Financial Statements as of 31 December 2022

Electra Consumer Products (1970) Ltd

Electra Consumer Products (1970) Ltd.

Legal Disclaimer

ELCO DAIKIN ELECTRA

Carrefour 7 ELEVEN Quik.co.il שירות סופר אונליין

adidas שבילים רשת חנויות מטיילים ארץ-ישראלית Outsiders Columbia

DUTY FREE קסם אלקטריק קסם אלקטריק בטוח שקנית טוב מחסני חשמל

Sauter PHILIPS LIEBHERR Miele

TOSHIBA cecotec Breville Whirlpool

JETPOINT MEISTER

ELECTRA

Israel's Leading Brands

Electra CP

Our Vision

To improve consumer's lives
Product after product, service after service,
experience after experience.

Our Mission

To touch consumer each day anew
To continue growing by establishing
and founding brands, chains and new
products that will be **customer's preferred destination anywhere, at any time, and in any way that works for them.**

Electra CP

Electra Consumer Products (1970) Ltd. in Numbers

299
Branches

530M
EBITDA

6.2B
Revenues

6.9K
Number of employees

1.2B
Company equity

6.7B
Total Company balance sheet

251M
EBITDA
(without IFRS-16)

ilAA-
S&P Rating

6.7B
Total Company balance sheet

242K sq. m.
Commercial space

103M
Net income attributable to shareholders

95M
Dividend declared and paid

611M
Financial debt
(without IFRS-16)

Table of Contents

Chapter A: The General Development of the Group's Business

1. The Group's Operations and the Development of Its Business

1.1 Electra Consumer Products (1970) Ltd. (the "Company") was established and incorporated in Israel on 24 March 1970 as a privately held company pursuant to the Companies Ordinance. On 8 December 2010, the Company published a prospectus, on the basis of which shares of the Company of par value NIS 1 each were offered to the public and registered for trade on the Tel Aviv Stock Exchange Ltd (the "TASE") and the Company became a publicly traded company as the term is defined in the Companies Law, 5759-1999 (the "Companies Law").

1.2 As of the reporting date,[1] the Company's controlling shareholder (holding 48.82% of the equity and voting rights) is Elco Ltd ("Elco"), a publicly traded company whose securities are listed for trade on the TASE and that is controlled by Messrs. Daniel Salkind and Michael Salkind.

1.3 In August 2021, Standard & Poors Maalot Ltd ("Maalot") announced a change in the Company's credit rating to ilAA- and determined that its rating outlook was stable. Similarly, in January 2022, Maalot announced that it was assigning a rating of ilAA- to unsecured bonds that would be issued by the Company by offering a new series of bonds, Series A. Accordingly, in February 2022, the Company completed the offering of NIS 250 million par value (Series A) bonds pursuant to a shelf offering report of the Company.

In August 2022 and December 2022, the Company completed a private offering in the sum of NIS 100 million par value and NIS 78 million par value, respectively, of (Series A) Company bonds by way of expanding a registered series.

2. The Group's Fields of Activities

The Company is engaged, directly and through its investee companies (the "Group"), in the following five fields of activities: (A) electrical consumer products segment – the import, export, marketing, sale, and distribution of electrical consumer products and the provision of service for these products. See Section 7 to Part A to the report; (B) electrical consumer products – the operation of retail chains for the sale of electrical consumer products and cellular telephones and accessories through "Mahsanei Hashmal," "Shekem Electric," and "Shekem Duty." See Section 8 to Part A to the report; (C) retail food – the operation of the Bitan Wines chain, a retail marketing chain for food products and other consumables, operating under Carrefour brands, as well as the operation of the 7-Eleven chain, which commenced operation in January 2023. See Section 9 to Part A to the report; (D) sports and leisure – the operation of marketing chains, the import, manufacture, and distribution of equipment and clothing and footwear for travellers, camping, skiing and snowboarding, outdoor sports and leisure, as well as the operation of a franchise chain under the Adidas brand. As of the financial statements as at 31 December 2022, the Company reports these activities as an accounting segment. See Section 10 to Part A to the report; (E) development and construction of investment property – see Section 11 to Part A to the report.

Each of the above fields of activities constitutes an accounting operating segment in the Company's consolidated financial statements as at 31 December 2022 (the "financial statements").

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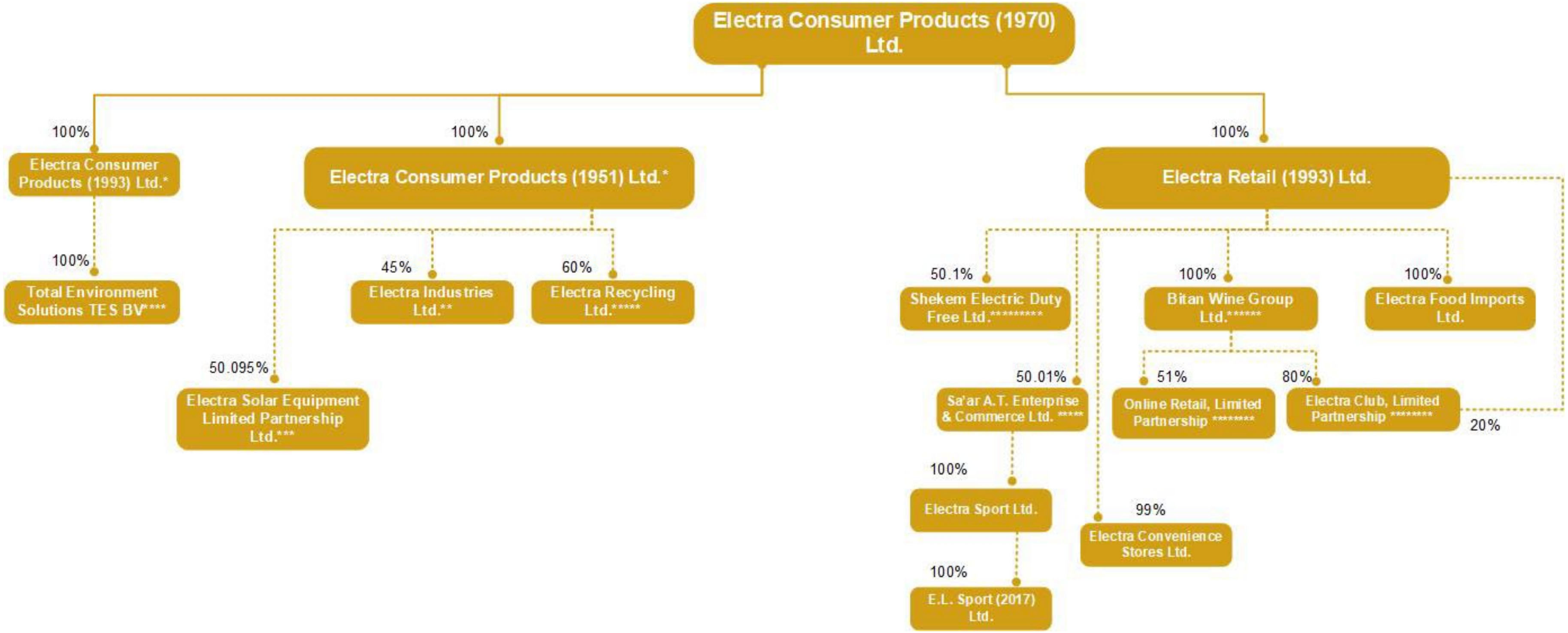
[1] In this report below, the "reporting **date**" is the date on or around which this report is published.

Below is a chart of the Company's holdings in material active corporations (the "Group") as at the date of the report's publication:



*	**"ECP 1951"** or the "**Subsidiary**." See Section 2.1.1 to Part A to the report for details.
**	"**Electra Industries, Ltd.**" See Section 7.2.1 to Part A to the report for details.
***	**Electra Solar Equipment General Partner, Ltd**. See Section 7.3 to Part A to the report for details.
****	Total Environmental Solutions TES BV.
*****	**Sa'ar A.T. Enterprises & Trading, Ltd. ("Sa'ar Enterprises").** See Section 10.1 to Part A to the report for details.
******	**Electra Recycling, Ltd.** See Section 7.1 to Part A to the report for details.
*******	**Bitan Wines Group, Ltd.** ("**Bitan Wines**"). Bitan Wines includes, inter alia, the holding of full ownership of the following companies: Zim A.R. Direct Marketing and Mega in the City Retail Ltd. See Section 9 to Part A to the report for details.
********	**Shekem Electric Duty-Free, Ltd.** ("**Shekem Duty**"). Formerly: Office 3000 Duty, Ltd. See Section 8.1 to Part A to the report for details.
*********	**Electra Retail, Ltd.** ("**Electra Retail**"). See Section 2.1.1.1 to Part A to the report for details.
**********	**Electra Club Limited Partnership** ("**Electra Clubs**"). For details about Electra Clubs and the restructuring that was performed, see Section 2.1.3.4 to Part A to the report.
***********	**Online Retail, Limited Partnership**. The partnership is directly and indirectly held by partially owned companies: Bitan Wines and Quik Technologies and Investments, Ltd., a publicly traded company whose securities are listed for trade on the TASE (formerly: Quik Online Super, Ltd.) ("**Quik**"). The partnership includes the websites operations of Quik, Bitan Wines Online, and Mega Online. See Section 2.1.3.3 to Part A to the report for details.

2.1 Restructuring; Material Acquisitions and Sales Outside the Regular Course of Business

2.1.1 Changes to the Group's Structure

During the course of 2021, as part of its growth process, the Company decided on a restructuring that partially continued during the course of 2022 in which the retail operations in ECP 1951 were split up under a separate company as follows:

2.1.1.1 On 22 March 2021, the Company's board of directors approved the Company's engagement in a demerger agreement between the Company, and ECP 1951 and Electra Retail. Under that agreement, the electrical retail operations and food retail operations were split into Electra Retail for no consideration, and the split up would be tax-exempt pursuant to Section 105A(1) to the Income Tax Ordinance, such that Electra Retail is the exclusive owner of the electric and food retail operations, all effective for tax purposes as at 30 June 2021. On 28 November 2021, the Israel Tax Authority's approval was obtained for splitting the electric and food retail operations as described above.

2.1.1.2 In February 2022, as part of the restructuring that the Company elected to make, ECP 1951 and Electra Retail executed an agreement for the transfer of shares in Sa'ar Enterprises, under which the sports and leisure operations are consolidated, which shares were held by ECP 1951, to Electra Retail in consideration of their fair value based on an internal valuation study that the Company conducted that was based, inter alia, on the temporal proximity of ECP 1951's acquisition of Sa'ar Enterprises shares, as noted in Note 5(b) to the financial statements.

2.1.1.3 As part of the restructuring, in February 2022, the Company, ECP 1951, Electra Convenience Stores, Ltd. ("Electra Convenience Stores") (a company that was established for managing convenience store operations under the 7-Eleven brand), and Electra Retail executed an agreement for the transfer of the convenience store operations. In the framework of the agreement, the 7-Eleven franchise agreement was assigned to Electra Convenience Stores, and Electra Convenience Stores' shares were transferred from ECP 1951 to Electra Retail, all in consideration of the sums that ECP 1951 paid, on account, up until the transfer date.

2.1.2 The Electrical Consumer Products Field

2.1.2.1 <u>The sale of Airwell shares</u> - On 15 April 2021, an indirect subsidiary of the Company executed an agreement for the sale of all of its shares in Airwell Residential SAS, a subsidiary of the second-tier subsidiary that operates in France ("ARS"). See Section 7.13.2.3 to Part A to the report for details.

2.1.2.2 <u>Extension of a strategic agreement in the field of home heating</u> - Further to the execution of an agreement between a second-tier subsidiary and a European strategic client dated 15 June 2020 in connection with the development, manufacture, and supply of heating systems, on 22 November 2022, the second-tier subsidiary executed a revision and extension of the original agreement until 2026, inter alia, in light of the European gas crisis and the increased demand for energy efficient inverter-based heating products. Under the agreement, the second-tier subsidiary will establish, develop, and manufacture an additional line of products and significantly increase the quantity of manufactured products that would have been developed under the original agreement. See Section 7.2.1 to Part A to the report for details.

2.1.2.3 <u>Engagement with Weishaupt</u> - On 7 December 2022, the Company, via Electra Industries, Ltd., an indirect subsidiary ("Electra Industries"), executed a framework agreement for the development, manufacture, and provision of heating systems for three years (2025-2023) with Max Weishaupt GmbH, a European customer ("Weishaupt"), which took effect 1 January 2023, alongside existing agreements relating to the provision of equipment and development of products with Weishaupt. This agreement was executed, inter alia, in light of the European gas crisis and the increased demand for energy efficient inverter-based heating products. The quantity of heating systems that will be supplied by the

Company will be subject to the above framework agreement, which establishes, inter alia, the frequency of the provision of products based on the evolving understandings between the parties, as set forth in the agreement. See Section 7.2.1 to Part A to the report for details.

The agreement is in effect until 2025 and will automatically renew for an additional year each time unless one of the parties gives notice of its desire to terminate the agreement by prior written notice of 18 months.

2.1.2.4 Execution of a commercial collaboration and merger of operations agreement - On 9 March 2023, a commercial collaboration and merger of operations agreement was executed between Electra Solar Equipment (2021), Limited Partnership ("Electra Solar"), which is indirectly held by the Company, and Bariach Golan Energy Equipment, Ltd. ("Bariach Golan"), which is indirectly held by Rav Bariach (08) Industries, Ltd, a publicly traded company whose shares are registered for trade on the Tel Aviv Stock Exchange Ltd. ("Rav Bariach"), as was a founders agreement for the establishment of a joint company, which would be held by Bariach Golan (75%) and by Electra Solar (25%) and would operate in the distribution and/or marketing and/or sale of solar energy system (PV - photovoltaic) components to companies and/or individuals engaged in the field of renewable energy. As of the reporting date, this agreement has yet to be concluded and depends on meeting the conditions precedent established therein, which include, inter alia, obtaining approval from the Director General of the Israel Competition Authority.

Concurrently, ECP 1951 executed an agreement, conditioned on the completion of the merger with Bariach Golan as described above, with the current partner in Electra Solar for the acquisition of its holdings (approximately 49.9%) in consideration of approximately NIS 2 million such that it would transfer all of its holdings in Electra Solar to the Company's subsidiary. At this time, the transaction has not yet been concluded. See Section 7.3 to Part A to the report for details.

2.1.3 **Retail Food Field**

2.1.3.1 Engagement with Carrefour International Partnership (“Carrefour”), reorganisation, and conversion of Bitan Wines stores

On 3 April 2022, Bitan Wines entered into an exclusive franchise agreement for the operation of the Bitan Wines chain’s stores under the Carrefour brand. During the third quarter of 2022, Bitan Wines, carried out a streamlining and reorganisation plan, including, inter alia, operational streamlining of branches and workforce, a decision to close five branches that were operating at a loss, improvement of commercial terms, building and implementing a plan for the renovation of branches and the conversion thereof to Carrefour branches, and more. For details about the engagement in the franchise agreement as well as about the conversion of stores, see Section 9.11.1 to Part A to the report.

2.1.3.2 Engagement with 7-Eleven

On 11 October 2021, an exclusive franchise agreement was executed with 7-Eleven for a period of 20 years, with options to extend the term by up to a maximum of 50 additional years, for the development and operation of convenience stores under the 7-Eleven brand in Israel through a company that will be established for this purpose, subject to meeting the conditions that were established in the franchise agreement. See Section 9.11.4 to Part A to the report for details.

2.1.3.3 Engagement with Quik

On 30 March 2022, Bitan Wines entered into a series of agreements with Quik for the establishment of a partnership for purposes of carrying out all of Bitan Wines’s online retail operations. On 1 August 2022, the transaction was concluded after all conditions precedent had been met. See Section 9.11.3 to Part A to the report for details.

2.1.3.4 Customer loyalty clubs

Further to the agreements for the acquisition of Bitan Wines as set forth in Section 9.1 to Part A to the report and as the basis to the establishment of a customer loyalty club, on 3 July 2022, the Company, through Electra Clubs (a limited partnership wholly owned by a Company subsidiary, the "Club"), acquired from Bitan Wines Holdings, Ltd. (a privately held company owned by Mr. Nahum Bitan) ("Bitan Holdings") the shares in Club 365 ("365") for the total consideration of NIS 50.5 million. As of the conclusion of said transaction, the Club was entitled to any existing consideration to which 365 is entitled from Bitan Holdings up to 30 June 2022. After the above acquisition of shares was completed, the Club sold the shares of 365 to Mashbir 365, Ltd. (a publicly traded company whose securities are listed for trade on the TASE) in consideration of a negligible monetary sum, and in exchange, 365 turned over to the Club, without consideration, approximately one third of the customers who had been recruited by it and a credit portfolio in the sum of NIS 250 million. The Club and Bitan Wines are obligated to provide cashback benefits to customers of 365 for a period of nine months following the date of the notice to customers of Bitan Wines's separation from 365.

On 10 August 2022, the Company, through subsidiaries and investee partnerships, executed a three-way agreement with Israel Credit Cards, Ltd. ("Cal") and Bank Hapoalim, Ltd. for collaboration in connection with operation of a customer loyalty club based on a non-bank credit card issued by Cal for customers of Bit and customers of the Group's retail chains that would include Bit Card Club customers and Family 365 Club customers who would be recruited on Bitan Wines's sales floors for a period of 12 years from the fulfilment of the conditions precedent pursuant to the agreement. The agreement will automatically renew for an additional three years each time unless any of the parties gives notice of its desire not to renew the Agreement, all pursuant to the terms and covenants set forth in the agreement. That agreement has yet to take effect and is subject to meeting the conditions precedent established therein, which include, inter alia, obtaining approval from the Director General of the Israel Competition Authority.

In December 2022, the Company's board approved the transfer of the majority of the holdings in the Club to Bitan Wines such that Bitan Wines would hold 80% of the interest in the Club and the remaining interests would be held by a wholly owned subsidiary of the Company. On 20 March 2023, an agreement was executed between the Company and the subsidiary, and Bitan Wines, and the interests in the Club were transferred to Bitan Wines.

See Section 9.11.2 to Part A to the report for details.

2.1.4 **The Field of Sports and Leisure**

On 27 June 2022, after obtaining Adidas's approval, Electra Retail, Sa'ar Enterprises, and Electra Sport, Ltd. executed an agreement with the owner of the company, which has a franchise for the operation of stores selling sports equipment, fashion, footwear, and other products under the Adidas brand. In September 2022, the transaction was concluded, and as at the reporting date, E.L. Sport (2017), Ltd. is engaged in the above franchise agreement. For details about this field and the above franchise agreement, see Sections 10.1 and 10.17.2 to Part A to the report, respectively.

2.1.5 **Investment Property Field**

In March 2022, the Company and Reality Real Estate Investment Fund 4, Limited Partnership, executed a sale agreement with the City of Rishon Le'Zion, whereby the parties acquired plots in Rishon Le'Zion in equal shares between them, with a total area of approximately nine hectares, in consideration of the total sum of approximately NIS 106 million. See Section 11.1 to Part A to the report for details.

3. Investments in the Company's Equity and Transactions in its Shares

3.1 As of 1 January 2021, and until the date of the publication of the report, there have been no investments made in the Company's equity and/or other material transactions in its shares by interested parties, other than as set forth below:[2]

Transaction Execution Date	Substance of the Transaction	Number of Shares	Transaction Amount/Total Consideration (In NIS Thousands)	Amount of Issued and Outstanding Equity (In %)	Derivative Share Price (In Agoroth)
3 March 2021	Off-Desk Sales	704,770	90,000	3.06	12,770

3.2 Company Shares Buyback Plan

<table>
<tr><th>Buyback Plan Date</th><th>Dates</th><th>Total Amount</th><th>Quantity of Shares Acquired by the Reporting Date</th><th>Total Consideration Up Until the Reporting Date (in NIS Millions)</th><th>Comments</th><th>Reference</th></tr>
<tr><td>8 January 2017</td><td>9 January 2017 through 8 January 2020</td><td>NIS 60 million</td><td rowspan="3">1,199,259 shares of par value NIS 1 each.</td><td>95.5</td><td rowspan="4">Said acquisitions shall take place from time to time on various dates and in various volumes according to Company management's discretion and market opportunities. The acquisition shall be made during the course of trading on the TASE and/or through off-desk transactions.</td><td>2017-01-003073</td></tr>
<tr><td>17 January 2019 - Extension of the 2017 buyback plan</td><td>9 January 2020 through 8 January 2023</td><td>NIS 60 million</td><td rowspan="2">1.4</td><td>2019-01-111913</td></tr>
<tr><td>15 March 2020 - Increase in the scope of the 2019 buyback plan</td><td>15 March 2020 through 9 August 2022</td><td>NIS 100 million</td><td>2020-01-022132</td></tr>
<tr><td>10 August 2022 - new buyback plan in place of the 2019 buyback plan</td><td>10 August 2022 through 9 August 2025</td><td>NIS 100 million</td><td>128,505 shares of par value NIS 1 each.</td><td>14.5</td><td>2022-01-082746</td></tr>
</table>

4. Distribution of Dividends

4.1 Dividend Distribution Policy

On 2 February 2022, the Company's board of directors approved the adoption of a dividend distribution policy that would apply to the financial statements from 2021 and thereafter as set forth below: The Company shall distribute a dividend to shareholders at a rate of 50% of its annual net income pursuant to the Company's last consolidated financial statements, subject to the provisions of all law, including the distribution tests pursuant to the Companies Law, 5759-1999, and the financial restrictions and stipulations that were established or that shall be established from time to time in the Company's financing agreements, including the terms of bonds that the Company will issue, if any.

To clarify, this policy shall not be viewed as an undertaking by the Company to distribute a dividend, and the Company's board of directors shall be entitled to review the above dividend distribution policy from time to time and resolve at any time to change the policy or the amount of the dividend to be distributed or decide that a dividend will not be distributed at all.

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[2] Not including transactions made by interested parties in the framework of trades on the TASE and not including the acquisition of Company shares by the Company as set forth in Section 3.2 to Part A to the report.

For details about the dividend distribution policy adopted by the Company in 2010, see Section 4.1 to Part A to the Company's periodic report for 2020 (reference number: 2021-01-023869), presented by way of reference.

4.2 **Distribution of dividends** – As of 1 January 2021, the Company has distributed or declared the following dividends:

Date of the Board's Decision to Distribute the Dividend	Dividend Amount (in NIS)	Eligibility Effective Date	Dividend Distribution Date	Permitted/With Court Approval
25 February 2021	40,000,000	7 March 2021	4 April 2021	Permitted
25 August 2021	30,000,000	5 September 2021	3 October 2021	Permitted
3 March 2022	30,000,000	13 March 2022	3 April 2022	Permitted
10 August 2022	30,000,000	19 September 2022	2 October 2022	Permitted

4.3 **Distributable earnings** – Pursuant to the provisions of Section 302 to the Companies Law, as of 31 December 2022, the Company has distributable retained earnings in the sum of NIS 183,852,000.[3]

4.4 **Dividend Distribution Restrictions**

In the Company's (Series A) bonds trust deed issued by the Company based on the shelf offering report published on 3 February 2022, restrictions were placed on distribution. The Company shall be entitled to make a "distribution" (as this term is defined in the Companies Law) provided all of the following cumulative conditions have been met:

4.4.1 The Company's tangible equity (as defined in the trust deed), after deduction of the distribution amount, shall not be less than NIS 390 million;

4.1.1 The Company, on the eve of the distribution, is not in breach of any of the financial criteria in Sections 5.18.1 and 5.18.2 to the trust deed and will not breach any of the above financial criteria as a result of making the distribution (based on the solo financial statements (with respect to Section 5.18.1 to the trust deed) and the consolidated financial statements (with respect to Section 5.18.2 to the trust deed) and without taking the review period into account);

4.4.2 On the date of the resolution to distribute the dividend, none of the grounds for immediate repayment set forth in Section 8.1 to the trust deed have occurred, and as a result of the distribution, none of the grounds for immediate repayment set forth in Section 8.1 to the trust deed will occur (without taking into account the review periods detailed therein);

4.4.3 The Company has been meeting all of its material commitments to the bondholders pursuant to the trust deed.

As of the reporting date, other than the above and other than binding provisions of law, the Company has no restrictions on carrying out a distribution.

[3] The Company's retained earnings less treasury shares as at 31 December 2022.

Chapter B: Other Information

5. Financial Information Regarding the Group's Fields of Activities

Below is financial information about the Group's fields of activities in 2020, 2021, and 2022, as detailed in the financial statements (in NIS Thousands):

For the year ended at 31 December 2022							
	The Electrical Consumer Products Field	Electrical Retail Field	Retail Food Field (*)	Sports and Leisure Field (**)	Investment Property Field	After Adjustments	Total
Income from externals	1,236,134	1,950,372	2,841,238	214,202	302	56	6,242,313
Income from other fields of activity	150,519	-	-	-	10,949	(161,468)	-
Total income	**1,386,653**	**1,950,372**	**2,841,238**	**214,202**	**11,251**	**(161,403)**	**6,242,313**
Costs that do not constitute revenue in other fields of activities	1,252,821	1,868,423	2,874,186	194,437	(27,938)	1,685	6,163,614
Costs that constitute revenue in other fields of activities	-	-	-	-	-	(161,403)	(161,403)
Total costs	**1,252,821**	**1,868,423**	**2,874,186**	**194,437**	**(27,938)**	**(159,718)**	**6,002,211**
Fixed costs attributed to the field of activities	233,008	295,998	781,908	92,404	49	(2,669)	1,400,698
Other expenses (income)	(10,090)	(835)	21,038	302	(27,999)	1,957	(15,627)
Reorganisation expenses	-	-	51,830	-	-	-	51,830
Variable costs attributed to the field of activities	1,029,903	1,573,260	2,019,410	101,731	12	(159,006)	4,565,310
Segmental profit (loss)	133,832	81,949	(32,948)	19,765	39,189	(1,685)	240,102
Unallocated joint expenses	-	-	-	-	-	-	41,852
Operating income	-	-	-	-	-	-	198,250
Total assets	**1,440,607**	**1,189,074**	**3,569,128**	**496,676**	**355,795**	**(354,810)**	**6,696,470**
Total liabilities	**797,499**	**1,128,970**	**2,938,623**	**316,427**	**66,205**	**224,938**	**5,472,662**

(*) The Company has been consolidating Bitan Wines's financial results as of the end of May 2021 and including online retail results as of August 2022.

(**) The Company has been consolidating Sa'ar Enterprises' financial results as of 30 June 2021 and including data for Adidas as of Q4 2022.

For the year ended at 31 December 2021							
	The Electrical Consumer Products Field	Electrical Retail Field (*)	Retail Food Field (**)	Others (***)	Investment Property Field	After Adjustments	Total
Income from externals	1,075,834	1,779,970	1,703,626	90,663	-	(1,547)	4,648,546
Income from other fields of activity	163,787	-	-	-	12,003	(175,790)	-
Total income	**1,239,621**	**1,779,970**	**1,703,626**	**90,663**	**12,003**	**(177,337)**	**4,648,546**
Costs that do not constitute revenue in other fields of activities	1,120,479	1,692,360	1,658,024	80,537	(50,746)	19,720	4,520,374
Costs that constitute revenue in other fields of activities	-	-	-	-	-	(177,337)	(177,337)
Total costs	**1,120,479**	**1,692,360**	**1,658,024**	**80,537**	**(50,746)**	**(157,617)**	**4,343,037**
Fixed costs attributed to the field of activities	203,490	250,980	448,388	36,199	-	(1,170)	937,887

For the year ended at 31 December 2021							
	The Electrical Consumer Products Field	Electrical Retail Field (*)	Retail Food Field (**)	Others (***)	Investment Property Field	After Adjustments	Total
Other expenses (income)	(3,628)	(410)	244	1,367	(50,746)	11,509	(41,664)
Variable costs attributed to the field of activities	920,617	1,441,790	1,209,392	42,971	-	(167,956)	3,446,814
Segmental profit (loss)	119,142	87,610	45,602	10,126	62,749	(19,720)	305,509
Unallocated joint expenses	-	-	-	-	-	-	39,910
Operating income	-	-	-	-	-	-	265,599
Total assets (****)	**1,560,253**	**867,075**	**3,235,060**	**330,518**	**269,700**	**(267,877)**	**5,994,729**
Total liabilities (****)	**946,951**	**913,801**	**2,614,724**	**161,544**	**12,052**	**118,849**	**4,767,921**

(*) The Company has been consolidating Office Duty's financial results as of April 2021.
(**) The Company has been consolidating Bitan Wines's financial results as of the end of May 2021.
(***) The Company has been consolidating Sa'ar Enterprises's financial results as of 30 June 2021. As of 31 December 2022, Sa'ar Enterprises's operations have been categorised as, "sports and leisure," instead of "others."
(****) Reclassified. See Note 5 to the financial statements for details.

For the year ended at 31 December 2020					
	Electrical Consumer Products Field (*)	Electrical Retail Field (*)	Investment Property Field	After Adjustments (*)	Total (*)
Income from externals	1,026,676	1,545,721	-	976	2,573,373
Income from other fields of activity	131,652	-	10,392	(142,044)	-
Total income	**1,158,328**	**1,545,721**	**10,392**	**(141,068)**	**2,573,373**
Costs that do not constitute revenue in other fields of activities	1,069,234	1,463,728	-	15,692	2,548,654
Costs that constitute revenue in other fields of activities	-	-	-	(141,068)	(141,068)
Total costs	**1,069,234**	**1,463,728**	**-**	**(125,376)**	**2,407,586**
Fixed costs attributed to the field of activities	185,455	195,946	-	4,910	386,311
Other expenses (income) *)	(4,762)	(938)	-	2,858	(2,842)
Variable costs attributed to the field of activities	888,541	1,268,720	-	(133,144)	2,024,117
Segmental profit (loss)	89,094	81,993	10,392	(15,692)	165,787
Unallocated joint expenses	-	-	-	-	35,421
Operating income	-	-	-	-	130,366
Total assets	**1,380,701**	**697,537**	**216,530**	**(168,961)**	**2,125,807**
Total liabilities	**546,002**	**829,475**	**64,658**	**62,463**	**1,502,598**

(*) Reclassified.

As of the 31 December 2021 financial statements, the Company has been presenting the "retail food" accounting segment, and as of the 31 December 2022 financial statements, the Company has been presenting the "sports and leisure" accounting segment.

For further details about the Group's financial results and developments in the data for said periods, see the financial statements and the board of directors report.

6. General Environment and the Effect of Outside Factors on the Group's Operations[4]

Below is a description of trends, events, and developments in the Group's macroeconomic environment that have or are expected to have a material impact on the Group and resultant implications:

6.1 The Global Energy Crisis

During the course of February 2022, war broke out between Russia and Ukraine. As a result, countries, such as the USA and European Union member states, began to impose a series of various financial and economic sanctions on Russia that were typified, for example, by the ban of Russian banks from the SWIFT global money transfer network and halting transactions with Russian corporations. In light of the inability to predict the duration and effect of the political and economic effects resulting from that event, the Group is unable at this stage to assess the future effect on the Group. Nevertheless, the Group views the European gas crisis and the increased demand for heating products based on inverter technology, which are more energy efficient, as an opportunity to increase its sales of these products, which are sold to customers in Europe by a second-tier subsidiary.

6.2 Geopolitical Trends in Israel and the Middle East and the Security Situation

In recent months, there has been increasing sociopolitical protest in Israel, inter alia, on the background of the advancement of significant legislation primarily relating to changes to the judicial system.

At this stage in the legislative process, the Company is unable to assess how the process will end or the extent of its effects, if any, on the Group.

6.3 Economic State of the Israeli Market and Changes in Quality of Life and Consumption Habits

6.3.1 General

Gross domestic product (GDP) grew by 6.5% in 2022, and the unemployment rate decreased by 4.2%. The annual inflation rate grew to 5.3%. 2022 was characterised by a governmental budget surplus of 0.6%. The Ministry of Finance's deficit target is 3.9%. The NIS weakened over the course of the year by 13% compared to the US dollar but increased by 6.6% against the euro. The Bank of Israel increased the market interest rate to 3.25% throughout the entire year.

6.3.2 Volatility in the Price of Food Products and Consumables

The price of food products and consumables imported into Israel was affected in 2022, inter alia, by an increase in global raw material prices in the field of food5 as well as changes in maritime shipping prices.

Alongside this global trend in maritime shipping, there are domestic factors in Israel that aggravated the price increase for and availability of imported products, including: exceptional traffic at the entry to the ports of Ashdod and Haifa as well as the outbreak of armed conflict between Russia and Ukraine in February 2022.

In the retail food sector, most of the products sold by Bitan Wines are sensitive to changes in household income and the level of economic activity in the Israeli market. An economic slowdown in the market or recession that results, inter alia, from security and/or political factors is likely to result in decreased individual consumption, including a decrease in Bitan Wines's products.

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[4] The description of the financial environment and outside factors is based, *inter alia*, on published data and information, which have not been verified by the Company, from the Bank of Israel website at www.boi.org.il, from the Israel Central Bureau of Statistics website at www.cbs.gov.il, and the Israel Ministry of Finance website at www.mof.gov.il.

[5] *See*, *e.g.*, the United Nations Food and Agricultural Organization's publications: https://www.fao.org/worldfoodsituation/foodpricesindex/en.

6.4 Extent of New Construction

The extent of new construction has implications on the demand for the Group's products in some of its segments, taking into account that when moving to a new home, consumers tend to replace their electrical consumer products and purchase new ones. Thus, according to periodically updated public domain data, as of the end of September 2022, approximately 164,550 apartments are actively under construction, compared to approximately 139,000 apartments as of the end of September 2021.

6.5 Competition

The industries in which the Group operates are fiercely competitive, both on the manufacturing side as well as the marketing side, which affects the price of the products and services marketed by the Group and as a result, the Group's profitability. Furthermore, recent years have seen the continuation of the trend in mergers between wholesalers and retailers in the markets in which the Group operates as well as in mergers of retail chain electrical product sellers amongst themselves.

For details about the structure of the competition in the Group's various fields of activities, see Sections 7.9, 8.7, 9.8, 10.7, and 11.5 to Part A to the report.

6.6 Interest Rate Volatility

The Group is exposed to changes in interest rates since the Group finances some of its operations using prime-rate linked credit from banks. Thus, interest rate changes are likely to affect the Group's operations and its business results.

6.7 Effects of inflation and increased interest rates on financial disclosure and reporting

Over the last several years, inflation rates in Israel have been low and throughout these years, have maintained a range of up to 1%. As of 2021, there has been an increase in inflation rates in Israel and around the world, with the consumer price index in Israel increasing by 2.8% in 2021 and 5.3% in 2022. According to the Bank of Israel's research arm, the 2023 rate of inflation is expected to come to 3%. As part of its attempt to slow down the inflation rate in Israel, starting in April 2022, the Bank of Israel began to raise the interest rate, in a number of increments, from the negligible rate that had prevailed for years to its current level of 4.25%, and according to the Bank of Israel forecast, Israel's monetary interest rate is expected to come to 4% on average during the fourth quarter of 2023. The Company has long-term liabilities to banking corporations in the sum of NIS 603 million (of which, NIS 350 million is attributed to Bitan Wines) and short-term liabilities in the sum of NIS 166 million, for which the Company does not maintain cash balances or deposits. In light of the expected increase in bank interest, each 1% increase is expected to increase the Group's net interest expenses by NIS 4, million annually. Additionally, the Company pays property owners rent for its branches and offices that is for the most part linked to the consumer price index, and every additional 1% increase in the consumer price index is expected to increase rental costs by NIS 3 million annually.

With that, the Group's financial stability, together with its cash balances and the high regular cash flows that it generates, will enable it to continue to finance its operations and meet its obligations.

We note that the Company's assessments - regarding the possible implications of the increase in the prime interest rate and the increase in the consumer price index on its operations and business - are uncertain, outside of the Company's control, and amount to forward-facing information as the term is defined in the Securities Law. These assessments are based, inter alia, on Company management's experience with the market (including with economic crises), and accordingly, the materialisation and/or scope of the assessments are uncertain.

6.8 Exchange Rate Fluctuations

The Company's receipts are primarily in Israeli shekels while payments for imported home electrical appliances, air conditioners, entertainment devices, small appliances, electronics, and raw materials for the manufacture of air conditioners are in foreign currencies (primarily the US dollar and the euro). As a result, the Group (like most other importers) is exposed to changes in exchange rates between the product or raw materials purchase date and the date of actual payment to the supplier. The Group applies a hedging policy, hedging exchange rates and adjusting product prices in order to minimise the effects of exchange rate volatility given the continuous uncertainty.

6.9 Regulatory Changes

Changes in legislation and standards, primarily in Israel, in relation to importing, manufacturing, exporting, and marketing, are likely to increase manufacturing costs and the cost of imported products and thus, impact the Group's profits. For details about restrictions, statutes, standards, and special constraints that apply to the Group's operations, see Section 18 to Part A to the report.

6.10 Seasonality

The Group's operations are affected by seasonality, which is characteristic of the electrical consumer products industry, in general, and the air conditioning industry, in particular, as well as of the retail food and sports and leisure industries. The effect of that seasonality is felt both in the summer as well as winter, as well as during the holiday seasons (Passover and Rosh Hashana). For details about the effect of seasonality on the Group's various fields of activities, see Sections 7.10, 8.8, 9.9, and 10.8 to Part A to the report.

6.11 Changes in Labour Law

Whereas some of Bitan Wines's employees work for minimum wage or are employed in full-time positions affected by the minimum wage, or are employed based on dedicated agreements, in the Company's assessment, changes in the minimum wage and/or other material changes in Israeli labour law are likely to adversely affect Bitan Wines's business results and cause added salary expenses for Bitan Wines. For details regarding legislation in the field of labour law, see Section 18.10 to Part A to the report.

6.12 Cost of Living in Israel and Increased Consumer Awareness

The subject of cost of living in Israel impacts both political as well as economic discourse in Israel and economic activities in the market, and all the more so recently, including in the retail food sector, which is expressed, inter alia, in price-related consumer preferences. The topic of cost of living in Israel is likely to adversely affect Bitan Wines's business results because of high consumer pressure placed on the retail food market for reducing product prices and increased competition from competing chains. On the background of protests over the cost of living in Israel, various measures were taken with the goal of reducing food prices in Israel. These include the Promotion of Competition in the Food Industry Law, 5774-2014 (the "Food Law"), which took effect 27 March 2014. See Section 9.10.3 to Part A to the report for details about the Food Law.

During the reporting period, there were price increases in a series of different food, pharmaceutical, and cleaning products. In recent months food, pharmaceutical, and cleaning product manufacturers and importers turned to marketing chains, demanding significant price increases for hundreds of products. As of the reporting date, public pressure is directed at the marketing changes, placing them in a dilemma whether to refuse or acquiesce to the companies' demands.

6.13 Competition in the Retail Food Market

For details regarding competition in the retail food market, the structure of the industry, its proceeds, and how Bitan Wines deals with market competition, see Section 9.8 to Part A to the report.

Chapter C: The Group's Business by Fields of Activity

In this chapter, we will provide a description of the Group's business regarding each of its individual fields of activity. Matters that relate to all of the Group's fields of activity collectively will be jointly described in Chapter D to Part A to the report.

7. First Field of Activity – Electrical Consumer Products

7.1 General Information About the Field of Activity

In this field, the Group is engaged in the import, export, marketing, sale, and distribution of electrical consumer products, including climate control systems, home appliances, home entertainment, and small appliances and work tools for home use, and in providing service for these products. Moreover, the Group manufactures and also purchases various types of climate control systems that it distributes in the local market and overseas, mostly to European countries, through a factory owned by an Israeli subsidiary. See Sections 7.2.3 and 7.4 to Part A to the report for details about these products.

During the course of 2019, the Group underwent a restructuring in this segment under the name Electra Systems in order to leverage and maximise its professional abilities and its trade agreements with suppliers of luxury systems under the Daikin brand, commercial air conditioning systems, and water systems. In 2021, a signed tax ruling was obtained that approved the merger of SZ Systems, Ltd. - which holds a licence to market and sell air conditioning systems in Israel made by Daikin Europe D.N.V. ("Daikin"), a leading international manufacturer in the field of air conditioners, in general, and in the field of VRF in particular - and Electra Ecommerce, Ltd. into ECP 1951's operations.

The gas crisis in Europe led to increased demand for inverter-based heating products that are energy efficient, and accordingly, Electra Industries entered into framework agreements with a number of leading heating system clients in Europe to develop, manufacture, and supply heating systems for various periods. See Section 7.2.1 to Part A to the report for details.

In January 2021, ECP 1951 engaged with AllTrade Recycling Ltd. and MAI Israel Electronics Recycling Corporation Ltd. ("MAI Corporation") in a shareholders agreement for purposes of a joint venture for establishing a facility for treating and recycling refrigerators and air conditioners as well as other electrical heating and refrigeration appliances that contain gas. See Section 7.16.11 to Part A to the report for details about the recycling plant.

On 9 March 2023, a commercial collaboration and merger of operations agreement was executed between Electra Solar and Bariach Golan, which is indirectly held by Rav Bariach, as was a founders agreement for the establishment of a joint company that would be held by Bariach Golan (75%) and by Electra Solar (25%) (the "joint company") and whose activities would include the distribution and/or marketing and/or sale of components for photovoltaic (PV) solar energy systems to companies and/or individuals engaged in the renewable energy sector.

Concurrently, ECP 1951 executed an agreement, conditioned on the completion of the merger with Bariach Golan with the current partner in Electra Solar, for the acquisition of its holdings (approximately 49.9%) in consideration of approximately NIS 2 million such that it would transfer all of its holdings in Electra Solar to the Company's subsidiary. See Section 7.3 to Part A to the report for details.

7.1.1 Structure of and Changes to the Field of Activity

This field of activities includes a number of large importers and an even larger number of small importers. The market is characterised by a high level of competition, resulting in ongoing price reductions despite the trend in increased materials costs as a result of increased wages and other inputs.

7.1.2 **Changes in the Volume and Profitability of the Activity in the Field**

The Group assesses that the size of the electrical consumer product market in Israel, as set forth in Section 7.4 to Part A to the report, is NIS 8 billion per year.[6]

During the course of 2020 and 2021, despite the period of time that stores were closed as a result of the effects of Covid-19, there was a trend toward increased sales of large home appliances, home entertainment appliances, small appliances, and climate control systems.

In 2022, the electrical consumer product market in Israel was characterised by increased prices, primarily in the importation of products from European countries in light of the energy crisis and from the East in light of the effects of Covid-19, by price increases for raw materials, and by exchange rate changes. Toward the end of July 2022 and until the date of the publication of the report, there has been a clear slowdown in the increase in prices for international shipping.

7.1.3 **Developments in the Field of Activity's Market or Changes in Customer Characteristics**

In recent years, one distinguishes a number of trends in market development: [A] following the reduced gaps between branded product prices and off brand product prices, consumers tend to purchase more branded products; [B] continued consolidation of private traders into buying groups and the establishment of private store chains; [C] an increase in the amount of sales made online; and [D] an increase in parallel imports[7] in this field of activity. With that, the Group assesses that its exposure to parallel imports is not substantial.

7.1.4 **Technological and Regulatory Changes That Could Materially Affect the Field of Activity**

[A] Energy savings and "green" energy – companies continue to develop and manufacture large electrical appliances and air conditioning products that are more energy efficient. As a result of global warming, the State of Israel ratified the Kigali Amendment to the Montreal Protocol, which limits the use of HFC gases. The significance of the amendment for the Company is restriction of the use of R410 refrigerant gas in air conditioners and a switch to the use of environmentally friendly and "green" R32 refrigerant. The switch to this new gas has encountered regulatory difficulties, primarily that on the one hand, the regulator sets caps that significantly restrict the use of R410 (which is the most prevalent type of gas in the air conditioning market) while at the same time, prohibits use of the new R32 gas because professional air conditioning installer legislation has not yet been codified, which is necessary because the newer gas is more combustible. The Ministry of Labour, in collaboration with a line of ministries (Energy, Environmental Protection, Economy), has proposed legislation to codify the profession of air conditioner installer. The law has passed its first reading and awaits the second and third readings. As long as the profession is not regulated, Israeli Standard 994-1 will not be changed. Thus, as of now, the air conditioner market, in general, and the Company, in particular, are dependent on the government's decision in order to begin using the environmentally friendly gas.

[B] Home entertainment products – the most significant changes in the field are smart TV OLED screens, including android operating systems that allow a user experience that includes use of applications similar to a smart phone, as well as a switch to very large screens of 75 inches or more with emphasis on minimalist and frame-free design.

[C] Large home appliances – the main improvements in appliances in this field revolve around these products' design and technology. Similarly, there is emphasis on high energy ratings for products purchased by the Company. The subject of large home appliance energy ratings is about to change and adopt European legislation. Adoption of the legislation is conditioned on the government's decision. The law took effect on 1 September 2022.

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[6] The above amounts are the consumer's sale price before VAT.

[7] Imports by one who is not defined as an official importer.

[D] Small appliances – continuing the trend since the Covid-19 pandemic, the leading products in the market in this category are products such as the "air grill," ice-cube makers, bread makers, and climate products for summer/winter, including gas grills and outdoor kitchens.

[E] The Economic Plan Law (Legislative Amendments to Implement Economic Policy for Budget Years 2021 and 2022) – the home consumer products market and the Group, in particular, were materially affected by the reform in importation and the reform in energy efficiency approved by the government in the 2021 and 2022 Budget Appropriations Law. The importation reform led by the Ministry of the Economy and Industry and the Ministry of Finance, in collaboration with the Ministry of Health and Ministry of Energy, focuses on a transition to the methods that are common in developed markets around the world and on changing the methods of oversight of the legality of importation for hundreds of products, alongside increased market enforcement. The substance of the reform is the adoption of international regulation and a transition to declaration tracks instead of examinations and approval of products based on examination reports. The purpose of the reform is to lower import costs for importers. The standards reform took effect in June 2022 and the energy efficiency reform in September 2022. The Group applies the reform's accommodations for a significant portion of its product offering.

[F] Environmentally Friendly Handling of Electrical and Electronic Equipment and Batteries Law, 5772-2012

Pursuant to the provisions of that law, the Group is required to collect, handle, and recycle electrical and electronic equipment waste as set forth in Section 18.13 to Part A to the report. In 2021, the Group executed an agreement to build an electronic waste recycling plant in collaboration with the AllTrade Group and the Mai Recycling Corporation. In 2022, the Company built the plant, which initially has been focusing on recycling air conditioners and refrigerators and later, will expand operations to recycling all electrical products. The plant operates pursuant to the leading European electronics waste recycling standard, SENELEC.

7.1.5 Critical Success Factors in the Field of Activity and Applicable Changes

There are a number of observable critical success factors that affect the Group's operations and status in this field of activity, including: [A] the creation of a broad and varied base of high-quality products at attractive prices and the provision of solutions for the entire spectrum of products and needs at all price levels while maintaining available inventory levels; [B] diverse marketing channels for distribution of products across the entire country through retail store chains, sales to traders and institutions, and online operations; [C] the ability to purchase from a large number of diverse quality suppliers at competitive commercial terms; [D] the marketing and distribution of products under brand names that enjoy high demand and brand awareness; [E] a service network spread out across the country; [F] a flexible business model and its adjustment to the needs of the relevant market as quickly as possible; [G] good working relationships with various customer segments, including entrepreneurs and contractors, architects, installers, traders, marketing chains, institutional and wholesale customers; and [H] financial stability.

7.1.6 Changes in Supplier Network and Raw Materials in the Field of Activity

For details about the supplier network and raw materials in this field of activity, see Sections 7.2.6 and 7.13 to Part A to the report.

7.1.7 Primary Blocks to Entry to and Exit from the Field of Activity

The primary entry blocks in this field of activity are: financial stability, the creation of a stable customer base, significant investments in brand building in a highly competitive sector, and engagements with suppliers with international brand names and reliable professional service at high standards.

The primary exit block in this field of activity is the commitment to providing service and maintaining spare parts for a number of years as required by law.

7.1.8 **Product Substitutes in this Field of Activities and Applicable Changes**

7.1.8.1 Spare heating parts – in particularly cold regions, it is commonplace to generate heat using products that are air conditioner substitutes such as solar, gas, and electric heat. Nevertheless, the entry of inverter technology air conditioning into the market allows for safe, efficient, and less expensive heating and increases demand for these air conditioning systems.

7.1.8.2 Energy savings – as a result of the increased awareness of energy savings, there is a market trend of switching to more efficient air conditioners and refrigerators.

7.1.9 **Structure of the Competition in The Field of Activity and Applicable Changes**

See Section 7.9 to Part A to the report for details about the competition in this field of activity.

7.2 Climate Control Systems Plant

7.2.1 The Group has a single plant, which operates in the Rishon Le'Zion Industrial Zone and manufactures climate control systems (air conditioners and heating systems), that is incorporated under a second-tier subsidiary, Electra Industries. Below are the material engagements in this field of activity:

[A] In 2020, ECP 1951 completed its engagement in agreements with a company in the thermal technology unit of Bosch ("Bosch"), a leading manufacturer of heat pumps and heating systems for home heating that is also involved in technology and services, regarding investment in the plant and the establishment of a joint venture for developing and manufacturing advanced heat pumps and air conditioning systems. Pursuant to the agreements, upon their closing, Bosch invested eight (8) million euros in consideration of the issuance of subordinated shares in Electra Industries, which holds the air conditioners manufacturing plant, in consideration of the allocation of 40% of the shares in Electra Industries. The shares that were thus issued to Bosch will be subordinated in the receipt of a dividend originating from Electra Industries' earnings that will derive from the sale of thermal pumps to other customers who are not shareholders in Electra Industries pursuant to the terms agreed upon between the parties. In parallel to the agreement covering the investment in Electra Industries, the parties executed a heat pumps development and production agreement for the exclusive supply of the products to be developed and produced.

[B] On 15 June 2020, Electra Industries entered into a detailed OEM agreement with a strategic client, which is one of the leaders in Europe in domestic heating, for the development, manufacture, and supply of heating systems. According to this agreement, unique product and assembly lines will be developed for the customer. The development was completed during the second quarter of 2022, and the plant commenced serial manufacturing operations. In that agreement, the customer undertook to invest up to EUR 2.4 million in the development and establishment of a dedicated line of products for the manufacture of systems that would be sold to the client for a period of at least five years and in a sum estimated by the Company at NIS 300 million over the course of the term of the agreement.

On 22 November 2022, Electra Industries executed a revision and extension of the original agreement until 2026 (the "revised agreement"), inter alia, in light of the European gas crisis and the increased demand for energy efficient inverter-based heating products. Under the revised agreement, Electra Industries will establish, develop, and manufacture an additional line of products and significantly increase the quantity of manufactured products that had been developed under the original agreement. The Company anticipates that Electra Industries' income from sales of products to the strategic client will amount, during the term of the revised agreement, to the total sum of NIS 1 billion.

[C] On 7 December 2022, the Company, via Electra Industries, executed a framework agreement for the development, manufacture, and supply of heating systems for three years (2023-2025), with Weishaupt, which took effect as of 1 January 2023, alongside existing agreements relating to the provision of equipment and development of products with Weishaupt. That agreement was executed, inter alia, in light of the European gas crisis and the increased demand for energy efficient inverter-based heating products. The quantity of heating systems that will be supplied by the Company will be subject to the above framework agreement, which established, inter alia, the frequency of the provision of products based on the evolving understandings between the parties as set forth in the agreement.

The agreement is in effect until 2025 and will automatically renew for an additional year each time unless one of the parties gives notice of its desire to terminate the agreement by prior written notice of 18 months.

The Company expects that because of the significant expected increase in demand for inverter-based heating systems by the above strategic customers and other customers, Electra Industries's export sales will grow during 2023-2026 from the annual sum of NIS 350 million per year to an annual sum of NIS 800 million at the end of this period.

The Company's assessments relating to the expected increased demand for heating systems and Electra Industries's income forecast from the above engagement and the abovementioned sale of heating systems are "forward-facing information," as defined in the Securities Law, and are based, inter alia, on the Company's assessments in consideration of the quantities that were denominated in the revised agreement, the existing demand for such systems, the environment in which the Company operates, and the current exchange rates. The Company's assessments may be affected by factors outside the Company's control, including the risk factors inherent in its operations. Accordingly, there is no certainty that what is stated above will be realised, and the actual results may significantly differ from the assessments that are set forth above.

7.2.2 The developed area of the plant is 20,000 m² and includes: (1) manufacturing departments: machines to process tin, a paint shop, battery production and assembly; (2) manufacturing support departments: storage rooms, maintenance, a mechanical department, a technology department, manufacturing management, manufacturing oversight planning, and manufacturing engineering; (3) laboratories: an acoustic laboratory for measuring noise, a calorimetric laboratory for testing air conditioner performance, a psychometric laboratory for measuring duct air conditioner performance, and a reliability laboratory for testing the lifespan and reliability of components used in the manufacturing process; and (4) offices.

During the course of 2020, the Group located and purchased alternative space in the industrial zone south of Ashkelon for relocating the plant and building a thermo-technology park. The process of building the plant will be accompanied by Bosch representatives and will follow green construction standards. The Group assesses that the cost of the investment for building the structure at NIS 100-150 million, but prices are likely to be revised in response to increased costs of raw materials. The plant will be spread over the area of 20,000 m² and is planned to employ 450 manufacturing and engineering workers. Relocation of the plant to the new site commenced in the fourth quarter of 2022 and in the Group's assessment, is expected to conclude in the fourth quarter of 2023.

During the course of July 2020, the Company obtained an assessment from the Israel Land Authority (ILA) regarding the value of the land. After obtaining the assessment, the Company contacted the ILA regarding what it believes was an incorrect calculation of the development expenses. On 24 September 2020, the ILA issued a decision rejecting the Company's objection regarding the development expenses calculation. It is the Company's position that the ILA's decision was fundamentally wrong. Therefore, and whereas the repudiation of an ILA decision is by way of filing an administrative petition, the Company contacted the ILA with a request to arrive at a procedural arrangement whereby the deadline for filing the petition would be extended on consent of the parties (in order to avoid the Company being exposed to a claim of delay) until a decision would be made on the first overall objection that the Company filed. Whereas the ILA did not grant the Company's above request, on 25 November 2020, the Company filed an administrative petition against the ILA. As of the date of the report, there has been a hearing on the petition, and various pleadings have been filed by the parties. On 12 April 2022, a decision was issued whereby the court accepted the Company's arguments, and on 16 November 2022, the government appraiser's decision was obtained with respect to the objection filed by the ILA, rejecting the Company's arguments.

On 16 January 2023, the Company appealed the government appraiser's decision. For additional details, see Note 24A(2) to the financial statements.

In November 2021, the Company and Electra Industries filed an application to the Ministry of the Economy, seeking qualification as an "approved enterprise" on the grant track for approval of investment plans pursuant to the Capital Investments Encouragement Law, 5719-1959. In August 2022, Electra Industries obtained approval from the Investments Authority of the plan for investment for relocation of the plant from Rishon Le'Zion and its expansion in Ashkelon for the manufacture of climate control systems, at an investment of NIS 80 million in equipment and machinery, on the track for grants of 20% for each eligible investment. In March 2023, the Company received approval from the Investments Authority of the plan for investment for the construction of an industrial building in Ashkelon, in the amount of NIS 45 million, on the track for grants of 20% for each eligible investment. The benefits and grants pursuant to the law are conditioned on the performance of all of the approved plans and the fulfilment of the conditions established in the approval statement.

The Company's assessments regarding the cost of investment in constructing the complex and relocating the plant are forward-facing information, as defined in the Securities Law, and are based on the Company's assessments and the experience of Company management. These assessments may not materialise, in whole or in part, or may materialise differently, even materially, than expected as a result of changes in the market and/or as a result of the materialisation of all or some of the risk factors described in Section 25 to Part A to the report.

7.2.3 **The plant's products and customers** – the products that are manufactured in the plant in Rishon Le'Zion fall into three primary production lines: (1) mini-central air conditioning systems; (2) water products; and (3) heat pumps. Mini-central air conditioning systems and water systems are primarily sold in Israel whereas heat pumps are sold to customers overseas, primarily in Western Europe. The plant has a number of principal customers: Bosch, Viessmann, and Weishaupt.

In 2021, work commenced at the plant for setting up a new dedicated line for the manufacture and export of heat pumps using new technology pursuant to the strategic agreements in the home heating field that were executed during the course of 2020 as noted above. Establishment of the line was completed during 2022, and the Company has begun selling the products.

7.2.4 **Manufacturing capability** – the plant supplies all of the Group's needs in manufacturing the products specified above. The plant currently manufactures approximately 120,000 air conditioning units annually and is utilising approximately 65% of its manufacturing capability. In light of new agreements, an increase is expected in the percentage of the manufacturing capability being used. Utilisation of the maximal manufacturing capability does not involve substantial investments and can be achieved by adding more manufacturing shifts and bearing increased costs for machine maintenance. The plant maintains flexibility in taking advantage of its manufacturing capability by employing temporary workers pursuant to manufacturing plant requirements. The plant invests in automation and robotics for improving manufacturing efficiency and reducing dependence on professional manufacturing workers.

The Company's assessments regarding increasing the percentage of manufacturing capability that is used are forward-facing information, as defined in the Securities Law, and are based on the Company's assessments, the experience of Company management, and new executed agreements . These assessments may not materialise, in whole or in part, or may materialise differently, even substantially, than expected as a result of changes in the market and/or agreements and/or as a result of the materialisation of all or some of the risk factors described in Section 25 to Part A to the report.

7.2.5 **Research and development** – the air conditioning and climate control systems industry is characterised by a large number of new products and new and advanced technologies. The plant has a development department located on its manufacturing site. Development objectives include: technological innovation, reduction of product costs, improvement of reliability and quality, conformance of product specifications to standards and statutory requirements, preservation of the Group's reputation, and expansion of its market share in existing as well as new markets at competitive manufacturing costs. During the reporting period, the plant has continued to develop products that have been adapted to R32 gas, which is environmentally friendly, pursuant to European regulatory requirements that are supposed to become applicable in Israel as well in the near future. This involves substantial changes throughout all of the product lines intended for Israel. Additionally, the plant has improved all of the air conditioning system series by increasing output, improving efficiency and electricity consumption savings, and upgrading ease of maintenance. Additionally, the plant is planning to make substantial investments in research and development - as the result of having executed the agreements described above (as set forth in Section 7.2.1 to Part A to the report) - and in developing new product lines.

7.2.6 **Raw materials** – raw materials and the primary components used by the plant in this area of operations are those used in the plant's manufacturing process: compressors, electric motors, cooling accessories, accelerators, gas, electrical accessories, steel, copper tubing, aluminium, insulation materials, and electronic components and assemblies. The source of most of these raw materials and components is the Far East, and the remainder come from Europe and Israel.

In light of the dynamic character and effect of seasonality (as set forth in Section 7.10 to Part A to the report), there is great importance to the availability of products and raw material inventories. The plant ensures the planning of desired inventory levels, and therefore, orders from suppliers are frequently placed according to demand levels.

The plant is not dependent on a specific raw material supplier other than raw materials and components with prolonged delivery dates, where demand for the plant's products exceeds annual manufacturing forecasts.

Following the global logistical and electronics crisis, logistically, the plant had to deal with supply chain problems that derived from a global lack of shipping containers, global price increases for maritime and air shipping, and a lack of supplier stability due to a lack of raw materials and workers. As to electronics and semiconductor availability, the plant had to deal with lower than ordinary availability and purchasing at market prices (spot buying). Despite the above, the plant was able to comply with established manufacturing plans.

7.2.7 Breakdown of the air conditioner plant's sales:

	2022 In NIS Thousands	%	2021 In NIS Thousands	%	2020 In NIS Thousands	%
Domestic	195,952	48%	212,302	73%	180,756	75%
Exports	215,395	52%	80,073	27%	59,642	25%
Total	411,347	100%	292,375	100%	240,398	100%

7.3 Solar Energy Operations

In 2021, ECP 1951 engaged with Solar Sensei Investments and Services, Ltd. ("Solar Sensei") - a company engaged in importing, manufacturing, distributing, and marketing equipment for solar power systems (such as solar panels, converters, optimisers, and systems for anchoring solar panels/aluminium construction), a representative of SunPower and Canadian Solar in the field of solar panels in Israel - to establish joint operations in the field. In that framework, a transaction was concluded for establishing a partnership under the name of Electra Solar, which acquired Solar Sensei's assets and operations as set forth in the agreement.

On 9 March 2023, a commercial collaboration and merger of operations agreement was executed between Electra Solar and Bariach Golan, which is indirectly held by Rav Bariach, as was a founders agreement for the establishment of a joint company whose activities would include the distribution and/or marketing and/or sale of components for photovoltaic (PV) solar energy systems to companies and/or individuals engaged in the renewable energy sector. For additional details, see Note 31A to the financial statements.

7.4 Products and Services

Below are the Group's products in this field of activity:

7.4.1 <u>Climate control systems (air conditioners and heating systems)</u> – the Group markets and distributes a wide variety of home and commercial air conditioning systems, both imported as well as manufactured at the plant owned by the Group. This product family comprises a number of groups of products: [A] home air conditioners; [B] mini-central air conditioning systems (systems manufactured in Israel); [C] water-based cooling products; [D] VRV and VRF; and [E] heat pumps.

The Group's array of products includes split-level, mobile, duct, and multi-room air conditioners in a variety of output levels, using ordinary as well as inverter technologies.

In the framework of the Group's operations, the Company markets air conditioners under the brands – "Electra," "Elco," and "Daikin." Additionally, the Group markets a variety of air conditioners under private labels.

The Group imports, markets, and distributes, in Israel, a broad variety of air conditioner replacement parts and installation accessories as well as air distribution equipment marketed by the Company. These spare parts are marketed to wholesalers, air conditioner installers, and private technicians.

7.4.2 Large home appliances – this product family comprises a number of different product groups: [A] the cooking and baking product group, such as ovens and ranges; [B] the water products group, such as laundry machines, laundry dryers, and dishwashers; and [C] the refrigerator and freezer group.

7.4.3 Home entertainment – various kinds of television screens and sound systems.

7.4.4 Small appliances – such as hair straighteners, electric grills, blenders, microwave ovens, coffee machines, toasters, mixers, food processors, electric kettles, juicers, vacuum cleaners, irons, shavers and hair removers, radiators, ceramic heaters, and fans.

The Group markets electrical consumer products under the leading brand names in Israel and the world, including: Electra, Elco, Miele, Liebherr, Sauter, Philips, Whirlpool, Meister, Breville, Jet Point, Daikin, Toshiba, Cecotec, TCL, Midea, and Bosch.

Additionally, the Group has a customer service network throughout the country through which the Group provides service for the electrical consumer products that it markets.

7.5 Breakdown of Income and Profitability of Products and Services

For details about the breakdown of income and profitability of the Group's products and services, see Section 12 to Part A to the report. See Section 7.2.7 to Part A to the report for details about changes in the profitability of the air conditioning field, including changes between Israel and overseas.

7.6 New Products

See Section 7.4 to Part A to the report for details about new products.

7.7 Customers

7.7.1 The Group sells and distributes its products to dealers, installers, electrical appliance stores and kitchen marketers, marketing chains (including marketing chains owned by the Group), websites specialising in sales including ecommerce sites operated by marketing chains, as well as executes direct sales to projects.

The Group markets its air conditioning products to governmental and public entities as well, such as the Ministry of Defence, the Israel Police, the Israel Correctional Services, universities, government offices, and local governmental authorities. Additionally, the Group engages in marketing to construction entrepreneurs and contractors, including associates. (See Note 30 to the financial statements.) In the framework of its climate control system international operations,, the Group develops, manufactures, and exports, on an OEM basis, to central customers in Europe, including Bosch, Veissman, and Weishaupt.

7.7.2 The Group's sales to business customers is characterised by a multiyear relationship, and at times, customers enjoy volume discounts that vary according to the annual volume of purchases.

7.7.3 The Group extends credit to its customers that varies, on average, between 90 and 150 days.[8] As is common in the field, the Group has a flexible merchandise return policy regarding returns from dealers, other than in cases of volume purchase transactions without the right to return products. In practice, the product return rate from customers is insubstantial.

7.7.4 The Group's products that are manufactured at the plant, including mini-central air conditioning systems and water systems, are primarily sold in Israel whereas heat pumps are sold to customers overseas, primarily in Western Europe. Similarly, in 2022, the Company completed the establishment of a dedicated production line for exporting heat pumps using new technology. See Section 7.2.3 to Part A to the report for details.

7.7.5 As of the reporting date, the Group is not dependent on any individual customer nor on a small number of customers in this field of activity. Similarly, the Group assesses that it does not have a substantial customer in this field of activity whose contribution to its income is 10% or more of the Group's consolidated turnover.

7.8 Marketing and Distribution

7.8.1 Electrical consumer products to dealers and electrical appliance chains are distributed through sales managers, sales agents, and consultants. Sales agents are employees of the Group and are entitled, in addition to their base salary, to variable rate commissions. As of the reporting date, the Group is not dependent on any specific agent or marketer whose loss would materially adversely affect this field of activity or that would cause the Group material added cost as a result of the need to replace them.

7.8.2 The Group has sales agreements with its customers as is common in the industry. Said agreements include arrangements with respect to orders from time to time for various electrical consumer products distributed by the Group, participation in sales promotion and advertising expenses, and the customer's entitlement to variable rate discounts.

7.8.3 Sales are promoted through diverse, rich in-store displays, professional consultant and sales manager services, the offering of volume discounts, periodic product discount sales, convenient credit terms, sales promotion activities, providing service beyond the warranty period set by law, and image and sales advertising through various media.

7.8.4 See Section 14.2 to Part A to the report for details about ecommerce websites.

7.8.5 We note that the plant has OEM agreements with customers for developing and manufacturing heat pumps. See Section 7.2.3 to Part A to the report for details. The Company performs the manufacturing and marketing process.

7.9 Competition

7.9.1 This field of activity is characterised by high levels of competition that primarily derive from the broad variety of products at various levels of quality and price. Competition in this field of activity is characterised by large competitors with medium or greater import and marketing networks, each of which imports a number of well-known brands into Israel together with lesser-known brands, including private label brands in larger quantities than smaller competitors that offer off brand products.

7.9.2 The Group assesses that its primary competitors in this field of activity are the companies in Israel that distribute international brands, some of which also operate electrical appliance chains: Miniline, Ltd. (which represents Samsung); Brimag Digital Age, Ltd. ("Brimag"); Newpan, Ltd. ("Newpan"); the HY Group; BSH (Bosch Siemens), Klinton International Trade 2000, Ltd.; Ralco Agencies, Ltd. ("Ralco"); and Hemilton Electric and Electronics, Ltd. ("Hemilton").

7.9.3 The Group assesses that its primary competitors in Israel in the air conditioning industry are: Tadiran Consumer Products and Technology, Ltd., which markets Tadiran air conditioners; Tornado Consumer Products, Ltd., which markets air conditioners under the "Tornado" brand

[8] We note that customer credit days are calculated net of discount amount balances.

name; and a number of other companies that collectively hold an estimated market share of less than 10%.

7.9.4 The Group assesses that its total financial market share of all sales of large home appliances in Israel is 15%. As of the reporting date, the Group is unable to assess its total market share out of all sales of home entertainment products and small appliances in Israel. In the air conditioning industry, the Group assesses that the Group's total financial market share of all sales of air conditioning products in Israel is 40%.

7.9.5 Service – consumers attribute great importance to the level of service that they receive at the time of purchase, the speed with which the product is delivered, the efficiency and professionalism of the installation, the receipt of advice and instruction, and the professionalism and promptness of repair services during and after the warranty period.

7.9.6 In the field of electrical consumer products, competition is primarily characterised by the erosion of sale prices, inter alia, following frequent technological improvements, attractive customer credit policies, high inventory availability, the provision of support services before and after the sale, utilisation of the advantages of scale for reducing manufacturing costs for companies with large manufacturing volumes, and the transition to manufacturing in countries where manufacturing costs are low (such as countries in the Far East, Eastern Europe, and Turkey).

There is continuous pressure in the industry to reduce prices and lower profit margins between manufacturers and dealers, and between dealers and end consumers. These processes were expressed, inter alia, by the entry of new competitors and parallel imports of brands, and their distribution to end consumers, as set forth in Section 7.1.3 to Part A to the report.

7.9.7 Due to the magnitude of the above-described competition, the Group invests in advertising the brands that it markets with the aim of increasing awareness of and demand for these brands. At the Group's plant (as set forth in Section 7.2 to Part A to the report), the Group continues to work to streamline and reduce the cost of manufacturing while ensuring product quality, variety, and innovation. Similarly, the Company assesses that the plant's location in Israel and its proximity to customers give the Group a number of clear advantages over competitors: [A] quick handling of demands for modification of and customising them to customer demands within a short response time; [B] rapid receipt of market feedback about the quality of products and the provision of immediate support for malfunctions; [C] the ability to control the supply chain while saving on costs; [D] collaboration in storage and distribution for customer convenience; and [E] better control over inventory quantities and optimal planning in response to changes in market trends.

7.10 Seasonality

The marketing of most electrical consumer products in Israel is characterised by a particular seasonality that is expressed in increased sales during holiday seasons (Passover and Rosh Hashanah) and sales holidays - such as Black Friday, where the impact on quarterly sales changes every year according to the dates on which the Jewish holidays fall - as well as in high sales turnover during the first nine (9) months of the year on average per quarter compared to the sales turnover during the last quarter. Additionally, there is seasonality in sales that are affected by weather. Air conditioners are primarily sold during the summer (the second and third quarters), and heating products and laundry dryers are primarily sold during the winter months (the fourth and first quarters). Below is a breakdown of the Group's sales turnover in this field of activity in 2021 and 2022:

	2022		2021	
	In NIS Thousands	(In %)	In NIS Thousands	(In %)
Q1	324,548	23%	322,287	26%
Q2	362,153	26%	317,710	26%
Q3	399,864	29%	319,938	26%
Q4	300,087	22%	279,686	22%
Total	**1,386,652**	**100%**	**1,239,621**	**100%**

7.11 Intangible Assets

7.11.1 The Company has ownership rights to the brand names Electra (in Hebrew and English) and Electra VRF and the attached goodwill in the field of air conditioning in Israel as well as various countries around the world.

7.11.2 As of 2012, the Company has owned the rights to the Sauter brand in Israel and the territories of the Palestinian Authority.

7.11.3 Elco has granted the Company the right to exclusive use in Israel, unlimited in time, for negligible consideration, of the Elco and Elco Hi-Tech brand names in Hebrew and English for manufacturing, marketing, and distributing home air conditioners, as well as ancillary services, in Israel.

7.11.4 The Group has both exclusive as well as nonexclusive rights to the use of additional brands that it imports. Similarly, the trademarks relating to the Group's field of activity are registered in the Group's name in Israel and around the world. The Group renews the registration of its marks from time to time according to the duration of their registration.

7.11.5 In this field of activity, the Group enjoys goodwill and other intangible assets (primarily distribution agreements and brand names) the amortised balance of which in the financial statements as at 31 December 2022 is NIS 51,701,000. See Note 15 to the financial statements for details.

7.12 Human Capital

See Section 16 to Part A to the report for details about human capital.

7.13 Raw Materials and Suppliers

7.13.1 **Primary raw materials used in this field of activity**

See Section 7.2.6 to Part A to the report for details about the primary raw materials used in this field of activity.

7.13.2 **Suppliers**

7.13.2.1 The process of purchasing products in this field of activity is managed by the Group's commerce and procurement departments directly with suppliers according to annual and quarterly work plans that are supervised by the Group's headquarters. The Group has engagements with suppliers (by brand name) as follows: [A] Miele – distribution of large home appliances; [B] Toshiba – distribution of large home appliances and microwave ovens; [C] Philips Consumer Lifestyle B.V. – distribution of home and kitchen electrical consumer products and of personal grooming products; [D] Phillips Domestic Appliance Italy SRL – distribution of electrical consumer products for home and kitchen; [E] TP Vision Czech Republic S.R.O.– distribution of televisions under the Philips brand; [F] Sauter – distribution of refrigerators, ovens, ranges, range hoods, microwave ovens, dishwashers, and small appliances under the Sauter brand that is registered in Israel in the Group's name. See Section 7.11.2 to Part A to the report for details; [G] Liebherr – distribution of refrigerators and freezers; [H] Whirlpool – distribution of large home appliances and other electrical consumer products for home and kitchen; [I] Breville – distribution of electrical consumer products for home and kitchen; [J] Cecotec – distribution of electrical consumer products for home and kitchen; and [K] the Group purchases air conditioners and large home appliances and entertainment products from OEM suppliers and markets them under the Electra, Elco, Meister, Jet Point, Airwell, Coolair, and Relax brands.

The term original equipment manufacturer – OEM – describes a manufacturer that manufactures a product or part that is purchased by another company and sold under the acquiring company's brand according to the requirements and quality standards established by the buyer, including the performance of oversight by control teams at the manufacturer's factories.

7.13.2.2 On 30 December 2013, ECP 1951 received confirmation from Midea, a leading Chinese manufacturer, of the start of an OEM collaboration between the manufacturer and ECP 1951 for manufacturing and selling air conditioners to

ECP 1951 pursuant to an agreement executed between the parties 2014-2018 (the "collaboration agreement" and the "initial agreement term," respectively). As of 1 January 2016, the two parties have entered into a mutual exclusivity commitment. Failure to meet minimum quantities gives the supplier the right to terminate the agreement or terminate exclusivity by advance notice of 90 days.

The collaboration agreement applies to residential air conditioning (RAC) products, home use air conditioners that are commonly defined as air conditioners with output of up to 60,000 BTU/h.

The collaboration agreement automatically renews for an additional term of five years at the end of the initial agreement term subject to a number of conditions established therein. In 2018, the Company executed an agreement with Midea extending the existing collaboration agreement between them for a period of five additional years starting 1 January 2019 upon terms similar in principle to the terms of the original collaboration agreement with Midea.

In addition to the above, on 1 December 2015, ECP 1951 engaged in a memorandum of understanding (the "original memorandum of understanding”) with the manufacturer, whereby ECP 1951 received the right to exclusivity starting at the end of the initial agreement term as set forth in the agreement, in distributing Midea-made VRF products under the Electra brand and/or any other brand it chooses. (Exclusivity is conditioned on the purchase of minimum quantities by ECP 1951 both during the initial term set forth in the agreement as well as thereafter.) The memorandum of understanding renews once annually, and at the end of 2022, the parties executed a renewal for 2023 at terms that were materially similar to the original memorandum of understanding.

