MAX
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ANNUAL REPORT 2022

MAX STOCK LTD.

ANNUAL REPORT HIGHLIGHTS

FOR 2022

REVENUE	NIS 1,049 M
% INCREASE IN REVENUE	7.4%
OPERATING PROFIT	NIS 123 M
ADJUSTED EBITDA [*]	NIS 137 M
NET PROFIT	NIS 78 M
ADJUSTED EPS [**]	NIS 0.53
DIVIDEND PAID	NIS 40 M
SHARE BUYBACK EXECUTED	NIS 19.9 M
56 BRANCHES THROUGHOUT ISRAEL [***]	
NET OWNED SQM [***]	58.3 K

[*] PRE IFRS-16 AND STOCK-BASED COMPENSATION

[**] EPS ADJUSTED FOR STOCK-BASED COMPENSATION

[***] AS OF DECEMBER 31, 2022

CHAPTER A – DESCRIPTION OF COMPANY'S BUSINESS AFFAIRS

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Part I: Description of the General Development of the Group's Business Affairs

1.1. Introduction

This chapter presents a description of the business affairs of Max Stock Ltd. (the "**Company**" and/or "**Max**", and jointly with the subsidiaries: the "**Group**") and the development of its business affairs.

1.2. Definitions

In this report, the following abbreviations and terms shall have the meanings set forth below:

"**Board Report**"	:	The board of directors' report on the state of the corporation's business affairs for the year ended December 31, 2022, included in Chapter B of this report;
"**Financial Statements**"	:	The Company's consolidated financial statements for the year ended on December 31, 2022, included in Chapter C of this report;
"**Prospectus**"	:	Company's tender offer prospectus and shelf prospectus dated September 15, 2020 (Reference No: 2020-01-092029), included herein by way of reference;
The "**Companies Law**"	:	The Israel Companies Law, 1999;
The "**Securities Law**"	:	The Israel Securities Law, 1968;

1.3. Company's Activities and a Description of the Development of Its Business Affairs

1.3.1. General

The Company is engaged in a retail business through operating a national "discount" chain of stores trading under the name "Max - Fun Shopping" and "Mini Max" which offers a range of household products at attractive prices (the "**Max Chain**" or the "**Chain**"). As of the date of the report and as of the publication date of the report, the Chain includes 56 and 57 branches, respectively, throughout Israel, from Kiriat Shmona to Eilat, which are mostly operated by subsidiaries and partially through franchises.

The Group imports and sells in the Chain's stores different product categories, and primarily: school supplies, disposable tableware, plastic products and storage-ware, toys and arts & crafts supplies. In addition, the Group imports and sells in the Chain's stores decorative items and gifts, textile and apparel products, baking and kitchenware products, household tools, furniture, toiletries, pharm products, lighting, gardening and camping equipment and more (for more information, see Section 1.13 below).

The Chain's stores are divided into two main types:

(a) **Large stores**, under the brand "Max - Fun Shopping", which offer a wide selection of products of all categories, the vast majority of which operate in commercial areas, in locations highly accessible to vehicles with convenient parking arrangements. The large store chain includes 40 large stores,[1] operated by subsidiaries and a granddaughter company, excluding 8 stores operated by franchisees; in 2021 the Company opened its flagship store in Rishon Letzion, with a total area of approximately 5,500 sqm (gross) (approximately 3,240 sqm (net)); and during 2022 the Company opened a large store in Kfar Saba with a total area of approximately 5,800 sqm (gross) (approximately 4,100 sqm (net)). Both of these branches replaced older branches which had closed.

(b) **Small stores**, under the brand "Mini Max", the vast majority of which operate in city centers offering products in most of the Chain's categories (but usually, smaller products and no furniture), with a selection adapted to the clientele in the area in which the relevant store is located. In 2022 the Chain rebranded and changed the concept of the small stores which previously operated under the "Max 20" which sold products at a price not exceeding ILS 20 (including VAT), and the product mix was expanded with the rebranding to include additional small products at a price exceeding ILS

[1] As of December 31, 2022. As of the publication date of the report the Chain counts 41 large stores, including 9 franchises.

20. The Mini Max chain includes 16 small stores, operated by franchisees, excluding one store operated by a granddaughter company.

For more information about an agreement executed by the Company to establish and manage a Max Stock store chain in Portugal see Section 1.29 below. No branches have opened in Portugal as of the publication date of the report.

As of December 31, 2022, the majority of the Company's revenues (approximately 91%) derive from large stores, operated by subsidiaries. The Company's business strategy is to primarily continue focusing on large stores, operated by subsidiaries (for more information, see Section 1.29.1 below). The Company is also concurrently acting to expand the small stores operating under the "Mini Max" brand and operated by franchisees.

As of the date of this report, the Group is one of the leading businesses in its field and its stores are well-known in Israel. The Group estimates that the stable demand for shopping in the Chain's stores derives primarily from the Group's management expertise in identifying new consumer trends; the unique shopping experience offered by the Chain's stores; high value for money; the meticulous adjustment of the stores' inventory in a constant and consistent manner in parallel to the changing seasons and the different holidays; and keeping up with the latest fashion trends and consumer demands.

Moreover, the Company assesses that Max Chain is one of the leading chains in the Israeli market in that it is not satisfied with just offering its customers a wide selection of products from diverse and different categories, but also ensures that a very wide and diverse selection of products is available to its customers in each category at attractive prices and good quality, constantly introducing new products catering to consumer trends and rapidly changing consumer preferences (providing extreme value).

The Group's uniqueness is, *inter alia*, also reflected in its devoted clientele, which has developed over the years of its operations. Many of the Chain's customers are repeat customers. The Group estimates that, as of the date of this report, there are hundreds of thousands of members of various groups engaged with the Company via social networks, where most such groups, were not established by the Company but, rather, by customers (for additional details, see Section 1.16.1.1 below). Via social networks, the Group's customers share information and receive updates on recommended sales, the opening of new branches, new products expected to reach stores, and more, thus promoting product demand and intensifying the shopping experience at the Max Chain, creating a consumer culture unique to the Group's stores.

In H1 2022, the Company established a loyalty program called "Max's Friends", which the Chain's customers can join at the Chain's branches or through social media networks. As of the date of the report and the publication date, it is free to join "Max's Friends" and only entails disclosing customer contact details (mobile number and email). Members enjoy discounts from time to time on selected products, at the Chain's discretion. As of December 31, 2022, there are approximately 110 thousand customers registered with "Max's Friends".

1.3.2. **<u>Incorporation of the Company and Main Changes in its Shareholdings</u>**

The Company was established by Ori Max in 2004 as a private company called "Max Stock Ltd". On November 17, 2015, the Company's name was changed to "Max Management Israel Ltd." and on March 10, 2020, its name was changed back to its current name - Max Stock Ltd.

In July 2014, the Company and its then-shareholders entered into an agreement with Oria & Iris Ltd., a company wholly owned by Mr. Evan Charles Neumann, whereby the Company transferred 33.3% of its outstanding share capital to Oria & Iris Ltd. In early 2017, following the acquisition of the holdings of a shareholder in the Company at that time, by the other Company shareholders, the holdings of Messrs. Neumann and Max increased to 50% each.

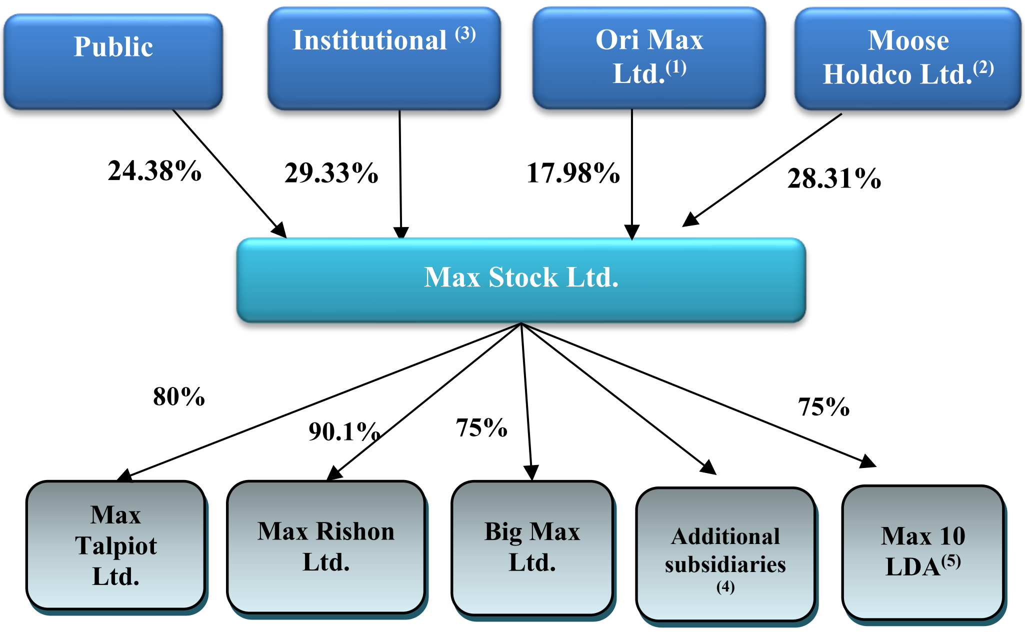
In June 2017, AMI Foundation (as defined in Section 1.3.3(2) below) purchased, through a corporation under its control, 55% of the outstanding share capital of the Company. For additional details regarding transactions involving the Company's shares see Section 1.5 below.

As of the date of this report, the Company's shareholdings are as described in Section 1.3.3 below.

On September 14, 2020, the tender offer of Company shares to institutional investors was completed under the Prospectus and the Company became a public company. On September 17, 2020, the Company's shares commenced trade on the Tel Aviv Stock Exchange ("**TASE**").

1.3.3. **Structure of the Group's Shareholdings**

The following diagram shows the structure of the Company's shareholdings as of the publication date of this report[2]:



[2] As of the date of the report, Mr. Evan Neumann held 0.06% of the Company's share capital through a wholly owned company, Oria & Iris Ltd. ("**Oria & Iris**"). Oria & Iris was party to a shareholders' agreement prior to said agreement being amended, as provided in Regulation 21A to Chapter D to this report. For more information about changes in Oria & Iris's holdings during the reported period, see Section 1.5.1 below.

(1) Ori Max Ltd. is a company wholly owned by Mr. Ori Max. Ori Max is party to an agreement with the Company's shareholders. For details about the new shareholders' agreement, see Regulation 21A of Chapter D to this report.

(2) Moose Holdco. Ltd. ("**Moose Holdco**") is a private company incorporated in Israel. Moose Holdco is party to an agreement with the Company's shareholders. Refer to Regulation 21A of Chapter D to this report for information about the new shareholders' agreement. As provided to the Company, Moose Holdco is wholly (100%) held (indirectly) by AMI Opportunities, a foreign private investment fund (incorporated in Guernsey). AMI Operations is wholly-controlled (indirectly) by AMI Foundation (a corporation incorporated in Guernsey) through its organs (and particularly its managers (Councilors) – Carl Hermann Konrad Friedlaender and Bruce Stephen James and its guardian – Robert Edward Alistair Eden ("**AMI Foundation**"). To the Company's best knowledge, AMI Foundation is advised by Apax Partners Israel Ltd.

(3) As of the publication date of this report, the Company has three Israeli and one foreign institutional investors which are interested parties: The Phoenix Ltd, Excellence Investments Ltd., Y.D. More Investments Ltd. and Kayne Anderson Rudnick Investment Management, LLC.

(4) As of the publication date of this report, the Company has 33 active subsidiaries[3], which are private companies incorporated in Israel, the majority of which are held by the Company in rates ranging between 70% to 100%4. These subsidiaries, together with another

[3] Including the subsidiaries established to operate the stores in Beerot Itzhak, Gush Etzion and Mishor Adumim which as of the date of the report have not yet opened. The store in Mishor Adumim opened in the beginning of March 2023 and the store in Gush Etzion is anticipated to open in March 2023 shortly following the publication of the report, and the store in Beerot Itzhak is anticipated to open in H2 2023.

[4] Excluding one branch in which the manager holds 45% of the subsidiary's outstanding share capital, and another branch in which the Company holds 45% of the ordinary share capital and one management share which grants it the right to appoint a director. That branch has four other shareholders. It should further be clarified that three of the subsidiaries were established during the reporting period, but two of the stores operated by them opened in March 2023, and an additional store is anticipated to open in H2 2023.

granddaughter company (second-tier subsidiary), operate a total of 33 stores operating under the “Max - Fun Shopping” brand which is part of the Max Store Chain (one of the subsidiaries operates 2 stores), and another granddaughter company operates a store under the “Mini Max” brand. For details about the Company’s acquisition of minority rights from shareholders of the subsidiaries, see Note 18F to the Financial Statements.

(5) Further to the Company’s immediate report dated August 16, 2022 (Reference No: 2022-01-083901), included herein by way of reference, regarding the establishment and management of the Max Stock chain in Portugal, and to further these operating activities, in Q4 2022, the Company established a subsidiary in Portugal called “Max 10 LDA”. The Company holds 75% of the Company’s share capital, pursuant to an engagement agreement with the local partner, Fortera Properties. The subsidiary entered into two lease agreements for new stores in the cities of Braga and Porto, which are anticipated to open in H1 this year. For information about the engagement agreement and the activities in Portugal, see Section 1.29 of this report.

The above chart presents the Group’s main subsidiaries (but it is noted that as of the date of this report, there is no subsidiary for which the revenue earned from its operations constitutes more than 10% of the Company’s revenue).

1.4. **Operating Segment**

As of the date of this report, the Group is engaged in one operating segment – retail trade, as described in Section 1.3.1 above.

1.5. **Investments in the Company’s Share Capital and Transactions with its Shares**[5]

1.5.1. Off-exchange sale of shares by an interested party - On June 24, 2021, the Company was informed by Oria & Iris, that it sold, through an OTC (off-exchange) transaction, 16,678,055 Company shares, including 15,398,146 Company shares which were held by it on trust for Neumann Co. PTY, an

[5] Excluding options issued to employees or officers or exercised by them.

Australian company which is wholly owned by Mr. Ricky Neumann, the brother of Mr. Evan Charles Neumann.

Following the aforementioned sale, Oria & Iris no longer holds any shares on trust for a company owned by Mr. Ricky Neumann or any other party. For more information regarding the aforementioned sale, see the Company's reports dated June 25, 2021 and July 8, 2021 (Reference No: 2021-01-106941, 2021-01-106944 and 2021-01-050596, respectively), included herein by way of reference.

1.5.2. Off-exchange sale of shares by an interested party - On January 31, 2022 the Company was informed by Oria & Iris that it had sold 6,300,000 Company shares through an off-exchange transaction. Following the aforementioned sale, the balance of Oria & Iris' holdings is 81,784 ordinary shares of the Company (approximately 0.06% of the Company's share capital). These shares are fully owned by Oria & Iris, without holding any on trust. For more information about the aforementioned sale, see the immediate report published by the Company on January 31, 2022 (Reference No: 2022-01-011880), included herein by way of reference.

1.6. **<u>Distribution of Dividends</u>**

1.6.1. <u>Details regarding dividends distributed by the Company, share buybacks and distributable profits</u>

From January 1, 2021, through the publication date of the report, the Company did not distribute any dividends other than as provided in the table below:

<u>Date</u>	**<u>Dividends per share</u>**	**<u>Total dividends distributed</u>**	**<u>Additional details</u>**
June 10, 2021	49 agurot per share	Approximately ILS 70 million	For more information see Note 18E to the Financial Statements, and the Company's reports dated May 25, 2021 and June 27, 2021 (Reference No: 2021-01-089412, 2021-01-089745 and 2021-01-095163, respectively), included herein by way of reference.
September 6, 2022	Approximately ILS 0.28	Approximately ILS 40 million	For more information see the immediate report published by the Company on August 16, 2022 (Reference No: 2022-01-083898), included herein by way of reference and Note 18E to the Financial Statements.[6]

1.6.2. On March 19, 2023, the Company's board of directors approved the distribution of dividends totaling ILS 60 million - ILS 0.43 per share. The dividend distribution date is April 3, 2023. For details regarding the Company's aforementioned resolution, see the immediate report dated

[6] Further to the immediate report published by the Company on August 16, 2022, the Company announced that effective as of the "ex-dividend date" being August 22, 2022, the exercise prices for the unlisted options (Max Stock Op2020) were adjusted, all as detailed in the Company's immediate report dated August 22, 2022 (Reference No: 2022-01-086193), included herein by way of reference.

March 20, 2023 (Reference No: 2023-01-024298), included herein by way of reference, and Note 29B to the Financial Statements.

1.6.3. On June 18, 2022, the Company's board of directors approved a buyback of the Company's shares in a scope of up to ILS 40 million, pursuant to the Company's buyback plan (the "**Buyback Plan**"), after reaching the conclusion that the Company satisfies the distribution tests stipulated in Section 302 of the Companies Law and that there is no restriction with executing the plan, as said. The plan will be effective as of June 19, 2022 until June 18, 2023._As of December 31, 2022, the Company bought back 3,658,971 Company shares totaling approximately ILS 19.9 million. For more information about the Buyback Plan and the buyback of Company shares, see the Company's immediate reports dated June 19, 2022, June 20, 2022, June 21, 2022, June 23, 2022, June 26, 2022, June 29, 2022, June 30, 2022, July 3, 2022, July 6, 2022, July 7, 2022, July 10, 2022, July 12, 2022, July 13, 2022, July 14, 2022, September 8, 2022, September 11, 2022, September 20, 2022, September 21, 2022, September 22, 2022, September, 29, 2022, October 2, 2022, October 4, 2022, October 11, 2022, October 12, 2022, October 18, 2022, October 19, 2022, October 20, 2022, October 23, 2022, October 24, 2022, October 26, 2022 and October 30, 2022 (Reference No: 2022-01-061923, 2022-01-062370, 2022-01-076345, 2022-01-063966, 2022-01-064524, 2022-01-067224, 2022-01-068088, 2022-01-069099, 2022-01-070848, 2022-01-071436, 2022-01-072381, 2022-01-073398, 2022-01-073785, 2022-01-074349, 2022-01-115003, 2022-01-093786, 2022-01-096585, 2022-01-119821, 2022-01-097608, 2022-01-121123, 2022-01-098910, 2022-01-099381, 2022-01-100134, 2022-01-124063, 2022-01-125353, 2022-01-125911, 2022-01-102879, 2022-01-103359, 2022-01-103764, 2022-01-104409, 2022-01-104757, 2022-01-105297 and 2022-01-105918), included herein by way of reference, and Note 18G to the Financial Statements.

1.6.4. As of December 31, 2022, the Company has distributable profits (as defined in Section 302 of the Companies Law), totaling ILS 165,904 thousands.

1.6.5. The Company shall distribute dividends pursuant to a resolution of the Company's board of directors as in effect from time to time, according to its financial position and subject to compliance with the relevant provisions of the law. As of the date of this report, the Company does not have a dividend distribution policy.

Part II - Other Information

1.7. Financial Information Regarding the Company's Operating Segment

For more information regarding financial information pertaining to the operating segment taken from the Company's Financial Statements for the years 2020, 2021, and 2022and for the board of directors' explanations of the Company's financial data specified in the Financial Statements see the Board Report in Chapter B to this report.

1.8. General Environment and the Impact of External Factors on the Company's Operations

The following are the macro-economic factors which affect or may affect the Group's operations:

1.8.1. General

Throughout 2022 and as of the publication date of the report, a number of global events with macro-economic implications occurred which may also impact the Company's operating activities, particularly while bearing in mind that the Company's operating activities are concentrated in Israel and that most of the products are imported from the Far East. Included within this, high inflation rates were recorded globally and particularly in Israel in 2022, despite the inflation rate in Israel being considerably less than other countries around the world. In response, the central banks around the world started raising the interest rate which is intended to soften inflation; and stock exchanges around the world, including the Tel Aviv Stock Exchange, recorded significant declines and high volatility with share prices. The foregoing may have an impact on the Company's ability to raise capital on the stock exchange. Moreover, as of the publication date of the report, there has been an approximately 2.8% decline in the value of the Shekel against the USD as of December 31, 2022.

It should similarly be noted that in 2022, and as of the publication date of the report, additional events occurred which may have a macro-economic impact on the global and Israeli economies, however, the Company assesses that they will have a small impact on the Company's operating activities.

These events include the war which broke out in February 2022 with the Russian military invasion of Ukraine which has no direct impact on the Company's operating activities, and political and governmental events in Israel as described in Section 1.8.10 below.

1.8.2. The inflation and interest rates

In 2022, there was a significant increase in inflation rates both globally and particularly in Israel, where the inflation rate is estimated at approximately 5.3%, exceeding the upper limit of the inflation target. Some of the reasons for the increased inflation rate involve supply chain delays commencing together with the onset of the COVID-19 crisis in 2020, and the war in Europe between Ukraine and Russia which caused a commodity crisis and an increase in global energy prices.

Interest rates were increased both in Israel and around the world in an attempt to bridle the increase in prices. As of the publication date of the report, the Bank of Israel Interest is 4.25%.The Group has liabilities to banking corporations which are linked to the prime interest rate totaling approximately ILS 47,562 thousands as of December 31, 2022, and it pays rent for the Chain's store branches and headquarters which are generally linked to the Consumer Price Index. The Company has examined the impact of the increased prime interest rate and Consumer Price Index and has found that these did not have a material impact on the Company's results.

The possible impact the increased prime interest rate and Consumer Price Index may have on the Chain's operations, as described above, constitutes "forward-looking information," as defined in the Securities Law, the realization of which is uncertain and subject to factors beyond the Company's control. This information is primarily based on information existing on the date of this report as well as on assessments made by the Company which are, inter alia, based on the market experience garnered by the Company's management (including in environments entailing an economic crisis). It should be clarified that there is no certainty that these assessments will eventuate, either in whole or in part, and they may even

be materially different than what is presented above.

1.8.3. Increasing costs of freight and raw materials

The Group purchases approximately 60% of its products from overseas suppliers, particularly from the Far East.

Throughout 2021, *inter alia*, on the backdrop of the outbreak of COVID-19 and supply chain disturbances and the resulting slowdown of activity at manufacturing plants, there was an increase in international freight charges, as well as the cost of raw materials and the cost of manufacturing products, which impacted the prices of products purchased by the Company. In 2022, there was a decline in freight costs with the most significant reduction of approximately 50% relative to the previous periods occurred in H2 2022.

Therefore, as of the date of the report and its publication date, the foregoing does not have a material impact on the Company's operating activities.

1.8.4. Currency fluctuations

The Group purchases approximately 60% of its products from overseas suppliers, particularly from the Far East. These purchases are made in foreign currency while the Group's sales to local consumers are made in ILS. Accordingly, fluctuations in the USD to ILS exchange rate may obligate the Group to update its sale prices, which may affect its competitive position and affect its margins. Hence, these fluctuations may have a material effect on the Group's expenses and revenues and on the development of its business affairs. In order to minimize the effect of exchange rate fluctuations on its results, the Company performs hedging transactions from time to time, at management's discretion and in accordance with its needs. In 2022 the USD exchange rate increased by approximately 13%. As of the date of the report, it can be seen that the trend of the USD strengthening also continued in 2023, and as of the publication date of the report, the USD exchange rate increased by an additional approximately 3.5% to ILS 3.641[7]. For more information see Notes 16D1-16F to the Financial Statements.

1.8.5. Changes in the Consumer Price Index

Further to that stated in Section 1.8.2 above, the Group leases properties and conducts its business affairs in Israel. Therefore, all the Group's obligations to lessors, all of its revenues and a considerable percentage of its costs and expenses are in ILS. Accordingly, material changes in the Consumer Price Index may impact the Group's financial results, since its revenues are not linked to the index, while some of its costs and expenses, including*, inter alia*, in connection with leases of the Chain's stores, are linked to the index and are exposed to changes therein. In 2022, the Consumer Price Index rose by approximately 5.3%, compared with an increase of approximately 2.8% in 2021.

1.8.6. Economic position of the market and changes in standard of living and consumption habits

The demand for the types of products sold in the Chain's stores may be affected by changes in household income and the level of economic activity in the Israeli market. An economic slowdown or recession in the market, as well as changes in consumer habits in Israel, may reduce the scope of private consumption and retail sales in general.

In this context, please refer to Sections 1.8.2 and 1.8.5 above. Notwithstanding, in light of the attractive prices offered by the Company to its customer base, due to the fact that the Company assesses that approximately 60% of its products satisfy basic daily needs, and in light of the fact that approximately 70% of the Company's products are priced at ILS 10 or less (including VAT), the Company believes that in the event of an economic slowdown, it may become an alternative for all Israeli consumers, including new customers, and it may attract more customers to the Chain's stores.

[7] The USD exchange rate as of March 15, 2023.

It should be noted that the unemployment rate in Israel as of December 31, 2022, was approximately 4.3% compared to approximately 5.1% in 2021, and according to a forecast prepared by the Research Division at the Bank of Israel, the outlook is for unemployment to average approximately 4% in 2024. Similarly, according to data from the Bank of Israel, growth in Israel in 2022 is estimated at approximately 6.3%, and the growth outlook for 2023 is projected at 2.8%, and 3.5% in 2024[8].

1.8.7. Changes in consumer preferences

The field of retail sales of the Chain's products is subject to constant changes in consumer preferences, which materially affect the Company's results and business affairs and obligate it to foresee and respond to said changes in real time by keeping up, with respect to some of its products, with the latest and rapidly changing fashion trends. As part of the Company's purchasing strategy and the constant desire to freshen-up the selection of its products, the Company's trade department has a purchasing and import unit consisting of professionals who continuously keep up with global trends and whose work enables the Company to adapt itself to market trends and new import opportunities, and occasionally even to lead market and consumer trends. In addition, the Group adjusts its purchasing and import activity to long-term consumer preferences as opposed to "passing trends" and, occasionally imports, on a one-time basis large quantities of certain products offered for sale until "stock runs out", as opposed to products which are regularly available in the Chain's stores. Accordingly, *inter alia*, the Company keeps up-to-date and adjusts its products according to consumer preferences, while maintaining stock in volumes compatible with the scope of its operations.

1.8.8. Changes in employment conditions

The Company's operations may be affected by regulatory changes in the minimum wage and other material changes related to employment of employees in Israel. Due to the large number of minimum wage employees employed by the Company, a significant minimum wage increase would

[8] **Financial Stability Report** https://www.boi.org.il/he/NewsAndPublications/RegularPublications/Pages/forcast0122h.aspx

increase the Company's wage-related expenses significantly (due to the fact that a minimum wage increase also indirectly affects other wage levels in the Company), and, consequently, would affect the Company's business results and decrease its margins. For more information regarding minimum wage increases in recent years, see Section 1.26.2 below.

1.8.9. Regulatory changes

The Company's operations are exposed to and affected by statutory provisions and orders on import (including the imposition of customs duties), standards, consumerism, including price control of products and services, product quality and returns, intellectual property rights, business licensing, accessibility, and more. Consequently, regulatory changes applicable to the Company's operations may materially affect the pricing of the Company's products and its financial position and results. In addition, the Company invests financial and managerial resources to comply with the regulatory requirements to the maximum extent possible. For additional details regarding regulations applicable to the Company's operations, see Section 1.26 below.

1.8.10. Changes in the security and political situation in Israel

The Company's operations may be sensitive to security instability. This may result from the fact that the Chain's stores are deployed throughout the country, from north to south, and due to the fact that the Chain's large stores are situated in commercial areas as independent stores. Deterioration of the security situation may reduce customers' attendance at the Chain's stores, thus reducing its sales and adversely affecting the Group's financial results.

Furthermore, following the reported period, the Israeli government initiated measures with the objective of reforming the Israeli legal system which caused a wave of public protests, including warnings by economic experts regarding the harm this will have on the Israeli economy and investor flight. As of the publication date of this report, no laws have been enacted by the Knesset which are part of said reform and the Company is unable to assess whether and how the legal reform will impact its activities.

1.8.11. Health emergencies

For more information about the impact of COVID-19 on the Company's operating results in 2022, see Section 2.4 of the Board Report attached as Chapter B to this report.

The Company's assessments concerning the trends, events and developments in the macro-economic environment in which the Group operates, including the possible impact of an increase in the prime interest rate and an increase in the Consumer Price Index on the Chain's operating activities as described above, which may affect its operations and business results, and the manner they may affect it, its operations and results, fall within the definition of "forward-looking information" under the Securities Law. The occurrence of these events is not certain, since it is affected by a host of factors which are not within the Company's control and rather, may be affected, inter alia, by the factors specified above, including the manifestation of any of the risk factors in the Company's operating segment (as specified in Section 1.31 below).

Part III: Description of the Group's Commercial Activities

1.9. **The Structure of the Operating Segment and Changes Thereto**

The Company engages in the area of retail trade by operating a widely deployed national chain of 'discount' stores.

The Company's operating segment is characterized by high competition, changes in the product mix in accordance with the relevant season of the year and is also affected by consumer preferences with respect to some of the products carried by the Group's stores, such as children's products and home supplies. Similarly, the Company's operating segment may also be impacted by changes related to the consumers' financial position and consumption habits (for information in this regard see Sections 1.8.6-1.8.7 above).

In recent years, the operating segment has been characterized by the establishment of other national chains which offer low-cost products, including both local chains such as "Zol Stock" and "HaStock" (whose control is owned by Yochananof), which, as of the date of this report, to the Company's best knowledge, respectively each have 81 and 34 branches, the "Dan Deal" chain (whose control is owned by Shufersal), which includes approximately 10 branches and the "Jumbo Stock" chain, which includes approximately 18 branches; as well as international chains, such as "Miniso", which has approximately 25 branches as of the date of this report, as well as the Greek chain store "Jumbo", which, according to the public reports of Fox Wizel Ltd. (the "**Fox Group**"), the franchisee to operate these stores, is expected to commence operations in H1 2023. The Fox Group is also the franchisee to operate the "Flying Tiger" Danish chain store, which commenced operations in Israel in Q1 2022, and which has 15 branches as of the publication date of this report. The Company assesses that the "Flying Tiger" chain does not compete with most of the Chain's products, both in terms of product mix and also in terms of price range.

In addition, single stores and small local chains are active in the operating segment, consisting of between two to three branches, offering products similar to some of those offered by the Chain (for instance: stores offering a diverse range of disposable tableware). These stores may also constitute local competition for the Group, with respect to a specific store of the Chain located nearby, if relevant.

In addition, the operating segment is characterized by a significant and constant growth in internet purchases, from local websites such as Stock Online, as well as from international websites, such as AliExpress, eBay and Amazon, which also offer a wide variety of products at convenient prices. These websites constantly improve the quality of their interfaces, shipping and services rendered to end-customers and, therefore, their rates and scope of purchases are constantly growing.

Another trend which characterizes the operating segment is the increase in consumer awareness and the ability to compare prices quite easily. The Company estimates that this trend may lead to increased demand for the Chain’s products, which offer a wide selection of good quality products at convenient prices.

As stated above in this section, the Company is already operating in a very competitive market, consisting of many actors in each one of the categories of products sold by it. In view of the above and in view of the duration of time which is required to penetrate the market and establish a nationwide chain of stores similar to the chain operated by the Company, the Company assesses, that as of the date of the report, the opening of other chains is not anticipated to have a material impact on the Company's operations.

1.10. **Critical Success Factors for the Operating Segment and Changes Thereto**

The Company estimates that the critical success factors in its operating segment are as follows:

- The ability to constantly adapt the selection of products and prices to consumers’ needs, preferences and changing fashion trends, keeping up with the latest innovations, anticipating fashion trends and frequent changes in the selection of products offered for sale;
- Offering products in diverse categories and a wide selection of products within each category;
- Offering products which provide good value for money;
- Broad nationwide deployment in accessible locations providing maximum exposure of the products to customers, thus building a powerful image and marketing strength; adjusting the size of the stores and their products to the environment in which they are located relative to other businesses and stores

nearby, taking into consideration the population in the area and its needs;

- A recognized and established brand.
- Supply chain efficiency;
- Efficient procurement and pricing of products;
- Direct import of products by the Company to save costs, reduce dependencies on local suppliers, and increase the variety for the Chain's customers;
- Maintaining business relationships which enable the Company to locate and engage with leading suppliers, and maintain long-term relations with these suppliers;
- Providing a shopping experience, including by constant diversification and renewal of the products offered by the Chain's stores, maintaining "anchor products" alongside fashionable, frequently changing products;
- Investing in and maintaining an advanced and efficient computerized system, rapidly adapting to changes in the branches;
- The Company's engagement with a significant portion of its store managers in a shareholders' agreement, regulating each store's operations, as well as the holding of shares in the company which manages and operates the store, as described in Section 1.16.1.6 below. This unique kind of engagement establishes a close relationship and a sense loyalty of the managers to the stores and to the Chain, as well as contributes to their retention in the Chain.

1.11. **Change of Suppliers in the Operating Segment**

Reduced customs rates on imports in the last decade in certain areas have increased the number of supply sources available to many retailers operating in Israel, and, in fact, facilitated the establishment of stores offering diverse merchandise at attractive prices, including the Max Chain, which, to the Company's best knowledge, was a pioneer in this area.

The Company is constantly engaged in locating new suppliers, evaluating current suppliers and controlling the quality of the products supplied by them.

In 2022 the Company engaged with suppliers with expertise in the pharma and toiletry, lighting, clothing and confectionary operating segments, in order to establish a “shop in shop”, which enables these suppliers to expand the product range available in each segment and to professionally manage it.

1.12. **Primary Barriers to Entry and Exit**

The Company estimates that the barriers to entry in the operating segment for the establishment of a single store are low, since the establishment of a single store does not require special resources. However, the transition from the operation of a single store or several stores in local deployment to the operation of a chain of stores in nationwide deployment requires: (1) establishing relationships with suitable suppliers; (2) financial strength – large capital is required to finance establishment costs, including: rent, infrastructure renovations and adaptation of the properties to the designated activity, employing a large team of employees, advertising and marketing costs, financing inventory, and more; (3) large investments in infrastructure, information and logistic systems including an advanced distribution management system; (4) Building, establishing and maintaining quality management and headquarter personnel over the long-run; and (5) Building and establishing a recognized brand.

The Company estimates that the major barriers to exit in the operating segment are the high costs involved in closing down stores (for instance, termination of the stores’ leases and dismissal of employees involving severance pay) and stock clearance.

1.13. **Products**

The products offered at the Max Chain stores appeal to every family member – covering a wide range of ages for different purposes, including leisure, work, school, apparel basics, houseware, home design and accessories, and more.

The Chain’s stores offer the Group’s customers different and diverse products of several categories, primarily consisting of office and school supplies, toys, disposable tableware and party supplies, housewares, arts & crafts supplies and apparel basics, as specified below:

1.13.1. Office and school supplies – this category targets institutional and private consumers and consists of essential office supplies, including binders, leaflets, exercise books, stationery, staplers, printer paper, organizers, and more. This category also consists of school supplies, which are sold throughout the year and mainly before the beginning of the school year, including school bags, exercise books, pencil cases, glues, rulers, scissors, binders, colors, markers, stationery, and more.

1.13.2. Toys and baby products – this category appeals to children and infants and includes toys, dolls, board and mind games, puzzles, building bricks, books, toy musical instruments and more. This category includes products directly imported by the Company and products purchased from leading suppliers, including brands such as Disney and Marvel. The Company's supply model, which includes direct import and purchase from local suppliers, allows it to respond quickly to a change in customer preferences and in the economy and to change the composition of its products in a category accordingly.

1.13.3. Disposable tableware, party supplies and storage containers – this category includes all types of disposable tableware including plates, bowls, cutlery, cold & hot drink cups, aluminum and paper cooking & baking pans, disposable tablecloths, napkins, small and large plastic storage containers and the like. In addition, the Chain sells a large variety of party and birthday products including surprises and gifts, decorations, balloons, birthday bags and accessories in different designs and colors, birthday crowns, hats and other similar items.

1.13.4. Housewares – a wide category consisting of several categories, including kitchen supplies (including pots, pans, cookware and bakeware), home décor and accessories (which are not textile), glass and wood, furniture, a large variety of cleaning products (cleaning materials, cloths, plastic bags, mops and brooms), bath products and more.

1.13.5. Arts & crafts supplies – this category offers consumers a wide selection of arts & crafts products including painting materials, plasticine, Play-Doh, a variety of sketch books, stationery and colors, glues, stickers, DIY art products, assembling kits and more. During 2021 and 2022, the Group's revenue from the products offered in this category accounted for approximately 6% and 6% of all the Group's revenue, respectively.

1.13.6. "Basic" fashion - this category includes undershirts, underwear, basic t-shirts, swimwear, socks, and more. During 2021 and 2022, the Group's revenue from the products offered in this category accounted for approximately 7% and 6% of all the Group's revenue, respectively.

For more information regarding segmentation of revenues and profit of products, see Section 1.14 below.

