine months period

	Foot Locker		Nike	
	1-9/2021	1-9/2019	1-9/2021	1-9/2019
Total same-store sales (NIS in thousands) (*)	171,042	121,089	102,062	75,007

	Foot Locker			Nike		
	1-9			1-9		
	2021	2020	2019	2021	2020	2019
% of change in same-store sales	41.3%	24.9%	26.6%	36.1%	24.3%	27.0%

Data used in calculating same store sales in 2021 is from February 21 to September 30 and for the same period in 2019.

The increase in same-store sales in the period from February 21 to September 30, 2021 compared to the corresponding period in 2019 results, among others, from growth in sales in post-closure periods to customers who bought goods they were unable to obtain or avoided shopping during lockdown periods.

Same-store sales for the periods from February 21 to March 14 and from May 7 to September 17, 2021 compared to the corresponding periods in 2020 increased in the Nike and Foot Locker segments by 0.5% and 7.9%, respectively.

Same-store sales for the three months period

	Foot Locker		Nike	
	7-9/2021	7-9/2019	7-9/2021	7-9/2019
Total same-store sales (NIS in thousands) (*)	62,191	50,862	83,838	56,168

	Foot Locker			Nike		
	7-9			7-9		
	2021	2020	2019	2021	2020	2019
% of change in same-store sales	22.3%	26.2%	30.0%	49.3%	25.6%	20.6%

Same-store sales in Israel for the period from July 1 to September 17, 2021 compared to the corresponding period in 2020 increased in the Foot Locker segment by about 0.8% and decreased in the Nike segment by about 0.6%.

(*) Stores used in calculating sales are only stores which operated continuously and regularly throughout the entire **relevant periods** in 2021 and 2019 with no change in area.

(**) The Company chose to compare data of same stores with the corresponding period in 2019 (and not in 2020) because already at the beginning of March 2020 sales dropped due to the negative consequences of the spread of Covid-19 in Israel and, according to the directives of the Government, on March 15, 2020 all stores closed and reopened on May 7, 2020 and then closed again on September 18, 2020 and reopened on December 8, 2020. Therefore, the basis of comparison with the period in which the stores operated in 2021 is very narrow.

(***) The cumulative data do not include the Group's sales abroad, due to multiple lockdowns during the relevant periods. The data for the third quarter of 2021 include Nike operations in Israel and in Canada and Foot Locker operation in Israel.

Sales per sq.m. (not in same stores)

Following are details of sales per sq.m. for each of the Company's operating segments for the reporting period in 2021 and 2020:

For the nine months period

	Foot Locker			Nike		
	1-9			1-9		
	2021	2020	2019	2021	2020	2019
Total sales per sq.m. (in NIS) (*)	3,169	3,135	2,748	2,961	2,790	2,569
Total areas used in calculating sales per sq.m. (in sq.m. (**))	14,307	9,692	8,592	19,272	12,061	9,189
% of change in retail spaces	47.6%	12.8%	60.5%	59.8%	31.2%	12.4%

For the three months period

	Foot Locker			Nike		
	7-9			7-9		
	2021	2020	2019	2021	2020	2019
Total sales per sq.m. (in NIS) (*)	2,678	3,335	3,137	2,981	2,939	2,655
Total areas used in calculating sales per sq.m. (in sq.m. (**))	15,589	10,013	8,470	22,157	14,972	9,341
% of change in retail spaces	55.7%	18.2%	37.6%	48.0%	60.3%	6.4%

Data used in calculating sales per sq.m. in the nine months ended September 30, 2021 is from February 21 to September 30. Data used in calculating sales per sq.m. in 2020 is from January 1 to March 14 and from May 7 to September 17.

Data used in calculating sales per sq.m. in Q3 2021 is from July 1 to September 30. Data used in calculating sales per sq.m. in Q3 2020 is from July 17 to September 30.

Data used for stores in Europe and Canada do not take into account the periods in which stores were closed due to restrictions imposed on opening the Group's stores because of the spread of Covid-19.

(*) Data of sales per sq.m. are not same store data and are also affected by changes in store size. Data of sales used in calculating sales per sq.m. included all forms of payment accepted by the store less VAT and less all discounts and promotions, including the redemption of Dream Card club points, discount vouchers and gift cards.

(**) Data of area in sq.m. used in the calculation are in net terms and exclude public areas and warehouses. The calculation of total area for the period in sq.m. was made relatively according to the number of months of operation of each store.

