RETAILORS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2021

UNAUDITED

INDEX

\- - - - - - - - - - -

Building a better working world

Kost Forer Gabbay & Kasierer
144 Menachem Begin Road, Building A,
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

Auditors' review report to the shareholders of Retailors Ltd.

Introduction

We have reviewed the accompanying financial information of Retailors Ltd. and subsidiaries ("the Company"), which comprises the condensed consolidated statement of financial position as of March 31, 2021 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the three months period then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for this period in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of subsidiaries, whose assets constitute approximately 10.17% of total consolidated assets as of March 31, 2021, and whose revenues constitute approximately 7.3% of total consolidated revenues for the three months period then ended. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with Standard on Review Engagements (Israel) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accounts in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
May 23, 2021

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2021	March 31, 2020	December 31, 2020
	Unaudited	Unaudited	Audited
	NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	89,244	84,904	90,027
Trade receivables	76,521	22,773	58,190
Other accounts receivable	54,784	17,980	24,032
Inventories	157,912	123,049	159,306
	378,461	248,706	331,555
NON-CURRENT ASSETS:			
Property, plant and equipment	139,806	94,598	135,793
Investment in a company accounted for at equity	17,538	-	18,512
Restricted deposit	8,730	-	8,800
Long-term receivables	1,826	-	2,219
Right-of-use assets	677,306	493,760	579,626
Deferred taxes	9,516	6,628	8,101
Store removal fees	5,301	5,471	5,528
Intangible assets	1,430	1,935	1,556
Goodwill	3,607	3,607	3,607
	865,060	605,999	763,742
	1,243,521	854,705	1,095,297

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31,		December 31,
	2021	2020	2020
	Unaudited		Audited
	NIS in thousands		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	111,166	49,227	58,050
Related companies	1,618	946	43,063
Trade payables	143,116	106,236	140,885
Other accounts payable	181,835	29,145	136,048
Short-term lease liability	91,589	68,213	85,368
	529,324	253,767	463,414
NON-CURRENT LIABILITIES:			
Loans from banks	32,317	50,276	36,790
Long-term lease liability	618,491	451,164	524,863
Employee benefit liabilities	1,217	955	1,217
	652,025	502,395	562,870
EQUITY:			
Share capital and share premium	54,000	54,000	54,000
Foreign currency translation reserve	20	29	(228)
Reserve from remeasurement of defined benefit plans	73	179	73
Retained earnings	(17,947)	25,858	(6,765)
Total equity attributable to equity holders of the Company	36,146	80,066	47,080
Non-controlling interests	26,026	18,477	21,933
Total equity	62,172	98,543	69,013
Total liabilities and equity	1,243,521	854,705	1,095,297

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

May 23, 2021			
Date of approval of the financial statements	Harel Wizel Chairman of the Board	Dov Schneidman Chief Executive Officer	Avior Teboul Deputy CEO, Finance

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Three months ended March 31,		Year ended December 31,
	2021	**2020**	**2020**
	Unaudited		**Audited**
	NIS in thousands (except per share data)		
Revenues from sales	173,103	130,056	637,659
Cost of sales	90,381	67,400	324,509
Gross profit	82,722	62,656	313,150
Selling and marketing expenses	67,098	54,180	230,745
General and administrative expenses	2,744	1,138	6,672
Group's share of losses of a company accounted for at equity, net	659	-	820
Operating income	12,221	7,338	74,913
Finance expenses, net (see Note 3a)	21,856	3,486	89,820
Income (loss) before taxes on income	(9,635)	3,852	(14,907)
Taxes on income	2,047	845	15,320
Net income (loss)	(11,682)	3,007	(30,227)
Net income (loss) attributable to:			
Equity holders of the Company	(11,182)	3,656	(28,967)
Non-controlling interests	(500)	(649)	(1,260)
Net income (loss)	(11,682)	3,007	(30,227)
Basic net earnings (loss) per share (in NIS)	(34.19)	11.83	(89.68)
Diluted net earnings (loss) per share (in NIS)	(34.19)	11.83	(89.68)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended March 31, 2021	Three months ended March 31, 2020	Year ended December 31, 2020
	Unaudited	Unaudited	Audited
	NIS in thousands		
Net income (loss)	(11,682)	3,007	(30,227)
Other comprehensive income (loss) net of tax effect:			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial loss on defined benefit plans, net	-	-	(106)
Items to be reclassified to profit or loss when specific conditions are met:			
Adjustments arising from translating financial statements of foreign operation	258	920	1,131
Group's share of net other comprehensive loss of companies accounted for at equity	(316)	-	(322)
Total other comprehensive income (loss)	(58)	920	703
Total comprehensive income (loss)	(11,740)	3,927	(29,524)
Attributable to:			
Equity holders of the Company	(10,934)	3,869	(29,117)
Non-controlling interests	(806)	58	(407)
	(11,740)	3,927	(29,524)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital and share premium	Foreign currency translation reserve	Reserve from remeasurement of defined benefit plans	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited						
	NIS in thousands						
Balance at January 1, 2021 (audited)	54,000	(228)	73	(6,765)	47,080	21,933	69,013
Loss	-	-	-	(11,182)	(11,182)	(500)	(11,682)
Other comprehensive income (loss)	-	248	-	-	248	(306)	(58)
Total other comprehensive income (loss)	-	248	-	(11,182)	(10,934)	(806)	(11,740)
Issue of share capital to non-controlling interests	-	-	-	-	-	4,899	4,899
Balance at March 31, 2021	54,000	20	73	(17,947)	36,146	26,026	62,172