The Group has an engagement with the Daikin Europe N.V air conditioning conglomerate for marketing and distributing air conditioning systems and equipment in Israel, primarily products operating using VRV technology, under the Daikin brand. On 31 March 2020, the Group executed an extension of the agreement with Daikin for the distribution of its products for a period of three (3) years. See Section 7.1 to Part A to the report for further details. In April 2020, a transaction was completed for the acquisition of a third party's holdings (25%) in the Daikin brand such that the Group's holdings increased to 100%.

7.13.2.3 On 15 April 2021, a second-tier subsidiary of the Company (the “second-tier subsidiary”) executed an agreement for the sale of all of its shares in Airwell Residential SAS, a subsidiary of the second-tier subsidiary that operates in France (“ARS”). The agreement stipulates, inter alia, that a Company subsidiary will continue to hold a guarantee for ARS against its primary Chinese manufacturer in the sum of 4 million dollars until the end of March 2022 on condition that throughout this period, ARS's equity will not fall below EUR 4 million.

7.13.2.4 The Group is not dependent on a specific supplier in this field of activity. The agreements with the Company's suppliers renew from time to time for a period of one or more years.

7.14 Restrictions and Oversight Applicable to the Field of Activity

For details about restrictions, statutes, standards, and special constraints that apply to the Group’s operations, see Section 18 to Part A to the report.

7.15 Material Agreements

For details about the engagement in agreements with a company in the Bosch Group's thermo-technology unit as well as the engagement in an OEM agreement, see Section 7.2.1 to Part A to the report.

7.16 Business Strategy and Targets and Development Forecast for the Coming Year

The Group aims to establish its position as a market leader. In order to achieve its goals, the Group acts as follows:

7.16.1 Establishing the brand – establishing the Electra brand as the leading "climate solutions" brand in Israel that provides a broad variety of solutions for the home as well as establishing the Sauter brand, which is a leading brand in the market in the cooking and baking category in Israel.

7.16.2 Increasing market share in the air conditioning industry – increasing the Group's income and strengthening brand assets in these parameters: unmitigated awareness by means of uniform marketing language, advertising the brand, and improving its position among distribution channels.

7.16.3 Market leadership – establishing the Company's position as a leader in the air conditioning and climate control market while positioning itself as an innovative player through development of a wide-ranging variety of quality, innovative products, which are offered at competitive quality and prices and improve quality of life.

7.16.4 Increasing activity in the industry – the Group works to leverage its strength as a market climate control products leader for engaging in agreements for import, marketing, and distribution in Israel of additional international brands with advanced technologies. The Group has set a goal of increasing its activities in the imported products industry by adding new categories to its offering of products that it imports thus expanding the Group's offering of products and brands.

7.16.5 OEM – through the brands Elco, Sauter, Electra, Jet Point, Meister, Cool-Air, and Relax, the Group has set a goal of engaging in strategic long-term agreements with leading suppliers.

7.16.6 Increasing the Group's activity in the various sales channels – the Group is acting to advance the sales of the products that it markets by means of support activities and providing incentives to dealers and for marketing channels in general. The Group intends to reinforce its distribution channel activities as warranted by the Group's status in the electrical consumer products. See Section 14.2 to Part A to the report for details about the Company's ecommerce websites, which are an additional sales channel for this segment's products.

7.16.7 Reducing costs – the Group is working to reduce manufacturing costs and increase operational efficiency in order to be able to improve its competitive capability.

7.16.8 Manufacturing climate control systems, air conditioners, and heat pumps – the Company has the largest air conditioning factory in the Middle East with a market share in Israel of more than 50%, which is a significant advantage. The Group uses its factory for developing its manufacturing of heat pumps sold to the European market and establishing its position as a leading player in this field through development and manufacturing agreements that were executed and will be executed in the future with significant European players. The Group is working on developing its products by implementing existing and new technologies while improving its competitive capability and placing an emphasis on innovation, quality, and service. Similarly, the Group is working on improving its competitive ability by expanding its heat pump for export operations thus reducing marginal costs to the local market.

7.16.9 The commercial air conditioning (CAC) industry – maximising and improving professional abilities and leading the market of high-end systems - under the Daikin and Electra VRF brands - of commercial air conditioning, of water systems, and of heat pumps.

7.16.10 Electra service – providing service and customer experience that will encourage loyalty to the Company and strengthen brand value.

7.16.11 Environmental protection; sustainability – the Group works to be a leader in environmental protection through actions, such as placing an emphasis on green products in the development process as well as on air quality improvement and treatment products and elements, and voluntary disclosure and reporting of environmental, social, and corporate governance (ESG). See Section 24 to Part A to the report for details.

As part of the Company's environmental protection and sustainability activities and as part of its desire to create a circular economy, the Group has established a recycling plant in collaboration with AllTrade and the Mai Corporation as set forth in Section 24 to Part A to the report. The plant began recycling refrigerators on a daily basis while adhering to stringent European Union standards. Additionally, the plant is now planning to recycle air conditioners as well. By the end of 2023, we expect that the plant will recycle more than 50,000 refrigerators.

We note that the Group's business strategy targets that appear in Section 7.16 to Part A to the report are forward-facing information, as defined in the Securities Law, and are based, inter alia, on the Company's assessments taking into account past experience, various assessments with respect to the condition of the markets in which the Group operates, and external factors that are not within the Group's control, such as the security situation in Israel and the condition of the other markets in which the Group operates. These assessments may not materialise, in whole or in part, or may materialise differently, even substantially differently, than expected as a result of a number of factors, including deterioration in the security or economic situation in the markets in which the Group operates and/or as a result of the materialisation of some or all of the risk factors set forth in Section 25 to Part A to the report.

7.17 Risk Factors

See Section 25 to Part A to the report for details about the risk factors applicable to the Group's activities.

8. Second Field of Activity – Electrical Retail

8.1 General

In this field, the Group operates the largest and foremost retail chains in Israel that specialise in the sale and marketing of electrical consumer products and cellular accessories and products. As of the reporting date, they number 77 branches spread throughout Israel under the brand names: Shekem Electric (including Shekem Electric Duty Free, Ltd.) (21 branches) and Mahsanei Hashmal (56 branches). The Group imports and markets the home brands, Electra and Elco.

As of April 2021, the Group operates the Shekem Electric Duty Free, Ltd. stores in the Ben-Gurion Airport duty free following acquiring control of the company.

Distribution of Mahsanei Hashmal and Shekem Electric Branches

These chains are distributed differently and are directed at different target audiences. In some cases, the chains' branches are located in close proximity and compete with one another, similar to competition with other retail electrical consume products chains in this field.

The Group operates eight (8) stores under the Mahsanei Hashmal tradename under the "store operation" model. Under that model, stores are operated by a management company that is established as a company dedicated to the provision of management services to the Company, which include training and supervision of staff, maintenance, rental, and regular store management.

Such management services are provided according to the Company's procedures and guidelines. The company is entitled to management fees according to the agreement executed between the parties in consideration of the provision of the services and the fulfilment of all of the management company's commitments.

Below are details of the nationwide distribution of the chains' branches, divided into regions:

Geographic Distribution			
Region/City/State	Number of branches for the year ended at		
	31.12.2022	31.12.2021	31.12.2020
Centre	22	21	17
Duty-free complex	2	1	-
North	25	23	21
Jerusalem and South	28	30	25
Total	**77**	**75**	**63**

As of April 2021, the Company operates two branches in the duty-free complex, selling electrical products and electronics, and operates a boutique stall to sell Nespresso coffee capsules for the Nespresso company.

In addition to those branches, the Company operates two ecommerce sites under the brand PaynGo (Mahsanei Hashmal) and Shekem Electric.[9]

Branches	
	Total
Number of branches	
For the year ended at 31.12.2021	**75**
Opened	4
Closed	2
For the year ended at 31.12.2022	**77**
Commercial space, gross	
For the year ended at 31.12.2021	**42,400**
Opened	2,186
Closed	598
For the year ended at 31.12.2022	**43,988**

8.2 General Information About the Field of Activity

8.2.1 Structure of and Changes to the Field of Activity

The field of retail sales of electrical consumer products includes a large number of specialty chains, private and neighbourhood specialty stores, food chains, DIY chains, internet channels specialising in selling electrical products, and as buying groups.[10] In this industry, for a number of years now, there has been a growing trend toward competition that inter alia, erodes product prices and decreases product profitability.

The industry has a number of principal players characterised by ownership of import and distribution channels for international brands as well as ownership of retail chains: Brimag – Traklin Electricity; Miniline – A.L.M.; Newpan – Newpan Outlet, Newpan Gourmet, Newpan Display; the ecommerce websites "Last Price" and Bose Centre, and cooperative buying groups. See Section 8.7 to Part A to the report for details.

In the field of cellular and technological technology products, the primary competitors in the industry are cellular providers and specialty chains, such as Ivory, Best Mobile, KSP, Bug, Dynamica, etc., as well as private stores in the field.

[9] We note that the Company operates through a franchise network under the Mahsanei Hashmal Digital brand in a volume that is immaterial.

[10] The branded organisation of private stores for shared procurement and advertising.

Data Summary				
		For the year ended at (in NIS thousands)		
		31.12.2022	31.12.2021	31.12.2020
Number of franchise branches		2	2	5
Number of directly operated branches		77	75	63
Commercial space, gross		43,988	42,400	32,871
Human Capital	Branches	939	962	845
	Other	71	67	53
Results of Operations				
Segmental income		1,950,372	1,779,970	1,545,721
Rent – fixed expenses (*)		39,195	14,563	12,675
Capital investment, renovation, and construction of new branches		5,949	13,499	7,602
Total salary costs attributed to retail operations employees (including contract worker expenses)		166,264	165,296	138,793
Advertising expenses		35,913	37,599	33,427
Depreciation expenses (*)		51,417	45,368	37,436
Segmental income		81,949	87,610	81,993
Operational working capital (**)		(107,232)	(171,483)	(278,432)
Redemption and sales data				
Change in income from same store sales (%)		(6.3%)	(2.1%)	20.1%

(*) After applying IFRS 16.

(**) Inventory balance and trade receivable balance, less trade payables balance.

8.2.2 Changes in the Volume and Profitability of the Activity in the Field

The Group does not have official data regarding the breakdown of the retail sales market as at the reporting date. Nevertheless, the Group assesses that the breakdown of retails sales in the industry is as follows: 50% marketing chains, 27% private stores, 10% food and DIY chains, and 12% internet-based marketing.[11]

The electrical consumer products industry is highly competitive and is characterised by a large number of suppliers, products and product models, and marketers. There is a continuous trend in this industry of improving and upgrading existing products as well as putting new products on the shelves alongside a trend toward reducing prices of existing products. Additionally, this industry is characterised by frequent changes in technology and innovation, and thus, in order to keep up with the competition, marketers must offer their clients an up to-date line of products.

For data on same store sales (sales by same stores that operated fully throughout the year and during the parallel period of the previous year) in this field, see Section 4.5(2) to the board of directors report.

For data regarding sales per square metre in this field of activity in same stores (regarding the entire area of these branches, including office space and storage space at these branches but not including Company office space), see Section 4.5(2) to the board of directors report.

8.2.3 Critical Success Factors in the Field

There are a number of observable critical success factors that affect the Group's operations and status in the Group's field of activities, including: [A] a broad spectrum of high-quality products at very competitive prices; [B] attractive locations throughout the country; [C] marketing abilities and in-depth understanding of customer needs; [D] the ability to purchase from a good number of various suppliers under competitive trade conditions; [E] a high level of service; [F] financial stability; [G] investment in advertising; [H] a high level of availability

[11] As noted above, the above numbers do not rely on any official data.

in supplying products and rapid response to customer demand; and [I] marketing distinction – import of Electra and Elco brand large home and entertainment appliances.

In 2021, the Company executed an amendment to the licence agreement dated 20 December 2018 that had been executed between it and the Israel Airports Authority whereby Shekem Duty had been granted a licence to operate stores in the Ben-Gurion Airport to sell electronic products. According to the amendment, Shekem Duty will pay reduced licence fees compared to the original agreement for the duration of the recovery period established in the amendment (for recovery from the Covid-19 pandemic), ending at the end of the contract year preceding the contract year during which the annual cumulative departure traffic reaches a total of 10 million travellers. The reduced payment will change incrementally according to the quantity of travellers at the Ben-Gurion Airport. The amendment is in effect until 31 December 2026. As of January 2022, there has been an ongoing exchange of letters between the parties regarding the licence fee amount that the IAA claims it is owed. The parties are discussing the question of whether the IAA has the legal right to charge licensing fees that are not in accordance with the above amendment. We note that the success of the store's operations in the duty-free complex depends on the existence of the agreements that were executed with the Israel Airports Authority.

8.2.4 See Section 8.12 to Part A to the report for details about the network of suppliers in this field of activity.

8.2.5 **Primary Blocks to Entry to and Exit from the Field of Activity**

The primary blocks to entry in this field of activity are: [A] placement in strategic locations; [B] large investment in brand building; and [C] financial stability for financing operations.

The primary exit barriers in this field of activity are long-term commitments to rental agreements and the sale of inventories.

8.2.6 See Section 8.7 to Part A to the report for details about the competition structure in the field of activity.

8.3 Products and Services

8.3.1 The Group markets electrical consumer products for home use in the marketing chains that it owns, both products that it imports (see Section 7 to Part A to the report) as well as products purchased from other suppliers. (See Section 8.12 to Part A to the report.)Such products are divided into five primary groupings:

8.3.1.1 Climate control systems (air conditioners and heating systems) and large home appliances – see Sections 7.4.1 and 7.4.2 to Part A to the report.

8.3.1.2 Home entertainment devices – see Section 7.4.3 to Part A to the report.

8.3.1.3 Small appliances – see Section 7.4.4 to Part A to the report.

8.3.1.4 Electronic products – that include, inter alia, cellular telephone devices and accessories, tablets, mobile computers, printers, memory cards, scanners, burners, internet cameras and digital cameras (including cellular devices, tablets, and other cellular equipment imported by the Company), drones, PlayStation, motorised devices, and gaming accessories.

8.3.1.5 A wide variety on its website – including, inter alia, gardening products, sports products, toys, furniture, grills, carpets, baby products, swimming pools, lighting, etc.

8.3.2 For the most part, large products (“customer home delivery” products) are directly delivered from the relevant warehouse to the home of the end consumer by the importer or the chain. Small products ("pay and go" products) are distributed by suppliers to branches and from there, are collected by the end consumer. Ecommerce products are all delivered to the customer's home.

8.4 Breakdown of Income and Profitability of Products and Services

For details about the breakdown of income and profitability of the Group’s products and services, see Section 12 to Part A to the report.

8.5 Customers

The Group's customers in this field of activity are occasional customers who come to the Group's marketing chains with the goal of purchasing electrical consumer products. They cannot be attributed to socioeconomic and/or geographical groups. These customers are extended credit as is common in the industry -up to thirty-six (36) months by credit card.[12]

Whereas the marketing of these products is in the framework of retail operations aimed at a broad audience, the Group does not have material customers in this field, and the Group is not dependent on a specific customer or any group of customers.

8.6 Marketing and Distribution

8.6.1 The Group markets electrical consumer products occasional customers through 77 Mahsanei Hashmal and Shekem Electric stores (of which eight are "store operation" models), as set forth in Section 8.1 to Part A to the report, and through two franchisees spread out throughout Israel as well as by means of two ecommerce websites.

8.6.2 Sales promotion is accomplished using diverse in-store displays, professional salespeople and store manager services, periodic sales that include product discounts, convenient credit terms, gifts, and promotional and sales advertising through various media, including the two ecommerce websites and personally tailored digital advertising.

8.6.3 The Group is in the practice of engaging with worker organisations, such as "Hever," "Police Funds," and the "Teachers Union," as well as in collaboration agreements with customer loyalty clubs, etc., in time-limited agreements that renew from time to time, for the provision of benefits to their members.

8.6.4 Furthermore, the Company has engaged with entities that issue shopping vouchers for the purchase of products in the Group's chains in order to increase the volume of customers and sales.

8.6.5 See Section 14.2 to Part A to the report for details about ecommerce websites.

8.7 Competition

8.7.1 In the Israeli electrical consumer products marketing industry, there is a large number of chains and private points-of-sale. (The Company assesses that there are more than 2,000 points-of-sale.) For a number of years, there has been fierce competition in the industry over market share, causing an erosion in product prices.

The spectrum of industry competitors includes: [A] specialty electrical products stores such as Shekem Electric and Mahsanei Hashmal (belonging to the Group), Traklin Electric, A.L.M., Avi Super, Electro Kobi, Big Electric, and Ten Electric; [B] private specialty and neighbourhood stores; [C] food chains and "DIY" chains; [D] Israeli internet channels specialising in the sale of electrical products such as the Company's ecommerce websites as described in Section 14.2 to Part A to the report; [E] chains and stores and groups that specialise in electrical consumer products (such as Bug, KSP, Kravitz, Movie World); [F] cellular providers; and [G] concept stores or surplus stores owned by importers.

8.7.2 The Group assesses that there are a number of primary characteristics of the competition in this field of activity and factors that affect competition: [A] price – price is a significant parameter in a customer's preference considerations for a place of purchase. In this context we note: [1] there is a large number of competitors in the market; [2] direct sales through the internet and direct marketing channels take place at reduced prices; the Company assesses that the market share of electrical consumer product sales in Israel comes to 13%, and, according to global trends, that is expected to increase and grab larger market shares; and [3] consumers have the convenient option of comparing prices between a plethora of websites and stores in sales complexes that results in downward price pressure and erosion of profit for those operating in this field; [B] service – consumers attribute great importance to the level of service during and after the sale, the speed

[12] We note that customer credit days are calculated net of discount amount balances and credit card conversions.

with which the product is supplied, and instruction and efficient and professional installation. In this context, we note that meeting changing demand requires availability of inventories at the right times; [C] technological innovation – results, on the one hand, in a wave of renewed consumption at appropriate price levels but on the other, in decreased prices on the part of suppliers and decreased demand on the part of customers with respect to existing products.

The Group deals with competition by operating electrical product chains that are variously placed (Shekem Electric, which is placed at mid-high, and Mahsanei Hashmal, which is pegged as a discount chain) in order to reach broad populations. The Group's chains sell quality products that provide solutions for different populations, from prices that are worthwhile for everyone and all the way up to luxury products. Similarly, the Group invests in improving sales skills and providing service through its salespeople in the Group's stores.

8.7.3 The Group assesses that its share of the various marketing chains market is 44%. Similarly, the Group assesses that its share of total sales of electrical consumer products through the various channels is 22%.[13]

8.8 Seasonality

The electrical consumer product retail chain industry is characterised by seasonality that affects this field of activity's quarterly results. The seasonality is a result of increased demand during the weeks preceding the Passover holiday and the months of November and December ("Black Friday" sales and end of year sales). The effect on quarterly sales changes from year to year corresponding to the dates on which the holidays fall. Additionally, seasonality in sales of electrical consumer products is affected by weather. Air conditioners are primarily sold during the summer (the second and third quarters), and heating products and laundry dryers are primarily sold during the winter months (the fourth and first quarters).

Below is a breakdown of the Group's sales turnover in this field of activity in 2021 and 2022:

	2022		**2021**	
	In NIS Thousands	**(In %)**	**In NIS Thousands**	**(In %)**
Q1	420,704	21%	423,504	24%
Q2	468,844	24%	395,436	22%
Q3	542,409	28%	471,375	26%
Q4	518,415	27%	489,655	28%
Total	**1,950,372**	**100%**	**1,779,970**	**100%**

8.9 Property, Plant, and Equipment, Land, and Facilities

8.9.1 Below are the branches that the Group rents in this field of activity as at 31 December 2022:

	No. of branches*	**Area (m2)****
Mahsanei Hashmal	50	32,681
Shekem Electric	19	6,809
Shekem Electric Duty	2	900
Total	**71**	**40,390**

(*) Not including the Baqa al-Gharbiyye, Sakhnin, Tira, Kafr Yasif, Kfar Qasim branches, which operate according to a "store operation" model.
(**) Said area includes the areas of the branches and storage space.

[13] We note that the Group's above assessments are based, *inter alia*, on data from reports by publicly traded companies that compete in the field and its assessments of market analysis as well as surveys that are distributed from time to time.

Property Type	Property, Plant, and Equipment, and Facilities					
	For the year ended at 31.12.2022			For the year ended at 31.12.2021		
	Commercial space, gross	Number of properties	Rental expenses	Commercial space, gross	Number of properties	Rental expenses
Active branches						
Not owned	43,988	77	39,195(*)	42,400	75	14,563 (*)
Other – not owned						
Offices	1,127	1	1,020	1,119	1	1,270

(*) After applying IFRS 16.

8.9.2 The Group rents the branches of the marketing chains that it owns from various landlords. (The Group does not have facilities that it owns.) The rental agreements, for the most part, taking into account the options to extend, are for the medium-long-term. Renewal dates in the agreements are spread over the course of a number of years, and therefore, changes in market lease conditions have an incremental impact on the Group's rental expenses. The Group has the option to extend the rental agreements for additional periods with respect to most of the branches. The rental terms for each branch are determined as part of the negotiations with the landlord. For the most part, the rental fees are determined as a percentage of the store revenues or as fixed rental fees (linked to the consumer price index), whichever is higher.

8.9.3 Below is a breakdown of the Group's points-of-sale (active branches) according to the remainder of the lease term as at 31 December 2022:

Remaining lease term (*)	Number of branches (**)	Area (m2) (***)
Up to one year	14	8,212
1-3 years	25	11,357
3-6 years	14	8,424
6-12 years	18	12,397
Total	**71**	**40,390**

(*) Assuming the exercise of all option periods pursuant to the agreements.
(**) Not including the Baqa al-Gharbiyye, Sakhnin, Tira, Tamra, Kafr Yasif, Kfar Qasim branches, which operate according to a "store operation" model.
(***) Said area includes the areas of the branches and storage space.

8.9.4 As of the reporting date, the Group does not operate any Shekem Electric or Mahsanei Hashmal branch where the related rental agreement's termination or nonrenewal is likely to have a material adverse impact on the Group's financial results.

8.9.5 For additional details with respect to property, plant, and equipment, land, and facilities, see Note 13 to the financial statements.

8.10 Intangible Assets

In this field of activity, the Group enjoys goodwill and other property whose amortised balance as at 31 December 2022 is NIS 189,751,000. For additional details, see Note 15 to the financial statements.

The Group has registered in Israel, inter alia, the following marks as trademarks that it uses in this field of activity: Shekem Electric and Mahsanei Hashmal.

The Group renews the registration of its marks from time to time according to the duration of their registration.

8.11 Human Capital

See Section 16 to Part A to the report for details about human capital.

8.12 Suppliers

In addition to the Group, which supplies the electrical consumer products that are sold by the marketing chains that it operates, there are additional suppliers to the Group's retail chains, the primary ones being: Newpan, Brimag, Samline, Ralco, BNZC, BTY Electronics, Hemilton, Sarig, Sunny, and the HY

Group. Additionally, the Group imports its private label products from overseas suppliers, including Vestel and Midea. Similarly, the Group makes purchases from parallel importers in order to improve its competitive ability and profitability.

The credit term that the Group obtains from its suppliers ranges between cash and 180 days.[14]

In light of the dynamic character and the seasonality effect, there is great importance to the availability of product inventories. The Group maintains an inventory of finished electrical consumer products in variable volumes according to product type, delivery time, and sales forecast. Similarly, inventory is affected by business opportunities. Inventory in this field of activity is maintained at chain stores and their warehouses. The Group permits the return and replacement of products in accordance with legal requirements.

The Group is not dependent on any supplier in this field of activity.

8.13 Restrictions and Oversight Applicable to the Field of Activity

For details about restrictions, statutes, standards, and special constraints that apply to the Group's operations, see Section 18 to Part A to the report.

8.14 Material Agreements

See Note 25D to the financial statements for details regarding material agreements in this field of activity.

8.15 Business Strategy and Targets and Development Forecast for the Coming Year

The Group's targets in the field of retail sales are increased market share through increased sales volume and increased profit with an emphasis on offering a wide variety of products manufactured by a large number of reputable manufacturers and on providing high-quality service. In order to achieve these goals, the Group does the following:

8.15.1 Development and expansion of its online platform – investment in the development and expansion of the online platform through the Company's ecommerce websites as set forth in Section 14.2 to Part A to the report.

8.15.2 Product variety – the sale of a wide variety of products, including a variety of goods outside of electronics (such as fitness, toys, home goods, garden and patio furniture, etc.), and the provision of a shopping experience for its customers, the operation of the "store within a store" model, which facilitates the display and sale of cellular devices in its stores.

8.15.3 The opening of new branches – the opening of new branches with prominent presence in high demand areas, commercial areas, and city centres.

8.15.4 Quality brand and importing in-house brands and brand exclusivity – preservation of the Mahsanei Hashmal and Shekem Electric brands as strong and leading brands as well as strengthening import and exclusive sale operations for the in-house Electra and Sensor brands for streamlining product availability, increasing sales, and improving profitability.

8.15.5 Digitisation – continued implementation of sales processes and upgrading of customer experience in its branches by use of digital tools. This is for improving the sale experience, increasing sales, and reducing branch operating costs.

8.15.6 Investment in advertising – continued investment in focused advertising for increasing public awareness of the Group's chains.

8.15.7 Breaking into additional markets – breaking into additional markets, inter alia, with the help of the development of the "store operation" model.

8.15.8 Customer service – providing customer service through all manner of media to the chains' customers.

[14] We note that supplier credit days are calculated net of credit card conversions.

8.15.9 Improved sales capabilities – investment in improving sales capabilities of salespeople for providing efficient, reliable, and better service.

8.15.10 Self-bonded – a transition to self-bonded storage for meeting high standards of rapid delivery to customers.

8.15.11 Increasing the offering of privately imported products.

We note that the Group's business strategy targets that appear in Section 8.15 to Part A to the report are forward-facing information, as defined in the Securities Law, and are based, inter alia, on the Company's assessments taking into account past experience, various assessments with respect to the condition of the Israeli market, and external factors that are not within the Group's control, such as the security situation in Israel. These assessments may not materialise, in whole or in part, or may materialise differently, even substantially differently, than expected as a result of a number of factors, including deterioration in the security or economic situation in Israel and/or as a result of the materialisation of some or all of the risk factors set forth in Section 25 to Part A to the report.

8.16 Risk Factors

See Section 25 to Part A to the report for details about the risk factors applicable to the Group's activities.

9. Third Field of Activity – Retail Food

9.1 General

[A] In the retail food segment, the Company operates the Bitan Wines Group. As of the reporting date, the Company is converting most of the Bitan Wines Group's stores into Carrefour stores.

Bitan Wines is a privately held company that incorporated in Israel on 28 August 1994 and was founded by Mr Nahum Bitan and Ms Nurit Bitan. Since it was founded, Bitan Wines has engaged in the field of retail food and operates a chain of stores for the retail sale of food products and other consumer products throughout Israel.

In February 2013, Bitan Wines acquired Zim A.R. Direct Marketing, Ltd., whose primary activity was retail food – managing stores under the previous brand name, Mahsanei Kimat Hinam.

In July 2016, Bitan Wines, through a wholly owned subsidiary – Bitan Bair, Ltd. (whose name was changed in May 2018 to Mega Bair Retail, Ltd.) – acquired all of the share equity in Mega Retail, Ltd. ("Mega"), which had been in the process of staying proceedings, from court-appointed trustees, giving it complete ownership and control of Mega.

[B] On 27 May 2021, the Company, through one of its subsidiaries, completed the acquisition of and investment in Bitan Wines's shares, thus gaining control of Bitan Wines, by acquiring 35.07% of its issued equity, fully diluted, and by appointment of most of the members of Bitan Wines's board of directors. Concurrent to the acquisition by the Company, companies from the Phoenix Group made an investment in exchange for the allocation of shares in Bitan Wines that constituted 15% of its share capital, fully diluted.[15] As of the reporting date, the Company is Bitan Wines's controlling shareholder.

On 30 March 2022, Bitan Wines entered into a series of agreements with Quik for the establishment of a partnership for purposes of carrying out online retail product and service operations.

On 3 April 2022, Bitan Wines engaged in an exclusive franchise agreement for the operation, in Israel, of Bitan Wines chain stores under the Carrefour brands, inter alia, Carrefour Hyper, Carrefour Market, Carrefour City, and Supeco, and Atacado, and for the exclusive use of the above brand names. Pursuant to the terms of the franchise agreement, Bitan Wines will rebrand most of the Bitan Wines stores and customise them to the Carrefour brands.

As of 31 December 2022, Bitan Wines has been operating 152 branches nationwide, with a total sales area of 115,000 m², and its operations primarily focus on neighbourhood stores that offer a variety of products customised to target audiences, spread out over the area of small and medium stores that provide solutions for consumers in terms of convenience, availability, freshness, service, and personal attention. The stores are primarily located in city centres under the Mega Bair, Bitan Market, Mehadrin Market, and Super brands.

The Bitan Wines Group is considered the fifth largest of the retail food chains currently operating in Israel.

Bitan Wines operates under the Bitan Wines, Mega Bair, Mehadrin Market, Mega Market, Bitan Market, and Super brands and operates three sales websites – Bitan Online, Mega Online, and Quik.

Bitan Wines's stores are spread over sales spaces of various sizes and offer consumers a wide variety of products using a "one-stop shop" concept: all food products; fruits and vegetables; toiletries; cleaning products; and a line of cookware, bakeware, and kitchen accessories. Bitan Wines places an emphasis on having a large and diverse product offering in its stores.

[C] In the retail food segment, the Company is also engaged in an exclusive franchise agreement with 7-Eleven Inc.. As of 31 December 2022, it has begun operating its first store under the

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[15] See Note 5A to the financial statements for additional details about the engagement.

7-Eleven brand in a scope that is immaterial to this field of activity and the Group's operations. Therefore, the data in this chapter are presented with 7-Eleven's operations.

9.2 Distribution of Branches

Geographic Distribution			
Region/City/State	Number of branches for the year ended at		
	31.12.2022	31.12.2021	31.12.2020
Centre	109	108	107
North	19	19	19
South	24	24	21
Total	152	151	147

9.3 General Information About the Field of Activity

9.3.1 Structure of and Changes to the Field of Activity

The retail food segment in Israel is characterised by high levels of competition. In the Israeli retail food market, there are a number of retail marketing chains, including Bitan Wines, that hold a dominant market share in the field of activity. Operating alongside these retail chains are supermarkets, grocery stores, convenience stores, open-air markets, and specialty stores, such as butcher shops, wine stores, delicatessens, organic food stores, etc.

In the last decade, the world has seen a clear trend toward the strengthening of food marketing chains, compared to grocery stores, mini-markets, and open-air stores, and as a result, we see consumer migration from purchasing at neighbourhood grocery stores to purchasing in marketing chains. We note that in recent years, some of the grocery stores and mini markets have turned into a "large private chain."

2022 was characterised by an increase in the trend toward higher inflation in Israel and around the world, which directly affected the rise in prices in the retail industry. Accordingly, Tnuva Cooperative Centre for the Marketing of Agricultural Produce in Israel, Ltd. ("Tnuva"), considered a material supplier to Bitan Wines, gave notice of an increase in unregulated prices. As of the reporting date, Bitan Wines is making significant efforts at stopping price increases by suppliers, taking into account the current rate of inflation, but Bitan Wines is unable to assess whether it will succeed in stopping price increases for any length of time.

As part of Bitan Wines handling of inflation in Israel and as part of Bitan Wines's engagement with Carrefour, as at 31 December 2022, approximately 100 products have been launched under the private label that dominate certain market shares in the Bitan Wines Group. Thus, Carrefour brands are offered that are produced at European standards.

Over the course of the last few years, marketing chains have begun to offer their products through alternative marketing channels, such as telephone orders and internet orders, including delivery to the customer's home, and there has been growth in the variety of products and brands offered by retail marketing chains. As noted above, Bitan Wines entered into a series of agreements with Quik for the establishment of a partnership for purposes of carrying out online retail product and service operations. See Section 9.11.3 to Part A to the report for details.

Data Summary				
		For the year ended at (in NIS thousands)		
		31.12.2022	31.12.2021 (pro forma)	31.12.2020 (pro forma)
Number of directly operated branches		152	151	147
Commercial space, gross		174,385	175,478	171,047
Commercial space, net		115,010	115,739	113,362
Human Capital	Branches	3,380	3,584	4,286
	Other	77	77	80
Results of Operations				
Income	Directly operated	2,825,530	2,937,746	3,545,228
	Other income	15,708	16,155	48,298

Data Summary			
	For the year ended at (in NIS thousands)		
	31.12.2022	31.12.2021 (pro forma)	31.12.2020 (pro forma)
Rent – fixed expenses (*)	15,151	18,738	23,016
Capital investment, renovation, and building new branches	59,613	16,530	8,118
Total salary costs attributed to retail operations employees (including contract worker expenses)	414,607	406,810	498,996
Advertising expenses	19,297	17,084	12,717
Depreciation expenses (*)	187,647	163,591	196,233
Segmental income (loss)	46,482	136,043	186,725
Operational working capital (**)	384,736	(433,601)	(433,119)
Redemption and sales data			
Change in income from same store sales (%)	(4.32)	(9.63)	1.35

(*) After applying IFRS 16.

(**) Inventory balance and trade receivable balance, less trade payables balance.

9.3.2 Restrictions, Statutes, Standards, and Special Constraints That Apply to the Field of Activities

For details about restrictions, statutes, and special constraints that apply to Bitan Wines's operations, see Section 9.10 to Part A to the report.

9.3.3 Changes in the Volume and Profitability of the Activity in the Field

The size of the retail food market in Israel in 2022 was approximately NIS 72-77 billion, constituting an increase of 2.7% compared to 2021. In 2022, food prices saw an increase of 4.9% in the consumer price index for food (not including fruits and vegetables) as well as an increase of 3.1% in the fruit and vegetable price index, where in 2021, food prices saw an increase of 3.5% in the consumer price index (not including fruits and vegetables) but a decrease of 2% in the fruits and vegetables price index.

During the third quarter of 2022, Bitan Wines carried out a streamlining and reorganisation plan that included accelerating the conversion of the Bitan Wines Group's stores to Carrefour with the goal of improving the Bitan Wines Group's abilities to meet strategic business targets. See Section 9.11.1 to Part A to the report for details about the above streamlining plan.

9.3.4 Developments in the Field of Activity's Market or Changes in Its Customer Characteristics

The retail food field has seen crises throughout the years with the collapse of a number of large chains. Expansion by means of acquisition of branches allows for immediate growth in sales turnovers and bargaining power vis-à-vis the suppliers by lowering procurement costs through discounts in certain cases as well as improvement of terms vis-à-vis property lessors. Looking across the industry, mergers and acquisitions reinforce these chains and slow down the increase in commercial space thus reducing competition in an industry where internal growth potential is limited.[16]

Similarly, as a result of increased consumer awareness in Israel, there has been a clear change in recent years in consumer practices and preferences, affecting both the composition of the shopping basket as well as sales channels and the provision of services, including a preference for more healthy products and purchase convenience, including online. Demographic changes present the retail food sector with new challenges and the need for developing new products and new retail formats.

Technological developments in the retail food field continue to increase, and innovative technologies have picked up the gauntlet in providing digital solutions for customising products to consumers.

[16] See, "The Retail Food Industry in Israel, a Special Report," from October 2020.

Over the course of last year, the largest manufacturers and importers of food products, pharmaceuticals, and cleaning products in the market have begun to raise the prices of hundreds of products by high amounts in order to deal with the leap in shipping costs, the prices of certain raw materials, and changes in tax practices. As a result, many consumers are willing to give up leading brand products in the market in favour of off brand substitutes. That fact has had a positive effect on the importation into and the entry of Carrefour brand products, which are quality products made at European standards. As at 31 December 2022, approximately 100 products have been launched and orders have been placed for approximately 500 more that are intended to be sold at stores that are to be converted to Carrefour stores as well as at the Bitan Wines Group's other stores. See Section 9.8 to Part A to the report for details about the competition in the field of retail food.

9.3.5 **Technological Changes That Could Materially Affect the Field of Activity**

Increasing consumer use of digital tools is changing the face of the retail industry and redefining consumer habits. In recent years, innovative technologies have been developed for the retail industry, and technologies that have matured are being assimilated into the fabric between physical stores and the digital realm, creating a synergy between these two realms that is beneficial to both.

Bitan Wines's engagement with Quik allows Bitan Wines to take advantage of the benefits of the sales website developed by Quik, in addition to the existing Bitan Wines online orders website and app, which offer sales and personal coupons to customers. See Section 9.11.3 to Part A to the report for details about the Quik transaction.

9.3.6 **Critical Success Factors in the Field of Activity and Applicable Changes**

There are a number of observable critical success factors that in Bitan Wines's operations that affect its operations and status, including: [A] the offering of a wide variety of products – one stop shop – the ability to offer a wide variety of products that are tailored to consumers' different needs, at competitive prices, makes it possible to target an extensive customer base from all segments of the population; [B] store location – Bitan Wines has high-quality locations and is working to improve and convert stores and upgrade the customer experience as part of the conversion to the Carrefour brand. Similarly, as part of its current operations, Bitan Wines is constantly examining options to open new stores; [C] attractive prices – the offering of a variety of Carrefour products, high-quality products, in a wide variety and with attractive prices; [D] the tailoring of stores to a variety of target audiences – Bitan Wines has the ability to target many and diverse target audiences (such as frugal consumers, experience-based consumers, service-based consumers, kashrut-based consumers, etc.); and [E] diversified sales channels – the Bitan Wines Group has launched and operates an online sales network for its customers through internet websites and applications that operate in parallel to brick-and-mortar stores.

The Company expects that the engagement between Bitan Wines and Carrefour and the completion of the conversion of the Bitan Wines Group's stores to the Carrefour brand, as well as the use of that name, will have a future impact on the operations and status of Bitan Wines, inter alia, due to the following factors: [A] the sale of Carrefour brand products and their quality – Carrefour brand products are made at European standards, at high-quality and at attractive prices; [B] the existence of a franchise to market a quality brand – Bitan Wines entered into an exclusive franchise agreement in Israel that grants access to the full Carrefour product catalogue; and [C] brand reputation and quality – the Carrefour stores' brand is considered a well-known, quality European brand. (Carrefour is the second largest retail food chain in Europe.)The Company assesses that the fact that Bitan Wines holds an exclusive franchise from Carrefour that encompasses all relevant operations for the import, distribution, marketing, and sale of Carrefour products in Israel contributes to strengthening Bitan Wines's reputation, know-how, and work methodology as well as its procurement capability compared to its competitors in this field of activity.

The Company’s assessments with respect to the effect of the engagement with Carrefour on its success are forward-facing information, as defined in the Securities Law, and are based, inter alia, on the Company's assessments taking into account past experience, various assessments with respect to the condition of the Israeli market, and external factors that are not within the Group's control. These assessments may not materialise, in whole or in part, or may materialise differently, even substantially differently, than expected as a result of a number of factors and as

a result of the materialisation of some or all of the risk factors set forth in Section 25 to Part A to the report.

9.3.7 **Changes in the Supplier Network and Raw Materials in the Field of Activity**

In 2014, the Food Law - which includes, inter alia, provisions for the regulation of operations and for increased regulation of the relationship between retailers and suppliers - was published in Israel's Official Gazette. See Section 9.15 to Part A to the report for further details about the raw materials and suppliers in Bitan Wines's field of activity.

As noted above, Bitan Wines engaged in a franchise agreement for the operation, in Israel, of Bitan Wines chain stores under the Carrefour brands, inter alia, Carrefour Hyper, Carrefour Market, Carrefour City, and Supeco, and Atacado and for the exclusive use of the above brand names. The franchise agreement enables Bitan Wines to purchase and market Carrefour's products under Carrefour brands in Israel as well as allows Bitan Wines to produce some of the products in Israel under Carrefour brands.

Bitan Wines regularly implements processes for locating new suppliers from time to time, assessing existing suppliers, and conducting quality assurance for the products with which they supply it with the goal of improving the prices of the products that it sells.

The importation of Carrefour products, which are high-quality and have attractive prices, will contribute, according to Bitan Wines's assessment, to consumer ability to purchase parallel products at fair prices as well as lower the cost of the shopping trolley with the goal of battling the cost of living in Israel. See Section 9.11.1 to Part A to the report for details.

9.3.8 **Primary Blocks to Entry to and Exit from the Field of Activity and Applicable Changes**

The size of the food market in Israel is limited, and competition in the retail food sector is high. The ability to offer competitive prices and a value proposition to the customer primarily derives from the retail chain's experience, longevity, reputation, the geographic reach of the chain's branches, its commercial capabilities vis-à-vis suppliers, the ability to adapt to trends that take place in the retail industry - including demographic changes and behavioural changes and preferences among consumers - and the increased use of new technological tools, the lack of which constitutes an entry barrier to Bitan Wines's field of activity. Additionally, online commerce has become an additional service and growth engine in parallel to brick-and-mortar stores and involves operations and logistics investments and challenges.

Establishment of a marketing chain or the transition from local operations to operations as a regional or national chain requires finding new locations, acquiring stores from competing chains, significant investment in stores, and training staff.

The long-term franchise agreement executed by Bitan Wines with Carrefour, the long-term rental agreements entered into by the Bitan Wines Group, investments made in the Bitan Wines Group's stores, and the conversion of these stores as part of the franchise, as well as the impact of the entry of competitors on stores in the Bitan Wines environment – can be considered barriers to exit from the retail food sector.

9.3.9 **Product Substitutes in this Field of Activities and Applicable Changes**

In the food market, thousands of products are sold for most of which, there are different kinds of substitutes. Increased product varieties and the import of foreign brands increase the offering of substitute products. Increased awareness and sensitivity to price has indeed resulted in consumers switching from expensive brands to less expensive alternative brands. Whereas most of the products sold in stores can also be purchased in competing chains, in the event of a prolonged cessation in the supply of a particular branded product, Bitan Wines Group customers who are loyal to that brand are likely to shop in a competitive chain.

We note that with the entry of Carrefour products as part of the agreement with Carrefour, Carrefour brand products are likely to be an alternative to competing chains' private label brands and even to leading brands in light of the quality of these products and the fact that the brand is known to customers.

9.3.10 **Structure of the Competition and Applicable Changes**

See Section 9.8 to Part A to the report for details about the structure of the competition in this field of activity and the applicable changes.

9.4 Products and Services

The Bitan Wines Group's stores offer consumers a wide variety of products: all manner of food products; fruits and vegetables; pharmaceuticals; cleaning products; products for the home; textiles; and leisure products.

The Bitan Wines Group places special emphasis on the large and diverse offering in its stores' fresh product departments, such as its bakeries, dairy counters, and delicatessens that, which sell a wide variety of fresh products, such as breads and baked goods that are baked on premises, a wide variety of sausages and cheeses, and meat and fish products that are sectioned and packaged on site.

The Carrefour Brand

As part of the franchise agreement executed between Bitan Wines and Carrefour, the Bitan Wines Group markets food products and non-food products that are part of the Carrefour brand, quality products at European standards. Bitan Wines has committed to refrain from purchasing and/or marketing private labels other than Carrefour brand products.

As at 31 December 2022, approximately 100 products have been launched, and orders have been placed for approximately 500 more, which are intended to be sold at stores that are to be converted to Carrefour stores as well as at the Bitan Wines Group's other stores.

9.5 Breakdown of Income and Profitability of Products and Services (*)

Breakdown of product income in NIS Thousands					
Very substantial product group	2022		2021 (pro forma)		Percent increase (decrease) in income
	Income	Income tax rate (%)	Income	Income tax rate (%) (**)	
Grocery store	696,163	11.15%	721,385	12.23%	(3.5%)

(*) According to Bitan Wines's managerial reports, the gross profitability in the departments that comprise this product group is similar to Bitan Wines's average profitability.

(**) The percentage of total income is calculated on the basis of the company's consolidated pro forma report as at 31 December 2021.

9.6 Customers

The Bitan Wines Group sells its products to all populations in Israel. In the assessment of Bitan Wines, its customers do not have a particular set of characteristics.

Bitan Wines assesses that most of its customers are repeat customers and not one-time customers. Bitan Wines operates grocery stores that are tailored to consumers' different needs and thus, facilitates targeting a broad clientele from all strata of the population. We note in this context that one can place an order for home delivery of products through ecommerce sites: Bitan Online, Mega Online, and Quik. Pursuant to Bitan Wines's engagement with Quik as set forth in Section 9.11.3 to Part A to the report, Quik operates the collection and sale operations for the products sold at the Bitan Wines Group's stores where the gathering of products takes place, including private label Carrefour products and other imported products. Bitan Wines assesses that because of the diversity of its customers, it is not dependent on any of them in particular. Similarly, Bitan Wines assesses that it does not have a substantial customer.

9.7 Marketing and Distribution

9.7.1 Products sold at the Bitan Wines Group's stores are priced according to a price schedule that is based on the procurement price and commercial terms with its suppliers. The consumer price is primarily affected by local competition. Bitan Wines periodically holds limited-time sales for specific products in order to promote sales of a specific product or a particular store in the chain.

9.7.2 Bitan Wines works to market and distribute its products in its stores through marketing and building various brands, including through advertising as well as offering discounts, dedicated pricing for the promotion of products or a particular group of products, and maintaining a competitive price level aimed at ensuring perpetual growth in sales volume.

9.7.3 Pursuant to the franchise agreement with Carrefour, Bitan Wines will not purchase and/or market any private label other than Carrefour.

9.7.4 Shopping vouchers – the Bitan Wines Group also promotes its sales, inter alia, by selling shopping vouchers to consumers via various platforms. Most shopping vouchers are sold to different organisations that purchase these vouchers as holiday gifts for employees before Passover and the High Holidays.

9.7.5 Sales promotion and advertising – the Bitan Wines Group advertises its marketing operations primarily through brochures that are distributed to its customer base in stores, on the internet, and by email, SMS messages, direct mail, printed press, television, radio, and public relations.

9.7.6 **Online sales -**

The Bitan Wines Group operates three sales websites – Bitan Online, Mega Online, and Quik.

The online ecommerce site and app – the Bitan Wines Group intends to launch an online ecommerce site and app that will combine all of its existing online ordering sites and apps and will be operated by Quik.

The Company's above-described assessments with respect to the establishment of an online app and ecommerce site are forward-facing information, as defined in the Securities Law, and are based, inter alia, on the Company's assessments taking into account the Company's business plan. These assessments may not materialise, in whole or in part, or may materialise differently, even substantially differently, than expected as a result of a number of factors as a result of the materialisation of some or all of the risk factors set forth in Section 25 to Part A to the report.

9.7.7 **Loyalty clubs -**

As at the reporting date, Bitan Wines operates two customer loyalty clubs.

In Bitan Wines and Mehadrin Market stores, the chain operates the Family365 club whose card is issued by Cal. Pursuant to the divestiture agreement with Mashbir 365, Ltd., the club and Bitan Wines are required to provide cashback benefits to customers of 365 for a period of nine months following the date of the notice to customers of Bitan Wines's separation from 365. (See Section 9.11.2 to Part A to the report.)

In Mega stores, the chain operates the Daily+ club (owned by Bitan Finance, Ltd.), whose card is issued by Isracard. We note that notice has been provided to the club's clients regarding the change in the club's operating format.

As at 31 December 2022, both customer loyalty clubs collectively boast approximately 200,000 customers.

For details about the Company's engagement with Cal and Bank Hapoalim, Ltd., for collaboration in connection with operation of a customer loyalty club based on a non-bank credit card issued by Cal for customers of Bit and customers of the Company's retail chains, see Section 9.11.2 to Part A to the report.

9.8 Competition

The retail food segment in Israel is characterised by high levels of competition. Bitan Wines is categorised as an urban chain, distributed widely in cities.

Bitan Wines competes with large marketing chains, such as Shufersal Ltd., Tiv Taam Chains, Ltd., Freshmarket, Ltd., Rami Levy Shivuk Hashikma 2006, Ltd., Victory Supermarket Chain, Ltd., Merav-Mazon Kol, Ltd. M. Yohananof and Sons (1988), Ltd., Kol Bo Hazi Hinam, Ltd., as well as regional chains, neighbourhood groceries, open- air markets, and specialty stores.

The primary methods that the Bitan Wines Group uses for dealing with competition are: regular surveys of product prices among competitors and pricing products at the Group's stores competitively compared to the prices offered by competitors adjacent to the Bitan Wines Group's stores; tailoring the variety of its products to a desirable composition for sales and profit; efficient and focused marketing; maintaining relatively low operating costs; ensuring quality service to customers and store cleanliness; ensuring a rich and quality variety of products at stores and offering attractive sales; and endeavouring to improve commercial terms with suppliers.

The Bitan Wines Group assesses that as at 31 December 2022, its share of the retail food market in Israel is 4.5%.

Among the other possible factors that adversely affect or are likely to adversely affect the Bitan Wines Group's competitive position are: mergers of retail marketing chains; the opening of stores by competing chains in city centres; the entry of new competitors into the retail food market; dealing with chains that operate on the Sabbath; limitations on the Bitan Wines Group's ability to acquire various operations or open new stores in certain regions that are likely to require the approval of the Director General of the Israel Competition Authority; as well as restrictions resulting from various provisions of law relevant to Bitan Wines's operations. Similarly, the Company assesses that in light of the entry of Carrefour products, Bitan Wines will face competition from the owners of private labels.

After completion of the conversion of most of the Bitan Wines Group's stores to Carrefour, to the extent that they are converted, the Bitan Wines Group intends to operate in three formats: Carrefour City (a chain of neighbourhood stores that are located close to residential centres), Carrefour Market (stores that offer a wide variety of products, including service departments with self-manufacturing), and Carrefour Hyper (stores that offer an enormous variety of products, a significant portion of which is dedicated to non-food products). This process is expected to increase competition with chains offering different formats, whether in or outside of city centres.

As noted in Section 9.10.3 to Part A to the report, the Food Law, the objective of which is increasing competition in the food and consumer products sector, includes, inter alia, arrangements for increasing competition in geographical regions, regulation of the activities of suppliers and retailers, and price transparency, which are likely to affect the level of competition in the sector.

9.9 Seasonality

The scope of Bitan Wines's sales is affected by seasonality due to the level of consumption in the economy immediately adjacent to the holiday seasons in Israel. Because of said contradictory trends and because of the fact that these holidays occur in different quarters each year, it is impossible to clearly characterise the impact of the High Holidays or Passover on Bitan Wines's sales and earnings. Additionally, Bitan Wines's earnings are affected by seasonality due to increased energy expenses during the summer months.

Below is the breakdown of Bitan Wines's income in this field of activity by quarter for 2021 and 2022:

	2022		2021 (pro forma)	
	Total income (in NIS Millions)	% of total revenues in 2022	Total income (in NIS Millions)	% of total revenues in 2021
Q1	688,415	24.23%	734,429	24.086%
Q2	711,799	25.05%	760,587	25.75%
Q3	737,869	25.97%	755,530	25.58%
Q4	703,155	24.75%	703,355	23.81%

9.10 Restrictions and Oversight Applicable to Bitan Wines's Operations

Bitan Wines's operations are subject to various laws and regulatory orders, the most unique of which to this field of activity are those relating to sanitation, consumer protection laws, antitrust/competition, and labour law. The most material consumer laws (including the regulations that have been promulgated thereunder) affecting Bitan Wines's operations are the Defective Product Liability Law, 5770-1980; the Consumer Protection Law, 5741-1981 (including with respect to the prohibition against misleading consumers, product labelling and displaying prices, and transaction cancellation); the Communications Law (Bezeq and Broadcasts), 5742-1982, in connection with Bitan Wines's direct mail efforts; the Product and Service Prices Oversight Law, 5756-1996; the Privacy Protection Law, 5741-1981; and the Equal Opportunity for Persons with Disabilities Law, 5758-1998. As to the most material labour laws, we note the Contract Worker Employment Law as well as the Increased Enforcement Law and the Minimum Wage Law because of the fact that some of Bitan Wines's employees' salaries are at minimum wage and another portion is employed in full-time positions that are affected by the minimum wage. In the field of retail food chains, the Food Law and the rulings and actions by the Director General of the Israel Competition Authority pursuant to the Economic Competition Law, 5748-1988, are likely to affect Bitan Wines's operations both in the purchase of stores or other operations as well as with respect to procurement, sale, and marketing methods.

To the best of the Company's knowledge, as a rule, Bitan Wines is in compliance with the different statutory requirements and provisions and standards that apply to it or is working toward being in compliance.

9.10.1 Business licence – the operation of each branch requires, by law, obtaining a business licence. Bitan Wines is required to renew its business licences once per period pursuant to statute or applicable changes. To emphasise, according to common practice in Israel, a business licence is primarily received only after months have passed following the opening of the store due to the fact that the oversight authorities that are involved in the licensing process seek to examine how the store is actually operated before granting the approvals required for obtaining the business licence.

As of the reporting date, Bitan Wines has been in contact with the relevant authorities, including local government authorities and fire suppression authorities, for purposes of obtaining business licences and/or renewing expired business licences. Said stores operate on a regular basis.

9.10.2 <u>The Public Health Protection (Food) Law, 5776-2015 (the "Public Health Law")</u> – this law, which replaced the Public Health (Food) Ordinance [New Version], 5743-1983, is intended, inter alia, to regulate the liability of food manufacturers, importers and marketers and their responsibilities at every single stage of the transfer of food, from when it is produced, through importation, and until the place of sale to the consumer. The law also sets criteria for the quality, integrity, and safety of food in Israel by means of oversight based on risk management for the implementation of regulatory principles as established by law.

The Public Health Law establishes criminal sanctions and administrative enforcement (financial penalties) with respect to parties in violation of the provisions thereof. As of the reporting date, Bitan Wines is working to obtain manufacturing licences for a number of its branches.

9.10.3 <u>The Food Law</u> – became effective on 27 March 2014. The law is intended to promote competition in the food and consumer product industry for the reduction of prices and establishes criminal and administrative penalties (fines) for violations of its provisions. The law addresses, inter alia, three facets:

Supplier and retailer operations – the law prohibits suppliers from intervening with retailers with respect to the price that retailers charge consumers for products that other suppliers supply or with respect to the terms at which retailers sell products to consumers that other suppliers supply. The law prohibits retailers from intervening in the prices or terms at which suppliers sell to other retailers and prohibits large suppliers (as defined by law) from engaging in arranging products in large retailers' stores (Bitan Wines is a large retailer). It also prohibits large retailers from reaching arrangements with large suppliers with respect to the arrangement of products in their stores. With that, rules were established that if met, large suppliers and large retailers may reach placement arrangements for large retailers' stores on condition that the large retailers regularly oversee that the large suppliers arrange the products pursuant to those rules. Additionally, according to the law, large suppliers will not dictate, recommend, or intervene, and large retailers will not be parties to arrangements with large suppliers, as to the consumer price charged by retailers for products supplied by suppliers; as to the allocation of sales space in any amount for products supplied by suppliers; as to the purchase of products that suppliers supply in any amount out of retailers' total purchase of products and alternative products; as to the purchase or sale of products that other suppliers supply to retailers, including quantities and purchase targets; and as to the sale space allocated to them in a store; or as to any other commercial term. Nevertheless, in these matters as well, rules have been enacted for allowing an exemption from the prohibitions upon meeting various conditions that are codified in those rules. The law further prohibits large retailers from being parties to arrangements with large suppliers that result in prohibited pricing (as defined in the law) and large suppliers from conditioning the sale of any of their products to retailers on the purchase of other products from those large suppliers.

An additional prohibition in the law establishes that suppliers shall not transfer payment to large retailers in money or a money equivalent (other than by lowering the price for a product unit) and large retailers shall not receive such payments. It should be noted, on the other hand, that alongside these provisions of the law, there are a variety of provisions based on secondary legislation, including various accommodations and exemptions such as the Promotion of Competition in the Food Industry Rules (Exemption for Actions and Arrangements Regarding Consumer Pricing) (Temporary Provision), 5775-2014.

Competition in geographical regions – in the network of provisions regarding geographical retailer competition (which took effect immediately upon publication of the Food Law), regulation was enacted for purposes of promoting and ensuring competition in retail food marketing at the regional level. The Director General of the Israel Competition Authority will define, regarding every large retailer's large store, the demand area for that store and the group of large retailer stores with respect to which there is overlap between the population in their demand areas and the population in the demand area of the large store. The Director General, at least once every two years, will provide notice to large retailers regarding demand areas of their large stores for which the calculated rate exceeds 30% (i.e., the total sales of the large retailer's stores in the demand area exceeds 30% of the total sales of the large stores of all of the retailers in the demand area) as well as with respect to areas where the calculated rate exceeds 50%. In those areas, those large retailers will be prohibited from opening new stores without approval from the Director General of the Israel Competition Authority and must comply with the terms of the specific approval. The Director General of the Israel Competition Authority shall not approve an application for opening a store with respect to a demand area where the calculated rate exceeds 30% unless he/she finds that there is no reasonable concern that opening the store will result in harm to competition. In the event that the Director General finds that the calculated rate for that retailer in the demand area exceeds 50%, the Director General shall not approve the opening of an additional large store in the demand area relevant to that store unless he/she finds that it is nearly certain that opening that store will not result in harm to competition. Similarly, the law prohibits the large retailer – that has received notice from the Director General of the Israel Competition Authority that its calculated percentage for a particular demand area exceeds 30% – from entering into an arrangement the subject, purpose, or result of which is restricting other retailers from entering into a contract over a real estate transaction (including purchase, sale, or rental) or from constructing a large store or from engaging in any competitive activity in the food industry in the demand area of that large retailer's store.

Price transparency – the law establishes regulation for increasing the transparency of product prices by requiring large retailers to publicly publish, in a computer language file, on the internet (with respect to each of their stores), the total updated price of every product that they sell in their stores (not later than one hour following the update in the store's registers or as established by regulation). The purpose of the above is the facilitation of timely ongoing comparison of the prices of products and product shopping baskets at its stores and the stores of other large retailers. The publication must include any information required for comparing prices, including a list of the prices of the products that are generally sold at the store or during a fixed period of time during the year and were in the store's inventory immediately prior to publication, prices of products (including prices for different types of consumers), and any special sale, including sales and discounts, including their terms and expiration dates.

9.10.4 <u>Licences, permits, and approvals required for import</u> – Bitan Wines imports various products into Israel, such as food, pharmaceutical products, cleaning products, as well as products for the home whether directly on its own or whether through its subcontractors. For purposes of those operations, Bitan Wines must obtain licences, permits, and approvals for importing products, inter alia, pursuant to the provisions of the Public Health Law (Food) (see Section 9.10.2 above), the Import and Export Ordinance [New Version], 5739-1979, and the Oversight of Products and Services Order (Cosmetics), 5733-1973, etc.. Bitan Wines is in the process of obtaining such licences.

9.10.5 <u>The Defective Product Liability Law, 5740-1980</u> – establishes Bitan Wines's liability in the event that it is not possible to identify the manufacturer and/or the importer. Bitan Wines ensures that brand manufacturers indicate their names and addresses on their products.

9.10.6 <u>The Consumer Protection Law, 5741-1981 and the regulations promulgated thereunder</u> – establishes various provisions relating directly to Bitan Wines's operations in the retail food sector, covering such topics as prohibiting misleading consumers, labelling goods, and displaying prices. Bitan Wines ensures compliance with the provisions of the law at its stores.

Due to the fact that Bitan Wines is increasing its operations in the importation of products into Israel because of its commercial relationship with Carrefour, Bitan Wines is required to ensure that the goods that are imported and sold are properly labelled, inter alia, pursuant to the Consumer Protection Order (Labelling of Goods), 5743-1983, as well as the Consumer Protection Order (Labelling and Packaging of Food Products), 5759-1998.

Recently, provisions of the Consumer Protection Law that deal with the "do not call" database have taken effect. As of 1 January 2023, other than certain exceptions, marketing calls may not be made to mobile or landline telephone numbers of those citizens who have registered in the "do not call" database. Dealers who wish to contact consumers must first check whether those telephone numbers are registered in the database, and only if the number does not appear, may they call. Bitan Wines is working to conform its operations to those provisions by engaging with companies that provide regular database review services.

9.10.7 The Beverage Container Deposit Law, 5759-1999 – this law establishes provisions regarding the obligation of collecting a deposit on the sale of beverage containers and returning the deposit to the consumer who returns empty, labelled beverage containers.

9.10.8 The Oversight of Product and Service Prices Law, 5756-1996 – establishes maximum prices for certain products sold by Bitan Wines, primarily in the field of staple food products.

9.10.9 The Oversight of Products and Services Law, 5718-1957 – regulates the manufacturing of products and services, including their transport and sale, and includes the imposition of prohibitions, restrictions, oversight, and conditions for obtaining a licence. On the basis of this law, regulations and orders have been issued on various subjects, including regarding the quality, production, and storage of food and commerce therein, etc. On 9 January 2017, the Oversight of Product and Service Prices Order (Obligation to Report a Large Retailer's Profits from the Sale of Bread, Milk and Milk Products, Eggs, and Salt), 5777-2017 was published in the Official Gazette. The law provides that large retailers that sell products included in the products specified in the order will be required to provide the Inspector with a report pursuant to Section 19 to the Oversight Law for examination of the profitability of the sale of the products. Bitan Wines is compliant with the provisions of this law and the regulations promulgated thereunder.

9.10.10 The Economic Competition Law, 5748-1988 – this law establishes various provisions that have an effect on Bitan Wines's operations, primarily in its consideration of purchase options in the retail food sector and its trade terms with its suppliers. Similarly, acquisitions of operations or equipment from other marketing chains are subject to the provisions of this law.

9.10.11 Quality assurance – Bitan Wines is obligated to meet various quality assurance requirements regarding the products sold in its stores. Quality assurance is the responsibility of the store managers. From time to time, during meetings of Bitan Wines's management, work procedures are established for Bitan Wines's stores with respect to sanitation, extermination, training Bitan Wines employees, handling customer complaints, etc.

9.10.12 Requirement to place signs and label products – based on a wide variety of legal provisions (primary legislation, secondary legislation, and others), Bitan Wines is subject to a significant number of provisions regarding the requirement to place signs and labels throughout its stores. The signs and labels are related to the sale of alcohol and cigarettes, products that are choking hazards, nutritional labelling, product and package returns, accessibility for people with disabilities, etc.

9.10.13 The Equal Rights for Persons with Disabilities Law, 5758-1998 – based on this law and its relevant sub-regulations, Bitan Wines is subject to a significant number of provisions regarding accessibility for people with disabilities, whether in its stores or whether on its websites.

9.10.14 Section 30A to the Communications Law (Bezeq and Broadcasts), 5742-1982 – Bitan Wines sends advertisements to customers through various means such as text messages or email. The provisions of the Communications Law impose various restrictions on Bitan Wines in connection with the sending of such advertisements, such as regarding the form and content of the message, subscription to and removal from distribution lists, etc.

9.10.15 The Prohibition against Discrimination in Products, Services, and Entry to Places of Entertainment and Public Places Law, 5761-2000 – based on this law, Bitan Wines is subject to various provisions regarding the provision of products and/or services in the place of business.

9.10.16 The Increased Labour Law Enforcement Act, 5772-2011 – See Section 9.14.6 to Part A to the report for details about the law.

9.10.17 The Promotion of Competition and Reduction of Concentrations Law, 5774-2013 – See, Section 18.1 to Part A to the report for details about the law.

9.10.18 The Privacy Protection Law, 5741-1981 – See Section 18.3 to Part A to the report for details about the law.

9.10.19 The Economic Plan Law Memorandum (Legislative Amendments for the Implementation of Economic Policy for Budget Years 2023 and 2024), 5783-2023

On 4 March 2023, the Ministry of Finance published the Economic Plan Law Memorandum (Legislative Amendments for the Implementation of Economic Policy for Budget Years 2023 and 2024), 5783-2023 – the chapter on increasing competition in the food products and toiletries market.

The memorandum proposes amending the Promotion of Competition in the Food Industry Law, 5774-2014, and enacting a temporary provision placing restrictions on large suppliers, large and medium manufacturers, and large retailers.

Among the proposals made in the memorandum: the prohibition on large food suppliers and large retailers from being a party to an arrangement in which the large retailer is given a discount on the large supplier's product that is dependent on monetary or quantity purchase targets on another of the large supplier's products.

Additionally, it proposes establishing an exemption from the requirement of obtaining approval from the Director General of the Israel Competition Authority for opening an additional large store in a demand area where the calculated percentage exceeds 30% but is less than 50% if, during each of the six months preceding the date of the opening of the large store, 55% of the volume of sales of products sold by the large retailer was not of products that large suppliers supplied to the large retailer.

These temporary provisions would apply for a period of three years, and the Minister of Finance and Industry would be able to extend it, by order, for an additional three years. This is in order to allow for examination of the effect of said steps on the food and toiletries market and the need for them after that period.

It can be assumed that these changes, if they materialise, will have an impact on Bitan Wines's trade agreements with suppliers. Nevertheless, at this stage, it is not possible to assess the extent of the impact.

9.11 Material Agreements

9.11.1 Franchise Agreement With Carrefour

In March 2022, the Company engaged with the Carrefour Group, via Carrefour, in the lead up to entering into a franchise agreement for the operation, in Israel, of the Company’s stores under the Carrefour brands, namely, inter alia, Carrefour Market, Carrefour, and Supeco, and Atacado, and for the exclusive use of the above brand names. On 3 April 2022, Bitan Wines engaged in an exclusive franchise agreement for the operation, in Israel, of Bitan Wines chain stores under the Carrefour brands, inter alia, Carrefour Hyper, Carrefour Market, Carrefour City, and Supeco, and Atacado, and for the exclusive use of the above brand names. Pursuant to the terms of the franchise agreement, Bitan Wines will rebrand the Bitan Wines, Mega, and Mehadrin Market chains and customise them to the Carrefour brands according to the timetables and terms to be agreed upon between the parties. It was further agreed that the franchise agreement will be for a period of 20 years with automatic renewal for an additional 20 years as well as options to extend for 20-year periods with the consent of the parties. The agreement includes, inter alia, payment of a fixed buy-in amount, spread over a number of years, plus payments that will be made as a percentage of revenue turnover alongside investments in branches and customisation thereof to the Carrefour brand. The franchise agreement will enable Bitan Wines to purchase and market Carrefour’s products under Carrefour brands in Israel as well as allow Bitan Wines to produce some of the products in Israel under the Carrefour brand. The parties agreed that during the first few months following execution of the agreement, the parties will settle upon the scope of the variety of products and the expansion thereof, the establishment of kosher requirements, the attractiveness/desirability of the product price, as well as corresponding store opening dates.

In the agreement, Bitan Wines committed to refrain from purchasing and/or marketing private labels other than Carrefour products.

Conversion of Bitan Wines Stores

During the third quarter of 2022, Bitan Wines, carried out a streamlining and reorganisation plan, including, inter alia, operational streamlining of branches and workforce, a decision to close five branches that were operating at a loss, improvement of commercial terms, building and implementing a plan for the renovation of branches and the conversion thereof to Carrefour branches, and more. Pursuant to Bitan Wines's management plans, Bitan Wines is preparing to accelerate the conversion of its branches and launch 50 Carrefour branches during the first half of 2023 in order to achieve national distribution and the launch of three retail Carrefour formats. Bitan Wines is working to complete the conversion of its stores by the end of 2023. Bitan Wines has already begun, during the second quarter of 2022, renovating stores and preparing them for the launch of Carrefour under a temporary brand ("Super"). As of the end of 31 December 2022, it has converted and renovated approximately 14 stores and built one new store. The renovations and conversions that have been carried out thus far, as noted, have already contributed to a significant improvement in said branches' results, even before their launch as Carrefour branches. The results of converting the branches reinforces Bitan Wines's plans to accelerate the process of launching the Carrefour chain as soon as 2023.

In that framework, Bitan Wines seeks to obtain financing for launching the stores in the total sum of NIS 250 million, NIS 150 million from banks and NIS 100 million from its shareholders. As at 31 December 2022, financing has been obtained from shareholders in the total sum of NIS 58 million. See Section 9.17 to Part A to the report for further details.

The Company expects that implementation of the streamlining and reorganisation plan, which includes accelerating the conversion of the chain branches to Carrefour, will improve its ability to achieve its targets and fulfil its business strategy in the food segment, principally, the launch of the Carrefour chain as soon as the first half of 2023. Similarly, fulfilment of the plan enables the effective launch of the loyalty club credit card close in time to the launch of the Carrefour chain, as set forth in Section 9.11.2 to the report.

The Company's intentions regarding the opening of stores, expected investments, and the extent of the effects of the Company's plans are forward-facing information, as defined in the Securities Law, and are based, inter alia, on the Company's assessments taking into account past experience, various assessments with respect to the condition of the market in Israel, and external factors that are not within the Company's control, such as the security situation in Israel. These assessments may not materialise, in whole or in part, or may materialise differently, even substantially differently, than expected as a result of a number of factors, including deterioration in the security or economic situation in Israel and/or as a result of the materialisation of some or all of the risk factors set forth in Section 25 to Part A to the report.

9.11.2 **The Company's Engagement with Bank Hapoalim and Cal**

In March 2022, the Company reached an agreement in principle with Cal, and in May 2022, the Company reached a revised agreement in principle with Cal and with Bank Hapoalim, pursuant to which the parties will work toward executing a three-way collaboration agreement in which a joint customer loyalty club would be established based on a non-bank credit card for customers of Bit and customers of the Company's retail chains (the "club"). In the framework of the three-way collaboration, Cal will issue a non-bank credit card to club customers that will extend club credit card holders value offers for purchases in the Company's chains, existing and future, and in other chains to the extent that they join the club in the future. The ability to refer customers to a digital issuance of the club's cards by Cal will be included in Bank Hapoalim's Bit application. The revised agreement in principle includes reference to the Company's entitlement to a portion of the club's earnings, subject to the settling of account mechanisms established therein, as well as to the Company's entitlement to a "safety net" that ensures minimal revenue over the course of a certain period of time as well as payments that are conditioned on meeting targets. The duration of the agreement shall be for a period of 10 years.

On 10 August 2022, a three-way agreement was executed between the Company, Cal, and Bank Hapoalim for collaboration in connection with the operation of a customer loyalty club based on a non-bank credit card issued by Cal for customers of Bit and customers of the Company's retail chains that would include Bit Card Club customers and Family 365 Club customers who would be recruited on Bitan Wines's sales floors (the "club") for a period of 12 years from the fulfilment of the conditions precedent pursuant to the agreement. The agreement will automatically renew for an additional three years each time unless any of the parties gives notice of its desire not to renew the Agreement, all pursuant to the terms and covenants set forth in the agreement.

In December 2022, the Company's board approved the transfer of the majority of the holdings in the club to Bitan Wines such that Bitan Wines would hold 80% of the interest in the club and the remaining interests would be held by a wholly owned subsidiary of the Company. On 20 March 2023, an agreement was executed between the Company and the subsidiary, and Bitan Wines, and the interests in the club were transferred to Bitan Wines.

The purpose of the credit card customer loyalty club is to offer value and benefits to credit card loyalty club customers. In the framework of this collaboration, Cal will issue club credit cards to the Company's and its subsidiaries' customers and Bit customers who will subscribe to the club.

The agreement establishes, inter alia, that Cal will serve as the issuer of the club credit cards as non-bank cards and will act as the party responsible for providing all services relating to the issuance and operation of club cards as well as additional services set forth in the agreement. Club cards will be issued on Cal's digital card issuance interface, to which, inter alia, Bit app customers will be referred. Similarly, the Bit app will be used to present club customers with certain information related to the club. The Company shall be responsible for managing the club, including communication with club customers as well as formulating a value offer for club customers, all as set forth in the agreement.

The above agreement taking effect and the performance thereof are subject to the fulfilment of conditions precedent, including receipt of a permit from the Director General of the Israel Competition Authority (under the terms set forth in the agreement). The parties are working to fulfil said conditions precedent. The Company is working toward a club launch date in 2023.

For additional details, see Note 25D(2) to the financial statements.

The Company's above assessments, including the fulfilment of the conditions precedent, which includes obtaining a permit from the Director General of the Israel Competition Authority, the club launch date, the closing, and the amount of receipts that the grants are likely to guarantee for the Company are forward-facing information, as defined in the Securities Law, and are based, inter alia, on the Company's assessments taking into account past experience, various assessments with respect to the condition of the Israeli market, and external factors that are not within the Group's control, such as the security situation in Israel. These assessments may not materialise, in whole or in part, or may materialise differently, even substantially differently, than expected as a result of a number of factors, including deterioration in the security or economic situation in Israel and/or as a result of the materialisation of some or all of the risk factors set forth in Section 25 to Part A to the report.

9.11.3 **Quik Transaction**

On 30 March 2022, the Bitan Wines Group entered into a series of agreements with Quik that govern the establishment of the new partnership (the "partnership"), the transfer of operations thereto, and the management thereof (the "joint operations"). The joint operations will be based on the technological platform and operating infrastructure that Quik developed and shall operate in the supermarket – food and non-food – categories known as fast-moving consumer goods (FMCG).

Pursuant to the agreements, the Partnership will be held by the Bitan Wines Group (51%) and by Quik (49%). The Partnership will hold and manage all of Quik's existing operations as well as all of the Bitan Wines Group's online activities falling within the joint operations. The partnership shall have the right to use the Bitan Wines Group's sales floor and operating areas as operating infrastructure. Similarly, the partnership can purchase its products from the Bitan Wines Group at the net purchase price plus direct operating cost.

The agreements include a mechanism whereby, in the event that any of the parties - Quik, the Bitan Wines Group, or the Company - wishes to enter into new activities in the area of online sales of products or services, it will first offer the same to the new partnership that is to be established (other than certain exceptions stipulated in said agreements). The Bitan Wines Group and Quik, each independently, will inject initial equity into the partnership in the sum of NIS 30,000,000, divided pro rata according to their holdings in the partnership.

The parties also entered into a management agreement that governs how decisions are to be made and governs their agreements regarding general shared management, management of the partnership by means thereof, and establishment of a business plan and the implementation thereof. The management agreement granted Quik certain veto rights.

On 1 August 2022, the conditions precedent for closing said agreements were met, and accordingly, the parties completed the transaction.