Metric	Way of computation/ components	Information about the purpose of the metric	Input
Same-store sales	Rate of change in revenues from sales in stores that have been operating for 12 months or more from the beginning of the fiscal year	This figure, which is usually presented (as a percentage) relative to the previous period, allows the Company's management to measure how sales change in each year (period), excluding stores that have opened or closed or changed in size during a period of less than a year, thus presenting the Company's management with a reliable picture of the business change without stores that have not yet been established and completed a full year of operation that cause bias.	See details in the table above
Sales per sq.m. (for all stores, including stores that are not same stores)	Total store revenue over the period of time the stores were opened divided by store area (sq.m.)	This figure allows the Company's management to measure how efficient it is with the use of retail space for improving sales.	See details in the table above
Net debt	Total cash and cash equivalents less short and long-term credit from banks and related parties	The metric allows to evaluate the Company's capital structure and its leverage ratio.	See paragraph 1.4.1

2.1 Foot Locker segment

Sales

For the nine months period (NIS in millions)

	1-9/2021	1-9/2020	Rate of change
Sales	327.9	216.2	51.6%

For the three months period (NIS in millions)

	7-9/2021	7-9/2020	Rate of change
Sales	125.2	87.1	43.8%

The main increase in sales turnover in the reporting period compared to the corresponding period of last year mainly arises from the increase in retail spaces of the chain in Europe (which began operating in Q4 2020) and in Israel as well as from the growth in same-stores sales in the period in which the stores were opened.

The increase in sales turnover in Q3 2021 compared to the corresponding quarter last year arises from the increase in retail spaces as explained above as well as from the slowdown in sales last year due to the spread of Covid-19 and the closure of the stores in Israel (Lockdown II) from September 18, 2020 to December 8, 2020.

Gross profit

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Gross profit	155.4	47.4%	100.8	46.6%	54.3%	0.8%

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Gross profit	59.9	47.8%	41.2	47.3%	45.5%	0.5%

The increase in gross profit in the reporting periods compared to the corresponding periods of 2020 is mainly a result of the increase in sales, as elaborated above.

The increase in gross profit margin in the reporting periods compared to the corresponding periods of last year is mainly a result of the enhanced discounts offered in the chain stores.

Operating income

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Operating income	21.3	6.5%	20.7	9.6%	2.9%	(3.1%)

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Operating income	7.0	5.6%	9.0	10.3%	(22.1%)	(4.7%)

The increase in operating income in the reporting period compared to the corresponding period of last year mainly arises from the increase in sales and gross profit, as stated above, offset by the increase in selling expenses due to the growth in retail spaces, also owing to the operation of the chain in Europe (which began operation in Q4 2020) in and the increase in general and administrative expenses arising from the Company's IPO on the TASE.

The decrease in operating income in Q3 2021 compared to the corresponding quarter last year mainly arises from the increase in selling expenses due to the growth in retail spaces, mainly owing to the operation of the chain in Europe (which began operation in Q4 2020).

2.2 Nike segment

Sales

For the nine months period (NIS in millions)

	1-9/2021	1-9/2020	Rate of change
Sales	382.9	239.4	59.9%

For the three months period (NIS in millions)

	7-9/2021	7-9/2020	Rate of change
Sales	198.2	114.8	72.6%

The increase in sales turnover in the reporting period compared to the corresponding period of last year arises from the increase in retail spaces of the chain in Europe (which began operation in March 2020) as well as the increase in same-store sales in the period in which the stores were opened.

The increase in sales turnover in Q3 2021 compared to the corresponding quarter last year arises from the increase in retail spaces of the chain in Europe, the increase in same-store sales and the slowdown in sales last year due to the spread of Covid-19 and the closure of the stores in Israel (Lockdown II) from September 18, 2020 to December 8, 2020.

Gross profit

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Gross profit	204.6	53.4%	125.4	52.4%	63.2%	1.0%

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Gross profit	108.8	54.9%	60.9	53.0%	78.7%	1.9%

The increase in gross profit in the reporting periods is mainly a result of the increase in sales, as elaborated above. The increase in gross profit margin in the reporting periods compared to the corresponding periods of last year is mainly a result of the enhanced discounts offered in the chain stores.

Operating income

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Operating income	67.6	17.7%	36.1	15.1%	87.1%	2.6%

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Operating income	44.7	22.5%	22.5	19.6%	98.5%	2.9%

The increase in operating income in the reporting period compared to the corresponding period of last year mainly arises from the increase in sales and gross profit, as explained above, in addition to the saving on principal operating costs during the lockdown period followed by assistance grants received from the governments in Canada, Europe and Israel in the total of approximately NIS 13.0 million (see paragraph 1.4.1).