	Attributable to equity holders of the Company						
	Share capital and share premium	Foreign currency translation reserve	Reserve from remeasurement of defined benefit plans	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited						
	NIS in thousands						
Balance at January 1, 2020 (audited)	*) -	(184)	179	72,202	72,197	-	72,197
Net income (loss)	-	-	-	3,656	3,656	(649)	3,007
Other comprehensive income	-	213	-	-	213	707	920
Total other comprehensive income	-	213	-	3,656	3,869	58	3,927
Distribution of dividend	-	-	-	(50,000)	(50,000)	-	(50,000)
Issue of share capital	54,000	-	-	-	54,000	-	54,000
Non-controlling interests arising from initially consolidated company	-	-	-	-	-	18,419	18,419
Balance at March 31, 2020	54,000	29	179	25,858	80,066	18,477	98,543

*) Represents less than NIS 1 thousand.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital and share premium	Foreign currency translation reserve	Reserve from remeasurement of defined benefit plans	Retained earnings	Total	Non-controlling interests	Total equity
	Audited						
	NIS in thousands						
Balance at January 1, 2020	*) -	(184)	179	72,202	72,197	-	72,197
Loss	-	-	-	(28,967)	(28,967)	(1,260)	(30,227)
Other comprehensive income (loss)	-	(44)	(106)	-	(150)	853	703
Total comprehensive loss	-	(44)	(106)	(28,967)	(29,117)	(407)	(29,524)
Non-controlling interests arising from initially consolidated company	-	-	-	-	-	18,419	18,419
Issue of shares	54,000	-	-	-	54,000	-	54,000
Dividend paid to equity holders of the Company	-	-	-	(50,000)	(50,000)	-	(50,000)
Issue of share capital to non-controlling interests	-	-	-	-	-	3,921	3,921
Balance at December 31, 2020	54,000	(228)	73	(6,765)	47,080	21,933	69,013

*) Represents less than NIS 1 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2021	Three months ended March 31, 2020	Year ended December 31, 2020
	Unaudited	Unaudited	Audited
	NIS in thousands		
Cash flows from operating activities:			
Net income (loss)	(11,682)	3,007	(30,227)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (a)	19,351	(5,634)	120,436
Net cash provided by (used in) operating activities	7,669	(2,627)	90,209
Cash flows from investing activities:			
Purchase of property, plant and equipment and store removal fees	(9,028)	(5,531)	(61,134)
Restricted deposit	-	-	(8,800)
Establishment of Retailors-FL NK Ventures BV	-	18,419	18,419
Establishment of an associate, Retailors-FL Ventures BV	-	-	(19,654)
Acquisition of activity through the sub-subsidiary in Poland	-	-	(2,634)
Acquisition of Retailors Germany GmbH	-	(10,313)	(10,313)
Acquisition of activity through the subsidiary, Retailors-FL NK Ventures BV	-	(18,799)	(18,799)
Investment in deposits	-	-	(2,219)
Net cash used in investing activities	(9,028)	(16,224)	(105,134)
Cash flows from financing activities:			
Receipt of short-term credit from banks	52,661	30,000	40,135
Receipt of long-term loans from banks and others	303	31,243	31,243
Receipt (repayment) of short-term loans from controlling shareholders	(40,000)	-	40,000
Issue of shares	-	54,000	54,000
Issue of shares in the subsidiary, Retailors-FL NK Ventures BV	4,899	-	3,921
Dividend paid	-	(50,000)	(50,000)
Repayment of lease liability	(13,157)	(13,692)	(52,208)
Repayment of long-term loans from banks and others	(4,542)	(3,752)	(18,729)
Net cash provided by financing activities	164	47,799	48,362
Adjustment arising from translating balances of cash and cash equivalents	412	(847)	(213)
Increase (decrease) in cash and cash equivalents	(783)	28,101	33,224
Cash and cash equivalents at beginning of period	90,027	56,803	56,803
Cash and cash equivalents at end of period	89,244	84,904	90,027