In addition, the stores offer products associated with changing trends in approximately 25 additional categories, including: sports accessories, apparel, a variety of gifts, pet supplies, work tools, car products & accessories, cellular products, sea and inflatable products (sun umbrellas, pools and more), winter goods, hair & fashion accessories, pharm products and toiletries, outdoor products, threading and makeup products and other changing products. As of December 31, 2021 and December 31, 2022, the products offered from these additional categories accounted for approximately 23% and 23% of all the products offered by the Chain. Additionally, in the pharm, toiletry and confectionary segments, the Chain respectively opened a "shop in shop" in approximately 12 and 17 of the Chain's branches, which are being operated and managed personally by the suppliers. The Chain is considering expanding its deployment of these points of sale while focusing on specific categories whose suppliers have expertise which enables increasing the range offered to the customer base in that category and professionally managing it. The Chain is also constantly working to develop additional categories and a new selection that will match and serve its customers.

1.14. Segmentation of Revenues and Profitability of Products

1.14.1. The following is data with respect to the revenues (as presented in the Financial Statements) from the Company's main product categories (including ratio of total revenues), whose rate constitutes/constituted 10% or more of the Company's total revenues from the Chain's stores for the years 2020, 2021 and 2022*:

	2022		2021		2020	
	Revenues (ILS 000's)	**Rate of total revenues from stores**	**Revenues (ILS 000's)**	**Rate of total revenues from stores**	**Revenues (ILS 000's)**	**Rate of total revenues from stores**
Office and school supplies	97,096	9%	80,149	8%	77,191	9%
Toys and baby products	134,205	13%	133,110	14%	109,402	12%
Disposable utensils, party products and storage containers	143,203	14%	124,678	13%	102,638	12%
Homeware	288,730	28%	280,258	29%	245,998	28%
Total	**663,234**	**64%**	**618,195**	**64%**	**535,229**	**61%**

(*) The comparison figures for 2020-2021 have been reclassified in accordance with how they are presented in the Company's 2022 Financial Statements, whereby they include sales of subsidiaries and Company sales to franchisees (according to the main categories). For more information about the recognition of the Company's revenues, see Note 2J to the Company's Financial Statements attached as Chapter C to this report.

The gross profit from all of the Company's product categories is similar to the Group's general gross profit. For further details on the Company's gross profit in the reporting periods, see the Company's consolidated Financial Statements.

1.14.2. Below are details on the results of the Group's activities, segmented by the Group's stores:

		For the Year Ended		
		31.12.2022	31.12.2021	31.12.2020
General data				
Number of owned branches		32	30	28
Net commercial area (sqm)		58,297	49,761	44,088
Human capital	Branches	1,712	1,847	1,753
	Logistics center	72	95	74
	Administration and headquarters	106	102	84
Operating Results (ILS 000's)				
Cost of goods sold	Fixed costs	6,049	6,505	6,614
	Variable costs	624,442	590,778	644,948
Rent	Fixed	46,938	37,570	33,148
	Variable	-	-	-
Capital investments in the branches		23,590	35,922	11,489
Total salary expenses attributed to retail activities		155,983	140,409	112,561
Data on proceeds and sales				
Income per sqm		18,225	19,113	18,903
Rate of change in same store sales (%)		(1.5%)	6.5%	11%[9]

For details on changes in the Company's financial and operating indicators in the reporting periods, see Section 7 of the Board Report.

[9] Neutralizing transactions involving personal protective equipment which the Company performed in 2020 where it imported medical equipment required in response to the COVID-19 crisis, the decline is primarily attributable to the impact of closing the stores during March and April 2020, as a result of the spread of COVID-19 ("**PPE Transactions**").

1.14.3. <u>Below are details on changes in the Company's operating results relative to growth:</u>

	For the Year Ended		
	31.12.2022	**31.12.2021**	**31.12.2020**
Rate of change in commercial areas/sales floor	20%	9%	8.6%
Change of rate in same stores sales	(1.5%)	6.5%	11%

1.15. Customers

The Group's customers are the stores' end consumers.

The Company's estimates, on the basis of the Chain's large and loyal customer community, that many of the Chain's customers are repeat customers, who regularly visit its stores. The Group's customers are of all population segments, socio-economic classes and ages, but it estimates that the vast majority of the transactions in the Chain's stores are made by customers in the age range from 30 to 50 years old.

In 2022, the average expenditure by a customer per transaction at a store owned by the Company increased by approximately 3.2%, and at a store operated as a franchise by approximately 0.04%, compared to the average total expenditure of a customer in one purchase in 2021.

For details regarding the sales method to private customers, see Section 1.23.3 below.

The Company does not depend on any specific customer, the loss of which would materially affect its operating segment.

1.16. Marketing and Distribution

1.16.1. Marketing

1.16.1.1. The Company has a constantly growing consumer base, mainly due to word-of-mouth advertising for the stores, made by the consumers themselves.

Similarly, the Company has an official website, Facebook and Instagram pages, where it publishes updates regarding products and new sales as well as Tik Tok videos. Commencing as of Q1

2022, the Company operates an Instagram page which targets the Arab sector. Similarly, several unofficial Facebook and WhatsApp groups were opened by customers of the Group’s stores without the Company’s involvement. In these groups, the customers provide updates on recommended products, sales and new arrivals in the Chain’s stores.

The following is data with respect to the Company's marketing channels:

- The Company had approximately 2.2 million visits to its official website in the 12-month period until December 31, 2022, and approximately 2.4 visits in the 12-month period prior to the publication date of this report.
- As of the time immediately preceding the publication date of this report, the Company has approximately 200,000 followers on its official Instagram page, compared to approximately 150,000, 170,800 and 190,300 followers as of December 31, 2020, December 31, 2021 and December 32, 2021 (respectively).
- In the Company’s official Facebook group, there are approximately 333,100 members on or around the publication date of this report, compared to approximately 295,000, 311,000 and 330,500 members as of December 31, 2020, December 31, 2021 and December 31, 2022 (respectively).
- In 2022, the Company started operating a Tik Tok page. On which, on or around the publication date of this report, the Company has approximately 14,500 followers compared with 10,000 followers as of December 31, 2022.

Hence, a wide and continuously growing community of customers devoted to Max Chain has been created.

In light of the creation of said communities, in Q3 2022, the Company launched a loyalty program called "Max's Friends", which can be joined at the Chain's branches or via the social media networks. For more information regarding the "Max's Friends" loyalty program, see Section 1.3.2 above.

Without derogating from the foregoing, to the extent promotional activity is required upon the opening of a new store or when the operations of an existing store need reinforcement, the Company carries out, in cooperation with the store's manager (as described below) and the relevant lessor, marketing and promotional activities, as required and at its discretion.

The Company would previously not engage in marketing activities in the traditional channels (billboards, newspapers, flyers, etc.). However, during 2021, the Company decided to expand its marketing and promotional activities of its products, and it acted in specific instances, as needed, through billboards, advertising in local flyers, community newspapers and in collaborations with "online influencers" on the social media networks, both for the entire Chain and also for specific branches. In 2022 the Chain continued with these collaborations, and towards the back-to-school season in Q3 2022, and towards Purim in Q1 2023, the Company launched campaigns which included digital catalogues including the products offered at the Chain as well as TV and radio ads.

1.16.1.2. The Company assesses that as of the publication date of the report, it is not dependent upon any of the above marketing channels and the Company is constantly examining the need the expand its marketing activities and their possible impact on increasing the Company's operating activities.

1.16.1.3. As of the date of this report, the Group markets its products to its customers through 56 stores across Israel (and in proximity to the publication date of this report, through 57 stores), which are partially operated by subsidiaries and partially by franchisees (as detailed below).

The table below describes the segmentation of the Chain's stores according to store types and the change over the years:

	Large store owned	**Small store owned**	**Large store franchised**	**Small store franchised**	**Total**
	Number of branches				
For the period ended December 31, 2020	**27**[10]	**1**	**7**	**15**	**50**
Opened during 2020	3	-	-	-	3
Converted to different format in 2020	-	(1)	1	-	-
Closed in 2020	-	-	-	-	-
For the period ended December 31, 2021	**29**	**1**	**7**	**16**	**53**
Opened in 2021	**2***	**-**	**-**	1	**3**
Converted to a different format in 2021	**-**	**-**	**-**	**-**	**-**
Closed in 2021	**-**	**-**	**-**	**-**	**-**
For the period ended December 31, 2022	**31**	**1**	**9**	**16**	**56**
Opened in 2022	**2***	**-**	**1**	**-**	**3**
Converted to a different format in 2022	**-**	**-**	**1**	**(1)**	**-**
Closed in 2022	**-**	**-**	**-**	**-**	**-**

* During 2022, two new stores opened in Nahariya and in Nof Hagalil, as well as a flagship store in Kfar Saba which replaced an additional store. Similarly, in 2022 a large franchised store opened in Romema, Jerusalem.

Below is a summary of the number of stores split into the Chain's store types (size and ownership):

[10] Including the Dimona branch which closed in Q4 2020, in order to open a new branch at a new location.

Store type	Stores operated by subsidiaries*				Stores operated by franchisees			
	On or about the date of this report	As of December 31			On or about the date of this report	As of December 31		
		2022	2021	2020		2022	2021	2020
Large stores	**32**	**31**	29	27	**9**	**9**	7	7
Small stores	**1**	**1**	1	1	**16**	**15**	16	15

As of the date of this report, the Company (via its subsidiaries) has entered into agreements to open 3 stores during 2023, one of which opened in the beginning of March 2023; and the second which is anticipated to open in H2 2023. Additionally, the Company entered into lease agreements for two additional stores which it shall take possession of in 2024 and 2025.

Similarly, subsequent to the date of the report, the Company entered into three lease agreements with respect to three additional branches, one of which is anticipated to open in 2023, the second one which is anticipated to open in 2024 and the third of which is anticipated to open in 2025. Additionally, the Company entered into two new franchise agreements to open Mini Max branch stores which are anticipated to open in Q2 2023.

It should be clarified that what is stated above regarding the Company's assessments of the store opening dates constitutes forward-looking information, as defined in the Securities Law, which may not eventuate or which may eventuate in a manner different to that stated above, this, inter alia, in light of the need to come to agreements with and the involvement of third-parties unrelated to the Company.

1.16.1.4. <u>Below is a disclosure on the geographic spread of the Group's and the franchisees' stores</u>:

Region	**Owned branches / franchisees**	**Number of stores**		
		For the year ended		
		31.12.2022	**31.12.2021**	**31.12.2020**
North	Ownership	**10**	8	8
	Franchisees	**7**	7	7
Jerusalem and its surroundings	Ownership	**5**	5	5
	Franchisees	**3**	2	2
Center	Ownership	**9**	9	8
	Franchisees	**13**	13	13
South	Ownership	**8**	8	7
	Franchisees	-	-	-

1.16.1.5. As of December 31, 2020, 2021, and 2021 and as of the date of this report, there are no owned stores constituting (each one separately) a rate of more than 10% of the Company's revenues or profits. Additionally, as of December 31, 2020, 2021, and 2022 and as of the date of this report, all the stores operated by franchisees do not constitute together more than 10% of the Company's revenues or profits.

1.16.1.6. <u>Stores operated by subsidiaries</u>

As of the date of this report, the Group operates 32 stores – 30 stores through subsidiaries and 2 through indirect subsidiaries (granddaughter companies). The majority of the Group's revenues derives from large stores, which are operated by subsidiaries. According to the Company's business model, the shares of each subsidiary are held by a store manager (most of them in rates ranging between 10% to 30%) and by the Company (the remaining shares). The Company enters into a shareholder's agreement with each store manager regulating the shareholding and the store's operation (with respect to each store: the **"Partner"** and the "**Shareholders Agreement**", respectively). As of the date of the report, 23 Partners manage Chain stores under this model, and the other stores are managed by employees. For information about the acquisition of minority shareholdings in the subsidiaries, see Note 18F to the Financial Statements.

In general, according to the Shareholders Agreements, the board of directors of the subsidiary, including the Company as a director and a special appointee on its behalf, establishes the policy, budget, and manner of management of the store, while the current operation of the store, including the employment and layoff of employees, is carried out by the Partner, according to the Chain's guidelines and procedures. The subsidiaries may purchase the merchandise sold in their stores according to Company's guidelines concerning product diversity, solely from the Company or suppliers approved by it and in accordance with the prices determined by the Company. In the framework of the Shareholders Agreement, the Company provides the subsidiary with advisory services and the right to use the brand name relevant to the store, in consideration for a 2.5% fixed rate commission from the store's sales turnover. As of the date of this report, the vast majority of Max Chain's large stores are operated by subsidiaries and the remainder are operated by franchisees. Upon the occurrence of one or more of the events set in the Shareholders Agreement (including the dismissal of the Partner as the store manager or material disagreements regarding the management of the store), the Company may, at its sole discretion and without the consent of the Partner, acquire the Partner's share in the relevant subsidiary, in part or in whole, for the consideration calculated in accordance with the mechanism set in the Shareholders Agreement. The Partners are managers in the Chain (with an average seniority of approximately 7 years) who were promoted to such status.

In the Company's opinion, the described model allows it to align the interests of the manager and the Company, to attract quality personnel and to save on managerial resources, while creating a connection of the manager with the store and its customers.

During 2020, the Company engaged with the majority of the Partners at such time in addendums to the Shareholders' Agreements, which entitle the Company to an option to purchase the Partners' entire share, according to a predetermined formula, without requiring their consent. Generally, such purchase will be made in exchange for consideration equal to a multiplier agreed upon by the parties multiplied by the manager's holding rate in the issued share capital of the subsidiary and by its net profit in accordance with its most recent audited financial statements as of the date of exercising the option. Purchasing the manager's share will not stop the operation of the store by the Company. Shareholder Agreements with new Partners, executed with the Company over 2021 and 2022, include the aforementioned option. During 2022, the Company exercised the option against two of the Partners, who concluded their service as managers of two of the stores. For further details see Note 18F to the Financial Statements.

1.16.1.7. Stores operated by franchisees

As of the date of this report, 24 stores in the Max Chain are operated through franchisees, 9 stores operate under the brand "Max – Fun Shopping" and the rest of the stores operate under the brand "Mini Max". The Company enters into a designated agreement with each franchisee, in the framework of which it grants the franchisee the right to use the brand name relevant to the store, generally in consideration for a one-time payment of franchise fees and ongoing commission at a fixed rate of approximately 3.75%, on average, from the store's sales turnover, plus VAT at the applicable rate.

The vast majority of the franchise agreements entered into by the Company are for an initial 4-5 year period which may be extended for additional terms of one to five years each. A small part of the franchise agreements entered into by the Company are for unlimited periods of time. In most agreements as mentioned above, the Company may decrease the franchise term by written notice if the franchisee breaches the agreement. The Company also has the right to terminate each agreement within 14 days from the date of its notice in writing to the franchisee, upon the occurrence of the events specified in the agreement, including breach of franchisee's undertakings towards the Company, such as failure to make payments according to the provisions of the agreement. In addition, in most of the Company's agreements which include an option to extend the franchise period, each party may provide a notice in advance regarding its wish to not to extend such period. Similarly, in most franchise agreements, the franchisee undertakes towards the Company not to compete with its business affairs throughout the franchise term and for a period of two years thereafter. In addition to the above, the franchise agreements regulate the store's operation, while each store is managed by the franchisee, mostly through a SPV for the store, according to the Chain's guidelines and procedure. In this context, in most of the agreements, the franchisee is responsible, *inter alia*, for the store's financial management, obtaining the permits and licenses required for the opening of the store, insurance maintenance and employment of employees for its operation. In addition, the franchisee is required to provide securities for its obligations under the agreement. The franchisee undertakes to purchase the products from the Company or suppliers approved by it. The types of products, the final price of the product to the customer and the terms of payment to suppliers – are all established in advance by the Company. The Company usually sells its products to all of the Chain's stores (including stores operated by subsidiaries) at similar prices. As of the date of this report, the Max Chain's small stores are operated by franchisees, excluding one store which is operated by a granddaughter company.

The Company's revenues from franchisees consist of the purchase of goods by the franchisee as well as a fixed commission out of the sales turnover of the store it operates. This revenue, from all the stores operated by franchisees, is below 10% of all the revenue or profit of the Company from its operating segment. In the Company's estimate, the primary exposures to the Company that may result from the engagement with the franchisees are a risk of damage to goodwill and risk of nonpayment on the due date of the commission and purchase of the goods. In the Company's estimates, these risks are low, since the agreements with the franchisees include the provision of security interests by the franchisees, full indemnification and liquidated damages in case of violation of the agreement, as well as the possibility of termination by the Company at short notice.

1.16.2. **Distribution**

As of the date of this report, products imported by the Company are received, stored and distributed to the Chain's stores (both stores operated by subsidiaries, and by franchisees) through the Company's logistic centers. The major centers are located in Caesarea and Or Akiva. The vast majority of the containers imported directly by the Group from suppliers abroad are processed in the logistic centers in Caesarea. The logistic centers were adapted to the Company's needs in a bid to support the rapid pace of sales and inventory turnover of the Group's Chain's stores. Distribution from the logistic centers to the Group's stores is made through external distributors engaged by the Company. As of the date of this report, the Company does not depend on these distributors.

Products purchased from local suppliers, in most cases, are distributed to the Group's stores by the suppliers themselves.

1.17. **Competition**

The Company operates in an extremely competitive market consisting of many players in each one of the product categories that are sold by the Company. In light of the many different product categories amongst them and given the large product selection in each category offered by the Company, the Company has numerous and diverse local competitors:

- **In the houseware category (kitchen supplies, textile, decorative products, household tools, work tools and the like)**, the Company's competitors include Home Center, ACE, Fox Home, Golf & Co., IKEA and the grocery chains such as Shufersal, Yeinot Bitan, Yochananof and others which offer products in these categories.
- **In the office and school supplies and arts & crafts products categories**, the Company competes, *inter alia*, with chains such as Kravitz, Office Depot and Happening, and independent stores selling office and arts & crafts supplies mostly operating in city centers.
- **In the disposable tableware, party supplies and storage container categories**, the Company's competitors include chains such as Peamit Store, Hillula, Ikea and more, and the abovementioned grocery chains.
- **In the toys and baby category**, the Company's competitors include chains such as Toys R Us, Kfar HaSha'ashuim, the Red Pirate, Happening, Idan 2000 and the like.
- **In the apparel basics category**, the Company competes, *inter alia*, with chains such as "Fox", grocery chains and apparel basics chains such as BGood, Hangar and more.

There are other discount chains operating in Israel, including, the "Zol Stock" chain, the "HaStock" chain, the "Dan Deal" chain, and the "Jumbo Stock" chain; however, the Company assesses that, in general, the selection and types of products offered by them is smaller than the range and mix offered in the Chain's stores, and that the Chain has a greater ability to change its product range more frequently and more often than its competitors. Moreover, apart from Zol Stock and HaStock which have been broadly deployed, the deployment of the other chains' stores is more limited, and therefore, the Company assesses that the competition with these chains is limited primarily to particular areas and to a more limited range of products in categories such as homewares, disposable utensils and party products.

In 2022, the trend of increasing competition characterized in recent years has continued, mainly in the field of retail sales of houseware products (including kitchen supplies, decorative products, furniture and more), toys, work tools, apparel and textile.

The competition described above affects the demand of Company's customers for its products and may affect the Group's financial position and results accordingly.

In addition to the local competitors as described above, in 2018, the Daiso and Miniso chains entered the Israeli market. These chains also offer products at low prices in categories including homewares, textiles, stationery and toys. In 2021 Daiso announced that it was terminating its operations in Israel and it closed its stores. As of the date of this report and its publication, the Company assesses that the aforementioned foreign chains do not constitute material competition for the Group's operating activities, *inter alia*, in light of their limited deployment in Israel, smaller product selection, operating in different types of locations (usually in shopping malls), and they accordingly target different customers.

Moreover, in September and November 2020, there were news reports and TASE announcements that Fox Group executed agreements to obtain a franchise to operate "Jumbo" retail chain stores. According to the Fox Group's public announcements, it planned to commence operations in H2 2022, which it postponed to H1 2023. These stores have not yet opened as of the report date and the publication date of the report.

The Fox Group also received the franchisee for the "Flying Tiger" Danish chain store, which commenced operations in Q1 2022, and it operates 15 stores as of the publication date of the report; however, the Company has assessed that the "Flying Tiger" chain does not compete with most of the Max Chain's products, both in terms of product mix and also price range.

Currently, the Company is already operating in a very competitive market, consisting of many actors in each one of the categories of products sold by it. In light of such and in light of the time required to enter the market and establish a national chain store like the Max Chain (which, as of the date of this report, has 56 branches across the country, and 57 branches as of the publication date of the report), the Company assesses, that as of the date of this report, the opening of the new chains is not anticipated to have a material impact on the Company's operations.

In addition, the Company is exposed to online competition from both local and overseas competitors, such as Stock Online and Amazon, eBay, AliExpress, and others. Some of the international sites have extensive sales activity in Israel. The Company's advantage compared to other competitors of this type is the immediate accessibility and availability of the Chain's stores (as opposed to an online order involving a waiting period), and a similar price range.

The Company assesses that the following principles may constitute a competitive advantage in the market: The strength of its brand in the Israeli market; maintaining low prices from commencing operations; broad range of products with respect to 60% of the products which are used daily and approximately 40% of products associated with changing "trends"; understanding the customers' needs and product selection based on longstanding relationships with Chinese, European and Israeli suppliers; the Company's human resources and particularly its management personnel; broad national deployment; exciting shopping experience; and a broad customer base from various socio-economic strata.

1.18. **Seasonality**

The Company's operations are sensitive to seasonal fluctuations in terms of management strategy, marketing and sales, to the extent relevant and affecting the nature and features of products being sold. For instance, in the months of July-August (shortly before the beginning of the school year) the scope of sales of school supplies and toys increase. During the Jewish New Year (*Tishrei)* Holidays and over Passover, there is a sharp increase in the toy and home gift sales. Another typical increase over Passover (including *Chol HaMoed* and Israel's Independence Day) is observed in the sales of disposable plastic products, tablecloths, and tableware. Between the months of April and August, the scope of pool and sea accessories and inflatables sales increases. Apparel and textiles are obviously sensitive to the changing of the seasons and weather. However, the scope of the furniture, decorative items and gifts, cleaning products, kitchen and baking supplies and work tools department sales is relatively stable throughout the year.

In addition, great sensitivity and attention are given to trends in consumer preferences in Israel and worldwide, as specified in Section 1.31.10 below.

The table below conveys the segmentation of the Group's sales based on quarters for 2021 to 2022 (in percentages):

Year	Q1	Q2	Q3	Q4
2022	24%	24%	28%	24%
2021	26%	23%	26%	25%

1.19. Fixed Property, Land and Facilities

The Company does not own real estate properties and its operations (Company's headquarters, warehouses and stores), are carried out on properties leased by it. The net balance of fixed property, as of December 31, 2021, and December 31, 2022 is approximately ILS 76,196 thousands, and approximately ILS 90,147 thousands, respectively. For further details and information with respect to the depreciated cost of the Company's fixed property, see Note 9 to the Financial Statements.

The following is a description of the material leases to which the Group is a party:

1.19.1. **The Chain's stores** - As of the date of this report, the Group's chain spans 56 stores, and as of the publication date of the report the Group's chain spans 57 stores. The stores include 33 shops which are operated by the Company's subsidiaries and second-tier subsidiaries as well as 24 shops which are operated by franchisees.

Lease agreements for stores operated by franchisees

The Company and its subsidiaries are not party to the lease agreements for the stores operated by franchisees. The franchisees directly enter into these agreements with the lessors.

The Chain's franchisees enter leases in connection with the space of the store operated by them independently, and bear the entire liability arising from any such agreement. Moreover, each franchisee undertakes to indemnify the Company in the event that any costs arising from the breach of the lease entered into by the franchisee are imposed on the Company. In addition, most franchisees undertake towards the Company to include in the lease an express provision establishing the Company's right to step into their shoes in the event that the franchise is revoked or terminated before the end of the lease period.

Lease agreements for stores operated by subsidiaries

The vast majority of the stores operated by subsidiaries are large stores, covering an average area of approximately 1,900 sqm of commercial space per store, and located at independent locations[11] in city centers or commercial areas. The Chain's small stores have an average area of approximately 200 sqm of commercial space per store, and are usually operated by franchisees.

The subsidiary operating the store enters a lease directly with the lessor, while the Company guarantees its obligations. In some leases, the Company has the right to step into the shoes of the subsidiary. The rent paid by the subsidiaries is fixed and linked to the index. For some branches, the rent is increased over the passage of time by a certain percentage. The average initial lease period under the leases that the Group engaged in is 4-5 years, and in most agreements there is an option for the subsidiary to extend the initial period for additional periods, and for a similar duration. The average option period in all lease agreements that the Group engaged in, which are in effect as of the date of this report, is approximately 4 years. As of the date of this report and to the Company's best knowledge, there are no material lease agreements applicable to the Chain's stores which are anticipated to end in the next two years.

The subsidiaries may terminate the leases in different ways which vary from one agreement to the other. The following are the main provisions of the lease agreements:

- The majority of the lease agreements are renewed automatically at the end of the lease period, unless either one of the parties to the agreement

[11] That is, locations that are not in malls or shopping centers.

gives notice to the other party that it does not wish to extend the lease period. The notice should be given between three to nine months before the end of the lease period.

- According to some agreements, predetermined liquidated damages are payable due to the termination of the agreement before the end of the lease period.
- Some agreements do not include any provision regarding the possibility to terminate during the term of the engagement.
- The agreements include a “grace” period upon receiving possession of the premises, for the Company to perform adjustment works prior to opening.

Rent[12] for the Chain’s stores operated by the Company’s subsidiaries, which was paid by the subsidiaries as they appear in the Company’s consolidated financial statements amounted in the years 2021 and 2022 to approximately ILS 45,144 thousands and approximately ILS 54,461 thousands, respectively. For details regarding guarantees provided by the Company (personally or through its subsidiaries) to secure its obligations and the obligations of its subsidiaries as stipulated in the lease agreements as stated above, see Section 1.24.5 below.

[12] Reflets interest and principal payments for the leases in accordance with IFRS16.

<u>Below is a segmentation of monthly lease and option data for the properties leased by the subsidiaries</u>:

Duration until end of contract	**As of December 31, 2022**	
	Number of branches	**Monthly rent (ILS)**
No option		
Up to one year	6	1,064,178
1-5 years	27	3,432,282
5-10 years	1	360,000
Upon exercise of an option		
1-5 years	45	539,093
5-10 years	12	1,767,588
10-15 years	6	926,601
15 years +	4	1,124,905

As of December 31, 2020, 2021, and 2022 and as of the date of this report, there are no owned stores constituting (each one separately) a rate of more than 10% of the Company's revenues or profits.

1.19.2. **<u>Company's headquarters and the main logistics center</u>** – As of the beginning of 2018 (in accordance with an agreement signed on April 10, 2016), the Company's operations are managed from its offices located in the Caesarea North Industrial Park, which, together with its warehouses, cover an area of approximately 15,000 sqm, of which an area of approximately 8,200 sqm serves as a logistics center (the "**Logistics Center**"), an area of approximately 950 sqm serves as offices and approximately 5,850 sqm of open area designated exclusively for tenant's (the Company's) use. The lease is for a period of ten years commencing from August 15, 2017 with an option to extend the period for an additional ten years. In addition, after the passage of 36 months from the commencement of the lease, the Company shall be entitled to terminate the lease by giving 12 months' prior notice. Finally, after the passage of 48 months from the commencement of the lease, the Company shall be entitled to terminate the lease by providing six months' prior notice. It was further stipulated that the Company will pay service fees and management fees to the company managing the business park in which the Logistics Center is located, as well as additional payments in connection with its maintenance, as long as the lease agreement is in effect.

In addition, in November 2019, the Company entered into a lease agreement with respect to an additional site of 13,300 sqm close to its offices. Out of the total area leased by the Company, an area of 7,060 sqm will be used as a warehouse, an area of 1,420 sqm will be used as a gallery and 4,820 sqm is an open area. The first lease period will end on February 16, 2025 and will automatically be extended for three additional periods of 5 years each (the "**Additional Lease Periods**") subject to the terms of the lease agreement. The Company may terminate the lease agreement at the end of the lease period or at the end of any of the Additional Lease Periods by providing a notice six months prior to the termination of the relevant period. It was further stipulated that the Company will pay service fees and management fees to the company managing the business park in which the Logistics Center is located, as well as additional payments in connection with its maintenance, as long as the lease agreement is in effect. In the framework of the agreement, the Company provided a guarantee to secure its obligations under the lease agreement.

For additional details regarding the material lease agreements see Note 10D to the Financial Statements.

1.19.3. **<u>Or Akiva Logistics Center</u>**

The Company rents two sites in Or Akiva, which serve as logistics centers, as specified below:

1.19.3.1. A logistics center covering an area of approximately 4,300 sqm, in a lot of approximately 7,300 sqm in the Or Akiva North Industrial Park. The Company has been leasing the premises as of February 7, 2016. The current lease period was extended until March 31, 2022. The Company vacated the logistics center upon the completion of said lease agreement.

1.19.3.2. A logistics center covering an area of approximately 2,800 sqm, and a loading and unloading area of approximately 500 sqm, in Or Akiva. from the lease commenced on January 1, 2018 for a period of three years. The agreement allows to extend the lease period, for two additional periods of three years each, which shall enter into effect automatically, subject to the fulfillment of the conditions stipulated in the lease agreement. As of the publication date of this report, the Company is in the first extension period and the lease period was accordingly extended until December 31, 2023. The Company may terminate the lease agreement at the end of each of the lease periods by providing prior notice 120 days before the end of the relevant lease period.

The rent[13] paid by the Company for its offices and logistics centers amounted in the years 2021 and 2022 to approximately ILS 7,966 thousands[14], and ILS 7,512 thousands, respectively. As of December 31, 2021, and December 31, 2022, the total amount of guarantees provided by the Company for securing its obligations under the lease agreements was approximately ILS 11,939 thousands and ILS 13,368 thousands, respectively.

1.20. **Intangible Assets**

As of the date of this report, the Company has twenty-six registered trademarks in Israel, including the "Max - Fun Shopping", "Max 20", which are the Chain's brand names. The Company owns and uses additional trademarks including "Bubale", "Max Home", "Max Kitchen", "Max Garden", "Max Electric" and more. In addition, the Company has four registered trademarks in the United Kingdom and in the EU for "Max", "Max5", "Max 10" and "Max Stock". The Company will use the "Max10" trademark for its anticipated activities in Portugal, in accordance with that stated in Section 1.29 to this report.

In addition, the Company filed applications for the registration of three international trademarks in the United States, referring to the names "Max", "Max5" and "Max Stock". As of the date of this report, the registration of the aforementioned trademarks has not yet been completed, and their actual registration is contingent upon a declaration for utilizing these marks in the US. At this stage the Company

[13] See footnote 11 above.

[14] The comparison figures have been restated whereby they reflect the payment of interest and principal for the lease in accordance with IFRS16 for 2021 in accordance with how the rent amount is presented in this report for 2022.

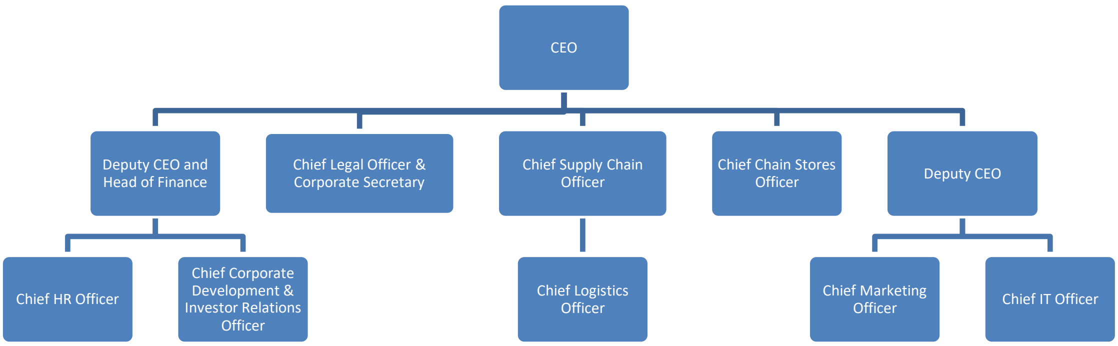
has not yet submitted these declarations.

According to its needs, the Company files, from time to time, applications for the registration of trademarks and for the extension of the validity of the already-registered trademarks.

The abovementioned trademarks, which include the vast majority of the Group's brand names, constitute an important intangible asset of the Group, creating store differentiation, giving the stores a unique identity and added value compared to the stores of the Group's competitors.

1.21. **Human Capital**

1.21.1. The following is a description of the organizational structure of the Group as of the date of this report:



1.21.2. Employees

As of the date of this report, as of December 31, 2021 and 2022, the Group had 2,024 and 1,890 employees, respectively. In addition, the Company often uses the services of human resources companies for an initial employment of employees. Following an initial work period of approximately three months these employees are absorbed by the Company and are employed directly by it.

The following is a detailed description of the number of employees employed by the Group (in terms of positions), as of the date of this report and as of December 31 of the years 2022 and 2021:[15]

Department/operating segments	**On or about the publication date of the report**	**As of December 31, 2022**	**As of December 31, 2021**
Administration and headquarters*	107	106	102
Logistic centers*	75	72	95
Store managers and employees**	1,842	1,712	1,847
Total	**2,024**	**1,890**	**2,044**

* Company employees.

** Employees of subsidiaries.

1.21.3. Material changes with the employee headcount in the period described in this report

During the period described in this report, the Company's workforce increased due to an expansion in the Company's operations across Israel, including the opening of new branches.

1.21.4. Material changes to the Company's senior management and officers

1.21.4.1. On January 31, 2022, Mr. Evan Neumann concluded his service as co-CEO of the Company. For more information see the immediate reports published by the Company on November 1, 2021 and November 22, 2021 (Reference No: 2021-01-093394 and 2021-01-100354, respectively), included herein by way of reference. He stopped serving as one of the Company's directors on February 27, 2022. For more information see the immediate reports published by the Company on January 23, 2022 and July 12, 2022 (Reference No: 2022-01-009627 and 2022-01-073503, respectively), included herein by way of reference.

1.21.4.2. Mr. Oren Elezra stopped serving as one of the Company's directors on April 25, 2022. Mr. Elezra continues to serve the Company as a commercial and strategic consultant. For more

[15] The franchisees with who the Group works and the employees of the stores operated by franchisees are not included in the number of employees presented in this section.

information, see the immediate report published by the Company on April 25, 2022 (Ref. No: 2022-01-041760).

1.21.4.3. An organizational restructuring of the Company’s senior management was approved by the Company’s remuneration committee and board of directors on December 28, 2022. This change became effective immediately, as follows:

1.21.4.3.1. Mr. Nir Dagan, who was serving as the Company’s CFO was appointed as Deputy CEO and Head of Finance, reporting to the Company’s CEO, Mr. Ori Max. Mr. Dagan is responsible for the Company’s finances, human resources, and investor relations. For more information see the immediate report published by the Company on December 29, 2022 (Reference No: 2022-01-124107), included herein by way of reference.

1.21.4.3.2. Mr. Oz Corsia, who was serving as the Company’s Chief Trade Officer was appointed as the Company’s Chief Supply Chain Officer, reporting to the Company’s CEO, Mr. Ori Max. Mr. Corsia is responsible for the Company’s supply chain, including imports, customs duties, and logistics.

1.21.4.3.3. Adv. Ifat Nir-Katz, the Company’s Chief Legal Officer and Corporate Secretary was, in addition to the positions held by her, also appointed as a VP of the Company, reporting to the Company’s CEO, Mr. Ori Max.

1.21.4.3.4. Mr. Ofir Edri, who was serving as the Chain Manager, was appointed Chief Chain Stores Officer, reporting to the Company’s CEO, Mr. Ori Max.

1.21.4.4. Mr. Shlomo Zohar stopped serving as one of the Company’s directors on December 28, 2022. For more information, see the immediate report published by the Company on December 29, 2022 (Reference No: 2022-01-124119), included herein by way of reference.

1.21.4.5. Mr. Roy Ben-Nun, who was serving as Chief Overseas Operations, completed his role in the Company as Chief Overseas Operations on December 31, 2022, and as of January 1, 2023, has been serving as the CEO of the Chain's subsidiary in Portugal - Max 10 LDA.

1.21.4.6. Following the date of the report, Mr. Guy Gissin was appointed to serve as a director on the Company's board of directors on March 13, 2023. For more information about Mr. Gissin, refer to Regulation 26 in Chapter D to this report.

1.21.5. Dependence on employees

Mr. Ori Max, the Company's founder, CEO and a shareholder, is the Company's key person. The Company assesses that if Mr. Max ceases working with the Company, it may affect its results and business development.

1.21.6. Description of the employee remuneration plan

1.21.6.1. For details about the Company's Option Plan (non-marketable), whereby the Company's board of directors shall be allowed to issue non-tradable options to employees, directors and consultants in the Company and in the subsidiaries, see Section 3.3 of Chapter 3 of the Prospectus (the "**Options Plan**").