The increase in operating income in Q3 2021 compared to the corresponding quarter last year mainly arises from the increase in sales and gross profit, as explained above.

ACCOUNTING REPORT

3. The Company's business results

- a. The Company's revenues are affected by seasonality, which is usually reflected in higher sales during Passover, the Jewish New Year holidays and the fourth quarter of the year primarily because of increased sales in Europe and Canada before Christmas. There is also an increase in Company's revenues in the back-to-school season.
- b. The Company has elected as its accounting policy to present equity earnings of companies accounted for at equity in operating income since the investment in these companies forms part of the Company's operating and strategic activity.

Condensed consolidated accounting statements of profit or loss (NIS in thousands)

	Period		Quarter		Year 2020
	1-9/2021	1-9/2020	7-9/2021	7-9/2020	
Revenues from sales	755,514	466,998	341,555	212,042	637,659
Cost of sales	377,849	235,926	166,369	105,622	324,509
Gross profit	377,665	231,072	175,186	106,420	313,150
Gross profit margin	50.0%	49.5%	51.3%	50.2%	49.1%
Selling and marketing expenses	279,126	170,099	121,529	72,901	230,745
General and administrative expenses	9,430	4,001	3,046	1,541	6,672
Equity losses	2,555	-	1,278	-	820
Other expenses (income)	(13)	-	(13)	-	-
Operating income	86,567	56,972	49,346	31,978	74,913
Operating income margin (*)	11.5%	12.2%	14.4%	15.1%	11.7%
Finance expenses, net	17,338	9,640	6,253	3,753	13,205
Finance expenses on revaluation of Leumi Partners option	18,308	-	-	-	76,615
Income (loss) before taxes on income	50,921	47,332	43,093	28,225	(14,907)
Taxes on income	17,648	10,906	11,123	6,816	15,320
Net income (loss)	33,273	36,426	31,970	21,409	(30,227)
Net income (loss) margin	4.4%	7.8%	9.4%	10.1%	(4.7%)
Net income less revaluation of option	51,581	36,426	31,970	21,409	46,388
Net income margin	6.8%	7.8%	9.4%	10.1%	7.3%

(*) Please refer to the segment analysis in order to compare the results to the corresponding period of last year.

Sales

For the nine months period (NIS in millions)

	1-9/2021	1-9/2020	Rate of change
Sales	755.5	467.0	61.8%

For the three months period (NIS in millions)

	7-9/2021	7-9/2020	Rate of change
Sales	341.6	212.0	61.1%

The increase in sales turnover in the reporting period compared to the corresponding period of last year mainly arises from increase in retail spaces in the Dream Sport chain in Israel, Nike chain in Europe and Foot Locker chain in Europe and Israel as well as from growth in same-store sales in the period in which the stores were opened.

The increase in sales turnover in Q3 2021 compared to the corresponding quarter last year arises from the increase in retail spaces of the chain, as indicated above, the increase in same-store sales as well as from the slowdown in sales last year due to the spread of Covid-19 and the closure of the stores in Israel (Lockdown II) from September 18, 2020 to December 8, 2020.

Gross profit

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Gross profit	377.7	50.0%	231.1	49.5%	63.2%	0.5%

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Gross profit	175.2	51.3%	106.4	50.2%	64.6%	1.1%

The increase in gross profit in the reporting periods compared to the corresponding periods of last year is mainly a result of the increase in sales, as elaborated above.

For an analysis of the gross profit margin, see the Group's business results according to operating segments above.

Selling and marketing expenses

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Selling and marketing expenses	279.1	36.9%	170.1	36.4%	64.1%	0.5%

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Selling and marketing expenses	121.5	35.6%	72.9	34.4%	66.7%	1.2%

The increase in selling and marketing expenses in the reporting period compared to the corresponding period of last year mainly arises from the increase in expenses following the growth in retail spaces in the Nike operation in Europe and the Foot Locker and Dream Sport operations in Israel.

The increase in selling and marketing expenses in Q3 2021 compared to the corresponding quarter last year mainly arises from the increase in expenses following the growth in retail spaces, as explained above, and the decrease in major operating expenses in the corresponding quarter last year following the Group's management actions to reduce selling and marketing expenses during and second lockdown period in Israel.

General and administrative expenses

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
General and administrative expenses	9.4	1.2%	4.0	0.9%	135.7%	0.3%

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
General and administrative expenses	3.0	0.9%	1.5	0.7%	97.7%	0.2%

The increase in general and administrative expenses in the reporting period compared to the corresponding period of last year mainly arises from issue expenses of approximately NIS 2.9 million in the context of the Company's IPO on the TASE in Q2 2021, the increase in the operations of the Company's subsidiaries in Europe which were initially consolidated in March 2020 and the increase in professional services following the Company's IPO in the second quarter of this year.