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2021	Three months ended March 31, 2020	Year ended December 31, 2020
	Unaudited	Unaudited	Audited
	NIS in thousands		
(a) Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Income and expenses not involving cash flows:			
Depreciation of property, plant and equipment, store removal fees and right-of-use assets	19,859	17,529	72,311
Amortization of other intangible assets	127	127	506
Change in employee benefit liabilities	-	77	201
Taxes on income	2,047	845	15,320
Group's share of losses of companies accounted for at equity, net	659	-	820
Finance expenses on revaluation of option (see Note 3a)	18,308	-	76,615
Finance expenses	2,977	3,742	12,765
	43,977	22,320	178,538
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(18,309)	26,088	(9,329)
Increase in other accounts receivable	(12,053)	(2,928)	(6,871)
Decrease (increase) in inventories	1,893	(10,700)	(46,185)
Increase (decrease) in trade payables and checks payable	(15,114)	(27,007)	9,869
Increase (decrease) in other accounts payable	25,556	(5,177)	21,927
	(18,027)	(19,724)	(30,589)
Cash paid and received during the period for:			
Taxes paid	(3,648)	(4,565)	(14,816)
Interest paid	(2,951)	(3,665)	(12,697)
	(6,599)	(8,230)	(27,513)
	19,351	(5,634)	120,436
(b) Significant non-cash transactions:			
Movement in purchase of property on credit	(1,783)	3,261	(8,505)
Rent waivers (see Note 1a)	6,843	1,315	19,408
Right-of-use asset recognized with corresponding lease liability	118,203	115,647	140,913

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

NOTE 1:- GENERAL

Retailors Ltd. ("the Company") was incorporated on December 11, 2008 and began its operations in January 2009.

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 ("the Group").

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 5g).

These financial statements have been prepared in a condensed format as of March 31, 2021 and for the three months period then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2020 and for the year then ended and accompanying notes ("annual financial statements").

The consequences of the Covid-19 crisis:

Disclosure of the impact of the spread of Covid-19 in Israel:

During 2020 and the first quarter of 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. 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 and opening of stores.

For information regarding the impact of the "first wave" and the "second wave" in Israel and abroad and moves made by the Group, among others, for saving costs, adjustment to the changing situation, strengthen financial stability and optimal preparation for returning to work, see Note 1b to the Company's annual financial statements as of December 31, 2020.

The impact of the "third wave" of Covid-19 in Israel:

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.

Following the above, the Company made several cost-saving moves, similar as in previous lockdowns, 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.

NOTE 1:- GENERAL (Cont.)

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).

Further to the above mentioned, by March 31, 2021, the Group has reached agreements with some of the lessors in Israel and abroad and, accordingly, as a result of a rent concession received for the first quarter of the year amounting to NIS 8,157 thousand, the Company recognized a decrease in depreciation expenses and in finance expenses of NIS 6,843 thousand and NIS 1,314 thousand, respectively, in the three months ended March 31, 2021. Also, as a result of a rent concession received for March 2020 amounting to NIS 1,627 thousand, the Company recognized a decrease in depreciation expenses and in finance expenses of NIS 1,315 thousand and NIS 312 thousand, respectively, in the three months ended March 31, 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 Group's employees and managers returned to work on a regular basis.

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 tight restrictions.

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.

NOTE 1:- GENERAL (Cont.)

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 are planned to reopen on June 2, 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. The subsidiaries recognized such grants against a deduction in selling and marketing expenses of approximately NIS 5,552 thousand in the first quarter of 2021.

Liquidity and financial stability:

For a working capital loan, 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 5 a and g), mitigate the exposure to financial instability caused by Covid-19.

In view of the high vaccination coverage in Israel, the number of cases have fallen significantly and, as of the reporting date, all of the Company's stores in Israel are open in accordance with the relevant guidelines and regulations. On the other hand, the vaccination pace in foreign countries where the Group operates is slower compared to Israel and the Group estimates that operation of stores without major restrictions and additional lockdowns will be possible within just few months, among others, depending on the pace of vaccinations in those countries and the decrease in the number of infections. It is clarified that the extent of the impact on the Group's activity in the future depends, among others, on the way and scope of the corona virus transmission, the vaccination coverage, the extent and severity of the restrictions imposed or lifted and how long will it take to return to regular activity.

The Company tested the estimates it used in evaluating its assets and liabilities in the statement of financial position which include, among others, trade receivables, inventories, property, plant and equipment and intangible assets and it is of the opinion that the values of the Company's assets and liabilities do not require adjustments.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the interim financial statements:

The interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements, except as below:

Amendment to IFRS 16 - Practical expedient in accounting for any change in lease payments resulting from the Covid-19 crisis:

In view of the Covid-19 crisis, in May 2020, the IASB issued an amendment to IFRS 16, "Leases" ("the 2020 Amendment").

The objective of the 2020 Amendment is to allow lessees to apply a practical expedient according to which changes in lease payments as a consequence of Covid-19 will not be accounted for as lease modifications but as variable lease payments. The 2020 Amendment can only be applied by lessees.