9.11.4 **Franchise Agreement With 7-Eleven**

During the course of November 2020, the Company executed a nonbinding memorandum of understanding with 7-Eleven Inc. to enter into a franchise agreement for the development and operation of 7-Eleven brand convenience stores in Israel through a company that would be established for that purpose.

On 11 October 2021, an exclusive franchise agreement was executed by the parties in which it was agreed that the franchise term would be 20 years with options to extend the term by up to a maximum of 50 additional years subject to meeting the conditions that were established in the franchise agreement. The franchise agreement includes an initial payment as well as monthly payments that will be made as a percentage of the total revenues from the franchise's operations in Israel.

The Company established a subsidiary for these operations under the name Electra Convenience Stores and intends to open dozens of stores in Israel during the course of the next three years. The Company expects to invest approximately NIS 60 million in the franchise company by 2024 so that the latter will invest in opening said stores.

The franchise agreement includes Electra Convenience Stores's undertakings to 7-Eleven, including a non-compete commitment pertaining to the convenience stores, the opening of a minimum number of stores between 2024-2022, restrictions relating to changes in control, and abiding by the financial stipulations memorialised in the franchise agreement.

In February 2022, the Company, ECP 51, Electra Convenience Stores, and Electra Retail executed an agreement for the transfer of the convenience store operations. In the framework of the agreement, the franchise agreement was assigned to Electra Convenience Stores.

After 31 December 2022, the Company began operating its first store under the 7-Eleven brand in a scope that is immaterial to this field of activity and the Group’s operations.

The Company's intentions regarding the opening of stores and the expected investments as set forth above are forward-facing information, as defined in the Securities Law, and are based, inter alia, on the Company's assessments taking into account past experience, various assessments with respect to the condition of the market in Israel, and external factors that are not within the Group's control, such as the security situation in Israel. These assessments may not materialise, in whole or in part, or may materialise differently, even substantially differently, than expected as a result of a number of factors, including deterioration in the security or economic situation in Israel and/or as a result of the materialisation of some or all of the risk factors set forth in Section 25 to Part A to the report.

9.12 Fixed Assets, Land, and Facilities

9.12.1 As at 31 December 2020, Bitan Wines operates 152 stores throughout Israel with a total (net) sales space of approximately 115,000 m².

Branches	
	Total
Number of branches	
For the year ended at 31.12.2021	**151**
Opened	2
Converted to a different format	14
Closed	1
For the year ended at 31.12.2022	**152**
Sale space	
For the year ended at 31.12.2021	**115,739**
Opened	918
Converted to a different format	4,989
Closed	1,647
For the year ended at 31.12.2022	**115,010 (*)**

(*) Including changes in the area of existing stores.

All of Bitan Wines's stores are rented from third parties other than six stores, which are rented from a company that is controlled by the previous controlling shareholder. The rental agreements for these stores are for various periods (for the most part, more than five years). In most cases, Bitan Wines has the option to extend the rental terms. Pursuant to the rental agreements, Bitan Wines is required to pay the denominated rent fees in NIS and/or as a percentage of redemption, the higher of the two, and at times, in addition to management fees. Most of the rental agreements include a mechanism by which the rent fees are updated as a result of the exercise of the option for an additional rental term. As noted above, as of the reporting date, Bitan Wines is working to convert the chain's stores to Carrefour brand stores.

Approximately a third of Bitan Wines's stores are rented from Blue Square Real Estate, Ltd. ("Blue Square") in one rental agreement that will expire in 2031.

9.12.2 Below is a breakdown of Bitan Wines's stores according to the remainder of the rental term:

Rental Agreements		
	For the year ended at 31.12.2022	
Time left until contract ends	**Area (m2)**	**Number of properties**
Including exercise of the option		
Up to one year	350	1
1-5 years	19,508	25
5-10 years	67,092	88
10-15 years	19,603	27
> 15 years	8,457	11
Total	**115,010**	**152**

9.12.3 Below is a breakdown of Property, Plant, and Equipment, and Facilities

Property Type	For the year ended at					
	31.12.2022			31.12.2021 (pro forma)		
	Area (m2)	Number of properties	Rental expenses (NIS Thousands)	Area (m2)	Number of properties	Rental expenses (NIS Thousands)
Active branches						
Not owned	115,010	152	15,151(*)	115,739	151	18,738 (*)
Other – not owned						
Offices	2,148	1	-	1,492	1	776
Branches under construction	1,243	2	-	813	1	-

(*) After applying IFRS 16.

9.12.4 As a 31 December 2022, Bitan Wines operates 152 stores in two groups that are distributed nationally – the "Discount Stores Group" and the "Neighbourhood Stores Group." Both of the above groups include five brand names that are primarily intended for marketing purposes and positioning of the specific store for the relevant target audience, as follows:

The Discount Stores Group:

These stores are characterised by low prices throughout the entire year. The group's stores include a large variety of products (including non-food products) spread out throughout the area of the medium and large stores. As at 31 December 2022, the Discount Stores Group comprises 45 branches.

The Neighbourhood Stores Group:

The Neighbourhood Stores Group includes a variety of products that are customised to the target audience, are spread out throughout the area of the small and medium stores, and provide consumers with convenience, availability, freshness, service, and personal attention. These stores are located in neighbourhoods and city centres. As at 31 December 2022, the Neighbourhood Stores Group comprises 107 branches.

Format Description - Discount				
Discount format		For the year ended at		
		31.12.2022	31.12.2021 (pro forma)	31.12.2020 (pro forma)
Number of branches		45	45	43
Commercial space		51,870	52,332	65,723
Number of employees (*)		1,352	1,464	1,781
Change in income from same store sales (SSS)		(5.87%)	(9.91%)	2.61%
		(NIS Thousands)		
Income		1,344,062	1,388,243	1,794,160
Percentage of the Company's total sales		47.31%	47.00%	49.93%
Rental fees (for approximately 52,000 m²)		5,697	6,940	10,100
Depreciation expenses, including leasehold depreciation and amortisation of removal fees		101,684	93,834	116,048
Other operating costs (property tax, electricity, etc.)		245,351	237,346	294,376
Investments (CAPEX)	in new stores and in renovation of existing stores	13,893	6,466	6,466

(*) Not including sales support staff.

Format Description - Neighbourhood				
Neighbourhood format		For the year ended at		
		31.12.2022	31.12.2021 (pro forma)	31.12.2020 (pro forma)
Number of branches		107	106	104
Commercial space		63,140	62,738	64,639
Number of employees (*)		1,850	1,962	2,221
Change in income from same store sales (SSS)		(2.81%)	(9.64%)	0.32%
		(NIS Thousands)		
Income		1,497,176	1,565,658	1,799,366
Percentage of the Company's total sales		52.69%	53.00%	50.07%
Rental fees (for approximately 63,000 m²)		9,453	11,798	12,916
Depreciation expenses, including leasehold depreciation and amortisation of removal fees		79,447	60,187	65,785
Other operating costs (property tax, electricity, etc.)		344,957	330,696	376,453
Investments (CAPEX)	in new stores and in renovation of existing stores	45,720	9,223	2,352

(*) Not including sales support staff.

9.12.5 Since November 2021, the Bitan Wines offices have operated from the Company's complex in Rishon Le'Zion pursuant to the rental agreement between the parties.

9.13 Intangible Assets

9.13.1 Trademarks

Bitan Wines has rights to a large number of trademarks that are registered in the name of Bitan Wines and/or Mega, the material among them being the trademarks: "Bitan Wines – the whole family benefits" and "Mega." Additionally, there are other trademarks that are registered to Bitan Wines in connection with the various formats that it operates.

Similarly, pursuant to the franchise agreement with Carrefour for the operation, in Israel, of Bitan Wines chain stores under the Carrefour brands, inter alia, Carrefour Hyper, Carrefour Market, Carrefour City, and Supeco and Atacado, the Company has the right to exclusive use of the above brand names.

9.13.2 Goodwill

Bitan Wines's reputation/goodwill and that of its brand names promote Bitan Wines's activities both at the level of its customers (consumer awareness) as well as at the level of its suppliers (taking advantage of its large size and obtaining preferential trade and contract terms).

9.13.3 Databases

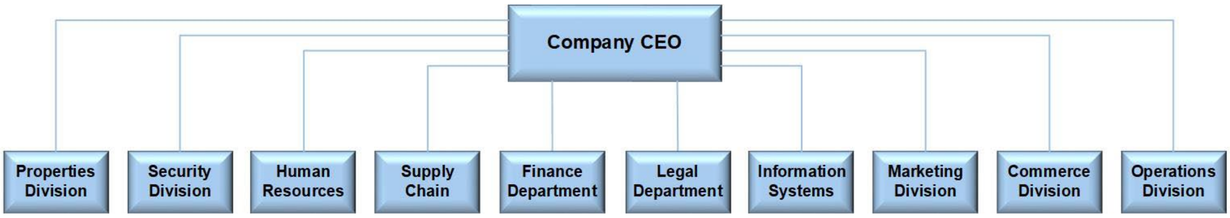
As of the reporting date, Bitan Wines maintains databases that include information about Bitan Wines customers (on its app as well as its customer service centre), information about its employees, and supplier data. Some of those databases are stored on Bitan Wines's servers, and some are operated and protected by reputable third parties in the market who specialise in this type of work.

9.14 Human Capital

The Company acquired control of Bitan Wines at the end of May 2021. As of the date of the Company's acquisition of Bitan Wines, Bitan Wines started making changes to its executive staff. That process has, for the most part, been completed by the reporting date. Accordingly, in July 2022, Mr Uri Kilstein began serving as CEO of Bitan Wines. Additionally, new VPs and deputy CEOs as well as division managers have been appointed.

As at 31 December 2022, Bitan Wines employed 4,270 workers (including contract staffing company workers).

Below is a chart of Bitan Wines' organisational structure:



9.14.1 Collective Agreements and Expansion Orders

Mega Retail's workers are employed as monthly employees, and their terms were established by a large number of collective agreements that were executed over the years that grant the workers preferential terms compared to the terms of the expansion order in the food chain sector.

In January 2020, the Company agreed to recognise Mega Retail's workers union as the entire Group's worker union, and it was decided to transfer employees of Bitan Wines, who are subject to the provisions of the expansion order for the food chains sector to monthly and give them a number of additional benefits as of January 2022.

In May 2022, Bitan Wines, Mega Retail, and the workers unions in those companies executed a special collective agreement for the period until 31 December 2023, establishing, inter alia, that the workers in said companies would be entitled to various benefits in connection with the distribution of vouchers. It was further decided that benefit terms would be equalised between workers of Bitan Wines and workers of Mega, and additional benefits were also granted, as set forth in said special collective agreement.

9.14.2 Personal Agreements, Officer Agreements

Pursuant to the collective agreements applicable to the workers subject to the contract with Mega, store managers, and regional managers, as well as new employees from the level of department manager and up may be employed by personal agreement.

At Bitan Wines, it is possible to deviate from the expansion order for the food chains sector and employ workers from the level of store manager or higher through a personal contract. Officers of Bitan Wines are employed through personal employment agreements or management agreements. Agreements with said officers are mostly for an undefined period of time, and either party may terminate the engagement by prior notice as set forth in the agreement.

On 27 June 2022, the board of directors of Bitan Wines approved an option plan for senior Bitan Wines employees in which shares and warrants were granted to the CEO of Bitan Wines. For additional details, see Note 26D to the financial statements.

Similarly, Bitan Wines has an equity payment plan. No equity grants were made as of the reporting date.

9.14.3 Employment of Workers with Disabilities

Pursuant to the provisions of the Equal Rights for Persons with Disabilities Law, 5758-1998, every employer that employs more than 25 employees (other than the exceptions set forth in the law itself) must strive for appropriate representation by persons with disabilities. An expansion order for encouraging and increasing employment of persons with disabilities from September 2014 expanded the provisions of the general collective agreement that was executed between the heads of the business associations and the New General Workers Union, Professional Unionisation Division, dated 25 June 2014. The expansion order applies to places of work that employ 100 workers or more and establishes that "appropriate representation" for persons with disabilities will be achieved only if 3% of the employer's workers are persons with disabilities. The expansion order further establishes that a place of work that employs 100 or more workers must appoint someone to be in charge of the employment of persons with disabilities. On 1 October 2015, the Joint Monitoring Committee of the Presidents of the Business Associations and the New General Workers Union published a decision regarding the execution provisions for implementation of the collective agreement for the encouragement of employment of persons with disabilities and the expansion order that issued as a result. Bitan Wines is in compliance with the provisions of said expansion order.

9.14.4 Employment of Contract Workers

Bitan Wines regularly receives services from staffing agencies for purposes of its current operations, security, guards, and cleaning, in varying scope. The employment of workers through such third parties is subject, inter alia, to a collective agreement on the employment of service contract workers that includes provisions regarding equalisation of service contract worker terms to the employment terms of employees of Bitan Wines and the hiring of cleaning workers and core employees. Additionally, the employment of workers through such companies is also subject to the provisions of the Employment of Workers by Staffing Contractors Law, 5756-1996 (the "Employment of Contract Workers Law"). The Employment of Contract Workers Law establishes that a staffing contractor worker will be considered, in practice, an employee of the employer for whom he/she works, after the passing of nine continuous months of employment and the entire period of such employment through the staffing contractor will be considered seniority for purposes of accruing rights in the company. The Employment of Contract Workers Law also establishes a prohibition against receiving staffing services from a staffing contractor or service contractor and engagement with a staffing contractor or service contractor unless such contractor has a licence as required by law.

With respect to the workers subject to the contract with Mega, Mega is restricted to only engaging staffing companies that have a collective agreement and for a period of up to 180 days per worker and not nine months as set by law.

9.14.5 **Increased pension contribution rates** – in June 2016, an expansion order dated 23 May 2016 regarding increased pension insurance contributions in the market was published in the Official Gazette, which expanded the applicability of the General (Framework) Collective Agreement dated 3 April 2016 between the Presidents of the Business Associations and the New General Workers Union (the "collective agreement"). Pursuant to the provisions of the expansion order, the employer rates and employee rates for contribution both to pension funds as well as insurance funds or non-pension provident funds were raised so that as of 1 January 2017, the employer contribution rate for annuities rose to 6.5% of the effective wage.[17] In the event of managerial insurance or a non-pension fund provident fund, employer contributions for annuities will include payment to obtain coverage in the event of employment disability in the amount required to ensure 75% of the employee's effective wage where regardless, the amount of the employer's contributions for annuities alone shall not be less than 5% of the effective wage.[18] To the extent that it becomes necessary to increase the amount of employer contributions for annuities and employment disability as a result of the purchase of coverage due to the purchase of coverage for employment disability in excess of 6.5% (as noted), the employer contribution rate for employment disability and annuities together shall not exceed 7.5% of the effective wage in any case. Bitan Wines is in compliance with the provisions of the expansion order. Similarly, as of 1 November 2016, an employer whose employee has not given notice as to the pension provider with which he/she wishes to maintain his/her pension insurance shall be required to insure them through one of the four pension funds selected by the Ministry of Finance as default funds (instead of the two funds that had been selected until that time). Alternatively, the employer may insure the worker through a different provident fund provided that it has been selected by the employer or by the workers union through a tender.

9.14.6 **The Increased Labour Law Enforcement Act, 5772-2011 (the "Increased Enforcement Act")** – this law was intended to increase enforcement of labour laws, inter alia, by imposing financial penalties, through administrative proceedings, on employers in violation of the provision

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17 The "effective wage" pursuant to the expansion order is as defined in the agreement applicable to the employee and not less than the insured wage pursuant to the expansion order for comprehensive pension insurance. Thus, for example, if the worker's employment agreement does not set a cap for the insurance amount from which pension contributions are to be made, the employer will be required to contribute from the wage denominated in the employment agreement and not less than the average market wage.

18 Thus, for example, an employee insured through managerial insurance with employer annuity contributions at a rate of 5% and employment disability contributions at a rate of 1% shall be entitled to supplementation of the employer payments contribution at a rate of 0.5% as at 1 January 2017.

of the protective laws. It was also designed to impose personal liability on CEOs who, in the framework of the Increased Enforcement Act, are required to oversee and take all reasonable measures to prevent violations of the provisions of law listed in the Increased Enforcement Act. As of the reporting date, Bitan Wines is compliant with all provisions of law included in the Increased Enforcement Act. The Company assesses that the Increased Enforcement Act has no material impact on its business.

9.14.7 **Vacation days** – pursuant to the Annual Leave Law, 5711-1951, employees of Bitan Wines are entitled to a number of paid vacation days according to their seniority at Bitan Wines.

9.14.8 **Shortening of the market workweek and establishment of an overtime cap** – on 19 March 2018, an expansion order was published in the Government Notices Collection regarding shortening the market workweek. Effective 1 April 2018, it expanded on the provisions of the general collective agreement executed on 29 March 2017 between the Presidents of the Business Associations and the Tel Aviv Chamber of Commerce, and the New General Workers Union. The expansion order established, inter alia, that the workweek would be shortened from 43 work hours to 42 work hours without a reduction in salary. Accordingly, the hourly wage will be calculated on the basis of 182 work hours per month. The workweek would be shortened by deducting one work hour on a defined and fixed day during the course of the workweek. The shortened day would be determined according to work requirements and the enterprise's practices, and to the extent possible, taking into account workers' requests and needs. Additionally, the expansion order established that the total permitted overtime hours per workweek shall not exceed 16 additional hours and that the length of the workweek shall not exceed 58 hours, including overtime.

9.14.9 **The Corporation's Investments in Training and Instruction**

As part of the conversion of the majority of Bitan Wines stores to Carrefour, a dedicated training programme will be implemented for relevant workers at Bitan Wines stores. Bitan Wines regularly invests in customised training for its employees.

9.15 Raw Materials and Suppliers

Bitan Wines purchases products for purposes of sale at its stores from approximately 299 different suppliers, including manufacturers, importers, and distributors. Products purchased from the ten largest Bitan Wines suppliers constituted, as at 31 December 2022, approximately 47% of the total cost of sales during said period. Bitan Wines regularly implements processes for locating new suppliers from time to time, assessing existing suppliers, and conducting quality assurance for the products that they supply it with.

Bitan Wines engages suppliers in trade agreements, generally in writing and for a defined period of time, governing product prices, payment terms, and sales and discounts, all according to the provisions of law and in particular, the provisions of the Food Law and the regulations and rules promulgated thereunder. The above agreements do not include the Company's commitment to purchase minimal quantities of products (quantity or type) and do not restrict Bitan Wines with respect to the quantity purchased. Most products are transported to stores by suppliers at their responsibility, and the suppliers are the ones who incur the costs involved.

According to the work methodology vis-à-vis suppliers in practice by Bitan Wines, Bitan Wines gives the suppliers the orders for the various products through the suppliers' agents who visit stores at varying frequency according to the nature and type of product (ranging from daily to at least once a week). The relationship with most Bitan Wines suppliers has been ongoing for years.

According to the franchise agreement that Bitan Wines entered into with Carrefour, Bitan Wines imports and then sells a wide variety of Carrefour brand products. The Carrefour product that Bitan Wines imports are at high European standards and quality.

There is a variety of alternative products that are supplied by a large number of vendors throughout all of the food categories sold at Bitan Wines stores. From time to time, Bitan Wines also replaces vendors and the products sold at stores according to the following criteria: the product's nature and price, whether the supplier meets delivery dates, the level of sales, and profitability.

The Company assesses that, in light of the large number of suppliers with whom Bitan Wines has continual commercial relationships, Bitan Wines does not have any supplier on which it is dependent. As to dairy products, we note that Bitan Wines purchases most of those from Tnuva. To the extent that, for any reason, Tnuva ceases to supply dairy products, Bitan Wines will only be able to obtain partial supplies of dairy products from other vendors, and thus, Bitan Wines is dependent on Tnuva with respect to dairy products.

9.16 Working Capital

Bitan Wines's field of activity is characterised by negative working capital. Bitan Wines's board and management are working on reducing the working capital shortfall by converting the majority of Bitan Wines stores to the Carrefour brand, importing Carrefour products, improving trade agreements, and implementing a reorganisation plan that includes streamlining activities.

9.16.1 Inventory Maintenance Policy

Bitan Wines maintains an inventory of products in each one of its stores and inventory control at the Bitan Wines headquarters level.

Bitan Wines purchases products and increases or maintains product inventories based on past experience and in relation to the pace of in-store sales, taking into account sales during the holiday season and material changes such as the outbreak of the Covid 19 pandemic.

9.16.2 Merchandise Return Policy

Bitan Wines has various arrangements (some of which are not memorialised in writing) with the decided majority of its suppliers whereby Bitan Wines retains the right to return defective, expired, or non-purchased products to the supplier. In such cases, the supplier credits Bitan Wines with a replacement product or the amount of the product's purchase price in exchange for the returned product.

Bitan Wines allows its customers to return products in exchange for a credit according to the method of payment through which the purchase was made and pursuant to legal requirement. The volume of products that Bitan Wines customers return is negligible.

9.16.3 Customer Credit

Most Bitan Wines sales are to private customers in exchange for a credit card, cash, cheques, and shopping vouchers. Customer credit terms are as are common in the market, according to the method of payment and the purchase amount. More than 90% of sales are by cash or credit card. As a rule, Bitan Wines's current lost and doubtful debts are in immaterial amounts.

9.16.4 Supplier Credit

Bitan Wines is not in the practice of paying suppliers advances on purchases other than in exceptional cases where, in consideration of the advance, Bitan Wines receives improved commercial terms. The volume of advances that Bitan Wines pays its suppliers is negligible.

9.17 Financing

Bitan Wines finances its operations using bank credit and shareholder loans. See Note 19B(6) to the financial statements for details about financing agreements with banks and shareholder loans.

9.18 Taxes - see Note 24 to the financial statements for details.

9.19 Environmental Risk Management

Bitan Wines is required to obtain a licence for each of its stores pursuant to the Business Licence Law, 5728-1968 (“business licence”). In order to obtain a business licence for each store, Bitan Wines is required, inter alia, to meet the conditions established by the local business licence issuing government authority as well as comply with legal environmental protection requirements including: the regulations promulgated under the National Health Ordinance, 1940, regarding drinking water; the Water and Sewage Corporations Law, 5761-2001, and the regulations and rules promulgated thereunder regarding the quality of wastewater and in particular, the Water and Sewage Corporations Rules

(Industrial Wastewater Flowing Into the Sewage System), 5774-2014; the Municipalities Ordinance [New Version] with respect to waste removal; the Recyclable Waste Collection and Removal Law, 5753-1993, with respect to cardboard compressors; the Beverage Containers Deposit Law, 5759-1999, and the related regulations regarding collection and recycling of beverage containers; the Processing of Packaging Law, 5771-2011, regarding the collection of cardboard and paper packaging through the Tamir Recycling Corporation; the Water Law, 5719-1959; the Local Government Authorities Law (Sewage), 5722-1962; the Municipal Associations Law, 5765-1955, as well as additional laws. Additionally, Bitan Wines's operations are subject to ancillary legislation that is applicable in the jurisdictions where stores operated by Bitan Wines are located relating to maintenance of sanitary conditions in stores as well as subject to directives issued by local water corporations.

The Reduction of Use of Disposable Shopping Bags Law, 5776-2016 (the "Bags Law"), was enacted to reduce the amount of waste generated by the use of such bags and mitigate the adverse environmental impact of such waste, inter alia, by limiting the distribution without cost of disposable shopping bags by businesses and imposing a levy on their sale. Pursuant to the Bags Law, large retailers must pay levies for every shopping bag that they sell, in the sum of NIS 0.0854, paid into the Cleanliness Maintenance Fund (the amount of this levy may be changed by order) If they do not charge customers for shopping bags, do not maintain a detailed record, or if they fail to file a report relating to the corporation's conduct pursuant to the law's provisions, they will be subject to a fine in the amount of NIS 40,480. Breach of other provisions of the Bags Law will result in the imposition of additional fines. The Bags Law does not have a material impact on Bitan Wines's operations.

In the Company assessment, the scope of the applicability of environmental protection laws to its field of activity is immaterial.

9.20 Insurance

The Bitan Wines Group's insurance coverage comprises a large number of insurance policies that cover the Group's companies' operations. of Bitan Wines management assesses that its insurance coverage is appropriate. Below is a list of the Group’s primary insurance coverages as at the reporting date:

[A] **"Expanded fire" insurance policy** – for accidental physical damage caused to the Company's property, such as: buildings, equipment, contents, and inventory as a result of fire, lightning, explosions, and natural forces, including earthquakes, water damage, conflagration, smoke, etc. Similarly, there is a policy for loss of profits from damage covered by fire insurance.

[B] **Third party liability insurance** – insurance coverage for the Group's liability for physical harm caused to third parties, including bodily harm, death, illness, or physical, emotional, or mental impairment, or damage and/or loss of any third party's property in connection with the Bitan Wines Group's operations. The insurance coverage in third party liability insurance refers to the date on which the event occurred.

[C] **Products liability insurance** – insurance coverage for the Group's legal liability for physical harm to person or property of a third party that was caused by a product for which the Group is responsible and on condition that the product left the Group's possession and control. The insurance coverage is on the basis of the claim filing date (claim made) and includes retroactive dates going back several years.

[D] **Employer liability insurance** – for employer liability for claims by the Group's workers for physical harm or workplace illnesses that were caused to employees during the course and as a result of their work. The insurance coverage refers to the date on which the event occurred.

[E] **Additional insurance policies** – the Group has additional insurance policies, including property-in-transit insurance, cash insurance, trust insurance, electronic equipment insurance, and contractor work insurance.

[F] **Credit insurance** - the Group has credit insurance policies for insuring some of its customers’ debts according to the amounts and deductibles that are set forth in the credit insurance policies.

[G] **Directors and officers insurance policy** - see Section 20.2[G] to Part A to the report for details.

[H] **Cyber policy** – Bitan Wines carries cyber insurance (as part of the Elco Group's policy), which is in effect as of 11 January 2023 and until 20 August 2023 and is in effect for the insurance period. We note that the policy covers the Company's legal liability for harm caused to third parties as a result of an information leak during a cyber event as well as harm to the Company itself as a result of such an event.

9.21 Business Strategy and Targets

Bitan Wines's business goals and strategy are as follows:

Bitan Wines's central goal is the launch of the Carrefour chain, converting most of the stores in the Bitan Wines Group to Carrefour, increasing redemption in converted stores, and improving Bitan Wines's profitability. Similarly, the launch of the Carrefour chain will enable the effective launch of the loyalty club credit card.

The launch of the Carrefour brand, the conversion of stores, and the launch of the credit card loyalty book club will make it possible to extend a value offer to customers, improve the buying experience both in brick-and-mortar stores as well as in online purchases, and to expand the scope of the relationship with the customer.

9.22 Expected Development in the Coming Year

[A] The launch of Carrefour stores in Israel under three formats – Carrefour Market, Carrefour City, and Carrefour Hyper;

[B] The conversion of most of the Bitan Wines Group's stores to Carrefour;

[C] Improvement and streamlining of staffing in the chain's stores at the executive level and on the sales floor;

[D] Implementation of operational work processes;

[E] Opening of new stores;

[F] Continued development and investment in online operations and consolidation of online operations in a uniform trading website and app;

[G] An increase in the variety of products in stores as well as the launch of additional Carrefour products.

9.23 Risk Factors

The Company assesses that the following factors are likely to affect Bitan Wines's operations and business results:

9.23.1 Macro-risks

9.23.1.1 **The political and security situation in Israel** – a deterioration of the political and security situation in Israel would likely result in decreased quality of life in Israel and consequently, would harm product sales volume in Bitan Wines stores, in particular, and diminish Bitan Wines's results in general.

9.23.1.2 **The economic situation in Israel** – macroeconomic changes – the results of Bitan Wines's operations would likely be affected, inter alia, by economic developments in Israel such that an economic slowdown or recession would likely result in decreased private consumption and thus, affect the amount of Bitan Wines's revenues. Similarly, extreme changes in the economic situation would likely result in decreased consumption. Such a slowdown would likely result in sharper competition in the retail sector and lead to reduced prices and profit erosion for Bitan Wines.

9.23.1.3 **Increase in the prices of raw materials and products** – an increase in the prices of products, in general, and food products, in particular, as a result of increased raw material prices in Israel and in the entire world would likely result in a rise in product prices by suppliers and thus, reduced revenue for Bitan Wines from the sale of said products. We note that in the event of an increase in prices, Bitan Wines would likely absorb some of the price increase with the goal of making it easier on consumers and benefitting its customers as part of Bitan Wines's management's objective to stand by the side of consumers and its loyal customers as to the prices for basic products and sell them the basket of products at fair prices.

9.23.1.4 **Changes in the consumer price index** – from time to time, Bitan Wines enters into rental agreements, the majority of which are linked to the consumer price index. An increase in the consumer price index would likely to affect Bitan Wines's rental expenses.

9.23.1.5 **Capital markets** – changes in the inflation rate, interest rates, exchange rates, and other capital market conditions would likely result in volatility in Bitan Wines's financial results. Similarly, Bitan Wines's financing expenses are subject to fluctuation with respect to changes in prime interest rates that relate to loans that it has taken from banks. A rise in salary costs in the market and additionally, as a rule, a substantial increase in inflation would likely to result in an increase in the minimum wage pursuant to the Minimum Wage Law or market expansion orders and thus, a significant increase in Bitan Wines's salary expenses. Additionally, some of the products sold at Bitan Wines's stores are imported from other countries, either by Bitan Wines or other importers. A significant decrease in the exchange rate for Israeli currency compared to other currencies would likely result in pricing changes for products and thus, affect the volume of Bitan Wines's sales and results.

Similarly, the Russia-Ukraine war that broke out during the course of March 2022 is likely, inter alia, to have indirect economic ramifications, including globally, on commodity prices as well as lead to shortages in certain products because of a significant slowdown in global trade. Such developments are likely to have adverse effects on Bitan Wines's business results, its liquidity, the value of its assets, its business position, its credit rating, its ability to distribute dividends, and its ability to obtain financing for its operations, should it need to do so, as well as on financing terms.

9.23.2 **Industry-wide Risks**

9.23.2.1 **Increased supplier strength** – there is no certainty that Bitan Wines's suppliers will not significantly change their pricing policy or encounter difficulties in supplying products to Bitan Wines. In such cases, Bitan Wines's business, its financial position, and the results of its operations would likely be harmed.

9.23.2.2 **Approvals and licences** – the operation of Bitan Wines's stores and its expansion into new stores require it obtaining approvals and licences from a number of government bodies. Failure to obtain approvals and licences, including for the operation of Bitan Wines's stores and including pursuant to the Food Law, would likely result in the closing of such stores. Some of Bitan Wines's stores require licences or approvals that have not yet been obtained or that have expired and must be renewed.

9.23.2.3 **Changes in the minimum wage and labour laws** – changes to the minimum wage or other material changes to labour laws in Israel would likely to have an effect on the wages of a significant portion of Bitan Wines's employees. Due to the large number of workers employed by Bitan Wines, additional such future changes would likely affect Bitan Wines's business results and cause its profits to erode.

9.23.2.4 **Operations in a competitive market** – the retail food sector is characterised by very high competition. Bitan Wines competes with large marketing chains, private chains, grocery stores, markets, and specialty stores. Competitive pressures in the retail food sector and changes in consumer consumption habits would likely to lead to an erosion of prices, loss of market share, reduced profit margins, and harm to Bitan Wines's business results. Bitan Wines regularly monitors developments in the retail sector and adjusts how it operates, if necessary, to those developments.

9.23.2.5 **Computer information system and cyber event risks** – Bitan Wines relies on information systems and software provided by third parties that specialise in this field. Most of these information systems and programmes are located on servers operated by those vendors. A significant portion of the systems' licences are not limited in time, but Bitan Wines enters into agreements with the licence holders to service and support said software and systems. Bitan Wines makes sure to engage vendors with a good market reputation. Other Bitan Wines information systems and their backup are located on servers located in Bitan Wines's headquarters and on cloud servers. Bitan Wines takes various measures to ensure the integrity and reliability of its various information and computer systems, including through information security and backups. Nevertheless, a collapse of the information and computer systems as well as a cessation in the provision of services by vendors, forcing Bitan Wines to engage other vendors, would likely have an adverse effect on Bitan Wines's regular operations. Similarly, Bitan Wines, like every company, is exposed to hacking and break-in risks from outside actors into its information and computer systems.

9.23.2.6 **Regulation** – Bitan Wines is exposed to many changes in legislation and regulation in various fields such as: consumer legislation; economic competition laws; corporate and securities laws; legislation in the field of food health; standards and directives regarding product labelling; kosher supervision; legislation in the field of produce and fresh products; the Privacy Protection Law; planning and construction law; environmental law; labour law; regulation regarding the sale of medication and pharmacy management; and regulation relating to the internet. A delay in the issuance or renewal of a business licence for one or more stores would likely have an adverse effect on Bitan Wines's business, its financial position, and the results of its operations. The results of Bitan Wines's operations would likely to be harmed by legislation that harms its operations, primarily because of consumer legislation and its increased enforcement through various means, including oversight of prices, business licensure, sanitation, minimum wage, labour law, and competition law. Legislation in the field of business licensure, sanitation, as well as new consumer legislation giving extensive powers to the Consumer Protection and Fair Trade Authority, consumer legislation and increased enforcement thereof, the imposition of more extensive detailing and oversight of prices or an increase in the minimum wage, and an increase in customs tariffs on the importation of food into Israel - would all likely have an adverse effect on Bitan Wines's financial position and the results of its operations.

9.23.2.7 **Legal proceedings and class actions** – in recent years, there is a clear trend toward increased consumer and other class action claims being filed on various subjects against companies engaged in retail food marketing, including Bitan Wines. Even where those actions are not certified by the courts or claims are unsuccessful, the litigation in which Bitan Wines is forced to engage involves significant costs.

9.23.2.8 **Hiring and retention of personnel** - Bitan Wines employs a large number of workers, most of whom are employed at Bitan Wines stores. The retail sector, together with other sectors, is exposed to the difficulty inherent in the Israeli labour market in hiring and retaining minimum wage staff, and the high turnover of such staff is part and parcel of many sectors of the Israeli market. Bitan Wines invests resources in hiring its staff, including training workers when they start a position, remuneration, training, and ongoing improvement of staff hiring and retention processes. The inability to attract staff would likely result in increased salary expenses for Bitan Wines as a result of the difficulty in obtaining workers at current salary levels.

9.23.2.9 **Embezzlement and fraud** – Bitan Wines is exposed to risks that derive from fraud and embezzlement by employees of Bitan Wines, inter alia, in light of the character of its operations, which includes working with cash, credit cards, inventory, a large number of suppliers, information systems, etc. Bitan Wines continuously works at reducing such risks using various electronic means, separating functions and signature rights at Bitan Wines, and integrating automatic measures for performing various tasks at Bitan Wines.

9.23.2.10 **Products liability and manufacturing quality** – Bitan Wines is exposed to risks involved in products liability, including as a result of the sale of medications. Bitan

Wines markets various products, including medications, food products, and hygiene products, that are particularly sensitive with respect to the health of the users thereof. A large number of statutes and regulations regulate the rights of an aggrieved individual or a group of aggrieved individuals who has or have suffered harm as a result of a product that is assembled, stored, marketed, or sold by Bitan Wines. If a consumer and/or group of consumers suffer/s harm as a result of products purchased at Bitan Wines stores, Bitan Wines would likely be liable for such harm in a manner likely to have an adverse effect on its business, financial position, and the results of its operations. Bitan Wines is insured against such product liability risks.

9.23.3 **Special Risks to Bitan Wines**

9.23.3.1 **The Food Law** - See Section 9.10.3 to Part A to the report for details about the Food Law and its impact on Bitan Wines. The Company assesses that the various provisions of the Food Law are not expected to have a material impact on Bitan Wines's operations and its financial results.

9.23.3.2 **Collective agreement** – most of Bitan Wines's workers are employed under a collective labour agreement, and some of these workers, pursuant to an expansion order. Bitan Wines cannot be sure that the collective agreement will be renewed, from time to time, without it involving a strike by its workers. If a dispute breaks out with workers that involves a strike or disruption to Bitan Wines's operations, it will likely have an adverse effect on its business, financial position, and the results of its operations. Similarly, each reopening of collective agreements would likely carry with it additional salary expenses as a result of granting additional economic rights to workers.

9.23.3.3 **Harm to reputation** – Bitan Wines regularly monitors its public positioning and image both in the traditional press as well as on social media. Bitan Wines uses monitoring and follow-up services and receives a weekly report according to various parameters that Bitan Wines defined for the examination of the state of its image, and accordingly, various measures are taken with the objective of meeting the challenges that the above monitoring and assessment work uncovers.

9.23.3.4 **Workplace safety** – Bitan Wines owns many stores that are operated by maintenance workers who are employed by Bitan Wines and outside contractors. In light of the above, it is conceivable that Bitan Wines or outside contractor employees will be exposed to physical harm as a result of such work. Bitan Wines places an emphasis on workplace safety at Bitan Wines and with respect to its engagements with outside contractors. Bitan Wines has safety protocols in compliance with the law's directives.

9.23.3.5 **Shopping vouchers** – Bitan Wines issues electronic shopping vouchers and coupons for the purchase of products at its stores and on its website as well as at other retailers with whom Bitan Wines has engaged for this purpose. Bitan Wines is exposed to the risks involved in issuing shopping vouchers in the event that competition increases, there is a decrease in the volume of consumption and/or there is difficulty in developing and expanding operations, or there is fraud or theft. Despite the fact that the Group takes steps to mitigate those risks, significant fraud is likely to have an adverse effect on the Company's business, its financial position, and the results of its operations. Similarly, the Company is subject to the provisions of the Consumer Protection Law. As of the reporting date, the Company assesses that its exposure is immaterial.

9.23.3.6 **Non-fulfilment of Bitan Wines's strategy** – according to Bitan Wines's strategy, its central goal is the launch of the Carrefour chain and the conversion of most of the stores in the Bitan Wines Group to Carrefour, improvement of its EBITDA, and an increase in the redemption in converted stores. Bitan Wines's strategy, as approved by Bitan Wines's and the Group's boards, requires significant resources on the part of the Group and Bitan Wines, including large financial investments. Failure by Bitan Wines to meet its business and strategic targets would likely have a material adverse effect on the Group's business results, its liquidity, the value of its assets, its business position, its credit rating, its ability to distribute dividends, and its ability to obtain financing for its operations.

Below are the Company's assessments regarding the measure of the effect of said risk factors on the Company:

Risk Factors	Level of Impact		
	Large Impact	Medium Impact	Small Impact
Macro-risks			
Political and security situation in Israel		X	
Economic situation in Israel - macroeconomic changes		X	
Increase in prices of raw materials and products		X	
Changes in the consumer price index		X	
Capital markets		X	
Industry-wide risks			
Increased supplier strength		X	
Approvals and licences		X	
Changes to the minimum wage and labour laws		X	
Operations in a competitive market	X		
Computerised information system risks		X	
Regulation	X		
Legal proceedings and class actions		X	
Hiring and retention of personnel		X	
Embezzlement and fraud		X	
Products liability and manufacturing quality		X	
Special Risks to Bitan Wines			
Food Law		X	
Collective agreement		X	
Harm to reputation		X	
Workplace safety		X	
Shopping vouchers			X
Nonfulfillment of Bitan Wines's strategy	X		

10. Fourth Field of Activity – Sports and Leisure

As of the financial statements as at 30 September 2021, the Company has an "others" segment that includes the Company’s sports and leisure operations. As of the financial statements as at 31 December 2022, the Company presents the field of sports and leisure as a separate operations segment.

10.1 General

The Company's operations in the field are coordinated by Sa'ar Enterprises and its subsidiaries. In June 2021, the Company, by means of ECP 1951, closed an allocation and investment transaction with Sa'ar Enterprises as well as with the founders of Sa'ar Enterprises such that ECP 1951 became holder of 50.01% of Saar Enterprises' issued and paid-up capital with the founders, who serve as co-CEOs, remaining the holders of the balance of its shares. For additional details about that transaction, see Note 5B to the Company's financial statements. See Section 2.1.1.2 to Part A to the report for details with respect to the transfer of the shares in Sa'ar Enterprises, which had been held by ECP 1951, to Electra Retail.

Sa'ar Enterprises is engaged in importing, manufacturing, and distributing equipment and clothing and footwear for travelling, camping, skiing, snowboarding, outdoor sports, and leisure.

Sa'ar Enterprises operates four retail chains spread out across the country and is the exclusive importer of dozens of leading outdoors and leisure brands, including Columbia - for which Sa'ar Enterprises is the exclusive franchisee in Israel, the Palestinian Authority, and the Gaza Strip - Aztec (see Section 10.17.1 to Part A to the report about this franchise agreement), and Adidas, with whom Sa'ar Enterprises has entered into a nonexclusive franchise agreement in Israel. (See Section 10.17.2 to Part A to the report for details about this franchise agreement.)Additionally, Sa'ar Enterprises maintains wholesale operations through which it sells its products to private stores and select chains around Israel and also operates in the institutional market as a supplier to the military and defence sectors as well as leading companies in the market. Other than Columbia brands, Sa'ar Enterprises markets a variety of products that are leading international sports and camping brands, including eco brands, such as Picture Organic, Camelback, and Veldskoen, and lifestyle brands, such as Duer, Topo Designs, and FitKicks. Similarly, Sa'ar Enterprises manufacturers private label products, such as Aztec and Dune, Lowa, and other brands.

Distribution of Branches

The four retail chains operated by Sa’ar Enterprises are, as of the statement date, as follows: Columbia – a chain that has 21 branches that sells Columbia brand products; Outsiders – a chain that has 12 branches and sells Life Style products alongside professional traveller products; Shvilim – a chain of 16 Land of Israel travel stores that sells equipment, clothing, footwear, and accessories for travellers at affordable prices; and Adidas – a chain of 16 stores as part of the franchise for operating stores for the sale of sports equipment and fashion. Most if not all of these stores are directly operated by Sa'ar Enterprises. Additionally, Sa'ar Enterprises operates two ecommerce sites: one for selling Columbia brand products and the other for selling Outsiders brand products.

Below are details of the nationwide distribution of the chains' branches, divided into regions:

Geographic Distribution		
Region	**Number of branches for the year ended at**	
	31.12.22.	**31.12.21 (*)**
Centre	25	16
North	23	15
South	17	9
Total	**65**	**40**

(*) Sa'ar Enterprises’s operations under the Adidas brand began in 2022. Therefore, data presented for that year are relevant to Sa'ar Enterprises’s operations of the Columbia, Outsiders, and Shvilim brand stores.

Branches	
	Total
Number of branches	
For the year ended at 31.12.2021	**40**
Opened	9
Closed	-
Added	16
For the year ended at 31.12.2022	**65**
Commercial space, gross	
For the year ended at 31.12.2021	**9,741**
Opened	3,238
Closed	-
Added	5,220
For the year ended at 31.12.2022	**18,199**

10.2 General Information About - and Structure of and Changes to - the Field of Activity

10.2.1 Structure of and Changes to the Field of Activity

In recent years, there have been changes in the sports and outdoors sectors, moving from a market focused mainly on the professional segment to a market that combines professionalism with branding as leisure fashion and lifestyle. Adidas is an international brand that is identified, in addition to being a sports brand, as a sports fashion brand as well. In light of the increased trend in fitness and lifestyle, super brands, such as Adidas, are able to preserve their status as a leading brand. All Adidas stores maintain uniform standards, creating a clear character for the brand and preserving its value in terms of appearance, prices, design, product variety, and level of service.

Sa'ar Enterprises markets, in the chains that it operates, a variety of products, giving it exposure to various target audiences and generating a high level of compatibility between customer needs and the products that it offers in its various chains.

The sports sector is characterised by high levels of competition and includes multi-brand chains, mono-brand chains, stores containing footwear and sports departments, and local sports and fashion stores that also sell competing products.

As part of the Group's strategy, the Group seeks engagement with companies that represent additional leading international brands in the sports and leisure sector, subject to the agreements to which it is a party, for purposes of expanding the variety of items that it offers as well as improving the shopping experience.

Data Summary			
		For the year ended at (in NIS thousands)	
		31.12.2022	31.12.2021 (***)
Number of directly operated branches		65	40
Commercial space in stores, gross (in m2)		18,199	9,741
Human Capital	Branches	491	263
	Other	62	33
Results of Operations			
Segmental income		214,202	90,663
Rental fees for stores – fixed expenses (*)		1,370	812
Capital investment, renovation, and construction of new branches		16,792	2,998
Total salary costs attributed to retail operations employees (including contract worker expenses)		19,475	6,715
Advertising expenses		4,713	2,467
Depreciation expenses (*)		28,447	12,200
Segmental income		19,765	10,126
Operational working capital (**)		95,497	60,252
Redemption and sales data			
Change in revenues from same store sales (%) (****)		20%	59%

(*) After applying IFRS 16.

(**) Inventory balance and trade receivable balance, less trade payables balance.

(***) Sa'ar Enterprises's operations under the Adidas brand began in 2022. Therefore, data presented for that year are relevant to Sa'ar Enterprises's operations of the Columbia, Outsiders, and Shvilim brand stores for the second half of 2021.

(****) The difference between 2021 and 2022 derives from the effects of the Covid-19 pandemic, during the course of which, stores were shut down – primarily because of lockdowns.

10.2.2 Restrictions, Statutes, Standards, and Special Constraints That Apply to the Field of Activities

The restrictions, statutes, standards, and constraints that apply to Saar Enterprises's operations are substantially similar to those applicable to the Group's retail operations. See Section 18 to Part A to the report for details.

10.2.3 Changes in the Volume and Profitability of the Activity in the Field

The Group does not have official data regarding the total volume of activities in this field. With that, in recent years, it appears that sports brands are trending upward in sales and profitability on the background of awareness of athletic and lifestyle activities whereas the fashion market in Israel as a whole is suffering from eroding sales and profitability, primarily because of difficulties that derive from the increase in purchases overseas (including online purchases from foreign ecommerce websites), a trend that can affect the Group's sales both in the outdoors sector as well as in the sports sector.

10.2.4 Developments in the Field of Activity's Market or Changes in Customer Characteristics

In the last decade, a number of trends that lead to market growth have emerged:

[A] sustainability – the outdoor market has for years led the use of technologies that reduce harm to the environment; fashion – the outdoors sector has trickled into the fashion world and into daily use as casual wear;

[B] nature – outdoor and nature tours have significantly increased during the Covid pandemic;

[C] technology – outdoor fashion has conquered the clothing industry thanks to the products' technology. The "Columbia" brand has a clear advantage and leads this growth trend;

[D] disposable income and awareness of a healthy lifestyle have increased, pushing people to enrich their free time with activities outside the home;

[E] In recent years, the sports market has undergone a number of changes, including increased online sales, the entry of international firms that has led to increased competition, the consumer's need for variety and selection, consumer awareness of athletic activities and as part of that – sports fashion, etc.;

[F] low-cost airlines – the accessibility of overseas vacations, skiing, and snowboarding along with the open skies policy have led to increased sales of professional travel clothes;

[G] the buying experience has been cultivated primarily, by store design.

10.2.5 Critical Success Factors in the Field of Activity and Applicable Changes

A number of critical success factors that affect its operations and status are discernible in Sa'ar Enterprises' field of activities, including:

[A] a broad spectrum of high-quality products in various styles and price points geared toward different target audiences and market segments that provide a fashion solution for the local climate in keeping with international fashion trends;

[B] attractive store locations throughout the country;

[C] the creation of a customer buying experience, including through advanced store design;

[D] consumer trends and a preference for sport activities;

[E] marketing abilities and in-depth understanding of customer needs;

[F] the ability to purchase from a broad and varied number of suppliers under competitive trade conditions;

[G] financial stability;

[H] a high level of availability in supplying products and rapid response to customer demand;

[I] taking advantage of the Group's size, including the size of its orders, which helps it reduce procurement costs;

[J] consumer perception and awareness of athletics and outdoor activities, in general, and sportswear and fashion, in particular, as part of day-to-day living;

[K] popularity of and trends in international sports brands;

[L] investment by international sports brands in collections, technologies, and reinforcement by various means, such as marketing in sports arenas and fashion halls.

10.2.6 Changes in the Supplier Network and Raw Materials in the Field of Activity

The reduction of customs on imports during the last decade has increased possible supply sources for companies that operate in the field of sports and leisure. The Company regularly implements processes for locating new and exclusive suppliers from time to time, assessing existing suppliers, and conducting quality assurance for the products that they supply it with. See Section 10.12 to Part A to the report for further details about the suppliers in this field of activity.

10.2.7 Primary Blocks to Entry to and Exit from the Field of Activity and Applicable Changes

The Company assesses that the primary block to entry to this field of activity is the engagement in franchise agreements with leading companies in the field. Similarly, operations at the level of a chain of stores that is spread out nationwide requires large infrastructure investments, economic stability, and engagements with leading international sports and leisure brands.

The blocks to exit from this field of activity are primarily the costs involved in closing stores and getting out of agreements – primarily franchise agreements and rental agreements. We note that the primary entry and exit barriers in Saar Enterprises' field of activity are substantially similar to the barriers that characterise the Company's retail activities. See Section 8.2.5 to Part A to the report for details.

10.2.8 **Product Substitutes in the Field of Activity and Applicable Changes**

For the products that the Group sells in this field there are alternative products that are sold on a variety of platforms, including chains that offer sports footwear and clothing brands, stores that offer high-quality outdoor and leisure brands, marketers that offer sports, outdoor, and leisure brands with a similar degree of prestige, and internet sales websites.

The Company is working to strengthen and preserve the advantage enjoyed by the brand chains that it operates by offering a unique shopping experience to its customers and giving added value to its brands by ensuring current, leading, and fashionable collections, competitive pricing, advertising, and public relations.

10.2.9 **Structure of the Competition in the Field of Activity and Applicable Changes**

See Section 10.7 to Part A to the report for details.

10.3 Products and Services

The products sold by Sa'ar Enterprises can be divided into a number of categories:

[A] The four retail chains operated by Sa'ar Enterprises (Columbia, Outsiders, Shvilim, and Adidas) through which it markets its products;

[B] Sports footwear products, sports clothing and fashion, divided into products for women, men, and children;

[C] Dedicated products for the sports, travel equipment, camping, and leisure sectors;

[D] The multi-brand stores, compared to mono-brand stores – multi-brand stores market products under a wide variety of different brands that are from leading international sports and camping brands around the world, such as "Columbia," eco brands such as Picture Organic, Camelback, and Veldskoen, lifestyle brands such as Duer, Topo Designs, and FitKicks, as well as private brands – Aztec and Dune. Mono-brand stores market footwear, fashion, and sports accessories for one brand – such as Adidas, a well-known international brand.

10.4 Breakdown of Revenues and Profitability of Products and Services

Sa'ar Enterprises's products are similar in their primary characteristics, including with respect to engagements with them, use of items, and risk factors.

Below is a breakdown of income:

	For the year ended at			
	31.12.2022		31.12.2021 (**)	
	Revenues (in NIS Thousands)	Distribution of income	Revenues (in NIS Thousands)	Distribution of income
Retailers (*)	160,529	75%	63,706	70%
Wholesalers	53,673	25%	26,957	30%
Total	214,202	100%	90,663	100%

(*) Including data for online operations.

(**) Sa'ar Enterprises's operations under the Adidas began in 2022. Therefore, data presented for that year are relevant to Sa'ar Enterprises's operations of the Columbia, Outsiders, and Shvilim brand stores for the second half of 2021.

10.5 Customers

Most of Sa'ar Enterprises's customers are end consumers, meaning, random customers who purchase at the chain stores that it operates. Purchases through ecommerce sites are immaterial in volume. The remaining customers are institutional customers who purchase through arrangements signed between Sa'ar Enterprises and institutional entities, such as the Israel Police, the Israel Prison Service, and the Ministry of Defence. The credit terms that are given to institutional customers and/or wholesale customers are as are common in the industry. Therefore, the Group is not dependent on a specific customer the loss of which will have a material impact on its field of activity.

10.6 Marketing and Distribution

Sa’ar Enterprises markets its products through direct sales to the end customer in stores in Israel, primarily through its four retail chains - Columbia, Outsiders, Shvilim, and Adidas - as well as through online sale sites based on internet platforms as described above – one being the Columbia brand sales site and the other, the Outsiders brand chain's sales site.

As of the reporting date, Sa'ar Enterprises operates 18 stores using the "store operation" model (other than Adidas stores, which are not operated using this model), where remaining sites are directly operated by Sa'ar Enterprises. The operator is responsible for establishing the store and bearing the cost of its establishment as well as for its regular operation and management of its employees. Sa’ar Enterprises holds the rights to directly receive the store’s redemption as well as the rights to the store's inventory. In consideration of the franchisee's operations, it is entitled to a commission derived from the sales made by the relevant store. The franchise period is for the entire lease term pursuant to the lease contract for the relevant store.

Additionally, Saar Enterprises sells its products, other than Adidas products, wholesale to private stores and select chains around Israel. Alongside that, Sa’ar Enterprises is also the supplier to the military and defence forces and leading companies in the market.

Products are directly distributed to the chain's various stores by suppliers as well as importers. Distribution is performed pursuant to distribution instructions as agreed upon in the agreements between the parties according to sales forecasts, customer segmentation, product variety, targets, and actual sales. Distribution is primarily performed on a daily basis and includes products that were ordered according to each store's needs and items that are repeat orders.

10.7 Competition

There are many entities in Israel that sell and market local products and/or imported products in this field of activity that compete with Sa'ar Enterprises’s products, including local and international chains as well as private local stores. Additionally, there are stores that operate in this field of activity that include sportswear and sports equipment departments. In recent years, there has been an ongoing trend in Israel of increasing competition in retail sales, including in the sports and leisure sector.

Sa'ar Enterprises is working to preserve the advantage that is held by the chains that it operates by reinforcing the buying experience and ensuring product quality. Similarly, its products are directed at different target audiences and market sectors in order to meet the clothing, footwear, and extreme sports needs of the Israeli consumer while creating value that integrates various styles with high-quality. Sa'ar Enterprises is working toward providing a mix of products and a buying experience that will furnish a fashion solution that is targeted to the local climate and is in synch with international fashion trends. Additionally, Sa'ar Enterprises has engagements focused on particular market segments (such as the franchise agreement with Adidas). In engagements where Sa'ar Enterprises does not have territorial or other exclusivity, other nonexclusive franchise holders are the Company's competitors.

Company management does not have data regarding the size of the Israeli sports and leisure market nor information about the relative share held by various market competitors.

10.8 Seasonality

The outdoors sector is characterised by seasonality. Seasonal fluctuations are primarily felt
Below are data regarding sports and leisure sales in 2021 and 2022, by quarter:

	For the year ended at			
	31.12.2022		31.12.2021 (*)	
	In NIS Thousands	% of sales	In NIS Thousands	% of sales
Q1	55,527	26%	-	-
Q2	32,084	15%	-	-
Q3	38,654	18%	27,930	31%
Q4	87,837	41%	62,733	69%
Total	214,102	100%	90,663	100%

(*) Sa'ar Enterprises's operations under the Adidas brand began in 2022. Therefore, data presented for that year are relevant to Sa'ar Enterprises's operations of the Columbia, Outsiders, and Shvilim brand stores for the second half of 2021.

10.9 Property, Plant, and Equipment, Land, and Facilities

Sa'ar Enterprises's headquarters is located in Airport City. Sa'ar Enterprises operates through branches that it rents throughout the country. Sa'ar Enterprises rents these branches from various landlords. The rental agreements, for the most part, taking into account the options to extend, are for the medium-long-term. The renewal dates in these agreements are spread over the course of a number of years, and therefore, changes in the rental terms in the market have an incremental impact on the Company's expenses for rentals. Sa'ar Enterprises has the option to extend the rental agreements for additional periods with respect to most of the branches. The rental terms for each branch are determined as part of the negotiations with the landlord, and the rental fees are determined as a percentage of the store redemption or as fixed rental fees (linked to the consumer price index).

Below are details regarding the branches that the Group rents in this field of activity as at 31 December 2022:

	No. of branches (*)	Area (m2) (**)
Columbia	21	4,000
Outsiders	12	3,752
Shvilim	12	4,416
Adidas	16	5,220
Total	61	17,388

(*) Not including Shvilim Klahim Surplus, Shvilim Zarzir, Shvilim Koach, and Shvilim Migdal.
(**) Said area includes the areas of the branches and storage space.

Below is a breakdown of the segmentation of store rental terms in the field of activity:

Remaining rental term (*)	Rental Agreements	
	For the year ended at 31.12.2022	
	Number of branches (**)	Area (m2) (***)
Including exercise of the option		
Up to one year	8	2,019
1-5 years	22	4,881
5-10 years	25	7,791
10-15 years	5	2,265
> 15 years	1	432
Total	**61**	**17,388**

(*) Assuming the exercise of all option periods pursuant to the agreements.
(**) Not including Shvilim Klahim Surplus, Shvilim Zarzir, Shvilim Koach, and Shvilim Migdal.
(***) Said area includes the areas of the branches and storage space.

Below is a breakdown of Property, Plant, and Equipment, and Facilities

Property Type	For the year ended at					
	31.12.2022			31.12.2021 (**)		
	Area (m2)	Number of properties	Rental expenses (NIS Thousands) (*)	Area (m2)	Number of properties	Rental expenses (NIS Thousands) (*)
Active branches						
Not owned	18,199	65	1,370	9,741	40	812
Other – not owned						
Offices and logistical centres	2,672	1	142	2,672	1	67

(*) After applying IFRS 16.

(**) Sa'ar Enterprises's operations under the Adidas brand began in 2022. Therefore, data presented for that year are relevant to Sa'ar Enterprises's operations of the Columbia, Outsiders, and Shvilim brand stores for the second half of 2021.

10.10 Intangible Assets

As of the date of the statement, there are two trademarks registered in Sa'ar Enterprises's name with respect to the private brands Aztec and Dune. Similarly, Sa'ar Enterprises has nonexclusive rights to use the trademarks for the international brands that it represents for advertising and marketing and for displaying them in stores, pursuant to the provisions of the agreements.

Sa'ar Enterprises has the (nonexclusive) right of use in Israel and the Palestinian Authority territories of the Columbia tradename pursuant to Sa'ar Enterprises's licence agreement with Columbia. Columbia owns the usage rights to the intellectual property and any logo or trademark relating to its products that are used in the sale thereof, but as noted above, Columbia has granted Sa'ar Enterprises the option to use the trademarks provided that the use complies with the provisions of the trademark licensing agreement.

Pursuant to the nonexclusive franchise agreement with Adidas regarding the rights to use of intellectual property, provisions were established pursuant to which Sa'ar Enterprises has a nonexclusive right to use Adidas trademarks solely as part of store operation.

10.11 Human Capital

See Section 16 to Part A to the report for details about Group's human capital.

10.12 Suppliers

Sa'ar Enterprises acquires most of the products that it sells through dozens of suppliers, primarily in the Far East, Asia, and the US, where its primary supplier is the Columbia brand products supplier. Additionally, Sa'ar Enterprises purchases Adidas products from Adidas Israel. As a rule, those suppliers provide Sa'ar Enterprises with finished products. Orders are placed each season according to the terms agreed upon between the parties.

Additionally, Sa'ar Enterprises purchases products from a number of manufacturers, primarily in the People's Republic of China, that manufacture products for Sa'ar Enterprises's private brand according to its planning and/or design requirements.

Saar Enterprises's operations are in accordance with its franchise agreements with the owners of the international brands, and in this framework, Sa'ar Enterprises is exposed to their business condition.

As of the reporting date, the Company is not dependent on any of the suppliers in this field of activity. However, we note that the franchise agreements with Columbia and Adidas are material to this field of activity.

See Section 10.17 to Part A to the report for details about the agreements with said suppliers.

10.13 Working Capital

See Section 15 to Part A to the report for details about working capital.

[A] Product Return Policy

With respect to the return of products by customers, Sa'ar Enterprises complies with the provisions of the law.

In the Adidas agreement with Adidas Israel, Adidas has the right to return products pursuant to commercial caps and limitations. Adidas exercises its right to return merchandise to suppliers according to the commercial terms established with them.

[B] Customer Credit

In the year ended at 31 December 2022, the credit that Sa'ar Enterprises extended to its customers amounted to approximately 39 days.

[C] Supplier Credit

Sa'ar Enterprises' supplier credit in 2022 was approximately 70 days on average.

10.14 Financing

See Section 19 to Part A to the report for details about financing.

10.15 Environmental Risk Management

See Section 25 to Part A to the report for details about environmental risks and their management.

10.16 Restrictions and Oversight Applicable to the Field of Activity

For details about restrictions, statutes, standards, and special constraints that apply to the Group’s operations, see Section 18 to Part A to the report.

10.17 Material Agreements

10.17.1 Exclusive Franchise Agreement with the Columbia Brand

On 14 June 2021, Sa'ar Enterprises executed an agreement with Columbia Brands International Sarl ("Columbia International"), pursuant to which Sa'ar Enterprises would be granted an exclusive licence for establishing a chain of stores in Israel for the retail sale of fashion items, sports accessories, and footwear of the Columbia brand, one of the leading outdoors and leisure brands in the world. The licence was granted for a period of five (5) years as of the agreement signing date, automatically renewing by three (3) additional years unless one of the parties gives notice to the contrary 12 days prior to the licence renewal date.

In the provisions of the Company's licensing agreement for operation of the Columbia stores, according to the store operating standard as dictated by Columbia International and minimal inventory purchases each season.

Similarly, the licensing agreement establishes that the parties have the right to terminate the agreement in the event of material breaches as defined in the agreement, including, inter alia, with respect to breach of Columbia's intellectual property rights. With respect to the usage rights to the intellectual property, provisions were established pursuant to which Columbia International owns any logo or trademark relating to Columbia products that are used in the sale thereof, but Columbia International has granted Sa'ar Enterprises the option to use the trademarks nonexclusively provided that the use complies with the provisions of the trademark licensing agreement. See Note 5B to the financial statements for details about the allocation and investment agreements executed between ECP 1951, and Sa'ar Enterprises and its founders on 18 April 2021.

10.17.2 Franchise Operation of Adidas Store Chain

On 27 June 2022, after obtaining Adidas's approval, Electra Retail, Ltd. (a wholly owned subsidiary of the Company) and companies that it (directly or indirectly) controlled, Sa'ar A.T.

Enterprises & Trading, Ltd, and Electra Sport, Ltd. (the "Electra Retail Companies"), executed an agreement with the owner of the company, which has a franchise to operate sports equipment, fashion, footwear, and other products under the Adidas brand (respectively: the "seller" and the "acquiree"). Under the agreement, Electra Sport, Ltd. (the "acquiror") will acquire all of the issued and paid-up share capital in the acquiree (the "acquired shares") owned by the seller, subject to the fulfilment of conditions precedent, including obtaining approval from the Director General of the Israel Competition Authority, in consideration of the total sum of approximately NIS 31 million. The acquiree holds a long-term franchise until 2031 (subject to the terms of the franchise agreement) for operating stores for the sale of sports equipment and fashion and currently operates approximately 16 stores under the Adidas brand. On 27 July 2022, approval was obtained from the Director General of the Israel Competition Authority. During the course of September 2022, the remaining conditions precedent for the transaction were fulfilled, and it was fully closed.

Electra Retail has a franchise agreement with Adidas International to operate, for the most part, stores using a nonexclusive franchise model in Israel only, upon the terms and restrictions stipulated in the franchise agreement for the sale of products bearing the Adidas Group's trademarks. The agreement will apply for an initial period of five (5) years, commencing on the agreement execution date. At the end of that period, the agreement will be extended for an additional period of five (5) years unless either party has notified its counterpart of its intent to terminate the agreement at least six (6) months prior to the end of that period. The franchise agreement does not grant territorial or any other kind of exclusivity, including in the area where the franchised stores are or will be located or in the vicinity of such franchised stores.

10.18 Business Strategy and Targets and Development Forecast for the Coming Year

Sa'ar Enterprises' strategy for the coming years is based on expansion in Israel, optimisation of existing stores and shopping experience, improvement in the makeup of its products, investment in staffing, development of operations for additional new brands, improvement of its intellectual property, investment in building brand identity as a means of distinguishing itself from other chains – primarily through advertising, and management of a broad customer loyalty club and expansion of online operations. Sa'ar Enterprises intends to continue working on expanding its operations by opening additional stores and expanding existing stores in high demand areas in order to improve its business results. Similarly, Sa'ar aspires to continued fruitful collaboration with Adidas Israel.

10.19 Risk Factors

See Section 25 to Part A to the report for details about the risk factors applicable to the Group's activities.

11. Fifth Field of Activity – Development and Construction of Investment Property

11.1 General Information About the Field of Activity

Land in Rishon Le'Zion – the Company has ownership and leasing rights to land in Rishon Le'Zion, on which the Group's offices and the Company's climate control product factory are located. The Company acquired all of the rights to the land from the City of Rishon Le'Zion on 6 April 2017. See Note 11 to the financial statements for details about the acquisition of the rights to the land.

The land is rented by the Company to the Group's companies in consideration of annual rental fees of NIS 11 million.

In 2021, the Company executed a sale agreement with Reality Real Estate Investment Fund 4, Limited Partnership ("Reality") (after an agreement in principle was executed between the parties in March 2021) for the sale of half (50%) of the Company's ownership and lease rights to the land in Rishon Le'Zion as well as a joint venture agreement that regulates the relationship between the parties in connection with said land, including their joint operations in promoting and establishing a project with an optimal mix of uses on which the parties would agree.

The consideration paid to the Company in respect of the sale agreement came to the sum of NIS 137.5 million + VAT. Immediately after the sale agreement execution date, the Company was paid the sum of NIS 24 million, and the balance will be paid on the date of - and in exchange for - the handing over of possession and clearing the land, including the Company's factory, which shall occur not sooner than 27 months following sale agreement execution date and no later than the end of 60 months from the sale agreement execution date.

In January 2022, the Company, together with Reality, won a public tender announced by the City of Rishon Le'Zion for the acquisition of the ownership rights to Parcels 15 and 75 on Block 5032, with a total area of approximately nine hectares in consideration of the total sum of NIS 106 million. Upon conclusion of the transaction with the City and the acquisition of all of the above rights in the parcels, the Company and Reality will jointly possess the above parcels, in equal shares between them, and shall work in the format of a collaborative transaction (or other agreed upon format) for the improvement of the above parcels and adding them to the existing joint operations between the Company and Reality on land in Rishon Le'Zion as set forth in Note 12 to the financial statements with the objective on initiating and establishing project with an optimal mix of use to be agreed upon by the parties.

11.2 Structure of and Changes to the Field of Activity

As noted above, the Company's activities in this field take place on lots that are part of the land known as Parcel 16 on Block 5032 in the Rishon Le'Zion Western Industrial Zone (the "parcel" and the "Industrial Zone," respectively), where the Group's factory and headquarters are located (the "complex"). The lots were purchased for fulfilling their inherent potential by initiating an income-producing real estate project for employment purposes according to the new plan (as defined below) that is currently in effect.

In March 2017, Plan RZ/20/168 was published (the "new plan"), which applies, inter alia, to the parcel and includes, inter alia, provisions regarding the rezoning of the land in the new plan and turning the Industrial Zone into an advanced employment and business centre. Pursuant to the provisions of the new plan, the parcel was split into five planning sub-complexes as follows: Lots 220 and 281 (these lots, with a total area of 51.725 hectares are the lots that the Company purchased from the City of Rishon Le'Zion, the "lots") are zoned for employment, as defined in the new plan; Lot 507, which is zoned as an open public space; and Lots 704 and 713, which are zoned for transit purposes.

According to the provisions of the new plan, the primary uses included in the employment zoning (which, as noted, is the zoning that applies to the lots) are offices, high-tech industry, clean industry, commerce (on the two first floors only), restaurants and eateries, event halls, culture and entertainment buildings, hospitality, clinics and laboratories, petrol stations, and cement factories.

As a set forth above, the Company, together with Reality, is considering how to continue promoting the project and its characteristics with the Company working with the goal of trying to advance the new plan and obtain approval for it, which will allow mixed-use. However, there is no guarantee that such new plan will be approved. The Company, together with an architect and a team of consultants, is examining how to fulfil the land's potential and meet demand for the complex and how to accordingly advance the planning processes for the lots.

11.3 Critical Success Factors in the Field of Activities

The Company assesses that the primary factors contributing to success in this field of activity are:

11.3.1 Financial stability and liquidity, which facilitate the required equity investment for the execution of the project and reduce dependence on bank credit, its availability, and its terms;

11.3.2 Outside financing for project construction;

11.3.3 Proper pricing, analysis, and planning of the project, including maintenance of budget controls and meeting the established timetables for project construction;

11.3.4 Proper placement and branding of the project and maintenance of goodwill;

11.3.5 Experienced and professional human capital in the field.

11.4 Primary Blocks to Entry to and Exit from the Field of Activity

The Company assesses that the quality of human capital, the ability to recruit experienced human capital, equity and/or the ability to obtain equity from outside sources, and reputation are the primary blocks to entry for any entry into the investment property sector or similar sectors.

The Company assesses that the primary blocks to exit from this field of activity are the duration of the execution of projects, contractual commitments to project interest holders and financing entities, and the difficulty of quickly disposing of properties/land for appropriate consideration.

11.5 Structure of the Competition in the Field of Activity and Applicable Changes

The field of investment property in Israel is characterised by a good deal of competition inasmuch as this field is saturated, including by private entities and publicly traded real estate companies, etc. Competition is affected by the quality of the property, which is determined, inter alia, by the location of the property, the planning thereof, and the attached building rights. We note that because of the limited inventory of land in the country, there is a good deal of competition in the investment property sector among different companies in locating land in high demand areas and winning various land tenders for investment.

11.6 Below are the primary details about material investment land in which the Group has rights as of the reporting date:

Land Reserve Name and Characteristics		Reporting Period	Financial Data (Data according to one hundred percent; the Company's share in the land - 50%)						Data Relating to the Land's Planning Status as at the Reporting Date	
			Data with respect to fair value and revaluations (in NIS Thousands)			Data about the valuation and underlying assumptions			Current planning status	
			Fair value at end of year (consolidated) (in NIS)	Carrying amount at end of year (consolidated) (in NIS)	Annual revaluation earnings (losses) (consolidated) (in NIS)	Appraiser's name and experience	Valuation model	Additional assumptions underlying the valuation – as applicable, number of comparison properties, average price per square metre of comparison properties	Current zoning	Current building rights
Land reserve name	Lot Nos. 280 and 221 pursuant to detailed plan RZ/20/168, constituting portions of Parcel 16 on Block 5032 in Rishon Le'Zion	12/2022	327,000	326,616	30,505	Odales Kanon Real Estate Appraisers Expert's particulars: Ofer Odales, Appraiser Licence No. 782, first issued in 1998.	The extraction (cost) method integrated into the sales comparison method and the income capitalisation for audit method	Price per square metre for valuation purposes (in trade currency) – the estimated value is NIS 2,000 per developed square metre. Price range per square metre of comparable properties (in trade currency) – NIS 1,600-2,350 per developed square metre. Number of comparable properties – 2. Other central variables – Block 5034, Parcel Number 5, Block 5033, Parcel Number 39, and a number of recent profitable transactions for income-producing properties. Similarly, assumptions relating to market value of the ownership rights to the property; location of the property in the Industrial Zone; the size of the examined property; and the usable building rights.	Employment zone (on Lot 221, there is a demarcation for a commercial façade)	Primary – 260% Top-level service – 90% Subterranean service – 165%
Region	Rishon Le'Zion Western Industrial Zone									
Trade currency	NIS	12/2021	269,700	269,700	51,118	Yaron Spector Real Estate Appraisal Ltd. Expert's particulars: Yaron Spector. Appraiser Licence No. 296, first issued in 1992.	The comparative approach	Price per square metre for valuation purposes (in trade currency) – Lot 221 – NIS 1,850 per square metre were zoned for offices and high-tech industry combined with commerce, Lot 280 – NIS 1,850 per square metre were zoned for offices and high-tech industry; price range per square metre of comparable properties (in trade currency) – NIS 1,760-2,700 per square metre; number of comparable properties – 1; with respect to the primary properties used for purposes of comparison – Lot number 5061, part of the 1000 Complex, Rishon Le'Zion; other central variables – Lot number 541, part of the 1000 Complex, Rishon Le'Zion.		

Land Reserve Name and Characteristics		Reporting Period	Financial Data (Data according to one hundred percent; the Company's share in the land - 50%)						Data Relating to the Land's Planning Status as at the Reporting Date	
			Data with respect to fair value and revaluations (in NIS Thousands)			Data about the valuation and underlying assumptions			Current planning status	
			Fair value at end of year (consolidated) (in NIS)	Carrying amount at end of year (consolidated) (in NIS)	Annual revaluation earnings (losses) (consolidated) (in NIS)	Appraiser's name and experience	Valuation model	Additional assumptions underlying the valuation – as applicable, number of comparison properties, average price per square metre of comparison properties	Current zoning	Current building rights
cation of the land	Portions of Parcel 16 on Block 5032, between Minister Shapira, Sapir, and Prof. Habut Streets in the Rishon Le'Zion Western Industrial Zone	12/2020	216,530	216,530	(3,068)			Price per square metre for valuation purposes (in trade currency) – Lot 221 – NIS 1,580 per square metre were zoned for offices and high-tech industry, Lot 280 – NIS 2,980 per square metre (commercial), Lot 280 - NIS 1,580 per square metre; price range per square metre of comparable properties (in trade currency) – NIS 1,760-1,880 per square metre; number of comparable properties – 2; wth respect to the primary properties used for comparison purposes – part of Parcel 228 on Block 3946, the 1000 Complex, Rishon Le'Zion - Lots 541 and 5084; other central variables – Lot number 541, part of the 1000 Complex, Rishon Le'Zion, Lot 5084 - building rights for offices and commercial.		
Land purchase date	04/2017									
Corporation's actual share (%)	50%									
Method of presentation in consolidated statement	Fair value									
Area of the land (m2)	51,819									
Cost basis (in NIS)	185,000,000									

Chapter D: Matters Relating to the Group as a Whole

12. Breakdown of Income and Profitability of Products and Services

Below are details regarding the amount and percentage of income that derive from each group of products (other than Bitan Wines products; with respect to the Bitan Wines group of products, see Section 9.5 to Part A to the report) or similar services the income from which constitute 10% or more of the total income for the Group in 2020, 2021, and 2022:

Product Group	Income (in NIS thousands)			Share of all of the Group's income (in %)		
	2022	2021	2020	2022	2021	2020
Climate control systems (*)	1,060,276	894,316	837,730	17%	19%	34%

(*) Includes overhead and ducted air conditioners, water-based cooling systems, heating systems, VRF systems, accessories, replacement parts, expanded product warranties, and exports. Does not include income of the subsidiary in France and does not include income from the Carrefour product group, which are presented in Section 9.4 to Part A to the report.