On November 29, 2020, the Company's board of directors resolved to approve the issue of 2,320,964 options (non-tradable) under the Options Plan exercisable into up to 2,320,964 shares to 27 employees and office holders of the Company and one director. The Company's board of directors resolved that notwithstanding the provisions of the remuneration policy regarding the first exercise date after 12 months, the first exercise date of the options (fully or pro-rata, according to the distribution of the tranches over the vesting period), shall be after 24 months, namely in September 2022. For further details see the Company's immediate reports dated November 30, 2020 (Reference No: 2020-01-129789 and 2020-01-130497), included herein by way of reference, and Note 19 to the Financial Statements.

On February 16, 2022, the Company's remuneration committee and board of directors resolved to approve the issue of 235,813 options (non-tradable) under the Options Plan, exercisable into up to 235,813 shares to one of the Company's officers. For further details see the Company's immediate reports dated February 17, 2022 (Reference No: 2022-01-017052), included herein by way of reference, and Note 19 to the Financial Statements.

1.21.6.2. For details regarding the remuneration policy for office holders adopted by the Company after the closing of the tender offer under the Prospectus, see Section 8.3 to Chapter 8 of the Prospectus.

1.21.7. Bonuses and nature of employment terms & conditions

The vast majority of the Company's employees receive minimum hourly wage and all of its employees are entitled to social benefits according to the law. Store managers, management and headquarter employees (including the employees working at the logistics centers) are employed under personal employment agreements, receive a global monthly salary and the terms of their employment are established following individual negotiations, based on several parameters, including the position, the employee's skills, seniority, professional ability and Company's needs.

As of the date of this report, there are no collective labor relations between the Company and its employees.

1.21.8. Employment of employees with disabilities

According to the provisions of the Equal Rights for Persons with Disabilities Law, 1998, every employer employing more than 25 employees (other than the exceptions specified in the law itself), must act for proper representation of persons with disabilities.

On September 21, 2014, the Minister of Economy and Industry signed an extension order for the encouragement and increase of employment of persons with disabilities, expanding the provisions of the general collective agreement signed between the Presidency of Business Organizations and the New General Workers Federation, Trade Union Division on June 25, 2014 (the "**Extension Order**"). The Extension Order applies to employers employing 100 or more employees and provides that "proper representation" for persons with disabilities requires that 3% of the employer's employees are persons with disabilities. The Extension Order also provides that employers employing 100 or more employees are required to appoint a person in charge of the employment of persons with disabilities. On October 1, 2015, the joint follow-up committee of the Presidency of Business Organizations and the New General Workers Federation published a decision regarding operational provisions for the implementation of the collective agreement for the encouragement of employment of persons with disabilities and the Extension Order issued thereunder.

The Company has a policy of employing persons with disabilities and as of the date of this report, the Company engages persons with disabilities at a higher rate than the rate required by law, which is estimated at approximately 4% of the Group's employees.

1.21.9. Investments in training, instruction and human capital development

The Company conducts training for its employees, as needed from time to time, depending on the nature of the job and the rank of the employee.

1.22. **Suppliers/Vendors**

The Group purchases approximately 60% of its products as finished products directly from suppliers abroad, the vast majority of which are from suppliers located in the Far East. At the same time, the Company maintains a local set of suppliers, (who personally make the overseas purchases).

The Company enters into commercial agreements with its local suppliers, whereby the supplier makes the following commitments to the Company: (1) not to supply to the Chain's stores merchandise which was not approved by the Company; (2) to pay the Company commission at a 2% fixed rate from the scope of its sales to the Chain's stores; (3) that it has all the authorizations and/or the permits and/or the licenses to supply the products to the Chain's stores and that the products supplied by it do not violate any rights, including intellectual property rights; and (4) that it holds full responsibility for the products provided by it and shall indemnify the Company for any demand and/or claim related to the products supplied by it, including a breach of subsection (3). The merchandise is actually purchased from the suppliers by renewed purchase orders. The vast majority of the Group's suppliers use an electronic system (EDI), which allows entering the ordered goods to the Company's inventory immediately upon order.

Among the suppliers as stated above, the Company purchases merchandise in quantities of approximately 30% of its total purchases from a suppliers outside of Israel in China,[16] which has been acting as the Company's supplier for approximately fifteen years. It should be noted that the Company's purchases from any of its other suppliers do not exceed such rate. In addition, the Company's purchases from any local supplier (in Israel) do not exceed 20% of all purchases from local suppliers. The Company estimates that it is not dependent on any of its suppliers, including the supplier from China, since it can replace them without causing substantial harm to the Company in the short to medium run.

1.23. **<u>Working Capital</u>**

The Company's working capital consists mainly of inventory, customer credit and supplier credit, as specified below:

1.23.1. <u>Inventory</u>

The quantity of products held by the Company in stock is determined based on past experience of product sales (considering, *inter alia*, the seasonality

[16] The supplier acts as a "trader" for the Company, coordinating all of the Company's purchases from different suppliers in China. The payment is made directly to such supplier, who engages with suppliers/products manufacturers from China.

factor), the Company's forecast of future sales, and according to the minimum purchase requirements from suppliers. In light of the increase in freight costs, *inter alia*, on the backdrop of the outbreak of COVID-19 and resulting supply chain disturbances and slowdown of operation at manufacturing plants, commencing from the end of Q4 2020, the Company started to build up inventories and therefore the days of inventory in the reporting period are higher than the Company's average days of inventory in previous years. Notwithstanding, last year there was a decline in freight costs and there was therefore a decrease in the Company's inventory which was primarily seen in the number of days of inventory in Q4 2022 (99 days, as opposed to 124 days of inventory in Q4 2021). As of the publication date of the report, the foregoing is not having a material impact on the Company's operating activities. The average days of inventory in 2021 and 2022 were 105 and 108 days, respectively.

1.23.2. <u>Product return policy</u>

According to the provisions of the Consumer Protection Law, 1981 and the Consumer Protection Regulations (Cancellation of Transaction), 2010, the Company gives refunds in cash or credit, according to the means of payment used to make the purchase, on such dates and terms set forth in the regulations. The Company does not charge cancellation fees for transactions cancelled by customers, save for clearance fees for the cancellation of credit card transactions. With respect to products for which customers are not entitled to refunds under applicable law, the Chain enables their return against store credit or their replacement with another product within 14 days from their date of purchase. The Group allows product returns and receipt of refunds or credit, as the case may be, only in stores of the same type in which they were purchased (Max - Fun Shopping or Mini Max, as applicable) and according to applicable law.

1.23.3. <u>Supplier and customer credit</u>

1.23.3.1. <u>Customer credit</u> – the vast majority of the Company's sales are made to private customers, against cash and credit card charges. According to the Company's clearance arrangements, proceeds of sales made by credit cards are transferred to the Company every 2nd and 8th day of the month for the preceding month. The majority of sales are made by credit cards. The average customer credit is approximately 20 days.

1.23.3.2. Supplier credit - The Company receives credit from its suppliers for variable periods according to its agreements with the different suppliers, the vast majority of which are under terms of net 75 days EOM. The average scope of suppliers' credit to the Company in 2021 and 2022 amounted to approximately ILS 97 million and approximately ILS 100 million, respectively. The average suppliers' credit days in 2022 was 68 days, compared to 62 days in 2021.

1.24. **Financing**

1.24.1. General

The Company finances its operations mainly from its own resources and by taking loans from banking institutions, with each subsidiary taking a loan for the purpose of financing its own operations. For details regarding a loan taken by one of the Company's significant subsidiaries, see Regulation 11 to Chapter D of this report. In addition, the Company took loans from banking institutions, as specified below:

a. On June 30, 2019, the Company took an additional loan from the same banking institution in an aggregate amount of ILS 20 million (without linkage). The loan bears variable interest at a rate of prime plus a margin of 0.23% per annum. The loan will be repaid through 48 consecutive monthly installments commencing from July 25, 2019 until June 25, 2023.

b. On January 30, 2020, the Company took an additional loan in an amount of ILS 8 million (without linkage) from the aforementioned banking institution. The loan principal bears variable interest at a rate of prime plus a margin of 0.23% per annum, repayable in 48 monthly installments of principal and interest, until its full repayment on January 25, 2024.

c. On October 3, 2021, the Company took an additional loan in an amount of ILS 4 million (without linkage). The loan bears variable interest at a rate of prime plus a margin of 0.27% per annum, repayable in 48 monthly installments of principal and interest, until its full repayment on September 25, 2025.

d. Moreover, the Company has credit facilities from one banking institute which are unutilized as of the publication date of the report. The credit facilities bear annual interest of prime plus a 0.3% spread. The credit facilities are not subject to any financial covenants or criteria.

For more details regarding the loans assumed by the Company and guarantees and pledges provided by the Company to secure loans from the banking institution see Notes 14 and 15 to the Financial Statements.

1.24.2. As of December 31, 2021 and 2022, and on or about the publication date of this report, the outstanding balance of the loans (including current maturities) totals approximately ILS 70,501 thousands, approximately ILS 47,562 thousands, and approximately ILS 48,754 thousands, respectively.

1.24.3. Average and effective interest rate

The rates of the average and effective interest on outstanding loans in 2021-2022, which were not designated by the Company for a specific use, were as follows:

	2022	**2021**
	Average interest rate17	
ILS long-term bank loans	3.01%	1.91%
ILS short-term bank loans	3.22%	1.75%

1.24.4. Restrictions in procuring credit

[17] Approximate to the effective interest rate.

As of the date of this report, the Company is not obligated to satisfy any financial covenants under the loan agreements.

1.24.5. Guarantees and charges

For details regarding the provision of guarantees by the Company to third-parties, including banks and lessors, to secure the obligations of the Company and its subsidiaries, see Note 15 to the Financial Statements.

1.24.6. Group's assessment concerning the need to raise funds from additional sources

As of the date of this report, the Company estimates that in the upcoming year it shall not be required to raise additional sources to cover its current business operations.

1.25. **Taxation**

For details regarding the tax laws applicable to the Group and the Group's tax assessments, see Note 27 to the Financial Statements.

1.26. **Restrictions and Controls Applicable to the Company's Activities**

The Company's operations are subject to the provisions of the general law, including laws on import and customs, standardization, consumer protection, accessibility, intellectual property rights, labor laws, environmental laws and business licensing laws.

1.26.1. **Business Licensing Law, 1968 (the "Business Licensing Law")**

According to the Business Licensing Law, a business license is required for the operation of some of the Chain's stores. Criminal sanctions (imprisonment or fine) are established by the Business Licensing Law against anyone operating an unlicensed business which requires a license. As of the date of this report, the vast majority of the Chain's stores, which require a business license to operate, are licensed, as aforesaid, and the Group acts to obtain business licenses for the other stores, which are new stores currently in the process of obtaining a business license.

1.26.2. **<u>Relevant Labor Law Provisions</u>**

The Group is subject to Israeli labor laws in connection with the employment of the Group's employees, including the Minimum Wage Law, 1987 and the regulations promulgated thereto (hereinafter jointly referred to as: the "**Minimum Wage Law**"), Severance Pay Law, 1963, Annual Leave Law, 1951, Work Rest & Hours Law, 1951, Right to Work Sitting and in Appropriate Terms Law, 2007 and different extension orders concerning the social benefits and pension contributions that the Group's employees are entitled to. According to the Minimum Wage Law (Increase of Minimum Wage Amounts – Temporary Order), 2015, the monthly minimum wage has been gradually updated commencing from April 1, 2015 through January 1, 2017, such that as of the date of this report and commencing from the salary for December 2017, the minimum wage amounts to ILS 5,300.

On March 15, 2018, an extension order was signed, in the framework of which, commencing from April 2018, the work week was shortened from 43 hours to 42 hours per week (and respectively, the hourly fee is calculated according to 182 work hours per month rather than 186 hours, as was previously done). In light of the said extension order and as of April 1, 2018, the hourly work rate for minimum wage employees in any scope of position (monthly or hourly) is calculated by dividing the monthly minimum wage, namely, the sum of ILS 5,300 (as of the date of the extension order) by 182 hours *in lieu* of by 186 hours and is therefore equal to ILS 29.12 per hour (*in lieu* of ILS 28.49 per hour).

A plan was recently formulated to increase the minimum wage in three tranches – until it reaches ILS 6,000 per month in December 2025.

The increase in the minimum wage, as stated above, including the minimum hourly rate, has a material effect on the Company's results, since the vast majority of its employees are minimum wage employees.

In addition, the provisions of the Youth Labor Law, 1953 apply to the Group, with respect to the restrictions and special arrangements on the employment of workers by virtue thereof.

It should further be noted that following the enactment of the Amendment to the Equal Gender Pay Law, 2020, the Company, as a public company, is required to publish a report which includes general data about wage gaps between male and female employees; prepare an internal report, which, *inter alia*, includes detailed information about the average monthly salary of male and female employees, segmented, detailing wage gaps in percentages across the employee groups; and a personal update letter to the employee including information to the employee about the gender group they belong to, the employee segmentation, types of employees, roles or ranks in the group and wage gaps in that group in percentages. This shall be based on the internal report, provided that the disclosure of the information does not constitute a violation of any other law.

The Company published the first report on June 1, 2022, for the 2021 annual period, and it is publishing the second report for the year ended December 31, 2022, together with this report.

1.26.3. **Protection of Privacy**

The Group's activities, including the activities of the Company's loyalty program which was established in 2022 as described in Section 1.3.1 above, are subject to the provisions of the Protection of Privacy Law, 1981 (the "**Protection of Privacy Law**"), the regulations promulgated thereto (including the Protection of Privacy Regulations (Data Security), 2017 (the "**Data Security Regulations**") and the directives of the Protection of Privacy Authority) (the "**privacy protection laws**"). Among other things, these involve provisions regarding the obligation to register databases, issuing private messages and obtaining consents from individuals regarding the collection and usage of their personal information, maintaining confidentiality, individuals having a right to review, amend and delete data, data security obligations (considering the level of security the database is subject to according to the Data Security Regulations (basic, intermediate or high) and provisions regarding sending personal data outside of Israel. There are also specific obligations under the privacy protection laws regarding setting up security cameras and direct mailouts.

As of the publication date of the report, the Company has registered a customer database with the Registrar of Databases. The Company is acting to complete registration of the other databases it manages and which it is required to register under the Protection of Privacy Law.

1.26.4. **Consumer Laws**

The Company's operating segment is subject to consumer laws, including the Consumer Protection Law, 1981 and the Control of Products and Services Law, 1957, including regulations and orders promulgated thereto and the directives of the Commissioner of the Consumer Protection and Fair Trade Authority (collectively: "**consumer protection laws**"). Among other things, these involve provisions prohibiting consumer deception, consumer disclosure obligations, transaction cancellations, product returns, product labeling (including regarding details required to be included on the label, the language of the label, the placement of the label, special label provisions, user instructions, etc.), price labeling and marking, warnings, warranty sticker, advertisements and methods for marketing (including those intended for minors), special sales (sales, "end of season", etc.), benefit management as part of a customer loyalty club, provisions regarding credits and gift vouchers, provisions regarding product return policies (including presenting a notice regarding the return policy), etc.

The Consumer Protection Law establishes an administrative enforcement mechanism in connection with violations of consumer protection laws, granting the Consumer Protection Authority enforcement and supervisory powers and the authority to impose financial sanctions. According to the consumer protection laws, the relevant authorities may act expeditiously and as severely as required in any event of violation of consumer protection laws and where it was decided not to use criminal enforcement measures, to act against offenders without the need to prove the elements required for criminal enforcement.

1.26.5. **<u>Liability for Defective Products Law, 1980</u>**

This law imposes on the Company, as an importer, liability for bodily damage caused to third-parties as a result of defects in the products as specified in the said law, imported by it, subject to defenses set forth in the law. The Company has product liability insurance coverage.

For more information about the Company's product return policy, see Section 1.23.2 above.

1.26.6. **<u>The Standards Law, 1953 (the "Standards Law") and the Standards of the Israeli Standards Institution</u>**

The Company markets its products according to different standards published from time to time by virtue of the Standards Law.

The Standards Law establishes that people may only manufacture products whose specifications are set under official standards, and they shall only sell, import, export or use it with any work whatsoever, and they shall not perform work whose technical process rules are set as an official standard, if the product or working process is in compliance with the official standards, or if other provisions have been set in the official standards. Some of the Company's products are subject to testing by the Standards Institute of Israel and/or are subject to official standardization, and the Company markets its products in accordance with the various official standards which apply to offering the Company's products.

1.26.7. **<u>Cancellation of Purchase Tax for Disposables Until the End of 2023</u>**

The Customs Fees, Exemptions and Purchase Tax for Goods Order (Amendment no. 3), 2023, became effective on January 31, 2023 (hereinafter in this section: the "**Order**"). The Order temporarily cancelled the purchase tax imposed on disposables (like cups, plates, cutlery and straws) until the end of 2023 (December 31, 2023).

Disposables were first subjected to purchase tax of ILS 11 per kilo on November 1, 2021, by virtue of the Customs Fees, Exemptions and Purchase

Tax for Goods Order (Amendment no. 3), 2021, including on retail inventories existing at the time of the imposition of the tax (the Order does not apply to disposable inventories whose total tax charge is less than ILS 10,000). It should be noted that the Customs Fees, Exemptions and Purchase Tax for Goods Order (Amendment no. 8), 2021, became effective on November 30, 2021. This reduced the purchase tax on paper goods coated with plastic to ILS 3.30 per kilo. Similarly, in accordance with the Customs Fees, Exemptions and Purchase Tax for Goods Order (Amendment no. 6), 2021, purchase tax was cancelled on these products for a two-month period from December 16, 2021 through February 15, 2022.

1.26.8. **Extending the Temporary Order to Reduce Custom Duties Until May 31, 2023**

As part of the governmental plan to provide relief for the cost of living in Israel in 2022, many temporary orders were enacted which reduced the customs duties on a range of products.

The effectiveness of the temporary orders which expired on December 31, 2022 (or earlier), was extended until May 31, 2023, by virtue of the Customs Fees, Exemptions and Purchase Tax for Goods Order (Amendment no. 4), 2023. Therefore, these orders are still currently in effect, *inter alia*, by virtue of a broad deduction on customs duties on the following products: Food products; kitchenware; linen; furniture; plastic and plastic products; rubber and its derivatives; wood products; paper products; and the vast majority of customs items classified in chapters 57-97, including textile products (such as rugs, mats and tablecloths), porcelain and ceramic kitchenware and tableware, glass products (such as doors, windows, bottles, mirrors and jars), various metals and metal products (such as iron, steel and lead as well as cutlery, wire screws and more), work tools (such as saws and wrenches), electric bicycles and scooters and more.

1.26.9. **<u>The Communications Law (Bezeq and Broadcasts), 1982</u>**

The Group broadcasts marketing materials to its customers by email and SMS in accordance with the requirements under Section 30A of the law. Furthermore, the marketing materials sent to the Company's customers comply with the provisions of the Bezeq Law regarding customer disclosures and facilitating the ability to refuse marketing materials.

1.26.10. **<u>The Equal Rights for People With Disabilities Law, 1988, Together With Its Regulations for Having Accessible Services (the "Accessibility Law")</u>**

The Company is required to satisfy various accessibility laws, including having accessible websites, cashiers and smart chip credit card stations, operated by the Company in accordance with the Accessibility Law and the Equal Rights for People with Disabilities Regulations (Service Accessibility Adjustments), 2013.

The Company is acting to implement the provisions of the law and the regulations pertaining to the accessibility of the services provided by it to people with disabilities in accordance with the provisions of the Accessibility Law.

1.27. **<u>Material Agreements</u>**

1.27.1. For details regarding the Company's engagements with a material supplier see Section 1.22 above.

1.27.2. <u>Agreements regarding primary subsidiaries</u> - As of the date of this report, the subsidiaries Max Rishon Ltd., Big Max Ltd. and Max Talpiot Ltd. are primary to the Group's operations. For details regarding the main provisions of the Shareholders Agreements for the subsidiaries, including with respect to the above subsidiaries, see Section 1.16.1.6 above. For details regarding the main provisions of the leases entered into by said subsidiaries in connection with the spaces of the stores operated by them, see Section 1.19.1 above. See Regulation 11 to Chapter D of this report for more information about said companies.

1.27.3. Management agreement with Mr. Ori Max - for details regarding the management agreement entered into between the Company and a company wholly owned by Mr. Ori Max concerning the rendering of services by Mr. Max to the Company, see Section 8.1.3(A) of Chapter 8 of the Prospectus and Regulation 21 to Chapter D to this report.

1.28. **Legal Proceedings**

For further details regarding material legal proceedings to which the Company is a party, see Note 15 to the Financial Statements.

1.29. **Commercial Targets and Strategy**

The Company examines from time to time its position with its customers, compared to its competitors, while analyzing its results and market trends, with the intent to maintain its strategic position on the competitive map and to continue to improve its performance on an ongoing basis. As of the date of this report, the Company's operations and strategic objectives are based on four building blocks:

1.29.1. **Growth**

The Company intends to continue expanding the Max Chain in Israel and to improve its business results, including, *inter alia*, by opening additional Chain stores in Israel (and to even penetrate global markets) and to increase the product segments it imports directly.

Opening stores

The Company intends on acting to open new large stores under the "Max - Fun Shopping" name in additional areas throughout Israel, including by opening flagship stores, alongside additional small stores under the "Mini Max" name in city centers. During the period of the report, the Company opened two (2) new branches (which are being operated by subsidiaries) in the cities of Nahariya and Nof Hagalil, with respective gross areas of approximately 4,150 sqm (approximately 2,800 sqm net) and approximately 2,900 sqm (approximately 2,250 sqm net), it opened a new flagship store in Kfar Saba, replacing an old branch, with a gross area of approximately 5,800 sqm (approximately 4,100 sqm net). A new store operated by a franchisee was opened in December 2022 in the Romema neighborhood in Jerusalem under the “Max - Fun Shopping” brand. A new store opened after the date of the report in Mishor Adumim with a gross area of approximately 2,100 sqm (approximately 1,500 sqm net), and a new branch is anticipated to open in Gush Etzion in March 2023 shortly after the publication date of the report with a gross area of approximately 1,500 sqm (approximately 1,000 sqm net). Two additional branches are anticipated to open by the end of the year in Beerot Yitzhak and in Kiriat Gat. For details about new stores, see Section 1.30 below.

Lease agreements were also signed for new branches anticipated to open in 2024 and 2025, and the Company is continuing to negotiate additional stores.

For more information about the anticipated opening of stores see Section 1.30 below.

The Company's strategy is to primarily focus on the opening of stores to be operated by subsidiaries (and not by franchisees). Without derogating from the above, over 2022 the Company rebranded its small stores operating under the “Max 20” brand name to “Mini Max”, the vast majority of which are operated by franchisees, whereby these stores will also sell products above ILS 20, in accordance with the product mix and range decided upon by the Chain from time to time. The Company is examining expanding its range of small stores operating under the “Mini Max” brand into city centers along with expanding the large stores operated by subsidiaries, and in this regard it entered three new franchise agreements, two of which are anticipated to open in Akko and Tel Aviv (Ramat Aviv/Gush Hagadol area) in Q2 2023, and another branch which will open subsequently in the year in Jerusalem (Pisgat Zeev area).

In accordance with market research conducted by the Company, the policy and new form of management of the stores may create growth opportunities in market segments that have not yet been seized (whitespace). Over the last five years, the total net commercial area (in sqm) of the Group’s stores (operated by subsidiaries and not including franchises) has more than doubled, from approximately 24.5 thousand sqm as of December 31, 2017, to approximately 58.3 thousand sqm as of December 31, 2022. The Company assesses that in the medium-long run it will be able to double its net commercial areas (in sqm) in Israel, relative to its commercial areas in 2019 (which were approximately 40 thousand sqm). The Company's targets include opening 3-5 new stores annually.

The Company accordingly periodically examines new locations for opening additional stores, including flagship stores. For this purpose, in general, the Company focuses on sites with the following features: (a) located up to a 15-20 minute drive from places with a population of approximately 30 thousand people; (b) store space of approximately 2,000 sqm at least; and (c) convenient access and parking. In the Company's estimation, the expansion of the Chain may allow it to increase its operating profit margin.

In accordance with the policy and manner of managing the opening of new stores in the Company, and in light of changes to the costs of raw materials and labor, in the Company's estimation, new stores that will be opened should be expected to return the investment in three-four years, and should be expected to be optimized in the metrics examined for each new store that is opened (Maturity Level) within four years. The Company estimates that in general, the structure and design of the large stores allows a relatively low capital investment at the time of construction.

The Company has made a significant investment in infrastructure in recent years in order to support the planned growth in Israel. The Company estimates that, as of the date of the report, the logistic centers in Caesarea together with the inventory storage services at external logistic centers provided by third-parties, are capable of supporting further growth of the Company's operations. Without derogating from the foregoing and in accordance with the Chain's medium-long term growth strategy, the Company intermittently examines the required and necessary logistic solutions.

It should be clarified that the foregoing regarding the Company's assessments of the store opening dates constitutes forward-looking information, as defined in the Israel Securities Law, which may not

eventuate or which may eventuate differently to that stated above, this, inter alia, in light of the need to obtain the agreement and involvement of third-parties unrelated to the Company.

Growth and financial targets

In light of the changing competitive commercial environment, and as part of the Company's long-term strategy, the Company has set several updated growth targets, including: (a) opening 3-5 owned stores annually; (b) annual revenue growth ranging between 10%-15% in light of the Company's additional potential growth engines (the activities in Portugal and additional future growth engines); (c) same store sales, in owned stores, at the rate of 3% per year;[18] (d) adjusted EBITDA profitability increase of approximately 13% (similar to the rate in 2022) with a potential of expanding the margin over the long-run to approximately 14%; and (e) adjusted annual net profit growth at a similar rate to the growth in revenues. As of the date of the report, the Company is meeting the annual growth targets it set for itself (when considering the greater annual average for the 2019-2022 period), save for the annual growth target of adjusted net profit.

Activities outside of Israel - Entering an agreement to establish and manage a Max Stock store chain in Portugal

In addition to expanding its business affairs in Israel, the Company has taken measures to expand the Chain's activities outside of Israel. In this regard, further to the memorandum of understanding entered into by the Company on March 22, 2022, with a local partner in Portugal, on August 15, 2022, the Company's board of directors approved for the Company to enter into an agreement whose purpose is to establish and manage a Max Stock chain of stores in Portugal with Fortera Properties, LDA ("**Fortera**"), whereby the parties shall operate under a joint venture controlled by the Company to establish and operate a Max Stock chain of stores in Portugal and which may also possibly expand to Spain (the "**Portugal Transaction**").

[18] For details about this operating KPI, see Section 7 of the Board Report.

According to the business plan, the initial financing required for the establishment, maintenance, development and operation of the common company, including the purchase of the initial inventory and establishment of stores, is for a total amount of up to EUR 5 million (the "**Initial Financing**"). The Initial Financing shall be provided by the Company (87.5%) and Fortera (12.5%), subject to milestones established in the business plan. For more information about the Portugal Transaction, see the immediate report published by the Company on August 16, 2022 (Reference No: 2022-01-083901), included herein by way of reference.

The Company assesses that the operation of the joint venture will enable it to penetrate the Western European market, as an initial step in examining the possibility of expanding its activities into the international market. Furthermore, the Company chose the Portuguese market, *inter alia*, in light of its assessment of a potential market totaling approximately EUR 12 billion, characterized by a relatively moderate competitive environment with a significant potential for consumer demand for discount products. The Company also engaged a strong local partner in Portugal which is anticipated to assist it with penetrating into the market.

In addition, the involvement of the Company's trading unit in the international markets creates an opportunity for the Company to create synergies as a result of increasing the profit margins of the Israeli activities by expanding its direct import system (rather than purchasing imported goods from Israeli suppliers).

The Company and Fortera accordingly established a subsidiary called "Max 10 LDA" in October 2022, and they recruited employees to operate the subsidiary, including the appointment of Mr. Roy Ben-Nun, the Company's former Chief Overseas Operations, as the CEO of the subsidiary.

As of the publication date of the report, the subsidiary entered into two lease agreements in the cities of Braga and Porto, and the Company assesses that the two stores are anticipated to open in H2 2023.

The Company's assessments concerning that stated above, including regarding when the first stores will open in Portugal, the scope of

financing required and the impact the joint venture will have on the Company's ability to penetrate the Western European, and particularly the Portuguese market, fall within the definition of "forward-looking information" under the Securities Law. Some or all of these assessments may not eventuate, or may manifest in a materially different manner than that forecasted by the Company, inter alia, in light of the state of the market, negotiations with third-parties, dealing with logistical and/or regulatory challenges and/or the manifestation of all or some of the risk factors described below in Section 1.31.

1.29.2. **Product Mix**

The Company intends to continue to expand its product categories according to changing fashion trends, demand and consumer preferences, while maintaining a wide, diverse and up-to-date selection of products at attractive prices; all of the above while integrating methods, processes and management culture for streamlining and maximizing the Company's inventory. In this context, in 2021 the Company engaged suppliers which specialize in categories like pharmaceutical and toiletry products, confectionary, lighting and clothing, which manage the categories in the "shop in shop" model through their own professional employees. This was done in order to bring a broad range of products to the Chain at attractive prices, while managing the category at the highest level of professionalism.

Importing products

The Company has been working in recent years to increase the share of directly imported products among all products sold in stores. These products are mainly imported from China. As of the date of this report, the products imported by the Chain include products from the variety of categories offered in the stores, including products that are designed and manufactured specifically for the Company, in accordance with current and/or changing fashion and trends. As of the date of this report, approximately 60% of all products marketed in the Chain are products that are directly imported by the Company. This way, as aforesaid, the Company can offer its customers the products of well-known brands, alongside products that are directly imported by the Company, which are less expensive, and thus, giving the products imported by the Company an advantage over its competitors.

The direct import of the Company's products allows direct supply from the manufacturing plant to the Company, without any third-party intermediaries, allowing the reduction of costs, and affecting the product's price, as well as increasing the variety for the Chain's customers. As part of the Company's growth strategy, over the long-run the Company aspires to increase the share of products imported independently by it and/or by local suppliers who work on designated imports for the Company, to approximately 70% of all products marketed in the stores.

1.29.3. **Shopping Experience**

The Company carefully acts to maintain and promote the unique shopping experience at the Max Chain, including by investing efforts in creating an energetic, meticulous and organized shopping environment, investing efforts in expanding the scope of sales and supply of products that are directly imported by the Company, as stated above, and through an emphasis on a high level of service orientation.

In this regard, in 2022 the Company established another flagship store in Kfar Saba at the "Oshiland" mall, spanning 2 floors at the mall and with a gross area of approximately 5,800 sqm (approximately 4,100 sqm net), and in 2023 the Company will continue to focus on opening stores in new locations. For more information see Section 1.29.1 above.

Additionally, in Q3 2022, the Company opened its "Max's Friends" loyalty program which allows for direct communication with the registered customers who provided their contact details. These customers receive broadcasts and messages about new products, launches, and benefits given to them by the Company on various products from time to time. This club has contributed to the shopping experience of the Chain's customers, as well as new customers and targeting new sectors. The Company also periodically examines potential growth engines, third-party collaborations which will provide a multi-channel service, together with establishing a customer loyalty club and opening new branches, all with the objective of serving and increasing its customer base and to contribute to the Chain's total shopping experience. The Company shall continue examining the possibility of establishing an online platform from time to time, and the correct timing for its establishment.

1.29.4. **Price**

As previously mentioned, the Company's objective is to expand its operations; however, at the same time, it continues and shall continue to offer its products at an attractive prices level to its customers and to sustain its competitive edge in the market. The Company's general practice is to avoid discounts and markdowns, since attractive prices are maintained by the Chain throughout the year, and constitutes one of the Chain's basic concepts from its inception, and it is obtained by an efficient supply chain and the meticulous and constant involvement of the trade department in international markets and rapidly changing fashion trends, working to adapt the most desirable products at the best prices for the Chain's customer base. Notwithstanding, in 2023 the Company performed specific marketing promotions which offer specific benefits and discounts to "Max's Friends" loyalty club members, and from time to time it examines benefits for particular stores, including to help liquidate stock.

Among other things, the Chain continues to act to achieve this basic concept by improving and streamlining its operations *vis-à-vis* suppliers and by increasing the scope of merchandise directly imported by the Company independently, *in lieu* of purchases from local suppliers.

The content of this section regarding the Company's strategy and its possible impact on the Company's operations, as well as the opening new stores, falls within the definition of "forward- looking information", as defined under the Securities Law, and is based on the Company's ability to open new stores, expand the product categories and increase the scope of the Company's independent import. The ability to carry out or not carry out the abovementioned plans, in whole or in part, or to carry them out in a different manner, including in a materially different manner than expected, depends, inter alia, on the state of the market, on negotiations with third-parties, logistic difficulties and the behavior

of consumers and Company's customers and/or the manifestation of all or any part of the risk factors described in Section 1.31 below.

1.30. **Anticipated Developments in the Upcoming Year**

Growth – Opening new owned stores

As part of the Company's strategy to act to continue to expand the Chain and to improve its commercial results by opening new stores in additional areas throughout Israel, during the reported period the Company opened two (2) new branches in Nahariya and Nof Hagalil and another flagship store in Kfar Saba (which replaced the existing nearby branch). The Company entered additional lease agreements for new branches which it is anticipated to take possession of and open, as follows:

(1) In 2023 - new branches in Mishor Adumim (opened in the beginning of March 2023), Gush Etzion (anticipated to be opened shortly after the publication date of the report), Beerot Yitzhak and Kiriat Gat. The total additional gross commercial areas to be gained by the Company in 2023 for these branches is estimated at approximately 9,000 sqm. Additionally, the Company is negotiating another branch which it anticipates to take possession and open by the end of 2023.

(2) In 2024 - new branches in Kiriat Yam and Gadera. The total additional gross commercial areas to be gained by the Company in 202[4] for these branches is estimated at approximately 4,500 sqm. Additionally, the Company is negotiating another branch which it anticipates to take possession and open by the end of 2024.

(3) In 2025 - new branches in Gan Yavne and Beer Sheva. The total additional gross commercial areas to be gained by the Company in 2025 for these branches is estimated at approximately 6,900 sqm.

The Company is also negotiating additional locations to open branches over 2025-2027.

For additional details regarding the opening of the new stores, see Section 1.29.1 above.

The content of this section regarding the Company's expectations for

development in the upcoming and subsequent years, is "forward-looking information", as defined under the Securities Law, and is based on the Company's ability to open new stores, the execution or lack of execution of the abovementioned plans, in whole or in part, or their execution in a manner that is different, including in a materially different manner than expected, depends, inter alia, on the state of the market, negotiations with third-parties, dealing with logistic difficulties and the behavior of consumers and customers of the Company and/or the manifestation of all or any part of the risk factors described in Section 1.31 below.

1.31. Discussion on Risk Factors

Macro factors

1.31.1. Economic and social situation in the market and changes in standard of living and consumption habits

In principle, the market for the Group's products is sensitive to changes in household income and to the level of economic activity in the Israeli market. Accordingly, an economic slowdown or recession in the market shall lead, in principle, to a decline in the scope of private consumption and to a decline in the demand for the Group's products. However, the Company estimates, noting the information included in Section 1.8.6 above, that precisely in times of recession, there might be a demand for the Group's products, in light of its pricing policy and the wide selection of products offered by it. In addition, the Group's operations are sensitive to the social situation and to the changes occurring therein from time to time, including social and other protests, which may have a limited but material effect on the market, including road blockages which may prevent access to the Group's stores. On the other hand, certain social protests and heightened public awareness about the cost of living, may have a positive effect on the Group's scope of sales, since its products are sold at attractive prices.

Additionally, subsequent to the period of the report, the Israeli government initiated legislative measures whose purpose is to reform the Israeli legal system. This led to a wave of protests by the Israeli public. As of the publication date of this report, the Knesset has not yet enacted laws implementing said reform and the Company is unable to assess whether and how the legal reform will impact its operating activities. For more information, see Section 1.8.10 above.

1.31.2. The security situation in Israel

Deterioration in the political and security situation in Israel may result in a decline in the demand and consumption of the Group's products. Accordingly, it may adversely affect the Company's situation. Geo-political instability in countries located in the Middle East may also affect the position of the Israel market and accordingly, the position of the Company. In addition, the security situation may affect buyer traffic in the Chain's stores in combat periods or in continuing periods of terror. Such decline in demand and consumption may adversely affect the Company's financial results.

1.31.3. Changes in interest rates

Changes in interest rates in Israel and in the world may affect the Company's business results as well as loans and/or credit obtained and/or which may be obtained in the future by the Company and its subsidiaries. For more information about the impact of the changes with the interest rate on the Company's operations, see Section 1.8.2 above.