The 2020 Amendment applied retrospectively for annual periods beginning on June 1, 2020. Earlier application is permitted.

The 2020 Amendment only applied to reduction in lease payments that affects payments originally due up to June 30, 2021. However, the pandemic have persisted longer than anticipated, so the IASB extended the 2020 Amendment permitting to apply it to reduction in lease payments that affects payments due up to June 30, 2022 ("the 2021 Amendment "). The other criteria for application of the 2020 Amendment remain unchanged.

The 2021 Amendment which was issued in April 2021 applies for annual periods beginning on April 1, 2021. Earlier application is permitted.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

a. In furtherance to Note 17b(6) to the annual financial statements as of December 31, 2020, regarding agreements with Leumi Partners, on February 16, 2021, an amendment to the agreements was signed according to which the option granted to Leumi Partners under the original agreement expired. It was agreed that if the IPO of the Company's shares is completed by August 31, 2021 and if the price per any Ordinary share of the Company, as determined in the first offering, reflects an effective value before the IPO of not less than NIS 1.35 billion (subject to adjustments stipulated in the amendment to the agreements), the Company will allocate to Leumi Partners, shortly before the first offering, shares representing about 9.9% of the Company's share capital (when signing the amendment to the agreement and when exercising the option) for a consideration that reflects Company value of NIS 900 million (before the money) or, at the Company's sole discretion, for a smaller number of shares in a net exercise. In accordance with the terms of the amendment to the agreements, subject to prior notice to the Company, Leumi Partners is entitled to sell the shares allocated to it when exercising the option, provided that Leumi Partners notifies the Company of its intention to do so up to the date set in the amendment to the agreements. On May 13, 2021, with the publication of the IPO prospectus, the tender offer prospectus and the shelf prospectus for the Company for 2021 and the publication of the results of the public offering, the Company completed to allocate shares to Leumi Partners by net exercise and Leumi Partners sold those shares in the tender offer (see also Note 5g).

In addition and in accordance with the amendment to the agreements, the shareholders' agreement was automatically cancelled from the offering completion date and the tender offer, except for one clause in the shareholders' agreement which, as per the amendment, confers Leumi Partners a one-time tag along right to Fox transaction to sell Company's shares in an off-market transaction or a similar transaction for the sale of Company's shares as a result of which Fox no longer holds more than 49% of the Company's issued and outstanding share capital, at the same price and on equal terms as Fox, provided that, after the sale by Leumi Partners has completed, the then holding of Leumi Partners in the Company's shares will not fall below the minimum requirement under the agreement (in which case the right to join expires).

As a result of the change in the terms of the option, in the first quarter of 2021, the Company updated the fair value of the option to approximately NIS 94,923 thousand. The fair value of the option was updated based on Company value before the offering (before the money).

Accordingly, in the first quarter of 2021, the Company recognized finance expenses on revaluation of option of approximately NIS 18,308 thousand.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

b. In furtherance to Note 26d(2) to the annual financial statements as of December 31, 2020, the employment terms of Mr. Tomer Czapnik, CEO Retailors Nike Stores International, were updated on March 24, 2021 (and approved by the general meeting of the parent company, Fox, on April 29, 2021) for three years from June 1, 2023 to the end of 2025 and comprise, among others, the following conditions: (1) monthly salary as follows: from June 1, 2023 – NIS 60,000 and from June 1, 2024 to the end of the contractual term - NIS 65,000; (2) an annual bonus of 13 (gross) salaries for each of the years 2023-2025 and the Remuneration Committee and Company's Board will have the authority to reduce the bonus due to reasons to be provided in the Company's annual financial statements in the year in which it is decided to reduce the bonus taking into account, among others, meeting parameters to be determined at the beginning of each year (including measurable targets); (3) a company car with value of up to NIS 200,000 including car expenses. The Company will gross up the respective costs; (4) pension, managers' insurance (including loss of earning capacity), advance study fund, paid leave of up to 20 days annually, cellular phone and other social benefits under the law. Each of the Company and Mr. Czapnik will be entitled to terminate the employment agreement with a 60-day advance written notice; (5) reimburse a lump sum used to cover the cost of relocating the expat and his family to Europe in connection with the performance of his duties of up to € 12,500, including entitlement to trips back home for the expat and his family up to twice a year, educational frameworks (kindergartens) for his children based on actual costs and up to € 2,700 per month (net) and participation in rent of standard residential apartments of up to € 4,000 per month.