13. Property, Plant, and Equipment, Land, and Facilities

13.1 See Section 11.1 to Part A to the report as well as Notes 11 and 12 to the financial statements for details about the Company's land in Rishon Le'Zion.

The Group rents the remaining space that is used for its operations, including the retail chain stores that it owns, as set forth in Sections 8.9, 9.12, and 10.9 to Part A to the report.

13.2 For additional details about the composition of the Group's property, plant, and equipment balances, see Note 13 to the financial statements.

14. Intangible Assets

14.1 For details about the intangible assets that the Group owns and/or uses, see Sections 7.11, 8.10, 9.13, and 10.10 to Part A to the report. See Note 15 to the financial statements for details about the total costs of brand names, trademarks, and other intangible assets.

14.2 As noted in Section 7.1.3 to Part A to the report, in recent years, there has been an increase in the volume of online sales of electrical consumer products. The last year, in particular, was characterised by a large number of sales through the Company's website as a result of the effects of the Covid 19 pandemic and restrictions on movement. The Company invests heavily in developing, upgrading, and maintaining the "PaynGo" ecommerce website (Mahsanei Hashmal) and the Shekem Electric ecommerce website.

14.3 Software, computer systems, and databases – the Group uses software and computer systems, some of them pursuant to a purchased licence and some that were developed by the Group's information technology systems division. A significant portion of the licenses thus purchased by the Company are time-limited and periodically renewed. In 2022, the Company invested the sum of NIS 32.9 million for purchasing and/or renewing licences and/or upgrading the Group's information systems as well as for purchasing hardware and infrastructure work. The Group has a number of personnel, customer, and other databases.

14.4 The franchise agreement with Carrefour – pursuant to Bitan Wines's engagement in an exclusive franchise agreement for the operation of the Bitan Wines chain's stores under the Carrefour brand, the Group expects to make exclusive use of said brand names. The franchise agreement is for a period of 20 years, with automatic renewal for an additional 20 years as well as options to extend for 20-year periods with the consent of the parties.

14.5 An exclusive Israeli franchise agreement with 7-Eleven – ECP 1951 entered into an exclusive franchise agreement with 7-Eleven Inc. for the development and operation of convenience stores under the 7-Eleven brand in Israel. The parties agreed that the franchise term would be 20 years with options to extend the term by up to a maximum of 50 additional years subject to meeting the conditions that were established in the franchise agreement. See Section 9.11.4 to Part A to the report for details.

Similarly, the Group is engaged in various franchise agreements with other brands, including the Columbia and Adidas brands. See Section 10.17 to Part A to the report for details.

14.6 As at 31 December 2022, the Group, through Bitan Wines, has been operating credit card-based customer loyalty clubs under the brands – Club Daily and Club 365, which collectively boast approximately 200,000 customers.

15. Working Capital

15.1 As at 31 December 2022, the Company listed, in its financial statements, negative working capital (net) (current assets less current liabilities) in the sum of NIS 468 million (net of the Bitan Wines Group, the Company has positive working capital (net) in the sum of NIS 284 million) and negative (net) operating capital - which characterises retail operations such as the Company's - in the sum of NIS 97 million (net of the Bitan Wines Group, the Company has positive operating capital (net) in the sum of NIS 335 million). Similarly, as at that date, the Company has negative working capital (net) (current assets less current liabilities) in the sum of NIS 72 million and negative (net) operating capital in the sum of NIS 6 million. See Section 17.2 to the board of directors report for additional details.

15.2 Below are the average credit amounts and credit days offered to the Group's customers and suppliers and inventory days that the Group maintains on average over the course of the year:

	2022	2021
Inventory days	74	83
Customer credit days (calculated net of discount balances and supplier endorsements)	34	41
Supplier credit days	127	(*) 133
Average inventory balance (in NIS Thousands)	893,603	764,200
Average amount in trade receivables (in NIS Thousands)[19]	677,430	604,517
Average amount in trade payables (in NIS Thousands)	1,639,956	1,402,779

(*) We note that an update was made to this line with respect to credit days in 2021.

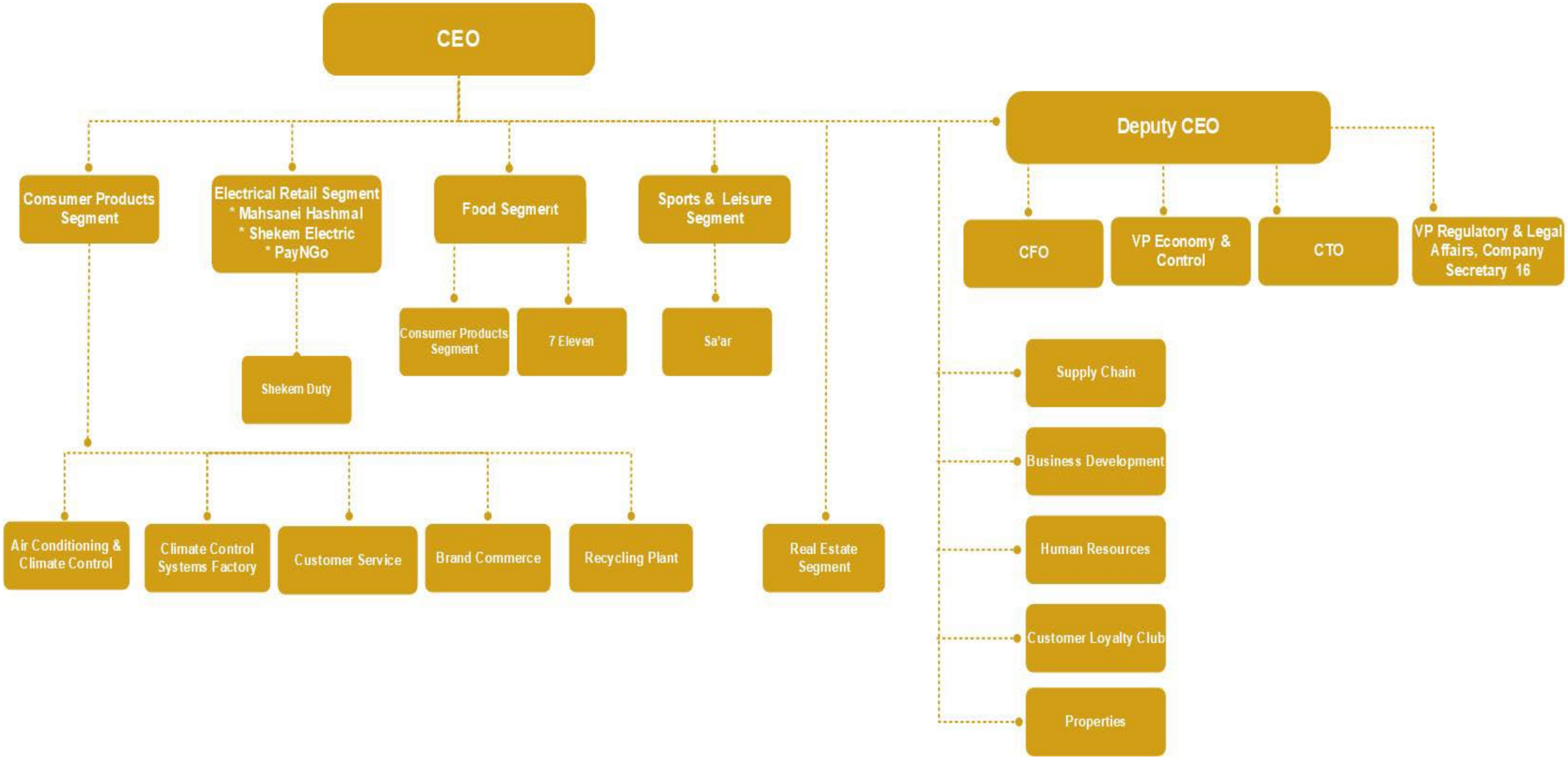
15.3 In each quarter, the Company conducts a review with respect to the need for reducing dead/slow inventory. In every product category, dead/slow inventory is defined according to the product and its technological character by age and inventory turnover.

16. Human Capital

16.1 As at 31 December 2022, the Group employed 6,857 workers (including contract staffing company workers) whereas at 31 December 2021, the Group employed 6,656 workers (including contract staffing company workers).

[19] We note that credit days are calculated net of discount balances.

16.2 Below is a chart of the Group's organisational structure as at the reporting date:



16.3 **The Group's human capital comprises the following groups of workers:**

Senior Management	Comprises 19 executives, divided as follows: (1) Headquarters management - CEO, deputy CEO, VP - Supply Chain and Operations, VP - Human Resources, VP - Loyalty Clubs, VP - Properties, Chief Financial Officer, VP - Economics and Control, VP - Information Systems. (2) Business unit directors – CEO - food segments, CEO - air conditioners and climate control systems, CEO - trade and brands, co-CEOs - electrical retail, CEO - customer division, CEO - factory, co-CEOs - Sa'ar, CEO - Electra Convenience Stores.
Divisional and Headquarters Management	In the various operations and headquarters divisions, and format directors (who report to members of senior management).
Middle Management	Branch/store and retail operations regional managers and team leads.
Sales Employees	Sales managers and employees in business units and branches/stores and in retail operations.
Technical Workers	Technical managers and employees, engineers, and technicians.
Manufacturing Workers	Manufacturing executives and workers.
Headquarters Workers and Shared Services	Headquarters employees in the fields of: finance, information systems, supply chain and operations, marketing, human resources, administration, and organisation.

16.4 **Below is a table describing the distribution of the Group's personnel by fields of operation:**

	The Electrical Consumer Products Field		Electrical Retail Field		Retail Food Field		Investment Property Field		Sports and Leisure	Central Management Headquarters		Total	
	31 December		31 December		31 December		31 December		31 December	31 December		31 December	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2022**	**2021**	**2022**	**2021**
Sales and marketing	114	121	808	844	4,103	4,282	-	-	487	-	-	5,512	5,510
Service	140	132	1	-	-	-	-	-	-	-	-	141	132
Manufacturing, development, engineering, and quality management	461	427	-	-	-	-	-	-	-	-	-	461	427
Supply chain (import, procurement, information systems, administration, logistics, and quality management)	27	-	136	123	133	89	-	-	44	72	63	412	296
HQ/Management	10	7	65	62	82	77	-	-	17	157	133	331	291
Total	**752**	**687**	**1,010**	**1,029**	**4,318**	**4,448**	**-**	**-**	**548**	**229**	**196**	**6,857**	**6,656**

As of the reporting date, the Company is not dependent on any particular employee.

16.5 Description of the Group's Investments in Training and Instruction

The Group invests in teaching and training workers in order to expand their professional know-how; improve skills, professionalism, and leadership; and promote a culture of organisational metrics and excellence. In 2020, the Group established the Electra Academy, a college comprising four (4) training channels for the Company's employees and outside customers. The college allows outside customers to learn about air conditioning systems in collaboration with the Ministry of Labour. (refrigeration studies and professional level 1.) For the Company's employees, the Academy has three (3) learning tracks: development of work skills, including additional training for position specifications, some of which are in collaboration with the Ministry of Labour (classified electrician course); mandatory trainings such as safety trainings; executive development and enrichment courses.

The training and instructional programmes are carried out through a number of central channels: [A] organisation-wide instructional programmes intended for employees from all of the Company's units and including development of and training on job skills, and enrichment and development of human capital; [B] dedicated training programmes by profession and/or field of activity; [C] executive development and training programmes; [D] training and instructional programmes for professions as required by law (regulation); [E] development of professional forums; [F] training programmes for organisational development; and [G] a focus on professional instruction and regulatory training for improvement of service and of the manufacturing network. In 2021, the Group commenced development of a managerial reserve at the middle management level and implemented assessment and feedback processes through a learning management system (LMS), which is a digital system through which the Group makes online courses accessible to employees and plans key performance indicator (KPI) targets, including performance monitoring.

16.2 Benefits and the Nature of Employment Agreements

Most of the Company's employees, other than executives at the various levels and/or positions that require a large measure of trust, are employed through collective employment agreements. Executives and employees who are not included in the collective employment agreements are employed through personal employment agreements that include a clause addressing payment for global overtime hours.

The employment terms for the manufacturing plant's employees are regulated through a collective employment agreement that was renewed and executed in January 2022. This agreement, as we have noted, will remain in effect for a period of five (5) years as of the effective date, which is 1 July 2021.

On 6 January 2020, a special collective agreement was executed between the Company and the National Workers Union, which will remain in effect until 7 January 2025.

Equal Wage Law

As a publicly traded company and in keeping with the requirements of the law, an equal wage for males and females report was published on the Company's website for 2021. The report compares salaries for male and female employees in similar professional groupings.

The breakdown of employees was done by profession, class of professions, ranking, seniority, etc. The Group believes in equal business opportunities and gender equality. The Company espouses remuneration and promotion based on performance and excellence, regardless of gender.

Looking to the future, the Company aspires to be an example of a company that espouses gender equality and equal wages but, more importantly – of a company that has taken and is taking concrete steps to fulfil this goal in practice.

16.3 Officers and Senior Management

See Section 21 to part D to the report with respect to the Group's engagements with interested parties and senior Company officers.

16.4 See Note 26D to the financial statements for details about the option plans for the Group's executives and senior employees. Similarly, some of the Company's subsidiaries have equity payment plans based on which the companies grant options to executives and officers.

16.5 See Section 25.1.3 to Part A to the report for details about the risk factor relating to an increase in the minimum wage.

17. Taxes

See Note 24 to the financial statements for details about the tax legislation applicable to the Group, its effect on its financial results, as well as proceedings being conducted by the Group.

18. Restrictions and Oversight Applicable to the Group’s Operations

18.1 The Promotion of Competition and Reduction of Concentrations Law, 5774-2013

The Concentrations Law regulates a number of matters relating to reducing concentrations in the Israeli economy: weighing considerations of concentration and sectoral competitiveness in the allocation of interests; limiting control in companies in a pyramid structure; and separating between significant real corporations and significant financial bodies.

In the portion addressing considerations of economy-wide concentrations and sectoral competitiveness in the allocation of interests, the Concentrations Law contains provisions that require regulators - who possess the power to allocate rights ("regulators") - to weigh considerations of encouraging sectoral competition and reducing economy-wide concentrations before allocating interests in public properties to private entities.

Pursuant to the provisions of the Concentrations Law, extension of the duration or renewal of an interest is equivalent to allocating a new interest in the event that the holder of the interest for which an extension is sought has held it more than ten years and the allocation of the interest or a prior extension thereof was not reviewed pursuant to the provisions of the Concentrations Law during the course of the ten years preceding the application for the extension.

With respect to weighing considerations of economy-wide concentrations, the Concentrations Law stipulates, inter alia, that:

A regulator may elect to refrain from allocating an interest to a centralising entity if he/she finds that it is likely that there will be no real harm to the field in which the interest is allocated and the regulation of said field as a result of the non-allocation.

A regulator seeking to allocate an interest to a centralising entity shall not do so and shall not permit a centralising entity to participate in the allocation proceeding for such interest and shall not establish conditions permitting the allocation of the interest to a centralising entity except after having weighed considerations of economy-wide concentrations and consulting with the Committee to Reduce Concentrations. Additionally, the regulator must take into account considerations of sectoral competitiveness in relation to the allocation of such interests as well as in relation to the granting of the licence necessary for a field of activity that is not an essential infrastructure field in cases where, because of the nature of the interest, its economic value, or the law applicable to it, the number of workers in the industry with respect to which it is allocated is limited.

In the part addressing the separation between significant real corporations and significant financial bodies, the Concentrations Law's provisions impose restrictions and conditions for creating a separation between significant financial bodies and significant real bodies, including, inter alia, prohibiting a significant real corporation or its controlling shareholder from controlling a significant financial body or possessing means of control in excess of the pre-determined amounts. Pursuant to the provisions of the Concentrations Law, a financial body includes, inter alia, an insurance company, a provident fund management company, a banking corporation or ancillary corporation, the manager of a mutual fund, and an investment portfolio manager. A real corporation is defined as a corporation that is not a financial body.

In the portion addressing limiting control of companies in a pyramid structure, the Concentrations Law restricts, inter alia, the activities of groups that are incorporated in a multilevel pyramid structure and requires them to reduce the levels of the pyramid as well as prohibits the existence of three-level pyramid structures. In light of the fact that the Company is a second-level company (as it is controlled by Elco, a publicly traded company), and as long as it continues to be a second level company, the Concentrations Law prevents the Company from acquiring or holding control of a reporting corporation.

On 12 December 2017, the Company became aware that on 21 December 2016, the Committee for the Reduction of Business Concentrations published an update to the list of centralising entities pursuant to the Concentrations Law in which Elco Ltd. and its subsidiaries, including the Company, were added to the list of significant real companies. As a result, since then, they are also considered a centralising entity as defined in the Concentrations Law. We note that in August 2022, the Concentrations Reduction Committee published an updated list of such centralising entities.

18.2 **Consumer Protection Law, 5741-1981 ("Consumer Protection Law") and the Regulations and Orders Promulgated Thereunder**

As marketers of consumer products and service providers, the Group is subject to the various consumerism laws and in particular, the Consumer Protection Law and the regulations promulgated thereunder, which impose various obligations on a business with respect to the consumer. As of the reporting date, to the best of the Group's knowledge, the Group is in compliance with this law and the regulations promulgated thereunder.

18.3 **Privacy Protection Law, 5741-1981**

In the framework of the Group's customer loyalty club operations and registered databases, including in connection with holders of its credit card, the Group is subject to the Privacy Protection Law. Pursuant to the Privacy Protection Law's provisions, personal information included in databases will only be used for the purposes for which the information was provided and in accordance with the purposes of each database. In certain cases, the Group is subject to a duty to report to the Privacy Protection Authority and the Registrar of Databases who sits at its head. The Group is also responsible for maintaining the confidentiality of the information in its possession and ensuring the security of the personal information stored in the databases. As to the distribution of advertising materials to customers and direct mail, the Company is in compliance with the provisions of the Privacy Protection Law and Section 30A to the Communications Law (Bezeq and Broadcasts), 5742-1982.

18.4 **The Standards Law, 5713-1953, and the Regulations Promulgated Thereunder, and the Free Import Order, 5769-2008 (the "Import Order")**

The Import Order requires approval of the Standards Institute of Israel, or a laboratory that has been approved by the Commissioner of Standards, for any electrical home appliance. Pursuant to the order, for a new electric device to be imported, it must undergo prototype testing by the Standards Institute of Israel or another testing lab that has been approved by the Commissioner of Standards. As of the reporting date, to the best of the Group's knowledge, the Group is in compliance with said legislation.

Air conditioning operations in Israel and overseas are based on products meeting the requirements of Israeli standards. In this context, we note that the Company has an agreement with the Standards Institute of Israel guaranteeing the Standards Institute of Israel's oversight of manufacturing processes and granting standards label permits for air conditioners under such oversight. There is a similar agreement for imports with a standards label from an oven factory in Poland. As of June 2022, import reforms have taken effect that permit receipt of products pursuant based on declaration alone.

18.5 **The Energy Sources Law, 5750-1989**

Regulations that have been enacted based on the Energy Sources Law govern energy efficiency rankings - that electrical products that are imported to, manufactured in, or sold in Israel must meet - as well as their required labelling. As to air conditioners, the regulations establish a minimum energy efficiency and rating (COP); as to refrigerators/freezers, the regulations establish a minimum efficiency and energy rating for refrigerators; regarding laundry machines and dryers, dishwashers, and ovens, the regulations establish the minimum efficiency level for energy consumption specifically for each of these devices. As of the reporting date, to the best of the Group's knowledge, the Group is in compliance with said regulations.

The import reform, accordingly, in the field of energy that took effect in September 2022 allows importers to provide a declaration as to a product's energy efficiency data for a product as well as indicated on the product's label. Additionally, the reform repealed the Israeli Energy Efficiency Regulations and adopted European standards. The effective date for large home appliances is 28 February 2023 and for air conditioners, 1 January 2024. The above dates are conditioned on approval of the Knesset Finance Committee and the Minister of the Economy. Up until those days, it will also be possible to import and manufacture products according to the old regulations.

All models of air conditioners, refrigerators, laundry machines, dryers, dishwashers, and ovens have been tested and meet the requirements of the Energy Efficiency Regulations that are under the oversight of the Ministry of Energy.

18.6 **International Standards**

The air conditioners manufactured at the Group's factory that are intended for export undergo testing and approval processes pursuant to European and other standards based on the products' destination countries. As of the reporting date, to the best of the Group's knowledge, the Group is in compliance with European/foreign standards pursuant to the relevant destination countries.

18.7 **Quality Assurance**

Air conditioners that are manufactured and imported by the Group carry the Standards Institute of Israel's standards label and are also approved by European standards institutions. Some of the products manufactured at the factory in Rishon Le'Zion bear the Standards Institute of Israel's green label, which indicates improved environmental performance. All of the Group's products undergo meticulous review processes at the factory and standards testing at the Standards Institute of Israel, which, as noted, also oversees part of the manufacturing processes for products bearing a standards label, including inspections of regular shipments of imported products, as necessary.

The Company has a combined quality, environmental quality, workplace safety and health management system pursuant to international standards ISO 9001-2015, ISO 14001:2015, and ISO 45001:2018 for purposes of maintaining processes for the constant improvement of product quality, customer service, and employee well-being.

18.8 **The Defective Products Liability Law, 5740-1980**

This law establishes that manufacturers (as defined in the law, which also includes an importer) are required to compensate anyone who suffers physical injury as a result of a defect in a product that they manufacture or import, subject to the defences established in the law. In order to cover the risk involved in manufacturing or importing a defective product, the Group maintains an insurance policy for products liability as set forth in Section 20 to Part A to the report and according to the recommendations received from the Company's insurance consultants.

18.9 **The Business Licensing Law, 5728-1968 (the "Business Licensing Law") and the Regulations Promulgated Thereunder**

Pursuant to the Business Licensing Law, there is a prohibition against a person or corporation engaging in a business that requires a licence unless they have a licence pursuant to the Business Licensing Law and its conditions. All of the Company's stores through which the Shekem Electric and Mahsanei Hashmal chains operate are exempt from the business licence requirement pursuant to Licensing Item 6.2 to the Business Licensing Order (Businesses Requiring a Licence), 5773-2013, because the sales space therein does not exceed 800 m². Therefore, to the best of the Company's knowledge, the Company is in compliance with the provisions of said law. Similarly, the Company is working on compliance, at a cost that is immaterial to the Company, for its operations in the Company's complex in Rishon Le'Zion that require a business licence. In July 2019, a business licence application was filed for the air conditioner factory and the buildings servicing its operations. As at 31 December 2022, the required approvals have been obtained from the relevant entities for obtaining a business licence other than fire department approval, engineering department approval, and permanent approval from the environmental protection department. The Company was granted temporary approval from the Ministry of Environmental Protection until March 2022. The Ministry of Environmental Protection has expressed a willingness to give the Company an extension for completion of the process. The Company is currently waiting for permanent approval after having completed the actions required of it. With respect to the service centre that the Company rents and operates in Haifa, it does not require a business licence pursuant to the Business Licensing Order (Businesses Requiring a Licence) (Amendment), 5779-2018, repealing reference to service centres as businesses requiring a licence.

18.10 **Labour Law Legislation and the Work and Rest Hours Law, 5711-1951**

The Company has various enforcement and control mechanisms that are necessary as a result of the employment of a large number of workers (such as a sexual harassment coordinator) and also works to ensure compliance with provisions of law regarding payment of wages and ancillary rights while making pension contributions as required by law. The Company is a party to two collective employment agreements with which it complies. The Company conducts regular reviews to ensure that payments to employees are duly made, including regarding the contributions required in connection therewith. As of the reporting date, to the best of the Group's knowledge, the Group is in compliance with the provisions of said law.

18.11 **The Workplace Safety Ordinance (New Version), 5730-1970 and the Regulations and Orders Promulgated Thereunder**

The Group has a chief safety officer and additional workplace safety supervisors who are in charge of compliance with the Group's safety directives. As part of these safety maintenance activities, the Group regularly carries out briefings and courses regarding enforcement of safety rules and ensuring worker safety. As of the reporting date, to the best of the Group's knowledge, the Group is in compliance with the provisions of the ordinance.

18.12 **The Packaging Handling Law, 5771-2011 (the "Packaging Law")**

The Packaging Law imposes a requirement on manufacturers and importers of packaged goods and/or package waste recycling service packaging, pursuant to the recycling targets established in the Packaging Law, to transmit various reports as well as enter into an agreement with a company that has been licensed by the Ministry of Environmental Protection that will fulfil manufacturers' obligations. Pursuant to the provisions of the Packaging Law, the Group has engaged the Tamir Packaging Recycling Corporation in Israel. During the reporting period, the Group's expenses relating to implementation of the law amounted to NIS 810 thousand.

18.13 **Environmentally Friendly Handling of Electrical and Electronic Equipment and Batteries Law, 5772-2012 (the "Environmental Handling Law")**

The Environmental Handling Law establishes various provisions that apply to manufacturers, importers, and marketers of electronic equipment intended for sale or marketing in Israel, with respect to collection, handling, and recycling of electric and electronic equipment waste and batteries. Manufacturer and importer requirements are carried out through an entity whom they engage that has received a licence from the Ministry of Environmental Protection ("recognised implementation entity"). As of the reporting date, the Company is engaged in an agreement with such a recognised implementation entity. During the reporting period, the Group's expenses relating to implementation of the law amounted to NIS 7.8 million.

18.14 **Equal Opportunities for Persons With Disabilities Law, 5758-1998 (the "Equal Opportunities Law")**

The Group is subject to the provisions of the Equal Opportunities Law and the regulations promulgated thereunder, including the Equal Opportunities for Persons with Disabilities Regulations (Making Existing Public Buildings Accessible), 5772-2011, and the Equal Opportunities for Persons with Disabilities Regulations (Service Accessibility Accommodations), 5773-2013, with respect to accessibility accommodations in a public location that is an existing building and with respect to service accessibility. The Group has established and performs a plan for implementation of the provisions of this law and everything relating to accessibility of buildings, infrastructures, and surroundings, as well as service accessibility according to the dates established in the law and regulations. As of the reporting date, the Company is fully compliant with the law's requirements.

18.15 **The Reduction of the Use of Cash Law, 5778-2018 (the "Cash Law")**

On 18 March 2018, the Cash Law was published in the Official Gazette and took effect on 1 January 2019. The Cash Law establishes, under different conditions, a prohibition on receiving payment in cash as well as making cash payments in that amount, on a business person as well as a person who is not a business with respect to a "transaction," as well as giving and receiving wages, donations, or loans, if the transaction price, wage, donation, or loan, exceeds the sum of NIS 11,000. Similarly, the Cash Law prohibits a business from giving or receiving, during the course of its business, payment by check for a transaction or as a wage, donation, gift, or loan without the name of the recipient of the payment by cheque being indicated on the cheque as the beneficiary or endorsee, as applicable. Additionally, it establishes a prohibition on any person from endorsing or receiving an endorsed cheque (as endorsee) without the endorser's name and identification number being indicated on the cheque. A violation of the provisions of this law may result, under various conditions, in a fine. Similarly, the Cash Law establishes criminal penalties for fraudulently dividing up a transaction, wage, donation, loan, or gift, as well as recording false details on a document. The Cash Law grants authority to amend the ledger management provisions under Section 130 to the Income Tax Ordinance regarding documentation of payment methods, including regarding retention of documents evidencing payment methods. Additionally, the Cash Law establishes that the buyer of a "right to land" who is required to submit a declaration pursuant to the provisions of Section 73 to the Real Property Tax Law (Capital Gain and Purchase), 5723-1963, will include details in his/her declaration regarding the methods of payment by which the consideration is paid together with documentation (according to the conditions that shall be established by the Director) or will declare that the payment methods are not known to him/her.

18.16 **Section 30A to the Communications Law (Bezeq and Broadcasts), 5742-1982** – the Group sends advertisements to customers through various means, such as text messages or email. The provisions of the Communications Law impose various restrictions on the Group in connection with the sending of such advertisements, such as pertains to the form and content of the message, subscription to and removal from distribution lists, etc.

18.17 **Collective employment agreements** – see Section 9.14.1, 16.6, and 18.10 to Part A to the report for further details.

See Section 9.10 to Part A to the report for details about the restrictions and oversight applicable to Bitan Wines.

19. Financing

19.1 The Group primarily finances its operations from its shareholder equity and by the use of short-term and long-term credit from banks, as well as from debentures, loans, and credit card discounting. See Note 19 to the financial statements for details about the Group's financing. See Section 1.4.2 to the board of directors report for details about (Series A) bonds issued by the Company in February 2022 (including expansion of the series in August 2022 and in December 2022).

19.2 **Credit Facilities**

As of the reporting date, the Group has credit facilities from banks as well as from credit card discounting. The Company uses bank credit facilities, guarantees, and documentary credit.

The Company's subsidiaries have loans that include grounds for being called immediately due, including grounds by which the debt is likely to be called immediately due if the subsidiary is required to repay any of the debts or liabilities from other entities under conditions established in financing agreements.

Below are details about the credit facilities made available to the Group and the use thereof as at 31 December 2022 and immediately prior to the reporting date (in NIS thousands):

	31 December 2022	Immediately prior to reporting date
	In NIS Thousands	
Total credit facilities from banks	**1,368,800**	**1,368,800**
Secured facilities	605,300	605,300
Unsecured facilities	763,500	763,500
Use of credit from banks:		
Short-term loans	165,710	162,385
Long-term loans	603,046	755,880
Guarantees	100,094	97,295
Total use of credit from banks:	868,850	1,015,599
Use of credit card discounting:		
Credit card discounting	529,704	522,478
Total utilisation of credit card discounting:	**529,704**	**522,478**

We note that the credit voucher balances that have been discounted and not yet repaid for the following periods are as follows:

31.12.2022	31.12.2021	31.12.2020
NIS 529.7 million	NIS 575.6 million	NIS 371.9 million

19.3 Loans

19.1.1 Below are details of the composition of the credit and average and effective interest rates as at 31 December 2022:

	Linkage basis	Long-term loans: Amount as at 31 December 2022 (in NIS Thousands)	Long-term loans: Average interest rate as at 31 December 2022	Long-term loans: Effective interest rate as at 31 December 2022	Short-term loans: Amount as at 31 December 2022 (in NIS Thousands)	Short-term loans: Average interest rate as at 31 December 2022	Short-term loans: Effective interest rate as at 31 December 2022
Banks	Prime	603,046	5.55%	5.55%	165,710	4.63%	4.63%

19.1.2 Below are details of the composition of the credit and average and effective interest rates as at 31 December 2021:

	Linkage basis	Long-term loans: Amount as at 31 December 2021 (in NIS Thousands)	Long-term loans: Average interest rate as at 31 December 2021	Long-term loans: Effective interest rate as at 31 December 2021	Short-term loans: Amount as at 31 December 2021 (in NIS Thousands)	Short-term loans: Average interest rate as at 31 December 2021	Short-term loans: Effective interest rate as at 31 December 2021
Banks	Prime	607,500	2.01%	2.01%	18,802	1.81%	1.81%

(*) See Note 19B to the financial statements for details about long-term loans taken by the Company.

19.1.3 See Note 19B to the financial statements for additional details about loans taken by the Company, ECP 1951, and the Bitan Wines Group.

19.4 **Bonds –** below are the details of the average interest rate and the effective interest rate on the bonds issued by the Company that are or were in effect during the course of the reporting period:

	Scope of Credit as at 31.12.2022	Denominated Interest Rate for 2022	Effective Interest Rate for 2022
(Series A) bonds (NIS) (unlinked)	250,000	2.1%	2.32%
(Series A) bonds (NIS) (unlinked)	100,000	2.1%	3.71%
(Series A) bonds (NIS) (unlinked)	78,125	2.1%	5.04%

The Company issued a series of (Series A) bonds that is deemed material pursuant to the provisions of Article 10(B)(13)(a) to the Securities Regulations (Periodic and Immediate Reports), 5730-1970. The trust deed in connection with the (Series A) bonds includes grounds for calling them immediately due, including as follows:

If (A) a Company debt (solo) is called immediately due toward an additional bond series, whether traded or not, or (B) a debt or number of cumulative Company debts (solo) is/are called immediately due toward (a) financial institution(s) and/or to corporations engaged in extending credit (other than nonrecourse) provided that if these are cumulative debts to such lender – they shall be called immediately due concurrently or immediately temporally proximate to one another – in an amount exceeding NIS 85 million unless this demand has been rescinded, including by payment of said debt, within 30 days following the debt having been called immediately due.

19.5 **Financial Criteria**

After the issuance of these bonds, the Company committed to the bondholders and the banks that it would meet the following financial criteria:

[A] the amount of the corporation's tangible equity[20] shall not fall below the amount of NIS 350 million at any time; [B] The ratio of the net financial debt to the net balance sheet at the end of the period shall not exceed 67% (sixty-seven percent) on the basis of the Company's consolidated financial statements.

See Note 20B to the financial statements for additional details in connection with the issuance of the Series A bonds and information regarding the bonds' financial stipulations.

19.6 **Security Interests**

Some of the Group's companies are subject to fixed and current security interests for guaranteeing their liabilities. See Note 25C to the financial statements for additional details about the Group's security interests.

20. Insurance

20.1 On 10 November 2022, the Company's board of directors approved, after review and approval by the audit committee, the Company's distribution of liability premium payments (products liability insurance, third party insurance, professional liability insurance, umbrella insurance and special unspecified insurance coverage) among the Elco Group companies for an 18-months term commencing 1 July 2022 based on an analysis conducted by the Group's insurance consultants based, inter alia, on the ratio of actual claims by the various companies. The Company's audit committee and board of directors found that the insurance terms proffered to the Company were not materially different to the terms offered to Elco and the other companies in the Group taking note of their prorated share that had been determined, as mentioned, according to the recommendations by outside independent consultants. Additionally, the Company's share in the distribution of the liability premium payments (products liability insurance, third party liability insurance, professional liability insurance, umbrella insurance, and

[20] The definition of the term, "tangible equity," pursuant to the trust deed – equity net of intangible assets (such as goodwill, copyrights, patents, trademarks, tradenames, leasehold improvements, etc.) as presented in the solo financial statements. To clarify, balance sheet balances in the solo financial statements for investee companies, including investment in investee companies, are included in the Company's tangible equity.

special unspecified insurance coverage) among the Elco Group's companies is fair and correct, benefits from the advantage of size, and lowers the premium costs compared to the situation had the Company engaged in liability insurance separate from the Group. Accordingly, the engagement is in the Company's best interests.

20.2 The Group's insurance policies comprise a large number of insurance policies that cover the Group's companies' operations. Below is a list of the Group's primary insurance coverages as at the reporting date:

[A] **"Expanded fire"** insurance policy – for accidental physical damage caused to the Company's property, such as: buildings, equipment, contents, and inventory as a result of fire, lightning, explosions, and natural forces, including earthquakes, water damage, conflagration, smoke, etc. Similarly, there is a policy for loss of profits from damage covered by fire insurance. (Loss of profits insurance does not apply to damages caused to the various store chains among the Group's companies.)

[B] **Products liability and third party liability insurance as a combined policy** – insurance coverage for a lawsuit filed during the insurance period for physical harm to a third party's person or property. The products liability chapter includes insurance coverage for the Group's legal liability for physical harm to person or property of a third party that was caused as a result of a product for which the Group is responsible and on condition that the product left the Group's possession and control. The insurance coverage is on the basis of the claim filing date (claim made) and includes a retroactive date going back several years. The third party liability chapter includes insurance coverage for the Group's legal liability for physical harm caused to third parties - including harm to person; death; illness; and physical, emotional, or mental impairment - or damage and/or loss of any third party's property in connection with the Elco Group's operations. Third party liability insurance coverage refers to the date on which the event occurred.

The products liability and third party liability policy is capped at a shared liability limit of NIS 20 million per event and for the policy period.

[C] **Employer liability insura**nce – for employer liability for claims by the Group's workers for physical harm or workplace illnesses that were caused to employees during the course and as a result of their work. The policy covers up to NIS 40 million per claimant, event , and policy period. The insurance coverage refers to the date on which the event occurred.

[D] **Umbrella liability insurance** – the umbrella policy applies in addition to the insurance coverage from the products liability, third party liability, employer liability, and professional liability policies for the companies in Israel. Similarly, the coverage applies above the existing liability limits of the local liability coverage policies taken out around the world or above the minimum liability limit denominated in the umbrella coverage. Companies in the Elco Group have umbrella liability policies with a liability limit of NIS 110 million per event and a combined total for the policy term for all of the above insurances (but limited to NIS 20 million per event and for the policy term with respect to professional liability).

[E] **Additional insurance policies** – the Group has additional insurance policies, including property-in-transit insurance, cash insurance, trust insurance, professional liability insurance, and contractor work insurance.

[F] **Credit insurance** - the Group has credit insurance policies for insuring some of its customers' debts according to the amounts and deductibles that are set forth in the credit insurance policies.

[G] **Directors and officers liability insurance** - On 12 April 2022, the Company's remuneration committee approved the purchase of a liability insurance policy for directors and officers of Elco and its investees, including the Company and its subsidiaries, which will insure against the liability of all officers of the Company and its subsidiaries, including the Company's CEO and directors and officers who are controlling shareholders in the Company, as they will be from time to time, pursuant to the provisions of Article 1B(1) to the Companies Regulations (Facilitation of Interested Party Transactions), 5760-2000 (the "Facilitation Regulations").

The policy was purchased from a third party for a term of 12 months, from 1 May 2022 through until 30 April 2023, with total insurance coverage, per case and cumulatively, of USD 120 million.

On 12 April 2022, the Company's audit committee and board of directors approved the distribution of the premium payments among the Group companies, subject to receiving the necessary approvals for the same from all Elco Group companies (including the Company, pursuant to Regulation 1(4) of the Facilitation Regulations) such that in practice the cost to the Company (including the Company's subsidiaries) is expected to be lower and amount to an annual cost of USD 127,000.

All Company officers are insured under the policy under the same terms. The remuneration committee decided that the engagement is in the best interests of the Company and is in compliance with the provisions of Article 1(B)(1) to the Facilitation Regulations due to the fact that the terms of the engagement were set under Section F of the Company's remuneration policy, which was approved by the general meeting of the Company pursuant to Section 267A(b) to the Companies Law. The engagement is at market terms, and it is not likely that it will materially affect the Company's profitability, assets or liabilities.

[H] **Cyber policy** – the Company carries cyber insurance (as part of the Elco Group's policy), that is in effect as of 21 August 2022 and through 20 August 2023, with a (general) liability limit of USD 10 million per event and for the policy term. We note that the policy covers the Company's legal liability for harm caused to third parties as a result of an information leak during a cyber event as well as harm to the Company itself as a result of such an event.

See Section 9.20 to Part A to the report for details about the Bitan Wines's insurance policies.

21. Legal Proceedings

See Note 25A to the financial statements for details about material legal proceedings to which the Group is a party.

22. Business Strategy and Targets

The Company is acting strategically for continued growth by establishing and founding chains, brands, and products that will become the consumer's preference. Similarly, the Company is taking action to continue securing the leadership position of its existing operations. Below are details of the Group's business and business strategy goals:

22.1 **Air conditioning and climate control** – the Company is active in the field of air conditioning and climate control systems and is working on the development and sale of energy efficient air conditioning systems and on the manufacture of advanced air conditioning and heating (HP) systems. The Company's goal is to establish its position as a leader in the air conditioning and climate control market while positioning itself as an innovative player with technologically superior products through: development of a wide-ranging portfolio of quality, innovative products, which are offered at competitive quality and prices and improve quality of life; expansion of its operations in VRF/VRV products; and expansion of its activities with central customers in Europe for the development, manufacture, and export of heating systems (HP).

22.2 **Electrical appliance trade operations** – representation of the leading companies in the electrical appliance sector, including Miele, Liebherr, Whirlpool, and Phillips; establishment of market leadership of the Sauter brand in baking and cooking; and bringing in new brands based on the advantages of the activities and synergy in the Group.

22.3 **Electrical retail** – continued establishment of the Company's status as the largest electronics and electrical appliance retailer in Israel - in brick-and-mortar stores, duty-free stores, and on websites - while continuing to strengthen the Elco and Electra private labels.

22.4 **Food segment** – rehabilitation of Bitan Wines's status and turning it into the leading food chain in Israel by converting stores to the Carrefour brand, opening new Carrefour stores in various formats, and importing Carrefour products. The Company is working on opening convenience stores under the

7-Eleven brand and intends to become a market leader in this field in the coming years. Similarly, in the food segment, the Company is working on establishing a credit card customer loyalty club for reinforcement of its customers' loyalty in the food sector and the Group's other activities while leveraging this activity to providing consumer credit to its customers.

22.5 **Sports and leisure segment** – expansion of operations by opening additional stores around the country, expansion of travel and camping operations through the Shvilim chain, expansion of the variety of outdoor brands in the Outsiders chain stores, and establishment of the Columbia brand; continued collaboration with Adidas Israel for increasing the number of the chain's stores owned by the Company, investment in and development of manpower, improvement in the store's makeup and customer shopping experience. The Company, from time to time, reviews purchasing or launching additional operations or brands in this field. Additionally, the Company invests in the current purchasing system and expects a commensurate increase in turnover and profit.

22.6 **Investment property** - realisation of the land's commercial potential through the promotion of an income-producing real estate project.

22.7 Streamlining operations by digitisation and advanced information systems in organisational processes.

22.8 Consideration of operations expansion through additional acquisitions in other consumer products and retail that will be synergetic to the Group's operations such that the Company will benefit from existing administrative and structural infrastructures.

22.9 Expression of the Group's social responsibility through activities that contribute to the community in which it operates.

For additional details about the Group’s business targets and business strategy in the Group’s various fields of activities, see Sections 7.16, 8.15, 9.21, and 10.18 to Part A to the report.

We note that the Group's business strategy and targets that appear in Section 22 to Part A to the report are forward-facing information, as defined in the Securities Law, and are based, inter alia, on the Company's assessments taking into account past experience, various assessments with respect to the condition of the markets in which the Group operates, and external factors that are not within the Group's control, such as the security situation in Israel and the condition of the other markets in which the Group operates. These assessments may not materialise, in whole or in part, or may materialise differently, even substantially differently, than expected as a result of a number of factors, including deterioration in the security or economic situation in the markets in which the Group operates and/or as a result of the materialisation of some or all of the risk factors set forth in Section 25 to Part A to the report.

23. Development Forecast for the Coming Year

As of the reporting date, the Group intends to preserve its leading position while taking advantage of its financial stability to identify business opportunities in the Group's core business as well as in new fields that touch upon/are synergistic to the business sectors in which the Group is active.

We note that the Group's assessments with respect to the Group’s expected development forecast for the coming year that appears in Section 23 to Part A to the report are forward-facing information, as defined in the Securities Law, and are based, inter alia, on the Company's assessments taking into account past experience, various assessments with respect to the condition of the markets in which the Group operates, and external factors that are not within the Group's control, such as the security situation in Israel and the condition of the other markets in which the Group operates. These assessments may not materialise, in whole or in part, or may materialise differently, even substantially differently, than expected as a result of a number of factors, including deterioration in the security or economic situation in the markets in which the Group operates and/or as a result of the materialisation of some or all of the risk factors set forth in Section 25 to Part A to the report.

24. Corporate Responsibility (ESG)

As a leading business conglomerate, the Group is bound by the principles of social and environmental corporate responsibility (ESG), while maintaining professional, fair, empathic, efficient, and innovative conduct. With the increase in the Group's business activities, the Group has published the Group's first corporate responsibility statement for 2020 as an additional milestone toward fulfilling the vision of being the foremost group in its field. The Company expects to publish a corporate responsibility statement for 2022 during the course of 2023.

The Group's principal steps for implementation of its worldview are:

The Company has placed the following values at the core of its activities: professionalism, fairness, empathy, transparency, technological innovation, efficiency, and initiative. Accordingly, the Group's marketing activities are based and decidedly linked to the Group's ethical code, which guides our conduct toward others with whom we interact (customers, suppliers, employees, competitors, authorities and the establishment, community, and the environment). The Group is committed to professional, fair, and transparent advertising to all of its customers in the belief that its commitment to its ethical code will continue leading it to success and achievements in the future and thus, contribute as well to improving the business environment in which it operates.

The Group's Environmental Activities (E)

The Group is among the leading companies in the electrical products industry from all over the world that have come together to take part in the global battle against climate change. For that purpose, the Group carries out many activities in this area for providing climate stability and reinforcing the population's resilience to temperature changes caused by global warming as well as for reducing greenhouse gas emissions while decreasing its products' energy consumption.

As part of that commitment, the Group promotes various initiatives that instil the principles of environmental responsibility. As an example, the switch to R32 gas, which is environmentally friendly, does not contribute to the greenhouse effect, and reduces HFC emissions, is part of the manufacture of products for export at the Electra factory. In the context of the climate control systems factory as well, we have begun modifications at the environmental and safety level: we have modified and adjusted the manufacturing network, closed areas for monitoring of gas leaks, adjusted the testing network for flammable gas products on the production line, installed leak detectors in laboratories and on the production lines, trained and certified employees to work with flammable gas, procured dedicated machines and systems for use with flammable gas, and more.

Construction of a Recycling Plant

As part of the Group's environmental protection activities as described in Section 7.1 to Part A to the report, in January 2021, a recycling company was established for purposes of a joint venture, between AllTrade and the Mai Corporation, for construction of a facility for treating and recycling refrigerators and air conditioners as well as other electrical heating and refrigeration appliances that contain gas.

Pursuant to the agreement, of the recycling company's share capital, the subsidiary was allocated 45%, AllTrade was allocated 45%, and MAI Corporation was allocated 10%.

The cost of establishing the recycling company's operations is assessed at NIS 20 million, most of which is for the acquisition of dedicated machines and equipment for its operations. The subsidiary and AllTrade will provide shareholder loans in identical amounts to finance the construction.

The treatment facility will be built according to the European environmental standard pursuant to the requirements of the Ministry for Environmental Protection and will facilitate recycling, using an advanced production line, of refrigerators and air conditioners in the scope of hundreds of thousands of units annually while protecting the environment and “extracting” the materials contained in the products, such as: aluminium, plastic, copper, stainless steel, etc.

The Group's Social Activities (S)

Community Involvement and Social Responsibility

The Group's policy focuses on three central facets:

1. Donations of money and money equivalents;

2. Promotion of initiatives and projects to benefit the community through long-term collaborations that generate a real social impact;
3. Social involvement by employees.

The Group works to benefit the community through subsidiaries in a wide variety of fields. The Group sees itself as committed to contributing to the welfare of the different communities in the environment in which it operates. As part of that, the Group makes donations of money or money equivalents to communities in need. During the course of 2022, the Group donated products and welfare activities valued at NIS 128 thousand. The Group made contributions, during the course of 2022, of management donations to not-for-profits and various projects in the additional sum of NIS 3.166 thousand.

The Gershon Salkind Excellence Foundation scholarships – during the course of 2022, the Group donated scholarships to the ISEF Foundation in the sum of NIS 149 thousand (included in the total management donations to not-for-profits and projects indicated above). The ISEF Foundation promotes access to higher education and encourages the development of leadership values and social responsibility by giving educational scholarships to students from the socioeconomic periphery who aspire to fulfil their potential for personal excellence.

Examples of projects that were promoted in 2022:

A. <u>Outreach to at-risk youth</u> – the Group maintains ongoing collaboration with the Elem Association, which helps at-risk youth. The model developed with the Association combines monetary donations and employee involvement in volunteering and ongoing activities at the Association's clubs.

B. <u>Adoption of the Bedouin Patrol Battalion</u> - In 2022, the Group adopted, in the framework of a collaboration with the “Adopt-a-Soldier” programme, the desert patrol battalion, also known as the Bedouin Patrol Battalion. The uniqueness of the battalion derives from the fact that its soldiers are Bedouins and Israeli Arabs, Muslims and Christians, who volunteer to serve in the IDF. This collaboration will commence in 2023 and will include, inter alia, participation in battalion events and hosting battalion commanders at Electra in order to familiarise them with the Company and its plant and familiarise them with Electra Academy’s training options as a conduit for future integration of the battalion’s combatants.

C. <u>The "Coffee That's All Good” social initiative</u> – a collaboration with the All Good Group, which is engaged in integrating, assisting, and guiding persons with occupational barriers. The initiative included establishing a professional café in Electra's offices that is staffed by employees with disabilities in order to promote awareness and generate initial interaction between executives and workers with disabilities, which will go a long way toward removing barriers and preconceptions.

Promotion of Quality Service While Listening to Customers

The Group has a service covenant, which expresses its commitment to providing customers with quality and efficient service. Customer satisfaction is at the top of the Group's priorities, and thus, every effort is made to correctly understand customer needs and provide appropriate solutions. Each one of the Company's employees sees him/herself as being personally responsible for this. The service division's vision is of leading the Group in becoming the foremost service company in Israel, with significantly higher standards than other companies, such that it will influence the Group's customers to choose Electra every time.

In recent years, Electra has carried out a broad and significant digital transformation. The customer experience revolution that Electra has undergone is a winning story of pioneerism in implementing new and unprecedented processes in the industry that succeed in creating comprehensive and significant solutions for technical service in the customer's home. Among the more prominent moves made by Electra in 2022 are its technician house-call service and making that service accessible to installers, as well as launching "personal service."

Investment in Electra's Employees

Electra puts employees front and centre. The Group's worldview is that a respectful and growth-enabling work environment contribute to employees' quality of life, improves performance, and leads to mutual satisfaction between the employee and the Company. Therefore, the Group works on improving employee performance alongside looking after their personal welfare.

As part of that outlook, the Company promotes diversity in occupation and equality of opportunities, in general, and between genders in particular. In 2022, the Company published its first equal pay report for 2021. The average wage gap stands at only 1.5% in favour of men. Down the road, we aspire to eliminate this gap completely.

Additionally, the Group places importance on retaining and promoting its employees. Therefore, there is a preference for internal promotion, and dedicated training programmes have been formulated to create executive reserves. The Company continues to invest resources in developing training for all of the Company's employees.

Corporate Governance (G)

The Company is a publicly traded company that is traded on the Tel Aviv Stock Exchange and is controlled by Elco, Ltd., a publicly traded company traded on the Tel Aviv Stock Exchange, and thus, is part of the Elco Group.

As such, the Company is required to meet regulatory requirements, which include, inter alia, an internal enforcement plan, and the implementation and periodical updating thereof.

As part of the training and competence maintenance process among management and employees, the Group holds periodic training, including on the subject of corporate governance and ethics.

See Sections 26 and 26A to Part D to the report for additional information regarding the directors and senior officers, respectively, in the Company.

During the course of 2023, the Group expects to publish its second (online) corporate responsibility statement for 2021-2022. The 2020 statement is available to the public on the Group’s website at **www.ecp.co.il**. (The following statement will also be published online.) The Group’s online statement reviews a broad spectrum of topics, including clean energy, occupational integrity and economic growth, industry, infrastructures and innovation, sustainable cities and communities, responsible consumption and manufacturing, and climate change. The referral to the Group’s website is meant to be an inactive textual referral, and the information presented on the website or accessible there is not intended to be part of this report.

25. Risk Factors

The Group assesses that the following factors are likely to affect the Group's operations and business results:

25.1 Macro-risks

25.1.1 Economic slowdown - an economic slowdown would likely result in decreased private consumption, in general, and in the Group’s products, in particular, some of which are perceived of as convenience products and some, as luxury goods. Similarly, during such times of economic slowdown, the consumer tendency to consume cheap off brand goods, a tendency that would likely harm the sales of the branded products sold by the Group, increases.

25.1.2 National security situation – a worsening in the security situation in Israel would likely result in decreased private consumption, including decreased purchase of the Group's products in particular. Additionally, some of the stores in the Shekem Electric and Mahsanei Hashmal chains are located in malls and shopping centres. An adverse change in the security situation would likely reduce the number of people who visit malls and shopping centres and may even result in a closing of malls and stores as a result of which, the Company's revenue would likely suffer.

25.1.3 Raise in the minimum wage – the Group is exposed to a risk of increased expenses as a result of an increase in the legally mandated minimum wage. A rise in the minimum wage may have also have an impact on raising the general wage, meaning, for employees who earn more than minimum wage.

25.1.4 Exchange rate volatility – some of the products sold by the Company are purchased by the Company overseas. The Company's sales to its customers take place in shekels. The Group is exposed to changes in import currency exchange rates. The Company is working on protecting itself from such volatility through currency hedging transactions and adjustment of the sale prices at the retail chains that it operates.

25.1.5 Port strikes – strikes at Israel's maritime ports would likely have a negative impact on income in light of their impact on the arrival of merchandise in Israel.

25.1.6 Loss of corporate operating licence – the Company has a wide variety of brands with reputations that have accrued over many years. Significant and ongoing harm to the Company's reputation or its brands would likely affect consumer behaviour toward the Company's brands and also impact its positioning in Israeli society. The Company's reputation (goodwill) would also likely be affected as a result of issues relating to the Elco companies because of the common association. The Company engages in and is active in social responsibility and preservation of consumer faith in the Company and its brands.

25.1.7 Health emergencies – as a rule, local or global health emergencies (such as the "Covid" effect) and the steps taken to minimise their effect (such as restricting movement and gatherings; limiting staffing in the workplace; isolation; closing businesses, places of entertainment and leisure, etc.) would likely have an adverse effect on the capital markets and on the local or even global economy (as applicable) and result in a slowdown (and even a halt in some cases) in manufacturing activities and the transit of travellers and merchandise around the world. Prolongation of states of emergency and/or measures taken to mitigate their effect over time would likely have a significant adverse impact, inter alia, on: the global economy and the Israeli market (as applicable); the financial position of the Group's customers; the ability to raise and recycle debt; the tourist industry in Israel (to the point of completely halting it for a prolonged period of time); and the availability of staffing in the Company's operating segments and accordingly, in the Company's operations and financial results.

25.2 Industry-wide Risks

25.2.1 Competition – the electrical consumer products market is characterised by high levels of saturation and fierce competition and is further exposed to the effects of technological and regulatory developments. A decrease in the Group's competitive strength and/or market shares in its operating segments would likely negatively impact the Group's business and the Group's operating segment results.

25.2.2 Repeal and/or change to customs tariffs – a change in customs tariffs on imported electrical consumer products (including accessories and replacement parts) and the protection of locally manufactured goods would likely affect the Company's profitability. The import of air conditioners from China to Israel is subject to customs tariffs at a rate of 12% (CIF transactions (cost of procurement, insurance, and freight)). The repeal of those customs tariffs would hurt the competitiveness of the factory in Israel in addition to increasing competition due to other cheap manufacturers in East Asian countries.

25.2.3 Changes to legislation and standards including with respect to the manufacture, import, and marketing of air conditioners and electrical consumer products – in recent years, there has been a clear trend toward increased legislation, standardisation, and regulation, both horizontally as well as in a variety of fields of activity in the Israeli economy. Legislative changes in various areas in Israel and overseas, such as legislation regarding concentrations, promotion of competition and competition (antitrust) law , tax law, tender obligation laws, regulation of the communications market, capital investment encouragement legislation, corporate and securities laws, laws relating to product and service price oversight, consumer protection law, environmental protection law, etc. (see Section 18 to Part A to the report) can have an effect on the Company's business and results, including because of the fact that these types of changes are likely to increase the cost of manufacturing, importing, and marketing, and are likely to harm the Group's profitability compared to some of its competitors. Similarly, such an effect may also result from changes in the policies adopted by various authorities based on those laws.

Legislative changes that are designed for expanding the requirements for manufacturers, importers, and marketers of air conditioners and electrical consumer products and other products sold by the Company would likely lead to an increase in the prices of the products being sold and thus, reduce the Company's profits.

25.2.4 Fluctuation in raw material costs – material changes in raw material costs (such as copper, aluminium, and steel) would likely affect the factory's profitability. (See Section 7.2 to Part A to the report for details about the Group's factory.)

25.2.5 Weather – comfortable weather and/or a cooler summer than forecast adversely affect the volume of sales of home air conditioning systems.

25.2.6 Shelf life of technology products – some of the products sold by the Company (such as cellular devices) are characterised by innovation, frequent product modification, and continuous technological developments. If the Company does not identify market trends and choose those products that will answer demand or does not succeed in marketing all of the inventories that it purchases, its results would likely suffer. Nevertheless, the Company has the right to return most of its technological products.

25.2.7 Customer credit – the Group's sales to its customers are carried out by extending credit. The credit risk regarding open market customer credit, which is mostly not backed up by guarantees, exposes the Group to risk. Failure by the Group to collect customers' debts would likely have a material adverse effect on its income in that field of activity. In order to mitigate the risk, the Group purchases credit insurance policies and has established short credit periods for some of its customers, or charges in cash and/or credit cards.

25.3 Special Risks

25.3.1 The collapse of information systems and cyber-attacks – the Group's information systems are networked in Israel through dedicated communications lines and through the internet. The Group's business is highly dependent on these systems. Cyber-attacks are likely to cause equipment failures, loss, disclosure, use, corruption, destruction, or appropriation of information, including sensitive personal customer information, content, and valuable technical information. In recent years, cyber-attacks against corporations have increased in frequency, scope, and potential damage. Malicious damage (such as virus penetration and cyber-attacks) or a large-scale malfunction would likely have an adverse effect on the Group's business and results, including harm to the Group's reputation and financial position. In order to mitigate those risks as much as possible, the Group regularly operates a number of multileveled protective systems, including EDR, firewalls, network segmentation, backup systems, antivirus systems, permissions management, password updates, etc. Additionally, the Group works on increasing employee awareness of information security and cyber risks and conducts security surveys and audits intended for identification of weaknesses and taking corrective action. Similarly, the Company has purchased a cyber risk insurance policy. The Company has an IR team with high availability (it has an SLA with the IR team) and a DR site for dealing with events. Additionally, Company management attributes great importance on the improvement of the Company's array of cyber protection and therefore, also conducts management exercises for identifying gaps and risks and being maximally prepared to manage and deal with information security events.

The Company has information security procedures for the use of the Company's computers and for daily conduct by the Company's employees and suppliers. It also has information security procedures for the use of advanced security systems for protecting the Group's information systems. All of these procedures are under the responsibility of the Director of Information Systems (DIS). The Company also has a CISO that guides the Group's entities on aspects of information security as well as an outside independent consulting company that provides consulting and guidance as needed. The Company conducts annual risk surveys and trespass tests by means of outside experts. Similarly, the Company maintains an SOC and SIEM (24/7 monitoring of all of the organisation's security systems). As at the reporting date, the Company, as part of the Company's insurance policy in the Elco Group, has coverage for cyber-attacks with a (general) liability limit of $10 million per event and for the insurance term.

25.3.2 Serial quality defects in electrical consumer products – the Group is exposed to harm to its profitability and reputation in the event of serial defects in products that it manufactures and markets, including indirect harm likely to result from such defects, that in turn would likely increase provisions and/or actual expenses due to product warranties. The Group is covered, in general, regarding products that it markets in cases of serial ("epidemic") malfunctions in back-to-back agreements with its suppliers overseas and in Israel.

25.3.3 Property risks and liabilities – the Group is exposed to various property risks and liabilities resulting from various events, such as natural disasters, war, etc. The Group is assisted by an outside insurance consultant who is an expert in the field as well as by periodic risk reviews. The Group has insurance policies that cover the common risks to which it is exposed at the limits of each policy's terms. Nevertheless, these insurance policies do not include coverage for certain types of risks. See Section 20 to Part A to the report for details about said insurance policies.

25.3.4 The Concentrations Law – the classification of the Company and the entire Group in the lists of significant real corporations and centralising entities as set forth in the Concentrations Law is likely to have implications for the Company. See Section 18.1 to Part A to the report for further details.

25.3.5 Legal proceedings – the Company is a party to legal proceedings, including class actions, that are likely to result in it being liable for significant sums.

25.3.6 Employment relationships – the Company has a collective agreement with the Union and the workers committee that applies to most of its employees. Implementation of the collective agreement is likely to reduce managerial flexibility and impose additional costs on the Company. See Section 16.6 to Part A to the report for details about the collective agreement.

25.3.7 Interest rate changes – given the financing of the Group's operations, inter alia, by obtaining short-term credit from banks, a rise in market interest rates would likely harm the Group's profitability. Changes in interest and inflation trends would likely affect the market in a manner that would likely lead to changes in demand in the Company's fields of activity as well as to decreased sales. See Section 6.7 to Part A to the report for further details about the effect of inflation and the interest rates in Israel on the Company's results during the reporting period.

25.3.8 Availability of bank credit – the bank credit that the Group receives is short-term credit and long-term credit. There is no certainty that banks will continue to provide the Group with its existing lines of credit in whole or in part.

Below are the Group's assessments regarding the measure of the effect of said risk factors on the Company, other than in connection with the retail food segment:

Risk Factors	**Level of Impact of the Risk Factor on the Entirety of the Group's Operations**		
	Large	**Medium**	**Small**
Macro-risks			
Economic slowdown		X	
National security situation		X	
Increase in the minimum wage			X
Exchange rate volatility			X
Port strikes		X	
Loss of the corporate operating licence		X	
Health emergencies			X
Industry-wide risks			
Competition		X	
Customs tariff cancellation/modification			X
Changes to legislation and standards including with respect to manufacturing, importing, and marketing air conditioners and electrical consumer products		X	
Fluctuations in prices of raw materials			X
Weather		X	
Shelf life of technology products			X
Customer credit		X	

Risk Factors	Level of Impact of the Risk Factor on the Entirety of the Group's Operations		
	Large	Medium	Small
Special Risks			
Information systems crash and cyber-attacks		X	
Serial quality defects in electrical consumer products			X
Property risks and liability			X
Concentrations Law		X	
Legal proceedings		X	
Employment relationships			X
Interest rate changes			X
Availability of bank credit			X

See Section 9.23 to Part A to the report for details about additional risk factors applicable to the Group's operations in the retail food sector.

Electra Consumer Products (1970) Ltd.

Board of Directors Report

The board of directors of Electra Consumer Products (1970) Ltd. respectfully submits its report on the state of the Company's business and that of its consolidated companies (the "Group") for the year ended at 31 December 2022 (below: "Reporting Period").

1. General

1.1 Description of the Group’s business

The Group operates in five fields, which are also reported as operating segments in its financial statements, as set forth below:

Electrical consumer products segment – import, export, marketing, sale, and distribution of electrical consumer products and rendering service for these products.

Electrical consumer products – operation of retail chains to sell electrical consumer products and cellular telephones and accessories by means of "Mahsanei Hashmal," "Shekem Electric," and "Shekem Duty."

Retail food segment – as of 30 June 2021, the Company has been presenting the operation of the Bitan Wines chain, a retail marketing chain for food products and other consumables, operating under Carrefour brands, as well as the operation of the 7-Eleven chain, which commenced operation in January 2023, as a separate operating segment.

Sports and outdoors segment – as of the financial statements as at 30 September 2021, the Company has been presenting the Company's sports and outdoors operations under the "others" segment. As of the financial statements as at 31 December 2022, the Company has been presenting the operation of marketing chains, import, manufacturing, and distribution of equipment and clothing and footwear for travellers, camping, ski, and snowboarding, and outdoor sports and leisure, as well as the operation of a franchise chain under the Adidas brand (hereinafter: "Adidas”), as a separate operating segment.

Investment real estate segment – development and construction of investment property.

1.2 Description of the Company's business environment and trends

As a result of the decision by Bitan Wines, as set forth in section 1.3 below, to carry out a reorganisation plan and its decision to accelerate the conversion and renovation of the chain's stores for launching 50 Carrefour stores during the first half of 2023 and as a result of the Company's expenditures for launching the 7-Eleven chain, whose first stores were launched during the course of Q1/2023, the results of the food segment during the Reporting Period were adversely affected.

Below is a summary of the Company’s financial results for the fourth quarter and the year with and without the food segment:

	Consolidated		Consolidated without the retail food segment	
	For the three months ended at 31 December			
	NIS Thousands			
	2022	2021	2022	2021
Sales	1,583,730	1,497,313	880,575	795,335
Operating income before other income, net	61,446	57,345	47,572	49,966
EBITDA	147,936	128,021	77,631	74,302
Income before tax	19,442	30,188	42,368	49,783
Net income	10,863	13,101	36,116	32,696
Net income attributable to Company shareholders	15,841	15,121	29,410	24,725

	Consolidated		Consolidated without the retail food segment	
	For the year ended at 31 December			
	NIS Thousands			
	2022	2021	2022	2021
Sales	6,242,313	4,648,546	3,401,075	2,944,920
Operating income before other income, net, and reorganisation expenses	234,453	223,935	194,533	178,089
EBITDA	530,243	418,134	302,481	264,371
Income before tax	71,667	203,473	197,863	211,190
Net income	43,630	171,876	169,826	179,593
Net income attributable to Company shareholders	102,927	164,113	155,357	167,425

During the Reporting Period, there was an increase in revenues amounting to NIS 1,583,730,000 and NIS 6,242,313,000, for the fourth quarter and for 2022, respectively, compared to NIS 1,497,313,000 and NIS 4,648,546,000 in the previous year, respectively.

During the Reporting Period, there was an increase in operating income after neutralisation of the impact of other income, net, and reorganisation expenses, amounting to NIS 234,453,000, as compared with NIS 223,935,000 in the parallel period of the previous year. Operating income after neutralisation of the effect of other expenses, net, and reorganisation expenses reflects an increase and amounted to approximately NIS 61,446,000 in the fourth quarter of 2022, as compared with NIS 57,345,000 in the parallel period of the previous year.

The Company’s EBITDA in the Reporting Period and in the fourth quarter of 2022 increased and amounted to NIS 530,243,000 and NIS 147,936,000, respectively, compared to NIS 418,134,000 and NIS 128,021,000 in the parallel periods of the previous year, respectively. Most of the increase in the Company’s EBITDA during the Reporting Period derived from improved results from the electrical consumer products segment and from the full consolidation of the sports and outdoors segment.

The Company's income before taxes on income in the Reporting Period in the fourth quarter of 2022 reflect a decrease and amounted to NIS 71,667,000 and NIS 19,442,000, respectively, compared to income before taxes on income of NIS 203,473,000 and NIS 30,188,000 in the parallel period of the previous year, respectively. The decrease in income before taxes on income during the Reporting Period primarily derived from reorganisation expenses in the food segment, as noted, during the third quarter of the year, from a decrease in other income, net, and from an increase in financing expenses, net. (The previous year, the food segment was only consolidated as of June.)

Net income attributed to the majority shareholders during the Reporting Period and in the fourth quarter of 2022 amounted to NIS 102,927,000 and NIS 15,841,000, respectively, and reflects a decrease compared to NIS 164,113,000 and NIS 15,121,000, respectively, in the parallel periods of the previous year. **After neutralisation of the results of the food segment in the above periods, net income attributed to the majority shareholders during the fourth quarter of 2022 and in the Reporting Period amounted to NIS 29,410,000 and NIS 155,357,000, respectively, compared to NIS 24,725,000 and NIS 167,425,000, respectively, in the parallel periods of the previous year.**

Net cash that derived from current operations during the Reporting Period and during the fourth quarter of 2022 amounted to NIS 329,293,000 and NIS 157,031,000, respectively, as compared with net cash used in current operations in the sum of NIS 11,773,000 and net cash that derived from current operations in the sum of NIS 12,641,000, respectively, during the parallel periods of the previous year. The increase in cash flows from current operations in the Reporting Period as compared with the parallel period of the previous year primarily derived from an improvement in EBITDA in all operating segments in which the Company operates (the previous year, the food segment was consolidated for the first-time as of June, Shekem Duty Free was consolidated for the first time into the electrical retail segment as of May, and the sport and outdoors segment's operations were consolidated for the first time as of June) and in a huge improvement in working capital structure in the Reporting Period.

1.3 Reorganisation

During the course of the third quarter of the year, the subsidiary, Bitan Wines Ltd., carried out a streamlining and reorganisation plan including, inter alia, operational streamlining of branches and workforce, a decision to close five branches that were operating at a loss, improvement of commercial terms, building and implementing a plan for the renovation of branches and the conversion thereof to Carrefour branches, and more. Pursuant to Bitan Wines's management's plans, Bitan Wines is preparing to accelerate the conversion of its branches and launch 50 Carrefour branches during the first half of 2023 in order to achieve national distribution and launch three retail Carrefour formats.

Bitan Wines has already begun, during the second quarter of the year, renovating stores and preparing them for the launch of Carrefour under a temporary brand ("Super"), and by the end of 2022, Bitan Wines has renovated and converted approximately 15 stores and as of the publication date of the financial statements, has renovated and converted approximately 17 stores. The renovations and conversions that have been carried out thus far, as noted, have already contributed to a significant improvement in said branches' results before their launch as Carrefour branches. The results of the branch conversion reinforce Bitan Wines's plans to accelerate the process of launching the Carrefour chain as soon as 2023.

The Company expects that implementation of the streamlining and reorganisation plan, which includes the acceleration of the conversion of the chain branches to Carrefour, will improve the Company's ability to achieve its targets and fulfil its business strategy in the food segment, the principal portion of which is the launch of the Carrefour chain as soon as the first half of 2023, which has improved the food segment's EBITDA as of the fourth quarter of 2022 and is expected to increase the redemption of its investment in converted stores. Similarly, fulfilment of the plan will enable the effective launch of the loyalty club credit card close in time to the launch of the Carrefour chain.

A provision is included in these financial statements for the reorganisation plan (including provisions for impairment of property, plant, and equipment and other) that has reduced the retail food segment results by approximately NIS 52,000,000 in the Reporting Period. The inclusion of said provision has resulted in a decrease in the Company's net income and the net income attributed to the Company's shareholders in the Reporting Period by approximately NIS 52,000,000 and approximately NIS 21,000,000, respectively.

1.4 Principal events during the Reporting Period and thereafter

1.4.1 Changes to the Group companies' structure

During the course of 2021, as part of its growth process, the Company decided on a restructuring in which the retail operations in its subsidiary, Electra Consumer Products (1951) ("ECP 51"), would be split under a separate company as follows:

A. On 22 March 2021, the Company's board of directors approved the Company's engagement in a demerger agreement (the "Agreement") between the Company and ECP 51 and the company that was established on 28 April 2021 ("Electra Retail"). Under that Agreement, the electrical retail operations and food retail operations would be split into Electra Retail for no consideration, and the split-up would be tax-exempt pursuant to Section 105A(1) to the Income Tax Ordinance. After the completion of the transfer of the electrical and food retail operations, Electra Retail would be the full owner and exclusive holder of the electric and food retail operations, all effective for tax purposes as at 30 June

2021 subject to the fulfilment of the conditions precedent set forth in the Agreement. On 28 November 2021, the Israel Tax Authority's approval was obtained for splitting the electric and food retail operations as described above. During the Reporting Period, the conditions precedent were met and the split carried out.

B. In February 2022, as part of the restructuring that the Company elected to make, ECP 51 and Electra Retail executed an agreement for the transfer of shares in Sa'ar A.T. Enterprises & Trading Ltd. (hereinafter: "Sa'ar"), under which the sports and leisure operations are consolidated, which shares were held by ECP 51, to Electra Retail in consideration of their fair value based on an internal valuation study that the Company conducted that was based, inter alia, on the temporal proximity of ECP 51's acquisition of Sa'ar shares.

C. In February 2022, as part of the restructuring that the Company elected to make, the Company, ECP 51, Electra Convenience Stores (a company that was established for managing convenience store operations under the 7-Eleven brand), and Electra Retail executed an agreement for the transfer of the convenience store operations. In the framework of the agreement, the 7-Eleven franchise agreement was assigned to Electra Convenience Stores, and Electra Convenience Stores' shares were transferred from ECP 51 to Electra Retail, all in consideration of the sums that ECP 51 paid, on account, up until the transfer date.

1.4.2 Issuance of Series A bonds

On 7 February 2022, the Company issued NIS 250,000,000 par value in Series A Company bonds (a new series) pursuant to a shelf offering report dated 3 February 2022 according to a Company shelf prospectus dated 12 August 2019 for total gross proceeds of NIS 250,000,000. On 17 August, the Company issued NIS 100,000,000 par value of Series A bonds by way of an expansion of a registered series for classified investors. On 20 December 2022, the Company issued NIS 78,125,000 par value of Series A bonds to a classified investor by way of an expansion of a registered series. As of the date of this report, the Series A bonds balance after expansions comes to a total of NIS 428,125,000 par value. See Note 20B to the Consolidated Financial Statements for additional details.

1.4.3 Agreement to purchase real property in Rishon Le'Zion

In March 2022, the Company and Reality Real Estate Investment Fund 4, Limited Partnership, executed a sale agreement with the City of Rishon Le'Zion, based on which the parties acquired plots in Rishon Le'Zion in equal shares between them, with a total area of approximately nine hectares, in consideration of the total sum of approximately NIS 106,000,000.

For additional details, see Note 12 to the Consolidated Financial Statements.

1.4.4 Agreement with Carrefour

In April 2022, Bitan Wines entered into an exclusive franchise agreement for the operation of the Bitan Wines chain's stores under the Carrefour brand for a period of 20 years with an automatic renewal for an additional 20 years as well as options to extend for additional 20-year periods with the consent of the parties.

For additional details, see Note 25D(1) to the Consolidated Financial Statements.

1.4.5 Engagement with Quik Technologies and Investments Ltd. (hereinafter: "Quik")

In March 2022, Bitan Wines entered into a series of agreements with Quik that arranged for the establishment of a new partnership for purposes of carrying out online retail operations for products and services that would be based on the technological platform and operational infrastructure developed by Quik. On 1 August 2022, the conditions precedent for closing said agreements were met, and accordingly, the parties completed the transaction.

For additional details, see Note 5F to the Consolidated Financial Statements.

1.4.6 Collaboration agreement with Israel Credit Cards Ltd. (hereinafter: "Cal") and Bank Hapoalim

Further to the Revised Agreement in principle that the Company reached with Cal and Bank Hapoalim, during the course of May 2022, whereby it was agreed that the parties would work toward executing a three-way collaboration agreement in connection with the operation of a customer loyalty club based on a non-bank credit card issued by Cal for customers of Bit and customers of the Group's retail chains, the Company executed said agreement on 10 August 2022. For additional details, see Note 25D(2) to the Consolidated Financial Statements.