The increase in general and administrative expenses in Q3 2021 compared to the corresponding quarter of last year mainly arises from the increase in the operations of the Company's subsidiaries in Europe and the increase in professional services following the Company's IPO in the second quarter of this year.

Equity losses

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Equity loss	2.6	0.3%	-	-	-	0.3%

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Equity loss	1.3	0.4%	-	-	-	0.4%

The increase in equity losses in the reporting periods compared to the corresponding periods of last year arises from the activity of an associate which was acquired in Q4 2020.

Operating income

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Operating income	86.6	11.5%	57.0	12.2%	51.9%	(0.7%)

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Operating income	49.3	14.4%	32.0	15.1%	54.3%	(0.7%)

For an analysis of the operating income, see the Group's business results according to operating segments.

Finance expenses / income

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Finance expenses, net	35.6	4.7%	9.6	2.1%	269.7%	2.6%
Finance expenses, net before effect of adoption of IFRS 16, "Leases"	24.8	3.3%	0.8	0.2%	3,028.7%	3.1%

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Finance expenses, net	6.3	1.8%	3.8	1.8%	66.6%	0.0%
Finance expenses, net before effect of adoption of IFRS 16, "Leases"	2.0	0.6%	0.1	0.1%	1854.3%	0.5%

Net finance expenses in the period of nine months ended September 30, 2021 derived from accounting finance expenses of approximately NIS 18.3 million related to option revaluation, finance expenses of approximately NIS 10.9 million related to lease liability, interest expenses on long-term loans of approximately NIS 1.1 million, commissions and miscellaneous expenses of approximately NIS 1.2 million and revaluation of net balances in foreign currency of approximately NIS 5.3 million, offset against income from revaluation of securities and interest in the amount of approximately NIS 1.1 million.

Net finance expenses in in the period of nine months ended September 30, 2020 derived mainly from finance expenses of approximately NIS 8.9 million related to lease liability, interest expenses on long-term loans of approximately NIS 1.5 million, commissions and miscellaneous expenses of approximately NIS 0.6 million, which were offset by the amount of approximately NIS 1.3 million from income related to revaluation of net balances in foreign currency.

Net finance expenses in Q3 2021 derived mainly from finance expenses of approximately NIS 4.3 million related to lease liability, interest expenses on long-term loans of approximately NIS 0.4 million, commissions and miscellaneous expenses of approximately NIS 0.3 million and revaluation of net balances in foreign currency of approximately NIS 2.4 million, offset against income from revaluation of securities and interest in the amount of approximately NIS 1.1 million.

Net finance expenses in Q3 2020 derived mainly from finance expenses of approximately NIS 3.6 million related to lease liability, interest expenses on long-term loans of approximately NIS 0.5 million, commissions and miscellaneous expenses of approximately NIS 0.4 million, which were offset by the amount of approximately NIS 0.8 million from income related to revaluation of net balances in foreign currency.

Tax burden

For the nine months period

	1-9/2021 (*)	1-9/2020
Tax burden (less equity earnings)	24.6%	23.0%

For the three months period

	7-9/2021	7-9/2020
Tax burden (less equity earnings)	25.1%	24.1%

*) Less revaluation of Leumi option.

Net income

For the nine months period (NIS in millions)

	1-9/2021		1-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Net income	33.3	4.4%	36.4	7.8%	(8.7%)	(3.4%)
Net income less expenses related to revaluation of option	51.6	6.8%	36.4	7.8%	41.6%	(1.0%)

For the three months period (NIS in millions)

	7-9/2021		7-9/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Net income	32.0	9.4%	21.4	10.1%	49.5%	(0.7)

Earnings per share

For the nine months period (in NIS)

	1-9/2021	1-9/2020
Basic and diluted net earnings per share	0.75	1.15

For the three months period (in NIS)

	7-9/2021	7-9/2020
Basic and diluted net earnings per share	0.61	0.65

4. Effect of initial adoption of IFRS 16, "Leases"

The Company initially adopted IFRS 16, "Leases" in Q1 2019.

IFRS 16 has an effect on the financial statements and, accordingly, the Company elected to indicate the effect of IFRS 16 on the results.