In addition, the employment terms of Mr. Czapnik comprise allocation of restricted stock units ("RSUs") of the Company with total value of NIS 1.5 million, subject to the completion of the offering. The number of RSUs to be allocated will be determined based on the average price of the Company's share in the first 30 trading days after the completion of the offering and based on the entire value of RSUs as derived from generally accepted accounting principles. After the completion of the offering, the Company will publish a private offering report in accordance with the Securities Regulations (Private Placement of a Listed Company), 2000 regarding allocation of RSUs to Mr. Czapnik. It is clarified that no further approval by the Company's authorized organs is required for the allocation of RSUs according to the provisions of chapter five to the sixth part of the Companies Law in the issue of approval of transactions with interested parties, but the Company's Board has to approve a plan for the allocation of RSUs which will provide for actual allocation of RSUs. Please note that the plan for the allocation of RSUs has not yet been approved by the Company's Board and has not yet been submitted to the Tax Authority and, therefore, the right to receive the RSUs, as stated above, has not yet been established.

It is clarified that RSUs will be exercised by issuing Ordinary shares of the Company. The underlying shares in the above plan will be allocated against the payment fixed in the articles and guidelines of the Tel-Aviv Stock Exchange Ltd. upon the allocation as the minimum price per share payable by Mr. Czapnik on the date of exercise. It is also clarified that the RSUs vest on June 30, 2025. At the end of the vesting period of all RSUs, the RSUs will be automatically exercised into the Company's shares and transferred to Mr. Czapnik without any notification by Mr. Czapnik (but subject to making the payment, as above).

NOTE 4:- OPERATING SEGMENTS

a. General:

The operating segments are identified based on information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Group is organized into operating segments based on the businesses of the Group as follows:

Nike activity	-	This activity comprises the sale of sports products in Nike stores in Israel, Europe and Canada.
Foot Locker activity	-	This activity comprises the sale of products in Foot Locker stores in Israel and Europe.
Other	-	The activity of Dream Sport in Israel.

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 companies that are reported 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.

b. Reporting on operating segments:

	Nike	Foot Locker	Other	Adjustments	Total
	NIS in thousands				
Three months ended March 31, 2021 (unaudited):					
Revenues from external entities	77,857	84,458	13,910	(3,122)	173,103
Total revenues	77,857	84,458	13,910	(3,122)	173,103
Segment income (loss)	9,104	3,383	(1,764)	1,498	12,221
Finance expenses, net					21,856
Loss before taxes on income					(9,635)

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Nike	Foot Locker	Other	Adjustments	Total
	NIS in thousands				
Three months ended March 31, 2020 (unaudited):					
Revenues from external entities	65,088	64,968	-	-	130,056
Total revenues	65,088	64,968	-	-	130,056
Segment income	4,248	3,090	-	-	7,338
Finance expenses, net					3,486
Income before taxes on income					3,852
Year ended December 31, 2020 (audited):					
Revenues from external entities	336,206	285,789	19,969	(4,305)	637,659
Total revenues	336,206	285,789	19,969	(4,305)	637,659
Segment income (loss)	48,243	25,663	(196)	1,203	74,913
Finance expenses, net					89,820
Loss before taxes on income					(14,907)

NOTE 4:- OPERATING SEGMENTS (Cont.)

The breakdown of the Company's revenues by geographical market is as follows:

	Three months ended March 31,		Year ended December 31,
	2021	2020	2020
	Unaudited		Audited
	NIS in thousands		
Revenues from sales in Israel	149,404	109,928	507,959
Revenues from sales in Canada	12,629	18,180	78,525
Revenues from sales in Germany	492	649	17,470
Revenues from sales in Europe, other than Germany	13,700	1,299	38,010
Adjustments	(3,122)	-	(4,305)
	173,103	130,056	637,659

NOTE 5:- EVENTS AFTER THE REPORTING DATE

a. On April 13, 2021, shortly before the completion of the public offering, the parent company, Fox, the Company and Foot Locker Inc. entered into an agreement regarding the allocation of the Company's shares to constitute 10% of the Company's issued and outstanding share capital after the completion of the public offering ("the allocated shares") at a price per share equal to 87.5% of the price per share in the public offering. According to the agreement, among others, Fox undertook (as a mere commitment on its part, to which the Company is not a party) 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 (at Foot Locker Inc. choice) if, among others, Foot Locker Inc. meets the minimum holding rate in the allocated shares and holds a predetermined minimum rate in the Company's issued and outstanding capital and other conditions as agreed between the parties. On May 13, 2021, with the publication of the IPO prospectus, the tender offer prospectus and the shelf prospectus for the Company and the publication of the results of the public offering, the Company completed to allocate shares to Foot Locker Inc. in consideration of approximately NIS 222.5 million.

b. On May 12, 2021, an agreement was signed between the Company and Terminal X Online Ltd. ("Terminal X"), which is controlled by the parent company, Fox, which is the controlling shareholder in the Company ,where it was agreed that Foot Locker and Dream Sport websites will be operated for the Company through Terminal X. The Company will set up the websites and own them, including the IP. Terminal X will pay the Company monthly usage fee for each website it operates in the amount of NIS 10,000 (up to a maximum cumulative amount of NIS 350,000 per website).