1.4.7 On 3 March 2022, the Company declared the distribution of a dividend in the sum of NIS 30,000,000, which reflects a share price of NIS 1.37. The dividend was paid on 3 April 2022.

1.4.8 On 10 August 2022, the Company declared the distribution of a dividend in the sum of NIS 30,000,000, which reflects a share price of NIS 1.38. The dividend was paid on 2 October 2022.

1.4.9 On 23 March 2023, the Company declared the distribution of a dividend in the sum of NIS 35,000,000, which reflects a share price of NIS 1.62. The dividend will be paid on 16 April 2023.

1.4.10 Rating

In September 2022, Standard & Poor's Maalot confirmed the Company's new rating (ilAA-), and it determined that the rating forecast was stable.

1.4.11 Strategic customer agreements in the field of domestic heating

A. Further to the execution of an agreement between a second-tier subsidiary and a European strategic client dated 15 June 2020 in connection with the development, manufacture, and supply of heating systems (the "Original Agreement"), on 22 November 2022, the second-tier subsidiary executed a revision and extension of the Original Agreement until 2026, inter alia, in light of the European gas crisis and the increased demand for energy-efficient inverter-based heating products. Under the agreement, the second-tier subsidiary will establish, develop, and manufacture an additional line of products and significantly increase the quantity of manufactured products that will be developed under the Original Agreement.

For additional details, see Note 25D(6)(a) to the Consolidated Financial Statements.

B. On 7 December 2022, the Company, via Electra Industries Ltd, an indirect subsidiary, executed an engagement with a European customer, in an agreement for the development, manufacture, and supply of heating systems for three years (2023-2025), inter alia, in light of the European gas crisis and the increased demand for energy-efficient inverter-based heating products alongside existing agreements for the supply of equipment and the development of products with this customer.

For additional details, see Note 25D(6)(c) to the Consolidated Financial Statements.

To clarify, the Company's assessments relating to expected revenues that are forecast from the above engagements and the abovementioned sale of heating systems are "forward-facing information" as defined in the Securities Law, 5728-1968, that is based, inter alia, on the Company's assessments in consideration of the quantities that were denominated in the above agreements, the existing demand for such systems, the prolongment of the European gas crisis, the environment in which the Company operates, and the current exchange rates, and it may be affected by factors outside the Company's control, including the risk factors inherent in its operations. Accordingly, there is no certainty that what is stated above will be realised, and the actual results may significantly differ from the assessments that are set forth above.

1.4.12 Execution of a commercial collaboration and merger of solar operations agreement

On 9 March 2023, a commercial collaboration and merger of solar operations agreement was executed between Electra Solar Equipment (2021), Limited Partnership ("Electra Solar"), which is indirectly held by the Company, and Bariach Golan Energy Equipment Ltd. ("Bariach Golan"), which is indirectly held by Rav Bariach (08) Industries Ltd, a publicly-traded company whose shares are registered for trade on the Tel Aviv Stock Exchange Ltd. ("Rav Bariach"), as was a founders agreement for the establishment of a joint company that would be held by Bariach Golan (75%) and by Electra Solar (25%) (the "Joint Company") and whose activities would comprise the distribution and/or marketing and/or sale of solar energy system (PV - photovoltaic) components to companies and/or individuals engaged in the field of renewable energy.

Concurrently, ECP 51 executed an agreement, conditioned on the completion of the merger with Bariach Golan, as described above, with the current partner in Electra Solar for the acquisition of its holdings (approximately 49.9%) in consideration of approximately NIS 2,000,000 such that it would transfer all of its holdings in Electra Solar to the Company's subsidiary.

The closing of the transaction depends on the fulfilment of a number of conditions precedent, pertaining primarily to the Director General of the Israel Competition Authority, and it is uncertain at this stage whether these conditions will be met.

For additional details, see Note 31A to the Consolidated Financial Statements.

1.4.13 **Execution of new financing agreements – Bitan Wines Group**

A. During the course of February 2023, Bitan Wines executed agreements to renew a binding line of credit for a year, in the sum of approximately NIS 100,000,000, with two banking corporations.

B. During the course of March 2023, the Bitan Wines Group executed undertakings with four banking corporations to obtain additional long-term loans in the total sum of approximately NIS 148 from three banking corporations in the framework of which the required financial criteria were updated alongside negotiations with the banking corporations regarding the support of the Bitan Wines Group's shareholders. These were for the fulfilment of the plan for the renovation and conversion and launch of the Carrefour brand by the end of the fourth quarter of 2023. Similarly, Bitan Wines is also working to obtain financing in the scope of approximately NIS 100,000,000 from its shareholders. As of the Reporting Date, said financing has been obtained from the shareholders in the scope of approximately NIS 90,000,000.

For additional details, see Note 31B(2) to the Consolidated Financial Statements.

1.4.14 As to additional significant events, during the Reporting Period and thereafter, see Notes 25D and 31 to the Consolidated Financial Statements.

The board of directors' explanations of the state of the Company's affairs

2. Financial position

The following is a concise summary of the consolidated balance sheets (in NIS Thousands):

	As at 31 December	
	2022	**2021**
Current assets	2,189,770	1,941,647
Non-current assets	4,506,700	4,053,082
Total assets	6,696,470	5,994,729
Current liabilities	2,657,788	2,444,569
Non-current liabilities	2,814,874	2,323,352
Shareholder equity	1,223,808	1,226,808
Total liabilities and equity	6,696,470	5,994,729

Assets

2.1 The total current assets amounted to approximately NIS 2,190,000,000 as at 31 December 2022, as compared with approximately NIS 1,942,000,000 as at 31 December 2021. The increase in current assets primarily derived from an increase in the trade receivables balance that had resulted from an increase in sales turnover, from an increase in the other receivables balance, and from an increase in the cash balance, and it was partially offset by a decrease in the inventory balance.

2.2 The total non-current assets amounted to approximately NIS 4,507,000,000 as at 31 December 2022, as compared with approximately NIS 4,053,000,000 as at 31 December 2021. The increase primarily derived from an increase in the investment property under construction line that had resulted from the purchase of lots in Rishon Le'Zion (as indicated in Note 12 to the Consolidated Financial Statements); an increase in the investment property line that had resulted from revaluation of properties; an increase in the property, plant, and equipment line primarily as a result of investment in branches; an increase in the intangible assets and goodwill line that had resulted from the inclusion of new operations for consolidation; an increase in the right-of-use assets line that had resulted from the extension of existing rental agreements and entering into new agreements; and an increase in the deferred tax assets balance.

Liabilities

2.3 The total current liabilities amounted to approximately NIS 2,658,000,000 as at 31 December 2022, as compared with approximately NIS 2,445,000,000 as at 31 December 2021. The change primarily derived from an increase in the trade payables balance due to an increase in the Company's operations, an increase in short-term credit from banks, current maturities of debentures, and an increase in the current maturities of leasing liabilities line.

2.4 The total non-current liabilities amounted to approximately NIS 2,815,000,000 as at 31 December 2022, as compared with approximately NIS 2,323,000,000 as at 31 December 2021. The increase primarily derived from an increase in the bonds line that had resulted from the issuance of bonds during the Reporting Period, an increase in leasing liabilities corresponding to a parallel increase in the right-of-use assets line, an increase in other liabilities, and an increase in deferred tax balances.

Shareholder equity

2.5 Shareholder equity as at 31 December 2022 amounted to approximately NIS 1,224,000,000 (including noncontrolling interests of approximately NIS 552,000,000), as compared with approximately NIS 1,227,000,000 as at 31 December 2021. The decrease in equity during the Reporting Period primarily derived from a buyback of the Company's shares of approximately NIS 45,000,000 and from dividends that were paid in the sum of NIS 60,000,000 that were offset by a total profit of approximately NIS 47,000,000, by the transaction principal from transactions with holders of noncontrolling interests, and by noncontrolling interests that were first created during the Reporting Period in the sum of approximately NIS 51,000,000.

Financial debt, net

2.6 The Company's financial debt, net amounted to approximately NIS 2,498,000 as at 31 December 2022, as compared with financial assets, net of approximately NIS 2,018,000,000 as at 31 December 2021.

2.7 The Company’s financial debt, net, after eliminating leasing liabilities (IFRS 16), amounted to a financial debt, net, of approximately NIS 611,000,000 as at 31 December 2022, as compared with a financial debt, net, of approximately NIS 307,000,000 as at 31 December 2021. The increase in the Company financial debt, derived primarily from an increase in the food segment's debt, of approximately NIS 146,000,000, primarily as a result of renovating and converting the stores and preparing them for launching Carrefour, as indicated in section 1.3 above, as well as from an increase in debt in the other segments in which the Group operates, in the sum of approximately NIS 158,000,000, that primarily derived from the acquisition of property, plant, equipment, and other as well as investment property under construction; the acquisition of new operations and companies; payment of a dividend to the Company's shareholders; and a buyback of treasury shares that were partially offset primarily by positive cash flows from current operations.

2.8 Segmental assets and liabilities

	31 December 2022					
	Electrical consumer products segment	Electrical retail segment	Retail food segment	Sports and outdoors segment	Investment property, adjustments, and other segment	Total
	NIS Thousands					
Current assets	1,203,004	597,847	404,968	175,039	(191,088)	2,189,770
Non-current assets	237,603	591,227	3,164,160	321,637	192,073	4,506,700
Current liabilities	422,651	923,841	1,189,963	147,424	(26,091)	2,657,788
Non-current liabilities	374,848	205,129	1,748,660	169,003	317,234	2,814,874
Financial asset (debt), net	10,594	(105,457)	(1,809,464)	(219,372)	(374,588)	(2,498,287)
Financial asset (debt), net (without IFRS 16)	26,236	94,633	(317,028)	(39,932)	(374,588)	(610,679)

	31 December 2021					
	Electrical consumer products segment	Electrical retail segment	Retail food segment	"Other" segment	Investment property, adjustments, and other segment	Total
	NIS Thousands					
Current assets	1,370,004	465,254 *)	263,422	118,783	(275,816)*)	1,941,647
Non-current assets	190,249 *)	401,821	2,971,638*)	211,735*)	277,639 *)	4,053,082
Current liabilities	534,683	736,613	1,094,894*)	54,478*)	23,901 *)	2,444,569
Non-current liabilities	412,268	177,188	1,519,830*)	107,066	107,000 *)	2,323,352
Financial asset (debt), net	(141,193) *)	(151,982)	(1,563,000)	(79,000)	(82,825) *)	(2,018,000)
Financial asset (debt), net (without IFRS 16)	(120,696) *)	33,521	(171,000)	34,000	(82,825) *)	(307,000)

*) Reclassified.

3. Results of activities

3.1 Summary of Business Results by Period (in NIS Thousands):

	For the year ended at December 31					
	2022	(*)	2021	(*)	2020	(*)
Revenues from sales and provision of services	6,242,313		4,648,546		2,573,373	
Cost of sales and provision of services	4,396,122		3,347,446		1,951,831	
Gross profit	**1,846,191**	**29.6%**	**1,301,100**	**28.0%**	**621,542**	**24.2%**
Selling and marketing expenses	(1,496,307)		(990,216)		(451,353)	
Administrative and general expenses	(107,176)		(80,718)		(35,421)	
Research and development expenses	(8,115)		(6,231)		(7,244)	
Group's share in losses of companies treated according to the equity method, net	(140)		-		-	
Operating income before other income, net, and reorganisation expenses	**234,453**	**3.8%**	**223,935**	**4.8%**	**127,524**	**5.0%**
Other income, net	15,627		41,664		2,842	
Reorganisation expenses	(51,830)		-		-	
Operating income after other income, net, and reorganisation expenses	**198,250**	**3.2%**	**265,599**	**5.7%**	**130,366**	**5.1%**
Financing income	3,400		6,555		3,338	
Financing expenses	(129,983)		(68,681)		(14,352)	
Income before taxes on income	**71,667**	**1.1%**	**203,473**	**4.4%**	**119,352**	**4.6%**
Taxes on income	(28,037)		(31,597)		(28,907)	
Net income from continuing operations	43,630		171,876		90,445	
Net income from discontinued operations	-		-		201,259	
Net income	**43,630**	**0.7%**	**171,876**	**3.7%**	**291,704**	**11.3%**

(*) Percentage of turnover

3.1.1 Revenues

The Group's revenues amounted to approximately NIS 6,242,000,000 in the Reporting Period, as compared with approximately NIS 4,649,000,000 in the parallel period of the previous year, an increase of approximately 34.3%. The increase in sales turnover primarily derived from the consolidation of the results of the companies that were acquired during the course of 2021 that had not been fully included in the parallel period of the previous year as well as from an increase in the sales turnover in the electrical consumer products segment. (See Section 4 below for additional details in connection with reporting on business segments.)

3.1.2 Gross profit

The gross profit rate in the Reporting Period stood at approximately 29.6% of the sales turnover, as compared with approximately 28.0% in the parallel period of the previous year. The gross profit in the Reporting Period amounted to approximately NIS 1,846,000,000, as compared with approximately NIS 1,301,000,000 in the parallel period of the previous year, an increase of approximately 41.9%. The increase in gross profit and its rate primarily derived from improved gross profit in the electrical consumer products segment despite the decrease in the value of the euro and its adverse impact on export prices and from improvement in the electrical retail segment as well as from the consolidation of the results of the companies that were acquired during the course of 2021 that had not been fully included in the parallel period of the previous year. (See Section 4 below for additional details in connection with reporting on business segments.)

3.1.3 Selling and marketing expenses

Selling and marketing expenses amounted to the sum of approximately NIS 1,496,000,000 (24.0% of sales turnover) in the Reporting Period, as compared with approximately NIS 990,000,000 (21.3% of sales turnover) in the parallel period of the previous year. The increase in expenses primarily derived from the consolidation of the results of the companies that were acquired during the course of 2021 that had not been fully included in the parallel period of the previous year as well as an increase in the retail sector and an increase in the sports and outdoors sector as a result of an increase in revenue turnover and the opening of new stores. (See Section 4 below for additional details in connection with reporting on business segments.)

3.1.4 Administrative and general expenses

Administrative and general expenses in the Reporting Period amounted to approximately NIS 107,000,000 (approximately 1.7% of sales turnover)ת as compared with approximately NIS 81,000,000 in the parallel period of the previous year (approximately 1.7% of sales turnover). The increase in expenses primarily derived from the consolidation of the retail food segment, which had not yet been fully consolidated during the parallel period of the previous year.

3.1.5 Research and development expenses

Research and development expenses amounted to approximately NIS 8,000,000 in the Reporting Period, as compared with approximately NIS 6,000,000 in the parallel period of the previous year. The increase in research and development expenses primarily derived from research and development costs in the retail food segment of approximately NIS 2,900,000 as a result of the first-time consolidation of the partnership with Quik. (For additional details, see Note 5F to the Consolidated Financial Statements.)

3.1.6 Operating income before other income, net, and reorganisation expenses

Operating income before other income, net, and reorganisation expenses amounted to approximately NIS 234,000,000 in the Reporting Period, as compared with approximately NIS 224,000,000 in the parallel period of the previous year, an increase of approximately 4.7%.

3.1.7 Other income, net

Other net income amounted to approximately NIS 16,000,000 in the Reporting Period, as compared with other net income of approximately NIS 42,000,000 in the parallel period of the previous year. Income during the Reporting Period and during the previous year primarily derived from the revaluation of investment property owned by the Company.

3.1.8 Reorganisation expenses

Reorganisation expenses during the Reporting Period amounted to approximately NIS 52,000,000 and derived from the retail food segment. (For additional details, see Section 1.3 above.)

3.1.9 Operating income after other income, net, and reorganisation expenses

Operating income after other income, net, and reorganisation expenses amounted to approximately NIS 198,000,000 in the Reporting Period, as compared with approximately NIS 266,000,000 in the parallel period of the previous year, a decrease of approximately 25.4%, which primarily derived from reorganisation expenses and a decrease in other income, net, during the Reporting Period as set forth in Sections 3.1.7 and 3.1.8 above.

3.1.10 Financing income (expenses), net

Financing expenses, net, amounted to approximately NIS 127,000,000 in the Reporting Period, as compared with approximately NIS 62,000,000 in the parallel period of the previous year. The increase in financing expenses, net, primarily derived from the consolidation of the retail food segment, which had not yet been fully consolidated during the parallel period of the previous year, which contributed approximately NIS 40,000,000, and from an increase in expenses in respect of exchange rate differences.

3.1.11 Income before taxes on income

Income before taxes on income amounted to approximately NIS 71,700,000 in the Reporting Period, as compared with income before taxes on income of approximately NIS 203,500,000 in the parallel period of the previous year. The decrease in income before taxes primarily derived from a decrease in the food segment's results, reorganisation expenses, a decrease in other revenue, net, and an increase in financing expenses as noted.

3.1.12 Taxes on income

Taxes on income expenditures amounted to approximately NIS 28,000,000 in the Reporting Period, as compared with taxes on income expenditures of approximately NIS 32,000,000 in the parallel period of the previous year.

3.1.13 Net income

Net income during the Reporting Period amounted to approximately NIS 43,600,000, as compared with approximately NIS 171,900,000 in the parallel period of the previous year. After neutralisation of the effect of the food segment’s results during the Reporting Period, net income during the Reporting Period came to approximately NIS 170,000,000, as compared to approximately NIS 180,000,000 in the parallel period of the previous year, which reflects a more moderate decrease in net income during the Reporting Period, which primarily derived from an increase in financing expenses in respect of exchange rate differences.

3.1.14 EBITDA(*)

The EBITDA amounted to approximately NIS 530,000,000 during the Reporting Period, as compared with approximately NIS 418,000,000 in the parallel period of the previous year, an increase of approximately 26.8%.

The EBITDA, after neutralisation of the effects of IFRS 16, amounted to approximately NIS 250,700,000 in the Reporting Period, as compared with approximately NIS 248,700,000 in the parallel period of the previous year, an increase of approximately 0.8%.

(*) EBITDA is calculated as earnings before depreciation and amortisation, interest, other income (expenses), and taxes on income.

3. Results of activities by quarter:

3.2 Summary of business results by quarter (in NIS Thousands):

	Quarter 10-12/2022	(*)	Quarter 7-9/2022	(*)	Quarter 4-6/2022	(*)	Quarter 1-3/2022	(*)	Quarter 10-12/2021	(*)
Revenues from sales and provision of services	1,583,730		1,684,645		1,523,448		1,450,490		1,497,313	
Cost of sales and provision of services	1,089,321		1,203,606		1,074,878		1,028,317		1,065,041	
Gross profit	**494,409**	**31.2%**	**481,039**	**28.6%**	**448,570**	**29.4%**	**422,173**	**29.1%**	**432,272**	**28.9%**
Selling and marketing expenses	(398,894)		(387,085)		(366,999)		(343,329)		(345,637)	
Administrative and general expenses	(30,389)		(27,922)		(25,762)		(23,103)		(28,775)	
Research and development expenses	(3,663)		(2,495)		(952)		(1,005)		(515)	
Group's share in losses of companies treated according to the equity method, net	(17)		(123)		-		-		-	
Operating income before other income (expenses) and reorganisation expenses	**61,446**	**3.9%**	**63,414**	**3.8%**	**54,857**	**3.6%**	**54,736**	**3.8%**	**57,345**	**3.8%**
Other income (expenses), net	(5,697)		(11,925)		2,270		30,979		(748)	
Reorganisation expenses	-		(51,830)		-		-		-	
Operating income after other income (expenses) and reorganisation expenses	**55,749**	**3.5%**	**(341)**	**0%**	**57,127**	**3.7%**	**85,715**	**5.9%**	**56,597**	**3.8%**
Financing income	1,949		410		-		1,041		95	
Financing expenses	(38,256)		(27,147)		(37,035)		(27,545)		(26,504)	
Income before taxes on income	**19,442**	**1.2%**	**(27,078)**	**(1.6%)**	**20,092**	**1.3%**	**59,211**	**4.1%**	**30,188**	**2.0%**
Tax benefit (taxes on income)	(8,579)		6,337		(8,464)		(17,331)		(17,087)	
Net profit (loss)	**10,863**	**0.7%**	**(20,741)**	**(1.2%)**	**11,628**	**0.8%**	**41,880**	**2.9%**	**13,101**	**0.9%**
Other comprehensive income										
Profit (loss) from remeasurement for defined benefit plans	770		294		2,009		-		(28)	
Profit (loss) with respect to cash flow hedging transactions	(6,618)		6,823		234		82		(248)	
Total comprehensive income	**5,015**		**(13,624)**		**13,871**		**41,962**		**12,825**	

(*) Percentage of turnover

3.2.1 Revenues

The Group's revenues amounted to approximately NIS 1,584,000,000 in the fourth quarter of 2022, as compared with approximately NIS 1,497,000,000 in the parallel period of the previous year, an increase of approximately 5.8%.

The increase in sales turnover primarily derived from an increase in sales in the electrical consumer products segment, an increase in the electrical retail segment due to an increase in sales in the duty-free shops, an increase in the sport and outdoors sector primarily because of the first-time consolidation during the fourth quarter of 2022 of Adidas, and the opening of new branches. (See Section 4 below for additional details in connection with reporting on business segments.)

3.2.2 Gross profit

The gross profit rate in the fourth quarter of 2022 stood at approximately 31.2% of the sales turnover, as compared with approximately 28.9% in the parallel period of the previous year. The gross profit in the fourth quarter of 2022 amounted to approximately NIS 494,000,000, as compared with approximately NIS 432,000,000 in the parallel period of the previous year, an increase of approximately 14.4%. The increase in gross profit primarily derived from improved gross profit and its percentage in the electrical consumer products segment primarily from the sale of air conditioners, water products, and heating systems despite the decrease in the value of the euro and its adverse impact on export prices, from improvement in the electrical retail segment's gross profit, from improved gross profit and its percentage in the food sector, and from improved gross profit and its percentage in the sport and outdoor segment, as well as because of the abovementioned first-time consolidation in the fourth quarter of 2022 of Adidas. (See Section 4 below for additional details in connection with reporting on business segments.)

3.2.3 Selling and marketing expenses

Selling and marketing expenses amounted to approximately NIS 399,000,000 (approximately 25.2% of sales turnover) in the fourth quarter of 2022, as compared with approximately NIS 346,000,000 (approximately 23.1% of sales turnover) in the parallel period of the previous year. The increase in expenses derived from all of the Company's operating segments, primarily as a result of increased sales, first-time consolidation of Adidas, and the opening of new stores. (See Section 4 below for additional details in connection with reporting on business segments.)

3.2.4 Administrative and general expenses

Administrative and general expenses amounted to approximately NIS 30,000,000 (approximately 1.9% of sales turnover) in the fourth quarter of 2022, as compared to approximately NIS 29,000,000 (approximately 1.9% of sales turnover) during the parallel period of the previous year.

3.2.5 Research and development expenses

Research and development expenses amounted to approximately NIS 3,700,000 in the fourth quarter of 2022, as compared with approximately NIS

500,000 in the parallel period of the previous year. The increase in research and development expenses primarily derived from research and development expenses that derived from the retail food segment as a result of the first-time consolidation of the partnership with Quik.

3.2.6 Operating income before other income (expenses), net

Operating income before other income, net amounted to approximately NIS 61,000,000 in the fourth quarter of 2022, as compared with approximately NIS 57,000,000 in the parallel period of the previous year.

3.2.7 Other expenses, net

Other expenses, net, amounted to the sum of approximately NIS 5,700,000 in the fourth quarter of 2022, as compared with other expenses, net, of approximately NIS 700,000 in the parallel period of the previous year.

Other expenses during the fourth quarter of 2022 primarily derived from the retail food segment in the sum of approximately NIS 5,900,000.

3.2.8 Operating income after other income (expenses), net

Operating income after other expenses, net, amounted to approximately NIS 56,000,000 in the fourth quarter of 2022, as compared with income of approximately NIS 57,000,000 in the parallel period of the previous year.

3.2.9 Net financing income (expenses)

Financing expenses, net, amounted to approximately NIS 36,000,000 in the fourth quarter of 2022, as compared with approximately NIS 26,000,000 in the parallel period of the previous year. Most of the increase in net financing expenses derived from increased interest expenses in respect of loans and long-term bonds as a result of obtaining new loans and bonds during the Reporting Period.

3.2.10 Income before taxes on income

Income before taxes on income amounted to approximately NIS 19,000,000 in the fourth quarter of 2022, as compared with approximately NIS 30,000,000 in the parallel period of the previous year.

3.2.11 Taxes on income

Expenditures on taxes on income amounted to approximately NIS 9,000,000 in the fourth quarter of 2022, as compared with approximately NIS 17,000,000 in the parallel period of the previous year.

3.2.12 Net income

Net income amounted to approximately NIS 10,800,000 in the fourth quarter of 2022, as compared with approximately NIS 13,100,000 in the parallel period of the previous year.

3.2.13 (EBITDA) (*)

EBITDA amounted to approximately NIS 147,900,000 in the fourth quarter of 2022, as compared with approximately NIS 128,000,000 in the parallel period of the previous year, an increase of approximately 15.6%.

EBITDA, after neutralisation of the effects of IFRS 16, amounted to approximately NIS 73,400,000 in the fourth quarter of 2022, as compared with approximately NIS 62,500,000 in the parallel period of the previous year, an increase of approximately 17.6%.

(*) EBITDA is calculated as earnings before depreciation and amortisation, interest, other income (expenses), and taxes on income.

4. Report on business segments

4.1 Revenues (in NIS Thousands)

	For the year ended at 31 December			
	2022	2021	% change(*)	2020
Electrical consumer products	1,386,653	1,239,621	11.9%	1,158,328
Electrical retail	1,950,372	1,779,970	9.6%	1,545,721
Retail food	2,841,238	1,703,626	66.8%	-
Sports and outdoors	214,202	90,663	136.3%	-
Investment property	11,251	12,003	(6.3%)	10,392
Adjustments and other	(161,403)	(177,337)	-	(141,068)
Total	6,242,313	4,648,546	34.3%	2,573,373

4.2 Segmental income (in NIS Thousands):

	For the year ended at 31 December			
	2022	2021	% change (*)	2020
Electrical consumer products	123,742	115,514	7.1%	84,332
Electrical retail	81,114	87,200	(7.0%)	81,055
Retail food	39,920	45,846	(12.9%)	-
Sports and outdoors	20,067	11,493	74.6%	-
Investment property	11,190	12,003	(6.8%)	10,392
Adjustments and other	272	(8,211)	-	(12,834)
Total segmental profit	276,305	263,845	4.7%	162,945
Other income, net	15,627	41,664	(62.5%)	2,842
Reorganisation expenses	(51,830)	-	-	-
Unallocated joint expenses	(41,852)	(39,910)	0.5%	(35,421)
Operating income	198,250	265,599	(25.4%)	130,366

(*) The percent change is calculated based on the ratio between the 2022 results and the 2021 results.

4.3 Segmental EBITDA (in NIS Thousands):

	For the year ended at 31 December			
	2022	**2021**	**% change (*)**	**2020**
Electrical consumer products	150,890	140,730	7.2%	111,741
Electrical retail	132,531	132,568	0.0%	118,491
Retail food	227,762	153,763	48.1%	-
Sports and outdoors	48,514	23,693	104.8%	-
Investment property	11,190	12,003	(6.8%)	10,392
Adjustments and other	1,208	(4,713)	-	(3,854)
Total segmental EBITDA	572,095	458,044	24.9%	236,770
Unallocated joint expenses	(41,852)	(39,910)	-	(35,421)
EBITDA	530,243	418,134	26.8%	201,349

(*) The percent change is calculated based on the ratio between the 2022 results and the 2021 results.

4.4 Segmental EBITDA after neutralisation of the effects of IFRS 16 (in NIS Thousands):

	For the year ended at 31 December			
	2022	**2021**	**% change (*)**	**2020**
Electrical consumer products	144,640	135,043	7.1%	107,233
Electrical retail	88,773	95,293	(6.8%)	87,349
Retail food	23,221	37,664	(38.3%)	-
Sports and outdoors	25,432	14,830	71.5%	-
Investment property	11,190	12,003	(6.8%)	10,392
Adjustments and other	1,208	(4,713)	-	(3,854)
Total segmental EBITDA	294,464	290,120	1.5%	201,120
Unallocated joint expenses	(43,770)	(41,372)	-	(36,493)
EBITDA	250,694	248,748	0.8%	164,627

(*) The percent change is calculated based on the ratio between the 2022 results and the 2021 results.

4.5 Explanation of the data that appears in the table

(1) Electrical consumer products

The sales turnover amounted to approximately NIS 1,387,000,000 in the Reporting Period, as compared with approximately NIS 1,240,000,000 in the parallel period of the previous year, an increase of approximately 11.9%. The increase in income primarily derived from the increase in the field of heating systems for export. Segmental income after neutralisation of other income, net, amounted to approximately NIS 124,000,000 in the Reporting Period, as compared with approximately NIS 116,000,000 in the parallel period of the previous year, and primarily derived from increased sales primarily in the field of heating systems for export and an increase in the amount of gross profit in local and export market sales despite the drop in the euro's value and its adverse effect on export prices, whose impact on the segmental results came to approximately NIS 15,000,000.

The sales turnover in the fourth quarter of 2022 amounted to approximately NIS 300,000,000, as compared with approximately NIS 280,000,000 in the parallel period of the previous year, an increase of approximately 7.3%. The increase in income primarily derived from the increase in the field of heating systems for export, which was offset in part primarily by a decrease in sales in the field of solar energy. Segmental income after neutralisation of other income, net, amounted to approximately NIS 18,300,000 in the fourth quarter of 2022, similar to the previous year, despite the drop in the euro's value and its adverse effect on export prices during the fourth quarter of 2022, whose impact on segmental results amounted to approximately NIS 4,000,000.

(2) Electrical retail

The sales turnover amounted to approximately NIS 1,950,000,000 in the Reporting Period, as compared with approximately NIS 1,780,000,000 in the parallel period of the previous year, an increase of approximately 9.6%. The sales in the same stores in the segment that fully operated in the Reporting Period decreased in comparison to the parallel period of the previous year by approximately 6.3%.

Monthly average sales per square metre in the same stores amounted to NIS 3,163 per square metre, as compared with NIS 3,394 per square metre in the parallel period of the previous year.

Segmental income after neutralisation of other income, net, amounted to approximately NIS 81,000,000, which constitutes approximately 4.16% of the turnover, in the Reporting Period,, as compared with approximately 87,000,000, which constitutes approximately 4.9% of the turnover, in the parallel period of the previous year. The decrease in segmental income primarily derived from said decreased sales in the same stores.

The sales turnover amounted to approximately NIS 518,000,000 in the fourth quarter of 2022, as compared with approximately NIS 490,000,000 in the parallel period of the previous year, an increase of approximately 5.9%. The sales in the same stores in the segment that fully operated in the fourth quarter of 2022 increased in comparison to the parallel period of the previous year by approximately 1.3%, primarily because of duty-free operations.

Average monthly sales per square metre in same stores during the fourth quarter of 2022 amounted to NIS 3,886, as compared with NIS 3,839 per square metre in the parallel period of the previous year, an increase of 1.2%.

Segmental income after neutralisation of other income, net, amounted to approximately NIS 22,000,000, which constitutes approximately 4.23% of turnover, in the fourth quarter of 2022, as compared with approximately NIS 26,000,000, which constitutes approximately 5.22% of turnover. The decrease in segmental profit primarily derived from an increase in the cost of sales as a percentage of turnover primarily in the newly opened stores.

(3) Retail food

As of 27 May 2021, the Company has been consolidating Bitan Wines's results into its financial statements. The sales turnover and the segmental income after neutralisation of other expenses, net, and after neutralisation of reorganisation expenses, during the Reporting Period, came to approximately NIS 2,841,000,000 and NIS 40,000,000, respectively.

The sales in the same stores in this segment that fully operated in the Reporting Period decreased by approximately 4.3% as compared to the parallel period of the previous year, pro forma, primarily following the closing of stores for their renovation and conversion to the Carrefour brand.

Monthly average sales per square metre amounted to NIS 2,059, as compared with NIS 2,213 per square metre in the parallel period of the previous year.

The sales turnover and the segmental income after neutralisation of other expenses, net during the fourth quarter of 2022 came to approximately NIS 703,000,000 and approximately NIS 13,900,000, respectively, compared to revenue turnover and segmental income after neutralisation of other expenses, net of approximately NIS 702,000,000 and approximately NIS 7,300,000, in the previous year, respectively.

The sales in the same stores in this segment that fully operated in the fourth quarter of 2022 decreased by approximately 1.7% as compared to the parallel period of the previous year primarily as the result of the closing of branches for renovation.

Monthly average sales per square metre amounted to NIS 2,053, as compared with NIS 2,090 per square metre in the parallel period of the previous year.

In light of the food segment's results and with the replacement of the CEO of Bitan Wines in July 2022, Bitan Wines's management began preparing and implementing a reorganisation and streamlining plan, which it began to operate starting in August 2022, for the establishment of a commercial and operational foundation for growth, the strengthening of competitive ability, dealing with market challenges, implementation of the Carrefour brand as optimally as possible, etc. For additional details regarding the reorganisation plan, see Section 1.3 above.

(4) Sports and outdoors

As of the financial statements as at 30 September 2021, the Company has been presenting the Company's sports and outdoors operations under the "others" segment. As of the financial statements as at 31 December 2022, the Company has been presenting the operation of marketing chains; the import, manufacture, and distribution of equipment and clothing and footwear for travellers, camping, ski, and snowboarding, and outdoor sports; as well as the operation of a franchise chain under the Adidas brand as a separate operating segment. The sales turnover and the net segmental profit during the Reporting Period came to approximately NIS 214,000,000 and NIS 20,000,000, respectively.

Sales turnover and segmental profit came to approximately NIS 88,000,000 and NIS 15,000,000, respectively, during the fourth quarter of 2022, compared to sales turnover and segmental income of approximately NIS 63,000,000 and NIS 13,000,000, respectively, in the previous year. Adidas's operations, which were first consolidated during the fourth quarter of 2022, contributed a total of approximately NIS 13,000,000 to the sales turnover, and its contribution to segmental profit amounted to an immaterial loss.

(5) Investment property

Revenues and segmental profit after neutralisation of other income, net, amounted to approximately NIS 11,000,000 in the Reporting Period, as compared with approximately NIS 12,000,000 in the parallel period of the previous year.

Revenues and segmental income after neutralisation of other income, net, amounted to approximately NIS 3,000,000 during the course of the fourth quarter of 2022, which was similar to the parallel period of the previous year.

5. The impact of the implementation of International Financial Reporting Standard No. 16 – Leases

The impact of IFRS 16 – Leases on the Consolidated Statement of Profit and Loss - (in NIS Thousands)

	1-12/2022		10-12/2022	
	As reported	Without the impact of the implementation of IFRS 16 – Leases	As reported	Without the impact of the implementation of IFRS 16 – Leases
Operating income	198,250	137,442	55,749	41,115
Financing expenses, net	(126,583)	(42,139)	(36,307)	(14,521)
Income before taxes on income	71,667	95,303	19,442	26,594
Taxes on income	(28,037)	(28,037)	(8,579)	(8,579)
Net income from continuing operations	**43,630**	**67,266**	**10,863**	**18,015**
Net income attributable to Company shareholders	102,927	122,849	15,841	23,365
EBITDA	**530,243**	**250,694**	**147,936**	**73,426**

6. Liquidity and sources of financing

The Company's activities are financed by its shareholder equity and by the use of short-term and long-term credit that it receives from banks, debentures, bank loans, and credit card discounting.

7. Distribution of sources of financing (See also Section 19 to Part A of the periodic report.)

7.1 The following is a brief summary of the cash flows (in NIS Thousands)

	For the period of one year ended at 31 December		
	2022	2021	2020
Cash generated (absorbed) by			
Current operations	329,293	(11,773)	288,745
Investment operations	(281,653)	56,946	266,881
Cash used in discontinued operations	(87,500)	-	-
Financing	258,918	(17,172)	(526,733)
Exchange differences with respect to cash balances	-	710	143
Increase in cash and cash equivalents	219,058	28,711	29,036

7.2 Average amount of credit extended to customers as well as credit from suppliers for 2022 and 2021 (in NIS Thousands):

	Average amount in trade receivables (in NIS Thousands)	
	2022	2021
Electrical consumer products	478,100	431,245
Electrical retail	141,802	110,971
Retail food	101,644	97,164
Sports and outdoors	28,269	24,370

	Average amount in trade receivables (in NIS Thousands)	
	2022	2021
Electrical consumer products	297,726	322,859
Electrical retail	660,096	584,931
Retail food	697,636	680,210
Sports and outdoors	46,220	22,480

7.3 Cash flows from regular operations

Net cash that derived from current operations amounted to approximately NIS 329,000,000 in the Reporting Period, as compared with net cash used in current operations of approximately NIS 12,000,000 in the previous year. The increase in cash flows from current operations in the Reporting Period as compared with the parallel period of the previous year primarily derived from an improvement in segmental results in the electrical consumer products segment and an improvement in working capital structure in the Reporting Period. Consolidation of the results of the companies that were acquired during 2021 and 2022 that had not yet been fully consolidated during the parallel period of the previous year contributed, during the Reporting Period, net cash that derived from current operations of approximately NIS 18,000,000 after neutralisation of the effects of IFRS 16 - Leases.

Net cash that derived from current operations amounted to approximately NIS 157,000,000 in the fourth quarter of 2022, as compared with net cash used in current operations of approximately NIS 13,000,000 in the previous year. The increase in cash flows from current operations in the fourth quarter of 2022 as compared with the parallel period of the previous year primarily derived from an improvement the retail food segment’s and the sports and outdoors segment's results as well as an improved working capital structure.

7.4 Cash flows generated by investment activity

Net cash that was absorbed by investment operations amounted to approximately NIS 282,000,000 in the Reporting Period, as compared with net cash that derived from investment operations of approximately NIS 57,000,000 in the parallel period of the previous year. The cash that was used for investment operations in the Reporting Period was primarily used for the acquisition of property, plant, and equipment and other assets primarily in the food segment in the sum of approximately NIS 89,000,000 primarily as a result of the renovation and conversion of stores to Carrefour in the sum of approximately NIS 60,000,000, for investment in investment property under construction, and for the acquisition of new companies and operations. Net cash that derived from investment operations in the previous year primarily derived primarily from the redemption of short-term deposits, the disposal of marketable securities, and the receipt of partial proceeds from the disposal of investment property owned by the Company and was partially offset primarily by investment in property, plant, and equipment and other assets as well as by investment in marketable securities. Consolidation of the results of the companies that were acquired during 2021 that had not yet been fully consolidated during the parallel period of the previous year contributed to the acquisition of property, plant, and equipment and other assets in the sum of approximately NIS 140,000,000 in the Reporting Period.

Net cash absorbed by investment operations amounted to approximately NIS 50,000,000 in the fourth quarter of 2022, as compared with net cash that was used in investment operations of approximately NIS 22,000,000 in the parallel period of the previous year. The increase in cash used for investment activities during the fourth quarter of 2022, compared to the parallel period of the previous year, derived primarily from investments in property, plant, and equipment, and other assets in the retail food sector primarily because of the renovation and conversion of stores to the Carrefour brand.

7.5 Cash flows absorbed by discontinued investment activities

Net cash used for discontinued activities in the sum of approximately NIS 87,500,000 was used as payment following an arrangement with the tax authorities with respect to capital gains generated by the sale of Golan Telecom shares and the sale of Ace's operations in 2017 and 2020.

For additional details, see Note 24C(1) to the Consolidated Financial Statements.

7.6 Cash flows absorbed by financing activity

The net cash that derived from financing activity amounted to approximately NIS 259,000,000 in the Reporting Period, as compared with net cash that was absorbed by financing activity of approximately NIS 17,000,000 in the parallel period of the previous year. The net cash that derived from financing activity in the Reporting Period primarily derived primarily from the receipt of long-term loans and the issuance of bonds offset by repayment of bank loans in the net sum of approximately NIS 395,000,000 and from the receipt of short- and long-term bank loans in the sum of approximately NIS 144,000,000, and it was partially offset primarily by a dividend that was paid to Company shareholders in the sum of NIS 60,000,000, the purchase of treasury shares in the sum of approximately NIS 45,000,000, and the payment of lease liabilities in the sum of approximately NIS 190,000,000. The net cash that was used in financing activity in the previous year was primarily used for payment of a dividend that was made to Company shareholders in the sum of NIS 70,000,000, repayment of lease liabilities in the sum of approximately 116,000,000, repayment of long-term bank loans in the sum of approximately NIS 191,000,000, repayment of loans and liabilities to others in the sum of approximately NIS 125,000,000, as well as the net repayment of short-term bank credit in the sum of approximately NIS 118,000,000, which was partially offset primarily by the receipt of long-term loans in the sum of approximately NIS 610,000,000.Consolidation of the results of the companies that were acquired during 2021 that had not yet been fully consolidated during the parallel period of the previous year contributed, in the Reporting Period, net cash that derived from financing activities of approximately NIS 292,000,000 (after neutralisation of the effects of IFRS 16 - Leases).

Net cash that derived from financing activity amounted to approximately NIS 47,000,000 in the fourth quarter of 2022, as compared with net cash used in financing activity in the sum of approximately NIS 6,000,000 in the parallel period of the previous year. The increase in cash that derived from financing activities in the fourth quarter of 2022, compared to the parallel period of the previous year, primarily derived from the issuance of bonds, less offering expenses and a deduction of approximately NIS 70,000,000, which were intended to be used for building the indirect subsidiary's factory in Ashkelon.

8. Exposure to market risks and how they are managed

8.1 The person in charge of managing market risks at the Company

Deputy CEO, Mr. Yehonatan Tsabari, who is in charge of the Company's financial affairs, in ongoing consultation with members of the Group's management and in consultation with members of the board of directors, manages the Company's market risk. For details about Mr. Yehonatan Tsabari's education, skills, and experience, see Section 26A to Part D to the periodic report.

8.2 Description of market risks

For details about developments in the Company's macroeconomic environment and the impact of the developments on the Company's operations as well as details about the risk factors to which the Company is exposed, see the periodic report, Part A, Sections 6 and 25, respectively.

Most of the Company's exposure is to changes in exchange rates in light of the fact that the Company purchases most of its products/ raw materials in foreign currency and sells them in NIS, as well as in light of the fact that a portion of the subsidiary's sales is in foreign currency and its operating currency is the NIS. The risk inherent in changes in exchange rates is characterised by the Company as low risk because the Company hedges this risk using a variety of financial instruments available in the market. Similarly, in the event of extreme volatility, the Group can adjust the sales prices of its products. For details, see Note 22 to the Consolidated Financial Statements.

8.3 The Company's market risk management policy

The Group's operations expose it to the risks involved in various financial instruments, such as currency risks, credit risks, and cash flow risks with respect to interest rates. Market risk management is oriented toward economic exposure. The Group's risk management plan focuses on actions for restricting to a minimum potential negative financial impact on the Group's financial results. In some cases, the Group uses various financial instruments to hedge certain exposures to risks. Similarly, the Group has credit insurance policies for insuring some of its customers' debts pursuant to the amounts and deductibles that are set forth in the aforementioned credit insurance policies.

The Group monitors market risk by means of the Company's management, by means of the Company's CEO and Deputy CEO in charge of fiscal affairs, who report to the Company's board of directors, as well as by means of regular consultation.

8.4 Oversight of the Risk Management Policy and How It Is Implemented

Members of the Group's management manage risk according to the fields of operations of the Group's companies and the risks relating to those companies' operations. In the framework of the Group's overall risk management, the Group's companies review activities in various financial instruments to protect against risks that derive from exchange differences.

The Group makes use of financial instruments for reduction of its exposure to those risks. The Group enters, inter alia, into hedging transactions.

8.5 Effects of Inflation and Increased Interest Rates on Financial Disclosure and Reporting

Over the last several years, inflation rates in Israel have been low and almost throughout these years, have maintained a range of up to 1%. As of 2021, there has been an increase in inflation rates in Israel and around the world, with the consumer price index in Israel increasing by 2.8% in 2021 and 5.3% in 2022. According to the Bank of Israel's research arm, the 2023 rate of inflation is expected to come to 3%.As part of its attempt to slow down the inflation rate in Israel, starting in April 2022, the Bank of Israel has begun to raise the interest rate, in a number of increments, from the negligible rate that had prevailed for many years, to its current level of 4.25%, and according to the Bank of Israel forecast, Israel's monetary interest rate is expected to come to 4% on average during the fourth quarter of 2023. The Company has long-term liabilities to banking corporations in the sum of NIS 603,000,000 (of which, NIS 350,000,000 is attributed to Bitan Wines) and short-term liabilities to banking corporations in the sum of NIS 166,000,000, for which the Company does not maintain cash balances or deposits. In light of the expected increase in bank interest, each 1% increase is expected to increase the Group's net interest expenses by approximately NIS 4,000,000 annually. Additionally, the Company pays property owners rent for its branches and offices that is for the most part linked to the consumer price index such that every additional 1% increase in the consumer price index is expected to increase rental expenses by approximately NIS 3,000,000 annually.

With that, the Group's financial stability, together with its cash balances and the high regular cash flow that it generates, will allow it to continue to finance its operations and meet its obligations.

We note that the Company's assessments - regarding the possible implications of the increase in the prime interest rate and the increase in the consumer price index on its operations and business - are uncertain, outside of the Company's control, and amount to forward-facing information as the term is defined in the Securities Law, 5728-1968. These assessments are based, inter alia, on Company management's experience with the market (including with economic crises), and accordingly, the materialisation and/or scope of the assessments are uncertain.

9. Aspects of corporate governance

9.1 Directors with accounting and financial expertise

Taking into account their academic education, business experience, skills, and know-how, past and present, of the members of the board of directors, regarding business-accounting subjects as well as financial statement matters, the members of the Company's board of directors whom the board of directors views as possessing accounting and financial expertise are: Ms. Orly Ben-Yosef (independent director), and Mr. Gadi Lesin (external director), and Messrs. Daniel Salkind, Michael Salkind, and Avraham Israeli. For details about the education, skills, and business experience of the above directors pursuant to the provisions of Article 26 of the Reporting Regulations, see the periodic report, Chapter D, Section 26.

For details about the minimum number of directors with accounting and finance expertise whom the board of directors has determined to be suitable to the Company, see the corporate governance questionnaire attached to the periodic report, Part E.

9.2 Independent directors

For details about the Company's independent directors pursuant to Article 26 of the Reporting Regulations, see the periodic report, Chapter D, Section 26, as well as the corporate governance questionnaire attached to the periodic report, Part E.

9.3 Manner by which the financial statements were approved

The financial statements were discussed by a committee for the review of the financial statements that convened on 20 March 2023, whose members, as of this date, are Mr. Yair Cohen (external director), Ms. Orly Ben-Yosef (independent director), and Mr. Gadi Lesin (external director). The financial statements were approved by the meeting of the board of directors that convened on 23 March 2022.

10. Company shares buyback plan

On 10 August 2022, the Company's board of directors approved an additional plan to buy back - from 10 August 2022 and up until 9 August 2025 - up to NIS 100,000,000 of Company shares (the "August 2022 Plan") in lieu of a previous plan to buy back Company shares as previously approved.

In the framework of the August 2022 Plan, the Company, during the Reporting Period, acquired 91,501 ordinary shares of par value NIS 1 in the Company for total consideration of approximately NIS 10,700,000. In the framework of the August 2022 Plan, after the date of these financial statements and until 23 March 2023,37,004 ordinary shares of par value NIS 1 in the Company were acquired for total consideration of approximately NIS 3,800,000. In the framework of the previous plan, the Company, during the Reporting Period, acquired 226,992 ordinary shares of par value NIS 1 in the Company for total consideration of approximately NIS 34,700,000.

11. Company dividend distribution policy

On 2 February 2022, the Company’s board of directors approved the adoption of a dividend distribution policy that will apply to the financial statements from 2021 and thereafter as set forth below:

The Company shall distribute a dividend to shareholders at a rate of 50% of its annual net income pursuant to the Company’s last Consolidated Financial Statements, subject to the provisions of all law, including the distribution tests pursuant to the Companies Law, 5759-1999, and the financial restrictions and stipulations that were established or that shall be established from time to time in the Company’s financing agreements, including the terms of bonds that the Company will issue, if any.(For details regarding the issuance of Series A bonds, see Note 20B to the Consolidated Financial Statements.)

To clarify, this policy shall not be viewed as an undertaking by the Company to distribute a dividend, and the Company’s board of directors shall be entitled to review the above dividend distribution policy from time to time and resolve, at any time, to change the policy or the amount of the dividend to be distributed or resolve that a dividend will not be distributed at all.

12. Social responsibility policy

12.1 As a leading group in its field, the Group works toward forming a connection and a relationship with the community in the vicinity in which it conducts its operations. Our strategy focuses on activities to help at-risk youth in the surrounding community through self-initiated activities based on collaborations with associations that support at-risk youth and populations in need in the socioeconomic periphery.

12.2 Corporate responsibility

As a business group that employs thousands of workers, the Group is bound by the principles of social and environmental corporate responsibility. In 2023, the Group expects to publish a report on corporate responsibility – ESG.

For details about the Company's corporate responsibility, see the periodic report, Part A, Section 24.

12.3 Through these projects, the Company encourages its employees to active and ongoing participation based on an understanding that volunteer activities contribute to the workers' connection to society and the community that surrounds us.

12.4 Activity channels

A. The Group works to promote the subject of social responsibility as an integral part of its general strategic and business thinking and regularly holds activities with the participation of executives and employees,

B. such as the ongoing collaboration with the Elem Association, which works to support at-risk youth all around Israel. This relationship includes ongoing volunteer activities by employees in the association's projects, including ongoing volunteering in the at-risk children and youth club in Kiryat Malachi, as well as a monetary donation.

C. Another example is the collaboration that combines the donation of products and an ongoing connection with the “Hagal Sheli” Association, which focuses on at-risk youth through surfing and a variety of activities for youth from all across the Israeli social spectrum: Jews, Arabs, secular, religious, immigrants, girls, and boys.

D. In 2021, the Group, together with the “Adopt a Soldier” programme, adopted the desert patrol battalion also known as the Bedouin Patrol Battalion. The uniqueness of the battalion derives from the fact that its soldiers are Bedouins and Israeli Arabs, Muslims, and Christians, who volunteer to serve in the IDF.

   This collaboration, which also continued in 2022 and will further continue during the course of 2023, includes participation in battalion events and hosting of battalion commanders at Electra in order to familiarise them with the Company and its plant as well as with Electra Academy’s training options as a conduit for future integration of the battalion’s combatants.

E. The Group also donates electrical appliances to entities in need: associations, hospitals, educational institutions, security forces, etc.

F. The Group works to recruit and integrate special needs employees and established a social venture in the Group's offices that is staffed by employees with special needs for promotion of awareness of this issue.

G. With respect to activities in the framework of the Gershon Salkind Memorial Scholarship programme, see Note 30E(9) to the financial statements.

12.5 Contribution to the community

In 2022, the Group donated a total of NIS 3,166,000.

13. Details relating to substantial valuations that served as a basis for determining the value of data in the periodic report.

13.1 As at 31 December 2022, the Company has a very substantial valuation of investment property that it owns:

Below are details pursuant to Article 8B(I) to the Report Regulations regarding the valuation that was used as a basis in determining the data values in the Company's financial statements:

Valuation subject:	A comprehensive appraisal regarding a parcel of land zoned for business and trade, with established industrial buildings, located in the Ayalon Business Park, Western Industrial Zone, Rishon Le'Zion.
Timing of the valuation:	31 December 2022
Value of the subject of the valuation that was determined pursuant to the valuation:	Approximately NIS 327,000,000 (Despite the sale of 50% of the property to Reality, as noted in Note 11F, possession of the property has not yet been handed over, and therefore, this property is presented at 100%.)
Valuator information:	The firm of Odles Keinan Ltd. The work was performed by Mr. Offer Odles, a real estate appraiser with an undergraduate degree in management and sociology and a graduate of the certificate programme in real estate appraisal and management at the College of Management in Tel Aviv. He is a licensed real estate appraiser under the Real Estate Appraiser Law and has many years of experience in accounting valuations for reporting corporations. The Company executed an undertaking to indemnify the valuator/appraiser. The valuator is not dependent on the Company.
The assessment model used by the valuator:	The extraction (cost) method integrated into the sales comparison method and the income capitalisation for audit method.
Assumptions used by the valuator in the valuation:	Market survey of surrounding properties Survey of developed office and commercial space in the surrounding area Scope of building rights – 260% For additional details (including details regarding prior valuations), see the valuation attached to the periodic report.

The determined value per square metre accords with the zoning of the land in the lot that is the subject of the opinion with respect to the extent of the building rights.

13.2 As at 31 December 2022, the Company has a very substantial valuation in relation to the recoverable amounts from Bitan Wines's operations:

Below are details pursuant to Article 8B(I) to the Report Regulations regarding the valuation that was used as a basis in determining the data values in the Company's financial statements:

Valuation subject:	Recoverable amount from Bitan Wines's operations
Timing of the valuation:	31 December 2022
Value of the subject of the valuation that was determined pursuant to the valuation:	Approximately NIS 1,034,000,000.
Valuator information:	Fahn Kanne Advisors is a subsidiary of Fahn Kanne & Co., CPAs, one of the six largest firms in Israel. Fahn Kanne Advisors is a branch of the global Grant Thornton Special Advisory Services network, which specialises in guiding transnational transactions; conducting valuations; providing consultation for the execution of transactions; corporate public offerings in capital markets around the world; and advising on project management and finance. The work was performed by CPA Shlomi Bartov, partner and CEO of Fahn Kanne Advisors, who holds a Master of Business Administration (MBA) as well as a Bachelor of Economics and Accounting, both from the Tel Aviv University, and by CPA Roman Falk, a partner in Fahn Kanne Advisors, who holds a Master of Economics and a Bachelor (with honours) of Economics and Accounting, both from Tel Aviv University. The Company executed an undertaking to indemnify the valuator/appraiser. The valuators are not in any way dependent on the Company.
The assessment model used by the valuator:	Discounted cash flow (DCF) method.
Assumptions used by the valuator in the valuation:	The nominal discount rate after tax is 15.25%. Permanent growth rate – 2.7%.For additional details, see the valuation attached to the periodic report.

In 2022, Bitan Wines revenue amounted to approximately NIS 2,800,000,000, compared to the expected revenue of approximately NIS 3,100,000,000 in 2022, as assumed in the impairment review study dated 30 June 2022. Most of the difference derives from the commencement of massive renovations of stores and their conversion to the Carrefour chain in 2022. EBITDA (after neutralisation of IFRS 16), in 2022, came to approximately NIS 31,000,000, compared to a forecast EBITDA of NIS 95,000,000 in 2022, as assumed in the impairment review study dated 30 June 2022. Most of the discrepancy derives from the streamlining plan described in Section 1.3 above and the conversion of the chain's stores to the Carrefour brand.

14. Disclosure with respect to the internal auditor

14.1 Replacement of internal auditors

Up until 23 January 2023, Mr. Hillel Lavie served as the corporation's internal auditor (the "Outgoing Internal Auditor"). For details about the Outgoing Internal Auditor, including how he was appointed, his work plan, overseas audit, and/or audits of investee corporations, the preparation of the audit and access to information, see Section 15 in Part B (Board of Directors' Report) to the Company's 2021 periodic report. As of 23 January 2023, Ms Linur Dloomy serves as the Company's internal auditor.

14.2 Internal auditor details

A. Ms Dloomy holds a Bachelor of Business Administration and Accounting from the Academic Track of the College of Management as well as an LLM from Bar-Ilan University. Ms Dloomy is a CPA and a member of the Institute of Certified Public Accountants in Israel and of the Israel Institute of Internal Auditors and, as of 2001, is engaged in risk management and internal auditing. She is currently the Risk Advisory Practice Leader at Deloitte Israel.

B. To the best of the Company's knowledge, Ms Dloomy meets the conditions established in Sections 3(A) and 8 to the Internal Audit Law, 5752-1992 (the "Internal Audit Law") and Section 146(B) to the Companies Law. Similarly, as of the Reporting Date, Ms Dloomy does not hold securities of the Company and/or any entity related to it and has no material business or other ties to the Company, or any entity connected to it. Ms Dloomy is the Company's outsourced internal auditor. In this respect, a "related entity" – as defined in Section 1 to the Fourth Supplement to the Reports Regulations. Ms Linur Dloomy is the internal auditor for the Company, Electra Ltd., Electra Real Estate Ltd., and Electra Power (2019) Ltd., publicly traded companies that are subsidiaries of Elco Ltd. as well as for Elco Ltd.

14.3 How appointed

The appointment of Ms Dloomy as the Company's internal auditor was approved by the Company's board on 23 January 2023 (after receiving the recommendation of the Audit Committee on that same day). In that resolution and as background to the approval of the above appointment, the directors considered and discussed the details of Ms Dloomy's education, skills, and professional experience, as noted above, and her roles, duties, powers, and obligations in the Company as against the Company's type and size and the scope and complexity of its operations. The internal auditor's first term shall be five years.

14.4 Identity of the person supervising the internal auditor

The organisational supervisor for the internal auditor within the Company is the chair of the board of directors.

14.5 The work plan

The internal auditor was first appointed after the Reporting Date. As of the publication date of the report, as part of putting together the multiyear work plan, the internal auditor is conducting a risk survey in the Company.

14.6 Audit overseas and/or of investee companies

The audit plan will also address substantial corporations held by the Company, including overseas, as needed.

14.7 Scope of employment

Below is an assessment of the scope of the annual audit that was performed by the Outgoing Internal Auditor and the staff of professionals subordinate to him and whom he guides:

Assessment of the scope of the work by hours for 2022			
	In the Company	In corporations held by the Company	Total
With respect to activities in Israel	50	3,410	3,460
With respect to activities overseas	-	-	-
Total	50	3,410	3,460

The Outgoing Internal Auditor's work plan was for three years, but, in practice, the scope of the annual audit hours changed from year to year, according to audit objectives.

14.8 Conducting the audit

A. The internal auditor conducts her audit pursuant to accepted professional standards as set forth in Section 4(B) to the Internal Audit Law and professional guidelines that were approved and published by the Israel Institute of Internal Auditors and as set forth in the Companies Law.

B. To the best of the knowledge of the Company's board of directors, based on the internal auditor's statements, the internal auditor meets the requirements set forth in the professional standards.

14.9 Access to information

The internal auditor is granted free, continuous, and direct access to documents and information owned by the Company and corporations under its control, inter alia, by means of visits to the Company's properties, as necessary. Access includes the receipt of information from financial information and data systems as set forth in Section 9 to the Internal Audit Law.

14.10 The internal auditor's report

A. The Outgoing Internal Auditor submitted written reports of his findings on a regular basis, from time to time, and according to the topics of the audits that were conducted over the course of the year. The audit reports were submitted, inter alia, to the chair of the board of directors, the chair of the audit committee, members of the audit committee, and the Company's CEO, and accordingly, discussions were held by the appropriate parties regarding the findings.

B. During the course of 2022, the audit committee held two meetings, on 21 July 2022 and 8 December 2022, in which they discussed the internal auditor's findings.

C. As noted above, the internal auditor was appointed on 1 February 2023 and as of this date, as part of constructing the multiyear work plan, she has been conducting a risk review in the Company.

14.11 The board of directors' assessment of the internal auditor's activities

In the opinion of the Company's board of directors, the scope, character, and continuity of the Outgoing Internal Auditor's activities and work plan are reasonable under the circumstances and fulfil the objectives of the Company's internal audit.

As noted above, the internal auditor was appointed on 23 January 2023 and as of that date, has been conducting a risk review in the Company.

14.12 Compensation

A. The Outgoing Internal Auditor was a salaried employee of Elco Ltd., and his services were provided to the Company in the framework of the management agreement between the Company and Elco Ltd.

B. It is the assessment of the board of directors that the Outgoing Internal Order's compensation did not impact his professional judgement.

C. The internal auditor is an outside service provider for the Company, and thus, her services are provided to the Company annually and her payment is approved once annually by the competent parties. The internal auditor's payment is calculated according to the actual auditing hours that she invested and at the hourly rate agreed upon with her in advance. It is the assessment of the board of directors that the internal auditor's compensation does not impact her professional judgement.

15. Disclosure regarding the auditors' fees

The Company's and the substantial consolidated companies' auditors in 2022 and 2021 are Kost Forer Gabbay and Kasierer, Certified Public Accountants.

ECP Group 2022 Fees – The Company and Wholly Owned Investee Companies - In NIS Thousands (*)		ECP Group 2022 Fees – The Company and Partially Owned Investee Companies - In NIS Thousands	
Audit, Tax, And Ancillary Services	Other Services	Audit, Tax, And Ancillary Services	Other Services
3,797	1,067	2,988	1,209

(*) Does not include the sum of approximately NIS 1,950,000 for services relating to terminated operations.

ECP Group 2021 Fees – In NIS Thousands		Fees for Companies Consolidated for the First Time in 2021 – In NIS Thousands (**)	
Audit, Tax, And Ancillary Services	Other Services	Audit, Tax, And Ancillary Services	Other Services
3,829	962	1,717	333

(**) Does not include the sum of approximately NIS 1,850,000 for transaction expenses in connection with the acquisition of Bitan Wines and the audit of the pro forma financial statements.

Members of the audit committee reviewed the auditors’ fees and were persuaded that the scope of the work hours that were required by the auditors was acceptable and their fees constituted fair remuneration for the scope of the work. Upon the recommendation of the audit committee, the Company's board of directors approved the auditors’ fees. The Company's board of directors accepted the audit committee's recommendations and approved the auditors’ fees for 2022.

16. Financial criteria

The table below sets forth the various criteria that the Company undertook with respect to bondholders and the calculation of whose results is accurate as at 31 December 2022:

<table>
<tr><th rowspan="2">Security</th><th colspan="2">Balance of the par value of the security in circulation (in NIS Thousands)</th><th rowspan="2">Financial criterion</th><th rowspan="2">Actual criterion as at 31 December 2022</th></tr>
<tr><th>as at 31 December 2022</th><th>Immediately prior to reporting date</th></tr>
<tr><td rowspan="2">(Series A) Bonds/Debentures</td><td rowspan="2">428,125</td><td rowspan="2">428,125</td><td>Tangible equity – the Company's "solo" tangible equity at the end of the review period (as defined in the trust deed) shall not be less than NIS 350,000,000.</td><td>NIS 672,000,000</td></tr>
<tr><td>Ratio of net financial debt to net balance sheet – The ratio of the net financial debt to the net balance sheet at the end of the review period (as defined in the trust deed) shall not exceed 67%.</td><td>9.97%</td></tr>
</table>

17. Company bond information

17.1 The table below includes a summary of data about the Company's bonds in circulation as of the Reporting Date

Bonds (Series A)(1)		
Disclosure item		**Details about the bonds (Series A)**
1.	Issuance date	7 February 2022, pursuant to a shelf offering report;(2) 17 August and 20 December 2022, in the framework of private offerings to classified investors(3)
2.	Total par value on the date of issue(2) Total par value on the date that the series was expanded(3)	NIS 250,000,000 par value NIS 100,000,000 par value; NIS 78,125,000 par value
3.	Par value balance as at 31 December 2022	NIS 428,125,000 par value
4.	Par value balance on the reporting date	NIS 428,125,000 par value
5.	The par value balance on the reporting date, revalued according to linkage terms	The series is not linked.
6.	Amount of interest accrued on the books as at 31 December 2022	- (4)
7.	Stock market value as at 22 March 2023	NIS 380,400,000
8.	Type of interest	Fixed interest at a rate of 2.1%. Note that the trust deed for the (Series A) bonds dated 2 February 2022 (the "Trust Deed") establishes a number of adjustment mechanisms for changing the annual interest rate for the (Series A) bonds due to failure to meet minimal tangible equity, due to failure to meet the net financial debt to EBITDA ratio, or due to a change in the (Series A) bond rating. According to the above (cumulative) adjustment mechanisms, the total amount of interest supplements shall not exceed 1.25% (other than in the event of an entitlement to interest on arrears). For details, see Sections 5.21, 5.22, and 5.23 to the Trust Deed.
9.	Dates for payment of principal	The (Series A) bonds are payable in seven (7) unequal annual instalments as follows: four (4) payments at a rate of 12.5% each on 31 December of each of the years 2023 through 2026 (inclusive), two (2) payments at a rate of 15% each on 31 December of each of the years 2027 and 2028 (inclusive), and an additional payment of 20% on 31 December 2029. The first instalment of the principal will be paid on 31 December 2023, and the final instalment of the principal will be paid on 31 December 2029.
10.	Interest payment dates	The interest for the (Series A) bonds will be paid (or was paid, as applicable) in equal amounts semi-annually on 30 June and 31 December in each of the years 2022 through 2029 (inclusive) such that the first interest payment was on 30 June 2022 and the last interest payment will be on 31 December 2029 (together with the final payment of the principal).
11.	Principal and interest linkage basis	The (Series A) bonds are not linked (principal or interest) to any linkage basis.

Bonds (Series A)(1)		
Disclosure item		Details about the bonds (Series A)
12.	Are the bonds convertible?	No
13.	Early repayment or forced conversion of bonds	The Company shall be entitled, at its initiative, to call the (Series A) bonds due for early repayment, all according to the provisions of Section 7.2 to the Trust Deed.
14.	Guarantee for payment of the Company's obligations pursuant to the Trust Deed	None
15.	Fulfilment of the terms and obligations pursuant to the Trust Deed	As of the report date, the Company has been meeting all of its above-described financial terms and obligations. Additionally, as of the report date, to the best of the Company's knowledge, the Company has not breached its obligations as established in the (Series A) bonds' Trust Deed, and no conditions have occurred that establish cause for calling the above bonds due for immediate repayment.
16.	Is the Company required by the trustee to perform various actions, including calling meetings of bondholders?	No
17.	Details of guarantees/liens	None
Details about the trustee for the holders of (Series A) bonds		
1.	Trustee name	Mishmeret Trust Company Ltd.
2.	Bond Administrator	Mr Rami Sabati, CPA
3.	Contact information	48 Menachem Begin Blvd., Tel Aviv, Telephone: 03-6374351, Fax: 03-6374344, email address: RamiS@mtrust.co.il
Details about the (Series A) bond rating		
1.	Name of rating company as of the report date	Standard & Poors Maalot Ltd. ("Maalot")
2.	Rating determined on the date of issue	'ilAA-' (January and February 2022)
3.	Rating on the report publication date	'ilAA-' (December 2022)(5)
4.	Additional ratings between the date of issue and the report date	'ilAA-' (August and September 2022)

(1) As of the report date, pursuant to the provisions of Section 10(B)(13)(a) to the Report Regulations, the Company views the (Series A) bonds as a substantive series.
(2) On 3 February 2022, the Company published a shelf offering report (reference number: 2022-01-013488), in which the Company made an initial public offering of NIS 250,000,000 par value of the Company's (Series A) bonds.
(3) On 17 August and 20 December 2022, the Company made a private offering to classified investors in the sum of NIS 100,000,000 par value and NIS 78,125,000 par value, respectively, of (Series A) Company bonds by way of expanding a series (reference numbers: 2022-01-084156 and 2022-01-120543, respectively).
(4) As at 31 December 2022, the full balance of accrued interest has been paid. The amount accrued in interest as at 22 March 2023 is NIS 1,995,000.
(5) For details about the updated ratings report for the (Series A) bonds as of the date of the publication of this report, see the Company's immediate report dated 18 December 2022 (reference number: 2022-01-120141), which is included in this report by way of reference.

17.2 Working capital shortfall

In light of the issuance of the Company's (Series A) bonds as described above, the Company is obligated, pursuant to Article 10(B)(14) to the Report Regulations, to ascertain, from time to time, whether there are indications of a liquidity problem at the Company.

As at 31 December 2022, the Company listed, in its Consolidated Financial Statements, negative working capital (net) (current assets less current liabilities) in the sum of approximately NIS 468,000,000 and negative (net) operating capital - which characterises retail operations such as the Company's - in the sum of approximately NIS 97,000,000. Similarly, as at that date, the Company has had a negative working capital (net) (current assets less current liabilities) in the sum of approximately NIS 72,000,000 and a negative (net) operating capital, according to the Company's separate (solo) financial data, in the sum of approximately NIS 6,000,000.

The Company's board of directors conducted a review as to whether the above factual situation indicates a liquidity problem in the framework of which it reviewed the Company's sources for repaying its existing and expected liabilities based on the forecasted cash flow that was presented to the board. Accordingly, the board of directors determined that the shortfall in working capital and the shortfall in operating working capital do not indicate a liquidity problem at the Company and therefore, there is no warning sign at the Company as that term is defined in Article 10(B)(14) to the Report Regulations.

18. Events after the balance sheet date

For details, see Note 31 to the financial statements regarding events after the end of the Reporting Period.

Appendix A – Linkage-based report as at 31 December 2022, in NIS Thousands:

	Dollars	Euro	Total foreign currency	Unlinked	Linked	Non-monetary	Total
Assets							
Cash and cash equivalents	26,312	4,996	31,308	532,182	-	-	563,490
Short-term investments	-	-	-	586	85	-	671
Trade receivables	3,553	48,996	52,549	665,812	-	-	718,361
Other receivables	18,407	15,261	33,668	56,239	6,340	18,898	115,145
Inventory	-	-	-	-	-	792,103	792,103
Long-term other receivables	-	6,649	6,649	5,463	8,771	-	20,883
Investment property	-	-	-	-	-	326,616	326,616
Investment property under construction	-	-	-	-	-	29,179	29,179
Property, plant, and equipment, net	-	-	-	-	-	319,802	319,802
Right-of-use assets, land	-	-	-	-	-	64,774	64,774
Right-of-use assets, other	-	-	-	-	-	1,635,893	1,635,893
Goodwill	-	-	-	-	-	1,958,263	1,958,263
Intangible assets	-	-	-	-	-	129,362	129,362
Deferred taxes	-	-	-	-	-	21,928	21,928
Total assets	48,272	75,902	124,174	1,260,282	15,196	5,296,818	6,696,470
Liabilities							
Credit from banking corporations	-	-	-	219,093	-	-	219,093
Current maturities of debentures	-	-	-	49,579	-	-	49,579
Current maturities of leasing liabilities	-	-	-	-	206,804	-	206,804
Trade payables	74,831	60,063	134,894	1,472,382	-	-	1,607,276
Other payables	-	9,620	9,620	316,357	37,803	211,256	575,036
Loans from banking corporations	-	-	-	549,955	-	-	549,955
Bonds/Debentures	-	-	-	361,213	-	-	361,213
Leasing liabilities	-	-	-	-	1,680,804	-	1,680,804
Other non-current liabilities	-	9,593	9,593	41,683	-	94,682	145,958
Employee benefit liabilities, net	-	-	-	-	-	32,732	32,732
Deferred taxes	-	-	-	-	-	44,212	44,212
Total liabilities	74,831	79,276	154,107	3,010,262	1,925,411	382,882	5,472,662
Balance of the exposure of assets (liabilities) to results	(26,559)	(3,374)	(29,933)	(1,749,980)	(1,910,215)	4,913,936	1,223,808

Daniel Salkind,
Chairman of the Board of Directors

Zvika Schwimmer,
Chief Executive Officer

Date: 23 March 2023

Electra Consumer Products (1970) Ltd.

Consolidated Financial Statements
As at December 31, 2022

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Auditors' Report to the Shareholders of Electra Consumer Products (1970) Ltd.

Regarding an Audit of Financial Reporting Internal Control Components

Pursuant to Section 9B(C) to the Israel Securities Regulations
(Periodic and Immediate Reports), 5730-1970

We have audited the components of the financial reporting internal controls of Electra Consumer Products (1970) Ltd. and its subsidiaries (hereinafter, collectively: the "Company") as at 31 December 2022. These control components were determined as explained in the following paragraph. The Company's board and management are responsible for maintaining effective internal controls of the financial reporting and the assessment of effectiveness of the components of the internal controls of the financial reporting that is attached to the periodic report for the above date. Our responsibility is to express an opinion as to the components of the Company's internal control of its financial reporting based on our audit.

The components of the internal control of the financial reporting that were audited were determined according to Israel Auditing Standard 911 of the Institute of Certified Public Accountants – "Auditing of Components of Internal Control Financial Reporting (hereinafter: "Israel Auditing Standard 911"). These components are: (1) controls at the organisational level, including controls of the process of preparing and finalising financial reporting and general controls of information systems; (2) controls of inventory and inventory procurement; (3) controls of revenues from wholesale; (4) controls of revenues from retail sales in an indirect subsidiary; (5) controls of the payroll process; (6) and controls in connection with a review of impairment of goodwill in an indirect subsidiary. (All of these are collectively referred to below as: "audited control components.")

We conducted our audit pursuant to Israel Auditing Standard 911. Pursuant to that standard, we are required to plan our audit and carry it out with the objective of identifying the audited control components and obtain a reasonable measure of certainty as to whether these control components were effectively fulfilled from all material aspects. Our audit included obtaining an understanding regarding internal control of financial reporting, identifying audited control components, assessing the risk that there is a material weakness in the audited control components, as well as examining and assessing the effectiveness of the planning and implementation of those control components based on the assessed risk. Our audit regarding those control components also included the execution of other procedures that we deemed necessary under the circumstances. Our audit only addressed the audited control components, as opposed to internal control of all material processes relating to financial reporting, and therefore, our opinion only addresses audited control components. Similarly, our audit did not address the reciprocal effects between audited and unaudited control components, and therefore, our opinion does not take into account such possible effects. We believe that our audit provides a sufficient basis for our opinion in connection with the above.

Due to inherent limitations, internal control of financial reporting, in general, and components thereof, in particular, may not prevent or detect a misstatement. Similarly, reaching conclusions regarding the future on the basis of any kind of an assessment of current effectiveness runs the risk of controls becoming unsuitable due to changes in circumstances or because the level of the fulfilment of policies or procedures has changed for the worse.

In our opinion, the Company has effectively fulfilled, from all material aspects, the audited control components as at 31 December 2022.

We also audited, according to Israeli generally accepted auditing standards, the Company's consolidated financial statements as at 31 December 2022 and 2021 for each of the three years during the period ending on 31 December 2022, and our report dated 23 March 2023 included an unqualified opinion on those financial statements.