1.31.4. Changes in Minimum Wage and Labor Laws

Changes in the minimum wage or other material changes in labor laws in Israel affect the employment cost of a significant part of Company's employees. Due to the large number of employees employed by the Company, a significant increase in the minimum wage or additional future changes as aforesaid may affect the Company's business results and decrease its profitability.

For additional details regarding minimum wage increases in recent years, see Section 1.26.2 above.

1.31.5. Currency fluctuations

The Company's proceeds derive from sales to customers in Israel and are received in ILS. However, the vast majority of the merchandise is purchased from the Company's suppliers in foreign currency. Accordingly, the Company is exposed to foreign currency fluctuations in connection with the acquisition of goods in foreign currency from suppliers overseas and from local suppliers the cost of whose products is sensitive to foreign currency fluctuations. Fluctuations in the exchange rate of the USD relative to ILS may create the need to update the Group's sale prices and/or to changes in its profitability, and accordingly, may have a material effect on the Group's income and results and on the development of its business affairs. In order to minimize the effect of exchange rate fluctuations on its results, the Company performs hedging transactions from time to time, at management's discretion and in accordance with its needs. For additional details see Section 1.8.3 above.

1.31.6. Changes in the Consumer Price Index

Due to the fact that the Company's costs and obligations are linked, in part, to the Consumer Price Index, while its proceeds are not linked to CPI, material changes in the CPI may affect the Company's financial results. For additional details regarding the impact of the CPI on the Company's operating activities, see Section 1.8.5 above.

1.31.7. Increase in costs of freight and raw materials

The Group purchases approximately 60% of its products from overseas suppliers, particularly from the Far East. The increase in production and product costs, *inter alia*, as a result of an increase in the price of raw materials, and a significant increase in international freight costs relative to costs prior to the outbreak of COVID-19, are liable to harm the Company's profitability. The Company has taken cost-cutting measures when making orders from China, and also preemptively increased its inventories. As of the date of the report and the publication date hereof, there has been a decline in freight costs, however, an increase in freight, raw material and product costs is liable to impact the Company's gross profit. For more information about the increase in costs of freight and raw materials, see Section 1.8.3 above.

1.31.8. Health emergencies

Health emergencies may affect the habits and the scope of consumption of consumers, as well as the Company's ability to purchase and import products from locations adversely affected by the health emergency, and consequently its ability to sell these products regularly. For details regarding the outbreak of COVID-19 and its impact on the Company's operating results in Q1 2022, see Section 2.4 to the Board Report attached as Chapter B to this report.

Industry factors

1.31.9. Increased Customs Duties on Imports

As of the date of this report, the Company purchases approximately 60% of its products from overseas suppliers, the Company's activities are impacted by changes in the customs rates imposed on importing products and the basis for customs payments (the products which are subject to customs duties). Accordingly, an increase in the import customs rate applicable to the Company's products, and primarily an increase in the customs rates on imports from the Far East are liable to harm the Company's profitability.

1.31.10. Changes in Consumer Preferences

The field of retail sales of the Chain's products is subject to frequent changes in consumer preferences, materially affecting the Company's results and business affairs and obligating it to anticipate such changes and respond to them in real time by adapting its products to constantly and rapidly changing fashion trends. For details regarding the Company's management of this risk factor see Section 1.8.7 above.

1.31.11. Retention of Employees and Managers

The Company's operations require employing a substantial number of managers and workers at all times. Accordingly, the Company's ability to maintain and carry out its activity and to expand it, depends on its ability to recruit high-quality workforce with a "customer-first" approach, and to retain employees and managers, and in particular managers and deputy-managers of the Chain's stores. In this regard, it should be noted that there are several managers in the Company who are familial relatives.

1.31.12. Operating in a Competitive Market

The Company operates in a competitive market characterized by a variety of competitors, including international chains, local chains, independent stores and e-commerce platforms, local and international. The competition requires the Company to constantly renew itself and quickly respond to changes in the market, while maintaining an attractive price level and providing a unique and positive shopping experience to its customers, to attract additional customers from their usual consumption environment, and to preserve its customers. For additional details regarding the Company's management of the competition in its operating segment see Section 1.17 above.

1.31.13. Regulatory Changes in Israel

The Company's operations are exposed to and affected, *inter alia*, by statutory provisions and orders on consumer issues and control of the prices of products and services, including sales, product quality and returns. Consequently, significant regulatory changes may affect the Company's results. For additional details also see Sections 1.8.9 and 1.26 above.

1.31.14. Operational Risk

The Group is exposed to loss and/or harm to its current operations as a result of flaws in its internal work procedures, acts taken by employees (mistakenly or willfully), flaws in the various information and/or communication systems (computer, trade and communication systems), or as a result of different external events, including flaws in the Company's supply chain. Accordingly, flaws in information systems and human errors may expose the Group to risks and may, upon their realization, affect its results.

1.31.15. Technological Strength, Data Security and Cyber Security

The Company's activities rely on data and communications systems which connect the stores with the Chain's headquarters, through which the Company manages its activities, including sales and inventory data. As part of its activities, the Company is liable to be exposed to risks and threats associated with the stability of its information systems, their ability to deal with large-scale operations, data and cyber security, including technical faults, heavy loads affecting the system's servers and cyber-attacks which are liable to shut down and even adversely exploit the computer systems utilized by the Group and its networks, and harm its computer-based systems. Technical faults and/or attacks to the Company's IT infrastructure and the Company's inability to restore its systems to properly work in a reasonable amount of time or lacking the technological ability to meet the customers' needs and demands, is liable to harm the Company's reputation and may even harm its commercial results. In order to mitigate the aforementioned risks, the Company invests significant resources in its technological strength and appropriate security of its systems, and entered into an insurance policy against cyber events and protecting against ransomware attacks on the Company's activities.

Additionally, during the reported period, the Company performed a managerial exercise preparing for a cyber attack, advised by external consultants who specialize in the field, and it implemented work procedures for ongoing conduct and to prepare for a cyber and ransom event.

Special factors

1.31.16. Key Person Dependency

Mr. Ori Max, the Company's CEO, is the Company's key person. If Mr. Ori Max ceases working with the Company, this may affect its results.

1.31.17. Risk to Reputation

A material factor in the Company's success is the name Max and the reputation associated therewith. Inability to protect the said intellectual property may have a material effect on the Group's reputation and results.

Risk Factors Table

The table below presents the risk factors described above, based on their various types. The risk factors are graded according to the assessments of the Company's management and according to their effect on the Company's business affairs as a whole:

Type of Risk	Risk Factors	Impact on Company's Business Affairs		
		High Impact	Medium Impact	Low Impact
Macro Risks	Economic position of the market and changes in standard of living and consumption habits		X	
	The security situation in Israel		X	
	Changes in interest rates			X
	Changes in minimum wage and labor laws		X	
	Currency fluctuations		X	
	Increase in costs of freight and raw materials		X	
	Health emergencies		X	
Industry Risks	Increased customs duties on imports		X	
	Changes in consumer preferences		X	
	Retention of employees and managers			X
	Operating in a competitive market		X	
	Regulatory changes in Israel		X	
	Operational risk			X
	Technological strength, data security and cyber security		X	
Risks Unique to the Company	Key person dependency		X	
	Risk to goodwill/reputation		X	

The Company's assessment regarding the abovementioned risk factors, including the effect of the said risk factors on the Company, falls within the definition of

"forward-looking information", as defined under the Securities Law, which is based on the information available to the Company as of the date of this report and includes forecasts and analysis of the Company. The effect of a particular risk factor which manifested itself may differ from the Company's assessment, including, inter alia, due to factors which are not necessarily within the Company's control. In addition, the Company may be exposed in the future to additional risk factors and the effect of each risk factor, if manifested, may differ from the Company's forecasts.

CHAPTER B – BOARD REPORT REGARDING COMPANY'S BUSINESS

Max Stock Ltd.

Board of Directors' Report on the State of the Company's Affairs

For the year ended December 31, 2022

The board of directors of Max Stock Ltd. (the "**Company**") hereby submits the board of directors' report on the state of the Company's affairs for the year ended on December 31, 2022 (the "**reporting period**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Regulations**").

A. Board's explanations about the state of the Company's business affairs

1. Description of the Company's business affairs

1.1 The Company was incorporated in Israel as a private company on December 16, 2004 under its current name. On November 17, 2015, the Company's name was changed to "Max Management Israel Ltd."; and its name was changed back to its current name - "Max Stock Ltd." on March 10, 2020.

1.2 From incorporation and as of the publication date of this report, the Company has been engaged in a retail business through operating a national "discount" chain-store trading under the name "Max - Fun Shopping" and "Mini Max" which offers a range of household products at attractive prices. As of the publication date of the report, the Company operates 57[1] branches throughout Israel, from Kiriat Shmona to Eilat, which are mostly operated by subsidiaries and partially through franchises (the "**Max Chain**" or the "**Chain**").

1.3 On September 14, 2020, the Company's shares IPO'd through a tender offer and its shares were first listed on the Tel Aviv Stock Exchange Ltd. ("TASE") on September 17, 2020. For more information see Note 18D to the Company's financial statements as of December 31, 2022, attached to the periodic report (the "**annual financial statements**").

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[1] As of December 31, 2022, the Company operates 56 branches throughout Israel, from Kiriat Shmona to Eilat, which are mostly operated by subsidiaries and partially through franchises.

2. Description of the commercial environment and the Company's commercial trends

2.1 The Company continued implementing its growth strategy throughout 2022, including the opening of two new branches (which are being operated by subsidiaries) in the cities of Nahariya and Nof Hagalil; it opened a new flagship store in Kfar Saba which replaced an older branch in the city and it opened another branch operated as a franchise in Jerusalem. During this period the Company also launched its operations outside of Israel through establishing a joint venture controlled by the Company to establish and manage a Max Stock store-chain in Portugal.

2.2 The Company's activities continued to grow in 2022. This was seen in the approximately 7.4% increase in the Company's sales turnover relative to the same period the previous year. The growth in sales revenues was thanks to the opening of new branches, and was partially offset by a decline of approximately 1.5% in same store sales ([2]SSS). This decline primarily occurred in H1 2022, against a backdrop of the Company experiencing especially strong growth over 2020 and 2021, and a particular impact of the Omicron variant on the Company's sales in Q1 2022. In H2 2022, the Company recorded growth with a number of KPIs relative to the same period the previous year, and included an increase in same store sales (SSS) of approximately 1%, an increase of approximately 3.8% in the average basket price in all of the Company's owned stores (including new stores), an increase of approximately 8.8% in adjusted EBITDA, and an increase of approximately 24% in net profit. All the foregoing occurred despite an increase in global inflation and on the backdrop of the easing of global supply chain disturbances and a decline in freight costs.

For more information about the Company's financial and operating metrics for 2022, see Section 7 below.

For more information about the Company's 2022 operating results relative to the same period year-on-year, see Section 5 below.

2.3 Following the report date, in March 2023, the Company opened another new branch in Mishor Adumim which is being operated by a subsidiary.

2.4 Impact of COVID-19 on the Company's operations

The COVID-19 virus (the "**virus**" or "**COVID-19**") pandemic emerged in China during Q1

[2] Same Store Sales - a figure which reflects the scope of the Chain's sales in stores which have been open for at least one year, and which compares the sales in stores during the period relative to the same period the previous year.For additional details see Section 7.1 below.

2020 and subsequently spread to many countries around the world, including Israel. The spread of COVID-19 has had widespread micro and macro economic effects, which, only naturally, have also materially impacted the Chain's operations. The COVID-19 restrictions included restrictions on movement, commerce and manpower being present at work-places.

Over 2020-2022, the severity of the virus around the world in general and particularly in Israel has been highly volatile and therefore the actions and measures taken to halt the virus have accordingly also been highly volatile in terms of scope and magnitude.

During the reporting period, in light of a decline in morbidity in Israel, the 'green standard' outline was cancelled with respect to various sectors of the economy, including retail commercial activity; moreover, restrictions on mass-participant gatherings and cultural shows were cancelled, and other restrictions pertaining to tourism and aviation were also cancelled.

Similarly, during and following the reported period, the obligation to wear face masks in all closed spaces was cancelled, including at hospitals and elderly care facilities. The obligation to wear a mask only applies to people enroute to quarantine. As of the publication date of the report, the Company and the Chain's stores are not subject to any COVID-19 related restrictions.

During the reporting period and as of the publication date of this report, COVID-19 did not have a material impact on the Company's operating results and the Chain's stores.

The possible impact the spread of COVID-19 may have on the Chain's operations, as described above, constitutes "forward-looking information," as defined in the Securities Law, 1968, the realization of which is uncertain and contingent on factors beyond the Company's control. This information is primarily based on public information regarding COVID-19, as existing on the date of this report as well as on assessments made by the Company which are, inter alia, based on said information. It should be clarified that there is no certainty that these assessments will eventuate, either in whole or in part, and they may even be materially different than what is presented above, this, inter alia, due to them being subject to external factors that are not within the Company's control, including changes and trends with the spread of COVID-19, decisions made by both Israeli and international authorities, and the impact on the spending habits of the Company's customer base.

2.5 Impact of inflation and increased interest rates on the Company's activities

In light of the Bank of Israel's increase of the prime interest rate as well as the increase in the consumer price index as a result of global inflation in general and particularly local inflation, the Company has examined these impacts on its liabilities and financial results. The Company has liabilities to banking corporations which are linked to the prime interest rate totaling approximately ILS 47,562 thousands as of December 31, 2022, and it pays rent for the Chain's store branches and headquarters which are generally linked to the consumer price index. The Company has examined the impact of the increased prime interest rate and consumer price index and has found that these did not have a material impact on the Company's results.

For more information about the impact of inflation and increased interest rates on the Company's activities, see Section 1.8.2 of Chapter A of this report.

The possible impact the increased prime interest rate and consumer price index may have on the Chain's operations, as described above, constitutes "forward-looking information," as defined in the Securities Law, 1968, the realization of which is uncertain and subject to factors beyond the Company's control. This information is primarily based on information existing on the date of this report as well as on assessments made by the Company which are, inter alia, based on the market experience garnered by the Company's management (including in environments entailing an economic crisis).

It should be clarified that there is no certainty that these assessments will eventuate, either in whole or in part, and they may even be materially different than what is presented above.

For additional details about a description of the commercial environment and its impact on the Company's operations, see Chapter A of this report.

3. Material events during and after the reporting period

3.1 For more information about the Company's share buyback program and the buyback of Company shares, see Section 1.6.3 of Chapter A of this report.

3.2 For more information about the distribution of dividends to the Company's shareholders, see Section 1.6.1 of Chapter A of this report.

3.3 For more information about the Company entering into a transaction to establish and manage a Max Stock store-chain in Portugal and Spain, see Section 1.29.1 of Chapter A of this report and Note 1A to the Company's annual financial statements.

3.4 For more information about changes to the Company's management and board of directors, see Section 1.21.4 of Chapter A of this report.

3.5 On October 2, 2022, and December 31, 2022, the Company acquired minority interests from minority shareholders in three of its subsidiaries at a rate ranging from 10%-25% of the share capital. Following the acquisition, the Company's holding rate in the subsidiaries increased to 100%. The share of the minority interests in the net profit of the acquired companies during the 2022 annual period totaled approximately ILS 678 thousands. The Company paid approximately ILS 2,478 thousands for these shares.

3.6 In 2022, dividend distributions totaling approximately ILS 13,342 thousands were distributed to minority shareholders in the Company's subsidiaries (for stores not fully controlled by the Company).

3.7 The Company formulated its first ESG (environmental, social and corporate governance) report in 2022. This report presents the Company's primary activities in these areas over 2021-2022. The report was drafted in accordance with GRI (Global Reporting Initiative) standards - with 'core' level reporting. The report was published in Q4 2022 on the Company's investor relations website.[3].

3.8 On March 19, 2023, the Company's board of directors approved the distribution of a dividend in the sum of ILS 60,000 thousands, after establishing that the Company satisfies the distribution tests stipulated in the Companies Law. The value of the dividend per share will be approximately ILS 0.43. For more information see the immediate report published by the Company on March 20, 2023 (Ref. No: 2023-01-024298).

For more information about material events following the date of the report on the financial position, see Note 29 to the Company's annual financial statements.

[3] https://ir.maxstock.co.il/wp-content/ort-2021-2022.pdf.

4. Financial Position

	As of December 31	
	ILS 000's	
	2022	2021
Trade receivables (customers)	81,790	75,647
Inventory	159,354	213,656
Other current assets	99,890	62,806
Non-current assets	654,289	620,044
Total Assets	**995,323**	**972,153**
Trade payables (liabilities to vendors, suppliers and service providers)	97,009	92,599
Other current liabilities	114,350	136,477
Non-current liabilities	569,726	542,467
Total shareholders' equity	214,238	200,610
Total Liabilities and Equity	**995,323**	**972,153**

Assets

4.1 Trade receivables (customers) - The balance of trade receivables as of December 31, 2022, totaled approximately ILS 81,790 thousands, compared to approximately ILS 75,647 thousands as of December 31, 2021. The increase is attributable to an increase in the scope of the Company's activities.

4.2 Inventory - The balance of inventory as of December 31, 2022, totaled approximately ILS 159,354 thousands, compared to approximately ILS 213,656 thousands as of December 31, 2021. The decline is primarily attributable to the sale during the reporting period of inventories purchased as part of the Company's efforts to stock-up on inventory in previous periods in an effort to mitigate the impact of global supply chain disturbances due to the COVID-19 crisis.

4.3 Other current assets - The balance of other current assets as of December 31, 2022, totaled approximately ILS 99,890 thousands, compared to approximately ILS 62,806 thousands as of December 31, 2021. The increase is primarily attributable to the cash and cash equivalents line item and is attributable to the Company's operating activities.

4.4 Non-current assets - The balance of non-current assets as of December 31, 2022, totaled approximately ILS 654,289 thousands, compared to approximately ILS 620,044 thousands as of December 31, 2021. The increase is primarily attributable to right-of-use assets and investments in fixed assets (property, plant and equipment), mainly in the Chain's new branches.

Liabilities

4.5 Trade payables (liabilities to vendors, suppliers and service providers) - The balance of trade payables as of December 31, 2022, totaled approximately ILS 97,009 thousands, compared to approximately ILS 92,599 thousands as of December 31, 2021.

4.6 Other current liabilities - The balance of other current liabilities as of December 31, 2022, totaled approximately ILS 114,350 thousands, compared to approximately ILS 136,477 thousands as of December 31, 2021. The decline is primarily attributable to credit from banking corporations.

4.7 Non-current liabilities - The balance of non-current liabilities as of December 31, 2022, totaled approximately ILS 569,726 thousands, compared to approximately ILS 542,467 thousands as of December 31, 2021. The increase is attributable to an increase in lease liabilities recognized during 2022.

Equity

4.8 The shareholders' equity as of December 31, 2022, totaled approximately ILS 214,238 thousands, compared to approximately ILS 200,610 thousands as of December 31, 2021. The increase is attributable to a comprehensive profit of approximately ILS 77,964 thousands during the period, an increase in the reserve for share-based payments totaling approximately ILS 11,339 thousands and minority rights resulting from an investment in a subsidiary which was first included in the consolidation totaling approximately ILS 45 thousands, the increase was partially offset as a result of the distribution of dividends by the Company totaling ILS 40,000 thousands, by the buyback of Company shares totaling approximately ILS 19,900 thousands, by the distribution of dividends to minority shareholders by the subsidiaries totaling approximately ILS 13,342 thousands, and by acquiring minority interests in the subsidiaries for approximately ILS 2,478 thousands.

5. Operating Results

5.1 Presented below is an overview of operating results by quarter (ILS 000's):

	Quarter 10-12/2022	% Turnover	Quarter 10-12/2021	% Turnover
Revenues from sales	251,694		245,070	
Cost of goods sold	148,104		149,779	
Gross profit	**103,590**	*41.2%*	**95,291**	*38.9%*
Sales and marketing expenses	60,910		57,825	
General and administrative expenses	10,279		10,989	
Other income	(1,302)		-	
Other expenses	22		1,100	
Operating profit	**33,681**	*13.4%*	**25,377**	*10.4%*
Financing revenues	(244)		(667)	
Financing expenses	5,211		5,834	
Profit before taxes on income	**28,714**	*11.4%*	**20,210**	*8.2%*
Taxes on income	6,488		4,006	
Net profit	**22,226**	*8.8%*	**16,204**	*6.6%*
Net profit attributable to:				
Shareholders of the Company	19,268		13,755	
Minority interests	2,958		2,449	
	22,226		16,204	
Adjustments:				
Share-based payments	270		3,900	
Adjusted net profit	**22,496**	*8.9%*	**20,104**	*8.2%*
Adjusted net profit attributable to:				
Shareholders of the Company	19,538		17,655	
Minority interests	2,958		2,449	
	22,496		20,104	

5.1.1 Revenues

The Group's revenues in Q4 2022 totaled approximately ILS 251,694 thousands, compared to approximately ILS 245,070 thousands in the same period the previous year, an increase of approximately 2.7%. The increase in sales turnover is attributable to the opening of new branches which was partially offset by a decline of approximately 2.8% in SSS (same store sales) which primarily resulted from the impact of the timing of the Jewish new year holydays. During this period there were four less days in which the stores were able to operate relative to the same period the previous year (reflecting approximately 5% of the total quarterly sales).

5.1.2 Gross profit

The gross profit rate in Q4 2022 was approximately 41.2% of sales turnover, compared to approximately 38.9% in the same period the previous year. The gross profit in Q4 2022 totaled approximately ILS 103,590 thousands, compared to approximately ILS 95,291 thousands in the same period the previous year. The growth in gross profitability derived from a moderation in international freight costs alongside an improvement in inventory management.

5.1.3 Sales and marketing expenses

Sales and marketing expenses in Q4 2022 totaled approximately ILS 60,910 thousands, approximately 24.2% of sales turnover, compared to approximately ILS 57,825 thousands in the same period the previous year, approximately 23.6% of the sales turnover. The increase in expenses is primarily attributable to an increase in advertising and marketing expenses, expenses for impairing right of use assets due to adding new right of use assets during 2022 and incurring relatively higher municipal taxes as a percentage of sales in new branches relative to other branches.

5.1.4 General and administrative expenses

In Q4 2022, general and administrative expenses totaled approximately ILS 10,279 thousands, approximately 4.1% of sales turnover, compared to approximately ILS 10,989 thousands in the same period the previous year, approximately 4.5% of the sales turnover.

5.1.5 Financing expenses

In Q4 2022, financing expenses totaled approximately ILS 5,211 thousands, compared to approximately ILS 5,834 thousands in the same period the previous year. The change is primarily attributable to a decrease in losses from USD hedging transactions.

5.1.6 Net profit

The net profit in Q4 2022 totaled approximately ILS 22,226 thousands, approximately 8.8% of sales turnover, compared to a net profit of approximately ILS 16,204 thousands, approximately 6.6% of sales turnover, in the same period the previous year. Net profitability increased by approximately 37% despite the timing of the Jewish new year holydays and their impact on the days the branches were open.

5.1.7 Adjusted net profit

The total adjusted net profit in Q4 2022 was approximately ILS 22,496 thousands, approximately 8.9% of sales turnover, compared to an adjusted net profit of approximately ILS 20,104 thousands, approximately 8.2% of sales turnover, in the same period the previous year.Adjust net profitability increased by approximately 12%.

5.2 Presented below is an overview of operating results by period (ILS 000's):

	For the year ended December 31					
	2022	***% Turnover***	**2021**	***% Turnover***	**2020**	***% Turnover***
Revenues from sales	1,048,801		976,273		1,010,495	
Cost of goods sold	630,491		597,000		651,562	
Gross profit	**418,310**	***39.9%***	**379,273**	***38.8%***	**358,933**	***35.5%***
Sales and marketing expenses	246,084		207,440		170,167	
General and administrative expenses	49,865		43,772		33,782	
Other income	(1,585)		(1,613)		(1,224)	
Other expenses	500		1,100		5,479	
Operating profit	**123,446**	***11.8%***	**128,574**	***13.2%***	**150,729**	***14.9%***
Financing revenues	(2,664)		(485)		(1,118)	
Financing expenses	21,471		17,601		20,400	
Financing expenses for extraordinary transactions	-		-		13,276	
Profit before taxes on income	**104,639**	***10%***	**111,458**	***11.4%***	**118,171**	***11.7%***
Taxes on income	26,922		28,909		30,542	
Net profit	**77,717**	***7.4%***	**82,549**	***8.5%***	**87,629**	***8.7%***
Remeasurement of defined benefit plan	240		(351)		(32)	
Translating financial statements from operating currency to presentation currency	7		-		-	
Total comprehensive profit	**77,964**	***7.4%***	**82,198**	***8.4%***	**87,597**	***8.7%***
Net profit attributable to:						
Shareholders of the Company	64,163		68,197		72,647	
Minority interests	13,554		14,352		14,982	
	77,717		82,549		87,629	
Adjustments:						
Share-based payments	11,339		15,502		1,806	
Issuance costs	-		-		4,613	
PPE Transaction activities, net of tax	-		-		(822)	
Adjusted net profit[4]	**89,056**	***8.5%***	**98,051**	***10%***	**93,226**	***10.5%***
Adjusted net profit attributable to:						
Shareholders of the Company	75,502		83,699		78,244	
Minority interests	13,554		14,352		14,982	
	89,056		98,051		93,226	

[4] The adjusted net profit margins for the 2020 annual period have been calculated on the basis of sales excluding PPE Transactions.

Presented below are the results from the Company's operating activities neutralizing PPE Transactions[5] by period (in ILS 000's):

	For the year ended December 31					
	2022	*% Turnover*	2021	*% Turnover*	2020	*% Turnover*
Revenues from sales	1,048,801		976,273		885,695	
Cost of goods sold	630,491		597,000		541,106	
Gross profit	**418,310**	*39.9%*	**379,273**	*38.8%*	**344,589**	*38.9%*
Sales and marketing expenses	246,084		207,440		170,167	
General and administrative expenses	49,865		43,772		33,782	
Other income	(1,585)		(1,613)		(1,224)	
Other expenses	500		1,100		5,479	
Operating profit	**123,446**	*11.8%*	**128,574**	*13.2%*	**136,385**	*15.4%*
Financing revenues	(2,664)		(485)		(1,118)	
Financing expenses	21,471		17,601		20,400	
Profit before taxes on income	**104,639**	*10%*	**111,458**	*11.4%*	**117,103**	*13.2%*
Taxes on income	26,922		28,909		30,296	
Net profit	**77,717**	*7.4%*	**82,549**	*8.5%*	**86,807**	*9.8%*
Remeasurement of defined benefit plan	240		(351)		(32)	
Translating financial statements from operating currency to presentation currency	7		-		-	
Total comprehensive profit	**77,964**	*7.4%*	**82,198**	*8.4%*	**86,775**	*9.8%*
Net profit attributable to:						
Shareholders of the Company	64,163		68,197		71,825	
Minority interests	13,554		14,352		14,982	
	77,717		82,549		86,807	
Adjustments:						
Share-based payments	11,339		15,502		1,806	
Issuance costs	-		-		4,613	
Adjusted net profit	**89,056**	*8.5%*	**98,051**	*10%*	**93,226**	*10.5%*
Adjusted net profit attributable to:						
Shareholders of the Company	75,502		83,699		78,244	
Minority interests	13,554		14,352		14,982	
	89,056		98,051		93,226	

[5] In order to reduce the adverse impact on the Company's revenues during the period the Chain was shut, in 2020 the Company entered various bulk transactions to sell personal protective equipment where it imported medical equipment required in response to the COVID-19 crisis ("**PPE Transactions**").For more information about PPE Transactions, see Note 1(d) to the annual financial statements.

5.2.1 Revenues

The Company's revenues in 2022 increased by approximately 7.4%, totaling approximately ILS 1,048,801 thousands, compared to approximately ILS 976,273 thousands in the same period the previous year. The increase in sales turnover is attributable to the opening of new branches which was partially offset by a decline of approximately 1.5% in SSS. This decline primarily occurred in H1 2022, against a backdrop of the Company experiencing especially strong growth over 2020 and 2021, and a particular impact of the Omicron variant on the Company's sales in Q1 2022. The average basket price in all the Company's owned stores (including new stores) increased in 2022 by approximately 3%.

5.2.2 Gross profit

The gross profit in 2022 was approximately 39.9% of sales turnover, compared to approximately 38.8% in the same period the previous year. The gross profit in 2022 totaled approximately ILS 418,310 thousands, compared to approximately ILS 379,273 thousands in the same period the previous year. In 2022 there was an increase of approximately 10.3% in gross profit attributed to an increase in the scope of the Company's operations. The Company improved its gross profitability in 2022 relative to the same period year-over-year in light of a moderation of international freight prices along with an improvement in inventory management.

5.2.3 Sales and marketing expenses

In 2022, sales and marketing expenses totaled approximately ILS 246,084 thousands, approximately 23.4% of sales turnover, compared to approximately ILS 207,440 thousands in the same period the previous year, approximately 21.2% of the sales turnover. The increase in expenses is primarily due to an increase in salary expenses, advertising and marketing expenses and a high depreciation rate of right of use assets relative to sales. There was also an increase in municipal taxes (*Arnona*) and salary expenses at the Company's new branches relative to the rate of these expenses at the other branches.

5.2.4 General and administrative expenses

In 2022, general and administrative expenses totaled approximately ILS 49,865 thousands, approximately 4.8% of sales turnover, compared to approximately ILS 43,772 thousands in the same period the previous year, approximately 4.5% of the sales turnover. The increase is primarily attributable to salary expenses and expenses for professional services which was partially offset by a reduction in share-based payments.

5.2.5 Other income

In 2022, other income totaled approximately ILS 1,585 thousands, compared to other income totaling approximately ILS 1,613 thousands in the same period the previous year. The revenues during the reporting period and same period the previous year are attributable to the profit from derecognizing lease liabilities.

5.2.6 Other expenses

In 2022, other expenses totaled approximately ILS 500 thousands, compared to other expenses totaling approximately ILS 1,100 thousands in the same period the previous year. The expenses in the reporting period and in the same period the previous year are attributable to a loss from the sale of fixed assets.

5.2.7 Financing revenues

In 2022, financing revenues totaled approximately ILS 2,664 thousands, compared to financing revenues totaling approximately ILS 485 thousands in the same period the previous year. The change is primarily attributable to an increase in profits from USD hedging transactions due to the strengthening of the USD against the ILS in 2022 by approximately 13%.

5.2.8 Financing expenses

In 2022, financing expenses totaled approximately ILS 21,471 thousands, compared to financing expenses totaling approximately ILS 17,601 thousands in the same period the previous year. The primary increase in financing expenses reflects currency differential expenses and financing expenses for lease liabilities, relative to the same period the previous year.

5.2.9 Net profit

The net profit in 2022 totaled approximately ILS 77,717 thousands, approximately 7.4% of sales turnover, compared to a net profit of approximately ILS 82,549 thousands, approximately 8.5% of sales turnover, in the same period the previous year. The decline in net profit is due to an increase in operating expenses as stated above.

5.2.10 Adjusted net profit

The adjusted net profit in 2022 totaled approximately ILS 89,056 thousands, approximately 8.5% of sales turnover, compared to an adjusted net profit of approximately ILS 98,051 thousands, approximately 10% of sales turnover, in the same period the previous year.

6. Liquidity

	For the year ended December 31		
	2022	2021	2020
		ILS 000's	
Cashflow from operating activities	201,013	37,437	159,999
Cashflow utilized for investment activities	(26,653)	(8,894)	(41,357)
Cashflow utilized for financing activities	144,167	(96,465)	(46,436)
Increase (decrease) in cash and cash equivalents	**30,193**	**(67,922)**	**72,206**

6.1 Cashflow from operating activities

Net cash deriving from operating activities in 2022 totaled approximately ILS 201,013 thousands, compared to approximately ILS 37,437 thousands in the same period the previous year. The increase in cashflow from operating activities is primarily attributable to the sale of inventories purchased as part of the Company's efforts to stock-up on inventory in previous periods in an effort to mitigate the impact of global supply chain disturbances due to the COVID-19 crisis.

6.2 Cashflow from investment activities

Net cash utilized for investment activity in 2022 totaled approximately ILS 26,653 thousands, compared to approximately ILS 8,894 thousands in net cash utilized for investment activity in the same period the previous year. The change is primarily attributable to a withdrawal of short-term deposits totaling ILS 24,500 thousands in the same period the previous year, and the purchase of fixed property primarily deriving from investing approximately ILS 26,748 thousands in the Chain's new branches in 2022, compared with approximately ILS 33,394 thousands in the same period the previous year.

6.3 Cashflow from financing activities

Net cash utilized for financing activity in 2022 totaled approximately ILS 144,167 thousands, compared to approximately ILS 96,465 thousands in net cash utilized for financing activity in the same period the previous year. The change is primarily attributable to changes in loans from banking corporations, payment of lease liabilities, payment of dividends to the Company's shareholders, buyback of the Company's shares, and dividends paid to minority shareholders.

7. Financial and Operational Key Performance Indicators (KPIs)

7.1 As of the publication date of the report, the Company's management utilizes a number of operating and financial metrics, which are not based on generally accepted accounting principles, in order to assess, measure, track and present the Company's operating and financial performance. These metrics, which are included in managerial reports and investor presentations being submitted concurrently with this report, should not be understood as being an alternative to the information included in the Company's financial statements. Below is a description of the metrics:

KPI	For the year ended December 31			For the three-month period ending on December 31	
	2022	2021	2020	2022	2021
The rate of change in SSS (same store sales)[6]	(1.5%)	6.5%	11.5%	(2.8%)	(17.1%)
Rate of change in the average basket price[6] - in an owned store	3.2%	8.6%	21.3%	1.7%	3.2%
Rate of change in the average basket price[6] - in a franchised store	0.4%	9.2%	22.6%	2.1%	2.5%
EBITDA (ILS 000's)	187,187	180,489	200,331	49,537	41,134
EBITDA excluding activities involving selling PPE (ILS 000's)	187,187	180,489	185,987	49,537	41,134
Adjusted EBITDA (ILS 000's)	136,956	142,881	156,996	33,903	33,383
Adjusted EBITDA excluding activities from selling PPE (ILS 000's)	136,956	142,881	142,652	33,903	33,383

[6] The rate of change is relative to the same period the previous year.

KPI	Calculation / components	Objective of the KPI
EBITDA	Operating profit, neutralizing depreciation and amortization and other expenses/revenues.	A commonly used KPI, which serves as an indicator of the cashflow being derived from the Company's operating activities, offsetting the impact of the Company's capital structure, the impact of one-off or exceptional events in the Company's affairs, and the impact of taxes and financing.
Adjusted EBITDA	EBITDA while offsetting the impact of Standard 16 and expenses for share-based payments recognized during the reporting period.	The objective of using this KPI is to present the Company's EBITDA while offsetting the impact of the application of Standard 16 and expenses for share-based payments recognized during the reporting period. For a description of the adjustments made to net profit and adjusted EBITDA, see the table below.
Same Store Sales	The rate of change in sales in stores owned by the Company and operating for a period of one or more calendar years.	This datapoint, which is generally presented as a percentage relative to the preceding period, enables the Company's management to measure the annual (periodic) change in sales, neutralizing stores that have been open for less than one year, and presents a reliable picture of the change in business activity for the Company's management without any distortion from stores which have not yet established themselves and been operating for a full year.
Rates of change in the average basket price	The rate of change between the total calculated by dividing the total sum of all transactions by the number of transactions during the reporting period relative to a corresponding or previous reporting period.	This metric presents the Company's management with a picture of the rate of increase or decline in the average amount customers spend on one occasion, and enables the Company's management to consider ways to differentiate different shopping quantities and to increase marketing.

7.2 Presented below is a description of the adjustments made to the Company's gross profit, EBITDA, and adjusted EBITDA (ILS 000's):

	2022	2021	2020
Net profit	77,717	82,549	87,629
Tax expenses	26,922	28,909	30,542
Financing expenses, net	18,807	17,116	32,558
Depreciation and amortization	64,826	52,428	45,347
Other expenses (revenues)	(1,085)	(513)	4,255
EBITDA	**187,187**	**180,489**	**200,331**
Adjustments to EBITDA excluding activities involving selling PPE	-	-	(14,344)
EBITDA excluding activities involving selling PPE	**187,187**	**180,489**	**185,987**
Adjustments to adjusted EBITDA[3]	(50,231)	(37,608)	(43,335)
Adjusted EBITDA excluding activities involving selling PPE	**136,956**	**142,881**	**142,652**

[7] Adjusted EBITDA - see Section 7.1 above.

8. Sources of financing

8.1 The Company primarily finances its operations from its operating activities and from credit from banking corporations.

8.2 Banking credit

The balance of credit obtained by the Company from banking corporations (including current maturities) as of December 31, 2022, totaled approximately ILS 47,562 thousands, compared with a total amount of approximately ILS 70,501 thousands as of December 31, 2021. The decrease in the balance of credit from banking corporations primarily derives from the net repayment of loans by the Company in light of its increased cashflow from operating activities.