NOTE 5:- EVENTS AFTER THE REPORTING DATE (Cont.)

According to the provisions of the agreement, the Company will determine the brands and products that will be sold on the website and will place the orders for the websites after consulting with Terminal X.

The Company will sell the products to Terminal X at cost based on orders at the beginning of each season in consideration of a commission out of total retail sales made online. Orders of additional inventory from the Company beyond the orders at the beginning of the season will be sold to Terminal X at cost + 10%. Terminal X will record online sales in its books and account for all costs related to the operation of the websites, including expenses related to royalties payable to Foot Locker international group on online sales from Foot Locker website similarly to the rate of royalties payable by the Company to Foot Locker under Foot Locker Israel franchise agreement. In 2021, Terminal X will pay the Company monthly royalties amounting to 4% of net sales from Foot Locker website and Dream Sport website which will increase by 0.5% on January 1 of each of the years 2022 and 2023. In 2024, 2025 and 2026 royalties will amount 5%, 5.5%, 6%, respectively.

After a period of about three years of the launch of Dream Sport website, the Company will be authorized to operate the Dream Sport website by itself. The Company may terminate at any time the Foot Locker website contract (before three years of the launch of Foot Locker website) if Foot Locker demands that the website be operated by the Company itself. After a period of about three years of the launch of Foot Locker website, the Company will be authorized to operate the website by itself.

In addition, the agreement stipulates a mechanism for paying royalties on sale of sports brands in Terminal X. In 2021, Terminal X will pay the Company monthly royalties amounting to 4% of net sales of all sports brands by Terminal X other than online sales by Foot Locker and/or Dream Sport, whether or not purchased from the Company ("Terminal X royalties from sports") from the earlier of setting up the first website (either Foot Locker or Dream Sport) and October 1, 2021, which will increase by 0.5% on January 1 of each of the years 2022 and 2023. In 2024, 2025 and 2026 royalties will amount 5%, 5.5%, 6%, respectively. No royalties are payable on sports brands that are not part of the Company's brands but sold by it as well as sports brands sold by the Company in small quantities.

Terminal X will be entitled to discontinue the operation of the Foot Locker and Dream Sport websites by providing the Company an advance written notice of at least six months instead of the payment of Terminal X royalties from sports (as defined above). Terminal X will pay the Company royalties amounting to 2% of net sales by Terminal X of the Nike brand.

The agreement becomes binding once the offering is complete and will be in effect for a period of five (5) years from the offering completion date ("the initial term"). The agreement shall be renewed upon the expiration of the initial term, subject to the receipt of the necessary regulatory approvals from the Company under the applicable law.

NOTE 5:- EVENTS AFTER THE REPORTING DATE (Cont.)

c. Service and burden agreement between the Company and the parent company, Fox - on May 12, 2021, the Company entered into an agreement with Fox for a period of five years from the offering completion date regarding the provision of various operating services and other services to the Company which are needed to carry out its activities ("the service agreement" and "the parties", respectively). The service agreement was signed so the Company may benefit from the advantages related to the size and enjoy the synergistic values derived from receiving services from Fox.

The service agreement regulates the various services that Fox renders the Company and the way such costs are borne by the Company.

The burden cost is regulated in the agreement by establishing fixed mechanisms (determined in negotiations between Fox and the Company (in which Fox does not hold total share capital)) based on standard burden methods in similar agreements (as detailed below) which rely on: (a) fixed amounts determined in the agreement which reflect the relative share of services provided to each party by the staff in the department (in relation to manpower services) so the outcome to the Company is costs in either less than or equal to the amount of the relative share of the services provided; (b) the agreement establishes fixed burden keys for each type of service based on the following: rate of employees and rate of space.

The service agreement contains a mechanism allowing Fox to stop providing services to the Company, subject to prior notice to the Company, and a mechanism stating that the Company, with the approval of its Audit Committee, may notify Fox that it wishes to stop receiving services from it. According to the service agreement, Fox will stop providing services at the end of the calendar quarter in which the notice was given. The service agreement also contains a mechanism whereby the parties may agree from time to time that Fox will provide additional services to the Company which are needed to carry out its activities, subject to the receipt of the approval from the Company's Audit Committee under the applicable law. The parties agreed that Fox will provide the Company with additional services and the pricing of these services will be determined based on the burden keys outlined in the agreement on condition that in no event will either party be authorized to agree to add these services if the respective total annual payment expected therefrom exceeds NIS 1 million (on a cumulative basis). The Company will disclose in its financial statements details pertaining to any additional service with the burden key used to determine its estimated annual cost. For the avoidance of doubt and without derogating from the stated in this paragraph, any modification to the service and burden agreement is subject to the receipt of all necessary approvals under the applicable law.

NOTE 5:- EVENTS AFTER THE REPORTING DATE (Cont.)