Tel Aviv,
March 23, 2023

Kost Forer Gabbay and Kasierer
Accountants

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Auditors' Report

to the Shareholders of Electra Consumer Products (1970) Ltd.

We have audited the attached consolidated statements of financial position for Electra Consumer Products (1970) Ltd. (hereinafter: the "Company") as at 31 December 2022 and 2021, the consolidated statements of profit and loss and other comprehensive income, the statements of changes in equity, and the statements of cash flows for each of the three years during the period ending on 31 December 2022. Those financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion as to those financial statements based on our audit.

We conducted our audit according to generally accepted Israeli auditing standards, including the standards set forth in the Accountant Regulations (Accounting Methods), 5733-1973. According to those standards, we are required to plan the audit and execute it with the objective of obtaining a reasonable degree of certainty that the financial statements do not contain a material misstatement. An audit includes a sample review of evidence that supports the sums and information in the financial statements. An audit also includes a review of the accounting rules that were applied and the significant estimates that were used by the Company's board of directors and management as well as an assessment of the accuracy of the overall presentation in the financial statements. We believe that our audit provides a sufficient basis for our opinion.

In our opinion, based on our audit, the aforesaid consolidated financial statements properly reflect, in all material respects, the Company's and its consolidated companies' financial position as at 31 December 2022 and 2021, the results of their operations, and the changes in their equity and cash flows for each of the three years in the period that ended on 31 December 2022 according to the International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

Key Audit Issues

Key audit issues are issues that were communicated or should have been communicated to the Company's board and that, in our professional judgement, were particularly significant to the audit of the consolidated financial statements for the current period. Those issues include, inter alia, any issue that: (1) addresses or may address material lines or disclosures in the financial statements, and (2) with respect to which our judgement was challenging, subjective, or particularly complex. Those issues are addressed in our audit and by the formulation of our opinion on the consolidated financial statements in their entirety. The communication of these matters below does not change our opinion of the consolidated financial statements in their entirety, and we are not providing, by means thereof, a separate opinion on these issues or on the lines or disclosures to which they refer.

Review of Impairment Regarding Goodwill Created by a Business Combination of a Consolidated Company

Pursuant to Note 15 to the consolidated financial statements, the balance of the goodwill in the consolidated statements amounts to NIS 1,958,000,000, which constitutes approximately 29% of the total of the Group's assets, of which the sum of NIS 1,641,000,000 is attributed to goodwill created by the business combination of a consolidated company. Company management reviews the impairment of cash yielding units to which goodwill has been allocated at least once annually or at greater frequency if there are indicators of impairment. The review requires management to make an estimate of the future forecasted cash flows that are expected to derive from the cash yielding unit to which the goodwill was allocated and ascertain whether the ledger value exceeds the recoupable value of the cash yielding unit. If there is a difference, the loss will be recognised from the impairment that is first attributed to goodwill. This assessment is based on significant estimates that are involved in uncertainty and subjective assessments such as: (1) cash flow forecasts and growth forecasts that are based on budgets and forecasts approved by management and (2) determination of the applied discount rate that reflects the market risks and the specific risks of the cash yielding units. Changes to these estimates or these assessments are likely to have a material impact on the balance of the goodwill and the intangible assets in the financial statements.

An audit of a review of impairment of goodwill requires the auditor's judgement as well as know-how and experience for an examination of the reasonableness of the assumptions and data that management used in determining its estimate of the recoupable amount of the cash flow yielding units to which the goodwill relates, and therefore, these estimates were determined to be a key audit issue.

Audit Procedures That We Carried Out in Response to the Key Audit Issue

The principal procedures that we applied in connection with this key issue during our audit work, inter alia:

Review and assessment of the qualification, abilities, and objectivity of the valuator.

A review of the assumptions, methods, and information that the valuator used in examining the need for impairment of goodwill in respect of the consolidated company, including, a review of various economic data that were included in the valuation and a review of cash flow forecasts of the consolidated company that were included in the valuation, including adjustment of these forecasts to forecasts that were approved by the consolidated company's board.

Review of the completeness and accuracy of the base data that were used in the model. We were assisted by a review by economic experts from our firm, and we also conducted an analysis of the recoupable amount as demonstrated by the valuation by the external valuator compared to the value of the cash yielding unit in the consolidated statements.

We have reviewed the effectiveness of the Group's internal control in the context of the valuation of the goodwill and the suitability of the disclosure that was provided in the financial statements.

We also audited, pursuant to Israel Auditing Standard 911 of the Institute of Certified Public Accountants – "Auditing of Components of Internal Control Financial Reporting," - including its amendments, components of the Company's internal control of financial reporting as at 31 December 2022, and our report dated 23 March 2023, included an unqualified opinion as to the effective fulfilment of those components.

Tel Aviv,
March 23, 2023

Kost Forer Gabbay and Kasierer
Accountants

Consolidated Statements of Financial Position

	Note	As at 31 December 2022	2021
		NIS Thousands	
Current assets			
Cash and cash equivalents	6	563,490	344,432
Short-term investments	7	671	4,344
Trade receivables	8	718,361	679,812
Other receivables	9	115,145	58,667
Inventory	10	792,103	854,392
		2,189,770	1,941,647
Non-current assets			
Long-term trade and other receivables		20,883	27,403*)
Investment property	11	326,616	269,700
Investment property under construction	12	29,179	-
Property, plant, and equipment, net	13	319,802	201,444
Right-of-use assets, land	14A	64,774	56,387
Right-of-use assets, other	14A	1,635,893	1,485,749*)
Goodwill	15	1,958,263	1,902,856*)
Intangible assets	15	129,362	104,511*)
Deferred taxes	24E	21,928	5,032
		4,506,700	4,053,082
		6,696,470	5,994,729

*) Re-presented – See Note 5A1 regarding business combinations.

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

Consolidated Statements of Financial Position

	Note	As at 31 December 2022	2021
		NIS Thousands	
Current liabilities			
Credit from banks	16	219,093	49,327
Current maturities of bonds	20	49,579	-
Current maturities of leasing liabilities	14B	206,804	172,135
Trade payables	17	1,607,276	1,573,794
Other payables	18	575,036	649,313*)
		2,657,788	2,444,569
Non-current liabilities			
Loans from banks and others	19	549,955	616,500
Bonds/Debentures	20	361,213	-
Leasing liabilities	14B	1,680,804	1,539,903
Other liabilities	21	145,958	111,120*)
Employee benefit liabilities, net	23	32,732	38,552
Deferred taxes	24E	44,212	17,277
		2,814,874	2,323,352
Equity			
Equity attributed to Company shareholders		671,960	690,970
Noncontrolling interests		551,848	535,838*)
Total equity		1,223,808	1,226,808
		6,696,470	5,994,729

*) Re-presented – See Note 5A1 regarding business combinations.

23 March 2023			
Date of approval of the financial statements	Daniel Salkind Chair of the Board of Directors	Zvika Schwimmer Chief Executive Officer	Yehonatan Tsabari Chief Financial Officer

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

Consolidated Statements of Profit and Loss

	Note	2022	2021	2020
		For the year ended at 31 December		
		NIS Thousands		
Revenues from sales and provision of services	27A	6,242,313	4,648,546	2,573,373
Cost of sales and provision of services	27B	4,396,122	3,347,446 *)	1,951,831
Gross profit		1,846,191	1,301,100	621,542
Selling and marketing expenses	27C	(1,496,307)	(990,216) *)	(451,353)
Administrative and general expenses	27D	(107,176)	(80,718)	(35,421)
Research and development expenses	27E	(8,115)	(6,231)	(7,244)
Group's share in losses of companies that are treated according to the equity method, net		(140)	-	-
Operating income before other income, net, and reorganisation expenses		234,453	223,935	127,524
Other income, net	27F	15,627	41,664	2,842
Reorganisation expenses	27G	(51,830)	-	-
Operating income after other income (expenses) and reorganisation expenses		198,250	265,599	130,366
Financing income	27H	3,400	6,555	3,338
Financing expenses	27H	(129,983)	(68,681)	(14,352)
Income before taxes on income		71,667	203,473	119,352
Taxes on income	24F	(28,037)	(31,597)	(28,907)
Net income from continuing operations		43,630	171,876	90,445
Net income from discontinued operations	28	-	-	201,259
Net income		43,630	171,876	291,704
Net income (loss) attributed to:				
Company shareholders		102,927	164,113	285,841
Noncontrolling interests		(59,297)	7,763	5,863
		43,630	171,876	291,704
Basic net income per share attributed to Company shareholders (in NIS)				
Income from continuing operations		4.74	7.47	4.08
Income from discontinued operations, net		-	-	8.93
Net income		4.74	7.47	13.01
Diluted net income per share attributed to Company shareholders (in NIS)				
Income from continuing operations		4.65	7.33	4.03
Income from discontinued operations, net		-	-	8.81
Net income		4.65	7.33	12.84
Weighted number of shares used in calculating base net income per share		21,733,811	21,979,919	21,971,893
Weighted number of shares used in calculating diluted net income per share		22,137,382	22,374,761	22,269,296

*) Reclassified.

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

Consolidated Statements of Comprehensive Income

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
Net income	43,630	171,876	291,704
Other comprehensive income (loss) (after tax):			
<u>Sums that will not later be reclassified to profit or loss:</u>			
Profit (loss) from remeasurement for defined benefit plans	3,073	(28)	(139)
<u>Amounts that will be classified or are reclassified to profit or loss upon specific conditions being met:</u>			
Adjustments from translation of financial statements of foreign operations	-	(322)	80
Transfer to profit or loss from sale of foreign operations	-	8,357	-
Transfer to statement of profit and loss with respect to cash flow hedging transactions	-	(1,345)	(16,046)
Income with respect to cash flow hedging transactions	521	3,687	14,929
Total other comprehensive income (loss)	3,594	10,349	(1,176)
Total comprehensive income	47,224	182,225	290,528
<u>Comprehensive profit (loss) attributed to:</u>			
Company shareholders	108,119	175,178	284,665
Noncontrolling interests	(60,895)	7,047	5,863
	47,224	182,225	290,528

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders											
	Equity shares	Share premium	Treasury shares	Capital reserve with respect to transactions with controlling shareholders	Capital reserve with respect to transactions with holders of noncontrollin g interests	Capital reserve with respect to share-based payments	Capital reserve with respect to remeasurement of defined benefit plans	Capital reserve for hedging transactions	Retained earnings	Total	Noncontrol ling interests	Total equity
	(Unaudited)											
	NIS Thousands											
Balance as at 1 January 2022	73,150	430,661	(65,811)	4,362	(2,659)	4,591	(5,125)	(316)	252,117	690,970	535,838	1,226,808
Total comprehensive income (loss)	-	-	-	-	-	-	2,801	2,391	102,927	108,119	(60,895)	47,224
Cost of share-based payments	-	-	-	-	-	4,720	-	-	-	4,720	2,217	6,937
Buyback of Company shares	-	-	(45,381)	-	-	-	-	-	-	(45,381)	-	(45,381)
Transactions with holders of noncontrolling interests	-	-	-	-	(26,468)	-	-	-	-	(26,468)	35,920	9,452
Noncontrolling interests created in a partnership consolidated for the first time	-	-	-	-	-	-	-	-	-	-	23,781	23,781
Equity issue to holders of noncontrolling interests in a consolidated company	-	-	-	-	-	-	-	-	-	-	17,486	17,486
Dividends paid to Company shareholders	-	-	-	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
Dividends paid to holders of noncontrolling interests	-	-	-	-	-	-	-	-	-	-	(2,499)	(2,499)
Balance as at 31 December 2022	73,150	430,661	(111,192)	4,362	(29,127)	9,311	(2,324)	2,075	295,044	671,960	551,848	1,223,808

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders												
	Equity shares	**Share premium**	**Treasury shares**	**Capital reserve with respect to transactions with controlling shareholders**	**Capital reserve with respect to transactions with holders of noncontrolling interests**	**Adjustments from translation of financial statements**	**Capital reserve with respect to share-based payments**	**Capital reserve with respect to remeasurement of defined benefit plans**	**Capital reserve for hedging transactions**	**Retained earnings**	**Total**	**Noncontrolling interests**	**Total equity**
	(Unaudited)												
	NIS Thousands												
Balance as at 1 January 2021	73,150	430,661	(58,468)	4,362	(2,659)	(8,035)	2,680	(5,813)	(2,658)	158,004	591,224	31,985	623,209
Total comprehensive income	-	-	-	-	-	8,035	-	688	2,342	164,113	175,178	7,047	182,225
Cost of share-based payments	-	-	-	-	-	-	1,911	-	-	-	1,911	-	1,911
Buyback of Company shares	-	-	(7,343)	-	-	-	-	-	-	-	(7,343)	-	(7,343)
Noncontrolling interests created in companies consolidated for the first time	-	-	-	-	-	-	-	-	-	-	-	496,806 *)	496,806
Dividends paid to Company shareholders	-	-	-	-	-	-	-	-	-	(70,000)	(70,000)	-	(70,000)
Balance as at 31 December 2021	73,150	430,661	(65,811)	4,362	(2,659)	-	4,591	(5,125)	(316)	252,117	690,970	535,838	1,226,808

*) Re-presented – see Note 7 regarding business combinations.

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders												
	Equity shares	Share premium	Treasury shares	Capital reserve with respect to transactions with controlling shareholders	Capital reserve with respect to transactions with holders of noncontrolling interests	Adjustments from translation of financial statements	Capital reserve with respect to share-based payments	Capital reserve with respect to remeasurement of defined benefit plans	Capital reserve for hedging transactions	Retained earnings	Total	Noncontrolling interests	Total equity
	(Unaudited) NIS Thousands												
Balance as at 1 January 2020	73,082	423,959	(48,668)	4,362	-	(8,115)	7,705	(5,819)	(1,541)	232,163	677,128	27,432	704,560
Total comprehensive income (loss)	-	-	-	-	-	80		(139)	(1,117)	285,841	284,665	5,863	290,528
Cost of share-based payments	-	-	-	-	-	-	1,677	-	-	-	1,677	525	2,202
Exercise of warrants	68	867	-	-	-	-	(867)	-	-	-	68	-	68
Buyback of Company shares	-	-	(9,800)	-	-	-	-	-	-	-	(9,800)	-	(9,800)
Transfer from capital reserve for share-based payments with respect to unexercised options	-	5,835	-	-	-	-	(5,835)	-	-	-	-	-	-
Dividends paid to Company shareholders	-	-	-	-	-	-	-	-	-	(360,000)	(360,000)	-	(360,000)
Dividends to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	(24,975)	(24,975)
Deconsolidation of consolidated company	-	-	-	-	-	-	-	145	-	-	145	(8,047)	(7,902)
Equity issue to holders of noncontrolling interests in a consolidated company	-	-	-	-	(2,659)	-	-	-	-	-	(2,659)	31,187	28,528
Balance as at 31 December 2020	73,150	430,661	(58,468)	4,362	(2,659)	(8,035)	2,680	(5,813)	(2,658)	158,004	591,224	31,985	623,209

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

Consolidated Statements of Cash Flows

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
Cash Flows from Current Operations			
Net income	43,630	171,876	291,704
Adjustments required for presentation of cash flows from current operations:			
Adjustments to profit and loss items:			
Depreciation and amortisation	295,790	194,199	98,845
Amortisation of customer acquisition costs	-	-	9,456
Impairment of intangible assets and goodwill	-	131	1,324
Impairment (increase) of investment property	(30,505)	(51,117)	3,068
Impairment of investment property under construction	2,506	-	-
Cost of share-based payments	6,937	1,911	2,202
Loss (profit) on disposal of operations, net	-	6,332	(228,014)
Capital loss from disposal of property, plant, and equipment	5,142	5,774	(350)
Company's share in losses of companies treated according to balance sheet value, net	140	-	647
Deferred taxes, net	6,105	(13,226)	(30,688)
Change in employee benefit liabilities, net	(2,007)	3,898	604
Other adjustments	32,036	(15,162)	(5,942)
	316,144	132,740	(148,848)
Changes in assets and liabilities items:			
Increase in trade receivables (including long-term receivables)	(33,996)	(46,866)	(138,319)
Decrease (increase) in other receivables	(40,365)	21,373	(13,863)
Decrease (increase) in inventory	74,195	(234,051)	(72,721)
Increase (decrease) in trade payables	(16,107)	(40,101)	229,993
Increase (decrease) in other payables	(14,208)	(16,744)	140,799
	(30,481)	(316,389)	145,889
Net cash from (used for) current operations	329,293	(11,773)	288,745

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

Consolidated Statements of Cash Flows

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
Cash flows from investment operations			
Acquisition of property, plant, and equipment and intangible assets	(189,073)	(86,670)	(44,777)
Investment in affiliated companies, net	-	-	(665)
Payment of capitalised leasing fees and land levies	(9,118)	(7,027)	(47,940)
Capitalisation of customer acquisition costs	-	-	(8,381)
Capitalisation of costs recognised in investment property	(693)	(2,173)	(2,992)
Extension of short-term loans	-	-	(5,000)
Repayment of short-term loans	-	-	5,000
Payment of (investment in) short-term deposits	-	100,149	(100,000)
Investment in marketable securities	-	(70,964)	(30,000)
Deferred proceeds from disposal of investment in previously consolidated company	4,791	2,479	-
Consideration on account of disposal of investment property	-	24,063	-
Proceeds from disposal of property, plant, and equipment	746	602	350
Repayment of previously consolidated company loans	3,528	-	-
Acquisition of investment property under construction	(31,685)	-	-
Proceeds from redemption and sale of marketable securities	3,438	88,299	6,891
Other investments, net	(8,200)	(1,220)	8,775
Cash released from escrow in the acquisition of a subsidiary	5,000	-	-
Net payment for consolidated operations (see Note 25D(3))	(49,660)	-	-
Acquisition of companies consolidated for the first time (A)	(10,727)	4,941	-
Net proceeds from disposal of investment in previously consolidated companies (B)	-	4,467	485,620
Net cash from (used for) investment operations	(281,653)	56,946	266,881
Cash used in terminated investment activities (See Note 24C1)	(87,500)	-	-
Cash flows from financing activity			
Dividends paid to Company shareholders	(60,000)	(70,000)	(360,000)
Dividends paid to holders of noncontrolling interests	(2,499)	-	(20,646)
Issue of share capital	-	-	68
Receipt of loans from holders of noncontrolling interests	-	-	13,636
Acquisition of partner's share in an indirect subsidiary	-	-	(11,228)
Issuance of bonds less cost of issuance	409,784	-	-
Receipt of long-term bank loans	190,000	610,000	-
Repayment of long-term bank loans	(205,025)	(190,554)	(58,376)
Repayment of loans to others	-	(40,560)	(18,890)
Payment of liability to Mega trustees	-	(84,345)	-
Buyback of Company shares	(45,381)	(7,343)	(9,800)
Equity issuance in consolidated companies to noncontrolling interests	17,486	-	32,034
Payment of leasing liabilities	(189,628)	(115,966)	(40,923)
Short-term bank credit, net	144,181	(118,404)	(52,608)
Net cash from (used for) financing activity	258,918	(17,172)	(526,733)
Exchange differences for cash and cash-equivalent balances	-	710	143
Increase in cash and cash equivalents	219,058	28,711	29,036
Balance of cash and cash equivalents at beginning of year	344,432	315,721	286,685
Balance of cash and cash equivalents at end of year	563,490	344,432	315,721

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

Consolidated Statements of Cash Flows

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
(A) Acquisition of companies consolidated for the first time			
Consolidated companies' assets and liabilities as at date of acquisition:			
Working capital (other than cash and cash equivalents), net	9,768	821,930*)	-
Long-term receivables	-	(15,011) *)	-
Property, plant, and equipment	(3,436)	(95,840)	-
Right-of-use assets	(1,901)	(1,378,303)*)	-
Intangible assets	(22,761)	(79,353) *)	-
Goodwill	(55,407)	(1,705,664)*)	-
Deferred tax liabilities, net	2,075	5,262	-
Loans from banks and others and bank credit	13,065	338,776	-
Leasing liabilities	1,789	1,569,813	-
Other non-current liabilities	12,848	28,961 *)	-
Employee benefit liabilities, net	-	17,564	-
Capital reserve from a transaction with noncontrolling interests	3,786	-	-
Noncontrolling interests	29,447	496,806 *)	-
	(10,727)	4,941	-

*) Re-presented – See Note 5A1 regarding business combinations.

	2022	2021	2020
(B) Proceeds from disposal of investment in previously consolidated company			
Consolidated company's assets and liabilities as at date of sale:			
Working capital (other than cash and cash equivalents), net	-	13,298	(149,089)
Long-term receivables	-	248	-
Property, plant, and equipment	-	1,393	102,606
Right-of-use assets	-	-	13,532
Intangible assets	-	3,631	75,346
Goodwill	-	-	792,689
Deferred taxes	-	-	43,651
Credit from banks and others	-	(2,848)	-
Long-term bank loan	-	(5,478)	-
Leasing liabilities	-	-	(15,701)
Other non-current liabilities	-	(669)	(597,381)
Noncontrolling interests	-	-	(8,047)
Proceeds from sale of consolidated company	-	2,025	228,014
Receivables from disposal of investment in a consolidated company	-	(7,133)	-
	-	4,467	485,620

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

Consolidated Statements of Cash Flows

		For the year ended at 31 December		
		2022	2021	2020
		NIS Thousands		
(C)	Significant non-cash activities			
	Acquisition of property, plant, and equipment and intangible assets using credit	62,373	14,768	2,016
	Increase in right-of-use asset against leasing liabilities	373,729	128,806	37,222
(D)	Additional information on cash flows			
	Cash paid over the course of the year for:			
	Interest	125,915	67,360	32,936
	Taxes on income (including for terminated activities)	155,881	45,304	34,269
	Cash received over the course of the year for:			
	Interest	3,091	1,750	1,041
	Taxes on income	10,139	9,579	265

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

NOTE 1 – GENERAL

A. General description of the group and its operations

Electra Consumer Products (1970) Ltd. (hereinafter: the “Company”) is a subsidiary of Elco Ltd. (hereinafter: the “Parent Company” or “Elco”).

The Company is a publicly traded company whose shares are traded on the Tel Aviv Stock Exchange.

As at 31 December 2022, the Group has five areas of operations that are also reported as business segments in its financial statements:

1. Import, manufacture, export, marketing, sale, and distribution of electrical consumer products and provision of services for these products (hereinafter: the “electrical consumer products segment”)

   The Group imports and distributes electrical consumer products, including air conditioners, refrigeration appliances, entertainment appliances, and small electrical appliances. Additionally, the Group manufactures and distributes mini-central air conditioning units, wall-mounted air conditioner condensers with relatively high outputs and water-based air conditioning products. It also sells air VRV and VRF air conditioning systems, water-fed internal units, and heating systems.

   The Group has a national customer service network through which it provides service for air conditioners during the warranty period, paid maintenance services, paid repair services, replacement part sales, and paid extended warranty services.

2. Operation of retail chains for the sale of electrical consumer products and cellular telephones and accessories (hereinafter: the "electrical retail segment")

   The Group operates chains that specialise in the sale and marketing of electrical consumer products under the brand names, "Mahsanei Hashmal," "Shekem Electric," and "Shekem Duty."

3. Operation of the Bitan Wines chain, a retail marketing chain for food products and other consumables, that operates under Carrefour brands as well as the operation of the 7-Eleven chain, which commenced operation in January 2023 (hereinafter: the "retail food segment")

   The Group operates retail chains for the sale of food and other products.

4. Sports and leisure

   Including import, manufacture, marketing, distribution, and sale of equipment, clothing, and footwear for travellers, camping, skiing, snowboarding, all-terrain sports, and leisure, as well as the operation of stores for retail sale of equipment, sports, fashion, footwear, and other products under the Adidas brand using a nonexclusive franchise model.

5. Development and construction of investment properties (hereinafter: the "investment real estate segment")

   The Company has land that it had acquired for realising the land's commercial potential through the promotion of a profit-yielding real estate project. For additional information, see Notes 11 and 12.

NOTE 1 – GENERAL (CONTINUED)

B. Definitions

The Company	–	Electra Consumer Products (1970) Ltd.
The Group	–	Electra Consumer Products (1970) Ltd. and its investee companies that are noted in the appendix to the consolidated financial statements – List of Investee Companies.
The Parent Company	–	Elco Ltd.
Related parties	–	As defined in IAS 24.
Interested parties and controlling shareholder	–	As defined in the Securities Regulations (Annual Financial Statements), 5770-2010.

C. Streamlining and reorganisation plans

During the course of the third quarter of 2022, Bitan Wines Ltd. engaged in a plan for streamlining, downsizing, and reorganisation, which included, inter alia, operational streamlining of staffing in stores and at its headquarters, a decision to close five failing stores, improvement of trade terms, building and implementing a plan for the renovation of stores and their conversion to Carrefour stores, etc. Pursuant to Bitan Wines's management's plans, Bitan Wines is preparing to accelerate the conversion of its branches and launch 50 Carrefour branches during the first half of 2023 to achieve national distribution and launch three retail Carrefour formats. Bitan Wines is working to complete the conversion of its stores by the end of 2024.

Bitan Wines has already begun, during the second quarter of 2022, renovating stores and preparing them for the launch of Carrefour under a temporary brand ("Super"). As of the end of 2022, Bitan Wines has converted and renovated approximately 15 stores and as of the signing date of the financial statements, has renovated and converted approximately 17 stores. The renovations and conversions that have been carried out thus far, as noted, have already contributed to a significant improvement in said branches' results before their launch as Carrefour branches. The results of the store conversion reinforce Bitan Wines's plans to accelerate the process of launching the Carrefour chain as soon as 2023. In that framework, Bitan Wines sought to obtain financing for launching the stores in the total sum of approximately NIS 248,000,000, approximately NIS 148,000,000 from banks and approximately NIS 100,000,000 from its shareholders. As of the signing date of these financial statements, financing has been obtained from shareholders in the total sum of approximately NIS 90,000,000, and the balance, in the sum of approximately NIS 10,000,000, is expected to be obtained by the end of March 2023. For details regarding the signing of new agreements with the banks, obtaining additional financing, and settling financial criteria after the reporting date, see Note 31B.

The Company expects that implementation of the streamlining and reorganisation plan, which includes accelerating the conversion of the chain branches to Carrefour, will improve the Company's ability to achieve its targets and fulfil its business strategy in the food segment, principally, the launch of the Carrefour chain as soon as the first half of 2023, a factor that contributed to improvement of the food segment's EBITDA as of the fourth quarter of 2022 and is expected to increase the redemption of its investment in the converted stores. Similarly, fulfilment of the plan will enable the effective launch of the loyalty club credit card close in time to the launch of the Carrefour chain.

In the third quarter of 2022, a provision was included in these financial statements for the reorganisation plan (including provisions for impairment of property, plant, and equipment and other) that has reduced the retail food segment results by the sum of approximately NIS 52,000,000.

The inclusion of said provision has resulted in a decrease in the Company's net income and the net income attributed to the Company's shareholders in the financial statements for 2022 by the sums of approximately NIS 52,000,000 and approximately NIS 21,000,000, respectively.

NOTE 1 – GENERAL (CONTINUED)

D. Working capital shortfall

As of 31 December 2022, the Company has a working capital shortfall of approximately NIS 468,000,000, which derived from the operations of the Company's second-tier subsidiary, Bitan Wines, whose industry is characterised by negative working capital. After neutralisation of Bitan Wines's operations, the Company has positive working capital in the sum of NIS 269,000,000. Bitan Wines's board and management are working to reduce the working capital shortfall by converting the food chain's stores to the Carrefour brand, significantly expanding its private label products, improving its trade agreements, and implementing a reorganisation plan that includes streamlining activities.

E. Change in the Group's structure

During the course of 2021, as part of its growth process, the Company decided on a change in structure in which the retail operations of Electra Consumer Products (1951) (hereinafter: "ECP 51"), a wholly owned subsidiary of the Company, would be split under a new company, as follows:

1. On 22 March 2021, the Company's board of directors approved the Company's engagement in a demerger agreement (hereinafter: the "agreement") between the Company and ECP 51, and the company that was established on 28 April 2021 (hereinafter: "Electra Retail"), in which agreement the electrical retail operations and food retail operations would be split to Electra Retail without consideration and tax-exempt pursuant to Section 105A(1) to the Income Tax Ordinance such that after the completion of the transfer of the electrical and food retail operations, Electra Retail would be the full owner and exclusive holder of the electric and food retail operations, all valid for tax purposes as at 30 June 2021 subject to the fulfilment of conditions precedent. On 28 November 2021, the Israel Tax Authority's approval was obtained for splitting the electric and food retail operations as described above, and during the course of February 2022, the conditions precedent were fulfilled and the split was carried out.

2. In February 2022, as part of the restructuring that the Company elected to carry out, ECP 51 and Electra Retail executed an agreement for the transfer of shares in Sa'ar A.T. Enterprises & Trading Ltd., under which the sports and leisure operations are consolidated (hereinafter: "Sa'ar"), which shares were held by ECP 51, to Electra Retail in consideration of fair value based on an internal valuation study that the Company conducted that was based, inter alia, on the temporal proximity of ECP 51's acquisition of Sa'ar shares as set forth in Note 5B below.

3. In February 2022, as part of the restructuring that the Company elected to make, the Company, ECP 51, Electra Convenience Stores (a company that was established for managing convenience store operations under the 7-Eleven brand – see Note 25D(5) below), and Electra Retail executed an agreement for the transfer of the convenience store operations. In the framework of the agreement, the 7-Eleven franchise agreement was assigned to Electra Convenience Stores, and Electra Convenience Stores' shares were transferred from ECP 51 to Electra Retail, all in consideration of the sums that ECP 51 paid, on account, up until the transfer date.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set forth below have been consistently applied in the financial statements during all of the presented periods unless otherwise noted.

A. Basis of presentation of the financial statements

These financial statements are prepared pursuant to the International Financial Reporting Standards (hereinafter: "IFRS"). Similarly, the financial statements are prepared according to the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

The Company's financial statements have been prepared on a cost basis, except for investment property, financial assets measured at fair value through other comprehensive income, financial assets and liabilities (including derivatives), which are presented at fair value through profit or loss, assets and liabilities for employee benefits and investments in investee companies.

The Company has elected to present its profit and loss items according to the function method.

B. The operating cycle

The Company's operational turnover period is one year.

C. Consolidated financial statements

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company has the power to affect the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The subsidiaries' financial statements are prepared using accounting policies uniform and consistent with those of the Company. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Noncontrolling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Noncontrolling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to noncontrolling interests. Losses are attributed to noncontrolling interests even if it results in a negative balance of noncontrolling interests in the consolidated statement of financial position.

D. Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of noncontrolling interests in the acquiree. In each business combination, the Company chooses whether to measure the noncontrolling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets. Direct acquisition costs are carried to the statement of profit or loss as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognising a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Business combinations and goodwill (continued)

Contingent consideration is recognised at fair value on the acquisition date. Contingent consideration is classified as a financial asset or liability in accordance with IFRS 9. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost, which represents the excess of the acquisition consideration and the amount of noncontrolling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognises the resulting gain on the acquisition date.

E. Investments accounted for using the equity method

Associates are companies over which the Group has significant influence, but not control, over their accounting and operating policies.

The Group's investments in associates and joint ventures are accounted for using the equity method.

The Company's and the associate's financial statements are prepared for identical dates and periods. The accounting principles in the associate's financial statements were applied uniformly and consistently with that applied in the Group's financial statements.

F. Functional currency, presentation currency, and foreign currency

1. Functional currency and presentation currency

The presentation currency of the financial statements is the NIS. The functional currency is the currency of the primary economic environment in which the Company operates.

The Group determines the functional currency of each Group entity, including companies accounted for at equity.

The assets and liabilities of an investee company that constitutes foreign operations, including surplus costs, are translated according to the closing exchange rate on each reporting date. Statement of profit and loss details are translated according to the average exchange rates during all of the periods that are represented. Translation differentials are attributed to other comprehensive profit (loss).

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation, which had been recognised in other comprehensive income, is carried to profit or loss. Upon the partial disposal of a foreign operation that results in the retention of control in the subsidiary, the relative portion of the amount recognised in other comprehensive income is reattributed to noncontrolling interests.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalised to qualifying assets or accounted for as hedging transactions in equity, are recognised in profit or loss. Nonmonetary assets and liabilities that are denominated in foreign currency and presented according to cost are translated at the exchange rate on the transaction date. Nonmonetary assets and liabilities that are denominated in foreign currency and presented according to fair value are translated according to the functional currency according to the exchange rate on the date on which fair value is determined.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Functional currency, presentation currency, and foreign currency (continued)

3. Index-linked monetary items

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement.

G. Cash equivalents

Cash equivalents are considered highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months but that are redeemable on demand without penalty and form part of the Group's cash management.

H. Inventory

Inventory is measured at the lower of cost and net realisable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Group periodically evaluates the condition and age of inventories and makes provisions for slow-moving inventories accordingly.

Inventory cost is determined as follows:

Purchased merchandise and products that are sold to end customers	– using the weighted average cost method or using the last purchase price method.
Purchased merchandise and products that are sold directly to stores	– On the basis of "first in – first out."
Raw materials	– According to acquisition cost on the basis of "first in – first out."
Work in progress and finished goods	– on the basis of average costs, including direct material and labour costs and other direct and indirect manufacturing costs based on normal capacity.

I. Revenue recognition

Revenue from contracts with customers is recognised when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

The Group is a principal when the Group controls the promised goods or services before transferring them to the customer. In those circumstances, the Group recognises revenue for the gross amount of the consideration.

In determining the revenue from contracts with customers, the Group reviews whether it is acting as the primary supplier or as an agent under the contract. In cases where the Group is acting as an agent, the Group recognises revenues in the net sum after deducting the sums owed to the primary supplier.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Revenue recognition (continued)

Revenues from the sale of merchandise

Revenue from the sale of goods is recognised in profit or loss at the point in time when control of the goods is transferred to the customer. Generally, control transfers on the date of delivery to the customer.

In determining the transaction price, the Group takes into account estimates regarding discounts that will be given to its customers, including those resulting from the customers meeting purchasing targets. The Group recognises revenue, less an estimate of the above discounts, up to the amount in respect of which it is forecast as highly probable that there will be no significant reversal in the amount of cumulative revenue that is recognised on the date on which the uncertainty is resolved.

For most merchandise sales, payment from the customer is received after the date on which the revenue is recognised. Sums that have not yet been collected for such merchandise sales are included in the trade receivables line.

Transactions with financing

The Company reviews the existence of a significant financing component in product sale transactions. In reviewing the existence of said significant financing component, the Group has elected to apply a practical expedient in the standard and therefore, does not adjust the amount of the proceeds for said financing component where, on the date of the engagement in the contract, it is expected that the period between the date that payment is received and the date that the revenue is recognised will not exceed one year.

Customer refund liabilities

In some of its transactions, the Company allows the customer the right to return the product after its purchase. For transactions that include the option of returning the sale product, the Company recognises the revenues according to the proceeds that the Company expects to receive for products for which there is no expectation that they will be returned, and, on the other hand, the Company recognises the obligation [liability] for the return. At the end of each reporting period, the Company updates its assessments regarding the forecast for products that have been sold and will be returned and accordingly, updates the liability for returns against the recognition of revenues or a reduction in revenues.

Shopping vouchers

Revenues for shopping vouchers are recognised upon their being used or upon their expiry.

Customer loyalty club

As part of the sale of products, the Bitan Wines subsidiary gives it customers who are part of its customer loyalty club a loyalty bonus by means of "cashback" vouchers that are redeemable for the purchase of additional products in the future. The Group recognises revenues for the "cashback" component on the date that the "cashback" is used or expires.

Revenues from the provision of services

Revenue from provision of services is recognised over time over the period that the customer receives and consumes the benefits generated by the Company's performance. The Company charges its customers based on payment terms agreed upon in specific agreements whereby payments may be made before or after the service is performed and the Company accordingly recognises the customer contract asset or liability.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Revenue recognition (continued)

Revenues that include warranty services

The Company provides warranty services to customers in its contracts based on applicable laws or as customary in the relevant market (basic warranty). The Group recognises a provision for basic warranty in its financial statements, pursuant to the provisions of IAS 37, as it does not constitute a separate performance obligation. That is because in most of its contracts, the Group renders warranty services to guarantee the quality of the work performed and not as an additional service to the customer.

In certain contracts, the Group provides extended warranty services, primarily for periods of one to seven years, as an additional service to the warranty granted by the Group for the quality of the work performed. Extended warranties are identified as a separate performance obligation. Therefore, in such cases, the Company allocates part of the total contract consideration to the warranty services based on the expected cost of the services plus a reasonable margin and recognises revenue from the rendering of the services over the warranty period.

Payment for the warranty services is made on the date of the engagement with the customer or on an ongoing basis over the course of the service period. When payment is received from the customer prior to the service provision date, the Company recognises a liability in respect of the contract.

J. Taxes on income

The tax results from current or deferred taxes are carried to profit and loss unless they relate to items that are attributed to other comprehensive income or to equity.

1. Current taxes

   The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes

   Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

   Deferred taxes are measured at the tax rate that is expected to apply when the asset is realised, or the liability is settled based on tax laws that have been enacted or substantively enacted by the reporting date.

   Deferred tax assets are reviewed at each reporting date according to the probability that they will be utilised. Deferred taxes in respect of investment property that is held with the objective of recovering substantially all of the economic benefits embedded in the investment property through sale and not through use are measured in accordance with the expected manner of recovery of the base asset on the basis of sale rather than use.

   In the calculation of deferred taxes, taxes that would have applied in the event of disposal of the investments in investee companies are not taken into account as long as the sale of the investments in the investee companies is not expected in the foreseeable future. Similarly, deferred taxes with respect to distribution of profits by investee companies as dividends were not taken into account either because distribution of the dividends does not involve an additional tax liability or because the Company's policy is to refrain from initiating distribution of a dividend by a consolidated company that results in additional tax liability.

   Deferred taxes are offset if there is a legal right to offset a current tax asset against a current tax liability and the deferred taxes are attributed to the same entity that is tax liable and to the same tax authority.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Discontinued operations

Non-current assets or a disposal group are classified as held for sale if their carrying amount will be principally recovered through a sale transaction rather than through continuing use. For that to be the case, the assets must be available for immediate sale in their present condition, the Company must be committed to sell, there must be a plan to locate a buyer, and it must be highly probable that a sale would be completed within one year from the date of classification. From the date of such initial classification, these assets are no longer depreciated and are separately presented as current assets at the lower of their carrying amount and their fair value less sale costs. Other comprehensive income (loss) in respect of an asset or a group of non-current assets that are classified as held for sale is presented separately in equity. When the Company changes its sale plans so that the asset will not be recovered in a sale transaction, it stops classifying the asset as held for sale and measures it at the lower of its carrying amount had it not been classified as held for sale and the recoverable amount of the asset on the date of the decision to withdraw from selling the asset. A discontinued operation is a component of the Company that either has been disposed of or is classified as held for sale. The operating results relating to the discontinued operation are separately presented in profit or loss, net of the tax effect.

L. Leases

The Company treats a contract as a lease contract when, pursuant to the terms of the contract, the right to control an identified property for a period of time is transferred for consideration.

The Group as lessee

For leases in which the Company is the lessee, the Company recognises, on the commencement date of the lease, a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For those excluded leases, the Company has elected to recognise the lease payments as an expense in profit or loss on a straight-line basis over the lease term.

Leases that entitle employees to a company car as part of their employment terms are accounted for as employee benefits in accordance with the provisions of IAS 19 and not as subleases.

On the commencement date of a lease liability, including all of the lease payments (not including variable lease payments) that have not yet been made, capitalisation is at the interest rate embodied in the lease when it is easily determined or at the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

A right-of-use asset on the commencement date is recognised at the amount of the lease liability plus lease payments that were made on the commencement date or prior thereto plus the incurred costs of the transaction. A right-of-use asset is measured according to the cost model and is deducted over the shorter of its useful life or the lease period.

Below are the data regarding the number of years of amortisation for the relevant right-of-use assets divided into the right-of-use asset groups:

	Number of years
Leasing of branches and offices	Primarily 1-25
Vehicles	Primarily 1-3

Capitalised leasing fees for land are amortised over 98 years.

When there are indicators of an impairment, the Company examines the impairment of the right-of-use asset pursuant to the provisions of IAS 36.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Leases (continued)

Index-Linked lease payments

On the commencement date, the Company uses the Index on the commencement date for calculating future lease payments.

In transactions in which the Company is the lessee, changes in the amount of the future lease payments that result from changes in the Index are capitalised (without changing the capitalisation rate that applies to the lease liability) for the balance of the right-of-use asset and are recognised as an adjustment to the balance of the lease liability only when there is a change in cash flows that derives from the change in the Index (meaning, on the date on which the adjustment to the lease payments takes effect).

Variable lease payments

Variable lease payments that are based on performance or use and do not depend on the Index or interest are recognised as an expense in transactions in which the Company is the lessee on the day that they are incurred.

Options to extend or terminate a lease period

A noncancellable lease period also includes periods that are covered by an option to extend the lease where it is reasonably certain that the option to extend will be exercised as well as includes periods covered by an option to terminate the lease where it is reasonably certain that the option to terminate will not be exercised.

In the event of a change in the expected exercise of an option to extend or the non-exercise of an option to terminate, the Company remeasures the balance of the lease liability pursuant to the updated term of the lease, according to the updated capitalisation rate on the date of the change in expectation, and the total change is carried to the balance of the right-of-use asset until it is zeroed and after that, to profit and loss.

Lease amendments

When an amendment is made to the lease terms that does not reduce the scope of the lease and is not treated as a separate lease transaction, the Company remeasures the balance of the lease liability according to the amended lease terms, according to the updated capitalisation rate on the date of the amendment, and carries the total change in the balance of the lease liability to the balance of the right-of-use asset.

When an amendment is made to the lease terms that results in a decrease in the scope of the lease, the Company recognises the profit or loss that derives from the partial or full reduction in the balance of the right- of-use asset and the lease liability. Afterward, the Company remeasures the balance of the lease liability according to the amended lease terms, according to the updated capitalisation rate on the date of the amendment and carries the total change in the balance of the lease liability to the balance of the right-of- use asset.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Property, plant, and equipment

Property, plant and equipment are measured at cost, plus directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants, and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with property, plant, and equipment.

A part of an item of property, plant and equipment with a cost that is significant relative to the total cost of the item is separately amortised using the component method.

Items are amortised in equal annual increments on the basis of the straight-line method over the asset's useful lifespan, as follows:

	%
Buildings (not including land)	2-4
Vehicles	15-20
Machines and equipment	10-25
Furniture, computers, and office equipment	6-33
Leasehold improvements	See below.

Leasehold improvements are amortised on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the useful life of the improvement.

The useful life, depreciation method, and the residual value of each asset are at least reviewed at the end of each year, and changes are prospectively treated as an accounting estimate modification. Asset amortisation is terminated at the earlier of the date on which the asset is classified as held for sale and the date on which the asset is disposed of.

N. Borrowing costs

The Group capitalises borrowing costs that are attributable to the acquisition or construction of qualifying assets for whose preparation for intended use or sale a substantial period of time is required. Borrowing costs include interest and other expenses incurred by the entity in connection with receipt of borrowed funds. The Company's starts capitalising borrowing costs to the cost of a qualifying asset when all of the following conditions are met: expenditures for the qualifying asset are incurred, the borrowing costs are incurred, and the preparation of the asset for its intended use or sale is underway. The amount of borrowing costs capitalised in the reporting period includes specific borrowing costs and general borrowing costs based on a weighted capitalisation rate. Other borrowing costs are carried when incurred to financing expenses in profit or loss. The Company suspends the capitalisation of borrowing costs during the course of prolonged periods in which it suspends the active development of the qualifying asset. The Company ceases capitalisation of borrowing costs upon the substantial completion of all activities for the preparation of the qualifying asset for its intended use or sale.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Investment property

An investment property is property (land or a building or both) held by the owner (lessor under an operating lease) or by the lessee under a lease to earn rental fees or for capital appreciation, or both, rather than for use in the production or supply of goods or services, for administrative purposes, or for sale in the ordinary course of business.

Investment property is derecognised on disposal or when the investment property ceases to be used and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of the disposal.

Investment property is initially measured at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss when they arise. Investment property is not systematically amortised.

Investment property under construction for future use as investment property is also measured at fair value, as above, if fair value can be reliably measured. If fair value cannot be reliably measured, due to the nature and risks of the project, then it is measured at cost less impairment losses, if any, until the earlier of the date when the fair value can be reliably measured and the date when construction is complete. The cost basis of investment property under construction includes cost of land, costs of borrowing that are used to finance construction, directly attributable incremental planning and development costs, and brokerage fees relating to agreements to lease the property.

In determining the fair value of investment property, the Group relies on valuations performed by external independent valuation specialists who are experts in real estate valuations and have the necessary knowledge and experience.

P. Intangible assets

Separately acquired intangible assets are measured upon initial recognition at cost plus directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalised development costs, are recognised in profit or loss when incurred.

Intangible assets that have a defined lifespan are amortised over the course of their useful life, and an impairment thereof is reviewed when there are indications of an impairment. The amortisation period and the amortisation method for the intangible asset are at least reviewed at the end of each year.

Research and development expenditures

Research expenditures are recognised in profit or loss when incurred. An intangible asset that derives from an internal development project is recognised as an intangible asset only if the Company can demonstrate the technical feasibility of completing the intangible asset such that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; the manner in which the intangible asset will generate future economic benefits; the availability of adequate technical, financial, and other resources to complete the intangible asset; and the ability to reliably measure the expenditures attributable to the intangible asset during its development.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Intangible assets (continued)

Assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of assets begins when development is complete, and assets are available for use. Assets are amortised over their useful life. Impairment is tested annually over the course of development.

Below is the useful lifespan of intangible assets:

	Years
Customer base	3-5
Franchise agreements	Primarily 8-40
Brand	5
Development expenses	See above.
Distribution agreements and rights	10
Technology	5

Q. Impairment of non-financial assets

The Group evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable.

If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are capitalised using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.

An asset's impairment loss, other than goodwill, is only neutralised when there are changes in the estimates that were used in determining the asset's recoverable amount since the date on which the loss from impairment was last recognised. Said neutralisation of loss is limited to the lower of the asset's previously recognised impairment amount (less amortisation or depreciation) and the asset's recoverable amount. Regarding an asset measured according to cost, neutralisation of such loss is carried to profit and loss.

Goodwill in respect of consolidated companies

The Group reviews goodwill for impairment annually, on December 31, or more frequently if events or changes in circumstances indicate that there has been an impairment.

A review of impairment of goodwill is determined by a review of the recoverable amount of the cash-yielding unit (or group of cash-yielding units) to which the goodwill is allocated. When the cash-yielding unit's recoverable amount (or that of a group of cash-yielding units) is lower than the balance in the financial statements for the cash-yielding unit (or group of cash-yielding units) to which the goodwill is allocated, the impairment loss that is attributed first to goodwill is recognised. Losses from impairment of goodwill are not neutralised in consecutive periods.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Financial instruments

The accounting policy applied in respect of financial instruments is as follows:

1. Financial instruments

Financial assets are measured upon initial recognition at fair value, plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss, in respect of which transaction costs are recorded in profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:

(A) The Company's business model for managing financial assets; and

(B) The contractual cash flow terms of the financial asset.

1A) The Company measures debt instruments at amortised cost when:

The Company's business model is the holding of financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, the instruments in this category are measured according to their terms at amortised cost using the effective interest rate method less any provision for impairment.

On the date of initial recognition, the Company may irrevocably designate a debt instrument as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency, such as when a related financial liability is also measured at fair value through profit or loss.

1B) The Company measures debt instruments at fair value through profit or loss when:

A financial asset that constitutes a debt instrument does not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income. After initial recognition, the instruments in this category are measured at fair value. Gains or losses from fair value adjustments are recognised in profit or loss.

2. Impairment of financial assets

The Company evaluates, at the end of each reporting period, the loss allowance for financial debt instruments that are not measured at fair value through profit or loss.

The Company distinguishes between two types of recognition of loss allowances:

a) Debt instruments whose credit risk has not significantly increased since initial recognition or whose credit risk is low - the loss allowance recognised in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date (12-month ECLs); or

b) Debt instruments whose credit risk has increased significantly since initial recognition and whose credit risk is not low - the loss allowance recognised is measured at an amount equal to the expected credit losses over the instrument's remaining term (lifetime ECLs).

The Company has short-term financial assets such as trade receivables in respect of which the Company applies the simplified approach in IFRS 9 and measures the loss allowance in an amount equal to the lifetime expected credit losses.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Financial instruments (continued)

2. Impairment of financial assets (continued)

An impairment loss on debt instruments that are measured at amortised cost is recognised in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset, whereas the impairment loss on debt instruments that are measured at fair value through other comprehensive income is recognised in profit or loss with a corresponding loss allowance that is recorded in other comprehensive income and not as a reduction of the carrying amount of the financial asset in the statement of financial position.

The Company applies the low credit risk simplification in IFRS 9, ' whereby the Company assumes that the debt instrument's credit risk has not increased significantly since initial recognition if, on the reporting date, it is determined that the instrument has a low credit risk, for example, when the instrument has an external rating of "investment grade."

In addition, the Company considers that when contractual payments in respect of a debt instrument are more than 30 days past due, there has been a significant increase in credit risk unless there is reasonable and supportable information that demonstrates that the credit risk has not increased significantly.

The Company considers a financial asset in default when contractual payments in respect of the financial assert are more than 90 days past due. However, in certain cases, the Company considers a financial asset to be in default when external or internal information indicates that the Company is unlikely to receive the outstanding contractual amounts in full.

3. Derecognition of financial instruments

Financial assets

A financial asset is derecognised when the contractual rights to cash flows from the financial asset lapse, when the Group transfers the contractual rights to receive cash flows from the financial instrument, or when it takes upon itself an obligation to pay the cash flows that were received in full to a third party without material delay. A financial asset is also derecognised when it effectively transfers all of the risks and benefits relating to the asset or does not effectively transfer or leave behind all of the risks and rewards relating to the asset but has transferred control of the asset.

Factoring and customer credit voucher transactions are treated as a deduction when the above conditions are met.

If the Group transfers its rights to receive cash flows from an asset and neither effectively transfers all of the risks and rewards related to the asset nor transfers control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Financial instruments (continued)

4. Financial liabilities

A) Financial liabilities measured at amortised cost

Financial liabilities are initially recognised at fair value less transaction costs that are directly attributable to the issuance of the financial liability. After the initial recognition, loans and other liabilities are presented according to their terms according to cost less direct transaction costs while utilising the effective interest method.

B) Financial liabilities measured at fair value through profit or loss

At initial recognition, the Company designates financial liabilities that are not measured at amortised cost at fair value where transaction costs are recognised in profit or loss. After initial recognition, changes in fair value are recognised in profit or loss.

5. Derecognition of financial liabilities

A financial liability is derecognised by the Company only when it is extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires.

A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services, or is legally released from the liability.

When there is a modification in the terms of an existing financial liability, the Company evaluates whether the modification is substantial, taking into account qualitative and quantitative information.

If the terms of an existing financial liability are substantially modified, or a liability is exchanged for another liability from the same lender with substantially different terms, the transaction is accounted for as an extinguishment of the original liability and a recognition of a new liability. The difference between the carrying amounts of the above two liabilities is recognised in profit or loss.

If the modification in the terms of an existing liability is not substantial, or if a liability is exchanged for another liability from the same lender whose terms are not substantially different, the Company recalculates the carrying amount of the liability by discounting the revised cash flows at the original effective interest rate, and any resulting difference is recognised in profit or loss.

6. Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount is presented in the statement of financial position if there is an immediate, legally enforceable right to set off the recognised amounts and there is an intention either to settle the asset and the liability on a net basis or to simultaneously realise the asset and settle the liability.

The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of the bankruptcy or insolvency of one of the parties. In order for the right of set-off to be immediately available, it may not be contingent on a future event, nor may there be periods during which the right is unavailable or events that will cause the right to expire.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Financial instruments (continued)

7. Derivative financial instruments for hedging purposes (hedge accounting)

The Group enters into contracts for derivative financial instruments, such as forward currency contracts, to hedge risks associated with foreign exchange rate fluctuations.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are immediately recognised in profit or loss.

Hedges qualify for hedge accounting, among others, when, at the inception of the hedging relationship, there is a formal designation and documentation of the hedging relationship and of the Group's risk management objective and strategy for undertaking the hedge. Hedges are assessed on an ongoing basis, and they are actually determined to be highly effective during the reporting period for which the hedge is designated. Hedges are accounted for as follows:

Cash flow hedges

The effective portion of the changes in fair value of the hedging instrument is recognised in other comprehensive profit (loss) whereas the ineffective portion is immediately recognised in profit or loss.

Amounts recognised as other comprehensive income (loss) are reclassified to profit or loss when the hedged transaction results are recognised in profit or loss. Where the hedged item is a non-financial asset or liability, its cost also includes the gain (loss) from the hedging instrument.

The Company only prospectively discontinues hedge accounting when the hedge relationship, in whole or in part, ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedge relationship, if applicable), including instances when the hedging instrument expires or is sold, terminated, or exercised. When the Company discontinues hedge accounting, amounts accumulated in the cash flow hedge reserve remain in the cash flow hedge reserve until the future cash flows occur, or they are reclassified to profit or loss if the hedged future cash flows are no longer expected to occur.

S. Fair value measurement

Fair value is the price that would be received in the sale of an asset or the price that would be paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or, in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient inputs are available to measure fair value while maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fair value measurement (continued)

All assets and liabilities measured at fair value or for which fair value can be discovered are categorised into levels within the fair value hierarchy based on the lowest input level that is significant to the overall fair value measurement:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs, other than quoted prices, included within Level 1 that are directly or indirectly observable.

Level 3: inputs that are not based on observable market data (valuation techniques that do not use observable market inputs).

T. Treasury shares

Company shares held by the Company and/or its subsidiaries are recognised at cost of purchase and presented as a deduction from equity. Any gain or loss arising from a purchase, sale, issuance, or cancellation of treasury shares is recognised directly in equity.

U. Provisions

A provision in accordance with IAS 37 is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense is recognised in the statement of profit or loss net of any reimbursement.

The following are the types of provisions included in the financial statements:

Warranty

The Group recognises a provision for warranty when the product is sold or when the service is provided to the customer.

The provision for warranty is initially recognised based on past experience. The estimate underlying the provision for warranty is reviewed on an annual basis.

Legal claims

A provision for claims is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Onerous contracts

A provision for onerous contracts is recognised when the benefits that the Group is expected to reap from the contracts are low in relation to the unavoidable costs that result from meeting the contractual obligations. The provision is measured according to the lower of the current value of the expected cost of terminating the contract and the current value of the net expected cost of continued performance of the contract.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Employee benefit liabilities

The Group has several employee benefit plans:

1. Short-term employee benefits

Short-term employee benefits are benefits that are expected to be wholly settled by twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognised as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognised when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made. The short-term employee benefit presented in the statement of financial position represents the non-capitalised value of the liability.

2. Post-employment benefits

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

A) Defined contribution plan

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the Group pays fixed contributions but has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognised as an expense when contributed concurrently with performance of the employee's services.

B) Defined benefit plan

The Group operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. Pursuant to the law, employees are eligible for severance pay upon termination or upon retirement.

The liability for termination of employment is measured according to the actuarial line method of the forecast entitlement unit. The actuarial calculation takes into account future salary raises and employee turnover rates on the basis of an assessment of the timing of the payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

In respect of its severance pay obligation to certain of its employees, the Group makes current deposits in pension funds and insurance companies (hereinafter - the "plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group. The employee benefits liability that is presented in the statement of financial position represents the current value of the defined benefit liability less the fair value of the plan assets. Remeasurement of the net liability is recognised in other comprehensive income during the period in which it was incurred.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Employee benefit liabilities (continued)

3. Other long-term employee benefits

The Group's employees are entitled to benefits in respect of vacation, sick leave, and adaptation grants. These benefits are accounted for as other long-term benefits since the Company expects that these benefits will be used, and the respective Group's obligation will be settled during the employment period and more than twelve months after the end of the annual reporting period in which the employees render the related service.

The Group's net obligation for other long-term employee benefits, which is computed based on actuarial assumptions, is for the future benefit due to employees for service rendered in the current period and in prior periods and taking into account expected salary increases. The amount of these benefits is discounted to its present value, less the fair value of the assets relating to these obligations. The discount rate is determined by reference, at the reporting date, to market yields on high quality corporate bonds that are linked to the Consumer Price Index and whose term is consistent with the term of the Group's obligation.

Remeasurement of the net liability is recognised in profit and loss during the period in which it was incurred.

4. Termination benefits

Employee termination benefits are recognised as an expense at the earlier of the Group’s committing to terminating the employment of employees before the normal retirement date and its inability to withdraw the offer or the Group’s recognition of costs for a restructuring that involves the payment of termination benefits.

W. Share-based payment transactions

The Group's employees are entitled to benefits in the form of equity-settled share-based payment.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at the grant date. The fair value is determined using an acceptable option pricing model.

The cost of equity-settled transactions is recognised in profit or loss together with a corresponding increase in equity during the period in which the performance and/or service conditions are satisfied and ends on the date on which the relevant employees become entitled to the award (hereinafter: the "vesting period"). The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied provided that all other vesting conditions (service and/or performance) are satisfied.

If the Group modifies the conditions on which equity-instruments were granted, an expense additional to the original expense is recognised for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

W. Share-based payment transactions (continued)

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date and any expense not yet recognised for the grant is recognised immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

X. Earnings (loss) per share

Earnings per share are calculated by dividing the net income attributable to Company shareholders by the weighted number of ordinary shares outstanding during the period.

Potential ordinary shares are included in the computation of diluted earnings per share when they dilute earnings per share because their conversion reduces earnings per share or increase the loss per share from continuing operations. Potential ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date, and from that date, they are included in basic earnings per share. The Company's share of earnings of investees is calculated based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

Y. Changes in accounting policies - initial application of new financial reporting standards and amendments to existing accounting standards:

1. Amendment to IAS 37 – Provisions, contingent liabilities, and contingent assets

In May 2020, the IASB published an amendment to IAS 37 regarding costs that a company should include when assessing whether a contract is an onerous contract (hereinafter: the "amendment").

Pursuant to the amendment, that review should include costs directly relating to the contract. Costs directly related to the contract include both incremental costs (such as for raw materials and direct labour) as well as allocation of other costs that directly relate to fulfilment of the contract (such as for depreciation of property, plant, and equipment that are used in fulfilment of the contract).

The amendment was applied to annual reporting periods that commenced on 1 January 2022. The amendment applies to contracts for which all undertakings have not yet been fulfilled as of 1 January 2022. When implementing the amendment, comparison numbers need not be re-presented. Rather, the opening balance of the retained earnings on the first-time application date must be adjusted in the amount of the cumulative effect of the amendment. The above amendment did not have a material impact on the Company’s financial statements.

2. International standards improvement project for 2018-2020

In May 2020, the IASB published certain amendments in the framework of the 2018-2020 Improvement Cycle, in which the primary amendment relates to IFRS 9. The amendment to IFRS 9 clarifies which fees the Company must include when it applies the "10 percent" test in paragraph B3.3.6 of IFRS 9 for examining whether the terms of a debt instrument that has been amended or replaced are materially different from those in the original debt instrument. According to the amendment, in determining fees paid less fees received, a borrower includes in its cash flows only those fees paid or received between the borrower and the lender, including fees paid or received by the borrower or the lender for the benefit of the other.

The amendment was applied to annual reporting periods that commenced on 1 January 2022. The amendment is applied with respect to financial liabilities that have been amended or replaced as of the year in which the amendment to the standard was first applied, meaning as of 1 January 2022.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Changes in accounting policies - initial application of new financial reporting standards and amendments to existing accounting standards: (continued)

3. Amendments to IFRS 3, "business combinations"

In May 2021, the IASB issued amendments to IFRS 3 - Business Combinations – Reference to the Conceptual Framework. The amendments were intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting, which was issued in March 2018, without significantly changing its requirements. The IASB added an exception to the liability recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. According to the exception, the purchaser will apply the provisions of IAS 37 or IFRIC 21, as applicable, to determine if, on the acquisition date, there is a current obligation as a result of a past event or if the obligating event, which creates the obligation to pay the levy, occurred by the purchase date, respectively, and not according to the definition of the liability in the Conceptual Framework. The amendments also clarify that contingent assets are not recognised on the business combination date. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

The above amendment did not have a material impact on the Company’s financial statements.

NOTE 3: SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

A. Considerations

In the process of applying the significant accounting policies in the financial statements, the Group has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Effective control

The Company evaluates whether it controls a company in which it holds less than the majority of the voting rights by, among others, reference to the size of its share of voting rights relative to the size of the share and dispersion of voting rights held by the other shareholders as well as and by voting patterns at previous shareholders' meetings.

Discount rate for a lease liability

The Group is unable to readily determine the discount rate implicit in a lease. Therefore, in order to measure the lease liability, the Company uses an incremental borrowing rate. The incremental borrowing rate that the Group determines represents the rate of interest that the Group would have had to pay to borrow, over a similar term and with similar security, for obtaining an asset of similar value to the right-of-use asset that derives from the lease, and all in a similar economic environment. When there are no financing transactions that can serve as a basis, the Group determines the incremental borrowing rate based on its credit risk, the lease term, and other economic variables that derive from the lease contract's conditions and restrictions. The Group is assisted by an external valuation expert for determination of the incremental borrowing rate.

NOTE 3: SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

B. Estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues, and expenses. Changes in accounting estimates are recognised in the period of the change in estimate.

In making accounting estimates, Company management relies on past experience, various facts, outside facts, and reasonable assumptions, based on circumstances.

The key assumptions that were made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

– Legal claims

In assessing the likely outcome of lawsuits filed against the Company and its investee companies, the companies relied on the opinions of their legal advisors. These assessments by the legal advisors are based on their best professional judgement, taking into account the legal posture of the proceedings, as well as on their legal experience with these various topics. Because the outcomes of lawsuits are determined in the courts, the outcomes are likely to differ from these assessments.

– Impairment of goodwill

The Group reviews impairment of goodwill at least once annually. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows. See additional information in Note 15.

– Investment property

Investment property that can be reliably measured is presented at fair value at the reporting date. Changes in its fair value are recognised in profit or loss in the period in which they were created. Fair value is generally determined by external independent valuation experts using valuation assessments that include techniques and assumptions as to estimates of projected future cash flows from the property and an estimate of the suitable discount rate for these cash flows. When possible, fair value is determined based on recent real estate transactions with characteristics and location similar to that of the valued property.

In determining the fair value of investment property, valuation experts and Company management are required to use certain assumptions regarding the required rates of return in connection with the Group's properties and the like in order to estimate future cash flows from the properties. Changes in the assumptions that are used to measure investment property may lead to a change in fair value. See additional information in Note 12.

NOTE 3: SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

B. Estimates and assumptions (continued)

– Investment property under construction

In evaluating whether the fair value of investment property under construction can be reliably measured, the Group considers, among others, the following relevant indicators:

1. Developed, liquid market;
2. A price quote from recent transactions or prior valuations from acquisitions or sales of properties with similar characteristics and location;
3. A signed construction contract with a prime contractor;
4. The grant of building permits;
5. The percentage of rentable area that has been pre-leased to tenants;
6. A reliable estimate of construction costs;
7. A reliable estimate of the value of the finished property.

If, after an evaluation of the above indicators, it is determined that the fair value of investment property under construction can be reliably measured, the property is measured at fair value in accordance with the Group's policy for investment property. If fair value cannot be reliably measured, then investment property under construction is measured at cost less, if any, impairment loss.

– Deferred tax assets

Deferred tax assets are recognised for unused carry forward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the timing and level of future taxable profits, its source, and the tax planning strategy.

– Lease transactions that include options to extend or terminate

In order to assess whether it is reasonably certain that the Group will exercise an option to extend the lease term or terminate the lease term, the Group takes into account all of the relevant facts and circumstances that create an economic incentive for the Group to exercise or refrain from exercising the option, such as: significant sums invested in leasehold improvements, the importance of that underlying asset and its inherent uniqueness for purposes of Group operations, the Group's past experience in similar lease transactions, etc.

After the commencement date, the Group re-evaluates whether it is reasonably certain that it will exercise or refrain from exercising an option upon the occurrence of a significant event or significant change in circumstances that may affect the Group's decisions regarding exercising the option, such as significant leasehold improvements not anticipated at the commencement date, the inception of a sublease of the underlying asset for a period beyond the end of the previously determined lease term, etc.

NOTE 4: DISCLOSURE OF NEW IFRS STANDARDS DURING THE PERIOD PRECEDING THEIR IMPLEMENTATION

A. Amendment to IAS 1 – Presentation of financial statements

In January 2020, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" (the "Amendment") regarding the criteria for determining the classification of liabilities as current or non-current. In October 2022, the IASB published a subsequent amendment to the above Amendment (the “Subsequent Amendment”).

The Subsequent Amendement established that:

- Only covenants with which an entity must comply on or before the reporting date will affect a liability’s classification as current or non-current.
- For liabilities reviewed for compliance with financial covenants in the twelve consecutive months following the reporting date, disclosure is required to include information that will allow users of the financial statements to assess the risk from that same liability. The 2022 amendments require an entity to provide disclosure when a liability arising from a loan agreement is classified as non-current and the entity’s right to defer settlement is contingent on compliance with future covenants within twelve months. This disclosure is required to include information about the covenants and the related liabilities. The disclosures must include information about the nature of the future covenants and when compliance is applicable, as well as the carrying amount of the related liabilities. The purpose of this information is to allow users to understand the nature of the future covenants and to assess the risk that a liability classified as non-current could become repayable within twelve months. Furthermore, if facts and circumstances indicate that an entity may have difficulty in complying with such covenants, those facts and circumstances must be disclosed.

The original Amendment established that a liability’s conversion right would affect the liability’s classification as a whole as a current or non-current liability except in cases where the conversion element is equitable.

The original Amendment and the Subsequent Amendment will be applied to annual reporting period that commences on 1 January 2024 or thereafter. Earlier implementation is permitted. The amendments will be applied retrospectively.

B. Amendment to IAS 8, "accounting policies, changes to accounting estimates and errors"

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" (the "Amendment"). The amendment was designed to present a new definition of the term, "accounting estimates."

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty." The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is to be applied prospectively for annual reporting periods beginning on or after 1 January 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier implementation is permitted.

NOTE 4: DISCLOSURE OF NEW IFRS STANDARDS DURING THE PERIOD PRECEDING THEIR IMPLEMENTATION (CONTINUED)

C. Amendment to IAS 12, "income taxes"

In May 2021, the IASB published an amendment to International Accounting Standard 12, Taxes on Income (hereinafter: "IAS 12" or the "standard"), narrowing the scope of the "initial recognition exception" in deferred taxes that is presented in Articles 15 and 24 to IAS 12 (hereinafter: the "amendment").

In the framework of the guidelines for recognising deferred tax assets and deferred tax liabilities, IAS 12 excludes the recognition of deferred tax assets and deferred tax liabilities for certain temporary differences deriving from initial recognition of assets and liabilities in certain transactions. This exception is called the "initial recognition exception." The amendment narrows the scope of the "initial recognition exception" and clarifies that it does not apply to recognition of deferred tax assets and deferred tax liabilities deriving from a transaction that is not a business combination and for which equal taxable and deductible temporary differences are created, even if they meet the other conditions for the exception.

The amendment will be applied to annual reporting periods that commence on 1 January 2023 or thereafter. Earlier implementation is permitted. With regard to lease transactions and recognising a liability for decommissioning and restoration – the amendment will be applied at the beginning of the earliest comparative period presented in the financial statements in which the amendment is first applied while recognising the cumulative effect of the initial application to the opening balance of the retained earnings (or other component of equity, as appropriate) at that date.

The Group estimates that the initial application of the Amendment is not expected to have a material impact on its financial statements.

E. Amendment to IAS 1 – Disclosure of accounting policies

In February 2021, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" (the "Amendment"). According to the Amendment, companies will be required to give disclosure of their material accounting policies instead of the current requirement to provide disclosure of their significant accounting policies. One of the primary reasons for this Amendment derives from the fact that the term "significant" does not have an IFRS definition whereas the term "material" does have a definition in various standards and in particular, IAS 1.

The Amendment will be retroactively applied to annual reporting periods that commence on 1 January 2023 or thereafter. Earlier implementation is permitted. The Company is reviewing the effect of this amendment on its financial statements.

NOTE 5: BUSINESS COMBINATIONS

A. Acquisition of Bitan wines

1. On 5 May 2021, the Company executed agreements (hereinafter: the "agreements") with Bitan Wines Ltd. (hereinafter: the "Bitan Wines"), Mr. Nahum Bitan, and Ms. Nurit Bitan (hereinafter: the "Bitan Family"), and companies in the Phoenix Group (hereinafter: the "Phoenix").

After the fulfilment of the conditions precedent, on 27 May 2021 (hereinafter: the "Transaction Closing Date"), the subsidiary, Electra Consumer Products (1951) Ltd. (hereinafter: the "Subsidiary"), invested and acquired shares in Bitan Wines that constitute approximately 35.07% of its share capital, fully diluted and as of this date, the Company consolidates Bitan Wines in its financial statements. In consideration of these shares, the Subsidiary invested the sum of NIS 143 million in Bitan Wines in exchange for the allocation of shares and paid the Bitan Family and others the sum of approximately NIS 51.1 million. Concurrently, the Phoenix made an investment in exchange for the allocation of shares in Bitan Wines that constitute approximately 15% of Bitan Wines's equity, fully diluted.

As of the Transaction Closing Date, the Subsidiary is entitled to a majority on the Bitan Wines board of directors and has received regular management authority over Bitan Wines. The Phoenix and the Bitan Family are represented on the board and have protective rights.

The fair value of Bitan Wines identified assets and liabilities as determined in the final cost allocation study are as follows:

	Fair Value (Restated)
	NIS Thousands
Cash and cash equivalents	299,156
Long-term receivables	11
Property, plant, and equipment	83,000
Right-of-use assets	1,306,870
Identified intangible assets deriving from the acquisition	28,548
	1,717,585
Working capital, net	(869,899)
Loans from banks and others and bank credit	(349,730)
Leasing liability (including current maturity)	(1,489,648)
Other long-term liabilities	(9,716)
Employee benefit liabilities	(14,145)
	(2,733,138)
Identified liabilities, net	(1,015,553)
Noncontrolling interests	(415,295)
Goodwill deriving from the acquisition	1,641,169
Total acquisition cost	210,321

Allocation of the total acquisition cost as the acquisition date as published in the Company's consolidated financial statements as of the date of the first-time consolidation was temporary.

NOTE 5: BUSINESS COMBINATIONS (CONTINUED)

A. Acquisition of Bitan Wines (continued)

1. (continued)

The process of determining the final fair value of the identified assets and liabilities acquired in the transaction, components of the consideration and the goodwill, was completed in May 2022.

The data for 2021, constituting comparison numbers in the financial statements, were restated in order to reflect the adjustment of said fair value. Following the above, right-of-use assets and identified intangible assets deriving from the acquisition decreased by approximately NIS 17,000,000, liabilities identified in the acquisition in the working capital and other short-term liabilities were reduced by approximately NIS 11,000,000, noncontrolling interests were reduced by approximately NIS 3,000,000, and the total cost of the acquisition was reduced by approximately NIS 2,000,000. As a result, the amount of the goodwill deriving from the acquisition increased by approximately NIS 1,000,000.

The effect of the aforementioned determination of the determination of the final fair value on the statement of financial position and the statement of profit or loss from the acquisition date and until 31 December 2021, was immaterial.

As of the transaction closing date, the subsidiary was given an option to acquire the balance of the Bitan Family's shares in Bitan Wines at any time until 30 September 2023, pursuant to the value determination mechanism set forth in the agreements including a determination of minimum exercise value.

The value of the call option was assessed as at the reporting date at approximately NIS 9,000,000 by an independent outside value expert.

For details about the restructuring that was carried out by the Group, see Note 1E above.

2. Review of impairment of goodwill

Goodwill in the sum of NIS 1,641,169,000 is attributed to Bitan Wines's operations.

In order to estimate the recoverable amount of the goodwill attributed to Bitan Wines's operations, the Company obtained an economic valuation by an outside independent value expert for 31 December 2022. The recoverable amount of the cash yielding unit was determined on the basis of fair value less sale costs.

The economic study was made by basing the cash flow forecasts on reasonable and founded assumptions that represent management's best estimate regarding the segment and the economic conditions. The estimate of expected cash flows for the period beyond the period of five years, which is covered by budgets and forecasts that were approved by the Company's management, was made by the Company using extrapolations from those forecasts and a fixed growth rate for the subsequent years.

For purposes of the economic assessment of the goodwill attributed to Bitan Wines's operations, use was made, inter alia, of the following key assumptions:

Gross profit - gross profit is calculated on the basis of average values achieved from Bitan Wines's operations in 2021-2022, taking into account the expected improvement in gross profitability in light of the streamlining plan Bitan Wines is carrying out.

Discount rate (WACC) - for the purpose of the discounting the cash flow from Bitan Wines's operations, a weighted discount rate before tax of 18.12% was used, which is based on the weighted discount rate after tax of approximately 15.25% The discount rate reflects management's assumptions regarding the unit's specific risks. This discount rate is the standard basis used by management in estimating its operating results and assessing future investment offers. In determining the appropriate discount rate for the unit, the Company addressed the yield of 10-year government bonds.

NOTE 5: BUSINESS COMBINATIONS (CONTINUED)

A. Acquisition of Bitan Wines (continued)

2. (continued)

Growth rate - in the Company's earnings forecast regarding Bitan Wines's operations and based on reorganisation actions taken by Bitan Wines during the course of 2022, the Company took into account, inter alia, the effects of extensive investments in existing stores over the course of the forecast years as well as the opening of new stores. As of 2028, which is the representative year, moderate growth of approximately 2.7% was presented (similar to the expected increase in the Consumer Price Index), reflecting the growth rate of the population in Israel plus moderate real growth.

As at 31 December 2022, the recoverable amount for the cash-yielding unit – Bitan Wines's operations – exceeded its book value.