8.3 Supplier credit

The Company receives credit from its suppliers for variable periods according to its agreements with the different suppliers, the vast majority of which are under terms of net 60 days EOM. The total average scope of credit provided by the Company's suppliers in 2021 and 2022 was approximately ILS 97,000 thousands and ILS 100,000 thousands, respectively. The average number of days of credit for suppliers in 2022 was 68 days, compared to 62 days in 2021.

8.4 Customer credit

The average credit period for customers is 20 days. Most sales are performed on credit card. For more information about the Company's sources of financing see Notes 11 and 14 to the annual financial statements.

8.5 Management of financial risks

For more information about the management of the Company's financial risks, see Note 16D to the annual financial statements.

B. Aspects of corporate governance

9. The Company's policy on donations

The Company sees great importance in social involvement which is an important component of the Company's policy. In this regard the Company acts to advance the issue through partnerships and community donations, including volunteering with distributing food baskets and vouchers to weak population segments, adopting an armor battalion, making cash donations, and donating Company products to a wide range of NGOs and hospitals. In 2022, the Company made donations in immaterial amounts.

10. Directors with accounting and financial expertise

The minimum number of directors with accounting and financial expertise appropriate for the Company, as determined by the Company's board of directors pursuant to Section 92(a)(12) of the Companies Law, 1999 (the "**Companies Law**"), is two directors. This determination was made based on the nature of the accounting and auditing issues which arise in preparing the Company's financial statements, the Company's operating segments, the size of the Company and the scope and complexity of its operations. As of the publication date of the report, there are four (4) directors serving on the Company's board of directors with accounting and financial expertise, including: Ms. Zehavit Cohen, Mr. Shay Aba, Mr. Peretz Guza and Mr. Guy Gissin. For more information regarding these directors, see Chapter D of this report.

11. Independent directors

As of the date of the report, the Company has not adopted any provisions in its articles of association regarding the number of independent directors required under Schedule I to the Companies Law.

12. Disclosure about the Company's auditor

Identity of the auditor

The accounting firm of Kost Forer Gabbay and Kasierer is the auditor of the Company and its subsidiaries (the "**Auditor**").

Auditor's fees

Presented below are details regarding the fees paid to the Auditor for audit services, audit-related services, tax and other services to the entire Group in 2022 and 2021 (ILS 000's):

Year	Audit services	Tax services	Other services
2022	1,040	516	25
2021	1,197	404	15

The fees paid to the Company's Auditor have been established through negotiations conducted by and between the Auditor and the Company's management, based on an estimated fee for the provision of the services, based on the number of hours invested by the Auditor. The fees paid to the Auditor are approved by the Company's board of directors.

13. Disclosure regarding the Company's internal auditor

Name: Dana Gottesman Erlich

Date of commencement of service: October 10, 2019.

Internal auditor's compliance with statutory requirements: To the best of the Company's knowledge, as the internal auditor has informed the Company, the internal auditor is in compliance with the provisions stipulated in Section 146(b) of the Companies Law and Sections 3(a) and 8 of the Internal Audit Law, 1992 (the "**Internal Audit Law**").

Internal auditor's affinity with the Company or affiliated entities: The internal auditor is not an employee of the Company; rather, she provides the Company with internal audit services as an external service provider on behalf of the accounting firm BDO Ziv Haft. Her activities do not give rise to a conflict of interests with her role as the Company's internal auditor. The internal auditor does not have any other position in the Company. The internal auditor serves as internal auditor of a number of other public companies.

Manner of appointment: The appointment of the Company's internal auditor was approved on October 10, 2019, by the Company's board of directors after the Company's management and board of directors carefully examined her experience, met with her and after she was able to make a direct impression on them.

Organizational supervisor of the internal auditor: The chairperson of the Company's board of directors is the direct supervisor of the internal auditor.

Internal auditor's work plan: The audit plan is a multi-year plan based on a risk analysis presented to the audit committee on April 6, 2021. Planning the objectives of the audit, establishing preferences and the frequency of the audit are influenced by the following factors: The likelihood of managerial and administrative deficiencies, the exposure to activity and operating risks, specific matters the board of directors requests be audited, matters required under applicable law, under an internal or external audit policy, the need to cyclically audit matters which have already been examined in the past and more. The Company's internal auditor's annual work plan was established jointly with the Company's management, the board of directors and the internal auditor. The 2022 annual audit plan was approved in December 2021. The 2023 annual audit plan was approved in December 2022.

Scope of internal auditor's work: In 2022, the scope of the internal auditor's work was approximately 1,000 hours of audit work.

Performance of the audit: The Company has been informed by the internal auditor that she works in accordance with customary professional standards set forth in Section 4(b) of the Internal Audit Law, in accordance with professional standards and guidelines established by the Global Institute of Internal Auditors and adopted by the Israel Institute of Internal Auditors. The board of directors has relied on the internal auditor's reports regarding her compliance with the professional standard requirements under which she performs the audit.

Access to information: The internal auditor has free access as required under Section 9 of the Internal Audit Law, including constant and direct access to the Company's IT systems, including financial data.

Internal auditor's report: The audit reports are submitted in writing to the chairman of the audit committee and are discussed by the Company's audit committee. The members of the Company's audit committee were submitted written reports on the audit findings for the reporting year on March 27, 2022, April 6, 2022, July 26, 2022, August 18, 2022, November 2, 2022 and December 18, 2022.

The board's assessment of the internal auditor's activities: To the best knowledge of the Company's board of directors, the nature and scope of the internal auditor's work plan for the 2022 annual period are reasonable under the circumstances and are sufficient to fulfill the objectives of the Company's internal audit.

Internal auditor's remuneration: The internal auditor's remuneration in 2022 was approximately ILS 200 thousands. The payment is calculated based on actual audit hours and on the agreed-upon hourly rate approved for each audit based on the annual working plan, the remuneration is not variable based on the audit outcome, and therefore does not impact the audit results. It is the view of the board of directors that the remuneration paid to the internal auditor does not impact her professional judgment.

For more information about the Company's internal auditor also see Regulation 26A in Chapter D of the periodic report.

March 19, 2023

Zehavit Cohen **Board Chairperson**	**Ori Max** **CEO**

Addendum A to the Board of Directors Report - A linkage adjusted balance sheet as of December 31, 2022 (ILS 000's)

	ILS	USD	EUR	Total
Current assets				
Cash and cash equivalents	78,568	1,313	653	80,534
Trade receivables (customers)	81,790	-	-	81,790
Current tax rebates	8,484	-	-	8,484
Accounts receivable and credit balances	10,872	-	-	10,872
Inventory	159,354	-	-	159,354
	339,068	1,313	653	341,034
Non-current assets				
Long-term deposit	248	-	-	248
Fixed assets (property, plant and equipment), net	90,147	-	-	90,147
Right-of-use assets, net	552,840	-	-	552,840
Deferred taxes	11,054	-	-	11,054
	654,289	-	-	654,289
	993,357	**1,313**	**653**	**995,323**
Current liabilities				
Credit from banking corporations	25,395	-	-	25,395
Lease liabilities	52,397	-	-	52,397
Trade payables (liabilities to vendors, suppliers and service providers)	80,188	16,624	197	97,009
Current taxes payable	2,733	-	-	2,733
Accounts payable and debit balances	33,743	-	-	33,743
Financial derivatives	-	82		82
	194,456	16,706	197	211,359
Non-current liabilities				
Loans from banking corporations	22,167	-	-	22,167
Lease liabilities	544,916	-	-	544,916
Liabilities for employee benefits	2,643	-	-	2,643
	569,726	-	-	569,726
Equity				
Equity attributable to Company's shareholders	202,067	-	-	202,067
Minority interests	12,171	-	-	12,171
Total equity	214,238	-	-	214,238
	978,420	**16,706**	**197**	**995,323**

The above figures represent the Group's comprehensive linkage adjusted balance sheet. The treatment of foreign exchange exposure was done based on Israel as the region, due to the fact that it is Israel's currency differentials which impact the financing costs/revenues in the report of profit and loss.

CHAPTER C – FINANCIAL STATEMENTS AS OF DECEMBER 31, 2022

Max Stock Ltd.

Consolidated Financial Statements

As of December 31, 2022

Max Stock Ltd.

Consolidated Financial Statements as of December 31, 2022

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Kost Forer Gabbay & Kasierer
2 Hapalyam Blvd., Brosh Building,
Haifa 3309502

Tel: +972-4-8654000
Fax: +972-3-5633433
ey.com

Auditor's Report to the Shareholders of
Max Stock Ltd.

We have audited the accompanying consolidated statements of financial position of Max Stock Ltd. (hereinafter – the "Company") as of December 31, 2022, and 2021, and the related consolidated statements of profit or loss and other comprehensive profit, changes in equity, and cashflows for each of the three years in the period ended December 31, 2022. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in Israel, including the standards set forth in the Audit Regulations (Auditor's Operating Methods), 1973. Those standards require that we plan and perform the audit in order to obtain a reasonable measure of assurance that the financial statements are free of material misrepresentation. An audit includes examining samples of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles applied and significant estimates made by the Company's board of directors and management, as well as assessing the overall presentation of the financial statements. We believe that our audit provides a sufficient basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, with respect to all material aspects, the financial position of the Company and its consolidated companies as of December 31, 2022, and 2021, and their operating results, changes in their equity, and cashflows for each of the three years in the period ended December 31, 2022, in accordance with International Financial Reporting Standards ("IFRS") and the Israeli Securities Regulations (Annual Financial Statements), 2010.

Respectfully,

Haifa, Israel
March 19, 2023

Kost Forer Gabbay & Kasierer
Auditors

Consolidated Statements of Financial Position

	Note	As of December 31 2022	2021
		ILS 000's	
Current Assets			
Cash and cash equivalents	5	80,534	50,341
Trade receivables (customers)	6	81,790	75,647
Current tax rebates		8,484	2,559
Accounts receivable and credit balances	7	10,872	9,906
Inventory	8	159,354	213,656
		341,034	352,109
Non-current assets			
Long-term deposit		248	160
Fixed assets (property, plant and equipment), net	9	90,147	76,196
Right-of-use assets, net	10	552,840	533,909
Deferred taxes, net	27	11,054	9,779
		654,289	620,044
		995,323	**972,153**
Current Liabilities			
Credit from banking corporations	11	25,395	46,656
Lease liabilities	10	52,397	56,837
Trade payables (liabilities to vendors, suppliers and service providers)	12	97,009	92,599
Current taxes payable		2,733	2,928
Financial derivatives	16	82	602
Accounts payable and debit balances	13	33,743	29,454
		211,359	229,076
Non-Current Liabilities			
Loans from banking corporations	14	22,167	23,845
Lease liabilities	10	544,916	516,088
Liabilities for employee benefits	17	2,643	2,534
		569,726	542,467
Equity	18		
Equity attributable to Company's shareholders		202,067	188,076
Minority interests		12,171	12,534
Total equity		214,238	200,610
		995,323	**972,153**

March 19, 2023			
Financial statements approval date	Zehavit Cohen Chairperson of the Board of Directors	Ori Max Director and CEO	Nir Dagan Deputy CEO and CFO

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

Consolidated Statements of Profit or Loss and Other Comprehensive Profit

	Note	2022	2021	2020
		For the year ended December 31		
		ILS 000's		
Revenues from sales	20	1,048,801	976,273	1,010,495
Cost of goods sold	21	630,491	597,000	651,562
Gross profit		418,310	379,273	358,933
Sales and marketing expenses	22	246,084	207,440	170,167
General and administrative expenses	23	49,865	43,772	33,782
Other income	25	(1,585)	(1,613)	(1,224)
Other expenses	25	500	1,100	5,479
Operating profit		123,446	128,574	150,729
Financing revenues	24	(2,664)	(485)	(1,118)
Financing expenses	24	21,471	17,601	20,400
Financing expenses for extraordinary transactions	1	-	-	13,276
Profits before taxes on income		104,639	111,458	118,171
Taxes on income	27	26,922	28,909	30,542
Net profit		77,717	82,549	87,629
Total other comprehensive profit (loss):				
Amounts not to be reclassified to profit or loss:				
Profit (loss) from remeasurement of defined benefit plan		240	(351)	(32)
Translating financial statements from operating currency to presentation currency		7	-	-
Total comprehensive profit		77,964	82,198	87,597
Net profit attributable to:				
Shareholders of the Company		64,163	68,197	72,647
Minority interests		13,554	14,352	14,982
		77,717	82,549	87,629
Total comprehensive profit attributable to:				
Shareholders of the Company		64,369	67,897	72,615
Minority interests		13,595	14,301	14,982
		77,964	82,198	87,597
Net profit per share attributable to shareholders of the Company (ILS)	26			
Base net profit		0.45	0.48	0.51
Diluted net profit		0.45	0.47	0.51

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

Consolidated Statements of Changes in Equity

	Attributable to the Equity Holders of the Company										
	Share capital	**Premium for shares**	**Reserve for share-based payments**	**Treasury stock**	**Adjustments from translating financial reports for external operations**	**Reserve for transactions with minority shareholders**	**Reserve for remeasurement of defined benefit plans**	**Profit balance**	**Total**	**Minority interests**	**Total equity**
						ILS 000's					
Balance as of January 1, 2020	**- (*)**	**36,526**	**-**	**-**	**-**	**(777)**	**(112)**	**70,897**	**106,534**	**13,522**	**120,056**
Net profit	-	-	-	-	-	-	-	72,647	**72,647**	14,982	**87,629**
Total other comprehensive loss	-	-	-	-	-	-	(32)	-	**(32)**	-	**(32)**
Acquisition of minority rights	-	-	-	-	-	(4,220)	-	-	**(4,220)**	(1,580)	**(5,800)**
Cost of share-based payments	-	-	2,345	-	-	-	-	-	**2,345**	-	**2,345**
Dividend to minority shareholders	-	-	-	-	-	-	-	-	-	(8,606)	**(8,606)**
Balance as of December 31, 2020	**- (*)**	**36,526**	**2,345**	**-**	**-**	**(4,997)**	**(144)**	**143,544**	**177,274**	**18,318**	**195,592**
Net profit	-	-	-	-	-	-	-	68,197	**68,197**	14,352	**82,549**
Total other comprehensive loss	-	-	-	-	-	-	(300)	-	**(300)**	(51)	**(351)**
Acquisition of minority rights	-	-	-	-	-	(2,597)	-	-	**(2,597)**	(792)	**(3,389)**
Options for employees	-	-	15,502	-	-	-		-	**15,502**	-	**15,502**
Dividend to minority shareholders	-	-	-	-	-	-	-	-	-	(19,293)	**(19,293)**
Dividend to Company shareholders	-	-	-	-	-	-	-	(70,000)	**(70,000)**	-	**(70,000)**
Balance as of December 31, 2021	**- (*)**	**36,526**	**17,847**	**-**	**-**	**(7,594)**	**(444)**	**141,741**	**188,076**	**12,534**	**200,610**
Net profit	-	-	-	-	-	-	-	64,163	**64,163**	13,554	**77,717**
Other comprehensive profit	-	-	-	-	5	-	201	-	**206**	41	**247**
Acquisition of minority rights	-	-	-	-	-	(1,817)	-	-	**(1,817)**	(661)	**(2,478)**
Minority interests created for a company first being consolidated	-	-	-	-	-	-	-	-	-	45	**45**
Cost of share-based payments	-	-	11,339	-	-	-	-	-	**11,339**	-	**11,339**
Exercise of options	-	6,331	(6,331)	-	-	-	-	-	-	-	-
Buyback of Company shares	-	-	-	(19,900)	-	-	-	-	**(19,900)**	-	**(19,900)**
Dividend to Company shareholders	-	-	-	-	-	-	-	(40,000)	**(40,000)**	-	**(40,000)**
Dividend to minority shareholders	-	-	-	-	-	-	-	-	-	(13,342)	**(13,342)**
Balance as of December 31, 2022	**- (*)**	**42,857**	**22,855**	**(19,900)**	**5**	**(9,411)**	**(243)**	**165,904**	**202,067**	**12,171**	**214,238**

(*) The balance is less than ILS 1 thousand.

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

Consolidated Statements of Cashflows

	For the year ended 31 December		
	2022	2021	2020
	ILS 000's		
Cashflows from Operating Activities:			
Net profit	77,717	82,549	87,629
Adjustments required to present cashflows from operating activities (a)	123,296	(45,112) (*)	72,370 (*)
Net cash deriving from operating activities	201,013	37,437	159,999
Cashflows from Investment Activities			
Acquisition of fixed assets (property, plant and equipment)	(26,748)	(33,394)	(17,497)
Proceeds from sale of fixed assets	25	-	640
Repayment of deposit to lessor	25	-	-
Investment in a subsidiary first consolidated (b)	45	-	-
Withdrawal of (investment in) a short-term deposit	-	24,500	(24,500)
Net cash used for investment activities	(26,653)	(8,894)	(41,357)
Cashflows from Financing Activities			
Obtaining long-term loans from banking corporations	17,000	25,000	20,500
Repayment of long-term loans from banking corporations	(21,731)	(18,011)	(20,992)
Obtaining short-term loans from banking corporations	11,000	27,458	40,000
Repayment of short-term loans from banking corporations	(29,208)	-	(40,000)
Lease payments	(45,508)	(38,230)	(30,267)
Buyback of Company shares	(19,900)	-	-
Acquisition of minority rights	(2,478)	(3,389)	(7,071)
Dividend paid to minority shareholders	(13,342)	(19,293)	(8,606)
Dividend paid to Company shareholders	(40,000)	(70,000)	-
Net cash used in financing activities	(144,167)	(96,465)	(46,436)
Increase (decrease) in cash and cash equivalents	30,193	(67,922)	72,206
Balance of cash and cash equivalents at beginning of year	50,341	118,263	46,057
Balance of cash and cash equivalents at end of year	80,534	50,341	118,263

(*) Reclassified.

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

Consolidated Statements of Cashflows

	For the year ended December 31		
	2022	2021	2020
		ILS 000's	
(A) Adjustments required to present cashflows from operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	64,826	52,428	45,347
Financing expenses, net	19,327	19,252	29,820 (*)
Profit from derecognizing lease liabilities	(1,585)	(1,613)	(1,224)
Decrease in fair value of financial derivatives	(520)	(2,136)	2,738 (*)
Cost of share-based payments	11,339	15,502	2,345
Change in liabilities for employee benefits, net	349	247	(61)
Taxes on income	26,922	28,909	30,542
Capital loss	500	1,100	866
	121,158	113,689	110,373
Changes in property and liability items:			
Increase in customers	(6,143)	(1,907)	(19,771)
Decrease (increase) in receivables and credit balances	(741)	8,467	(6,948)
Decrease (increase) in inventory	54,302	(86,384)	(24,917)
Increase (decrease) in trade payables (liabilities to vendors, suppliers and service providers)	4,410	(24,291)	57,866
Revenues (payments) from exercising financial derivatives	2,069	(2,702) (*)	62 (*)
Increase in creditors and debit balances	3,955	1,282	9,394 (*)
	57,852	(105,535)	15,686
Cash paid during the year for:			
Interest paid	(21,396)	(16,548)	(16,606)
Interest paid for extraordinary transactions	-	-	(13,276)
Taxes paid, net	(34,318)	(36,718)	(23,807)
Total adjustments required to present cashflows deriving from operating activities	123,296	45,112 (*)	72,370 (*)
(B) Investment in a subsidiary first consolidated			
Assets and liabilities of the consolidated company as of the acquisition date:			
Working capital (excluding cash and cash equivalents)	(113)	-	-
Long-term deposit	113	-	-
Minority interests	45	-	-
	45	-	-
(C) Non-cash material activity:			
Recognition of a right-of-use asset against a lease liability	84,882	103,776	190,000
Derecognizing a right-of-use asset against a lease liability	(11,233)	(32,570)	(8,429)

(*) Reclassified.

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

NOTE 1: GENERAL

A. General description of the Group and its activities:

Max Stock Ltd. (hereinafter – the "Company") was incorporated in Israel as a private company on December 16, 2004. On November 17, 2015, the Company's name was changed to "Max Management Israel Ltd." and on March 10, 2020, its name was changed back to its current name - "Max Stock Ltd.". On September 14, 2020, the Company's shares were first offered to the public through a tender offer on the Tel Aviv Stock Exchange Ltd. ("TASE") under a tender offer prospectus and shelf prospectus and the Company became a public company.

From incorporation, the Company has been engaged in a retail business through operating a national "discount" chain of stores offering a range of household products at attractive prices trading under the "Max - Fun Shopping" and "Mini Max" names. The Company operates branches throughout Israel through subsidiaries and franchisees.

Establishment of a Max Stock store-chain in Portugal

On August 15, 2022, the Company entered into an agreement with Fortera Properties, LDA ("**Fortera**") to establish a joint venture through the establishment of a common company in Portugal, which shall be jointly owned by the Company (75%) and Fortera (25%), for the purpose of establishing and managing the Max Stock store-chain in Portugal. For further details see Note 15 - contingent liabilities, guarantees, commitments and charges.

B. Definitions:

In these financial statements –

Company -	Max Stock Ltd.
Group -	the Company and its consolidated companies.
Consolidated companies -	companies controlled by the Company (as defined in IFRS 10) and whose financial statements are consolidated with the Company's financial statements.
Affiliate/s and/or related party/ies -	as defined in IAS 24.

C. Impact of COVID-19 on the Group's activities

The COVID-19 virus (the "**virus**" or "**COVID-19**") pandemic emerged in China during Q1 2020 and subsequently spread to many countries around the world, including Israel. The spread of COVID-19 has had widespread micro and macro economic effects, which, only naturally, have also materially impacted the Chain's operations. The COVID-19 restrictions included restrictions on movement, commerce and manpower being present at work-places.

Over 2020-2022, the severity of the virus around the world in general and particularly in Israel has been highly volatile and therefore the actions and measures taken to halt the virus have accordingly also been highly volatile in terms of scope and magnitude.

NOTE 1: GENERAL (Cont.)

C. Impact of COVID-19 on the Group's activities (Cont.)

During the reporting period, in light of a decline in morbidity in Israel, the 'green standard' outline was cancelled with respect to various sectors of the economy, including retail commercial activity; moreover, restrictions on mass-participant gatherings and cultural shows were cancelled, and other restrictions pertaining to tourism and aviation were also cancelled.

Similarly, during and subsequent to the reported period, the obligation to wear face masks in closed spaces was cancelled, including in hospitals, elderly care facilities, and it only remained in force for people enroute to quarantine. As of the publication date of the report, the Company and the Chain's stores are not subject to any COVID-19 related restrictions.

During the reporting period and as of the publication date of this report, COVID-19 did not have a material impact on the Company's operating results and the Chain's stores.

It should be noted that, by its very nature, the spread of COVID-19, its impact and scope, are constantly changing and being assessed, and the Company has no control over it; therefore, the information, data and assessments made by the Chain and set forth in this report are based on the information available to the Company as of the approval date of the financial statements.

D. Transactions to Sell Protective Equipment

Following the outbreak of COVID-19 and its impact in Israel, a great need arose and high demand was generated for personal protective equipment against the Virus by the general public and large institutional entities, including hospitals and governmental institutions. Due to a shortage in protective equipment, as said, including face masks, robes, and coveralls (hereinafter: "**PPE**"), during March-April 2020, the Company entered three (3) transactions to purchase and import PPE. As part of these transactions, third parties, including the Company's controlling shareholders (hereinafter: the "**Additional Financers**"), provided loans in order to complete the financing required for the execution of said transactions, and the Company was the party which executed the transactions, including purchasing the PPE from the Company's suppliers abroad, transporting the PPE by air to Israel, storing it and selling it to third parties. The customers of these transactions were mostly institutional and security entities. The Additional Financers were entitled to repayment of the loans provided by them and a yield (hereinafter: the "**Payments**"), determined according to the performance of the transaction and according to their relative share in the provision of the total financing for the transaction. The amount of the Payments has been included in the financing expenses line item in the 2020 consolidated statements of profit or loss and other comprehensive profit.

As of December 31, 2020, all the PPE has been sold and supplied to the customers, and no PPE inventory from these transactions has remained with the Company.

All loans from the Additional Financers have been repaid together with the Payments.

NOTE 1: GENERAL (Cont.)

D. Transactions to Sell Protective Equipment (Cont.)

Presented below are the primary operating results included in the consolidated financial statements for the year ended December 31, 2020:

	ILS 000's (Unaudited)
Revenues from sales	124,800
Cost of goods sold	110,456
Gross Profit	14,344
Commissions/fees as part of financing expenses	13,276
Profit attributed to the Company	1,068

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied in the financial statements for all periods presented, except where stated otherwise.

A. Basis of presentation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter - "IFRS").
Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements have been prepared on a cost basis, except for assets and financial liabilities (including derivative instruments) which are presented at fair value through profit or loss, provisions/allowances, deferred tax assets and liabilities due to employee benefits.

B. The operating cycle

The Company's operating cycle 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 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 consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling (minority) interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling (minority) 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 non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as a change in equity by adjusting the carrying amount of the non-controlling interests with a corresponding adjustment of the equity attributable to equity holders of the Company less / plus the consideration paid or received.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Functional currency, presentation currency and foreign currency

1. Functional/operational currency and presentation currency

The Group's operating and presentation currency is ILS.

The functional currency is the currency that best reflects the economic environment in which the Company operates and its transactions, it is determined separately for each company in the Group, and its financial position and operating results are measured according to that currency.

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 capitalized to qualifying assets or accounted for as hedging transactions in equity, are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

3. CPI-linked money 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.

E. Cash equivalents

Cash equivalents are considered as 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 which are redeemable on demand without penalty and which form part of the Group's cash management.

F. Shorts term deposits

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable 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 Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.
Cost of inventories is determined as follows:

Purchased merchandise and products - according to the cost of purchase using the "first-in, first-out" method.

H. Fixed assets

Fixed assets are presented at cost plus direct acquisition costs, less accumulated depreciation, less impairment losses, and do not include current maintenance expenses.

Amortization is calculated at equal annual rates based on the straight-line method over the useful life of the property, as follows:

	%
Motor vehicles	15
Office furniture and equipment	7
Computers, peripheral equipment and software	25
Leasehold improvements and installations	10

Leasehold improvements are depreciated on a straight-line basis over 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 residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimates. For an examination/review of the impairment of fixed assets, see section L below.

A property is derecognized on disposal or when no future economic benefits are expected from the use thereof. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of the disposal.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Taxes on income

The tax results for current or deferred taxes are recognized in profit or loss, unless they relate to items which are recognized in other comprehensive profit or equity.

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.

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 tax balances are measured at the tax rate that is expected to apply when the asset is realized 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 and reduced to the extent that it is not probable that they will be utilized. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

J. Revenue Recognition

Revenue from contracts with customers is recognized 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).

Revenue from the sale of goods

Revenue from the sale of goods is recognized in profit or loss at the point in time when the control of the goods is transferred to the customer. Generally, control is transferred upon delivery of the goods to the customer.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Revenue Recognition (Cont.)

Revenues from franchisee payments

Under agreements with franchisees, the Company is entitled to receive a monthly commission for the franchise services based on a percentage of the franchisees' sales turnover or purchases. Revenues from the payments are recognized on a regular basis over the term of the contract.

Recognizing revenues on a gross or net basis

In determining the amount of revenue from contracts with customers, the Company evaluates whether it is a principal or an agent in the arrangement. The Company is a principal when the Company controls the promised goods or services before transferring them to the customer. In these circumstances, the Company recognizes revenue for the gross amount of the consideration. When the Company is an agent, it recognizes revenue for the net amount of the consideration, after deducting the amount due to the principal.

K. Leases

On January 1, 2019, the Company first applied International Financial Reporting Standard 16 - Leases (hereinafter the “Standard”). The Company elected to apply the provisions of the Standard using the modified retrospective method (without restatement of comparative data).

The accounting policy for leases applied from January 1, 2019, is as follows:
The Company accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

1. The Group as a lessee

For leases in which the Company is the lessee, the Company recognizes 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 which the Company chose to recognize the lease payments as an expense in a straight line profit or loss over the period of the lease.

Leases which 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, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred.
The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life and the lease term. The Company tests for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Leases (Cont.)

2. Variable lease payments linked to an index

On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cashflows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

3. Lease extension and termination options

A non-cancelable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.
In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

4. Lease modifications

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.
If a lease modification reduces the scope of the lease, the Company recognizes a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Company subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

L. Impairment of non-financial assets

The Company 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 cashflows are discounted 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 cashflows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Impairment of non-financial assets (Cont.)

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

M. Financial instruments

1. Financial assets

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 cashflow terms of the financial asset.

Debt instruments are measured at amortized cost when:

The Company's business model is to hold the financial assets in order to collect their contractual cashflows, and the contractual terms of the financial assets give rise on specified dates to cashflows 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 amortized 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.

2. Impairment of financial assets

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of loss allowances:

a) Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low - the loss allowance recognized 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 recognized is measured at an amount equal to the expected credit losses over the instrument's remaining term (lifetime ECLs).

NOTE 2: <u>SIGNIFICANT ACCOUNTING POLICIES (Cont.)</u>

M. <u>Financial instruments (Cont.)</u>

2. <u>Impairment of financial assets (Cont.)</u>

The Company has short-term financial assets such as trade receivables in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses.

An impairment loss on debt instruments measured at amortized cost is recognized 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 measured at fair value through other comprehensive income is recognized 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.

3. <u>Derecognizing/impairing financial assets</u>

A financial asset is derecognized only when:

a) The contractual rights to the cashflows from the financial asset have expired; or
b) The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cashflows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
c) The Company has retained its contractual rights to receive cashflows from the financial asset but has assumed a contractual obligation to pay the cashflows in full without material delay to a third party.

4. <u>Financial liabilities</u>

<u>Financial liabilities measured at amortized cost</u>

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.
After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method, except for financial liabilities at fair value through profit or loss such as derivatives.

5. <u>Derecognizing financial liabilities</u>

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or canceled 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 modification or exchange is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M. Financial instruments (Cont.)

5. Derecognizing financial liabilities (Cont.)

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 cashflows at the original effective interest rate and any resulting difference is recognized 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 a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. 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 bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

N. Liabilities for employee benefits

The Group has several employee benefit plans:

1. Short-term employee benefits

Short-term employee benefits are benefits that are expected to be settled wholly before 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 recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized 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.

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.

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions 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 recognized as an expense when contributed concurrently with performance of the employee's services.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Liabilities for employee benefits (Cont.)

2. Post-employment benefits (Cont.)

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies (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.

O. Profit/earnings (loss) per share

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company 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 their conversion decreases earnings 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 in basic earnings per share. The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

P. Provisions/Allowances

A provision in accordance with IAS 37 is recognized 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 recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

Following are the types of provisions included in the financial statements:

Legal claims

A provision for claims is recognized 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.

Q. Share-based payment transactions

The Company's employees / other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions. The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. Share-based payment transactions (Cont.)

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award (hereinafter - the "vesting period"). The cumulative expense recognized 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.

R. Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards

Amendment to IFRS 16 - Leases

In light of the crisis ensuing the spread of COVID-19, in May 2020 the IASB published an amendment to IFRS 16 - Leases (hereinafter - the Amendment).

The objective of the Amendment is to enable lessees to apply a practical expedient whereby changes in lease payments resulting from the COVID-19 crisis will not be treated as lease modifications but rather as variable lease payments. The Amendment only applies to lessees.

The Amendment will only apply to changes in lease payments which **cumulatively** satisfy the following three conditions:

- The amended future lease payments are materially identical to or less than the payments the lessee was required to pay prior to the modification;
- The decrease in lease payments is for payments which refer to the period prior to June 30, 2021; and
- There has been no material change to the other terms and conditions in the lease agreement.
- The Amendment will be applied for annual periods commencing on June 1, 2020, and will apply retroactively with earlier application permitted.

The Company chose to apply the Amendment early and to apply to for all the modifications to lease payments arising from the COVID-19 crisis. Accordingly, in light of a waiver of lease payments for April 2020 totaling approximately ILS 1.5 million, in 2020 the Company recognized a decrease in amortization expenses in the same amount which has been included in the sales and marketing expenses item.

NOTE 3: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

A. Judgments

Determining the fair value of share-based payment transactions

The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

Discount rate for a lease liability

The Company is unable to readily determine the discount rate implicit in a lease and therefore it uses the incremental borrowing rate to calculate the lease liability. That rate represents the rate of interest that the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. When there are no financing transactions that can serve as a basis, the Company determines the incremental borrowing rate based on its credit risk, the lease term and other economic variables deriving from the lease contract's conditions and restrictions. The Company is assisted by an external valuation expert in determining the incremental borrowing rate.

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. The Company’s management relies upon past experience, various facts, external factors and reasonable assumptions when formulating the accounting principles, depending on the circumstances. Changes in accounting estimates are reported in the period of the change in estimate.
The key assumptions 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 estimating the likelihood of outcome of legal claims filed against the Company and its investees, the companies rely on the opinion of their legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and legal precedents in respect of the different issues. Since the outcome of the claims will be determined by the courts, the results could differ from these estimates. The possible implications include a change with the amount of the allowance for the claims or not making an allowance for the claims.

NOTE 3: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

B. Estimates and assumptions (Cont.)

Slow-moving and dead inventory

At each reporting date the Company evaluates the balance of inventories and makes suitable provisions for impairments to the value of the inventory, while examining it according to its characteristics:

1. Seasonal inventory

   The establishment of estimates is, *inter alia*, based on the inventory figures as of the reporting date and on the ability to sell the inventory based on past experience. The Company includes a reduction for impairment to inventory according to established criteria defined by it. Beyond implementing the defined criteria established by it, the Company performs specific assessments of the required reduction at the end of each sales season for all the seasonal inventory, according to the assessment of the Company's management, based, among other things, on sales figures.

2. Multi-season / multi-year inventory

   For the other inventory items (including inventory items which have been defined as multi-season / multi-year), the Company includes a general reduction for impairment to inventory according to established criteria defined by it. Beyond implementing the defined criteria established by it, the Company performs specific assessments of the required reduction for all the inventory irrespective of age, according to the assessment of the Company's management, based, among other things, on sales figures at the end of each reporting period.

Lease extension and/or termination options

In evaluating whether it is reasonably certain that the Company will exercise an option to extend a lease or not exercise an option to terminate a lease, the Company considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend or not exercise the option to terminate such as: significant amounts invested in leasehold improvements, the significance of the underlying asset to the Company's operation and whether it is a specialized asset, the Company's past experience with similar leases, etc.
After the commencement date, the Company reassesses the term of the lease upon the occurrence of a significant event or a significant change in circumstances that affects whether the Company is reasonably certain to exercise an option or not exercise an option previously included in the determination of the lease term, such as significant leasehold improvements that had not been anticipated on the lease commencement date, sublease of the underlying asset for a period that exceeds the end of the previously determined lease period, etc. Possible implications include an increase or decrease in the right-of-use asset and lease liability, and a corresponding change in depreciation and financing expenses in the subsequent periods.

Pension and other post-employment benefits

The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, the discount rate, rate of salary increase and employee turnover rate. The carrying amount of the liability may be significantly affected by changes in these estimates.

NOTE 3: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

B. Estimates and assumptions (Cont.)

Deferred tax assets

Deferred tax assets are recognized for unused carryforward 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 utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits, its source and the tax planning strategy. The Company may recognize or derecognize a deferred tax asset based on changes in these estimates.

NOTE 4: DISCLOSURE OF NEW IFRS STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

A. Amendments of IAS 1, "Presentation of Financial Statements"

In January 2020 the IASB released an amendment to IAS 1 regarding the requirements for the classification of liabilities as current or non-current (hereinafter - the "Original Amendment"). In October 2022 the IASB released a subsequent amendment to the aforementioned one (hereinafter: the "Subsequent Amendment").

The Subsequent Amendment provides that:

- Only financial covenants which an entity is required to comply with at the end of or prior to the reporting period impact the classification of that liability as being a current or non-current liability.

  Disclosures are required to be made in a manner which would enable the users of the financial statements to assess the risk that a liability classified as non-current could become repayable upon the analysis of compliance with financial criteria within the upcoming twelve months. i.e., the Subsequent Amendment requires disclosures to be made about the carrying over of the liability, information about the financial covenants and facts and circumstances following the reporting period which may lead to a conclusion that the entity may have some hardship with meeting the financial covenants.

  The Original Amendment established that a conversion option for the liability would impact the classification of the entire liability as current or non-current, save for instances where the conversion would be settled by way of equity.

  The Original Amendment and the Subsequent Amendment are to be applied to the annual reporting periods commencing on January 1, 2024 or thereafter. Early application is permitted. The Amendments are to be applied retrospectively.

B. Amendment of 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 objective of the Amendment is to present a new definition for 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 January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted.

NOTE 4: DISCLOSURE OF NEW IFRS STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

C. Amendment of IAS 12 - "Taxes on Income"

In May 2021, the IASB published an amendment to international accounting standard 12: *Taxes on income* (hereinafter: "IAS 12" or the "Standard"), which reduces the application of the 'initial recognition exemption' for deferred taxes included in Sections 15 and 24 of IAS 12 (hereinafter: the "Amendment").