Management and consulting services by Fox - a management and consulting service agreement between Fox and the Company which became binding on the offering completion date ("the management agreement") regulates the terms agreed between the parties and its key elements are as follows:

- The services - Fox will provide the Company with management services that include: directorship services (excluding services of acting chairman of the Board); financial consulting for the Company's activity, including relationships with private investors and banks; consulting in connection with franchise agreements and services, suppliers relationship, capital market activity; business development and examination of transactions; financial consulting; strategy consulting; identification of opportunities and connections in Israel and abroad and real estate consulting, including examining and locating sites and negotiating with landlords.

- The consideration - the Company will pay Fox management fees of NIS 225,000 per each calendar quarter, plus VAT as required by law. The management fee will be updated once a year in such a way that for any increase of NIS 250 million in the Company's turnover, based on the Company's audited consolidated annual financial statements for the previous year, there will be an increase of NIS 50,000 in the quarterly fees plus VAT as required by law, provided that there is no case that: (a) management fee will increase, as aforesaid, if the Company's turnover is less than NIS 1 billion, and (b) the management fee will not exceed NIS 400,000.

- Reimbursement of expenses – besides management fee, Fox will be entitled to reimbursement of reasonable expenses actually incurred by it in rendering management services, including payment to external consultants, accommodation, travel, flights and expenses related to rendering management services, according to the Company's procedures and against the presentation of a tax invoice, as long as these expenses are not paid directly by Fox ("reimbursement of expenses"). The expenses will be reimbursed at the same time as the management fee is paid in respect of the calendar quarter preceding the payment date. Reimbursement is not subject to a ceiling. The Company's CFO approves the expenses and sends once a year a report to the Audit Committee which will discuss the reasonableness of the above expenses and will be entitled to set a limit and reduce them from the decision date onwards.

- The term of the agreement and its termination - the management agreement becomes binding once the offering is complete and will be in effect for a period of five years from the offering completion date. The agreement shall be renewed upon the expiration of the initial term, subject to the receipt of the necessary regulatory approvals from the Company under the applicable law.

See additional information in Note 28e to the Company's annual financial statements.

NOTE 5:- EVENTS AFTER THE REPORTING DATE (Cont.)

d. Customers' club service agreement - on May 12, 2021, the Company entered into an agreement with the parent company, Fox, regarding the provision of marketing and customers' club services for Dream Card ("the club") in connection with Dream Sport and Foot Locker chains in Israel which are managed and operated by the Company and are part of the club's brands (for this purpose, "the parties" and "the Dream Card agreement", respectively). The Dream Card agreement was signed so that the Company could continue to include the above chains in the Fox Group customers' club and benefit from the advantages related to the size of Fox Group, as it did before the date of this agreement.

The Dream Card agreement regulates the various services that Fox renders the Company by the customers' club department, which include marketing and customers' club services for Dream Card, including customers' club management, ongoing services to club members, database maintenance, data processing and analysis, production of reports, emailing and etc., in a way that is similar and consistent with other business units in Fox Group. In addition, the agreement regulates the undertaking of Fox and the Company in relation to the redemption and accumulation of reward points by club members in chains in Israel which are managed and operated by the Company as well as in relation to accumulation in the framework of the club's credit card. For the avoidance of doubt, the IP of the customers' club will remain with Fox. See additional information in Note 28f to the Company's annual financial statements.

e. In accordance with the approval of the Company's Board, the employment terms of Mr. Danny Gaoni, Operations Manager of Nike Israel, Foot Locker Israel and Dream Sports Israel, comprise allocation of restricted stock units ("RSUs") with total value of NIS 1.5 million. The number of RSUs to be allocated will be determined based on the average price of the Company's share in the first 30 trading days after the completion of the offering and based on the entire value of RSUs as derived from generally accepted accounting principles. After the completion of the offering, the Company will publish a private offering report in accordance with the Securities Regulations (Private Placement of a Listed Company), 2000 regarding allocation of such RSUs. It is clarified that no further approval by the Company's authorized organs is required for the allocation of RSUs according to the provisions of chapter five to the sixth part of the Companies Law in the issue of approval of transactions with interested parties, but the Company's Board has to approve a plan for the allocation of RSUs which will provide for actual allocation of RSUs.

In addition and in accordance with the approval of the Company's Board and general meeting, the employment terms of Mr. Dov Schneidman, the Company's CEO, comprise allocation of RSUs with total value of NIS 0.6 million. The number of RSUs to be allocated will be determined based on the average price of the Company's share in the first 30 trading days after the completion of the offering and based on the entire value of RSUs as derived from generally accepted accounting principles. After the completion of the offering, the Company will publish a private offering report in accordance with the regulations pertaining to a private placement regarding allocation of such RSUs. It is clarified that no further approval by the Company's authorized organs is required for the allocation of RSUs according to the provisions of chapter five to the sixth part of the Companies Law in the issue of approval of transactions with interested parties, but the Company's Board has to approve a plan for the allocation of RSUs which will provide for actual allocation of RSUs.