3. Additional information about the held company

A) Statement of financial position

	31 December 2022	31 December 2021
	NIS Thousands	
Current assets	384,906	263,422
Non-current assets	3,112,890	3,181,346 *)
Current liabilities	1,122,109	1,094,894 *)
Non-current liabilities	1,725,690	1,519,830 *)
Total equity	649,997	830,044 *)

*) Restated – see Note 5A(1) above

NOTE 5: BUSINESS COMBINATIONS (CONTINUED)

A. Acquisition of Bitan Wines (continued)

3. Additional information about the held company (continued)

B) Results of operations of the consolidated company

	For the year ended at 31 December 2022	For the period from June 2021 (date of first-time consolidation) until 31 December 2021
	NIS Thousands	
Revenues	2,841,238	1,703,626
Net loss	(109,040)	(7,188)
Other comprehensive loss	(249)	-
Total comprehensive loss	(109,289)	(7,188)

C) Cash flows of the consolidated company

	For the year ended at 31 December 2022	For the period from June 2021 (date of first-time consolidation) until 31 December 2021
	NIS Thousands	
From current operations	41,004	71,020
For investment activities	(69,886)	(3,941)
From financing activities	66,570	(165,955)
Increase (decrease), net, in cash and cash equivalents	37,688	(98,876)

D) Information about noncontrolling interests

	31 December 2022	31 December 2021
	NIS Thousands	
Balance of noncontrolling interests	416,378	410,889 *)

*) Restated – see Note 5A(1) above

	For the year ended at 31 December 2022	For the period from June 2021 (date of first-time consolidation) until 31 December 2021
	NIS Thousands	
Loss attributed to noncontrolling interests	(73,766)	(4,405)

NOTE 5: BUSINESS COMBINATIONS (CONTINUED)

B. Sa’ar A.T. Entrepreneurship and trade co. Ltd. Acquisition

1. On 18 April 2021, Electra Consumer Products (1951) Ltd. (hereinafter: the “Subsidiary”) entered into allocation and purchase agreements with Sa’ar A.T. Enterprises & Trading Ltd. (hereinafter: “Sa'ar”), which is primarily engaged in importing, manufacturing, marketing, and distributing equipment, clothing, and footwear for camping, sports, and leisure, and with Mr. Tomer Ben-Senior and Mr. Aviad Tzabari, the Sa'ar shareholders (hereinafter: the "Founders”), in connection with the allocation and the acquisition of Sa'ar's shares from the Founders such that upon fulfilment of all of the conditions precedent, the subsidiary would hold 50.01% of Sa'ar's shares and the remaining holdings in Sa'ar's shares (49.99%) would be retained by the Founders (hereinafter: the "Allocation and Acquisition agreements"). All of the conditions precedent were met in full in June 2021, and afterward, the Subsidiary was allocated ordinary Sa’ar shares in consideration of the sum of NIS 41,000,000, of which NIS 5,000,000 was deposited into an escrow account in the name of the trustees, as these are defined in the Allocation and Acquisition agreements, as well as the sum of NIS 44,000,000, which was paid to the Founders, divided equally between them, in consideration of the ordinary shares that were acquired from them.

   On the acquisition date, the Company recognised the fair value of the assets acquired and liabilities that were undertaken in the business combination according to a temporary measurement. As at 30 June 2022, a final valuation was received, that was prepared by an independent outside value expert, regarding the fair value of the identified assets acquired and the liabilities undertaken, demonstrating that there was no material change in the fair value as of the acquisition date, as determined in the temporary measurement.

   For details about the restructuring that was carried out by the Group, see Note 1E above.

2. Review of impairment of goodwill

   Goodwill in the sum of NIS 62,274,000 is attributed to Sa’ar A.T. Enterprises & Trading Ltd, which is part of the sports and leisure segment.

   In order to estimate the recoverable amount of the cash-yielding unit of Sa’ar A.T. Enterprises & Trading Ltd's operations, the Company obtained an economic valuation for 31 December 2022.

   The recoverable amount of the cash yielding unit was determined on the basis of usage value.

   The economic study relied on the cash flow forecasts expected from that cash-generating unit and was determined according to the budget for the coming five years, which was approved by Company management. The nominal discount rate (after-tax) according to which the cash flows were discounted is 17.5%. The cash flow forecasts for the period exceeding five years will be estimated using a fixed growth rate of 1.5%.

   As at 31 December 2022, the recoverable amount for the cash-yielding unit – Sa’ar A.T. Enterprises & Trading Ltd's operations – exceeded its book value.

NOTE 5: BUSINESS COMBINATIONS (CONTINUED)

C. Acquisition of Shekem Electric Duty-Free Ltd (previously: Office 3000 Duty Ltd)

1. On 24 December 2020, Electra Consumer Products (1951) Ltd (hereinafter: “Subsidiary”) engaged with Office 3000 Ltd (hereinafter: the “Office 3000”) and with Shekem Electric Duty Free Ltd (hereinafter: the “Company”), which is 100% held by Office 3000, in an allocation agreement that is dependent on conditions precedent (hereinafter: the "allocation agreement”), in which, on the allocation agreement closing date, the Subsidiary would be allocated shares in Office Duty in exchange for an investment in the sum of NIS 5,000,000 in Office Duty such that after the allocation, Subsidiary would hold 50.1% of the Company's share capital.

   Office Duty is engaged in the management and operation of electronics and electrical device stores at the Ben-Gurion International Airport pursuant to a licence issued to it in a licensing agreement executed between it and the Airports Authority (hereinafter: the "licensing agreement").

   In April 2021, the transaction was concluded, and the Company acquired 50.1% of the share capital in Shekem Electric Duty-Free Ltd. On the acquisition date, the Company recognised the fair value of the assets acquired and liabilities that were undertaken in the business combination according to a temporary measurement. As at 30 June 2022, a final valuation was received, that was prepared by an independent outside value expert, regarding the fair value of the identified assets acquired and the liabilities undertaken, demonstrating that there was no change in the fair value as of the acquisition date, as determined in the temporary measurement.

   For details about the restructuring that was carried out by the Group, see Note 1E above.

2. Review of impairment of goodwill

   Goodwill in the sum of NIS 2,221,000 is attributed to Shekem Electric Duty-Free Ltd's operations, part of the electrical retail segment, which includes the operations of the Mahsanei Hashmal and Shekem Electric chains.

   In order to estimate the recoverable amount of the cash-yielding unit of Shekem Electric Duty-Free Ltd's operations, the Company obtained an economic valuation for 31 December 2022.

   The recoverable amount of the cash yielding unit was determined on the basis of usage value.

   The economic study relied on the cash flow forecasts expected from that cash-generating unit and was determined according to the franchise term until 2029 (the expiration of the franchise agreement), which was approved by Company management. The nominal discount rate (after-tax) according to which the cash flows were discounted is 19%.

   As at 31 December 2022, the recoverable amount for the cash-yielding unit – Shekem Electric Duty-Free Ltd's operations – exceeded its book value.

NOTE 5: BUSINESS COMBINATIONS (CONTINUED)

D. Acquisition of E.E. Sport (2017) Ltd (formerly S. Hauptman Sport Ltd) (“Adidas”)

1. On 27 June 2022, after obtaining Adidas's approval, Electra Retail Ltd (a wholly-owned subsidiary of the Company) and companies controlled by it (directly or indirectly), Sa’ar A.T. Enterprises & Trading Ltd, and Electra Sport Ltd (formally: B. Planet Holdings Ltd) (the "Electra Retail Companies"), executed an agreement with the owner of the company, which has a franchise to operate sports equipment, fashion, footwear, and other products under the Adidas brand (respectively: the "Seller" and the "Acquiree"). In the agreement, one of the Electra Retail companies (the "Acquiror") will acquire all of the issued and paid up share capital in the Acquiree (the "Acquired Shares") owned by the Seller, subject to the fulfilment of conditions precedent including obtaining approval from the Director General of the Israel Competition Authority, in consideration of the total sum of approximately NIS 31,000,000.

   The Acquiree holds a long-term franchise until 2031 (subject to the terms of the franchise agreement) to operate stores for the sale of sports equipment and fashion and currently operates approximately 16 stores under the Adidas brand. On 27 July 2022, approval was obtained from the Director General of the Israel Competition Authority. During the course of September 2022, the remaining conditions precedent for the transaction were fulfilled and it was fully concluded.

2. Acquisition cost

   The Subsidiary recognised the fair value of the assets acquired and liabilities that were undertaken in the business combination according to a temporary measurement. As of the date of the approval of these financial statements, a final valuation has not yet been obtained from an outside value expert, regarding the fair value of the identified assets acquired and the liabilities undertaken. The consideration for the acquisition as well as the fair value of the assets and liabilities acquired are subject to final adjustment up to 12 months from the acquisition date. On the date of the final measurement, the adjustments are made by way of restatement of the comparison numbers previously reported according to the temporary measurement.

   Below is an attribution of the acquisition cost as of the share transfer date

	Fair Value NIS Thousands
Working capital, net	1,952
Cash and cash equivalents	4,589
Property, plant, and equipment	2,547
Identified intangible assets deriving from the acquisition	13,552
	22,640
Short-term credit	(8,645)
Long-term loans from banks and others	(4,420)
Other long-term liabilities	(5,199)
Deferred taxes	(1,921)
	(20,185)
Identified liabilities, net	2,455
Goodwill deriving from the acquisition	28,250
Total acquisition cost	30,705

NOTE 5: BUSINESS COMBINATIONS (CONTINUED)

D. Acquisition of E.L. Sport (2017) Ltd (formerly S. Hauptman Sport Ltd) ("Adidas") (continued)

2. Acquisition cost (continued)

Cash used for the acquisition:	**NIS Thousands**
Cash and cash equivalents in the Acquiree on the acquisition date	4,589
Cash paid to selling shareholders	(18,625)
Cash invested in the company used to repay debts to the previous shareholder	(11,680)
Cash, net	(25,716)

The Group consolidates Adidas's financial statements as of 30 September 2022.

As of the date on which it joined the consolidation, Adidas has contributed approximately NIS 12,790,000 to the consolidated revenue turnover and an insubstantial amount to the consolidated net income.

Assuming the business combination would have taken place at the start of the year, the consolidated net income would have been approximately NIS 3,500,000 less and to the consolidated revenue turnover would have increased by approximately 35,843,000, without pro forma assumptions.

The goodwill created by the acquisition is attributed to forecast benefits deriving from the synergy from combining the operations of the Company and the acquiree.

E. Acquisition of Bitan finance ltd

On 30 March 2022, the subsidiary, Bitan Finance, completed the acquisition of shares in Bitan Wines Ltd.

Bitan Wines recognised the fair value of the assets acquired and liabilities that were undertaken in the business combination according to a temporary measurement. As of the date of the approval of these financial statements, a final valuation has not yet been obtained from an outside value expert regarding the fair value of the identified assets acquired and the liabilities undertaken. The consideration for the acquisition as well as the fair value of the assets and liabilities acquired are subject to final adjustment up to 12 months from the acquisition date. The date of the final measurement, the adjustments are made by way of restatement of the comparison numbers previously reported according to the temporary measurement.

The value of the goodwill derives from the difference between the cost of the business combination and the equity acquired, and the original differences attributed to the various assets and liabilities in the Acquiree.

F. Establishment of a partnership with Quik: Online Retail – Limited Partnership

On 30 March 2022, the subsidiary, Bitan Wines Ltd, entered into an array of agreements with Quik Technologies and Investments Ltd, a publicly traded company whose shares are registered for trade on the Tel Aviv Stock Exchange Ltd, to establish a partnership in order to engage in online retail operations for products and services, and during the course of July 2022, the necessary approvals for the engagement were obtained from the Israel Tax Authority and the Israel Competition Authority. On 1 August 2022, the remaining conditions precedent in order to finalise said agreements were met and accordingly, the parties concluded the transaction and as of that date, Bitan Wines consolidates the partnership's financial statements.

NOTE 5: BUSINESS COMBINATIONS (CONTINUED)

F. Establishment of a partnership with Quik: Online Retail – Limited Partnership (continued)

Pursuant to the agreements, the Partnership is held by the Bitan Wines Group (51%) and by Quik (49%). As of the transaction closing date, the partnership holds Quik's existing assets, where Quik transferred both tangible and intangible assets in the sum of approximately NIS 18,533,000, which were valued according to Quik's fair value valuation (less those assets that were excluded from the transaction, net) as at the transaction closing date.

The partnership's online operations are based on the technological platform and operating infrastructure that Quik developed, and it engages in online retail sales of supermarket products – food and non-food.

The Partnership has the right to use the Bitan Wines Group's sales floor and operating areas as operating infrastructure. Similarly, the Partnership has the ability to purchase its products from the Bitan Wines Group at the net purchase price plus direct operating cost.

The partnership was assisted by an outside independent value expert in order to prepare the purchase price allocation (PPA) study for purpose of the financial statements. The fair value of the consideration turned over by the partnership's controlling shareholders is NIS 18,533,000 ("Quik's Fair Value").

Below is the fair value of the identified assets and identified liabilities on the date of the partnership's establishment:

	Fair Value NIS Thousands
Property, plant, and equipment	889
Right-of-use assets, less leasing liabilities	112
Other liabilities	(254)
Technology	4,979
Brand	3,563
Goodwill	9,244
Total identifiable assets, net	18,533

Additionally, the Bitan Wines Group transferred the following intangible assets according to their ledger value as set forth below:

- The Bitan Wines and Mega domains.
- Engagements between the Bitan Wines Group and various suppliers.
- Online customer databases.
- A network of agreements, covenants employees being transferred to the partnership, and various operational documents.
- The right to use the Bitan Group's sales floor according and subject to the commercial agreement.
- Granting the right to use the Bitan Group's tradenames for the purpose of these online operations.

On the transaction closing date, the sum of approximately NIS 3,786,000 was carried to a capital reserve as a transaction with noncontrolling interests (the Company's share in 51% of Quik's fair value), and approximately NIS 14,747,000 was carried to noncontrolling interests.

NOTE 5: BUSINESS COMBINATIONS (CONTINUED)

F. Establishment of a partnership with Quik: Online Retail – Limited Partnership (continued)

As of the date of its establishment, the Quik partnership has contributed a loss of approximately NIS 14,590,002 consolidated net income, and approximately NIS 102,000,000 to the consolidated revenue turnover.

If the business combination would have taken place at the start of the year, the consolidated net income would have been approximately NIS 23,645,000 less and to the consolidated revenue turnover would have increased by approximately NIS 96,875,000.

G. Acquisition of Solar Sensei's assets and operations

On 24 August 2021, the Electra Consumer Products (1951) Ltd, a Company subsidiary (hereinafter: the "Subsidiary"), engaged with Solar Sensei Investments and Services Ltd., a company engaged in importing, manufacturing, distributing, and marketing solar energy system equipment (hereinafter: "Solar Sensei"), to establish a limited partnership, Electra Solar Equipment (hereinafter: "Electra Solar”), whose limited partners would be the Subsidiary (50.1%) and Solar Sensei (49.9%) and its general partner would be a new company that would be established whose shareholders would be the Subsidiary (50.1%) and Solar Sensei (49.9%).

On 31 October 2021, the transaction for establishment of Electra Solar closed. It acquired Solar Sensei's assets and operations in the above field and will engage in importing, manufacturing, distributing, and marketing solar energy system equipment in the framework of the subsidiary’s expanding operations in said field.

As at 31 December 2022, a final valuation was received, that was prepared by an independent outside value expert, regarding the fair value of the identified assets acquired and the liabilities undertaken, demonstrating that there was no change in the fair value as of the acquisition date, as determined in the temporary measurement. For details regarding the execution of a commercial collaboration and merger of operations agreement after the reporting date, see Note 31A below.

NOTE 6: CASH AND CASH EQUIVALENTS

Composition:

	As at 31 December	
	2022	2021
	NIS Thousands	
Cash for immediate withdrawal	218,903	344,432
Cash equivalents - short-term deposits	344,587	-
	563,490	344,432

NOTE 7: SHORT-TERM INVESTMENTS

Composition:

	As at 31 December	
	2022	2021
	NIS Thousands	
Bonds and shares	551	4,344
Investment in short-term deposits	120	-
	671	4,344

NOTE 8: TRADE RECEIVABLES

	As at 31 December 2022	As at 31 December 2021
	NIS Thousands	
Open debts	392,753	334,928
Checks for collection and credit cards	370,160	388,686
	762,913	723,614
Less – provision for doubtful debts	44,552	43,802
Trade receivables, net	718,361	679,812

Below is an analysis of trade receivables for which there is no recognition of impairment (provision for doubtful debts), trade receivables, net, according to the duration of the delay in collection with regard to the reporting date:

	Trade receivables not yet due (no payment delay)	Past due trade receivables where the delay in collection is *) less than 30 days	30-90 days	greater than 90 days	Total
	NIS Thousands				
31 December 2022	696,918	13,370	5,398	2,675	718,361
31 December 2021	668,593	5,122	2,086	4,011	679,812

*) Most past due trade receivables are covered by credit insurance.

NOTE 9: OTHER RECEIVABLES

	As at 31 December 2022	As at 31 December 2021
	NIS Thousands	
Institutions	17,358	13,533
Advances to suppliers	14,603	16,383
Income receivable	13,072	7,402
Advance expenditures	18,898	13,661
Receivables and other receivables	51,214	7,688
	115,145	58,667

NOTE 10: INVENTORY

	As at 31 December 2022	As at 31 December 2021
	NIS Thousands	
Raw materials	84,830	96,338
Work in process	9,768	8,842
Finished product and purchased products	684,351	739,096
Service and replacement parts inventory	13,154	10,116
	792,103	854,392

NOTE 11: INVESTMENT PROPERTY

A. Activity

	As at 31 December	
	2022	2021
	NIS Thousands	
Balance as at 1 January	269,700	216,530
Additions over the course of the year		
Discounted expenditures	603	2,052
Adjustment of fair value against recording a short-term liability	25,808	-
Fair value adjustment	30,505	51,118
Balance as at 31 December	326,616	269,700

B. On 6 April 2017, the Company executed an agreement with the City of Rishon Le'Zion (hereinafter: the "City"), purchasing all of the ownership rights in the land known as lot Nos. 221 and 280, pursuant to plan RZ/168/20, with an area of approximately 51.7 hectares, constituting part of parcel 16 in block 5032 and located in Rishon Le'Zion (hereinafter: the "agreement," the "land," the "New UMP," and "Parcel 16," respectively), on which the Group's offices and manufacturing and air conditioning assembly, heating, and heat pump technology factory (hereinafter: the "Factory") in consideration of the sum of NIS 185,000,000 plus VAT.

On 27 April 2017, the condition precedent stipulated in the agreement (approval by the City Council) was fulfilled (hereinafter: the "Condition Precedent Fulfilment Date").

C. Whereas on the Condition Precedent Fulfilment Date, the City was not yet able to register the parcellation of Parcel 16, such that it was impossible to register the land as separate registration units at the Israel Land Registry, pursuant to the agreement's provisions, the Company was registered as the land's lessee for a period of 999 years ("as owner") for the interim period until the completion of the parcellation and registration of ownership of the land in the Company's name.

D. At the same time the Company entered into the agreement, a rental agreement was executed between the City and the Company, pursuant to which the Company rents an area of approximately 4 hectares, located in the confines of Parcel 16, designated for expropriation for public use pursuant to the New UMP (and which is used by the Company as of this date). Additionally, the Company continues to use the areas designated as easements pursuant to the New UMP and included in the area of the land.

E. In light of the resolution by the Company's board to designate the land in order to fulfil its commercial potential by promoting a yield bearing real estate project for work and/or commerce, the Company presents the land that was acquired in its financial statements according to the provisions of IAS 40 – Investment Property; see Note 2O above.

NOTE 11: INVESTMENT PROPERTY (CONTINUED)

F. In March 2021, the Company executed an agreement in principle with Reality Real Estate Investment Fund 4, Limited Partnership (hereinafter: "Reality"), which was used for negotiating the Company's engagement in a transaction with Reality for the sale of a nonspecific portion (50%) of the Company's ownership rights in the land such that the parties will jointly possess the above land and will act following the joint venture outline (or other agreed-upon outline) in order to improve the land by way of initiation and approval of a new plan that will apply to the land and that will allow, to the extent possible, the establishment of a project that will include mixed-use and/or maximised mixed in order to optimally realise the value of the land (hereinafter: the "Join Venture").

In July 2021, the Company and Reality executed a detailed sale Agreement (hereinafter: the "sale agreement") for the sale of half of the Company's rights to the land to Reality, as well as a joint venture agreement regulating their relationship in all matters relating to the land, including their joint operations in promoting and establishment of a project with an optical mix of uses on which the parties will agree.

Pursuant to the agreement, the consideration (without additional VAT), reflects a price (100%) of NIS 275,000,000 for the land. Immediately after the date of the execution of the sale agreement, the Company was paid the sum of approximately NIS 24,000,000, where the balance will be paid on the date and in exchange for handing over possession and clearing the land, including the Company's Factory, that shall occur not sooner than 27 months following the date of the execution of the sale agreement and no later than the end of 60 months from the date of the execution of the sale agreement. On 19 July 2021, a cautionary note was recorded on the Company's lease rights to the land, in favour of Reality.

The above investment property was presented as of the date of the financial statement according to fair value, which was determined based on a valuation prepared by an independent outside valuator. The valuation model used by the valuator is the cost approach integrated into the sales comparison approach and the income capitalisation for audit approach. The principal assumptions used by the valuator in his work were a market survey for land in the vicinity, a survey of developed office and commercial space in the vicinity, and with building rights of 260%.

Accordingly, in 2022, the Company included revenue from adjustment of fair value included in the other income line, in the sum of approximately NIS 31,000,000 (2021 – approximately NIS 51,000,000).

G. In order to initiate the above yield bearing real estate project, the Company needs to vacate the land, including vacating the Factory. For details regarding the leasing of land in the Ashkelon Southern Industrial Zone, see Note 14A.

NOTE 12: INVESTMENT PROPERTY UNDER CONSTRUCTION

A. Activity

	As at 31 December	
	2022	2021
	NIS Thousands	
Balance as at 1 January	-	-
Additions over the course of the year		
Acquisitions	28,161	-
Discounted expenditures	3,524	-
Fair value adjustment	(2,506)	-
Balance as at 31 December	29,179	-

B. In January 2022, the Company, together with the Reality Real Estate Investment Fund 4, Limited Partnership ("Reality"), won a public tender announced by the City of Rishon Le'Zion (hereinafter: the "City") for the acquisition of the ownership rights to parcels 15 and 75 on block 5032, with a total area of approximately nine hectares in consideration of the total sum of approximately NIS 106,000,000. Following this win, the Company, together with Reality, executed a sale agreement in March 2022 with the City, based on which the Company and Reality jointly acquired the above parcels, in equal shares between them, and are working in collaboration in order to improve the above parcels and add them to the existing joint operations between the Company and Reality on land in Rishon Le'Zion as set forth in Note 11 above, in order to initiate and establish a project with an optimal mix of use, to be agreed upon by the parties.

On 29 May 2022, the above joint operation executed a financing agreement ("loan") in the sum of approximately NIS 68,000,000 with a bank. The loan will be extended in two instalments. The first instalment of the loan was taken on 29 May 2022, and it renews each quarter for a period of three years, in the total sum of NIS 52,700,000, with variable annual interest linked to the prime rate plus 0.7% interest. The Company's share of the loan amounted to the sum of NIS 26,350,000.

The second instalment of the loan, in the sum of NIS 15,000,000, will be provided to the joint operation when a mortgage is recorded in favour of the bank, which is expected to be done in the near future. The Company's share in the second instalment of the loan will be in the sum of approximately NIS 7,500,000.

The above loan is guaranteed by: A. A fixed first ranked unlimited security interest in the amount of all of the Company's rights based on the agreement with the City; B. when the Company is registered as owner of half of the rights to the parcels in the Israel Land Registry, the mortgage will be recorded as first ranked, in favour of the Bank; C. after registration of the mortgage in favour of the bank, the loan will become only a nonrecourse loan.

The above investment property under construction was presented as of the date of the financial statement according to fair value, which was determined based on a valuation prepared by an independent outside valuator. The appropriate assessment approach to valuate the above asset is the "comparative approach." With that, because of the difficulty in finding data regarding real estate transactions with similar characteristics, the value of the land is examined using the "residual value" approach by extracting the value of the land from the value of the construction. The value of the construction is based on a survey of prices for assets with similar characteristics in the vicinity. Accordingly, in 2022, the Company included an expense from adjustment of fair value included in the other income line, in the sum of approximately NIS 2,500,000.

NOTE 13: PROPERTY, PLANT, AND EQUIPMENT

Composition and movement:

2022

	Real property	Vehicles	Machines and equipment	Furniture, computers, and office equipment	Leasehold improvements	Payments on account of property, plant, and equipment	Total
	NIS Thousands						
Cost							
Balance as at 1 January 2022	41,978	1,107	44,620	149,638	171,776	12,919	422,038
Additions over the course of the year	27,756	74	10,684	94,080	69,871	14,663	217,128
Companies consolidated for the first time	-	105	-	1,532	1,799	-	3,436
Deductions over the course of the year	-	(105)	-	(16,503)	(11,561)	-	(28,169)
Balance as at 31 December 2022	69,734	1,181	55,304	228,747	231,885	27,582	614,433
Accrued depreciation							
Balance as at 1 January 2022	41,950	194	24,585	107,014	46,851	-	220,594
Additions over the course of the year	104	207	4,671	34,802	17,280	-	57,064
Deductions over the course of the year	-	(18)	-	(14,118)	(8,601)	-	(22,737)
Movement in provision for impairment	-	-	-	13,041	26,669	-	39,710
Balance as at 31 December 2022	42,054	383	29,256	140,739	82,199	-	294,631
Amortised cost balance as at 31 December 2022	27,680	798	26,048	88,008	149,686	27,582	319,802

NOTE 13: PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

Composition and movement (continued)

2021

	Real property	Vehicles	Machines and equipment	Furniture, computers, and office equipment	Leasehold improvements	Payments on account of property, plant, and equipment	Total
	NIS Thousands						
Cost							
Balance as at 1 January 2021	41,950	61	35,370	122,741	77,789	5,220	283,131
Additions over the course of the year	28	839	9,250	29,416	36,671	7,699	83,903
Companies consolidated for the first time	-	237	-	8,919	86,684	-	95,840
Deductions over the course of the year	-	(30)	-	(2,951)	(29,368)	-	(32,349)
Deconsolidated company	-	-	-	(8,420)	-	-	(8,420)
Capital reserve from translation differences	-	-	-	(67)	-	-	(67)
Balance as at 31 December 2021	41,978	1,107	44,620	149,638	171,776	12,919	422,038
Accrued depreciation							
Balance as at 1 January 2021	39,602	19	20,786	94,572	61,100	-	216,079
Additions over the course of the year	2,348	176	3,799	22,036	11,999	-	40,358
Deductions over the course of the year	-	(1)	-	(2,077)	(21,695)	-	(23,773)
Movement in provision for impairment	-	-	-	(434)	(4,553)	-	(4,987)
Deconsolidated company	-	-	-	(7,027)	-	-	(7,027)
Reserve from translation differences	-	-	-	(56)	-	-	(56)
Balance as at 31 December 2021	41,950	194	24,585	107,014	46,851	-	220,594
Amortised cost balance as at 31 December 2021	28	913	20,035	42,624	124,925	12,919	201,444

NOTE 14: LEASES

A. Land lease

1. Composition and movement:

	As at 31 December	
	2022	2021
	NIS Thousands	
Cost		
Discounted lease fees	47,410	47,410
Purchase tax and other costs	18,856	9,738
	66,266	57,148
Accrued depreciation	1,492	761
Amortised cost balance	64,774	56,387

2. In order to initiate the yield bearing real estate project (see Note 11 above), the Company is required to vacate the land, including vacating the Factory. The Company has located land in the Ashkelon Southern Industrial Zone and received the recommendation of the Ministry of the Economy and Labour to the Israel Land Authority (hereinafter, respectively: the "Property" and "ILA"), to allocate the land without a tender.

During the course of July 2020, the Company received an assessment from the ILA regarding the value of the land, pursuant to which the discounted lease fees for the Property, with regard to the full capacity of existing construction, for a period of 49 years (together with an option to extend the term by an additional 49 years in exchange for payment of additional lease fees) for industrial use only, come to the sum of approximately NIS 45,000,000 plus VAT (not including development costs) (hereinafter: the "assessment"). The discounted lease fees that were thus determined will be reduced as of the date of the approval of the transaction by the ILA on 12 August 2020, and for a period of 98 years. On 31 August 2020, the Company paid all of the above discounted lease fees while at the same time, filing an objection to the calculation of the development fees in the assessment (hereinafter: the "Legal Objection"), and further submitted an detailed initial objection regarding the assessment that had been issued and paid, in light of the fact that in the opinion of the Company, it has good arguments for reduction of the value of the land on which basis the assessment was determined (hereinafter: the "First Objection").

On 24 September 2020, the ILA's decision was received regarding the rejection of the Company's objection regarding the calculation of the development expenses. It is the Company's position that the ILA's decision is fundamentally wrong. Therefore, and where as the reputation of an ILA decision is by way of filing an administrative petition, the Company contacted the ILA with a request to arrive at a procedural arrangement whereby the deadline for filing the petition would be extended on consent of the parties (in order for the Company not to be exposed to a claim of delay) until there is a decision on all of the First Objection that was filed by the Company. Whereas the ILA did not grant the Company's above request, on 25 November 2020, the Company filed an administrative petition against the ILA (hereinafter: the "Petition"). Before that, on 1 October 2020, the Company paid the purchase tax in the sum of approximately NIS 2,700,000, for the Property.

On 12 May 2022, a decision was issued on the petition in which the court accepted the Company's arguments but allowed the ILA to correct the calculation of the assessment. On 6 November 2022, the court decided to stay execution of the decision following a motion filed by the ILA. It is the Company's position that the decision to delay execution of the decision as well as the component whereby the court allowed the ILA to correct the calculation that is the subject of the assessment of both fundamentally wrong. On 15 December 2022, the Company and the ILA filed appeals of the decision with the Supreme Court.

NOTE 14: LEASES (CONTINUED)

A. Land lease (continued)

2. (continued)

Even before that, on 16 November 2022, the government's appraiser's decision regarding the First Objection was received, in which he rejected the Company's arguments and determined that the value of the land exceeds the subject of the assessment by approximately NIS 5,900,000. It is the Company's position that the adjudicating appraiser's decision is fundamentally wrong and thus, on 16 January 2023, filed an objection to the government appraiser's decision.

B. Right-of-use assets

Disclosures for lease transactions in which the Company is the lessee

The Group has lease agreements that include leases of buildings and vehicles that are used to maintain the Group's ongoing operations.

The lease agreements for buildings are for periods ranging between 1 and 25 (including options to extend) years whereas vehicle lease agreements range between periods of 1 to 3 years.

Some of the lease agreements in which the Group engaged include extension and/or cancellation options as well as variable lease payments.

1. Details regarding lease transactions

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
Interest expenses for leasing liabilities	84,444	51,119	3,643
Short-term lease expenses	4,653	2,700	3,453
Variable lease payment expenses	27,525	4,374	1,758
Total cash outflow for leases	278,725	169,785*)	44,019*)

*) Reclassified.

2. Variable lease fees

Some of the store lease contracts used by the Company include variable lease payments according to the change in the sale in the relevant store. Entering into lease agreements that include variable lease payments enables the Company to correlate between costs that derive from the lease of the store and the revenues that derive from the store's operations and thus, decrease the fixed costs that derive from operating the store. Below is a breakdown of the lease payments that derive from store lease contracts that include variable lease payments and fixed lease payments:

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
Fixed lease payments	284,202	172,086	41,968
Variable lease payments	27,525	4,374	1,758
Total lease payments	311,727	176,460	43,726

NOTE 14: LEASES (CONTINUED)

B. Right-of-use assets (continued)

3. Options to extend or terminate

The Group has lease agreements that include both extension options as well as cancellation options. These options give the Group flexibility in managing the lease transactions and adjusting them to the Group's business needs.

The Group applies significant judgement when examining whether it is reasonably certain that extension or cancellation options will be exercised.

In its lease agreements, the Group also included in the lease term the exercise of extension options that are available in the agreements. In these lease agreements, the Group is in the practice of exercising the extension options as in the event that an alternative property is not immediately available on the termination date of a noncancellable lease, the Group would likely incur significant harm to its ongoing operations.

4. Disclosures regarding right-of-use assets

2022

	Stores and offices	Vehicles	Total
Cost	NIS Thousands		
Balance as at 1 January 2022	1,625,692	42,178	1,667,870
Additions over the course of the year:			
Additions to right-of-use assets for new leases	287,570	11,415	298,985
Entities consolidated for the first time	1,357	544	1,901
Adjustments for changes to lease terms	5,498	-	5,498
Updates to right-of-use assets for Index linkage	90,306	1,099	91,405
Deductions over the course of the year:			
Deductions to right-of-use assets for terminated leases	(71,757)	(2,436)	(74,193)
Balance as at 31 December 2022	1,938,666	52,800	1,991,466
Accrued depreciation			
Balance as at 1 January 2022	165,487	16,634	182,121
Amortisation	206,364	13,243	219,607
Deductions over the course of the year	(44,487)	(1,668)	(46,155)
Balance as at 31 December 2022	327,364	28,209	355,573
Amortised cost balance as at 31 December 2022	1,611,302	24,591	1,635,893

NOTE 14: LEASES (CONTINUED)

B. Right-of-use assets (continued)

4. Disclosures regarding right-of-use assets (continued)

2021

	Stores and offices	Vehicles	Total
	NIS Thousands		
Cost			
Balance as at 1 January 2021	171,460	17,513	188,973
Additions over the course of the year:			
Additions to right-of-use assets for new leases	169,882	21,241	191,123
Companies consolidated for the first time *)	1,366,324	11,979	1,378,303
Updates to right-of-use assets for Index linkage	23,833	447	24,280
Deductions over the course of the year:			
Deductions from right-of-use assets for terminated leases	(105,807)	(9,002)	(114,809)
Balance as at 31 December 2021	1,625,692	42,178	1,667,870
Accrued depreciation			
Balance as at 1 January 2021	58,840	11,493	70,333
Amortisation	128,788	11,212	140,000
Deductions over the course of the year	(22,141)	(6,071)	(28,212)
Balance as at 31 December 2021	165,487	16,634	182,121
Amortised cost balance as at 31 December 2021	1,460,205	25,544	1,485,749

*) Re-presented – See Note 5A1 regarding business combinations.

5. Analysis of payment dates of lease liabilities (in discounted values)

	As at 31 December	
	2022	2021
	NIS Thousands	
First year - current maturities	206,804	172,135
Second year	210,483	168,794
Third year	198,751	166,173
Fourth year	188,251	160,424
Fifth year and thereafter	1,083,319	1,044,512
	1,887,608	1,712,038

NOTE 15: GOODWILL AND OTHER INTANGIBLE ASSETS

Composition and movement:

	Customer base	Brand	Goodwill	Other intangible assets	Distribution agreements and rights	Total
	NIS Thousands					
Balance as at 1 January 2021	-	5,836	187,317	6,609	12,369	212,131
Additions over the course of the year	-	-	9,875	17,412	-	27,287
Amortisation	(516)	(5,543)	-	(4,916)	(2,433)	(13,408)
Companies consolidated for the first time *)	4,937	37,737	1,705,664	36,679	-	1,785,017
Deconsolidated company	-	(3,631)	-	-	-	(3,631)
Translation differences	-	(29)	-	-	-	(29)
Balance as at 31 December 2021	4,421	34,370	1,902,856	55,784	9,936	2,007,367
Additions over the course of the year	1,108	-	-	20,967	-	22,075
Amortisation	(987)	(8,773)	-	(7,792)	(2,433)	(19,985)
Companies consolidated for the first time	-	3,614	55,407	19,147	-	78,168
Balance as at 31 December 2022	4,542	29,211	1,958,263	88,106	7,503	2,087,625

*) Re-presented – See Note 5A1 regarding business combinations.

NOTE 15: GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Material operations to which the goodwill and intangible assets are attributed:

A. Goodwill in the sum of NIS 167,968,000 is attributed to the Mahsanei Hashmal and Shekem Electric chains' operations, which are included as part of the electrical retail segment.

In order to estimate the recoverable amount of the goodwill attributed to Mahsanei Hashmal's and Shekem Electric's operations, the Company obtained an economic valuation by an outside independent value expert for 31 December 2022.

The economic study was made by basing the cash flow forecasts on reasonable and founded assumptions that represent management's best estimate regarding the economic conditions prevailing during the course of the balance of the asset's useful life. The estimate of expected cash flows for the period beyond the period of five years, which is covered by budgets and forecasts that were approved by the Company's management, was made by the Company using extrapolations from those forecasts and a fixed growth rate for the subsequent years.

For purposes of the economic assessment of the goodwill attributed to the operations of Mahsanei Hashmal and Shekem Electric, use was made, inter alia, of assumptions relating to a long-term, nominal, permanent growth rate of 2%. The nominal capitalisation rate (after-tax) used in the outside valuator’s economic valuation was estimated at 11%

As at 31 December 2022, the recoverable amount for the cash-yielding unit – Mahsanei Hashmal's and Shekem Electric's operations – exceeded book value.

B. Goodwill in the sum of NIS 19,349,000 is attributed to trade in climate control systems, which is part of the electrical consumer products segment.

In order to estimate the recoverable amount of the cash-yielding unit of climate control system trade operations, the Company obtained an economic valuation for 31 December 2022.

The economic study relied on the cash flow forecasts expected from that cash-generating unit and was determined according to the budget for the coming five years, which was approved by Company management. The nominal discount rate (after-tax) according to which the cash flows were discounted is 14.5%. The cash flow forecasts for the period exceeding five years will be estimated using a fixed growth rate of 1.5%.

As at 31 December 2022, the recoverable amount for the cash-yielding unit – climate control system trade operations – exceeded its book value.

C. Regarding goodwill from business combinations in 2021 and 2022, see Note 5 above.

NOTE 16: CREDIT FROM BANKS

A. Composition

	As at 31 December 2022	As at 31 December 2021
	NIS Thousands	
Short-term credit from banks	166,001	19,327
Current maturities of long-term loans	53,092	30,000
	219,093	49,327

B. As to guarantees and security interests, see Notes 25B and 25C.

NOTE 17: TRADE PAYABLES

	As at 31 December 2022	As at 31 December 2021
	NIS Thousands	
Open debts	1,250,562	1,241,018
Promissory notes	356,714	332,776
	1,607,276	1,573,794

NOTE 18: OTHER PAYABLES

	As at 31 December 2022	As at 31 December 2021
	NIS Thousands	
Advanced revenues and customer deposits	197,112	187,999
Employees and salary liabilities	159,716	146,736*)
Institutions **)	104,612	204,837
Expenses to be paid	66,167	78,926*)
Provision for warranties	14,144	14,341
Related parties	4,411	3,386
Other	28,874	13,088
	575,036	649,313

*) Re-presented – See Note 5A1 regarding business combinations.

**) For details regarding the Company's assessment agreement with the tax authorities during the reporting period, see Note 24C(1).

NOTE 19: LOANS FROM BANKS AND OTHERS

A. Composition

	As at 31 December	
	2022	2021
	NIS Thousands	
Loans from banks and others	603,047	646,500
Less current maturities	53,092	30,000
	549,955	616,500

B. Loans from banks

1. On 19 May 2021, the subsidiary, Electra Consumer Products (1951) Ltd, took a bank loan in the sum of NIS 45,000,000. The loan will be repaid incrementally over the course of five years, in quarterly payments of principal and interest, starting 19 August 2021. The loan is not linked and bears variable annual interest linked to the prime rate plus 0.6%.

2. On 23 May 2021, the subsidiary, Electra Consumer Products (1951) Ltd, took a bank loan in the sum of NIS 45,000,000. The loan will be repaid incrementally over the course of five years, in quarterly payments of principal and interest starting 23 August 2021. The loan is not linked and bears variable annual interest linked to the prime rate plus 0.6%. On 8 February 2022, the Company repaid the balance of the above loan early, in the sum of approximately NIS 43,800,000.

3. On 28 June 2021, the subsidiary, Electra Consumer Products (1951) Ltd, took a bank loan in the sum of NIS 250,000,000. The loan will be repaid incrementally over the course of five years starting 27 June 2023, in equal quarterly payments of principal and will begin paying interest quarterly starting 27 September 2021. The loan is not linked and bears variable annual interest linked to the prime rate plus 0.2% interest.

   On 10 February 2022, the Company made early repayment of the sum of approximately NIS 47,600,000 of the above loan.

4. On 30 December 2021, the Company took a bank loan in the sum of NIS 100,000,000. The loan will be repaid incrementally over the course of four years, in quarterly payments of principal and interest starting 30 March 2022. The loan is not linked and bears variable annual interest linked to the prime rate plus 0.1% interest.

   On 9 February 2022, the Company repaid the full amount of the above loan early.

5. During the reporting year, financial criteria were updated according to the financial criteria established upon issuing the bonds as set forth in Note 20 below. As at 31 December 2022 and as at the date of the signing of these financial statements, the Company meets the established financial criteria.

NOTE 19: LOANS FROM BANKS AND OTHERS

B. Loans from banks (continued)

6. The Bitan Wines Group's financing agreements –

A) Financing agreements executed in 2021

In May 2021, the Bitan Wines and the banks signed Addendum Number 1 to the August 2020, pursuant to which, subject to concluding the acquisition described in Note 5A above, the personal guarantees provided by the previous controlling shareholders in the framework of the financing agreement would be cancelled and the liens would be lifted and the sureties provided on the assets of Bitan Assets, a company owned by the previous shareholders, would be released. It was further agreed in that addendum that the acquisition of control of Bitan Wines will not constitute an exit event as defined in the financing agreement.

On 30 June 2021, Bitan Wines executed Addendum Number 2 to the August 2020 financing agreement, pursuant to which it was established that the date for agreement regarding financial criteria for Bitan Wines's continued interaction with the banks would be postponed to 31 January 2023 and that the banks will not examine Bitan Wines's financial relationships with regard to 2020, 2021, and until 1 July 2022, according to the financial criteria as stated in the August 2020 financing agreement and/or pursuant to the 2017 financing agreement.

In August 2021, Addendum Number 3 to the August 2020 financing agreement was signed, pursuant to which the banks would provide the Bitan Wines Group with long-term credit in the sum of NIS 170,000,000, in equal share from each bank and that a short-term line of credit in the sum of NIS 100,000,000, in equal share from each bank (hereinafter: the "credit"). The principle of this long-term credit will be repaid starting 1 April 2023, in 20 equal quarterly payments. The principle of the long-term loan will bear annual interest at a variable rate of prime plus an amount that will not exceed 0.8%. This interest will be paid in quarterly payments starting 1 October 2021.

This credit will first be used to repay all existing Bitan Group credit and any remainder will be used by the Bitan Wines Group at its discretion.

B) Financing agreements executed during the reporting period

Further to Note 19B(6)(a) above, on 13 April 2022, Bitan Wines signed Addendum Number 4 to the August 2020 financing agreement, pursuant to which the liens and assignment of the right to monies and interests held by the Bitan Wines Group with regard to credit card companies would not be cancelled, and the sureties will continue to remain in full effect but it was agreed that the Bitan Wines Group companies may discount the rights by virtue of charges to which they are entitled from credit card companies, without any limitation of the amount.

During the course of April 2022, the subsidiary, Bitan Wines and its subsidiaries (hereinafter: the "Group") executed agreements with three banks, pursuant to which the Group would be provided with long-term loans in the total sum of NIS 180,000,000 (hereinafter: the "agreements").

As a result of these agreements, on 14 April 2022, one of these banks provided a long-term loan in the sum of NIS 50,000,000 for a period of seven years. The loan bears annual interest linked to the prime rate plus 1.25% interest. The interest will be paid on a quarterly basis starting 1 July 2022 and the loan principal will be repaid in 21 equal quarterly instalments starting 1 July 2024. In the financing agreements that were executed after the reporting date, in March 2023, as set forth below, the interest rate for the loan to an annual interest linked to the prime rate plus 1.64% interest.

NOTE 19: LOANS FROM BANKS AND OTHERS

B. Loans from banks (continued)

6. The Bitan Wines Group's financing agreements (continued)

B) (continued)

On 14 April 2022, the second bank provided a short-term renewable loan in the sum of NIS 30,000,000. 27 June 2022, the above short-term loan was converted to a long-term loan for a period of six years. The loan bears annual interest linked to the prime rate plus 1.5% interest. The interest will be paid on a quarterly basis starting 1 October 2022 and the loan principal will be repaid in 20 equal quarterly instalments starting 1 July 2023.

Additionally, as a result of these agreements, on 30 June 2022, the third bank provided a long-term loan in the sum of NIS 100,000,000 for a period of six years. The loan bears annual interest linked to the prime rate plus 1.64% interest. The interest will be paid on a quarterly basis starting 30 September 2022 and the loan principal will be repaid in 21 equal quarterly instalments starting 30 April 2023.

In November 2022, the Bitan Wines Group received approval from the relevant banks to exclude the results of the Quik partnership which was consolidated for the first time during the reporting period from Bitan Wines's EBITDA, as defined in the financing agreements, up to the sum of NIS 14,000,000 in 2022.

In connection with the above loans and further to the above agreements, Bitan Wines undertook to meet financial criteria relating to EBITDA, Bitan Wines's debt coverage ratio (financial debt, net divided by EBITDA), and the extent of the financial debt balance that shall not exceed NIS 600,000,000. As at 31 December 2022, Bitan Wines is within the financial criteria for that same date.

With the replacement of the CEO of Bitan Wines in July 2022, Bitan Wines's management began preparing a reorganisation plan, which it began to implement incrementally starting in August 2022, for the establishment of a commercial and operational foundation for growth in the coming years, the strengthening of competitive ability, dealing with market challenges, implementation of the Carrefour brand as optimally as possible, etc. (the "Streamlining and Reorganisation Plan").

Bitan Wines's management is of the opinion that the addition of the loans as set forth above, the effects of the Streamlining and Reorganisation Plan as set forth in Note 1C above, the effect of the plan for the renovation and conversion of the chain's stores to the Carrefour brand, and the addition of Carrefour products to the Group's stores, alongside the support of its shareholders, financing agreements that were executed in March 2023 as set forth below, including Bitan Wines that it is highly likely that the lines of credit will be extended, which were provided to Bitan Wines close in time to the date of the approval of the financial statements and in connection there with, based as well on Bitan Wines's past experience with banks, enable Bitan Wines to meet the financial criteria set forth above and its future plans and commitments during the period of at least 12 months following the date of the approval of these financial statements.

For details regarding the Bitan Wines Group signing agreements to renew lines of credit for a year after the reporting date as well as new financing agreements with banks to receive additional financing in the sum of approximately NIS 148,000,000 and settling the financial criteria required of it as set forth above, see Note 31B.

C. As to guarantees and security interests, see Notes 25B and 25C.

D. With regard to repayment dates, see Note 22A(3).

NOTE 20: BONDS

A. Composition:

	As at 31 December	
	2022	2021
	NIS Thousands	
Series A Bonds	428,125	-
Less current maturities	(49,579)	-
	378,546	-
Less – discounting expenses and deferred issuance balance	(17,333)	-
	361,213	-

B. On 7 February 2022, the Company issued NIS 250,000,000 par value in Series A Company bonds (a new series) according to a Company shelf prospectus dated 12 August 2019 for total gross proceeds of NIS 250,000,000.

On 17 August 2022, the Company made a private offering of NIS 100,000,000 par value of Series A bonds by way of an expansion of a registered series for total gross proceeds of approximately NIS 93,800,000.

On 20 December 2022, the Company made a private offering of NIS 78,125,000 par value of Series A bonds by way of an expansion of a registered series for total gross proceeds of approximately NIS 70,000,000.

The total the Series A Bonds balance after expansion comes to a total of NIS 428,125,000 par value.

The (Series A) bonds are not linked (principal or interest) to any linkage basis and bear annual interest at a rate of 2.1%.

The (Series A) bonds shall be payable (principal) in seven (7) unequal annual instalments as follows: four (4) payments at a rate of 12.5% each on 31 December of each of the years 2023 through 2026 (inclusive), two (2) payments at a rate of 15% each on 31 December of each of the years 2027 and 2028 (inclusive), and an additional payment of 20% on 31 December 2029. The first instalment of the principal will be paid on 31 December 2023, and the final instalment of the principal will be paid on 31 December 2029.

The interest for the (Series A) Bonds will be paid semi-annually on 30 June and 31 December in each of the years 2022 through 2029 (inclusive) such that the first interest payment was made on 30 June 2022 and the last interest payment will be on 31 December 2029 (together with the final payment of the principal).

Maalot set a rating of ilAA- for the new offering of (Series A) bonds.

The Company undertook that as long as the (Series A) bonds are in circulation, it would meet commitments, principally:

1. To meet the financial criteria described below:

   (A) Tangible equity – the Company's tangible equity at the end of the review period as presented in the separate "solo" financial statements shall not be less than NIS 350,000,000.

   (B) Ratio of net financial debt to net balance sheet – The ratio of the net financial debt to the net balance sheet at the end of the review period on the basis of the Company's Consolidated Financial Statements shall not exceed 67%.

NOTE 20: BONDS (CONTINUED)

B. (continued)

2. The Company shall be entitled to make a "distribution" (as this term is defined in the Companies Law) providing all of the following cumulative conditions have been met:
   (A) The Company's tangible equity as presented in the separate "solo" financial statements, after subtracting the amount of the distribution, shall not be less than NIS 390,000,000.
   (B) The Company, on the eve of the distribution, is not in breach of any of the financial criteria in section 1 above and shall not breach any of the above financial criteria as a result of making the distribution.
   (C) On the date of the resolution on distribution, none of the grounds for immediate repayment pursuant to the trust deed have occurred and as a result of the distribution, none of these grounds for immediate repayment shall occur.
   (D) The Company is meeting all of its material commitments to the bondholders pursuant to the trust deed.
3. Until the date of full, final, and exact actual settlement of the debt pursuant to the terms of the bonds, the Company "solo" has undertaken not to create a current security interest on any of its assets, property, or interests now or in the future, as they shall be from time to time, in favour of any third party to guarantee its debts to it, in an amount exceeding NIS 650,000,000.
4. The trust deed establishes a mechanism to adjust the interest rate such that in the event the net financial debt to EBITDA ratio exceeds 7 or in the event the Company's tangible equity ("solo") is less than the sum of NIS 370,000,000, the annual interest rate will increase by 0.25% per year. Similarly, it was established that if the bonds' rating will be lower by two or more levels than ilAA-, the annual interest rate that will be added to the annual interest for the bonds will be in a range between 0.5% and 1%.

As at 31 December 2022, the Company is within the financial criteria that have been established.

NOTE 21: OTHER LIABILITIES

A. Composition

	As at 31 December	
	2022	2021
	NIS Thousands	
Advance revenues for paid extended warranties	51,961	48,841
Long-term warranties provision	9,533	9,066
Other *)	84,464	53,213 *)
	145,958	111,120

*) Re-presented – See Note 5A1 regarding business combinations.

B. With regard to repayment dates, see Note 22A(3).

NOTE 22: FINANCIAL INSTRUMENTS

A. Financial risk factors

The Group's operations expose it to various financial risks, such as currency risks, credit risks, and cash flow risks with respect to interest rates. The Group's risk management plan focuses on actions to restrict to a minimum, potential negative impacts on the Group's financial performance. In some cases, the Group uses various derivative financial instruments to hedge exposures to certain risks.

Members of the Group's companies' management manage risk according to their operations and the risks relating to those companies' financial instruments. In the framework of the Group's overall risk management, the Group's companies review activities in the derivatives markets in order to protect against risks that derive from exchange differentials.

The Group makes use of financial instruments including derivative instruments in order to reduce its exposure to these risks.

1. Market risks

Foreign currency risk

The Group is exposed to changes in exchange rates. The risk inherent in changes in exchange rates is characterised by the Group as an intermediate risk because it hedges this risk using a variety of financial instruments available in the market. Similarly, in the event of extreme volatility, the Group can adjust the sales prices of its products in the retail chains it operates. The Group monitors market risk by means of the Company's management, by means of the Company's CEO and a senior VP for financial affairs, who report to the Company's board of directors, as well as by means of regular consultation.

2. Credit Risk

Credit risk refers to the risk that the other party will not meet its contractual commitments and or cause the Group to incur a financial loss. This risk is primarily relevant to cash balances in banks and trade receivables.

The Group has a policy designed to reduce the risk of wholesale trade payables, inter alia, through credit insurance as well as by defining a policy of retail sales in cash or credit cards and its enforcement.

As at 31 December 2022, cash and cash equivalents amounted to the sum of NIS 563,490,000 (31 December 2021 – NIS 344,432,000). In the assessment of the Company's management, the financial assets held by financial institutions are stable and therefore, the related credit risk is minimal.

The Group’s revenues derive primarily from customers in Israel. The Group regularly monitors trade payables, and the financial statements include provisions for doubtful debts that appropriately reflect, in the Group's assessment, the loss reflected in those payables whose collection is in doubt as well as a general provision based on the Company's past experience.

NOTE 22: FINANCIAL INSTRUMENTS (CONTINUED)

A. Financial Risk Factors (continued)

3. Liquidity risk

A) Repayment dates, loans, and other liabilities as at 31 December 2022

	Second year	Third year	Fourth year	Fifth year and thereafter	Total
			NIS Thousands		
Loans from banks and others	115,333	132,089	124,843	177,690	549,955
Bonds/Debentures	53,516	53,516	53,516	214,062	374,610
Leasing liabilities	210,483	198,751	188,251	1,083,319	1,680,804
Provision for warranties and advanced revenues for extended warranties	24,002	17,506	11,770	8,216	61,494
Other	61,308	8,970	4,562	9,624	84,464
	464,642	410,832	382,942	1,492,911	2,751,327

B) Repayment dates, loans, and other liabilities as at 31 December 2021

	Second year	Third year	Fourth year	Fifth year and thereafter	Total
			NIS Thousands		
Loans from banks and others	108,848	140,085	140,085	227,482	616,500
Leasing liabilities	168,794	166,173	160,424	1,044,512	1,539,903
Provision for warranties and advanced revenues for extended warranties	22,602	16,485	11,083	7,737	57,907
Other	12,763	29,772	10,678	-	53,213
	313,007	352,515	322,270	1,279,731	2,267,523

4. Changes to prices of raw materials

The Group is exposed to changes to the prices of the raw materials used in manufacturing its products. These prices change based on global supply and demand. The Company monitors changes in prices of raw materials based on the prices published on the London Metals Exchange (LME) and the Shanghai Metals Exchange (SME).

NOTE 22: FINANCIAL INSTRUMENTS (CONTINUED)

B. Fair Value

1. The below table sets forth the carrying amount in the financial statements, including interest payable and the fair value of groups of financial instruments that are presented in the financial statements, not according to their fair value.

	Ledger Balance		Fair Value	
	As at 31 December		As at 31 December	
	2022	2021	2022	2021
	NIS Thousands			
Liabilities				
Loans from banks (including current maturities) *)				
In NIS, unlinked, at a variable annual interest linked to the primary	603,047	607,500	601,235	595,873
Bonds (including current maturities)	410,792	-	384,143	-
Total	1,013,839	607,500	985,378	595,873

*) The fair value of long-term interest-bearing unlinked NIS loans with a variable annual interest rate linked to the prime rate is based on the capitalisation of future payments of principal and interest where the interest rate to be capitalised is calculated according to yields on corporate bonds traded in Israel with a similar credit rating to that of the Company, according to the redemption period plus a premium on noncommerciability as is the standard practice under current market conditions.

2. The balance in the financial statements of cash and cash equivalents, trade receivables, and short and long-term receivables, short-term bank credit, trade payables, and other payables, matches or is close to their fair value.

C. Derivatives and hedging

Derivatives not designated as hedging instruments

The Company has engagements (liabilities) with suppliers that are denominated in foreign currency and forward contracts in foreign currency whose purpose is protecting it against exposure to exchange rate volatility in respect of some of its transactions. Some of the foreign currency forward contracts were not designated as cash flow, fair value, or net investment in foreign operations hedges. These derivatives are not considered a hedge from an accounting standpoint.

Cash flow hedges

Foreign currency risk

The Company has dollar and euro liabilities for payments to suppliers and its operating and reporting currency is the shekel. These operations expose the Company to changes in the USD-NIS and EUR-NIS exchange rates. The Company’s goal is to hedge the risk that derives from an increase in the exchange rate, meaning, to hedge against a weakening of the shekel against the dollar. The Company’s management engaged in hedges for most months of 2023 in order to hedge against the weakening of the shekel against the dollar and against the euro with the objective of stabilising the exchange rate and neutralising the risk in the exchange rate’s volatility.

Forward contracts, put options, and call options on exchange rates that are measured at fair value through other comprehensive earnings were designated as hedging instruments in cash flow hedges of forecast dollar and euro purchases. Said forecast transactions are expected with a high level of probability and refer to approximately 100% of total forecast purchases.

NOTE 22: FINANCIAL INSTRUMENTS (CONTINUED)

C. Derivatives and Hedging (continued)

Cash Flow Hedges (continued)

Foreign Currency Risk (continued)

The Company has also entered into other forward contracts whose purpose is to mitigate the foreign currency risk in respect of a portion of the forecast purchase transactions. These contracts are not designated as hedges and are measured at fair value through profit and loss.

	as at 31 December 2022		as at 31 December 2021	
	Assets	Liabilities	Assets	Liabilities
	NIS Thousands		NIS Thousands	
Fair value of foreign currency forward contracts designated as hedging instruments	(20,394)	5,978	(8,291)	7,098

As a result, there is inefficiency that requires recognition through profit and loss.

Cash flow hedges in respect of forecast future purchases in 2023 were assessed with a high level of efficiency, and as at 31 December 2022, an as yet unrecognised loss, net, in the sum of NIS 772,000, and a deferred tax liability, in the sum of NIS 567,000, were included in other comprehensive earnings in respect of these hedging transactions.

NOTE 22: FINANCIAL INSTRUMENTS (CONTINUED)

D. Changes in liabilities deriving from financing operations

	Balance as at 1 January 2022	Cash flows	Cash flows for investment operations	Consolidation	Other changes	Balance as at 31 December 2022
			NIS Thousands			
Short-term credit from banks	19,327	144,181	-	2,493	-	166,001
Issuance of bonds less cost of issuance	-	409,784	-	-	1,008	410,792
Loans from banks (including current maturities)	607,500	(15,025)	-	10,572	-	603,047
Loans from others	39,000	-	(41,429)	-	2,429	-
Leasing liabilities (including current maturities)	1,712,038	(189,628)	-	1,789	363,409	1,887,608
Total liabilities deriving from financing operations	2,377,865	349,312	(41,429)	14,854	366,846	3,067,448

	Balance as at 1 January 2021	Cash flows	Disconsolidation	Consolidation	Other changes	Balance as at 31 December 2021
			NIS Thousands			
Short-term credit from banks	8,936	(118,404)	(2,848)	136,364	(4,721)	19,327
Loans from banks (including current maturities)	-	484,104	(5,478)	122,852	6,022	607,500
Bank and other loans to finance investment property	64,658	(64,658)	-	-	-	-
Loans from others	-	(40,560)	-	79,560	-	39,000
Liability to Mega's trustees	-	(84,345)	-	86,000	(1,655)	-
Leasing liabilities (including current maturities)	131,295	(115,966)	-	1,569,813	126,896	1,712,038
Total liabilities deriving from financing operations	204,889	60,171	(8,326)	1,994,589	126,542	2,377,865

NOTE 22: FINANCIAL INSTRUMENTS (CONTINUED)

D. Changes in liabilities deriving from financing operations (continued)

	Balance as at 1 January 2020	Cash flows	Other changes	Balance as at 31 December 2020
	NIS Thousands			
Short-term credit from banks	61,118	(52,486)	304	8,936
Loans from banks (including current maturities)	45,000	(45,000)	-	-
Bank and other loans to finance investment property	78,034	(13,376)	-	64,658
Loans from others	116,877	-	(116,877)	-
Liability in respect of sharing agreement with Cellcom	406,950	(18,890)	(388,060)	-
Leasing liabilities (including current maturities)	140,707	(36,923)	27,511	131,295
Financing lease liabilities (including short-term liabilities)	64,564	(4,000)	(60,564)	-
Total liabilities deriving from financing operations	913,250	(170,675)	(537,686)	204,889

NOTE 23: EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits include short-term benefits, postemployment benefits, and other long-term benefits.

A. Post-employment benefits

Labour law and the Israel Severance Pay Law require the Company to pay severance to an employee upon termination or retirement or to make regular deposits in a defined contribution plan pursuant to Section 14 to the Severance Pay Law as described below. The Company's resultant liabilities are recorded as a postemployment benefit. Calculating the Company's liability for employee benefits is done pursuant to a valid employment agreement and based on the employee's salary and duration of employment which together, create the right to compensation.

Postemployment benefits are generally financed by deposits classified as defined contribution plans as well as defined benefit plans or as a defined contribution plan, as set forth below.

Defined contribution plan

Some severance payments are subject to the terms of Section 14 to the Severance Pay Law, 5723-1963, pursuant to which the Group's regular deposits in pension funds and/or insurance policies release it from any additional liability to employees for home said amounts have been deposited. These deposits as well as pension deposits constitute defined contribution plans.

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
Defined contribution plan expenses	35,694	24,674	11,583

NOTE 23: EMPLOYEE BENEFIT ASSETS AND LIABILITIES (CONTINUED)

B. Changes in defined benefit liabilities and fair value of plan assets

2022

		Expenses (revenue) recognised in profit or loss				Loss (profit) in respect of measurement of other comprehensive profit				
	Balance as at 1 January 2022	Current service cost	Interest expenses (income)	Total expenses recognised in profit or loss during the period	Plan payments	Actuarial loss from changes in financial assumptions	Actuarial loss (profit) due to deviations in experience	Total impact on other comprehensive income during the period	Employer deposits	Balance as at 31 December 2022
Defined benefit liability	56,650	2,044	1,107	3,151	(5,517)	(4,157)	(721)	(4,878)	-	49,406
Fair value of plan assets	(18,098)	(1)	(417)	(418)	1,097	-	813	813	(68)	(16,674)
Liability (asset), net, for a defined benefit	38,552	2,043	690	2,733	(4,420)	(4,157)	92	(4,065)	(68)	32,732

NOTE 23: EMPLOYEE BENEFIT ASSETS AND LIABILITIES (CONTINUED)

B. Changes in defined benefit liabilities and fair value of plan assets (continued)

2021

		Expenses (revenues) recognised in profit or loss				Loss (profit) in respect of measurement of other comprehensive profit								
	Balance as at 1 January 2021	Current service cost	Interest expenses (income)	Total expenses recognised in profit or loss during the period	Plan payments	Yield on plan assets (other than amounts recognised in interest expenses (income))	Actuarial profit from changes in demographic assumptions	Actuarial loss from changes in financial assumptions	Actuarial loss (profit) due to deviations in experience	Total impact on other comprehensive income during the period	Employer deposits	Companies consolidated for the first time	Deconsolidated company	Balance as at 31 December 2021
Defined benefit liability	33,134	5,320	578	5,898	(5,137)	-	(5,027)	446	4,920	339	-	23,085	(669)	56,650
Fair value of plan assets	(15,406)	1,290	(260)	1,030	2,169	58	-	-	(361)	(303)	(67)	(5,521)	-	(18,098)
Liability (asset), net, for a defined benefit	17,728	6,610	318	6,928	(2,968)	58	(5,027)	446	4,559	36	(67)	17,564	(669)	38,552

NOTE 23: EMPLOYEE BENEFIT ASSETS AND LIABILITIES (CONTINUED)

C. Details of plan assets at fair value

Plan assets include assets held by a long-term employee benefit fund and appropriate insurance policies.

D. Primary assumptions in respect of a defined benefit plan

	As at 31 December	
	2022	2021
	%	
Discount rate (1)	5.23-5.57	2.00-3.29
Expected rate of salary increase	2.84-4.99	2.64-4.76

(1) The discount rate is based on high quality corporate bonds that are linked to the Consumer Price Index.

E. Amounts, timing, and uncertainty of future cash flows

	Change in defined benefit liability
	NIS Thousands
as at 31 December 2022	
Test of discount rate change sensitivity of the plan liabilities and assets	
The change resulting from:	
A 1% increase in the discount rate	(1,983)
A 1% decrease in the discount rate	2,047

NOTE 24: TAXES ON INCOME

A. Tax laws applicable to the group companies

Income Tax Law (adjustments for inflation), 5745-1985

Pursuant to this law, until 2007, results were measured for tax purposes in Israel where they were adjusted for changes to the Consumer Price Index.

In February 2008, the Knesset passed an amendment to the Income Tax Law (Adjustments for Inflation), 5745-1985, (the "Adjustments Law"), which limited the application of the Adjustments Law from 2008 and thereafter. As of 2008, results for tax purposes are measured in nominal values other than certain adjustments for changes to the Consumer Price Index during the period up until 31 December 2007. Adjustments relating to capital gains, such as for disposal of real estate (capital gain) and securities, continue to apply until the disposal date. The amendment to the law includes, inter alia, the cancellation of the supplement adjustment and the deduction for inflation and the additional deduction for depreciation (for depreciable assets that were acquired after the 2007 tax year) as of 2008.

NOTE 24: TAXES ON INCOME (CONTINUED)

A. Tax Laws Applicable to the Group Companies (continued)

Capital investment Encouragement law, 5719-1959

An indirect Company subsidiary (hereinafter – the second-tier subsidiary) is entitled to various tax benefits based on its status as a "preferred enterprise" as defined in this law. August 2013 saw the publication of the Change in National Priorities Law (Legislative Amendments to Achieve Budgetary Goals for 2013 and 2014), 5773-2013, which includes Amendment 71 to the Capital Investments Encouragement Law (hereinafter – the amendment). The amendment establishes that the tax rate on the preferred income from the preferred enterprise in 2014 and thereafter is 16%.

Similarly, the Amendment establishes that if a dividend is distributed to an individual or foreign resident from the preferred enterprise's earnings as set forth above, tax will apply at a rate of 20%.

On 15 November 2021, the Economic Efficiency Law (Legislative Amendments for Achieving Budget Targets for the 2021 and 2022 Budget Years), 2021 (hereinafter: the "Economic Efficiency Law"), was enacted. This Law establishes a temporary order allowing Israeli companies to release tax-exempt earnings ("trapped earnings" or "accumulated earnings") accumulated until 31 December 2020, through a mechanism established for a reduced corporate income tax rate applicable to those earnings (hereinafter: the "Temporary Order").

In addition to the reduced corporate income tax (CIT) rate, Article 74 to the Encouragement Law was amended whereby effective from 15 August 2021, for any dividend distribution (including a dividend as per Article 51B to the Encouragement Law) by a company which has trapped earnings, there will be a requirement to allocate a portion of that distribution to the trapped earnings.

According to the Temporary Order, the reduction of CIT will apply to earnings that are released (with no requirement for an actual distribution) within a period of one year from the date of enactment of the Temporary Order. The reduction in the CIT is dependent on the proportion of the trapped earnings that are released in relation to the total trapped earnings, and on the foreign investment percentage in the years the earnings were generated. Consequently, the larger the proportion of the trapped earnings that are released, the lower the tax in respect of the distribution. The minimum tax rate is 6%. Further, a company that elects to pay a reduced CIT is required to invest in its industrial enterprise a designated amount in accordance with the Economic Efficiency Law within a period of five years commencing from the tax year in which the election is made. The designated investment should be utilised for the acquisition of production assets, and/or investments in research and development and/or compensation to additional new employees.

On 20 February 2022, the Company filed an application to release all of its trapped earnings in the sum of NIS 33 million in the framework of the above Temporary Order, for which tax was paid in the sum of NIS 3.2 million.

The encouragement of industry law (taxation), 5729-1969

A second-tier subsidiary of the Company has the status of an "industrial company" as defined in this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Adjustments Law.

NOTE 24: TAXES ON INCOME (CONTINUED)

B. Tax rates applicable to the group

The corporate tax rate in Israel during 2020- 2022 was 23%.

The Company's second-tier subsidiary is subject to a 16% tax rate on its taxable income pursuant to the Capital Investments Encouragement Law. Associations are subject to tax on real capital gains at the corporate tax rate as of the sale year.

August 2013 saw the publication of the Change in National Priorities Law (Legislative Amendments to Achieve Budgetary Goals for 2013 and 2014), 5773-2013 (the "Budget Law"). The law includes, inter alia, provisions regarding taxation of revaluation gains as at 1 August 2013, but the taking effect of said provisions regarding revaluation gains is conditioned on the publication of regulations that define what are "retained earnings not subject to corporate tax" as well as regulations that will establish provisions to avoid double taxation that will likely to apply to assets outside of Israel. As of the date of the approval of these financial statements, no such regulations have been published.

C. Tax assessments

1. On 14 September 2022, the Company and a consolidated company executed assessment agreements with the Israel Tax Authority for the years 2019-2020 and the years 2016-2019, respectively and therefore, the tax assessments for these years are final.

   According to the above agreements, the Company paid, in October 2022, the sum of NIS 87.5 million to the Israel Tax Authorities, which was attributed in the Company's statement of cash flows during the reporting period to discontinued operations. The principal disagreement between the parties derived from the sale of shares of the subsidiary and the sale of the discontinued operations in prior years from the Company and the consolidated company. (See also, Note 18 above.)

   A subsidiary of the consolidated company has tax assessments that are final or considered final up to and including the 2017 tax year. One consolidated company has assessments that are final or considered final up to and including the 2017 tax year, and one consolidated company has final tax assessments up to and including the 2020 tax year.

   A consolidated company and some of the subsidiaries of a consolidated company have not yet been issued final tax assessments since their establishment.

2. In March 2017, a consolidated company received an assessment by order in relation to the years 2011-2013, pursuant to which, income was added to the consolidated company in the sum of NIS 57.4 million in respect of investments made by the consolidated company, which the tax assessor asserts must be viewed as distribution of a dividend pursuant to the Capital Investments Encouragement Law, 5719-1959. On 5 April 2017, the consolidated company filed a notice of appeal with the courts with regard to the above orders. In July 2022, a settlement agreement was signed that was given the effect of a court judgement, pursuant to which the consolidated company paid a tax supplement of NIS 10 million and thus ended the dispute.

   Bitan Wines, Hyper Rama (2003) Ltd, Mega Ba'Ir Ltd, Super Yizhar Ltd, and Tnuvat Hadarom have tax assessments that are final or are considered final up to and including the 2017 tax year (subject to the exceptions established by law).

   Zim A.R. Direct Marketing Ltd and A. Amdan Retail & Investments Ltd have tax assessments that are final or are considered final up to and including the 2014 tax year (subject to the exceptions established by law, including the amended reports as described below).

   Mega Retail Ltd has tax assessments that are final or considered final up to and including the 2015 tax year (subject to the exceptions established by law).

NOTE 24: TAXES ON INCOME (CONTINUED)

C. Tax Assessments (continued)

3. Bitan wines group tax assessments

Filing amended reports and hearings with the Israel Tax authorities

Bitan Wines and its consolidated companies, Zim A.R. Direct Marketing Ltd, Hyper Rama (2003) Ltd, and A. Amdan Retail & Investments have filed amended tax reports for the years 2015-2017, in light of the restatement made in these companies' financial statements in 2018. The amendment of these reports was intended to retroactively reflect the correction of errors deriving primarily from an overestimation of inventory and supplier discounts.

As a result of the amended reports filed by the Bitan Wines Group, it is possible that their limitations period will be extended accordingly to the extent the tax assessor accepts the amended reports.

Hearings related to Bitan Wines:

On 30 December 2021, and assessment agreement was executed between Bitan Wines and the Ashkelon Tax Assessor in relation to the 2015-2016 tax years. Similarly, as agreed in the assessment agreement for 2016, in lieu of the amended reports filed by Bitan Wines for the years 2015-2017, on 24 February 2022, Bitan Wines filed an amended tax report for 2018 including the carried over losses from 2017, in the sum of NIS 300.6 million.

We note that in relation to prior years, there is an ongoing proceeding pending before the Supreme Court relating to the issue of shortfall penalties.

Hearings related to Mega Retail:

Mega Retail Ltd filed amended tax reports for the years 2016-2017 because of a restatement made in Meg's 2018 financial statements, in order to retroactively reflect the correction of errors deriving primarily from an overestimation of inventory, supplier discounts, as well as the accounting treatment of the Mega acquisition transaction.

On 6 December 2022, the tax assessor issued a best judgement assessment for the 2016-2018 tax years, pursuant to which Mega Retail Ltd's losses in the sum of NIS 1,000 million were not permitted for tax purposes and taxable income was added in a non-consensual assessment in the sum of NIS 250 million. Mega Retail Ltd intends to file an appeal of said assessment. In the opinion of Mega Retail and its legal advisors, it has good arguments in support of its position.

Hearings related to Zim A.R.:

The consolidated company, Zim A.R. Marketing Ltd, filed a statement of claim seeking declaratory judgement establishing that the consolidated company's amended tax reports for the years 2015-2017 must be deemed its self-assessments.

D. Losses carried over for tax purposes and other temporary differences

The Group has business losses and capital losses for tax purposes carried over to the following years and amounting, on 31 December 2022, to the sum of NIS 1,725 and NIS 71 million, respectively.

Deferred tax assets were not recognised in the sum of NIS 400 million in respect of the Company's business losses, primarily in respect of carryover business losses of the Bitan Wines Group, absent an expectation that they will be applied in the foreseeable future. Regarding deferred taxes created in respect of carryover business losses, see section E below.

NOTE 24: TAXES ON INCOME (CONTINUED)

E. Deferred taxes

	Statements of Financial Position	
	As at 31 December	
	2022	2021
	NIS Thousands	
Deferred tax liabilities		
Amortisation of goodwill from acquisition of operations	35,179	35,179
Timing differences in respect of consolidation of companies and other	24,464	15,971
Timing differences in respect of property, plant, and equipment	2,798	3,385
	62,441	54,535
Deferred tax assets		
Provision for doubtful debts	4,986	4,572
Employee benefits	8,605	8,560
Carryover losses	21,823	25,278
Other	4,743	3,880
	40,157	42,290
Deferred tax liabilities, net	(22,284)	(12,245)

	Statements of comprehensive income		
	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
Deferred tax liabilities			
Timing differences in respect of consolidation of companies and other	(5,985)	(2,933)	635
	(5,985)	(2,933)	635
Deferred tax assets			
Provision for doubtful debts	414	362	765
Employee benefits	627	2,679	(2,344)
Losses carried over for tax purposes	(3,455)	15,019	2,837
Other	2,294	(1,901)	2,150
	(120)	16,159	3,408
Deferred tax income (expenses)	(6,105)	13,226	4,043

NOTE 24: TAXES ON INCOME (CONTINUED)

E. Deferred taxes (continued)

Deferred taxes are presented in the statement of financial position as follows:

	As at 31 December	
	2022	2021
	NIS Thousands	
Non-current assets	21,928	5,032
Non-current liabilities	(44,212)	(17,277)
	(22,284)	(12,245)

Deferred taxes are calculated primarily according to a tax rate of 23%, based on tax rates that are expected to apply at the time they are utilised.