As part of the guidelines for recognizing deferred tax assets and liabilities, IAS 12 excludes recognizing deferred tax assets and liabilities for certain temporary differences arising from initial recognition of assets and liabilities in certain transactions. This exemption is known as the 'initial recognition exemption'. The Amendment narrows the application of the 'initial recognition exemption' and clarifies that it does not apply to recognizing deferred tax assets and liabilities arising from a transaction which is not a business combination and which generates equal temporary differences in credit and debit, even if they satisfy the exemption's other conditions.

The Amendment is effective for annual periods beginning on or after January 1, 2023. Early application is permitted. For leasing transactions and recognizing decommissioning obligations - the Amendment will be applied from the earliest possible reporting period presented in the financial statements in which the Amendment is first implemented, while imputing the cumulative impact of the initial implementation on the opening balance of retained earnings (or another equity component, if relevant) on such date.

The Company estimates that the above Amendment is not expected to have a material impact on the Company's financial statements.

D. Amendment of IAS 1, "Disclosure of Accounting Policies"

In February 2021, the IASB issued an amendment to IAS 1, *Presentation of Financial Statements* (the "Amendment"). Under the Amendment, companies are required to disclose their material accounting policies *in lieu* of the current requirement to disclose their significant accounting policies. One of the primary reasons for the Amendment is due to the fact that the term "significant" is not defined by the IFRS, while the term "material" is defined in various standards and particularly under IAS 1.

The Amendment is effective for annual periods beginning on or after January 1, 2023. Early application is permitted.

NOTE 5: CASH AND CASH EQUIVALENTS

	As of December 31	
	2022	2021
	ILS 000's	
Israeli currency (Shekels)	76,419	44,065
Foreign currency	1,966	2,499
Cash registers	2,149	3,777
	80,534	**50,341**

NOTE 6: CUSTOMERS

	As of December 31	
	2022	2021
	ILS 000's	
Open accounts in Israel	9,698	11,790
Credit cards and collection checks (**)	72,092	63,857
	81,790	**75,647**

(*) The balance of customers is a current/ongoing balance.
(**) Part of the cashflow from credit cards has been given as a security interest to guarantee some of the loans obtained from banking corporations by the subsidiaries. For further details see Note 15 - contingent liabilities, guarantees, commitments and charges.

NOTE 7: RECEIVABLES AND OUTSTANDING BALANCES

	As of December 31	
	2022	2021
	ILS 000's	
Advances to suppliers	7,645	7,090
Governmental institutions	635	1,535
Prepaid expenses	1,432	607
Pledged deposits	1,160	674
	10,872	**9,906**

NOTE 8: INVENTORY

A. Composition

	As of December 31	
	2022	2021
	ILS 000's	
Inventory of finished goods	145,991	199,717
Merchandise in transit	13,363	13,939
	159,354	**213,656**

B. Additional information

The allowance for writing down inventory recorded in the financial statements amounted to ILS 8,796 thousands and ILS 8,747 thousands for the years ended December 31, 2022 and 2021, respectively.

NOTE 9: FIXED ASSETS, NET (PROPERTY, PLANT AND EQUIPMENT)

	Motor vehicles	Computers, peripheral equipment and software	Office furniture and equipment	Leasehold improvements and installations	Total
			ILS 000's		
Cost					
Balance as of January 1, 2022	188	11,218	29,184	61,995	102,585
Additions during the year	-	4,540	7,281	14,495	26,316
Impairments during the year	-	(108)	(1,087)	(617)	(1,812)
Balance as of December 31, 2022	188	15,650	35,378	75,873	127,089
Accumulated depreciation					
Balance as of January 1, 2022	173	5,210	8,794	12,212	26,389
Additions during the year	8	2,728	2,193	6,910	11,839
Impairments during the year	-	(72)	(597)	(617)	(1,286)
Balance as of December 31, 2022	181	7,866	10,390	18,505	36,942
Depreciated cost as of December 31, 2022	7	7,784	24,988	57,368	90,147

	Motor vehicles	Computers, peripheral equipment and software	Office furniture and equipment	Leasehold improvements and installations	Total
			ILS 000's		
Cost					
Balance as of January 1, 2021	188	8,156	24,046	35,466	67,856
Additions during the year	-	3,210	7,276	27,834	38,320
Impairments during the year	-	(148)	(2,138)	(1,305)	(3,591)
Balance as of December 31, 2021	188	11,218	29,184	61,995	102,585
Accumulated depreciation					
Balance as of January 1, 2021	164	3,248	8,202	8,913	20,527
Additions during the year	9	2,021	1,719	4,604	8,353
Impairments during the year	-	(59)	(1,127)	(1,305)	(2,491)
Balance as of December 31, 2021	173	5,210	8,794	12,212	26,389
Depreciated cost as of December 31, 2021	15	6,008	20,390	49,783	76,196

NOTE 10: LEASES

The Company has lease agreements that include leases of structures used to conduct the Company's operating activities.
The lease agreements are for periods ranging from 4-24 years. To apply international financial reporting standard IFRS 16 - leases, the Company assumed that it would exercise the extension options in the lease agreements.

A. Disclosures in respect of right-of-use assets

	Land
	ILS 000's
Cost	
Balance as of January 1, 2022	690,267
Additions during the year	
Additions to right-of-use assets due to new leases in the period	53,124
Updates to right-of-use assets for indexation	31,758
Impairments during the year	
Derecognizing right-of-use assets for leases terminated during the period	(31,200)
Balance as of December 31, 2022	743,949
Accumulated depreciation	
Balance as of January 1, 2022	156,358
Additions during the year	
Depreciation and amortization	54,718
Impairments during the year	
Impairment of right-of-use assets	(19,967)
Balance as of December 31, 2022	191,109
Depreciated cost as of December 31, 2022	552,840
Depreciated cost as of December 31, 2021	533,909

NOTE 10: LEASES (Cont.)

	Land
	ILS 000's
Cost	
Balance as of January 1, 2021	641,627
Additions during the year	
Additions to right-of-use assets due to new leases in the period	89,883
Updates to right-of-use assets for indexation	13,893
Impairments during the year	
Derecognizing right-of-use assets for leases terminated during the period	(55,136)
Balance as of December 31, 2021	690,267
Accumulated depreciation	
Balance as of January 1, 2021	129,923
Additions during the year	
Depreciation and amortization	49,001
Impairments during the year	
Impairment of right-of-use assets	(22,566)
Balance as of December 31, 2021	156,358
Depreciated cost as of December 31, 2021	533,909
Depreciated cost as of January 1, 2020	511,704

B. Details of lease transactions

	For the year ended December 31		
	2022	2021	2020
	ILS 000's		
Interest expenses on lease liabilities	16,465	14,880	15,411
Total negative cashflow for leases	61,973	53,110	45,678

C. Analysis of maturity dates of lease liabilities

See Note 16 - financial instruments.

NOTE 10: LEASES (Cont.)

D. Details of material lease agreements

1) On April 10, 2016, the Company executed an agreement with a third-party whereby the lessor will build, for the use of the Company, on an area leased by the lessor, a warehouse and gallery used as offices over a total area of approximately 15,031 sqm (hereinafter: the "**Property**").

   Under the agreement, the Company will lease the Property from the lessor for a period of 10 years from the date of delivery, with the monthly rental fees linked to the Consumer Price Index, as follows:

   a. From the beginning of the lease period until the end of the second year of the lease, a total of ILS 22.41 per month per sqm in the warehouse area and a total of ILS 16.23 per month per sqn in the gallery area.
   b. From the beginning of the third year of the lease and until the end of the tenth year of the lease, a total of ILS 29 per month per sqm in the warehouse area and a total of ILS 21 per month per sqm included in the gallery area.

   At the end of the lease period, the Company has an option to extend the agreement for an additional period of 10 years with the rental fees for that period remaining the same as the rental fees described above in Section 2 with a real increase of 5%.

2) On November 17, 2019, the Company signed another agreement with that same third party whereby the Company will lease from it an additional area including a warehouse, gallery, and yard with an area of approximately 13,000 sqm (hereinafter: the "**Additional Property**").

   Under the agreement, the Company will lease the Additional Property from the lessor for a period of 5 years from the date of delivery, with the monthly rental fees being ILS 280 thousands linked to the Consumer Price Index.

   At the end of the lease period, the Company has three options to extend the agreement for additional periods of 5 years each, with the rental fees for that period being the same as the rental fees described above with a real increase of 5%.

NOTE 11: CREDIT FROM BANKS

	As of December 31	
	2022	2021
	ILS 000's	
Short-term credit from banking corporations	9,250	27,458
Current maturities of long-term loans	16,145	19,198
	25,395	**46,656**

As security interests given to guarantee some of the loans from banking corporations, see Note 15 - contingent liabilities, guarantees, commitments and charges.

NOTE 12: LIABILITIES FOR TRADE PAYABLES

	As of December 31	
	2022	2021
	ILS 000's	
Open accounts in Israel (*) (**)	80,169	72,226
Open accounts abroad	16,821	18,733
Credit cards and checks payable	19	1,640
	97,009	**92,599**

(*) The balance of open accounts in Israel is generally a balance of end of month + 60 days.
(**) For balances with affiliated parties see Note 28 – transactions with interested and related parties.

NOTE 13: CREDITORS AND DEBIT BALANCES

	As of December 31	
	2022	2021
	ILS 000's	
Employees and institutions for payroll	17,810	15,666
Expenses payable	8,782	8,289
Governmental institutions	5,354	4,223
Other payables	647	111
Affiliated/related parties	1,150	1,165
	33,743	**29,454**

NOTE 14: LOANS FROM BANKS

a. Composition:

	Rate Nominal interest rate*	As of December 31 2022	2021
	%	ILS 000's	
Loans from banking corporations	Prime + 0.2-0.7	38,312	43,043
Less current maturities		16,145	19,198
Long-term loans from banking corporations		**22,167**	**23,845**

* Approximate to the effective interest rate.

b. The maturity dates of the loans in the financial statements are as follows:

	As of December 31 2022	2021
	ILS 000's	
First year	16,145	19,198
Second year	9,417	12,245
Third year	7,650	5,517
Fourth year	5,100	6,083
	38,312	**43,043**

As security interests given to guarantee some of the loans from banking corporations, see Note 15 - contingent liabilities, guarantees, commitments and charges.

NOTE 15: CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES

Contingent Liabilities

A. In 2017, a tortious subrogation claim for approximately ILS 1 million was initiated against the Company in the Haifa Magistrate Court by an insurance company on behalf of a property owner who incurred damages from a fire that allegedly started in a property used by one of the Company's franchisees. The claim was initiated against the Company alleging that it had acted negligently by allowing its franchisee, who is in possession of said property, to operate the branch without the required licenses, permits and insurances, as required under the franchise agreement. The Company filed a statement of defense and a third-party notice against the franchisee in March 2018. The Company subsequently filed a third-party notice against the lessor of the property. The parties were referred to an unsuccessful mediation process. Prior to the pretrial, which took place on October 10, 2019, the lessor of the property submitted its statement of defense, as well as a third-party notice, *inter alia*, against the Company, with similar arguments to those raised by the plaintiff. On July 16, 2020, a statement of defense was submitted in response to the third-party notice.

   On December 18, 2022, a judgment was rendered on the claim which accepted most of the insurance company's arguments, *inter alia*, requiring the Company, jointly and severally with the other defendants, to pay an amount totaling ILS 1,237 thousands plus costs of approximately ILS 70 thousands (including VAT). The judgment also established that third-parties are obligated to indemnify the Company for approximately 70% of the amount.

   At the recommendation of the Company's legal advisors, the Company paid its share of the imposed amount after deducting the indemnification it is entitled to from third-parties (approximately ILS 98 thousands in total), and on February 16, 2023, it concurrently appealed the judgment in the District Court in Haifa, and requested delaying partial performance. The respondent is required to submit a response to the appeal by April 16, 2023. On March 5, 2023, the District Court in Haifa rendered its decision whereby the Company's motion to delay partial performance was granted up to ILS 370 thousands. The Company has made the required payment.

   Two other defendants also concurrently appealed the judgment.

   At this preliminary stage, and according to the Company's legal advisors, the chances of the appeal are approximately 50%.

B. In July 2018, the Company filed a claim for ILS 2 million (pending accounts and for the purpose of the court fee) with the District Court of Tel Aviv-Yafo against its former Sderot and Bat Yam franchisees, alleging that the franchisees' obligations, which they are jointly and severally subject to, were breached by one of the shareholders. Therefore, their franchise agreements were terminated, but notwithstanding, the franchisees continued to use the Company's trademarks and commercial characteristics; thereby, among other things, they caused the Company significant damages, harmed its goodwill, unduly enriched themselves, committed the tort of passing off and misled its consumers. Some of the defendants submitted a counter-claim for ILS 10 million (solely for the purpose of the court fee) against the Company and its shareholder, Ori Max, alleging unlawful termination of the franchise agreements, causing damages and defaming the franchisees and harming their goodwill. In a pretrial hearing held on October 10, 2019, the parties were referred to mediation which concluded unsuccessfully on June 24, 2020. The parties conducted discovery and interrogatories, and affidavits of evidence in chief were submitted on behalf of the plaintiff on December 14, 2022. Defendants' affidavits of evidence in chief were submitted on February 23, 2023, and the Company is required to submit affidavits with respect to the counter-claim by March 22, 2023. A pre-summation hearing has been scheduled for April 27, 2023.

NOTE 15: CONTINGENT LIABILITIES, ENGAGEMENTS, GUARANTEES AND CHARGES (Cont.)

Contingent Liabilities (Cont.)

The Company has assessed, including on the basis of an opinion obtained from its legal counsel, that it is not possible to assess the prospects of the claim and the risk therein at this stage in light of the stage of the lawsuit and prior to concluding submission of the case's evidence.

C. Concurrently with the proceedings set forth above in paragraph "b" and as a corollary thereto, in March 2019 the Company initiated legal proceedings in the District Court of Tel Aviv-Yafo to enforce the separation mechanism stipulated in the shareholders' agreement between the Company and the company controlled by the shareholder of the franchises who breached the confidentiality and non-competition obligations. These breaches of the franchise agreements also constitute a breach of said shareholders' agreement, and therefore the Company is petitioning to enforce the separation mechanism whereby it may purchase the defendant's shares in the subsidiary. Pleadings were filed and a pretrial hearing was held on January 28, 2020, during which dates were scheduled for the completion of preliminary proceedings. This proceeding is not included in the mediation; however, the mediation also addressed this proceeding. The mediation, as stated above in paragraph "b", was unsuccessful. Similarly, a motion for summary dismissal was filed by the defendants due to non-payment of an adequate court fee, which was dismissed by the court which ordered the Company to submit a clarification regarding the value of the consideration the Company wishes to pay the defendants for the shares in order to calculate the amount of the court fee. The clarifications and responses were submitted by the parties, including the position of the State Attorney General which determined that it is unable to calculate the value of the shares. In accordance with the court ruling dated February 28, 2021, the Company submitted an external appraisal of the investee company to quantify the value of the consideration for the shares in order to determine the court fee for the legal action. A hearing before the parties was held on July 12, 2021, in which the value of the legal action and the corresponding court fee which the Company is required to pay were set. The parties have concurrently submitted preliminary requests for discovery and interrogatories. Furthermore, on June 16, 2021, the Company filed a motion to amend the statement of claim and on July 14, 2021, the defendants filed a response to the motion to amend the statement of claim. On March 6, 2022, the court granted the Company's motion to amend the statement of claim and established the dates to file amended pleadings and supplements to the discovery proceedings. The defendants filed an amended statement of defense on May 12, 2022, and the Company filed an amended response on June 16, 2022. The parties have exchanged discovery requests and interrogatories and a pretrial hearing was held on October 18, 2022. On the date of the hearing the court ordered the parties to complete the discovery proceedings and to submit their evidence while setting the schedule for each party. On January 2, 2023, the court ruled that the Company is required to submit its evidence by February 16, 2023, that the defendant is required to submit its evidence by March 30, 2023, and that a pretrial summation hearing has been scheduled for April 27, 2023. The Company submitted its affidavits of evidence in chief on March 6, 2023. The Company has assessed, including on the basis of an opinion obtained from its legal counsel, that due to the early stage of the proceedings it is not yet possible to assess the prospects of the claim.

NOTE 15: CONTINGENT LIABILITIES, ENGAGEMENTS, GUARANTEES AND CHARGES (Cont.)

Contingent Liabilities (Cont.)

D. On August 11, 2020, the Company, a number of its subsidiaries, franchisees and some of its suppliers, were served with a motion to certify a class action filed in the District Court claiming an estimated amount of approximately ILS 17 million. The plaintiffs allege that the Company marketed products in contravention of the Consumer Protection Law, 1981, by selling products whose user manuals and accompanying warnings were in a foreign language and had not been translated into Hebrew, thereby being negligent against a potential plaintiff class, unlawfully enriching themselves at their expense and undermining its customers' autonomous desire. On February 4, 2021, the Company submitted in its name and on behalf of its subsidiaries and franchises, a response to the motion to certify a class action in which it rejected the applicants' arguments and raised many arguments against the very fact that the motion had been filed, and against the fact that the applicants raised the same arguments with respect to the same products both against the Company and against the suppliers of same products. Concurrently, and in accordance with the indemnification provisions in the Company's agreements with them, the Company informed the suppliers that it will view them as responsible for any damages it may be ordered to pay in this law suit. On March 24, 2021, a preliminary hearing was conducted on the motion, whereby it was decided that the parties may submit various motions regarding the manner in which the case shall continue to be conducted. On August 11, 2021, the court granted the applicant leave to submit a motion to amend the motion to certify a class action by September 30, 2021, a deadline which was extended to October 6, 2021. On October 7, 2021, a motion to amend the motion to certify was filed and the Company submitted its response to the motion to amend on November 21, 2021. On January 11, 2022, the court partially granted the motion to amend, and the applicant was accordingly granted leave to submit an amended motion by March 1, 2022. The Company, the franchises and the other respondents have until May 1, 2022 to submit their responses. An amended motion to certify the claim as a class action was filed on March 1, 2022. On September 19, 2022, the parties executed a settlement agreement under which the Company undertook to donate various products valued at ILS 35 thousands and to pay attorney fees and a reward to the applicants totaling an additional ILS 35 thousands. On October 26, 2022, the settlement arrangement was approved by the court which ordered the parties to continue to act to publicize the settlement arrangement and to submit the settlement arrangement to be approved by the Attorney General. On February 20, 2023, a judgment was rendered approving the settlement agreement. The Company is required to act to implement the judgment by April 30, 2023.

E. On November 10, 2020, the Company and approximately nine of its subsidiaries and franchisees were served with a motion to certify a class action submitted to the Netanya Magistrates Court for an estimated amount of approximately ILS 2 million. The applicant alleges that the Company marketed products whose quantity it is required to specify, while failing to note the price per unit of measurement as required under the Consumer Protection Regulations (Price Per Unit Measurement), 2008. Following protracted negotiations, the parties signed a settlement agreement under which the Company committed to rectify the alleged deficiencies, to implement a mechanism to prevent them from occuring, and to grant financial compensation to the class for an aggregate amount totaling ILS 320 thousands through discounting eight kinds of different products whose price is marked per unit of measurement for a period of the earlier of twelve months from approval of the settlement agreement or until the value of the aggregate benefit equals the value of the financial compensation. The period to grant the benefit may be extended by an additional six months in the event the value of the benefit does not reach the value of the financial compensation at the end of the twelve month period. The Company shall also pay attorney fees of ILS 75 thousands and a reward to the applicants totaling ILS 10 thousands. The settlement agreement was submitted to the court for its approval, sent to the Attorney General for its review and published in two newspapers.

NOTE 15: CONTINGENT LIABILITIES, ENGAGEMENTS, GUARANTEES AND CHARGES (Cont.)

Contingent Liabilities (Cont.)

F. On December 26, 2021, the Company was served a motion for discovery and production of documents prior to the initiation of a derivative action against the Company, according to which the applicants (who purchased their shares in the Company on December 7, 2020), argued that they have a prima facie evidentiary basis demonstrating conduct contrary to the Company's best interests and officers causing damages to the Company associated with transactions for the purchase and sale of personal protective equipment against COVID-19, performed by the Company during 2020, financed by the Company and other entities, including by companies owned by Ori Max, the Company's CEO, shareholder and director, and Evan Neumann, who served at such time as co-CEO and director of the Company, and who was a shareholder of the Company. The applicants argue that Messrs. Max and Neumann exploited one of the Company's commercial opportunities, stole it and caused it damages.

   The applicants are requesting documents associated with the aforementioned transactions, as well as documents and resolutions presented to the Company's board of directors and its shareholders on the date the transactions were performed.

   The Company filed its response on February 14, 2022, and the applicants filed their reply to the response on March 16, 2022. An evidentiary hearing at which both parties' affiants were cross-examined was held on July 3, 2022. A hearing for supplementary oral pleadings was held on September 13, 2022, and the parties are waiting for a decision to be rendered on the proceedings. The Company has assessed, including on the basis of an opinion obtained from its legal counsel, that the prospects the motion will be granted are lower than the prospects of it being dismissed.

G. On September 14, 2022, a motion to certify a class action was filed with the District Court of the Central-Lod District for an amount estimated at approximately ILS 2.5 million against the Company, three subsidiaries and additional shareholders of the subsidiaries. The applicants allege that the Company and the other respondents sent the applicants SMS messages allegedly in violation of Section 30A of the Communications Law (Bezeq and Broadcasts), 1982. On January 16, 2023, the Company filed its response to the motion rejecting the applicants' arguments, and, *inter alia*, it argued that the advertisements were sent in accordance with Section 30A, that there is no basis for the Company's branch shareholders to be held personally liable and that they do not fall under the definition of 'office holders'. A preliminary hearing was held on March 6, 2023, at the conclusion of which the court referred the parties to mediation. Neither the mediator, nor the date of the meeting have yet been established. At this preliminary stage the Company believes on the basis of an opinion obtained from its legal advisors that the chances that the motion will be dismissed are greater than the chances of it being accepted.

H. On September 19, 2022, a motion to certify a class action filed with the District Court of the Central-Lod District for an amount estimated at approximately ILS 2.5 million against the Company and seven other respondents, including four of the Chain's subsidiaries and a franchisee, was served at the Company's offices. The applicants allege that the Company and the other respondents allegedly failed to install water coolers for public usage, in alleged violation of the Public Buildings Law (Water Coolers), 1986.

NOTE 15: CONTINGENT LIABILITIES, ENGAGEMENTS, GUARANTEES AND CHARGES (Cont.)

Contingent Liabilities (Cont.)

The Company submitted its response on March 9, 2023, and, *inter alia*, it argued deficiencies with the submission of the motion and the manner that the evidence was presented, no privity between the applicants and the Company, and that some of the respondents which are subsidiaries and a franchisee of the Company are in compliance with the provisions of the law. It is further noted in the response that the subsidiaries have undertaken to go beyond what they are required by law, in light of the fact that they each have between 2-3 water facilities, thus, the motion is superfluous. A pretrial hearing has been scheduled for April 30, 2023. At this preliminary stage it is not yet possible to assess the prospects of the claim.

For the legal claims described above, the Company's management is of the opinion that the Company has recorded a reasonable allowance to cover its contingent liabilities.

Liabilities whose treatment concluded in the reporting period

I. On April 12, 2021, the Company received a notice of a VAT assessment of inputs and transactions according to best judgment, for 2016-2020, pursuant to Section 77 of the Value Added Tax Law, 1975, for an amount totaling approximately ILS 6.6 million (the "Assessment"). The Assessment includes an assessment of transactions totaling approximately ILS 5.1 million attributed to the difference in the share price paid by investors and the purchase price paid for the shares by the foreign underwriter (the "Tax Liability") as part of the public tender offer executed by the controlling shareholders in September 2020. On May 23, 2021, the Company submitted an objection to the aforementioned transactions assessment.

Due to the fact that the Tax Liability relates to the purchase of shares as part of the tender offer performed by the controlling shareholders, on August 11, 2021, the Company's audit committee and subsequently on August 15, 2021, the Company's board of directors approved the receipt of a letter of indemnity from the Company's controlling shareholders as a "beneficial transaction" according to Regulation 1(2) of the Companies Regulations (Reliefs for Interested Party Transactions), 2000. According to the letter of indemnification, the controlling shareholders will indemnify the Company for the Tax Liability (or any other amount which may ultimately be finally determined for this indebtedness through an objection or appeal on the objection, if any), and the associated costs incurred in such respect. Payment of the Tax Liability (if any) will be pro-rated between the Company's controlling shareholders, according to the number of shares sold by each one of them out of the total number of shares sold under the prospectus.

Furthermore, an assessment of inputs was issued against the Company for an amount totaling approximately ILS 1.5 million. Approximately ILS 800 thousand out of such amount is undisputed and has been paid by the Company. The Company has filed an objection for the balance totaling approximately ILS 700 thousand, and it has made a provision for this amount in its books.

On April 26, 2022, the Israel Tax Authority rendered a decision on the objection in which they accepted all of the Company's arguments and all of the assessment charges were cancelled. The Tax Authority also approved the reduction of an assessment of VAT inputs objected by the Company totaling approximately ILS 100 thousands as described above. The assessment of VAT inputs was paid in May 2022.

NOTE 15: CONTINGENT LIABILITIES, ENGAGEMENTS, GUARANTEES AND CHARGES (Cont.)

Contingent Liabilities (Cont.)

Liabilities whose treatment concluded in the reporting period (Cont.)

J. On April 25, 2021, as part of an investigation being conducted on the issue of customs and import duties, representatives of the Haifa Import House attended the Company's offices, searched its documents and questioned various officers. Another Company officer, the CEO and three employees from the import division were also subsequently questioned. Various documents were also sent at the request of the Customs Division. In July 2022 the Company's representatives met with representatives of the Customs Division in Haifa, where the Company was asked to submit an application to have the criminal proceedings replaced with administrative ones, which was submitted by the Company in August 2022. On September 18, 2022, the Company received a notice whereby its application to have the criminal proceedings replaced with administrative ones was accepted, as part of which the Company was required to make a negligible payment which it paid. As a result, the investigation file against the Company and its employees, with all components thereof, has been closed.

K. On May 5, 2021, the Company was served with a motion for discovery prior to filing a derivative action against the Company, whereby the applicant (who is allegedly a shareholder of the Company) petitioned to obtain various documents pertaining to the customs and import investigation being conducted against the Company by the Haifa Customs House and additional documents. The court ordered for the Company to file a response to the motion within 60 days (and subsequently postponed this date until October 19, 2021). On October 19, 2021, the Company filed its response and the applicant filed a reply to the response on December 12, 2021. An evidentiary hearing at which both parties' deponents will be examined has been scheduled for July 18, 2022. On June 23, 2022, the parties filed a joint motion to dismiss the motion for discovery without an order pertaining to costs and to cancel the hearing. On July 18, 2022, a judgment was rendered approving dismissal of the motion and confirming that the applicant's claim is subject to res judicata.

L. On January 3, 2022, the Company received a tax demand notice as part of a carrier's case including a number of import declarations made by the Company, primarily pertaining to payment of VAT which can be offset. This tax demand notice resulted from particular documents sent by the Company to the Customs Division as part of the investigation mentioned above in section 'j'

   On January 27, 2022, the Company submitted an appeal on the tax demand notice, in which it argued that the charges related to two of the import declarations should be cancelled because the tax demand notice primarily relates to these items.

   On March 2, 2022, a notice was received from the Import and Export Control Commissioner at the Haifa Customs House, whereby the Company's appeal had been accepted in full. On March 3, 2022, the Company was reissued a tax demand notice by the Haifa Customs House in a negligible amount, the vast majority of the payment being VAT which can be offset. On March 6, 2022, the Company paid the amended tax demand notice.

NOTE 15: CONTINGENT LIABILITIES, ENGAGEMENTS, GUARANTEES AND CHARGES (Cont.)

Engagements

Agreements with related parties

See Note 28 – Transactions with related parties.

Establishment of a Max Stock store-chain in Portugal

On August 15, 2022, the Company entered into an agreement with Fortera Properties, LDA ("**Fortera**") to establish a joint venture through the establishment of a common company in Portugal (the "**Common Company**"), which shall be jointly owned by the Company (75%) and Fortera (25%), for the purpose of establishing and managing the Max Stock chain of stores in Portugal. On December 8, 2022, the Company invested EUR 37.5 thousands in the Common Company against an issuance of shares. The Common Company shall be controlled by the Company, which has the right to appoint the majority of its directors. The Company shall also have the right to appoint the general manager of the Common Company (provided that it holds at least 50% of the Common Company). Fortera shall have veto rights over special resolutions stipulated in the transaction, including the issuance of shares, interested party transactions and particular changes to the business plan. Fortera shall provide the Common Company with managerial support, including negotiating commercial agreements on behalf of the Common Company, legal and regulatory aspects, strategy, tax and accounting services.

Guarantees and Charges

As of December 31, 2022, the Group has provided guarantees in favor of third-parties for the Group's lease agreements totaling approximately ILS 13,368 thousands.

The balance as of December 31, 2022, of the long-term loans extended to subsidiaries by a banking corporation total approximately ILS 30,895 thousands. To secure an amount of approximately ILS 15,639 thousands, first-rank fixed pledges were registered in favor of the bank over the contractual rights to receive funds owed to the subsidiaries by the credit companies.

NOTE 16: FINANCIAL INSTRUMENTS

A. Financial assets

	As of December 31	
	2022	2021
	ILS 000's	
Financial assets at amortized cost		
Cash, deposits, customers, receivables and debtors	173,444	136,054
Total current	173,196	135,894
Total non-current	248	160

B. Financial liabilities

	As of December 31	
	2022	2021
	ILS 000's	
Financial liabilities at fair value through profit or loss		
Financial derivatives	82	602
Total financial liabilities at fair value through profit or loss	82	602
Other financial liabilities at amortized cost		
Loans and credits from banks	47,562	70,501
Lease liabilities	597,313	572,925
Total other financial liabilities at amortized cost	644,875	643,426
Total current	77,792	103,493
Total non-current	567,083	539,933

NOTE 16: FINANCIAL INSTRUMENTS (Cont.)

C. Changes in liabilities arising from financing activities

	Long-term loans	Lease liabilities	Total liabilities arising from financing activities
Balance as of January 1, 2020	36,546	391,378	427,924
Cashflow	(492)	(30,267)	(30,759)
Recognition of lease liabilities, net	-	178,845	178,845
Balance as of December 31, 2020	36,054	539,956	576,010
Cashflow	6,989	(38,230)	(31,241)
Recognition of lease liabilities, net	-	71,199	71,199
Balance as of December 31, 2021	43,043	572,925	615,968
Cashflow	(4,731)	(45,508)	(50,239)
Recognition of lease liabilities, net	-	73,649	73,649
Other changes	-	(3,753)	(3,753)
Balance as of December 31, 2022	38,312	597,313	635,625

NOTE 16: FINANCIAL INSTRUMENTS (Cont.)

D. Financial risk management objectives and policies

The Group's activities expose it to various financial risks, such as market risk (foreign currency risk, index risk, and interest rate risk), credit risk and liquidity risk. The Group's general risk management plan focuses on minimizing potential adverse effects on the Group's financial performance.

Financial risk management is regularly and routinely scrutinized by the CFO of the Group, in accordance with a policy approved by the board of directors. The board provides principles for overall risk management, as well as policies specific to certain exposures to risks, such as exchange rate risk, interest rate risk, and liquidity risk. The chairman of the Group's board of directors regularly reports on market risk management, and decisions on this matter are jointly made by the chairman of the board of directors and the CFO. The Group's board of directors reports on risk management once quarterly during board meetings convened for ongoing financial reporting.

1. Market risk

a. Exchange rate risk

With the application of International Financial Reporting Standards (IFRS) as of January 1, 2016, and determining the Group’s operating currency in ILS, exposures are measured for changes in the USD exchange rate and other currencies in which the Company operates. Accordingly, the Company is exposed to exchange rate risk arising from exposure to various currencies as a result of the fact that some of the Company's expenses are in foreign currency (mainly purchases of inventory from suppliers).

b. Interest risk

As of December 31, 2022, there are loans totaling approximately ILS 47,562 thousands in the Group's books which are exposed to changes in the market interest rate. In order to minimize the aforementioned exposure, the Group regularly reviews the terms of credit in the various alternatives and assessments of changes in interest rate in the economy and the interest rate on loans.

NOTE 16: FINANCIAL INSTRUMENTS (Cont.)

E. Financial risk management objectives and policies (Cont.)

2. Liquidity risk

The Group's goal in managing its liquidity risks is to ensure, to the extent possible, a sufficient level of liquidity to satisfy its obligations in a timely manner. The Group monitors the actual cashflows to ensure sufficient levels of cash to pay current operating expenses and meet financial obligations.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

As of December 31, 2022

	Up to 1 year	From 1 year - 2 years	From 2 years - 3 years	From 3 years - 5 years	5 years +	Total
	ILS 000's					
Loans from banking corporations	25,395	9,417	7,650	5,100	-	47,562
Trade payables (liabilities to vendors, suppliers and service providers)	97,009	-	-	-	-	97,009
Accounts payable and debit balances	33,743	-	-	-	-	33,743
Lease liabilities	66,336	62,898	56,507	103,438	422,260	711,439
	222,483	72,315	64,157	108,538	422,260	889,753

As of December 31, 2021

	Up to 1 year	From 1 year - 2 years	From 2 years - 3 years	From 3 years - 5 years	5 years +	Total
	ILS 000's					
Loans from banking corporations	46,656	12,245	5,517	5,750	333	70,501
Trade payables (liabilities to vendors, suppliers and service providers)	92,599	-	-	-	-	92,599
Accounts payable and debit balances	29,454	-	-	-	-	29,454
Lease liabilities	58,532	59,740	55,322	100,112	363,758	637,464
	227,241	71,985	60,839	105,862	364,091	830,018

NOTE 16: FINANCIAL INSTRUMENTS (Cont.)

F. Fair value

The carrying amounts stated in the financial statements of cash and cash equivalents, deposits, customers, accounts receivable and credit balances, credit from banking corporations, liabilities to suppliers and service providers and accounts payable and debit balances match or approximate their fair value.

G. Derivatives

Derivatives not designated as hedging instruments

The Company has foreign currency forward contracts aimed at protecting against exposure to exchange rate fluctuations for inventory purchases. These forward foreign exchange contracts are not designated as accounting cashflow hedges and are entered into for periods identical to those in which the Company has foreign currency exposure of the underlying transactions. The term of the forward contracts is typically up to six months.
As of December 31, 2021, the Company had forward transactions to purchase USD 18 million for approximately ILS 56.3 million, and forward transactions to purchase EUR 1.8 million for approximately ILS 6.5 million.
As of December 31, 2022, the Company had forward transactions to purchase USD 1.5 million for approximately ILS 5.3 million.

H. Sensitivity tests for a change in market factors

	Sensitivity test for change in USD exchange rate	
	Profit (loss) from the change	
	10% increase in exchange rate	**10% decrease in exchange rate**
	ILS 000's	
Impact of the changes in years:		
As of December 31, 2022	(977)	977
As of December 31, 2021	3,963	(3,963)

	Sensitivity test for change in interest rates	
	Profit (loss) from the change	
	10% increase in interest rate	**10% decrease in interest rate**
	ILS 000's	
Impact of the changes in years:		
As of December 31, 2022	170	(170)
As of December 31, 2021	102	(102)

NOTE 17: EMPLOYEE BENEFIT LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits

According to Israeli labor laws and the Severance Pay Law, the Group is required to pay severance pay to an employee upon dismissal or retirement or to make current contributions to defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Group's liability is accounted for as a post-employment benefit. The computation of the Group's employee benefit liability is made according to the current employment contract based on the employee's salary and employment seniority which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as a defined benefit plan or as a defined contribution plan, as detailed below.

1. Defined contribution plans

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions and contributions for benefits represent defined contribution plans.

	For the year ended December 31		
	2022	2021	2020
	ILS 000's		
Expenses for defined contribution plans	11,123	9,874	8,082

2. Defined benefit plans

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in qualifying insurance policies.

a. Expenses recognized in profit or loss

	For the year ended December 31		
	2022	2021	2020
	ILS 000's		
Current services cost	996	818	723
Interest expense for benefit liabilities	72	42	44
Total expenses for employee benefits	**1,068**	**860**	**767**

NOTE 17: EMPLOYEE BENEFIT LIABILITIES (Cont.)