NOTE 5:- EVENTS AFTER THE REPORTING DATE (Cont.)

As for the stated in this paragraph regarding the allocation of RSUs, it is clarified that the plan for the allocation of RSUs has not yet been approved by the Company's Board and has not yet been submitted to the Tax Authority and, therefore, the right to receive the RSUs, as stated above, has not yet been established.

f. On May 12, 2021, the parent company, Fox, and the Company entered into a demarcation agreement which became binding on the offering completion date, regulating the circumstances in which Fox Group and officers serving both the Company and other Fox Group companies require to bring to the Company's knowledge and evaluation any business opportunity presented to them. The agreement refers to a business opportunity in territories in which the Company and companies held by it operate at any relevant date and which concern the acquisition and/or receipt of right to set up and operate a chain of physical stores specializing in sports footwear and apparel of international brands. The agreement will not apply in one or more of the following cases:

(a) The sports footwear component in the relevant activity will be lower than the sports footwear component in any of the Company's major activities (as of the reporting date - less than 40% of the scope of the relevant activity);

(b) The Company's ability to exploit the business opportunity is limited under existing agreements, as they will be from time to time, including due to a non-competition clause in the Company's agreements.

(c) In addition, the one who presents the business opportunity will not be required to give any business opportunity to the Company if the partner or the relevant brand owner of the business activity has notified in writing that it wishes that the relevant activity be done directly by Fox and not by the Company and/or in case where an existing brand owner with whom Fox Group has an agreement expands the brands it offers and products it markets.

Pursuant to the agreement, insofar as the relevant organs in the Company decide that the Company has no interest in the business opportunity, Fox or any member company in the group may enter into a transaction relating to the business opportunity and this shall not constitute exploitation of the Company's business opportunity, provided that the conditions set in the agreement are met.

The Company may cancel the demarcation agreement if so decided by the Company's Audit Committee with a 120-day advance notice. As to Fox, the demarcation agreement shall cease to apply when officers who serve as officers in Fox or in a company controlled by Fox no longer serve the Company ("dual office-holding "). In addition, any dual officer will be entitled to inform that the demarcation agreement does not apply to the officer, if Fox gives a 180-day advance notice to the Company without derogating from the responsibilities or liabilities of Fox or the dual officer under the law.

NOTE 5:- EVENTS AFTER THE REPORTING DATE (Cont.)

According to the demarcation agreement, any officer in Fox or in any member company in the group may be appointed as an officer in the Company if the officer signs on a conflict of interest agreement within its framework:

(a) The officer will undertake not to be involved in making decision in any meeting of the Board or the Company's committees whose agenda includes agreements between the Company and Fox or any other members of Fox Group.

(b) The officer will undertake not to be involved in the capacity of an officer in Fox or in any member company in the group in making decision regarding the purchase or sale of any top brands marketed by the Company or its subsidiaries on the Terminal X website.

g. Listing the Company's shares on the stock exchange - on May 13, 2021, the Company published an IPO prospectus, tender offer prospectus and a shelf prospectus and the results of the public offering. On May 13, 2021, the Company's shares were first offered to the public through the issuance of 9,090,554 registered Ordinary shares of the Company without a par value and through a tender offer of Leumi Partners of 1,808,076 registered Ordinary shares of the Company without a par value which were allocated to Leumi Partners Ltd. shortly before the completion of the public offering (see also Note 3a). Since May 19, 2021, the Company's shares are traded on the Tel-Aviv Stock Exchange Ltd.

Upon completion of the IPO, Fox holds 55.74% of the Company's share capital and voting rights. In addition, upon the completion of the tender offer by Leumi Partners, Leumi Partners holds about 6.81% of the Company's issued and outstanding capital.

The total proceeds for the Company from the IPO (net, after deducting commissions) was approximately NIS 446.3 million. The payment to the Company under the allocation agreement with Foot Locker Inc. (see Note 5a) was approximately NIS 222.5 million.

h. In the Company's prospectus it is stated that subject to receiving the approval of the Company's authorized organs (including the approval of the Company's general meeting by a special majority in accordance with the provisions of sections 270(4) and 275 to the Companies Law), the Company plans to allocate RSUs under a RSUs program to the acting chairman of the Company's Board, Mr. Harel Wizel, who is one of the controlling shareholders in Fox (the controlling shareholder in the Company). The grant date total value of the RSUs to be allocated to Mr. Wizel will be approximately NIS 15 million. The number of RSUs to be allocated will be determined based on the average price of the Company's share in the first 30 trading days after the completion of the offering and based on the entire value of RSUs as derived from generally accepted accounting principles.

NOTE 6:- SEASONALITY

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. The operating results should be viewed while taking into consideration this seasonality.

- - - - - - - - - - -

F:\W2000\w2000\61339535\M\21\E3-RETAILORS.docx