F. Taxes on income included in profit or loss

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
Current taxes	37,280	38,305	33,776
Deferred taxes; see also, Section E above	6,105	(13,226)	(4,043)
Taxes in respect of prior years	(15,348)	6,518	(826)
	28,037	31,597	28,907

NOTE 24: TAXES ON INCOME (CONTINUED)

G. Theoretical tax

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in comprehensive income is as follows:

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
Income before taxes on income	71,667	203,473	119,352
Statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	16,483	46,799	27,451
Increase (decrease) in taxes on income resulting from the following:			
Tax rate differences	(2,625)	(1,752)	-
Creation of deferred taxes in respect of previous losses	-	(20,668)	(2,109)
Use of losses in respect of previous years for which deferred taxes were not created	(2,597)	(368)	(902)
Non-deductible expenses (income)	2,016	1,505 *)	(48) *)
Temporary differences for which no deferred taxes were created	(1,036)	(7,729) *)	1,555*)
Losses for tax purposes for which no deferred taxes were created	30,229	3,433 *)	3,786
The Company's share in losses of associates accounted for at equity	32	-	-
Taxes in respect of prior years	(15,348)	6,518	(826)
Other	883	3,859	-
Taxes on income	28,037	31,597	28,907

*) Reclassified.

NOTE 25: CONTINGENT LIABILITIES, GUARANTEES, SECURITY INTERESTS, AND ENGAGEMENTS

A. Lawsuits

1. Below is a description of the Group's contingent liabilities that are in effect as of the date of the approval of the financial statements in respect of customer claims, class action claims, and legal proceedings:

A) Description of the liabilities, categorised according to groups with similar characteristics as at 31 December 2022:

Claims group	Substance of these claims	Provision balance	Amount of additional exposure	Amount of the exposure in respect of claims whose chances cannot yet be assessed	Total
		In NIS Thousands			
Class actions	Primarily motions to certify class actions relating to allegations of unlawful charges and harm in the provision of services or in relation to products supplied by the Group's companies.	25,871	610,766 *)	12,500	649,137
Employee claims	Primarily legal claims filed by employees and past employees of the Company relating to labour law including demands to recognise various wage components as components used in calculating various payments to the Group's employees.	1,854	4,472	482	6,808
Supplier-client, government authorities, and general	Legal claims in respect of commercial disputes with service providers and legal proceedings brought by the state, government entities, and governmental authorities, including in respect of proceedings relating to regulation to which the Company is subject and various financial disputes relating to monies paid by the Group to the authorities.	12,476	29,432 **)	102,711	144,619
Customer tort claims	Tort claims being handled by the insurance companies.	13,579	28,515	-	42,094
Total as at 31 December 2022		53,780	673,185	115,693	842,658
Total as at 31 December 2021		56,176 ***)	2,983,531	123,599	3,163,306

*) Not including additional exposure in respect of two motions to certify a class action where the scope of the claim is not assessed at a set amount. (2021 – 5 motions)

**) There is exposure to claims against the Group where the scope of the claim is not assessed at a set amount. (2021 – 2 claims)

***) Restated – See Note 5(A)(1) regarding business combinations.

NOTE 25: CONTINGENT LIABILITIES, GUARANTEES, SECURITY INTERESTS, AND ENGAGEMENTS (CONTINUED)

A. Lawsuits

1. (continued)

B) Breakdown of the numbers and amounts of these claims, according to the amount of the claim as at 31 December 2022:

Lawsuit amount	No. of claims and demand letters	Amount of lawsuits (in NIS thousands)
Up to NIS 100 million (including claims against the Company and others where an amount is indicated against the Company) *)	841	554,658
NIS 100 million up to NIS 1,000 million	1	288,000
Claims in which the claim amount is not indicated	8	-
Total	850	842,658

*) Including 696 customer tort claims as of the date of the approval of the financial statements in the scope of NIS 41,959,000.

2. In February 2018, disputes arose between the Company and Chinese cellular telephone manufacturer, Huawei (hereinafter – the "manufacturer") in connection with the substance and terms of the agreement for the exclusive distribution of Huawei products in Israel by the Company, following allegations by the manufacturer that the Company allegedly did not meet minimal procurement targets in 2017, which the manufacturer alleges were a condition to the continuation of the agreement. On 12 March 2018, the Group filed a lawsuit with the District Court for the Centre District in Lod seeking monetary damages in the amount of NIS 80 million and a permanent injunction against the manufacturer, together with a motion seeking temporary injunctions against the manufacturer with regard to the use of trade secrets.

   The parties agreed that the wood resort to mediation before the Hon. Chief Justice (emeritus) Hila Gerstel. On 19 February 2020, the Group filed its trial affidavits. On 6 October 2020, Huawei's trial affidavits were filed. On 3 February 2021, a pretrial conference took place in which the parties agreed to the appointment of a court-appointed economic expert as well as to attempt to exhaust the mediation option while continuing the litigation of the lawsuit before the court. Trial took place in November 2021. The court ruled that the Group will submit its summations by 6 February 2022 and the manufacturer must submit its summations by 10 April 2022.

   On 13 July 2022, the legal proceeding being conducted against the Chinese manufacturer came to an end when the court gave the force of a judgement to covenants reached outside of court that included, inter alia, monetary damages in the net sum of NIS 13.6 million, including a refund of the court index fee.

B. Guarantees given by the company

The Company and its consolidated companies provided bank guarantees and letters of credit to ensure the performance of works, advances received, and payments to vendors in the total sum of approximately NIS 100 million as at 31 December 2022.

NOTE 25: CONTINGENT LIABILITIES, GUARANTEES, SECURITY INTERESTS, AND ENGAGEMENTS (CONTINUED)

C. Security interests

The Company recorded floating charges on assets in favour of the banks that finance its operations as well as fixed security interests on its unpaid share capital, goodwill, funds, deeds, securities, and other collateral.

Additionally, the companies in the group – including Bitan Wines – registered, as a surety for loans and guarantees that they received from banks and others, current security interests on all of their assets and interests of all kinds whatsoever that they owned or that they shall own in the future, and all of their fruits and yields, including receipts from credit card companies, current security interests on their facilities, the group's Factory, their share capital (including the unpaid share capital), their goodwill, and their other rights.

Similarly, the group placed a fixed and specific security interest on deeds, securities, other negotiable documents, as well as rights to receive monies, in favour of various banks.

D. Engagements

1. On 3 April 2022, Bitan Wines Ltd, a subsidiary controlled by the Company (hereinafter: “Bitan Wines”), engaged with the Carrefour International Partnership Group (hereinafter: “Carrefour”), in an exclusive franchise agreement to operate Bitan Wines chain stores under the Carrefour brands, namely, inter alia, Carrefour Market, Carrefour, and Supeco, and Atacado, in Israel, and for the exclusive use of the above brand names as well as Carrefour's private label.

   Pursuant to the terms of the franchise agreement, Bitan Wines will rebrand the Bitan Wines, Mega, and Mehadrin Market chains and customise them to the Carrefour brands according to the timetables and terms agreed to between the parties. It was further agreed that the franchise agreement will be for a period of 20 years, with automatic renewal for an additional 20 years as well as options to extend for 20-year periods with the consent of the parties. The agreement includes, inter alia, payment of a fixed buy-in amount in a sum that is immaterial to the Company, spread over a number of years, plus payments that will be made as a percentage of revenue turnover alongside investments in branches and customisation to the Carrefour brand. The franchise agreement will enable Bitan Wines to purchase and market Carrefour’s products under Carrefour brands in Israel as well as allow Bitan Wines to produce some of the products in Israel under the Carrefour brand.

   Pursuant to the agreement between the parties, a committee was established the scope of the variety of products and the expansion thereof, the establishment of kosher requirements, the attractiveness/desirability of the product price, as well as store opening dates. According to initial expectations, the customisation of the first store was supposed to be completed toward the end of 2022 and at least approximately 90% of stores were supposed to be converted to the Carrefour brand within three years of the commencement of operations.

   According to Bitan Wines's current work plan, it was decided that the launch of stores under the Carrefour brand would take place during the course of the second quarter of 2023 width of the completion of the conversion of 50 stores.

   During the reporting period, Bitan Wines worked to implement said franchise agreement, establish logistics systems, adjust its sales catalogue, review required store customisations, higher staffing, training, etc. As of the date of the approval of these financial statements, stores have not yet begun operations under the Carrefour brand.

NOTE 25: CONTINGENT LIABILITIES, GUARANTEES, SECURITY INTERESTS, AND ENGAGEMENTS (CONTINUED)

D. Engagements (continued)

2. On 10 August 2022, the Company, by means of subsidiaries and investee partnerships, executed a three-way agreement (the "agreement") with Israel Credit Cards Ltd ("Cal") and Bank Hapoalim, for collaboration in connection with operation of a customer loyalty club based on a non-bank credit card issued by Cal for customers of Bit and customers of the Group's retail chains, that would include Bit-Card Club customers and Family 365 Club customers who would be recruited on Bitan Wines's sales floors (the "Club") for a period of 12 years from the fulfilment of the conditions precedent pursuant to the agreement. The agreement will automatically renew for an additional three years each time unless any of the parties gives notice of its desire not to renew the agreement, all pursuant to the terms and covenants set forth in the agreement.

   The purpose of the credit card customer loyalty club is to offer value and benefits to credit card loyalty club customers. In the framework of this collaboration, Cal will issue club credit cards to the Group's customers and Bit customers who will subscribe to the Club.

   The agreement establishes, inter alia, that Cal will serve as the Club credit card issuer as non-bank cards and will act as the party responsible for providing all services relating to the issuing and operation of Club cards as well as additional services specified in the agreement. The issuing of Club cards will be done using Cal's digital card issuing interface to which, inter alia, customers using the Bit application will be referred. Similarly, the Bit app will be used to present Club customers with certain information related to the Club. The Company (through a subsidiary or investee partnership) shall be responsible for managing the Club, including communication with Club customers as well as formulating a value proposition for Club customers, all as set forth in the agreement.

   The Company and Bank Hapoalim will be entitled, each separately, to payments from Cal for various elements (according to the rates and terms set forth in the agreement) relating, inter alia, to revenue deriving from transaction turnover with Club cards. The Company shall be entitled to additional payments as set forth in the agreement, including in respect of Cal's and Bank Hapoalim's participation in the Club's marketing and sales promotion expenses. We note that a settling of accounts will be made between the parties with respect to expenses. In 2023 and 2024, pursuant to the agreement, the Company will be entitled to safety net and target bonuses that are likely to guarantee the Company net receipts in the sum of NIS 32 million during each of those years. Additionally, the Company shall be entitled to a bonus conditioned on meeting performance targets in the sum of up to NIS 50 million during the term of the agreement, all as set forth in the agreement.

   The above agreement taking effect and its performance are subject to the fulfilment of conditions precedent including receipt of a permit from the Director General of the Israel Competition Authority (under the terms set forth in the agreement). The parties are working to fulfil said conditions precedent. The Company is working toward a Club launch date in 2023.

NOTE 25: CONTINGENT LIABILITIES, GUARANTEES, SECURITY INTERESTS, AND ENGAGEMENTS (CONTINUED)

D. Engagements (continued)

3. Further to the agreements for the acquisition of Bitan Wines as set forth in Note 5A above, on 3 July 2022, and as the basis to the establishment of the customer loyalty club described in Note 25D(2), the Company, through the Electra Club Limited Partnership (a limited partnership established on 24 May 2022 and held entirely by a Company subsidiary – the "Club") acquired from Bitan Wines Holdings Ltd, the shares in Club 365 ("365") for the total consideration of NIS 50.5 million. After the conclusion of said transaction, the Club is entitled to any existing consideration to which 365 is entitled from Bitan Holdings up to 30 June 2022.

   After conclusion of the acquisition of the shares of 365, the Club sold the shares of 365 to Mashbir Latzarchan in consideration of a negligible monetary sum and in exchange, 365 turned over to the Club, without consideration, approximately one third of the customers who had been recruited by it and a credit portfolio in the sum of NIS 250 million.

   The Club and Bitan Wines are obligated to provide cashback benefits to customers of 365 for a period of nine months following the date of the notice to customers of Bitan Wines's separation from 365.

   In December 2022, the Company's board approved the transfer of the majority of the holdings in the Club to Bitan Wines such that Bitan Wines would hold 80% of the interest in the Club and the remaining interests amounting to 20% would be held by a wholly owned subsidiary of the Company.

   After the reporting date, in March 2023, an agreement was executed between the Company and the subsidiary, and Bitan Wines, and the interest in the Club were transferred to Bitan Wines.

4. On 19 January 2021, Electra Consumer Products (1951) Ltd., a subsidiary of the Company (hereinafter: the "subsidiary”), engaged with AllTrade Recycling Ltd. (hereinafter: "AllTrade") and MAI Israel Electronics Recycling Corporation Ltd. ("MAI Corporation") in a shareholders agreement to establish a dedicated company (hereinafter: the "recycling company") for purposes of a joint venture to establish a facility for treating and recycling refrigerators and air conditioners as well as other electrical heating and refrigeration appliances that contain gas (hereinafter: the "agreement").

   Pursuant to the agreement, the subsidiary was allocated 45% of the recycling company's share capital, AllTrade was allocated 45% of the recycling company's share capital, and MAI Corporation was allocated 10% of the recycling company's share capital.

   The agreement was conditioned on obtaining an expert opinion from an attorney specialising in competition law ("expert opinion") or approval of the Director General of the Israel Competition Authority, to the extent required according to the expert opinion, with respect to the parties’ undertaking in the agreement. On 16 February 2021, an expert opinion was provided, pursuant to which the merger would not constitute a corporate merger and therefore, the engagement under the agreement would not require notifying the Director General or obtaining her approval for the transaction. Therefore, the above condition precedent was fulfilled, and the transaction was closed.

   During the course of 2022, the construction of the plant was completed, and it began to run and will begin regular recycling commencing in 2023.

NOTE 25: CONTINGENT LIABILITIES, GUARANTEES, SECURITY INTERESTS, AND ENGAGEMENTS (CONTINUED)

D. Engagements (continued)

5. On 11 October 2021, the Company and its subsidiary, Electra Consumer Products (1951) Ltd, executed a franchise agreement with 7-Eleven, Inc.

   7-Eleven is a multinational chain of convenience stores based in Dallas, Texas, that operates and grants franchises and licences to more than 77,000 stores in 18 countries.

   In the franchise agreement, the parties agreed that the franchise term would be 20 years with options to extend the term by up to a maximum of 50 additional years subject to meeting the conditions that were established in the franchise agreement, including meeting the Company's financial stipulations. The franchise agreement includes an initial payment as well as monthly payments that will be made as a percentage of the total revenues from the franchise's operations in Israel.

   The Company established a subsidiary for these operations (hereinafter: the "Franchise Company") and intends to open dozens of stores in Israel during the course of the next three years with the first store in the chain was first launched at the start of 2023 and as of the date of the signing of these statements, two additional stores have been launched. The Company expects to invest approximately NIS 60,000,000 in the Franchise Company by 2024 so that the latter will invest in opening stores under the 7-Eleven brand in Israel.

   The franchise agreement includes the Company's and the subsidiary's undertakings to 7-Eleven, including a nonsolicitation commitment in the field of convenience stores, opening a minimum number of stores between 2022-2024, restrictions relating to changes in control, and abiding by the financial stipulations memorialised in the franchise agreement.

   For details about the restructuring that was carried out by the Group, see Note 1E above.

6. Strategic agreements in the field of domestic heating:

   A) On 15 June 2020, an indirect subsidiary of the Company entered into a detailed OEM agreement relating to the development, manufacturing, and provision of heating systems with a strategic client, which is one of the leaders in Europe in domestic heating. In this agreement, the client undertook to invest up to EUR 2.4 million in the development and establishment of a dedicated line of products for manufacturing systems that would be sold to the client for a period of at least five years and in a sum estimated by the Company at NIS 300 million over the course of the term of the agreement.

      Further to the execution of the above agreement, on 22 November 2022, the second-tier subsidiary executed a revision and extension of the Original Agreement until 2026 (the “Revised agreement”), inter alia, in light of the European gas crisis and the increased demand for energy efficient inverter-based heating products. Under the updated agreement, the second-tier subsidiary will establish, develop, and manufacture an additional line of products and significantly increase the quantity of manufactured products that will be developed under the Original Agreement. The Company foresees revenue for the indirect subsidiary from sales of products to this strategic client amounting, during the term of the Revised agreement, to the total sum of NIS 1 billion.

NOTE 25: CONTINGENT LIABILITIES, GUARANTEES, SECURITY INTERESTS, AND ENGAGEMENTS (CONTINUED)

D. Engagements (continued)

6. Strategic agreements in the field of domestic heating: (continued)

B) On 18 March 2020, a Company subsidiary executed agreements with a company from the Bosch Group's ("Bosch") thermal technology division regarding the establishment of a joint venture for the development and manufacture of heat pumps and advanced air conditioning systems in the factory of an indirect subsidiary of the Company (the "indirect subsidiary"). On 27 August 2020, the subsidiary company concluded the engagement under the said agreements.

Pursuant to the agreements, upon their completion, Bosch invested the sum of eight million Euros in consideration of the issuance of subordinated shares in the indirect subsidiary of the Company such that after the issuance, Bosch now holds 40% of the indirect subsidiary's shares. The balance of the noncontrolling interests in respect of the above shares that were issued to Bosch amounted to the sum of approximately NIS 31,000,000 on the closing date and they will be subordinated in the receipt of a dividend originating from earnings that will derive from the sale of thermal pumps to customers who are not shareholders in the indirect subsidiary pursuant to the terms agreed upon between the parties.

C) On 7 December 2022, the Company, via Electra Industries Ltd, an indirect subsidiary, executed a framework agreement for the development, manufacturing, and provision of heating systems for three years (2023-2025), with Max Weishaupt GmbH, a European customer (hereinafter: "Weishaupt"), which took effect as of 1 January 2023, alongside exsiting agreements relating to the provision of equipment and development of products with Weishaupt. This agreement was executed, inter alia, in light of the European gas crisis and the increased demand for energy efficient inverter-based heating products. The quantity of heating systems supplied by the Company will be subject to the above framework agreement which establishes, inter alia, the frequency of the provision of products according to the agreements that are updated by the parties, as set forth in the agreement.

The agreement is in effect until 2025 and will automatically renew for an additional year each time unless one of the parties gives notice of its desire to terminate the agreement by prior written notice of 18 months.

7. On 6 January 2020, a collective agreement was signed that will remain in effect for a period of five years, until 7 January 2025. The agreement addresses, inter alia, improved employee salary and employment terms and an expansion of the worker's union benefit package.

The employment terms for most of the manufacturing plant's employees are regulated through a collective agreement signed on 6 January 2022, that is currently in effect until June 2026. The agreement addresses, inter alia, improved employee salary and employment terms and an expansion of the worker's union and employees' welfare basket.

On 23 May 2022, a special collective agreement was signed between Mega Retail Ltd and Bitan Wines Ltd, and the New Workers Union and the National Workers Council. The agreement addresses, inter alia, improved employee salary and employment terms and an expansion of the worker's union and employees' benefits package.

8. On 31 March 2020, the Company signed agreement extension (hereinafter: the "agreement") within the manufacturer, Daikin, for the purchase of an inventory of air-conditioners manufactured by it. The agreement is for a period of three years (hereinafter: the "agreement Period") with an additional option to extend the agreement for two more years, subject to the conditions included in the agreement. The agreement establishes a procurement minimum in certain amounts during each of the years of the agreement

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NOTE 25: CONTINGENT LIABILITIES, GUARANTEES, SECURITY INTERESTS, AND ENGAGEMENTS (CONTINUED)

D. Engagements (continued)

9. On 30 December 2013, the subsidiary received confirmation from Midea, a leading Chinese manufacturer (hereinafter: the "manufacturer") of commencement of an OEM collaboration between the manufacturer and the subsidiary for marketing the subsidiary’s air conditioners pursuant to an agreement executed between the parties for 2014-2018 that was automatically extended for an additional period of five years subject to agreement between the parties on the prices of the products. Pursuant to the agreement dated 1 December 2015, the subsidiary engaged with Midea in an OEM agreement to distribute VRF products valid until 22 April 2020.

   On 5 August 2018, the subsidiary executed an agreement with Midea extending the existing collaboration agreement (regarding RAC products) for a period of five additional years as at 1 January 2019 upon terms similar in principle to the terms of the current collaboration agreement with Midea.

10. On 14 January 2016, an agreement was executed between the subsidiary and LogistiCare Ltd (the "vendor") for the provision of logistics services. Pursuant to the terms of the agreement, the vendor will provide the subsidiary with all of the logistical services that are required to distribute the Company's products in the territories agreed upon by the parties, the State of Israel, and the territories held by the State of Israel. The term of the agreement is for five years from the date of the execution of the agreement, and the company may, at its exclusive discretion, extend the term of the agreement, in addition to the first five years, by one year each time, and in any event, for not more than five years. On 2 February 2022, after the Group's restructuring as set forth in Note 1E above, the subsidiary signed an addendum to an agreement that also brings the new subsidiary that was established as a result of the restructuring, Electra Retail Ltd, under the auspices of the agreement.

11. On 21 December 2016, the Committee for the Reduction of Business Concentrations published an update to the list of centralising factors pursuant to the Promotion of Competition and Reduction of Concentrations Law, 5774-2013 (the "Concentrations Law") in which Elco Ltd, the Company's parent company (hereinafter: "Elco") and its subsidiaries, including the Company, were added to the list of significant real companies. The inclusion of the Company and the entire Elco Group in the list of real corporations has implications as set forth in the Concentrations Law including, inter alia, the likelihood that said inclusion will affect the Company's ability to engage with significant real entities as well as to obtain a right to essential infrastructures.

12. Regarding engagements with related parties, see Note 30.

NOTE 26: EQUITY

A. Share capital composition:

	31 December			
	2022		2021	
	Registered	Issued and paid up *)	Registered	Issued and paid up *)
	Number of Shares			
Ordinary shares - par value NIS 1 each	100,000,000	23,040,259	100,000,000	23,040,259

*) As at 31 December 2022 and 2021, the share capital includes an NIS 1,416,703 and 1,098,210 par value shares in the treasury, respectively.

B. Dividend

1. On 15 March 2020, the Company declared the distribution of a dividend in the sum of NIS 30 million, which reflects a share price of NIS 1.37. The effective date and the ex date is 23 March 2020. The dividend was paid on 2 April 2020.
2. On 17 August 2020, the Company declared the distribution of a dividend in the sum of NIS 30 million, which reflects a share price of NIS 1.37. The effective date and the ex date is 25 August 2020. The dividend was paid on 2 September 2020.
3. On 13 September 2020, the Company declared the distribution of a dividend in the sum of NIS 300 million, which reflects a share price of NIS 13.68. The effective date and the ex date is 21 September 2020. The dividend was paid on 30 September 2020.
4. On 25 February 2021, the Company declared the distribution of a dividend in the sum of NIS 40 million, which reflects a share price of NIS 1.82. The effective date and the ex date is 7 March 2021. The dividend was paid on 4 April 2021.
5. On 25 August 2021, the Company declared the distribution of a dividend in the sum of NIS 30 million, which reflects a share price of NIS 1.36. The effective date and the ex date is 5 September 2021. The dividend was paid on 3 October 2021.
6. On 3 March 2022, the Company declared the distribution of a dividend in the sum of NIS 30,000,000, which reflects a share price of NIS 1.37. The effective date and the ex date is 13 March 2022. The dividend was paid on 3 April 2022.
7. On 10 August 2022, the Company declared the distribution of a dividend in the sum of NIS 30 million, which reflects a share price of NIS 1.38. The effective date and the ex date is 19 September 2022. The dividend was paid on 2 October 2022.

NOTE 26: EQUITY (CONTINUED)

C. Buyback plan

On 10 August 2022, the Company's board of directors approved a plan to buy back - from 10 August 2022 and up until 9 August 2025 - up to NIS 100,000,000 of Company shares (the "August 2022 Plan") in lieu of a previous plan to buy back Company shares as previously approved.

In the framework of the August 2022 Plan, the Company, during the reporting period, acquired 91,501 ordinary shares of par value NIS 1 in the Company, for the total consideration of approximately NIS 10,700,000. After the date of these financial statements and until 23 March 2023, the framework of the August 2022 Plan, 37,004 ordinary shares of par value NIS 1 in the Company were acquired, for the total consideration of approximately NIS 3,800,000. In the framework of the previous plan, the Company, during the reporting period, acquired 226,992 ordinary shares of par value NIS 1 in the Company, for the total consideration of approximately NIS 34,700,000.

D. Share based payments

1. Share based payment to the Company CEO

A) On 2 October 2018, the Company's board appointed Mr Zvika Schwimmer as Company CEO.

On 12 November 2018, the general meeting (after approval by the remuneration remuneration on 2 October 2018) approved the agreement with Mr Zvika Schwimmer as Company CEO.

In the above agreement and the approval by those organs, Mr. Schwimmer was granted 216,693 options executable for ordinary shares of NIS 1 par value each of the Company which, after their allocation, constitute 1% of the issued and paid up share capital as of the date of approval by the remuneration committee and the board. The exercise price for each option was set at NIS 39.81 according to the mechanism established in the agreement. The number of shares and/or exercise price have protective adjustments in the event of a rights issue, distribution of a dividend and/or bonus shares and/or restructuring, according to the terms of the option plan.

The options may be exercised in five equal shares, the first at the end of one year following the allocation date, the second at the end of two years following the allocation date, the third at the end of three years following the allocation date, the fourth at the end of four years following the allocation date, and the fifth at the end of five years following the allocation date. After the passing of five years and 90 days following the date of the allocation of the options, they shall expire, shall be cancelled, and will no longer have any effect. The exercising of these options for shares will be according to the "net exercise" mechanism.

The allocation of these options was done pursuant to Section 102 to the Income Tax Ordinance [New Version], 5728-1968, on a capital gain track with the trustee.

The economic value of the options on the date of the allocation, determined according to the binomic model, is NIS 2,168,000.

Below are details regarding the exercise of the above options:

Exercise date	Quantity of options exercised	Quantity of resultant shares
November 2020	86,667	67,943

NOTE 26: EQUITY (CONTINUED)

D. Share based payments (continued)

1. Share based payment to the Company CEO (continued)

B) On 2 December 2021, the general meeting (after approval by the Company's board and remuneration committee) approved, as part of the update to the Company's remuneration policy, the allocation of 216,000 warrants to the Company CEO, Mr Zvika Schwimmer, as part of an update to the terms of his service and employment, without any change in relation to other existing terms.

In this allocation, Mr. Schwimmer was granted 216,000 options executable for ordinary shares of NIS 1 par value each of the Company which, after their allocation, constitute 1.58% of the issued and paid up share capital as of the date of approval by the remuneration committee and the board. The exercise price for each option was set at NIS 170.31 according to the mechanism established in the agreement. The number of shares and/or exercise price have protective adjustments in the event of a rights issue, distribution of a dividend and/or bonus shares and/or restructuring, according to the terms of the option plan.

The options may be exercised in five equal shares, the first after the passing of three years following the allocation date, the second after the passing of four years following the allocation date, the third after the passing of five years following the allocation date, the fourth after the passing of six years following the allocation date, and the fifth after the passing of seven years following the allocation date. After the passing of eight years following the date of the allocation of the options, they shall expire, shall be cancelled, and will no longer have any effect. The exercising of these options for shares will be according to the "net exercise" mechanism.

The allocation of these options was done pursuant to Section 102 to the Income Tax Ordinance [New Version], 5728-1968, on a capital gain track with a trustee.

The economic value of the options on the date of the allocation, determined according to the binomic model, is NIS 10,094,000.

2. Share-based payment to the chief financial and information systems officer

A) On 1 August 2019, Mr. Yehonatan Tsabari took up his position as the Company's CFO pursuant to his appointment by the Company's board on 15 May 2019, until 18 February 2021, serving as senior VP for financial affairs and information systems and as of 23 March 2023, serving as deputy CEO for financial affairs.

On 15 May 2019, the Company's board, after receiving approval from the Company's remuneration board, approved the allocation of 75,000 options to Mr Yehonatan Tsabari. The options are executable for ordinary shares of NIS 1 par value each of the Company which, after their allocation, constitute 0.34% of the Company's issued and paid up share capital as of the date of approval by the remuneration committee and the board. The exercise price for each option was set at NIS 49.31 according to the mechanism established in the agreement. The number of shares and/or exercise price have protective adjustments in the event of a rights issue, distribution of a dividend and/or bonus shares and/or restructuring, according to the terms of the option plan.

The options may be exercised in two equal shares, the first at the end of four years following the allocation date, and the second, at the end of five years following the allocation date. After the passing of six years following the date of the allocation of the options, they shall expire, shall be cancelled, and will no longer have any effect. The exercising of these options for shares will be according to the "net exercise" mechanism.

NOTE 26: EQUITY (CONTINUED)

D. Share based payments (continued)

2. Share-based payment to the chief financial and information systems officer (continued)

A) (continued)

The allocation of these options was done pursuant to Section 102 to the Income Tax Ordinance [New Version], 5721-1961, on a capital gain track with the trustee.

On 15 July 2019, the Director General of the Stock Exchange approved the listing for trade of the shares that would derive from the exercise of said options.

The economic value of the options on the date of the allocation, determined according to the binomic model, is NIS 998,000.

B) On 25 October 2021, the Company's board and remuneration committee approved, as part of an update to the Company's remuneration policy, the allocation of 108,000 options to Yehonatan Tsabari, Senior VP for Financial Affairs and Information Systems.

In this allocation, Mr. Tsabari was granted 108,000 options executable for ordinary shares of NIS 1 par value each of the Company which, after their allocation, constitute 0.83% of the issued and paid up share capital as of the date of approval by the remuneration committee and the board. The exercise price for each option was set at NIS 170.31 according to the mechanism established in the agreement. The number of shares and/or exercise price have protective adjustments in the event of a rights issue, distribution of a dividend and/or bonus shares and/or restructuring, according to the terms of the option plan.

The options may be exercised in five equal shares, the first after the passing of three years following the allocation date, the second after the passing of four years following the allocation date, the third after the passing of five years following the allocation date, the fourth after the passing of six years following the allocation date, and the fifth after the passing of seven years following the allocation date. After the passing of eight years following the date of the allocation of the options, they shall expire, shall be cancelled, and will no longer have any effect. The exercising of these options for shares will be according to the "net exercise" mechanism.

The allocation of these options was done pursuant to Section 102 to the Income Tax Ordinance [New Version], 5728-1968, on a capital gain track with the trustee.

The economic value of the options on the date of the allocation, determined according to the binomic model, is NIS 5,047 thousand.

3. Share based payments to senior Group officers

Below is a breakdown of the allocation of nonmarketable options to senior employees and executives in the Group, which were approved by the Company's board:

Grant date	Number of options	Exercise price on grant date	Economic value as of the grant date (NIS thousands)
26 May 2019	294,000	50.58	4,188
26 August 2019	47,000	54.13	785
17 November 2019	40,000	62.92	667
10 August 2022	19,000	180.00	888

NOTE 26: EQUITY (CONTINUED)

D. Share based payments (continued)

3. Share based payments to senior Group officers (continued)

Said options are executable for ordinary shares of NIS 1 par value each of the Company which, after their allocation, shall constitute 1.34%, 0.21%, 0.17%, and 0.08% (according to the allocation dates) of the issued and paid up share capital as of the date of approval, according to the Company's existing options plan. The number of shares and/or exercise price have protective adjustments in the event of a rights issue, distribution of a dividend and/or bonus shares and/or restructuring, according to the terms of the option plan.

The options may be exercised in two equal shares, the first at the end of four years following the allocation date, and the second, at the end of five years following the allocation date. After the passing of six years following the date of the allocation of the options, they shall expire, shall be cancelled, and will no longer have any effect. The exercising of these options for shares will be according to the "net exercise" mechanism.

The allocation of these options was done pursuant to Section 102 to the Income Tax Ordinance [New Version], 5721-1961, on a capital gain track with the trustee, other than with regard to two of the offerees with whom there is no employment relationship and the income from the allocation will be charged to the company through which they are providing services to the group.

On 15 July 2019, 25 September 2019, 12 December 2019, and 24 August 2022, respectively the Director General of the Stock Exchange approved the listing for trade of the shares that would derive from the exercise of said options.

During the course of 2020, 51,000 nonmarketable options allocated in 2019 to senior employees and executives in the Group, lapsed.

During the course of 2021, 47,000 nonmarketable options allocated in 2019 to senior employees and executives in the Group, lapsed.

4. On 27 June 2022, the board of directors of the subsidiary, Bitan Wines ("Bitan Wines") approved an option plan for senior Bitan Wines employees, pursuant to which, the CEO of Bitan Wines and its deputy CEOs [senior VPs] are entitled options convertible to ordinary shares of Bitan Wines.

On that same date, the board of Bitan Wines approved the grant of 9 ordinary restricted share units of Bitan Wines and 38 options to the CEO of Bitan Wines, which collectively constitute 2.5% of the issued share capital of Bitan Wines as of that date.

The shares were granted without an exercise supplement and with a vesting period of eight months following the date of their granting. The options were granted in four equal portions as of the end of two years following the grant and each year thereafter up until the passing of five years. The options' expiration date is at the end of six years following the date they were granted. The exercise price for these options was set at the sum of NIS 382 thousand for each option. The grant agreement established additional subjects that include, inter alia, an additional fiduciary period after the shares' vesting period, adjustments relating to the execution of a transaction in shares of Bitan Wines, etc.

The fair value of the options and shares according to the Black–Scholes model for pricing options was set at the sum of NIS 4.4 million, based on the following parameters:

Expected volatility in share prices – 27%; no risk interest rate – 2.1%; contractual lifespan of the share options – 5 years; the share price – NIS 291,393.

On 1 July 2022, Mr Amit Zeev concluded his service as CEO of Bitan Wines and Mr Uri Kilstein was appointed in his place.

E. In September 2022, Standard & Poor's Maalot confirmed the Company's new rating (ilAA-), and it determined that the rating forecast is stable.

NOTE 27: ADDITIONAL DETAILS ON THE PROFITS OR LOSS

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
A. Revenue from sales, provision of services, and property rentals			
Revenues from sales of products	6,173,720	4,592,549	2,527,538
Revenues from the provision of services and other	68,593	55,997	45,835
	6,242,313	4,648,546	2,573,373
B. Cost of sales, rendering services, and property rentals			
Purchases of merchandise, services, and spare parts	4,093,833	3,206,396 *)	1,837,440
Decrease (increase) in inventory	36,821	(92,103)	23,494
Salary and ancillary expenses	167,227	132,430	68,137
Depreciation and amortisations	9,553	8,912	7,762
Other	88,688	91,811	14,998
	4,396,122	3,347,446	1,951,831
C. Selling and marketing expenses			
Salary and ancillary expenses	624,780	418,782 *)	195,605
Advertising and sales promotion	99,482	87,469 *)	69,974
Depreciation and amortisations	271,722	174,310	57,010
Credit card fees	32,229	22,892	13,612
Doubtful and lost debts	1,982	999	3,498
Management fees and rentals	62,897	29,408 *)	12,685
Municipal taxes, building maintenance, and equipment	199,844	131,503	20,984
Shipping	55,388	39,803	30,772
Vehicle maintenance	14,272	8,689	6,080
Other	133,711	76,361	41,133
	1,496,307	990,216	451,353
D. Management and general expenses			
Salary and ancillary expenses	48,517	33,802	9,485
Consulting	7,427	8,816	4,026
Depreciation and amortisations	11,963	9,350	7,120
Management fees	10,589	9,135	6,267
Other	28,680	19,615	8,523
	107,176	80,718	35,421
E. Research and development expenses			
Wages and ancillary expenses	8,560	8,062	7,576
Consultants and subcontractors	3,675	1,392	1,746
Other R&D expenses	995	1,883	885
Total before discounting expenses	13,230	11,337	10,207
Discounting of expenses	(7,667)	(6,734)	(4,896)
Total after discounting expenses	5,563	4,603	5,311
Depreciation expenses	2,552	1,628	1,933
	8,115	6,231	7,244

*) Reclassified.

NOTE 27: ADDITIONAL DETAILS ON THE PROFITS OR LOSS (CONTINUED)

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
F. Other income (expenses), net			
Increase in value (impairment of) of investment property	27,999	51,118	(3,068)
Capital gain (loss) from disposal of property, plant, and equipment	(3,465)	(6,105)	350
Capital loss, net, from disposal of foreign operations	-	(6,494)	-
Amortisation of intangible assets	-	(131)	(1,324)
Other	(8,907)	3,276	6,884
	15,627	41,664	2,842
G. Reorganisation expenses			
Impairment of assets (including rright of use assets)	34,075	-	-
Expenses relating to the closing of failing branches	7,605	-	-
Expenses relating to termination of employment	1,150	-	-
Expenses relating to legal exposure upon termination of an onerous contract	9,000	-	-
	51,830	-	-
H. Financing income and expenses			
Financing income			
Financing income from deposits and cash balances	1,675	148	244
Interest income	503	3,975	345
Other	1,222	2,432	2,749
	3,400	6,555	3,338
Financing expenses			
For long-term credit	25,846	6,910	2,599
Interest in respect of short-term balances	11,941	6,247	5,376
Interest expenses for leasing liabilities	84,444	51,119	3,643
Other	7,752	4,405	2,734
	129,983	68,681	14,352

NOTE 28: TERMINATED OPERATIONS

Further to the binding memorandum of understanding executed on 18 February 2020, on 26 August 2020, the sale of Golan Telecom Ltd (hereinafter: "Golan") to Cellcom Israel Ltd (hereinafter: "Cellcom"), was concluded. In the framework of concluding the transaction, the parties agreed that: (A) the base consideration amount established in the memorandum of understanding would be decreased by NIS 77 million such that it would come to NIS 513 million (instead of NIS 590 million), which was paid in full in cash on the said sale closing date, (B) accordingly, the provisions of the memorandum of understanding in connection with providing a seller loan by the Company to Cellcom were rescinded, (C) the Company and Gil Sharon will not bear liability in relation to demands by the Ministry of Communication for a refund from Golan of fees and differences in the licensing fees that were refunded to Golan.

As a result, the total consideration, including a dividend that Golan distributed on 23 August 2020, in the sum of NIS 33 million, amounted to approximately NIS 640 million.

The Company's share of the consideration of the sale in respect of the interests in Golan (without the consideration to Gil Sharon and after full dilution from options granted to Golan employees for which the will be entitled to a portion of the consideration) came to the sum of NIS 573 million.

In its financial statements, the Company classified the results of operations as terminated operations, including classification of comparison numbers.

During the reporting period ending 31 December 2020, the Company recorded earnings from terminated operations in respect of Golan in the total sum of NIS 201 million, of which the sum of NIS 228 million is in respect of capital gains from said sale. (For additional details regarding the Company's assessment agreement with the Israel Tax Authorities in connection with the sale of Golan shares during the reporting period and the classification of the tax payment as terminated investment operations, see the statement of cash flows and Note 24C(1) above.)

A. Below are the data for the operating results attributed to terminated operations:

	For the period from 1 January 2020 through the date of relinquishing of control
	2020
	NIS Thousands
Revenues from sales and provision of services	312,104
Cost of sales and provision of services	195,220
Gross profit	116,884
Selling and marketing expenses	(49,001)
Administrative and general expenses	(7,318)
Company's share in losses of companies treated according to the equity method, net	(647)
Gain on disposal of operations	228,014
Other income (expenses), net	(3,279)
Operating income	284,653
Financing expenses, net	(25,579)
Taxes on income	(57,815)
Income from discontinued operations, net	201,259

NOTE 28: TERMINATED OPERATIONS (CONTINUED)

B. Below are the data of cash flows attributed to terminated operations deriving from operations (used in operations):

	For the period from 1 January 2020 through the date of relinquishing of control
	2020
	NIS Thousands
Current operations	69,875
Investment operations	548,344
Financing	(25,008)

NOTE 29: OPERATING SEGMENTS

A. General

As of the date of these financial statements, the Company reports on five business segments as follows:

Electrical consumer products segment	–	import, export, marketing, sale, and distribution of electrical consumer products and rendering service for these products.
Electrical retail segment	–	operation of retail chains to sell electrical consumer products and cellular telephones and accessories by means of "Mahsanei Hashmal," "Shekem Electric," and "Shekem Duty."
Retail food segment	–	Operation of the Bitan Wines chain, a retail marketing chain for food products and other consumables, operating under Carrefour brands, as well as the operation of the 7-Eleven chain which commenced operation in January 2023.
Sports and leisure segment	–	operation of marketing chains, import, manufacturing, and distribution of equipment and clothing and footwear for travellers, camping, skiing, and snowboarding, outdoor sports, as well as the operation of a franchise chain under the Adidas brand.
Investment property segment	–	Development and construction of investment properties.

Following the acquisition of Bitan Wines Ltd. as set forth in Note 5A, above, as of 27 May 2021, the Company presents Bitan Wines chain as a separate segment pursuant to the provisions of International Financial Reporting Standard 8 – operating segments.

Segmental results reported to the chief operational decision-maker include items that are attributed directly to the segment and items that may reasonably be so attributed. The Company assesses performance based on operating profit (loss).

Transfer prices between operating segments are carried out according to market conditions similar to transactions with third parties. Segmental income, expenses, and operating results include transfers between segments. These transfers are cancelled out in order to prepare the financial statements.

NOTE 29: OPERATING SEGMENTS (CONTINUED)

A. General (continued)

The chief operational decision-maker (CODM) believes that presenting the Company's headquarters' results separately in the framework of unallocated common expenses more properly reflects the Company's segments because such presentation more accurately reflects changes and trends within and between these segments.

The Company has grouped the climate control trade segment and the brand commerce segment into one reportable operating segment – the electrical consumer products segment. For purposes of the grouping, management exercised judgement based on the following characteristics: average gross margins are similar over the long-term, the substance of the product and services, the type or group of customers, and the methodologies used to distribute products including economic characteristics, according to which, this grouping of operating segments shares similar characteristics.

NOTE 29: OPERATING SEGMENTS (CONTINUED)

B. Report on operating segments

	Electrical consumer products segment	Electrical retail segment	Retail food segment	Sports and leisure segment	Investment property segment	Adjustments and other	Total
				NIS Thousands			
For the year ended at 31 December 2022							
Income from externals	1,236,134	1,950,372	2,841,238	214,202	302	65	6,242,313
Intersegmental revenues	150,519	-	-	-	10,949	(161,468)	-
Total income	1,386,653	1,950,372	2,841,238	214,202	11,251	(161,403)	6,242,313
Depreciation and amortisations	27,148	51,417	187,842	28,447	-	936	295,790
Segmental income (loss) before other income (expenses) and reorganisation expenses	123,742	81,114	39,920	20,067	11,190	272	276,305
Other income (expenses), net	10,090	835	(21,038)	(302)	27,999	(1,957)	15,627
Reorganisation expenses	-	-	(51,830)	-	-	-	(51,830)
Segmental income (loss) after other income (expenses), net	133,832	81,949	(32,948)	19,765	39,189	(1,685)	240,102
Unallocated joint expenses							41,852
Operating income							198,250

NOTE 29: OPERATING SEGMENTS (CONTINUED)

B. Report on operating segments (continued)

	Electrical consumer products segment	Electrical retail segment	Retail food segment	"Other" segment	Investment property segment	Adjustments and other	Total
				NIS Thousands			
For the year ended at 31 December 2021							
Income from externals	1,075,834	1,779,970	1,703,626	90,663	-	(1,547)	4,648,546
Intersegmental revenues	163,787	-	-	-	12,003	(175,790)	-
Total income	1,239,621	1,779,970	1,703,626	90,663	12,003	(177,337)	4,648,546
Depreciation and amortisations	25,216	45,368	107,917	12,200	-	3,498	194,199
Segmental income (loss) before other income (expenses), net	115,514	87,200	45,846	11,493	12,003	(8,211)	263,845
Other income (expenses), net	3,628	410	(244)	(1,367)	50,746	(11,509)	41,664
Segmental income (loss) after other income (expenses), net	119,142	87,610	45,602	10,126	62,749	(19,720)	305,509
Unallocated joint expenses							39,910
Operating income							265,599

NOTE 29: OPERATING SEGMENTS (CONTINUED)

B. Report on operating segments (continued)

	Electrical consumer products segment	Electrical retail segment	Investment property segment	Adjustments and other	Total
	NIS Thousands				
For the year ended at 31 December 2020					
Income from externals	1,026,676	1,545,721	-	976	2,573,373
Intersegmental revenues	131,652	-	10,392	(142,044)	-
Total income	1,158,328	1,545,721	10,392	(141,068)	2,573,373
Depreciation and amortisations	27,409	37,436	-	8,980	73,825
Segmental income (loss) before other income (expenses), net	84,332	81,055	10,392	(12,834)	162,945
Other income (expenses), net	4,762	938	-	(2,858)	2,842
Segmental income (loss) after other income (expenses), net	89,094	81,993	10,392	(15,692)	165,787
Unallocated joint expenses					35,421
Operating income					130,366

C. Geographic information

Revenue reported in the financial statements were generated in the Company's country of residence and outside thereof, based on the location of the operations, as follows:

	For the year ended at 31 December		
	2022	2021	2020
	NIS Thousands		
Israel	6,026,918	4,539,007	2,387,411
Outside of Israel *)	215,395	109,539	185,962
	6,242,313	4,648,546	2,573,373

*) During the years 2021 and 2020, revenue outside of Israel included revenue in the sum of NIS 28,999,000 and NIS 126,320,000, respectively, of an indirect subsidiary of a subsidiary that operated in France, and was sold during the course of April 2021.

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

A. Balances with interested and related parties

as at 31 December 2022

	Note	Parent Company	Interested and other related parties
		NIS Thousands	
Trade receivables	8	-	13,152
Other receivables	9	-	72
Trade payables	17	-	1,826
Other payables	18	4,411	-
Highest debit balance during the course of the year		-	28,003

as at 31 December 2021

	Note	Parent Company	Interested and other related parties
		NIS Thousands	
Trade receivables	8	-	16,876
Other receivables	9	-	3
Trade payables	17	-	1,470
Other payables	18	3,348	-
Highest debit balance during the course of the year		-	21,531

B. Transactions with interested and related parties

For the year ended at 31 December 2022

	Note	Parent Company	Interested and other related parties *)
		NIS Thousands	
Revenues from sales of products		28	35,749
Revenues from computer services		-	84
Purchases		-	68
Management fee expenses	28E(4)	8,997	-
Advertising and sales promotion expenses		-	79
Lease, security, and maintenance expenses		903	1,831
Security expenses		-	1,622

*) Not including the Company CEO and directors; see below – key personnel.

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED)

B. Transactions with interested and related parties (continued)

For the year ended at 31 December 2021

	Note	Parent Company	Interested and other related parties *)
		NIS Thousands	
Revenues from sales of products		5	29,118
Revenues from computer services		-	84
Purchases		-	423
Management fee expenses	28E(4)	8,552	-
Advertising and sales promotion expenses		-	184
Lease, security, and maintenance expenses		462	2,086
Security expenses		-	1,771

*) Not including the Company CEO and directors; see below – key personnel.

For the year ended at 31 December 2020

	Note	Parent Company	Interested and other related parties *)
		NIS Thousands	
Revenues from sales of products		2	20,484
Revenues from computer services		-	84
Purchases		-	337
Management fee expenses	28E(4)	6,267	-
Advertising and sales promotion expenses		-	334
Lease, security, and maintenance expenses		-	2,001
Expenses in respect of grants		1	-

*) Not including the Company CEO and directors; see below – key personnel.

C. Revenues and expenses from related and interested parties

Terms of transactions with related parties

Purchases and sales from related parties are made at prices set by the Group's companies. Balances that have not yet been paid by the end of the year are not secured, do not bear interest, and their repayment will be made pursuant to the payment terms established between the companies. No guarantees were given or received for amounts receivable or payable for the years ending 31 December 2022, 2021, and 2020. The Company did not record any provision for doubtful debts for amounts payable from related parties.

D. Benefits for key management personnel (including directors) employed by the Company

Senior Group executives are entitled, in addition to wages, to non-cash benefits (such as a vehicle, medical insurance, etc.). Similarly, the Company deposits money on their behalf in another defined plan after separation from employment.

Senior executives also participate in a Company share option plan. See, Note 26D(1) regarding the allocation of options to the Company CEO.

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED)

D. Benefits for key management personnel (including directors) employed by the Company (continued)

Benefits in respect of the employment of key management personnel employed by the Company (CEO) include:

	For the year ended at 31 December					
	2022		2021		2020	
	Number of persons	Amount	Number of persons	Amount	Number of persons	Amount
		NIS Thousands		NIS Thousands		NIS Thousands
Cost of salary	1	2,050	1	1,832	1	1,670
Bonuses	1	1,430	1	2,028	1	1,470
Share based payments	1	2,375	1	709	1	504

1. On 1 February 2021, 16 February 2021, and 12 April 2021, respectively, the remunerations committee, the Company board, and the general meeting, respectively, approved updating the terms of the employment of the Company CEO, Mr Zvi Schwimmer, effective 1 January 2021, as follows:

   An update of Mr. Schwimmer's monthly salary such that it would come to the sum of NIS 110,000 (linked to the CPI), as well as an update to Mr Schwimmer's annual bonus mechanism according to the provisions of the Company's current remunerations policy, and an update to the annual bonus cap to which Mr Schwimmer shall be entitled, to 18 months' salary as stated in the current remunerations policy, attached to the Company's meeting summons report as published on 23 March 2021.

   Below are the terms of the updated annual cash bonus as set forth above, for Mr Schwimmer:

   Mr Schwimmer is entitled to an annual bonus of up to 18 months' salary, depended on adjusted profits (as defined in the Company's remunerations policy), as follows:

   (A) In the event of an adjusted annual profit of up to and including NIS 40 million – Mr Schwimmer will not be entitled to a bonus.

   (B) In the event of an adjusted annual profit exceeding NIS 40 million and up to NIS 90 million, Mr Schwimmer will be entitled to an annual bonus that will be calculated as a multiple of 12 months' salary obtained by dividing the adjusted annual profit in excess of NIS 40 million by NIS 50 million.

   (C) In the event of an adjusted annual profit exceeding NIS 90 million and up to NIS 102 million, Mr Schwimmer will be entitled to an annual bonus of 12 months' salary.

   (D) In the event of an adjusted annual profit exceeding NIS 102 million and up to NIS 127.5 million, Mr Schwimmer will be entitled to an annual bonus of 15 months' salary.

   (D) In the event of an adjusted annual profit of NIS 127.5 million or more, Mr Schwimmer will be entitled to an annual bonus of 18 months' salary.

   There was no change to the remaining terms of the Company CEO's terms of employment.

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED)

D. Benefits for key management personnel (including directors) employed by the Company (continued)

1. (continued)

Additionally, on 1 February 2021, 16 February 2021, and 12 April 2021, respectively, the remunerations committee, Company board, and in the general meeting, respectively, approved granting a special one-time bonus to Mr Schwimmer in the sum of NIS 330 thoushan for 2020, for his significant contribution to closing the transactions in which the Company was involved in that year, in addition to the annual bonus to which Mr Schwimmer is entitled as a result of implementing the measurable annual bonus mechanism included in the remunerations policy.

2. Payments and standard monetary social benefit provisions, for insurance coverage through officer liability insurance and a statement of indemnification in the Company's standard wording.

3. In the event of the termination of Mr Schwimmer's employment at the Company's initiation, other than "termination under extreme circumstances," Mr Schwimmer will be entitled, in addition to the prior notice period or consideration for the prior notice period (of three monthly salaries), to payment of an adaptation bonus in an amount equal to three monthly salaries.

E. Engagements

1. Article 41 to the Financial Statements Regulations establishes, inter alia, that the Company must describe, in its annual financial statements, any transaction between the Company (including its consolidated companies) and a party with an interest in the Company or a transaction in which the controlling shareholder has a personal interest in its approval (hereinafter: "interested party transaction" or "interested party transactions"), other than negligible transactions for which it is necessary to provide a general description of the transactions, their characteristics, and their scope, as well as the scope of all of these types of transactions with that same interested party and it is also necessary to indicate the types and characteristics of the transactions that the corporation deems negligible, while detailing the facts, rationale, and explanations therefor.

2. The Company's negligible transactions are of the types and characteristics set forth below:

(A) Transactions for the acquisition or sale of products and services such as electrical products, air conditioners including installation of air conditioners and accessories for manufacturing air conditioners, VRV systems, various air conditioning systems, solar energy systems, electronic components, cellular telephones and supplementary products, food products and other consumables such as toiletries, cleaning supplies, cookware, bakeware, and kitchen accessories, clothing and footwear for travellers, camping, skiing, and snowboarding, outdoor sports and leisure, equipment, sports, fashion, footwear, and additional products under the Adidas brand, spare parts, various maintenance services including fire suppression and air conditioning, cleaning and security services; (B) issuing shopping coupons and bonus cards and/or subsidising such transactions; (C) transactions for the rental of real estate property and property management services if any; (D) transactions for marketing and advertising services including signage; (E) cellular services; (F) server hosting services; (G) event and conference services; (H) transportation services; (I) underwriting services; (J) provision of natural gas; and (K) trademarks.

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED)

E. Engagements (continued)

3. Below are the Company's criteria for classifying transactions that are not exceptional transactions for the Company or a consolidated company and/or investee company, as negligible transactions, established by the Company's audit committee in January 2019 after a survey conducted during the course of 2018 of how the Company's applies these criteria, examining samples of interested party transactions to which the Company is directly a party and that were classified as negligible transactions pursuant to the provisions of the procedure, including examining how the prices and other transaction terms were established, under the circumstances, and the effect of the transaction on the Company's business position and the results of its operations.

   A) Absent special qualitative considerations arising from the totality of the circumstances, an interested party transaction that is not an exceptional transaction and is according to the rules established by the audit committee (and approved by the board of directors) – shall be considered a negligible transaction for the above purposes if the relevant criterion calculated for the transaction, according to the below, is at a rate of less than 0.5% and the scope of the transaction does not exceed NIS 10 million. In said review, the remaining rules established by the audit committee will be applied in relation to the substantiveness tests in reviewing the classification of a transaction as exceptional or unexceptional, mutatis mutandis.

   B) Relevant criteria: in every interested party transaction where its classification as a negligible transaction is being reviewed, one or more of the criteria relevant to a particular transaction will be calculated on the basis of the Company's audited or reviewed consolidated financial statements:

      1) In the acquisition of a property, plant, and equipment ("non-current asset") – asset ratio – the scope of the transaction compared to the total assets in the statement of financial position included in the Company's most recent consolidated financial statements;

      2) In the sale of a fixed asset ("non-current asset") – the asset ratio as stated in subsection 1 above, as well as the profit ratio which is the profit/loss from the transaction opposite the average annual profit/loss (i.e., profit/loss for four quarters) according to the 12 most recent quarters with regard to which the Company's consolidated financial statements have been published. (In this regard, the profit/loss from the transaction and the profit/loss in each quarter will be taken account according to absolute value. In this regard, profit will be net profit or operating profit or other relevant profit as determined by the Company's management under the circumstances);

      3) In taking on a financial liability – asset ratio – in relation to a loan/credit or the provision of a guarantee by the Company itself (or by an investee company that is a dedicated privately held company), a review of said ratio will be done taking note of the total assets in the statement of financial position included in the Company's most recent solo financial statements. In relation to loans/credits/other guarantees, a review of the ratio will be done taking note of the total assets in the statement of financial position included in the Company's most recent consolidated financial statements;

      4) In the acquisition/sale of products (other than a fixed asset) or services – the scope of the transaction compared to the total revenue from the sales and services during the last four quarters for which the Company's consolidated financial statements have been published.

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED)

E. Engagements (continued)

3. (continued)

B) Criteria (continued)

5) Separate interested party transactions in which there is dependency such that in fact, the constitute part of that same engagement, shall be examined as one transaction for the purpose of reviewing the substantiveness component (for example, collective negotiation regarding a set of transactions). The negligible nests of transactions that are carried out in a frequent, fixed, and repetitive manner over the course of a period of time (such as frequent and repeating orders, even if the air not interdependent) shall be reviewed according to the annual scope of these transactions during a calendar year. In relation to multiyear transactions, the scope of the transaction will be calculated for the purpose of reviewing whether it is negligible, on an annual basis according to calendar years. For example, a transaction for the sale of air conditioners, the transaction for air conditioning work, etc.

6) In those cases where, in the Company's judgement, all of the quantitative criteria referenced above are irrelevant to examining whether an interested party transaction is negligible, the transaction will be considered negligible according to other criteria that shall be determined by the Company, provided that the relevant criterion calculated for the transaction will be at a rate of less than 0.5% and NIS 10 million.

7) A review of the qualitative considerations of an interested party transaction is likely to lead to the transaction being classified as a non-negligible transaction despite the above. Thus, for example, an interested party transaction will not generally be considered negligible if it is perceived as a significant event by the relevant company's management and serves as a basis for making executive decisions, or if in the framework of that interested party transaction, the interested parties are expected to receive benefits for which it is important that they be reported to the public.

8) The amounts of the transactions of subsidiaries or associates of the Company with a controlling shareholder or with an officer will be considered according to the percentage of the Company's holding in those companies for the purpose of reviewing whether they are negligible.

4. Management agreement with Elco

On 12 April 2021, the general meeting approved the management agreement between the Company and Elco Ltd, the Company's controlling shareholder, for a period of three years commencing 1 April 2021.

Below are the main points of the agreement:

A) Board chair services – Elco will provide active board chair services to the Company, from among Messrs. Daniel Salkind and Michael Salkind, in a 60% position, in consideration of an annual sum of NIS 1.35 million per year plus VAT as required by law, linked to increases in the Consumer Price Index known on the date of payment compared to the February 2021 index, provided that in any case, the amount paid shall not be less than the sum of NIS 1.35 million.

This amount will constitute payment for the cost of providing board chair services and he will not be paid additional sums other than reasonable expense reimbursement for specific expenses in connection with fulfilling his duties. Payment will be made by the Company to Elco on a monthly basis, meaning 1/12 of the above amount each month.

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED)

E. Engagements (continued)

4. Management agreement with Elco (continued)

B) Director services – Elco will provide the Company, from among Elco's directors, fixed membership of directors on its behalf in the Company's board of directors (but not more than 2 directors, not including the chair of the board). The above is in consideration of annual payment and participation payment according to the amounts set forth in the Companies Regulations (Rules Regarding External Director Remuneration and Expenses), 5760-2000.

The amounts currently used by the Company are the maximal amounts set forth in the above regulations. Payment will be made to Elco plus VAT as required by law on the date of payment of remuneration to the other directors serving in the Company. The Company shall not pay said consideration to more than two directors who are employees of Elco (not including the board chair).

C) Additional management services – Elco will provide the Company, through its executives and employees, services such as: ongoing company meant in the business and finance field, business development and business opportunity identification services for the Company, active involvement in the Company's strategy discussions, internal auditing, accounting, taxes, economic, insurance, financing, etc. In consideration of these additional management services, the Company will pay Elco the sum of NIS 2,853,000 plus VAT as required by law. Payment will be made by the Company to Elco on a monthly basis, meaning 1/12 of the above amount each month.

D) A bonus in respect of these management services – the Company will pay Elco, annually, for the management services set forth above, a monetary bonus derived from the Company's pretax earnings, after making adjustments as defined in the agreement. The bonus will be calculated according to the steps set forth below and will be paid (in addition to VAT as required by law) each quarter where the earnings percentage steps will be calculated relative to the relevant period and after publication of the financial statements for the second quarter, and accounting will be conducted in respect of that same year.

1) Below are the earnings steps according to which the bonus will be paid, subject to meeting targets:

The adjusted earnings from the consolidated equity (in percentages) at the end of the period	**The bonus that will be paid to Elco as a percentage of adjusted earnings**
Up to 7%	No bonus paid
From 7% to 8%	1%
From 8% to 9%	2%
From 9% and greater	6.5%

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED)

E. Engagements (continued)

4. Management agreement with Elco (continued)

D) Continued)

2) The terms for payment of the management bonus are as follows:

The bonus will be paid in its entirety according to the steps set forth in section 1 above, plus VAT as required by law, to the extent that the yield from a Company share shall meet the conditions set forth below in sections (a)-(c), as follows:

(a) With regard to the first year of the agreement, if the closing share price on the date on which 12 months have passed from the date the management agreement took effect (hereinafter: "taking effect") reflects an increase of 10% compared to the closing share price on the taking effect date.

In this section 2, the "closing share price" means the average closing share price on the Tel Aviv Stock Exchange on the 60 trading days preceding the relevant date. The closing price will be adjusted for dividend distributions, rights issue, splits, consolidation, and similar changes in share capital (hereinafter: the "closing price").

(b) With regard to the second year of the agreement, if the closing share price on the date on which 24 months have passed from the date the management agreement took effect reflects a cumulative increase of 21% compared to the closing share price on the taking effect date.

(c) With regard to the third year of the agreement, if the closing share price on the date on which 36 months have passed from the date the management agreement took effect reflects a cumulative increase of 33.1% compared to the closing share price on the taking effect date.

3) If the yield of a Company share does not meet the conditions set forth in section 2 above, the Company will pay a bonus in that same year, plus VAT as required by law, as follows:

The adjusted earnings from the consolidated equity (in percentages) at the end of the period	The bonus that will be paid to Elco as a percentage of adjusted earnings
Up to 9%	No bonus paid
From 9% to 10%	1%
From 10% to 11%	2%
From 11% and greater	6.5%

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED)

E. Engagements (continued)

4. Management agreement with Elco (continued)

D) Continued)

4) In any case, the annual management bonus shall not exceed the sum of NIS 4.5 million per year plus VAT as required by law, linked to the Consumer Price Index, where NIS 1 million of said amount is attributed to board chair services, NIS 1.5 million of this amount is attributed to business development services, NIS 1 million of this amount is attributed to finance division services, and NIS 1 million of this amount is attributed to internal auditing services.

To the extent that the Company has an adjusted loss, it will not pay a bonus in that same year. The above adjusted loss will be offset from the adjusted profit in the following year or years, as of the year following the last bonus paid pursuant to the agreement and until the end of the term of the agreement.

5. On 12 April 2022, the Company's remuneration committee approved the purchase of a liability insurance policy for directors and officers of Elco Ltd (the "parent company") and the parent company's investee's, including the Company and its subsidiaries (the "Group"), which shall ensure against the liability of all officers of the Company and its subsidiaries, including the Company's CEO and directors and officers who are controlling shareholders in the Company, as they shall be from time to time, according to the provisions of Article 1B(1) to the Companies Regulations (Facilitation of Interested Party Transactions), 5760-2000 (the "Facilitation Regulations").

The policy will be purchased from a third party for a period of 12 months starting May 1, 2022 (the expiration of the term of the current insurance policy) through until April 30, 2023, at total cost to the Group of USD 571,000 and with total insurance coverage, per case and cumulative, of USD 120 million. The cost to the Company is expected to amount to USD 127,000 annually (including the Company's subsidiaries).

On 12 April 2022, the Company's audit committee and board of directors approved the distribution of the premium payments among the Group companies, subject to receiving the necessary approvals for this from all Elco Group companies (including the Company, pursuant to Regulation 1(4) of the Facilitation Regulations).

All Company officers are insured under the policy under the same terms. The remuneration committee decided that the engagement is in the best interests of the Company and it complies with the provisions of Article 1(B)(1) to the Facilitation Regulations due to the fact that the terms of the engagement were set under section F of the Company's remuneration policy, which was approved by the general assembly of the Company pursuant to section 267A(b) to the Companies Law. The engagement is at market terms and it is not liable to materially affect the Company's profitability, assets or liabilities.

6. On 10 November 2022, the Company's board of directors approved, after review and approval by the audit committee, the Company's distribution of liability premium payments (product liability insurance, third party insurance, professional liability insurance, umbrella insurance and non-specific special insurances) among the Elco Group companies for an insurance term of 18 months commencing 1 July 2022, after finding that the terms of the insurance offered to the Company are not materially different from the terms offered to Elco Ltd., the controlling shareholder of the Company, and the other companies in the Group, taking int account their pro rata share as set based on the recommendations of independent outside consultants. The Company's share in the distribution of the liability premium payments is fair and correct, benefiting from the advantage of size and lowers the premium costs compared to the situation in which the Company would have engaged in insurance separate from the Group, and accordingly, the engagement is in the Company's best interests.

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED)

E. Engagements (continued)

7. Non-Negligible Transactions that the Company Engaged in during the reporting period

In 2022 the Company engaged in transactions that are not unusual and not negligible for the sale of water-based air conditioning products to Electra Ltd., a subsidiary of Elco, the controlling shareholder of the Company, as well as to subsidiaries of Electra Ltd., in an aggregate amount of NIS 23 million. These transactions were reviewed by applying the criteria established by the audit committee for reviewing such transactions and based on them these transactions were classified as non-exceptional transactions, and on the other hand, due to the fact that the transactions were executed in the normal course of business as the sale of water-based air conditioning products is part of the core business of the Company, at market terms, i.e. at customary terms in the Company towards unrelated parties and this taking into account the volume of transactions and the term of the agreements, and they do not affect the Company materially.

8. Non-Exceptional and Negligible Transactions that the Company Engaged in during the reporting period

In 2022, the Company and/or its subsidiaries engaged in negligible agreements for the sale and/or purchase of products and/or services with the parent company, with Electra Ltd. (a subsidiary of the parent company) and its subsidiaries. With regard to engagements such as for air conditioners and VRV products, purchase of electronic components, sale of electric appliances, provision of air conditioner repair services, sale of mobile phones and supplementary products, issue of purchase vouchers and discount cards and/or providing subsidies for such transactions, etc. the volume of any type of transaction separately was less than 0.5% and did not exceed an amount of NIS 10 million. Therefore, based on the criteria that were established by the audit committee, the Company considers such transactions to be negligible.

9. On January 14, 2019, after approval by the audit committee, the Company's board of directors approved the Company's share in the establishment and financing of the Gershon Salkind Memorial Scholarship programme for a period of three years, pursuant to Regulation 1(4) of the Companies Regulations (Relief for Transactions with Interested parties), 2000, based on the size of the workforce employed by the Company compared to the rest of the Group companies.

On 2 January 2022, after approval by the audit committee, the board of directors approved the Company's share in financing the above scholarship programme for a further three years.

As part of the agreement, a foundation was set up in the name of the late Gershon Salkind for awarding scholarships by Elco, the parent company of the Company, together with its public subsidiaries, including the Company, under which scholarships are awarded annually in a total amount of up to NIS 3 million, for financing university studies (mainly) to encourage BA studies in various real-world and engineering subjects at recognised higher education institutions. The programme is intended for the employees of the Group companies and their immediate families who comply with the preconditions for receiving the scholarships and for the general public (mainly students from disadvantaged socio-economic backgrounds).

Each Elco Group company, including the Company, donates to the foundation a fixed amount and another amount based on the relative size of the workforce employed by such company compared with the other Elco Group companies. The Company estimates that its maximum annual contribution for a full year (including the fixed amount) amounts to NIS 521,000.

NOTE 30: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED)

E. Engagements (continued)

10. On 1 February 2021, 16 February 2021 and 12 April 2021, the Company’s remuneration committee, board of directors and general meeting, respectively (as well as at supplementary discussions held on 15 March 2021), approved the new three-year remuneration policy as of approval of the policy by the general meeting and such that the foregoing remuneration policy will apply with regard to remuneration to be paid as of 2021 onwards.

NOTE 31: SUBSEQUENT EVENTS

A. Execution of a commercial collaboration and merger of operations agreement

On 9 March 2023, a commercial collaboration and merger of operations agreement was executed between Electra Solar Equipment (2021), Limited Partnership ("Electra Solar"), which is indirectly held by the Company, and Bariach Golan Energy Equipment Ltd. ("Bariach Golan"), which is indirectly held by Rav Bariach (08) Industries Ltd, a publicly-traded company whose shares are listed for trade on the Tel Aviv Stock Exchange Ltd. ("Rav Bariach"), as was a founders agreement for the establishment of a joint company that would be held by Bariach Golan (75%) and by Electra Solar (25%) (the "Joint Company") and whose activities would comprise the distribution and/or marketing and/or sale of components for photovoltaic (PV) solar energy systems to companies and/or individuals engaged in the renewable energy sector.

Concurrently, a wholly owned subsidiary of the Company engaged in an agreement, subject to the completion of the merger of Bariach Golan, as described above, with the current partner in Electra Solar for the acquisition of its holdings (49.9%) in consideration of NIS 2,000,000 such that it would transfer all of its holdings in Electra Solar to the Company's subsidiary.

The parties agreed that their entire operations in the sector would be transferred and assigned to the joint company, including moving over of the employees and the inventory that will be sold to the joint company. The parties agreed regarding initial funding for the joint company from banks and provision of guarantees to secure the credit pro rata to their holdings of the shares of the joint company. In addition, the Company and Rav Bariach are, each separately, guarantor for the liabilities of the relevant party under the agreements.

The agreements include provisions concerning the manner of holding of the shares in the joint company, including the appointment of directors, restrictions on the transfer of shares and decisions to be made by special majority. The agreement includes representations and indemnifications with regard to the transferred operations. At the end of 24 months from the date of signing of the agreements, Bariach Golan will be entitled to require that Electra Solar sell its shares in the joint company, pursuant to a mechanism agreed upon between the parties.

Closing of the transactions is dependent on pending conditions, including obtaining the approval of the Commissioner of Competition for the transaction and pre-ruling from the Israel Tax Authority for a merger by way of transfer of the parties rights in assets that they own to the joint company, pursuant to section 104 to the Income Tax Ordinance, and all according to the conditions and on the dates decided between the parties.

The closing of the transaction depends on the fulfilment of a number of conditions precedent, pertaining primarily to the Director General of the Israel Competition Authority, and it is uncertain at this stage whether these conditions will be met.

NOTE 31: SUBSEQUENT EVENTS (CONTINUED)

B. 1) During the course of February 2023, Bitan Wines executed agreements to renew a binding line of credit for a year, in the sum of approximately NIS 100,000,000, with two banks.

2) In March 2023, the Bitan Wines Group signed letters of undertaking with four banks to obtain additional long-term loans from three of the banks, under which the required financial covenants were revised as set out in Note 19B(6)(b), alongside negotiations with the banks regarding the support of Bitan Wines Group's shareholders, for complying with the plan for the renovation, and the changeover and launch of the Carrefour brand by the end of the second quarter of 2023.

Pursuant to the above letters of undertaking, three banks provided long term loans as set out below:

A) On 21 March 2023 a long term loan in the amount of NIS 50 million was provided for a period of 5 years. The loan bears annual interest linked to the prime rate plus 2.40%. The interest will be paid quarterly starting 1 April 2023 and the loan principal will be repaid in 20 equal quarterly instalments starting 1 April 2023.

B) On 21 March 2023 a long term loan in the amount of NIS 50 million was provided for a period of 6 years. The loan bears annual interest linked to the prime rate plus 2.40%. The interest will be paid quarterly starting 1 April 2023 and the loan principal will be repaid in 20 equal quarterly instalments starting 1 April 2024.

C) On 21 March 2023 a long term loan in the amount of NIS 33 million was provided for a period of 6 years. The loan bears annual interest linked to the prime rate plus 1.6%. The interest will be paid quarterly starting 1 April 2023 and the loan principal will be repaid in 20 equal quarterly instalments starting 1 April 2024.

D) On March 20, 2023 a long term loan in the amount of NIS 15 million was provided for a period of 7 years. The loan bears annual interest linked to the prime rate plus 2.0% interest. The interest will be paid quarterly starting 1 April 2023 and the loan principal will be repaid in 20 equal quarterly instalments starting 1 April 2025.

Under the foregoing letters of undertaking the financial covenants that Bitan Wines undertook with regard to all the loans that were provided by the four banks were revised. With regard to 2022, Bitan Wines will not be required to comply with the financial covenants as set with respect to the provision of the loans, as set out in Note 19B(6)b above. Furthermore, Bitan Wines undertook to comply with revised financial covenants regarding EBITDA, Bitan Wines' debt coverage ratio (net financial debt divided by EBITDA), debt service coverage ratio as defined in the agreements, which may not fall below 1 on each of the dates set in the letters of understanding, with the consolidated cash and cash equivalents balance of Bitan Wines that may not fall below 75% of the balance according to the business forecast that Bitan Wines submitted to the banks. This ratio will be reviewed monthly from May 2023 through to March 2024, and quarterly as of April 2024. In addition, Bitan Wines' financial debt may not exceed an amount of NIS 600 million, where this financial debt will not include a financial debt that is in partnership with Electra Club. It was further determined that the shareholders of Bitan Wines will inject equity in an amount of no less than NIS 100 million into the company (See Note 1C above regarding the shareholders' investment in Bitan Wines equity).

C. On 23 March 2023, the Company announced the distribution of a dividend in an amount of NIS 35 million, representing NIS 1.62 per share. The effective date and ex date are 2 April 2023 and the date of payment is 16 April 2023.

List of the Group's Material Investees

	As at 31 December	
	2022	2021
	Holdings in equity and voting rights	
	%	
Company Name		
Electra Consumer Products (1951) Ltd.	100	100
Electra Retail Ltd.	100	100
Electra Industries Ltd.	60	60
Bitan Wines Ltd. Group *)	34.77	35.07
Shekem Electric Duty Free Ltd.	50.1	50.1
Sa'ar A.T. Entrepreneurship and Trade Co. Ltd.	50.01	50.01
Electra Convenience Stores Ltd.	99	-
Electra Solar Equipment (2021) Limited Partnership	50.01	50.01
Electra Club Limited Partnership	100	-
Electra Recycling	45	45

*) Rate of holding fully diluted

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