The effect of IFRS 16, "Leases" on the consolidated statement of profit or loss (NIS in thousands)

Item	1-9/2021		1-9/2020	
	As previously reported	Before the adoption of IFRS 16, "Leases"	As previously reported	Before the adoption of IFRS 16, "Leases"
Operating income	86,567	81,657	56,972	51,986
Finance expenses, net	35,646	24,751	9,640	764
Income before taxes on income	50,921	56,906	47,332	51,222
Taxes on income	17,648	19,016	10,906	11,844
Net income	33,273	37,890	36,426	39,378
Net income less revaluation of option	51,581	56,198	36,426	39,378
EBITDA	168,108	*) 98,362	108,594	*) 62,260

Item	7-9/2021		7-9/2020	
	As previously reported	Before the adoption of IFRS 16, "Leases"	As previously reported	Before the adoption of IFRS 16, "Leases"
Operating income	49,346	45,907	31,978	30,080
Finance expenses, net	6,253	2,018	3,753	102
Income before taxes on income	43,093	43,889	28,225	29,978
Taxes on income	11,123	11,251	6,816	7,231
Net income	31,970	32,638	21,409	22,747
EBITDA	81,685	*) 52,068	52,913	*) 33,821

(*) Adjusted EBITDA.

The Group's operating income according to operating segments before the adoption of IFRS 16, "Leases" for the periods of nine and three months ended September 30, 2021 and 2020 (NIS in thousands)

For the nine months period (NIS in millions)

	1-9/2021					
	Nike (Nike Israel, Nike Canada, Nike Europe)	Foot Locker (Foot Locker Israel, Foot Locker Europe)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Operating income	64,538	18,914	(4,875)	78,577	3,080	81,657
Profit margin	16.9%	5.8%	(7.8%)	10.2%	-	10.8%
Depreciation and amortization	9,079	7,966	986	18,031	(1,326)	16,705
Adjusted EBITDA	73,617	26,880	(3,889)	96,608	1,754	98,362

	1-9/2020					
	Nike (Nike Israel, Nike Canada, Nike Europe)	Foot Locker (Foot Locker Israel)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Operating income	33,584	18,364	38	51,986	-	51,986
Profit margin	14.0%	8.5%	0.3%	11.1%	-	11.1%
Depreciation and amortization	5,977	4,228	69	10,274	-	10,274
Adjusted EBITDA	39,561	22,592	107	62,260	-	62,260

For the three months period (NIS in millions)

	7-9/2021					
	Nike (Nike Israel, Nike Canada, Nike Europe)	Foot Locker (Foot Locker Israel, Foot Locker Europe)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Operating income	42,636	5,676	(3,155)	45,157	750	45,907
Profit margin	21.5%	4.5%	(11.8%)	12.9%	-	13.4%
Depreciation and amortization	3,040	3,375	492	6,907	(746)	6,161
Adjusted EBITDA	45,676	9,051	(2,663)	52,064	4	52,068

	7-9/2020					
	Nike (Nike Israel, Nike Canada, Nike Europe)	Foot Locker (Foot Locker Israel)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Operating income	21,569	8,158	353	30,080	-	30,080
Profit margin	18.8%	9.4%	3.5%	14.2%	-	14.2%
Depreciation and amortization	2,242	1,454	45	3,741	-	3,741
Adjusted EBITDA	23,811	9,612	398	33,821	-	33,821

(*) Adjusted EBITDA – operating income, excluding depreciation expenses of right-of-use assets (according to IFRS 16), including rent expenses (in the scope of the computation of IFRS 16), excluding depreciation and amortization expenses of property, plant and equipment and other assets. The adjusted EBITDA for each segment is calculated by adding the operating income and the relevant amounts of depreciation and amortization.

Metric	Way of computation/ components	Information about the purpose of the metric	Input
EBITDA	Operating income (before finance expenses and taxes) excluding depreciation and amortization expenses of property, plant and equipment and other assets and depreciation expenses of right-of-use assets (the effect of IFRS 16)	A common metric which makes it possible to know what the Company's operating profit is (before finance expenses and taxes), excluding items that are included in operating income but are not cash flow, such as depreciation and amortization. A kind of operating cash flow.	See details in the table above
EBITDA derived from revenues	EBITDA divided by total revenues from the activity for the relevant period	The purpose of the metric is to examine the level of profitability of an activity using the EBITDA margin as a percentage of revenues for a comparison to other activities or other periods	See details of EBITDA and revenues in the tables above
Adjusted EBITDA derived from revenues	Adjusted EBITDA divided by total revenues from the activity for the relevant period	The purpose of the metric is to examine the level of profitability of an activity using the adjusted EBITDA margin as a percentage of revenues for a comparison to other activities or other periods	See details of adjusted EBITDA and revenues in the tables above
Adjusted EBITDA	Operating income, excluding depreciation expenses of right-of-use assets (according to IFRS 16), including rent expenses (in the scope of the computation of IFRS 16), excluding depreciation and amortization expenses of property, plant and equipment and other assets.	The purpose of using this metric is to present a picture of the Company's operating income less effects of non-recurring factors and less effect of the adoption of IFRS 16.	See details in the table above
Adjusted EBITDA per sq.m.	Operating income, excluding depreciation expenses of right-of-use assets (according to IFRS 16), including rent expenses (in the scope of the computation of IFRS 16), excluding depreciation and amortization expenses of property, plant and equipment and other assets.	The purpose of the metric is to examine the level of profitability of an activity using the adjusted EBITDA margin to total average sq.m. for a comparison to other activities or other periods	See details of adjusted EBITDA and revenues in the tables above