2. Defined benefit plans (Cont.)

b. Plan liabilities, net

	As of December 31	
	2022	2021
	ILS 000's	
Liability for a defined benefit plan	2,643	2,534

c. Changes in the present value of the net liability for a defined benefit plan

	For the year ended December 31	
	2022	2021
	ILS 000's	
Balance as of January 1	2,534	1,936
Interest expenses	72	42
Current services cost	996	818
Benefits paid	(719)	(613)
Loss (gain) for re-measurement of other comprehensive profit	(240)	351
Balance as of December 31	**2,643**	**2,534**

d. Plan assets

The plan assets include assets held by a long-term employee benefit fund as well as appropriate insurance policies.

e. Primary assumptions for a defined benefit plan

	As of December 31	
	2022	2021
	%	
The discount rate for plan liabilities	5.57	3.33
The anticipated rate of return on plan assets	3.33	2.58
Anticipated rate of pay increases	3.79	3.61

NOTE 18: EQUITY

A. Composition of share capital

	As of December 31, 2022	
	Authorized	Issued and outstanding
	No. of shares	
Ordinary shares with no par value	**12,342,994,475**	**142,625,131**

	As of December 31, 2021	
	Authorized	Issued and outstanding
	No. of shares	
Ordinary shares with no par value	**12,342,994,475**	**142,344,680**

B. Movement in share capital

Issued and outstanding share capital:

	No. of shares
Balance as of December 31, 2021	142,344,680
Exercise of employee share options	280,451
Balance as of December 31, 2022	142,625,131

After the date of the report, 28,024 options were exercised into 11,830 ordinary shares with no par value.

C. Share split

On September 1, 2020, a resolution was adopted to split the Company's share capital, such that each ordinary share was split into 3,227.77 shares with no par value and resulted in the issued and outstanding share capital being 142,344,680 instead of 44,100 which was the amount prior to the split. The earnings per share were accordingly calculated retrospectively for all the reporting periods.

D. Listing the Company's shares on the TASE

On September 14, 2020, the Company's shares were first offered to the public through a tender offer on the Tel Aviv Stock Exchange Ltd. ("TASE") under a tender offer prospectus and shelf prospectus and the Company became a public company. 142,344,680 ordinary shares with no par value have been listed on TASE including 45,000,000 shares which were sold by the controlling shareholders. The shares sold constitute 31.61% of the Company's issued and outstanding share capital and voting rights therein.

On September 21, 2020, the lead underwriter of the tender offer under the prospectus (the "Lead Underwriter"), informed a controlling shareholder of the Company of the exercise of the option given to it, to acquire an additional 6,750,000 ordinary shares with no par value of the Company. Following completion of the transaction, the shares sold constitute 36.36% of the Company's issued and outstanding share capital and voting rights therein.

NOTE 18: EQUITY (Cont.)

D. Listing the Company's shares on the TASE (Cont.)

The issuance expenses incurred by the Company totaled approximately ILS 4,613 thousands and they are included in the other expenses line item in the report on profit and loss and other comprehensive profit for 2020.

E. Dividends

1. On May 24, 2021, the Company's board of directors approved the distribution of a dividend totaling ILS 70,000 thousands (approximately ILS 0.49 per share), which was paid on June 10, 2021.
2. On August 15, 2022, the Company's board of directors approved the distribution of a dividend totaling ILS 40,000 thousands (approximately ILS 0.28 per share), which was paid on September 6, 2022.

F. Actions with minority shareholders

1. On June 30, 2020, the Company executed agreements to acquire the non-controlling interests in some of the Company's subsidiaries from minority shareholders. The consideration for the acquisitions totaled ILS 5,800 thousands. The difference in the amount of ILS 4,220 thousands between the amount paid and the book value of the minority rights as of the transaction execution date is imputed to the principal for transactions with minority shareholders.

2. During Q3 2020, the Company executed agreements with the minority shareholders in the Company's subsidiaries (with the exception of one subsidiary), whereby the Company shall have an option to acquire the shares held by them, according to an agreed multiplier of their share in the net profit.

3. On September 30, 2021, the Company exercised its option and acquired the minority holdings in one of the subsidiaries from minority shareholders. The consideration for the acquisition totaled ILS 3,389 thousands. The difference in the amount of ILS 2,597 thousands between the amount paid and the book value of the minority rights as of the transaction execution date is imputed to the principal for transactions with minority shareholders.

4. On October 2, 2022, the Company exercised its option and acquired the minority holdings in two of the subsidiaries from minority shareholders. The consideration for the acquisition totaled ILS 2,478 thousands. The difference in the amount of ILS 1,915 thousands between the amount paid and the book value of the minority rights as of the transaction execution date is imputed to the principal for transactions with minority shareholders.

5. On September 31, 2022, the Company exercised its option and acquired the minority holdings in one of the subsidiaries from minority shareholders. The acquisition was performed for no consideration. The book value of the minority rights as of the transaction execution date is imputed to the principal for transactions with minority shareholders.

NOTE 18: EQUITY (Cont.)

G. Buyback of Company shares

On June 18, 2022, the Company's board of directors approved a stock buyback program for the Company's shares totaling up to ILS 40,000 thousands by the Company. The buyback program is effective from June 19, 2022 through June 18, 2023. The acquisitions are performed from time to time as determined by a committee which has been authorized by the Company's board of directors to approve the security purchases under the plan and in accordance with its terms and conditions. The purchases are performed through trade on TASE and/or OTC (off-exchange) transactions.

As of the date of the report of financial position, 3,658,971 ordinary Company shares have been purchased under the program for a total amount of approximately ILS 19,900 thousands, comprising approximately 2.6% of the Company's issued share capital as of December 31, 2022.

NOTE 19: EMPLOYEE OPTION PLAN

A. The expense recognized in the financial statements for employee services is presented in the table below.

	For the year ended December 31		
	2022	**2021**	**2020**
		ILS 000's	
Total expense recognized from share-based payments settled through equity instruments	11,339	15,502	2,345

1. On August 10, 2020, the Company's board of directors adopted an options plan (non-tradable) for the Company's employees and officers (the "**Options Plan**") which was submitted for approval to the Company's Deductibles Assessment Officer on September 3, 2020, such that it will be in accordance with the capital gains/trustee route under Section 102(b)(2) and 102(b)(3) of the Income Tax Ordinance [New Version], 1961 (the "**Ordinance**"). The exercise price of the options for an offeree whose employment with the Company commenced prior to the completion of the Company's tender offer will be determined based on the value of the Company on the later of the date of the initial investment made by Moose Holdco Ltd. In the Company (July 2017) or the date of the commencement of the offeree's employment or term In office at the Company. The exercise price of the options for an offeree who commenced their employment with the Company following the completion of the Company's tender offer will be determined based on the weighted average of the Company's share price on TASE over the thirty (30) day period prior to the date of the board of directors' approval of the grant thereof.

   According to the Company's remuneration policy, the period required for the equity remuneration granted to an officer to fully vest shall be at least 5 years from the date of grant or from an earlier date (if determined by the Company's board of directors), which shall not precede the commencement of the offeree's employment, in equal or non-equal tranches. Furthermore, it will not be possible to exercise the options within the period of the first 12 months following the date of completion of the Company's tender offer.

NOTE 19: <u>EMPLOYEE OPTION PLAN (Cont.)</u>

In accordance with the approval given by the Company's remuneration committee and board of directors, on November 29, 2020, 2,274,258 options (non-tradable) were allotted to 27 of the Company's employees and officers. Similarly, further to the approval given by the Company's board of directors on November 29, 2020, on December 21, 2020, the Company's general meeting approved of an additional allotment of 46,706 options to one of the Company's directors. In total, 2,320,964 options (non-tradable) exercisable into up to 2,320,964 shares were allotted.

According to the terms of the allotments approved to the employees and officers (including the director), the vesting period for these options is five (5) years commencing before the date of grant, as follows:

1.1 For employees and officers whose employment with the Company commenced before July 2017 – the vesting period commenced from July 2017;

1.2 For employees and officers whose employment with the Company commenced after July 2017 – the vesting period commenced from the date of their employment.

The Company's board of directors determined that according to that set forth in the remuneration policy regarding the first exercise date after 12 months, the first exercise date for the options (either in full or prorated based on the tranches vesting during the vesting period) will be after 24 months, meaning from September 2022, whereby, for the employees included above in section 1 – such entails the vesting and exercise of all of their options.

The fair value of the allotted options was determined based on the Black & Scholes model and totaled ILS 29,469 thousands. This value was calculated based on the following assumptions:
Share price for the calculation – ILS 14.40;
An exercise price ranging from ILS 1.60-4.90;
Average standard deviation ranging from 52.36% - 53.47% (based on comparison companies);
Average risk free interest ranging from 0.43%-0.61% (based on ILS denominated government bonds);
The total expense imputed in the Company's financial statements during the period from said board resolution until September 30, 2022, for allotments which have been approved, as said, is approximately ILS 28,705 thousands, save for an immaterial amount imputed for the employees included above in section 1.2 during subsequent periods.

2. On February 16, 2022, the Company's board of directors approved an issuance of 235,813 (non-marketable) options to one of the Company's officers, which are exercisable into 235,813 ordinary Company shares with no par value. The issuance of the aforementioned options is in accordance with the terms and conditions of the option plan for the employees, directors and consultants of the Company and the subsidiaries under Section 102 of the Ordinance.

NOTE 19: EMPLOYEE OPTION PLAN (Cont.)

The fair value of the allotted options was determined based on the Black & Scholes model and totaled approximately ILS 955 thousands. This value was calculated based on the following assumptions:

Share price for the calculation – ILS 9.27;
Exercise price – ILS 9.87;
Average standard deviation (based on comparison companies) – 37.29%;
Average risk free interest - 1.53% (based on ILS denominated government bonds);
The total expense which shall be imputed in the Company's financial statements for the approved allotment, as said, during the period from said board resolution until December 31, 2024, is approximately ILS 955 thousands.

The total expense imputed in the 2022 consolidated statements of profit or loss and other comprehensive profit for share based payments settled in equity instruments is approximately ILS 11,339 thousands, included in cost of goods sold, sales and marketing expenses, and general and administrative expenses based on the Company division in which the offerees work.

B. Movement during the year

The following table includes the change with the number of options for shares and their weighted average exercise prices:

	For the year ended December 31	
	No. of options	**Weighted average exercise price**
		ILS
Options for shares at the beginning of the year	2,320,964	3.21
Options for shares granted during the year	235,813	9.87
Options for shares expired during the year	(28,159)	3.14
Options for shares exercised during the year	(515,096)	2.32
Options for shares at the end of year	**2,013,522**	
Options for shares exercisable at the end of the year	**1,475,237**	

The average weighted share price on the exercise date of the share options in 2022 was ILS 5.66.

The range of exercise prices for the share options as of December 31, 2022, is ILS 1.60-9.87.

NOTE 20: SALES

	For the year ended December 31		
	2022	2021	2020
	ILS 000's		
Revenues from sales (2)	1,033,410	963,472	879,214
Revenues from selling protective equipment (1)	-	-	124,800
Revenue from commissions/fees	15,391	12,801	6,481
	1,048,801	**976,273**	**1,010,495**

(1) For further details see Note 1D.
(2) Below is a breakdown of income from the Company's main product categories:

	For the year ended December 31		
	2022	2021	2020
	ILS 000's		
Office and school supplies	97,096	80,149	77,191
Toys and baby products	134,205	133,110	109,402
Disposable utensils, party products and storage containers	143,203	124,678	102,638 (*)
Homeware	288,730	280,258	245,998
Other	370,176	345,277	343,985 (*)
	1,033,410	**963,472**	**879,214**

(*) Reclassified.

NOTE 21: COST OF SALES

	For the year ended December 31		
	2022	2021	2020
	ILS 000's		
Purchases	509,450	621,390	633,585
Decrease (increase) in inventory	54,302	(86,384)	(24,917)
Logistical expenses	66,739	61,994	42,894
	630,491	**597,000**	**651,562**

NOTE 22: SELLING AND MARKETING EXPENSES

	For the year ended December 31		
	2022	2021	2020
	ILS 000's		
Salaries and related	128,849	114,898	99,787
Share-based payments	3,482	4,823	733
City taxes	20,921	16,401	10,723
Depreciation	10,966	8,353	6,815
Depreciation of right-of-use assets	46,938	37,570	32,710
Maintenance, security, cleaning and insurance	15,965	12,472	6,993
Electricity and water	6,016	5,142	4,595
Credit card fees	4,923	4,344	4,262
Other	8,024	3,437	3,549
	246,084	**207,440**	**170,167**

NOTE 23: GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31		
	2022	2021	2020
	ILS 000's		
Management fees	4,478	5,328	7,454
Salaries and related	16,960	10,009	10,429
Share-based payments	6,692	10,679	1,612
Professional services	9,585	6,796	6,026
Vehicle maintenance	4,785	4,389	3,196
Computerization	3,017	2,822	2,536
Other	4,348	3,749	2,529
	49,865	**43,772**	**33,782**

NOTE 24: FINANCE EXPENSES (INCOME)

	For the year ended December 31		
	2022	2021	2020
	ILS 000's		
Financing revenues			
Currency differentials	-	(485)	(1,047)
Revenues from a deposit	(75)	-	-
Profit from financial derivatives	(2,589)	-	-
Income tax interest	-	-	(71)
	(2,664)	**(485)**	**(1,118)**
Financing expenses			
Bank interest and fees	2,499	2,105	2,313
Currency differentials	2,375	-	-
Leasing financing expenses	16,465	14,880	15,411
Loss from financial derivatives	-	566	2,676
Income tax interest	132	50	-
	21,471	**17,601**	**20,400**

NOTE 25: OTHER EXPENSES (INCOME)

	For the year ended December 31		
	2022	2021	2020
	ILS 000's		
Other Income			
Profit from derecognizing lease liabilities	(1,585)	(1,613)	(1,224)
	(1,585)	**(1,613)**	**(1,224)**
Other Expenses			
Capital loss from sale of fixed assets	500	1,100	866
Issuance costs	-	-	4,613
	500	**1,100**	**5,479**

NOTE 26: EARNINGS PER SHARE

Details of the number of shares and earnings used in calculating the net earnings per share:

	For the year ended December 31					
	2022		2021		2020	
	Quantity Weighted number of shares	Net income attributable to Company shareholders	Quantity Weighted number of shares	Net income attributable to Company shareholders	Quantity Weighted number of shares	Net income attributable to Company shareholders
	000's	ILS 000's	000's	ILS 000's	000's	ILS 000's
For the computation of basic net earnings	141,411	64,163	142,345	68,197	142,345	72,647
For the computation of diluted net earnings	142,635	64,163	143,733	68,197	142,437	72,647

NOTE 27: TAXES ON INCOME

a. Tax laws applicable to the Company

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the Israeli parliament (the Knesset) passed an amendment to the Income Tax Law (Inflationary Adjustments), 1985, which limits the scope of the Adjustments Law starting from 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancelation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

b. Tax rates applicable to the Company

The corporate tax rate in Israel for 2022, 2021 and 2020 is 23%.

A body corporate is liable for tax on real capital gains at the corporate tax rate that applies in the year of sale.

NOTE 27: TAXES ON INCOME (Cont.)

c. Deferred taxes

Composition:

	Statements of financial position		Statements of comprehensive profit		
	As of December 31		For the year ended December 31		
	2022	2021	2022	2021	2020
			ILS 000's		
Deferred tax assets					
Lease	8,865	7,471	(1,394)	(973)	(1,619)
For employee benefits	1,469	1,405	(64)	(145)	(188)
Other	720	2,103		697	(2,109)
Classifying deferred taxes as taxes payable	-	(1,200)	182	-	-
Deferred tax income			(1,276)	(421)	(3,916)
Deferred tax assets	11,054	9,779			

d. Income taxes included in the profit or loss statements:

Composition:

	For the year ended December 31		
	2022	2021	2020
		ILS 000's	
Current taxes	28,019	28,923	34,356
Deferred taxes	(1,275)	(421)	(3,916)
Taxes for previous years	178	407	102
	26,922	28,909	30,542

NOTE 27: TAXES ON INCOME (Cont.)

e. 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 profit or loss is as follows:

	For the year ended December 31		
	2022	2021	2020
		ILS 000's	
Profits before taxes on income	104,639	111,458	118,171
Israel's statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	24,067	25,635	27,179
Increase (decrease) in taxes on income resulting from the following:			
Non-deductible expenses for tax purposes and others	2,552	2,402	3,089
Timing differentials which are not imputed with deferred taxes	(13)	(10)	47
Increase in losses for tax purposes for which no deferred taxes were attributed	248	475	125
Utilization of losses from previous years for tax purposes for which deferred taxes were not recognized	(110)	-	-
Tax differentials for previous years	178	407	102
Taxes on income	26,922	28,909	30,542
Average effective tax rate	25.7%	25.9%	25.8%

f. Final tax assessments

The Company has received final tax assessments through the 2020 tax year.
The Group's subsidiaries have received final tax assessments through 2016 save for seven subsidiaries which have final tax assessments through 2019.

NOTE 28: TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. Identity of interested and related parties

The Company's interested and related parties include: Moose Holdco Ltd. and parties affiliated thereto, Ori Max Ltd. and parties affiliated thereto, Oria & Iris Ltd. and parties affiliated thereto, other interested parties and key management personnel of the Company.

b. Balances with interested and related parties

As of December 31, 2022

	Controlling shareholder	Affiliated companies	Key management personnel	Other affiliates/related parties
	ILS 000's			
Payables:				
Trade payables (liabilities to vendors, suppliers and service providers)	-	1,124	-	-
Accounts payable and debit balances	1,000	-	1,575	163

As of December 31, 2021

	Controlling shareholder	Affiliated companies	Key management personnel	Other affiliates/related parties
	ILS 000's			
Payables:				
Trade payables (liabilities to vendors, suppliers and service providers)	-	519	-	8
Accounts payable and debit balances	1,150	-	596	27

NOTE 28: TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

c. Transactions with interested and related parties

	For the year ended December 31					
	2022		2021		2020	
	No. of people/companies	ILS 000's	No. of people/companies	ILS 000's	No. of people/companies	ILS 000's
Management fees (1 a-d)	2	4,478	3	5,328	3	5,054
Annual bonus (1a)	1	-	1	-	1	2,400
Salary expenses for key management personnel (**)	11	14,276	7	10,480	5	4,376
Payments to relatives of interested parties employed by the company (2)	1	148	1	151	2	204
Payments to an interested party for the provision of consulting services (3)	1	-	1	-	1	60 (*)
Share-based payment to an interested party (3)		215	1	298	1	45 (*)
Director fees	7	681	7	775	6	190
Payments to affiliated companies for goods and services (4, 5)	2	2,321	2	3,195	2	2,064
Payments to an affiliated company for the provision of services (6)	1	2,086	1	1,238		-
Revenues from an affiliated company for the provision of services (7)		72		36		-
Financing revenues for extraordinary transactions (8)		-		-	2	50
Lease payments (9, 10, 11)	3	7,467	3	3,009	1	1,489
Revenues from the sale of goods and fees from related franchisees (12)	3	11,996	3	16,211	3	7,142
(*) Reclassified.						
(**) Including cost of share-based payments		6,431		7,117		1,095

NOTE 28: TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

(1) Management fees

a) The Company has a services agreement for management services with a controlling shareholder company dated July 20, 2017, whereby it will provide managerial and supervisory services in all areas of the Company's business. The Company may terminate the agreement through the provision of six months prior notice. The monthly management fee is ILS 206 thousand plus VAT. The controlling shareholder serves as CEO and director of the Company. Similarly, the shareholder who serves as CEO of the Company is entitled to an annual bonus based on the increase in adjusted EBITDA in the calendar year compared to the previous year.

b) The company has a services agreement with another controlling shareholder company dated July 20, 2017, to receive consulting and management services in consideration for monthly management fees of ILS 85 thousand. The Company may terminate the agreement through the provision of six months prior notice.

On March 19, 2019, the parties executed an addendum to the agreement whereby the monthly management fee will be ILS 50 thousand.

On February 16, 2020, the parties executed an addendum to the agreement whereby the monthly management fee will be ILS 85 thousand commencing from January 1, 2020.

On January 1, 2020, the shareholder of the controlling shareholder company was appointed as co-CEO together with the shareholder mentioned above in paragraph ‘a’. On November 1, 2021, the shareholder announced the conclusion of his service as co-CEO effective as of January 31, 2022, and of the waiver of his fees under the agreement effective as of November 1, 2021. The shareholder only received director fees in the months of November-December 2021. He stopped serving as one of the Company’s directors on February 27, 2022.

c) On June 6, 2017, the Company executed an agreement to receive consulting and management services with a controlling shareholder company in consideration for annual management fees of ILS 2 million. A new management agreement with the controlling shareholder company became effective in September 2020, pursuant to which it shall be paid the same annual fees of ILS 2 million in quarterly payments of ILS 500 thousands, *inter alia*, for various director and consulting services. The management services shall be personally provided by the controlling shareholder or through assigning responsibilities under the management agreement to someone appointed on his behalf, all as set forth in the management agreement. The management agreement is effective for a period of five years and will then be automatically renewed for three year periods, subject to the receipt of approvals required by law. In addition, an early termination mechanism has been established in the event that the controlling shareholder's shareholdings in the Company fall below the rate specified in the agreement.

d) For information about the reduction of the management fees for the controlling shareholder company commencing as of January 1, 2023, see Note 29 - Events after the reporting date.

NOTE 28: TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

(2) A subsidiary employs a family member of one of the Company's controlling shareholders. The employment is consistent with the terms and conditions customarily applied by the Company and for an immaterial amount. Another family member employed by the Company concluded their employment in 2020.

(3) On March 19, 2019, a director was appointed to the Company who provided it with consulting services, including consulting on strategic processes. For these services, the director was entitled to a total monthly payment of ILS 30 thousand. In February 2020 the consulting agreement concluded. Additionally, the director was also allotted 46,706 Company options. For more information about the allotment of the options, refer to Note 19 - Employee Option Plan. On December 28, 2022, the director gave notice that he was going to end his role and stopped serving as one of the Company's directors.

(4) On November 23, 2020, one of the Company's interested parties who provides it with car leasing services was appointed as a director of the Company. On April 25, 2022, the interested party ceased serving as one of the Company's directors. The amount of the payments included in the note for 2022 are until the date the interested party ceased serving as one of the Company's directors.

(5) The Company purchases fuel from a company controlled by the controlling shareholder.

(6) The Company receives services from a company which is controlled by the controlling shareholder. The provision of these services commenced prior to the company becoming an affiliated company. The amount included in 2021 is the amount from when the company which provides the services became an affiliated company upon the controlling shareholder obtaining control thereof.

(7) Companies controlled by the Company's controlling shareholder receive bookkeeping services in consideration for an annual payment of ILS 72 thousands.

(8) The share of the payments of the Company's controlling shareholders as additional financers in transactions pertaining to the sale of PPE in 2020 totaled a loss of ILS 50 thousand. For more information see Note 1(d).

(9) The Company, through a subsidiary, leases a property for one of the its branch's operations from a company owned by one of the Company's controlling shareholders. The controlling shareholder owns 25% of the aforementioned property. The rent has been set at arm-length terms.

(10) On August 30, 2020, the Company's board of directors approved an engagement with a third party to operate one of the chain's new branches on a property owned by said party during 2021. One of the Company's controlling shareholders holds 50% of the third party's share capital. The rent payments have been set in accordance with arm-length terms.

(11) One of the Group's subsidiaries entered into a lease agreement with a partnership in which one of the Company's controlling shareholders is a partner, to lease a property, all at arm-length terms. The lease period commenced in April 2021.

NOTE 28: TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

(12) Family members of one of the Company's controlling shareholders are shareholders in three of the Chain’s branches which are run as franchises (“**franchisees**”). The payments, terms and conditions of these franchisees are consistent with the terms and conditions of other similar agreements.

(13) A company controlled by one of the Company’s controlling shareholders leases a property to one of the Company's franchises. This property is being utilized to operate one of the chain’s franchise branches.

(14) On September 14, 2020, the Company’s board of directors and general meeting approved entering into an insurance policy with Israeli and foreign insurers to cover liability of directors and officers of the Company and its subsidiaries, with respect to directors and officers who serve and/or will serve in the Company from time to time, including directors and officers considered controlling shareholders of the Company, as they shall be from time to time, for a period of one year, from September 14, 2020, until September 13, 2021, with a liability cap of up to USD 10 million per event and for an annual insurance period (the “**Basic Policy**”). The terms of the Base Policy shall be identical for all directors and officers of the Company, including directors and officers considered controlling shareholders of the Company or their relatives.

On January 3, 2021, the Company’s remuneration committee approved the Company’s engagement in a POSI (Public Offering of Securities Insurance) D&O liability policy (the “**Extended Insurance Policy**”) for the Company’s directors and officers, as they may be from time to time, including the Company’s controlling shareholders and their relatives, in addition to the Basic Policy for coverage of up to USD 10 million, in accordance with the terms and conditions set forth in the Company’s remuneration policy. The Insurance Policy covers litigation not covered under the Basic Policy, including US securities litigation, including actions initiated under Rule A144 of the US Securities Act Law, which are excluded under the Basic Policy.

The Basic Policy and the Extended Insurance Policy shall hereinafter jointly be referred to as the “**Insurance Policies**”.

On September 9, 2021, and on December 13, 2021, the Company’s remuneration committee approved extending the Company’s engagement in the Insurance Policies until September 13, 2022.

On September 12, 2022, the Company’s remuneration committee approved extending the Company’s engagement in the Insurance Policies, as said, for an additional 12 months.

NOTE 29: <u>EVENTS AFTER THE REPORTING DATE</u>

A. In Q1 2023, dividend distributions totaling approximately ILS 788 thousands were announced for minority shareholders of the Company's subsidiaries.

B. <u>Dividend declared</u>

Following the date of the statement of financial position, on March 19, 2023, the Company's board of directors approved the distribution of a dividend totaling ILS 60,000 thousands (approximately ILS 0.43 per share), which shall be paid on April 3, 2023.

C. <u>Reduction in the management fees for the controlling shareholder company</u>

On February 8, 2023, the controlling shareholder company informed the Company that it unilaterally and irrevocably waives half of the management fees it is entitled to under the management agreement, whereby, as of January 1, 2023, the controlling shareholder shall be entitled to quarterly management fees totaling ILS 250 thousands for each calendar quarter, *in lieu* of ILS 500 thousands. The rest of the terms of the management agreement remain unchanged.

Max Stock Ltd.

Presentation of Financial Data from the Consolidated Financial Statements Attributed to the Company

As of December 31, 2022

Financial Data from the Consolidated Statements Attributed to the Company

As of December 31, 2022

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Kost Forer Gabbay & Kasierer
2 Hapalyam Blvd.,
Haifa 330950

Tel: 04-8654000
Fax: 03-5633443
www.ey.com/il

Attn:

Shareholders of Max Stock Ltd.

Dear Madame and/or Sir,

Re: Special Auditor's Report on
Standalone Financial Data in Accordance with Section 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the standalone financial data of Max Stock Ltd. (hereinafter – the Company), presented pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970, as of December 31, 2022, and 2021, and for each of the three years the last of which ended December 31, 2022. The standalone financial data is the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on the standalone financial data based on our audit.

We conducted our audit in accordance with generally accepted accounting standards in Israel. These standards require us to plan and perform the audit in order to obtain a reasonable level of assurance that the standalone financial data is free of material misrepresentation. An audit includes examining samples of evidence supporting the amounts and disclosures in the standalone financial data. An audit also includes assessing the accounting principles applied when preparing the standalone financial data and the significant estimates made by the Company's board of directors and management, as well as evaluating the appropriateness of the presentation of the standalone financial data. We believe that our audit provides a sufficient basis for our opinion.

In our opinion, based on our audit, the standalone financial data has been prepared, with respect to all material aspects, in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970.

Respectfully,
Kost Forer Gabbay & Kasierer
Auditors

Haifa,
March 19, 2023

Special Report Pursuant to Regulation 9C

Financial Data and Information from the Consolidated Financial Statements

Attributed to the Company

Presented below is the standalone financial data and information attributed to the Company from the group’s consolidated financial statements as of December 31, 2022 (hereinafter - the Consolidated Statements), presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970.

The primary accounting principles applied in presenting this financial data have been described in Note 2 of the Consolidated Statements.

Investee companies as defined in Note 1 of the Consolidated Statements.

	Additional information	As of December 31 2022	As of December 31 2021
		ILS 000's	
Current assets			
Cash and cash equivalents	B	32,259	9,529
Trade receivables (customers)		46,959	54,707
Accounts receivable and credit balances		15,432	7,512
Inventory		89,497	148,905
Total current assets		184,147	220,653
Non-current assets			
Deferred taxes		1,918	1,654
Assets (including goodwill) less liabilities attributed to investee companies, net		70,661	57,654
Fixed assets (property, plant and equipment), net		10,823	11,197
Right-of-use assets		92,586	93,627
Total non-current assets		175,988	164,132
		360,135	384,785
Current liabilities			
Credit from banking corporations		5,500	35,429
Lease liabilities		5,409	6,859
Trade payables (liabilities to vendors, suppliers and service providers)		39,697	42,911
Financial derivatives		82	602
Accounts payable and debit balances	C	10,801	10,297
Total current liabilities		61,489	96,098
Non-current liabilities			
Long-term loans from banking corporations		1,917	7,417
Lease liabilities		94,497	93,015
Liabilities for employee termination benefits		165	179
Total non-current liabilities		96,579	100,611
Shareholders' Equity		202,067	188,076
		360,135	384,785

The accompanying additional information constitutes an integral part of the standalone financial data and information.

March 19, 2023			
Financial statements approval date	Zehavit Cohen Chairperson of the Board of Directors	Ori Max Director and CEO	Nir Dagan Deputy CEO and CFO

Financial Data from the Consolidated Statements on Profit or Loss and Other Comprehensive Profit Attributed to the Company

	Additional information	For the year ended December 31 2022	2021	2020
		ILS 000's		
Revenues from sales		469,504	487,925	514,529
Cost of goods sold		400,813	410,704	425,205
Gross profit		68,691	77,221	89,324
Sales and marketing expenses		17,239	16,425	11,530
General and administrative expenses		43,492	38,958	29,931
Other expenses		90	-	4,611
Operating profit		7,870	21,838	43,252
Financing revenues		(2,765)	(522)	(1,108)
Financing expenses		6,276	4,333	8,051
Financing expenses for extraordinary transactions		-	-	13,276
Profits before taxes on income		4,359	18,027	23,033
Taxes on income	D	3,403	6,636	8,034
Profit before Company's share in profits of consolidated companies		956	11,391	14,999
Company's share in profits of consolidated companies		63,207	56,806	57,648
Net profit		64,163	68,197	72,647
Total other comprehensive profit (loss):				
Amounts not to be reclassified to profit or loss:				
Adjustments from translating financial reports for external operations		5	-	-
Remeasurement of defined benefit plan		201	(300)	(32)
Total comprehensive profit		64,369	67,897	72,615

The accompanying additional information constitutes an integral part of the standalone financial data and information.

	For the year ended December 31		
	2022	2021	2020
		ILS 000's	
Cashflows from the Company's operating activities			
Net profit attributed to the Company	64,163	68,197	72,647
Adjustments required to present cashflows deriving from the Company's operating activities:			
Adjustments to the Company's profit or loss items:			
Depreciation and amortization	8,763	8,770	8,656
Financing expenses, net	4,031	5,947	17,481 (*)
Cost of share-based payments	11,339	15,502	2,345
Increase (decrease) in fair value of financial assets	(520)	(2,136)	2,738 (*)
Change in liabilities for employee benefits, net	5	55	(107)
Capital loss	90	-	-
Profits of investee companies	(63,207)	(56,806)	(57,648)
Taxes on income	3,403	6,636	8,034
	(36,096)	(22,032)	(18,501)
Changes in the Company's asset and liability items:			
Decrease (increase) in customers	7,748	(3,040)	(22,867)
Decrease (increase) in receivables and credit balances	(7,920)	9,512	(7,190)
Decrease (increase) in inventory	59,408	(71,455)	(18,012)
Increase (decrease) in suppliers and service providers	(3,214)	(12,043)	36,178
Proceeds (payments) from exercising financial derivatives	2,069	(2,702) (*)	62 (*)
Increase (decrease) in creditors and debit balances	8,677	(3,022)	5,610 (*)
	66,768	(82,750)	(6,219)
Cash paid and received by the Company during the year for:			
Dividends received from investee companies	55,388	73,842	29,520
Interest paid	(6,188)	(3,248)	(4,267)
Interest paid for extraordinary transactions	-	-	(13,276)
Taxes paid, net	(11,845)	(8,602)	(6,171)
Total adjustments required to present cashflow deriving from operating activities	68,027	(42,790)	(18,914)
Net cash deriving from the Company's operating activities	132,190	25,407 (*)	53,733 (*)

(*) Reclassified.

The accompanying additional information constitutes an integral part of the standalone financial data and information.

	For the year ended December 31		
	2022	2021	2020
		ILS 000's	
Cashflows from investment activities			
Acquisition of fixed assets (property, plant and equipment)	(2,366)	(2,398)	(6,008)
Withdrawal of (investment in) short term deposits	-	24,500	(24,500)
Proceeds from sale of fixed assets	25	-	-
Investments in investee companies	(2,613)	(3,389)	(7,071)
Repayment (grant) of loans to investee companies, net	(4,200)	444	1,796
Net cash deriving from the Company's investment activities (utilized for investment activities)	(9,154)	19,157	(35,783)
Cashflows from Financing Activities			
Obtaining long-term loans from banking corporations	-	4,000	8,000
Obtaining short-term loans from banking corporations	-	27,429	40,000
Repayment of short-term loans from banking corporations	(27,458)	-	(40,000)
Repayment of long-term loans from banking corporations	(7,971)	(7,667)	(11,833)
Payments of lease liabilities	(4,977)	(5,357)	(4,326)
Buyback of Company shares	(19,900)	-	-
Dividends paid	(40,000)	(70,000)	-
Total net cash used for the Company's financing activities	(100,306)	(51,595)	(8,159)
Increase (decrease) in Company's cash and cash equivalents	22,730	(7,031)	9,791
Balance of Company's cash and cash equivalents as of the beginning of the year	9,529	16,560	6,769
Balance of Company's cash and cash equivalents as of the end of the year	32,259	9,529	16,560
(a) Non-cash material activity of the Company			
Recognition of a right-of-use asset against a lease liability	5,008	3,555	15,220

The accompanying additional information constitutes an integral part of the standalone financial data and information.

A. General

General description of the Company and its operations

Max Stock Ltd. (hereinafter – the "Company") is an Israel domiciled company. The Company and its subsidiaries are engaged in retail trade by operating a national chain of stores.

B. Cash and cash equivalents attributed to the Company (without amounts for investee companies)

	As of December 31	
	2022	**2021**
	ILS 000's	
Israeli currency (Shekels)	30,481	7,030
Foreign currencies	1,778	2,499
	32,259	**9,529**

C. Disclosure regarding financial liabilities attributed to the Company (without amounts for investee companies)

Receivables and credit balances attributed to the Company

	As of December 31	
	2022	**2021**
	ILS 000's	
Employees and institutions for payroll	5,420	3,970
Expenses payable	3,517	3,176
Institutions	710	1,986
Affiliated/related parties	1,150	1,165
	10,797	**10,297**

D. Disclosure regarding deferred tax assets and deferred tax liabilities attributed to the Company (without amounts for investee companies) and disclosure regarding tax revenues or tax expenses attributed to the Company (without amounts for investee companies)

Taxes on revenue attributed to the Company

1. Tax laws applicable to the Company

Income Tax Law (Inflationary Adjustments), 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the Israeli parliament passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007.

D. Disclosure regarding deferred tax assets and deferred tax liabilities attributed to the Company (without amounts for investee companies) and disclosure regarding tax revenues or tax expenses attributed to the Company (without amounts for investee companies) (Cont.)

Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancelation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

2. Tax rates applicable to the Company

The corporate tax rate in Israel for 2022, 2021 and 2020 is 23%.

A body corporate is liable for tax on real capital gains at the corporate tax rate that applies in the year of sale.

3. Tax assessments applicable to the Company

Final tax assessments

The Company has been issued consented final tax assessments until and including the 2020 tax year.

4. Tax on income attributed to the Company included in profit or loss

	For the year ended December 31		
	2022	**2021**	**2020**
		ILS 000's	
Current taxes	3,480	5,727	10,609
Deferred taxes	(264)	511	(2,575)
Taxes for previous years	187	398	-
	3,403	**6,636**	**8,034**

E. Material loans, balances and engagements with investee companies

1. Balances with investee companies

	As of December 31	
	2022	**2021**
	ILS 000's	
Included in customers	37,932	44,944
Investment in investee companies	70,661	57,654
	108,593	**102,598**

E. Material loans, balances and engagements with investee companies (Cont.)

2. Transactions with investee companies

	For the year ended December 31		
	2022	**2021**	**2020**
		ILS 000's	
Sales to subsidiaries	361,006	370,543	296,247
Revenues from turnover commissions	26,804	22,897	20,399
Revenue from participation in administrative expenses	915	783	750
	388,725	**394,223**	**317,396**

3. Loans

On January 1, 2022, the Company granted a loan totaling ILS 4,200 thousands to a consolidated company. No repayment date was scheduled for the loan.
The loan bears annual interest of 2.42%. The loan balance as of December 31, 2022 is ILS 4,200 thousands.