5. Financial position, equity, liquidity, financing resources and cash flows

5.1 Financial position

The Company's total balance sheet as of September 30, 2021 amounted to approximately NIS 1,994.3 million compared to approximately NIS 986.6 million as of September 30, 2020.

Below is an analysis of the major changes in the balance sheet items as of September 30, 2021 compared to the balance sheet as of September 30, 2020:

Current assets - total current assets as of September 30, 2021 amounted to approximately NIS 1,028.2 million, representing about 51.6% of total balance sheet, compared to approximately NIS 336.6 million, representing about 34.1% of total balance sheet as of September 30, 2020. The increase in current assets is a result of the increase in the balances of cash and short-term investment (following the IPO, see Note 3i to the Financial Statements), inventories, other accounts receivable and trade receivables.

Non-current assets - total non-current assets as of September 30, 2021 amounted to approximately NIS 966.1 million, representing about 48.4% of total balance sheet, compared to approximately NIS 650.0 million, representing about 65.9% of total balance sheet as of September 30, 2020. The increase in non-current assets is a result of the increase in right-of-use assets, long-term receivables, deferred taxes, property, plant and equipment, investments in companies accounted for at equity, restricted deposit and store removal fees, offset by the decrease in other intangible assets.

Current liabilities - total current liabilities as of September 30, 2021 amounted to approximately NIS 440.8 million, representing about 22.1% of total balance sheet, compared to approximately NIS 339.2 million, representing about 34.4% of total balance sheet as of September 30, 2020. The increase in current liabilities is a result of the increase in trade payables, current maturity of lease liability and other accounts payable, which was partially offset by the decrease in related parties and in the balance of credit from banks.

Non-current liabilities - total non-current liabilities as of September 30, 2021 amounted to approximately NIS 678.8, representing about 34.0% of total balance sheet, compared to approximately NIS 514.0 million, representing about 52.1% of total balance sheet as of September 30, 2020. The increase in non-current liabilities is a result of the increase in the remaining lease liability, the increase in employee benefit liabilities, net, and the increase in deferred taxes, offset by the decrease in the balance of long-term loans from banks.

The Company's consolidated working capital as of September 30, 2021 amounted to approximately NIS 587.3 million (approximately NIS 705.8 million before the adoption of IFRS 16, "Leases") (mainly due to the IPO), compared to approximately NIS (2.6) million (approximately NIS 68.3 million before the adoption of IFRS 16, "Leases") as of September 30, 2020.

The Company's consolidated current ratio as of September 30, 2021 was 2.33 (3.19 before the adoption of IFRS 16, "Leases") compared to 0.99 (1.25 before the adoption of IFRS 16, "Leases") as of September 30, 2020.

The Company's consolidated quick ratio as of September 30, 2021 was 1.89 (2.57 before the adoption of IFRS 16, "Leases") compared to 0.57 (0.73 before the adoption of IFRS 16, "Leases") as of September 30, 2020.

5.2 Equity

The Company's equity as of September 30, 2021 amounted to approximately NIS 874.6 million, compared to approximately NIS 133.4 million as of September 30, 2020. During the period of nine months ended September 30, 2021, the Company's equity increased by approximately NIS 805.5 million. The increase is a result of a net amount of approximately NIS 676.4 million from the issuance of the Company's shares (see also Note 3i to the Financial Statements), approximately NIS 94.9 million from the exercise of Leumi Partners option, approximately NIS 4.9 million from issuance of shares to minority, approximately NIS 0.4 million from cost of share-based payment and approximately NIS 28.9 million from comprehensive income.

The ratio of equity to total consolidated balance sheet as of September 30, 2021 is about 43.9% compared to about 13.5% as of September 30, 2020.

5.3 Liquidity and financing resources

As of September 30, 2021, the Company holds financial assets that consist of cash, short-term investments and short-term deposits totaling approximately NIS 695.4 million, less short-term credit totaling approximately NIS 1.9 million. Total net financial balances amount to approximately NIS 693.5 million (financial liabilities exclude lease liability).

As of September 30, 2020, the Company holds financial assets that consist of cash totaling approximately NIS 133.7 million, less short-term credit that consists of short-term loans and current maturities of long-term loans totaling approximately NIS 63.4 million and loans from banks totaling approximately NIS 41.3 million. Total net financial debt amounts to approximately NIS 29.0 million (financial liabilities exclude lease liability).

5.4 Condensed consolidated statements of cash flows (NIS in thousands)

	Nine months ended September 30,	
	2021	2020
Net cash provided by operating activities	164,092	99,722
Net cash provided by (used in) investing activities:		
a. Net cash used in purchasing property, plant and equipment and intangible assets, net	(33,104)	(39,399)
b. Issuance of shares to minority in subsidiary	-	18,419
c. Cash used in acquiring operations/companies	-	(29,112)
d. Change in and placement of restricted deposits	(8,028)	-
e. Sale (purchase) of securities measured at fair value through profit or loss, net	(233,404)	-
Net cash provided by financing activities	485,285	26,611
Adjustment arising from translating balances of cash	(3,444)	700
Increase in cash and cash equivalents	371,397	76,941

5.5 Cash flows from operating activities

Net cash provided by operating activities in the reporting period totaled approximately NIS 164.1 million, compared to net cash provided by operating activities totaling approximately NIS 99.7 million in the corresponding period of last year.

Cash flows from operating activities in the reporting period derived from cash inflow of approximately NIS 131.7 million in respect of adjustments to profit and loss items, net income of approximately NIS 33.3 million, cash inflow from the decrease in working capital items, net of approximately NIS 31.1 million less payments for interest and taxes of approximately NIS 32.0 million.

Cash flows from operating activities in the corresponding period of last year derived from cash inflow of approximately NIS 72.9 million in respect of adjustments to profit and loss items, net income of approximately NIS 36.4 million, cash inflow from the decrease in working capital items, net of approximately NIS 11.0 million against payments for interest and taxes of approximately NIS 20.6 million, net.

5.6 Cash flows from financing activities

Net cash provided by financing activities in the reporting period totaled approximately NIS 485.3 million, compared to net cash provided by financing activities totaling approximately NIS 26.6 million in the corresponding period of last year.

Net cash provided by financing activities in the reporting period included issuance of the Company's shares, receipt and repayment of loans from banks, others and related parties, repayment of lease liability and issuance of shares to minority in subsidiary.

B. DETAILS OF EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

The Company's market risk management officer

The person in charge of managing market risks at the Company is Mr. Avior Teboul, the Company's CFO. See more information about Mr. Avior Teboul in Chapter 7 to the Prospectus.

Description of market risks

The Company's activities involve external risk factors that are liable to have a material effect on its business operations and which cannot be quantified.

The Company is exposed to a variety of market risks in the ordinary course of its business, mainly to fluctuations in interest rates and in the Israeli Consumer Price Index.

Many market risks such as changes in minimum wages, in the standard of living, in the security situation and in fashion trends are not under the Company's control and cannot be hedged.

The credit extended to the Company's customers in Israel is in NIS and does not bear interest.

Report of linkage bases (consolidated) as of September 30, 2021 (NIS in thousands)

	In NIS		In foreign currency				Non-monetary items	Total
	Unlinked	Linked to the CPI	In or linked to US\$	In or linked to Euro	In or linked to C\$	Other		
			NIS in thousands					
Assets:								
Cash and cash equivalents	338,631	-	16,405	51,326	41,276	13,786	-	461,424
Short-term investments	203,486	-	30,532	-	-	-	-	234,018
Trade receivables	60,593	-	-	488	1,212	987	-	63,280
Other accounts receivable	37,189	-	-	12,777	9,380	3,001	9,980	72,327
Inventories	-	-	-	-	-	-	197,117	197,117
Restricted cash	-	-	-	8,335	-	6,378	-	14,713
Long-term receivables	-	-	-	1,468	-	1,665	-	3,133
Investments in subsidiaries	-	-	-	-	-	-	15,312	15,312
Property, plant and equipment, net	-	-	-	-	-	-	151,345	151,345
Right-of-use assets	-	-	-	-	-	-	759,797	759,797
Deferred taxes	-	-	-	-	-	-	8,442	8,442
Store removal fees	-	-	-	-	-	-	8,566	8,566
Intangible assets, net	-	-	-	-	-	-	1,177	1,177
Goodwill	-	-	-	-	-	-	3,607	3,607
Total assets	639,899	-	46,937	74,394	51,868	25,817	1,155,343	1,994,258
Liabilities:								
Credit from banks	-	-	-	-	1,901	-	-	1,901
Trade payables	133,381	-	-	24,317	36,276	29,429	-	223,403
Other accounts payable	44,132	-	-	10,196	10,374	3,294	25,795	93,791
Related parties	3,239	-	-	-	-	-	-	3,239
Loans from banks	-	-	-	-	-	-	-	-
Lease liability	-	488,308	-	170,429	86,974	50,157	-	795,868
Employee benefit liabilities, net	-	-	-	-	-	-	1,403	1,403
Deferred taxes	-	-	-	-	-	-	86	86
Total liabilities	180,752	488,308	-	204,942	135,525	82,880	27,284	1,119,691
Net balance sheet balance	459,147	(488,308)	46,937	(130,548)	(83,657)	(57,063)	1,128,059	874,567

C. CORPORATE GOVERNANCE ASPECTS

6. The Company's donation policy

The Company has not set a policy regarding donations. During the reporting period, the Company did not make donations in significant amounts.

7. Details of directors with financial and accounting expertise

Pursuant to the directives of the Israel Securities Authority, the Company's Board decided that the appropriate minimum number of directors with financial and accounting expertise in the Company is two (including the external director). This decision was based on the Company's size, type of operations, complexity and nature of financial and accounting issues relating to the Company's financial statements in view of its areas of activity.

On August 16, 2021, the general meeting approved the beginning of the term of office of Messer. John Maurer, Noa Landau and Keren Kurtz Zilber as directors of the Company and of Mr. Israel Yaakobi as an independent director of the Company and of Messer. Orit Alster and Dalia Tal as external directors of the Company.

As of the date of this report, four directors, Messer. John Maurer, Shachar Rania, Israel Yaakobi and Orit Alster, who have financial and accounting expertise, serve on the Company's Board.

8. Independent directors

As of the date of this report, the Company has not adopted the provision regarding the percentage of independent directors (as defined in the Companies Law) in its articles of association.

As of the date of this report, one independent director and two external directors serve on the Company's Board.

9. List of senior officers

For information about the list of directors and senior officers at Retailors, see immediate report dated August 17, 2021 (TASE reference: 2021-01-132987).

10. **Disclosure of the Company's internal auditor**

Details of the internal auditor

- Auditor's name: CPA Uziel Shmueli.
- Date of beginning service: August 23, 2021.
- The internal auditor complies with the entire conditions stipulated in Article 3(a) to the Internal Audit Law, 1992 ("the Internal Audit Law"), the conditions stipulated in Article 146(b) to the Companies Law and the provisions of Article 8 to the Internal Audit Law.
- To the best of the Company's knowledge, the internal auditor does not hold any securities of the Company or of a party related thereto.
- The internal auditor also serves as internal auditor in Fox, the controlling shareholder in the Company. The internal auditor's service as internal auditor in Fox does not create a conflict of interests with his service as internal auditor in the Company. Moreover, to the best of the Company's knowledge, the internal auditor has no business ties with the Company or a party related thereto.
- The internal auditor is not employed by the Company. The internal audit services are provided by the internal auditor as a personal appointment through his firm, Shmueli & Shmueli & Co., which offers various services as well as internal audit services.

Appointment of the internal auditor

Mr. Uziel Shmueli's appointment as internal auditor in the Company was approved by the Company's Board on August 23, 2021 in keeping with the recommendation of the Audit Committee and following a thorough analysis of the internal auditor's education and vast experience as internal auditor, his profound understanding of the Company's business operations as the internal auditor of Fox and following a meeting held with the Company's management and Audit Committee. Mr. Shmueli was found to have the necessary skills and experience for serving as the Company's internal auditor, after having declared his compliance with all the competence requirements applicable to the position of internal auditor as required by law given the size and complexity of the Company.

Identity of the internal auditor

The corporate officer in charge of supervising the internal auditor is the Chairman of the Company's Board.

D. DISCLOSURE REGARDING THE CORPORATION'S FINANCIAL REPORTING

Disclosure of critical accounting estimates

There was no change in the reporting period compared to the periodic report for 2020.

Dov Schneidman
Chief Executive Officer

Harel Wizel
Chairman of the Board

Date: November 21, 2021

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