F. Material events after the reporting period

Information regarding significant events has been provided in Note 29 of the consolidated financial statements.

CHAPTER D - ADDITIONAL DETAILS REGARDING THE CORPORATION

Chapter D - Additional Information About the Corporation

Regulation 10A: Summary of the Quarterly Reports on Comprehensive Profit

Presented below is a summary of the Company's profit and loss reports for each quarter during 2022 (ILS 000's):

Line-item	10-12/2022	7-9/2022	4-6/2022	1-3/2022	10-12/2021
Revenues	251,694	293,523	252,708	250,876	245,070
Cost of goods sold	148,104	175,812	153,514	153,061	149,779
Gross profit **%**	**103,590** **41.2%**	**117,711** **40.1%**	**99,194** **39.3%**	**97,815** **39%**	**95,291** **38.9%**
Sales and marketing expenses	60,910	66,495	61,078	57,601	57,825
General and administrative expenses	10,279	13,666	13,406	12,514	10,989
Other income	(1,302)	-	-	(283)	-
Other expenses	22	358	8	112	1,100
Operating profit	**33,681**	**37,192**	**24,702**	**27,871**	**25,377**
Financing revenues	(244)	(133)	(1,637)	(1,536)	(667)
Financing expenses	5,211	4,914	6,250	5,982	5,834
Pre-tax profit	**28,714**	**32,411**	**20,089**	**23,425**	**20,210**
Taxes on income	6,488	8,393	5,649	6,392	4,006
Net profit	**22,226**	**24,018**	**14,440**	**17,033**	**16,204**
Remeasuring defined benefit plans	240	-	-	-	(351)
Translating financial statements from operating currency to presentation currency	7	-	-	-	-
Total comprehensive profit	**22,473**	**24,018**	**14,440**	**17,033**	**15,853**

For additional details, see Section 5.2 of the Board Report.

Regulation 11: List of Investments in Subsidiaries and Investees

As of the publication date of the report, the Company has 33 active subsidiaries[1] which are private companies incorporated in Israel, the majority of which are held by the Company in

[1] Including the subsidiaries established in 2022 to operate the stores in Beerot Yitzhak, Gush Etzion and Mishor Adumum. The store in Mishor Adumim opened in the beginning of March 2023, the store in Gush Etzion is anticipated to open in March 2023 shortly following the publication date of the report, and the store in Beerot Yitzhak is anticipated to open in H2 2023.

rates ranging between 70% to 100%.[2] These subsidiaries, together with another granddaughter company (second-tier subsidiary), operate a total of 33 stores operating under the "Max - Fun Shopping" brand which is part of the Max Store Chain (one of the subsidiaries operates 2 stores). Another granddaughter company operates a store under the "Mini Max" brand. A subsidiary which is anticipated to operate under the "Max - Fun Shopping" brand has not yet commenced operating.

Presented below is a list of the Company's investments, as of the date of the report on the financial position, in the primary subsidiaries. It is noted that, as of the date of the report, none of the subsidiaries are responsible for more than 10% of the Company's revenues.

Company name	TASE share #	Share class	No. of shares in the authorized share capital	No. of shares in the outstanding share capital	Total par value held by the Company	Their value in the Company's standalone financial statements (ILS 000's)	Company's holding rate in			Balance of bonds and loans issued (received) on the statement of financial position as of December 31, 2022 (ILS)
							equity	voting rights	authority to appoint directors	
Big Max Ltd.	Unlisted	Ordinary	10,000	100	ILS 75	6,285	75%	75%	100%	-
Max Rishon Ltd.	Unlisted	Ordinary	50,000	1,000	ILS 901	5,512	90.1%	90.1%	100%	-
Max Talpiot Ltd.	Unlisted	Ordinary	10,000	125	ILS 100	6,413	80%	80%	100%	-

[2] Excluding one branch in which the manager holds 45% of the subsidiary's outstanding share capital, and another branch in which the Company holds 45% of the ordinary share capital and one management share which grants it the right to appoint a director. That branch has 4 other shareholders. It should further be clarified that three of the subsidiaries were established during the reporting period, but two of the stores operated by them opened in March 2023, and another store is anticipated to open in H2, 2023, as described in footnote 1 above.

Regulation 12: Changes in Investments in Subsidiaries and Investees

As of the date of the report, and as of the publication date of the report, the Company has no material subsidiaries and investee companies.

However, it should be noted that in 2022, the Company acquired minority interests from minority shareholders in two of its subsidiaries at a rate ranging from 10%-25% of the share capital. Following the acquisition, the Company's holdings in the subsidiary increased to 100%. For more information, see Section 3.5 of the Board Report and Note 18F to the Financial Statements.

Regulation 13: Revenues of the Subsidiaries and Investees and Revenues from Them

Presented below is a table detailing the comprehensive profit (loss) of the primary subsidiaries, and the Company's revenues therefrom which have been received by the date of the report on financial position, for 2022 and the period following the date of said report (ILS 000's):

Company name	Comprehensive profit (loss)	Other comprehensive profit (loss)	Management fees		Interest and linkage differentials		Dividends	
			For 2022	For the period following the balance sheet date	For 2022	For the period following the balance sheet date	For 2022	For the period following the balance sheet date
Big Max Ltd.	8,379	-	1,931	329	-	-	6,170	-
Max Rishon Ltd.	697	-	1,905	312	-	-	-	-
Max Talpiot Ltd.	5,071	-	1,810	279	-	-	2,398	1,040

Regulation 20: TASE Trading

Throughout 2022, and as of the approval date of the Financial Statements, 292,281 ordinary shares of the Company with no par value have been listed for trade on the Tel Aviv Stock Exchange Ltd. ("**TASE**") as a result of the exercise of options issued by the Company to its employees and senior officers.

Regulation 21: Payments to Interested Parties and Senior Officers

Senior Officers

Presented below is a description of the remuneration awarded to each of the five highest paid officers of the Company or of corporations under its control, in connection with their service in the Company or corporations under its control, as recognized in the Company's Financial Statements (in terms of cost to the Company):

Payee details				**Remuneration for services (ILS 000's) (*)**							**Other remuneration**			**Total**
Name	**Position**	**Scope of position**	**Equity holding %**	**Salary (**)**	**Bonus**	**Share based payments (***)**	**Management fees**	**Consulting fees**	**Commission**	**Other***	**Interest**	**Rent**	**Other**	
Ori Max (1)	CEO[3]	100%	17.98%	-	-	-	2,478	-	-	-	-	-	-	2,478
Shlomo Cohen (2)	Deputy CEO	100%	-	809.284	182	1,150.667	-	-	-	-	-	-	-	2,141.951
Nir Dagan (3)	Deputy CEO and Head of Finance	100%	-	799.394	178.5	1,150.667	-	-	-	-	-	-	-	2,128.561
Oz Corsia (4)	Chief Supply Chain Officer	100%	-	712.550	135	1,150.667	-	-	-	-	-	-	-	1,998.217
Roy Ben Nun (5)	Chief Overseas Operations	100%	-	632.816	100	1,036.484	-	-	-	-	-	-	-	1,769.3

(*) The above officers are not awarded any additional compensation apart from that described in the table.

[3] Mr. Max provides CEO services through Ori Max Ltd. - a company wholly owned by him.

(**) The salary component solely for the Company’s officers includes the following components (if relevant): Base salary, social contributions and customary fringe benefits (vacation days, sick days, manager’s insurance, further education fund, etc.) and benefits (vehicle, mobile phone, grossing tax for the benefits, etc.).

(***) The amount stated in the table above in the “share based payment” column represents the expense recorded by the Company in 2022 according to IFRS 2 for awarding the options.

<u>Presented below are additional details about the terms of service and employment of the senior officers included in the above table</u>:

(1) <u>Ori Max</u> - Mr. Max has been serving as CEO of the Company since inception pursuant to service agreements signed from time to time. The service agreement in effect as of the date of the report is a service agreement dated July 20, 2017. For his service as CEO, Mr. Max is entitled to management fees totaling ILS 200,000 plus VAT per month (in this section (1): the "**Management Fees**"). Furthermore, Mr. Max is entitled to reimbursement for car maintenance costs totaling ILS 6,500 per month, reimbursement of reasonable business expenses incurred for the performance of his position (subject to presenting suitable documentation) and an annual bonus which shall be calculated based on the following formula: (1) In the event that the Company's EBITDA in its consolidated financial statements in a given year will be higher by 20% of the EBITDA in the preceding calendar year, Mr. Max will be entitled to an annual bonus in an amount equal to 6 months of Management Fees; (2) In the event that the Company's EBITDA in its consolidated financial statements in any given year will be higher by 40% or more than the EBITDA in the preceding calendar year, Mr. Max shall be entitled to an annual bonus in an amount equal to 12 months of management fees; or (3) In the event that the Company's EBITDA in its consolidated financial statements will show less than 40% growth, but shall be equal to or higher by 10% than the EBITDA in the preceding calendar year, Mr. Max shall be entitled to an annual bonus equal to the product of: (i) ILS 2,400 thousand multiplied by (ii) the rate at which the EBITDA in the relevant calendar year was higher than the EBITDA in the preceding calendar year, divided by 40. Both the Company and Mr. Max may terminate the management agreement through the provision of six (6) months' prior notice. Additionally, the Company may immediately terminate the engagement with Mr. Max, against a once-off payment totaling six (6) times the monthly Management Fees. Under the service agreement and in accordance with the shareholders' agreement dated July 20, 2017 and the amendment thereto of March 2019, which was amended on February 8, 2023 (the "**Shareholders Agreement**"), Mr. Max committed to the Company to not compete for a period of six months following the later of: (i) The completion of the period of employment; and (ii) The date on which the group of founders together with their permitted transferees (as these terms are defined in the Shareholders Agreement) no longer have the right to appoint a single member of the board of directors. Similarly, Mr. Max is entitled to D&O liability insurance, release and indemnification as customary with respect to senior officers

and directors of the Company (for details see Regulation 29A below). In addition to the foregoing, Mr. Max serves as a director of the Company for no additional consideration. Mr. Max served as co-CEO jointly with Evan Charles Neumann commencing as of January 1, 2020 until January 31, 2022. Commencing as of February 1, 2022, he has been serving as the Company's sole CEO.

(2) Shlomo Cohen - Mr. Shlomo Cohen has served as Deputy CEO of the Company, in a full-time position, as of August 1, 2015, under an employment agreement executed by and between him and the Company. On December 22, 2021, the Company's remuneration committee and board of directors approved amending Mr. Cohen's terms of employment, whereby, commencing as of January 1, 2022, his gross monthly salary is ILS 52,000; (2) Fringe benefits including vacation days, sick days, convalescence pay, reimbursement of travel expenses, pension contributions, work disability insurance, and further education fund, all in accordance with applicable law; (3) A personal vehicle (with the Company not grossing the tax in such respect); (4) Prior notice in accordance with the provisions of the law; and (5) An undertaking of non-solicitation and non-competition towards the Company for a period of 12 months from the termination date of his employment. Similarly, Mr. Cohen is entitled to D&O liability insurance and indemnification as customary with respect to senior officers and directors of the Company (for details see Regulation 29A below).

On November 29, 2020, Mr. Cohen was approved an allotment of 235,813 non-marketable options which can be exercised into 235,813 ordinary shares of the Company with no par value. For details regarding the exercise price of these options, the exercise period and vesting conditions see the Company's immediate reports dated November 29, 2020 and December 23, 2020 (Reference No: 2020-01-129285 and 2020-01-139296, respectively), hereby included by way of reference. As of the publication date of the report, Mr. Cohen has exercised 40,394 non-marketable options into 29,759 ordinary shares of the Company with no par value. As of the publication date of the report, Mr. Cohen has 213,419 outstanding options. For more information regarding the exercise of options, see the Company's immediate reports dated December 4 and 11, 2022 (Reference No: 2022-01-116790 and 2022-01-118611, respectively), included herein by way of reference.

On March 19, 2023, the Company's remuneration committee and board of directors, respectively, in accordance with the Company's remuneration policy, approved the grant of an annual discretionary bonus to Mr. Cohen for 2022 totaling 3.5 of Mr. Cohen's monthly salaries, reflecting a total payment of ILS 182,000, as detailed in the above table.

(3) Nir Dagan - Mr. Nir Dagan served as CFO of the Company in 2022, in a full-time position, which he started on August 1, 2016. On December 22, 2021, the Company's remuneration committee and board of directors approved amending Mr. Dagan's terms of employment, whereby, commencing as of January 1, 2022, his gross monthly salary is ILS 51,000. Additionally, on December 28, 2022, the Company's remuneration committee and board of directors approved Mr. Dagan's appointment as Deputy CEO and Head of Finance; (2) Fringe benefits including vacation days, sick days, convalescence pay, reimbursement of travel expenses, pension contributions, work disability insurance, and further education fund, all in accordance with applicable law; (3) A personal vehicle (with the Company not grossing the tax in such respect); (4) Prior notice in accordance with the provisions of the law; and (5) An undertaking of non-solicitation and non-competition towards the Company for a period of 12 months from the termination date of his employment. Similarly, Mr. Dagan is entitled to D&O liability insurance and indemnification as customary with respect to senior officers and directors of the Company (for details see Regulation 29A below).

On November 29, 2020, Mr. Dagan was approved an allotment of 235,813 non-marketable options which can be exercised into 235,813 ordinary shares of the Company with no par value. For details regarding the exercise price of these options, the exercise period and vesting conditions see the Company's immediate reports dated November 29, 2020 and December 23, 2020 (Reference No: 2020-01-129285 and 2020-01-139296, respectively), hereby included by way of reference. As of the publication date of the report, Mr. Dagan has exercised 50,000 non-marketable options into 36,836 ordinary shares of the Company with no par value. As of the publication date of the report, Mr. Dagan has 185,813 outstanding options. For more information regarding the exercise of options see the Company's immediate report dated December 5, 2022 (Reference No: 2022-01-117279), hereby included by way of reference.

On March 19, 2023, the Company's remuneration committee and board of directors, respectively, in accordance with the Company's remuneration policy, approved the grant of an annual discretionary bonus and once-off bonus to Mr. Dagan for 2022 totaling 3.5 of Mr. Dagan's monthly salaries (prior to the change to his salary), reflecting a total payment of ILS 178,500, as detailed in the above table.

(4) Oz Corsia - Mr. Oz Corsia served as Chief Logistics Officer in the Company, in a full-time position, since July 4, 2013. On February 16, 2022, Mr. Corsia was appointed to serve as the Company's Chief Trade Officer, and on December 28, 2022. Mr. Corsia was appointed

as Chief Supply Chain Officer. His terms of employment include, *inter alia*, the following conditions: (1) A gross monthly salary of ILS 45,000; (2) Fringe benefits including vacation days, sick days, convalescence pay, reimbursement of travel expenses, pension contributions, work disability insurance, and further education fund, all in accordance with applicable law; (3) A personal vehicle (with the Company not grossing the tax in such respect); (4) Prior notice in accordance with the provisions of the law; and (5) An undertaking of non-solicitation and non-competition towards the Company for a period of 12 months from the termination date of his employment. Similarly, Mr. Corsia is entitled to D&O liability insurance and indemnification as customary with respect to senior officers and directors of the Company (for details see Regulation 29A below).

On November 29, 2020, Mr. Corsia was approved an allotment of 235,813 non-marketable options which can be exercised into 235,813 ordinary shares of the Company with no par value. For details regarding the exercise price of these options, the exercise period and vesting conditions see the Company's immediate reports dated November 29, 2020 and December 23, 2020 (Reference No: 2020-01-129285 and 2020-01-139296, respectively), hereby included by way of reference. As of the publication date of the report, Mr. Corsia has exercised 30,813 non-marketable options into 22,715 ordinary shares of the Company with no par value. As of the publication date of the report, Mr. Corsia has 223,000 outstanding options. For more information regarding the exercise of options see the Company's immediate report dated December 5, 2022 (Reference No: 2022-01-117117), hereby included by way of reference.

On March 19, 2023, the Company's remuneration committee and board of directors, respectively, in accordance with the Company's remuneration policy, approved the grant of an annual discretionary bonus to Mr. Corsia for 2022 totaling 3 of Mr. Corsia's monthly salaries, reflecting a total payment of ILS 135,000, as detailed in the above table.

(5) Roy Ben Nun - Mr. Roy Ben Nun served as Chief Trade Officer in the Company, in a full-time position, since March 1, 2020. On February 16, 2022, Mr. Ben Nun was appointed to serve as the Company's Chief Development of Overseas Operations and his terms of employment for 2022 included, *inter alia*, the following conditions: (1) A gross monthly salary of ILS 40,000; (2) Fringe benefits including vacation days, sick days, convalescence pay, reimbursement of travel expenses, pension contributions, work disability insurance, and further education fund, all in accordance with applicable law; (3) A personal vehicle (with the Company not grossing the tax in such respect); (4) Prior notice of 90 days; and

(5) An undertaking of non-solicitation and non-competition towards the Company for a period of 12 months from the termination date of his employment. Similarly, Mr. Ben Nun is entitled to D&O liability insurance and indemnification as customary with respect to senior officers and directors of the Company (for details see Regulation 29A below).

On November 29, 2020, Mr. Ben Nun was approved an allotment of 235,813 non-marketable options which can be exercised into 235,813 ordinary shares of the Company with no par value. For details regarding the exercise price of these options, the exercise period and vesting conditions see the Company's immediate reports dated November 29, 2020 and December 23, 2020 (Reference No: 2020-01-129285 and 2020-01-139296, respectively), hereby included by way of reference. As of the publication date of the report, Mr. Ben Nun has exercised [1?]41,489 non-marketable options into 27,760 ordinary shares of the Company with no par value. As of the publication date of the report, Mr. Ben Nun has 112,324 outstanding options. For more information regarding the exercise of options see the Company's immediate reports dated December 5, 2022 (Reference No: 2022-01-117279 and 2022-01-117279), hereby included by way of reference.

It should be noted that on January 1, 2023, Mr. Ben Nun was appointed as the CEO of the Portuguese subsidiary, and accordingly, as of the publication date of the report, he no longer meets the definition of being an officer of the Company.

In light of the change in Mr. Ben Nun's position and the commencement of operating activities in Portugal, on September 29, 2022, and October 2, 2022, the Company's remuneration committee and board of directors (respectively), in accordance with the Company's remuneration policy, approved the grant of a discretionary bonus to Mr. Ben Nun for the period from September 1, 2022 through December 31, 2022, during which Mr. Ben Nun was commuting between Israel and Portugal in order to establish operations and prior to commencing the role as CEO of the subsidiary on January 1, 2023, totaling 2.5 of Mr. Ben Nun's monthly salaries, reflecting a payment of ILS 100,000, as detailed in the above table.

Interested Parties

Presented below is a description of the remuneration granted to interested parties of the Company, not included in the above table, granted to them by the Company or by a corporation controlled by it, in connection with services provided as functionaries of the Company or of corporations under its control, as recognized in the Company's Financial Statements, in thousands of shekels (in terms of cost to the Company):

Payee details				**Remuneration for services (ILS 000's)**							**Other compensation**			**Total (ILS 000's)**
Name	**Position**	**Scope of position**	**Equity holding %***	**Salary**	**Bonus**	**Share based payments**	**Management fees**	**Consulting fees**	**Commission**	**Other**	**Interest**	**Rent**	**Other**	
Evan Neumann [1]	Co-CEO of the Company until January 31, 2022, and director until February 27, 2022	-	0.06%	-	-	-	-	-	-	-	-	-	-	-
Moose Holdco Ltd.[2]	Management and consulting services	-	28.31%	-	-	-	2,000	-	-	-	-	-	-	2,000
Shlomo Zohar[1]	Director	-	-	-	-	215	-	-	-	-	-	-	-	215

Presented below are additional details about payments made to the interested parties included in the above table:

(1) Evan Neumann - Mr. Neumann began his employment as VP Business Development of the Company on March 30, 2015, and as of January 1, 2020 until January 31, 2022, Mr. Neumann served as Co-CEO of the Company. Mr. Neumann's terms of service as co-CEO, are stipulated in a service agreement, executed by and between the Company and Oria & Iris Ltd., a company wholly owned by Mr. Neumann, on July 20, 2017, which was amended in March 2019 and February 2020. Mr. Neumann provided services to the Company on a full-time basis, and was entitled to, *inter alia*, the following terms: monthly management fees totaling ILS 80,000 plus VAT, as well as reimbursement for monthly car maintenance expenses totaling ILS 5,000, and reasonable business expenses incurred for the purpose of executing his position (subject to presenting suitable documentation). On November 1, 2021, Mr. Neumann informed the Company of the conclusion of his service as co-CEO of the Company effective as of January 31, 2022. Mr. Neumann also gave notice of him immediately waiving his fees for his service as co-CEO effective as of November 1, 2021 until the actual completion of his service. For further details, see the Company's immediate report dated November 1, 2021 (Reference No: 2021-01-093394), included herein by way of reference. Under the service agreement and in accordance with the shareholders agreement, Mr. Neumann committed to the Company to not compete for a period of six months following the later of: (i) The completion of the period of employment; and (ii) The date on which the group of founders together with their permitted transferees (as these terms are defined in the shareholders agreement) shall not have the right to appoint a single member of the board of directors.

In addition to that set forth above, Mr. Neumann served as one of the Company's directors until February 27, 2022. Until November 1, 2021, he served as a director for no additional consideration. On November 17, 2021 and November 22, 2021, the Company's remuneration committee and board of directors, respectively, approved compensating Mr. Neumann for his service as one of the Company's directors effective as of November 1, 2021, as detailed in the 'Director Fees' section below. As stated above, Mr. Neumann stopped serving as one of the Company's directors on February 27, 2022. On February 8, 2023, Mr. Neumann ceased being an interested party of the Company since he was no longer party to the new shareholder agreement between Mr. Ori Max and Moose Holdco Ltd. For more information see Regulation 21A below and the Company's immediate report dated February 9, 2023 (Reference No: 2023-01-013354), included herein by way of reference.

Similarly, Mr. Neumann was entitled to D&O liability insurance, release and indemnification as customary with respect to senior officers and directors of the Company (for details see Regulation 29A below).

(2) Moose Holdco Ltd. - From the completion date of the tender offer under the Prospectus, a management and consulting service agreement between the Company and Moose Holdco came into effect (the "**Management Agreement**"), its primary terms are as follows:

- The services – Moose Holdco shall provide the Company with management services that include: director services; consulting on the financing of the Company's activities, including connections with private investors and banks; consulting on activity in the capital markets; business development and examination of transactions; financial consulting; strategic consulting; identifying opportunities and connections in Israel and abroad.

- Manner of providing the services – Moose Holdco shall provide the services to the Company either directly or through assigning the obligations under the Management Agreement to anyone on its behalf, including third-parties. Insofar as the management services (all or part thereof) shall be provided by a third-party on behalf of Moose Holdco, the Company shall inform Moose Holdco regarding the quality and nature of the services, so that Moose Holdco can assess the services and consider their continued provision (all or part thereof) through anyone on its behalf. Similarly, Moose Holdco may instruct the Company to engage directly with an entity on its behalf as stated in the Management Agreement, under terms identical to the terms of this Management

Agreement (or under different terms, with the consent of the parties, and subject to approvals required by law).

- The consideration – the Company shall pay Moose Holdco management fees of ILS 500,000 for each calendar quarter (or a relative share for each calendar quarter during which the Management Agreement shall be valid), plus VAT in accordance with law, against a duly issued tax invoice. The management fees shall be paid by the 30th day of the subsequent quarter. It should be noted that subsequent to the date of the report, on February 8, 2023, Moose Holdco unilaterally informed the Company that it is unilaterally and irrevocably waiving half of the management fees it is entitled to under the management agreement, whereby, commencing as of January 1, 2023, each calendar quarter, Moose Holdco shall be entitled to quarterly management fees totaling ILS 250,000 per calendar quarter (or a pro-rated part thereof). For more information see the Company's immediate report dated February 9, 2023 (Reference No: 2023-01-013354), included herein by way of reference.

- Reimbursement – in addition to the management fees, Moose Holdco shall be entitled to reimbursement of reasonable expenses actually incurred for the purpose of providing the management services, including payments made to external consultants, accommodation costs, travel expenses, flight and associated expenses incurred in the provision of the management services, all in accordance with the Company's policies and against presenting a tax receipt, if these costs shall not be paid directly by the Company (the "**Reimbursement**"). The Reimbursement shall be paid at the same time the management fees are paid, for the calendar quarter preceding the payment date. The costs shall be approved by the Company's CFO, who shall issue an annual report on this subject matter to the audit committee, which shall discuss the reasonableness of the above costs and may reduce them.

- Term and termination of the agreement

  The Management Agreement became effective upon completing the issuance under the Prospectus, and shall be valid for a period of five (5) years from the completion date of the issuance (the "**First Agreement Period**"). Following the First Agreement Period, the Management Agreement shall be automatically renewed for subsequent periods of three (3) years each, subject to receiving the corporate approvals required from the Company for this purpose, pursuant to any law.

The Management Agreement shall be valid for as long as Moose Holdco holds at least 18% of the Company's outstanding share capital, or until its termination, whichever comes first. In the event that Moose Holdco holds more than 10% (but less than 18%) of the Company's outstanding share capital, and shall have the right to appoint a director, Moose shall be entitled to receive payment as a director, in the amounts provided in Schedule II and Schedule III to the Companies Regulations (Rules Regarding the Compensation and Expenses of an External Director), 2000, ("**Remuneration Regulations**"), in accordance with the Company's classification ranking as it may be from time to time.

Moose Holdco shall be entitled to assign the agreement to: (a) any corporation, body or person that controls Moose Holdco, is controlled by Moose Holdco, or is under common control with Moose Holdco; (b) any entity that from time to time is part of the investment funds known as AMI Foundation, any other person serving from time to time as the general partner of AMI Foundation, any other person serving from time to time as the investment manager at AMI Foundation or any limited partner in any of the entities that constitute part of AMI Foundation; and (c) any corporation or body that controls, is controlled by or under common control with any of the entities mentioned above in subsection (b). It is clarified that the aforementioned shall not prevent Moose Holdco from providing management services through any person on its behalf.

Notwithstanding the above, the validity of the Management Agreement is contingent upon approval by the Company's authorized organs, for each period as required under applicable law, as it may be at the relevant time. Failure to approve the engagement in the manner required under applicable law shall lead to the immediate termination of such agreement, without any party having any argument and/or claim against the other with respect to the content of the agreement, except for payment for management services provided prior to such termination.

Notwithstanding the foregoing, each party to the agreement may:

- Terminate the agreement upon the provision of prior notice of one hundred and eighty (180) days (the "**Prior Notice Period**"), provided that in the Prior Notice Period Moose Holdco shall continue to provide the Company with the management services, and the Company shall continue to pay Moose the consideration for the management services.

- Terminate the agreement with immediate effect, without derogating from any other relief that may be at its disposal, should the other party fundamentally breach this agreement or its schedules and fail to remedy such breach within 14 business days from the date the aggrieved party made a written demand.

(3) Shlomo Zohar - For his service as one of the Company's directors, Mr. Zohar is entitled to director fees as detailed in subsection (4) below. Similarly, further to the approval obtained from the Company's remuneration committee and board of directors given on November 29, 2020, on December 21, 2020, the Company's general meeting approved of a private allotment of 46,706 non-marketable options which can be exercised into 46,706 ordinary shares of the Company with no par value to Mr. Zohar. For details regarding the exercise price of these options, the exercise period and vesting conditions see the Company's immediate report dated November 30, 2020 (Reference No: 2020-01-130497), included herein by way of reference. As of the publication date of the report, Mr. Corsia has exercised 28,024 non-marketable options into 11,830 ordinary shares of the Company with no par value. As of the publication date of the report, and in light of the fact that Mr. Zohar has concluded his term of office with the Company, Mr. Zohar's outstanding and unexercised (and unvested) options have expired. Mr. Shlomo Zohar stopped serving as one of the Company's directors on December 28, 2022. For more information, see the immediate report published by the Company on December 29, 2022 (Reference No: 2022-01-124119), included herein by way of reference.

(4) Director fees

All of the Company's directors, save for Messer. Ori Max, the Company's controlling shareholder who serves as the Company's CEO[4], and save for Messrs. Zehavit Cohen and Shay Aba, who are holding office as Company directors recommended by Moose Holdco, one of the Company's controlling shareholders, are entitled to an annual payment and participation fees in the maximum amount stipulated in the Remuneration Regulations, as amended from time to time, according to the Company's tier ranking on the relevant date

[4] On November 17, 2021 and November 22, 2021, the Company's remuneration committee and board of directors, respectively, approved Mr. Evan Neumann's terms of service as one of the Company's directors effective as of November 1, 2021, until the date of the completion of his service as a director on February 27, 2022. Mr. Neumann was entitled to identical terms of service as the Company's directors as detailed above.

and to expense reimbursement for participating in meetings, as detailed in the Remuneration Regulations. Furthermore, the directors are also entitled to D&O liability insurance, release and indemnification (for details see Regulation 29A below). During 2022, the Company's directors were paid a total amount of approximately ILS 681 thousands. For further details regarding the remuneration paid to Ori Max for holding office as CEO of the Company, and the remuneration paid to Moose Holdco, see "Additional details about the terms of service and employment of the senior officers" above.

Regulation 21A: Control of the Company

As of the date of the report, the Company's controlling shareholders included Moose Holdco Ltd., Ori Max and Evan Charles Neumann, under a shareholders agreement executed by said persons on September 10, 2020. For details about the shareholders agreement, see Section 3.6 of the Prospectus.

As of the publication date of the report, the Company's controlling shareholders included Moose Holdco Ltd. and Mr. Ori Max under a shareholders agreement executed by said persons on February 9, 2023. For more information about the aforementioned shareholders agreement see the Company's immediate report dated February 9, 2023 (Reference No: 2023-01-013354), included herein by way of reference.

Regulation 22: Transactions with the Controlling Shareholder

Presented below, to the best knowledge of the Company, are details regarding any transaction with the controlling shareholders or in which the controlling shareholders have a personal interest in approving, entered into by the Company in the reporting year or subsequent thereto, until the filing date of the report or which is still in effect as of the report date:

1. **Transactions Included Within Section 270(4) of the Companies Law -**

   1.1. Management and consulting services by Moose Holdco - for details about the management and consulting services provided to the Company by its controlling shareholder and such services provided during the reporting period, as well as the unilateral notice regarding the waiver of part of the management fees paid by the Company to Moose Holdco, see Regulation 21 (Payments to Interested Parties and Senior Officers) above. The management service agreement by and between the Company and Moose Holdco was approved on September 14, 2020 by the Company's board of directors and its controlling shareholder.

1.2. Management services by Ori Max - for details about the service agreement with a company wholly owned by Mr. Max, under which Mr. Max provides CEO services to the Company, see Regulation 21 (Payments to Interested Parties and Senior Officers) above. The service agreement was approved on July 27, 2017, by the Company's competent organs.

1.3. Management services by Evan Neumann - for details about the service agreement with a company wholly owned by Mr. Neumann, under which Mr. Neumann provided co-CEO until January 31, 2022, see Regulation 21 (Payments to Interested Parties and Senior Officers) above. The service agreement was approved on July 27, 2020, by the Company's competent organs. Mr. Neumann ceased serving as co-CEO of the Company on January 31, 2022; and he stopped serving as one of the Company's directors on February 27, 2022.

1.4. Employment of Mr. Eli Max, Ori Max's father, by the Company - Mr. Eli Max has been employed by the Company in a general position commencing as of January 1, 2016. Mr. Max retired on February 28, 2022.

1.5. Employment of Ms. Efrat Max, Ori Max's sister, by a subsidiary - Ms. Max has been employed by a subsidiary, Big Max Ltd., as manager of the coffee station which operates in the Chain's store run by Big Max Ltd., commencing as of April 1, 2017. For more information, see Note 28C(2) to the Company's Financial Statements.

1.6. Commitment letter to indemnify the Company - On April 12, 2021, the Company received a notice of a VAT assessment of inputs and transactions according to best judgment, for 2016-2020, pursuant to Section 77 of the Value Added Tax Law, 1975, for an amount totaling approximately ILS 6.6 million (the "**Assessment**"). Of the total amount of the Assessment, VAT totaling approximately ILS 5.1 million is attributed to the difference in the share price paid by investors and the purchase price paid for the shares by the foreign underwriter, as part of the public tender offer executed by the controlling shareholders in September 2020. The Company disagrees with the position adopted by the Israel Tax Authority and on May 23, 2021, it submitted an objection to the aforementioned transactions assessment.

Due to the fact that the tax liability relates to the purchase of shares as part of the tender offer performed by the controlling shareholders, on August 11, 2021, and on August 15, 2021, the Company's audit committee and board of directors, respectively, approved the receipt of a letter of indemnity from the Company's controlling shareholders as a "beneficial transaction" according to Regulation 1(2) of the Companies Regulations (Reliefs for Interested Party Transactions), 2000 (the "**Relief Regulations**"). According to the letter of indemnification, the controlling shareholders will indemnify the Company for the tax liability (or any other amount which may ultimately be finally determined for this indebtedness through an objection or appeal on the objection, if any), and the associated costs incurred in such respect. Payment of the tax liability (if any) will be pro-rated between the Company's controlling shareholders (as defined below), according to the number of shares sold by each one of them out of the total number of shares sold under the Prospectus.

On April 26, 2022, the Israel Tax Authority rendered a decision on the objection in which they accepted all of the Company's arguments and all of the assessment charges were cancelled. The Tax Authority also approved the reduction of an assessment of VAT inputs objected by the Company totaling approximately ILS 100 thousands as described above, for which a provision has been made in the Company's books. The assessment of VAT inputs was paid in May 2022. For more information see Note 15I to the Company's Financial Statements.

2. **Transactions not included within Section 270(4) of the Companies Law and which are not negligible** -

Substance of the agreement	Parties to the agreement	Period of the agreement	Consideration	Additional details	Board approval date of the agreement
Lease agreement of one of the Max Chain's stores in Rishon Letzion with an area of 6,000 sqm	**Lessors** - a company wholly owned by Ori Max and an unrelated third-party **Lessee** - one of the Company's subsidiaries	The first lease period shall conclude in October 2025. The lessee has an option to extend the agreement by 3 additional periods of 5 years each.	Monthly rental payments at market terms.	Provision of a guarantee by the Company to the lessors For more information about the Chain Stores' lease agreements, see Section 1.19.1 of Chapter A to this report.	September 14, 2020
Lease agreement of one of the Max Chain's stores in Ashkelon with an area of approximately 2,000 sqm	**Lessor** - a company owned by Ori Max, Evan Neumann and unrelated third-parties **Lessee** - one of the	The first lease period concluded in August 2022, and was extended until August 2026. The lessee has 2 additional options to extend the	Monthly rental payments at market terms.		September 14, 2020

Substance of the agreement	Parties to the agreement	Period of the agreement	Consideration	Additional details	Board approval date of the agreement
	Company's subsidiaries	agreement by 4 years each.			
Lease agreement of one of the Max Chain's stores in Sderot with an area of approximately 1,700 sqm	**Lessor** - a company owned 50% by Ori Max through a private company wholly owned by him **Lessee** - one of the Company's subsidiaries	The first lease period shall conclude in May 2026. The lessee has an option to extend the agreement for an additional 5-year period.	Monthly rental payments at market terms. In the event of an impediment to operate the store, in whole or in part, rent equivalent to 7% of the store's monthly revenues shall be paid.	For more information about the Chain Stores' lease agreements, see Section 1.19.1 of Chapter A to this report.	August 30, 2020
Franchise agreement - one of the Max Chain's stores in Maalot	**The Company** **The franchisee** - a company owned by the parents and brother of Ori Max's wife[5]	The engagement automatically renews on March 1 of each year, unless one of the parties terminates the agreement through the provision of 90 days' prior notice prior to the completion date of the agreement's extension.	Payment of royalties to the Company, in an immaterial amount, as customary in the Company's franchise agreements.	The Company's undertaking to not open additional stores in Maalot throughout the period of the franchise agreement. The franchisee is not required to provide guarantees to secure its obligations under the agreement. For more information about the franchise agreements executed by the Company, see Section 1.16.1.6 of Chapter A to this report.	September 14, 2020

[5] It should be noted that Mr. Ori Max has other commercial relationships with his wife's brother, which are unrelated to the Company's activities.

Substance of the agreement	Parties to the agreement	Period of the agreement	Consideration	Additional details	Board approval date of the agreement
Franchise agreement - one of the Max Chain's stores in Raanana	**The Company** **The franchisee** - brother of Ori Max's wife	The first franchise period ended in February 2023, and the extension option became effective for an additional 5-year period. The franchisee has an option to extend the agreement by 2 additional periods of 5 years each.	Once-off payment on the execution date and payment of royalties to the Company, in an immaterial amount, as customary in the Company's franchise agreements.	For more information about the franchise agreements executed by the Company, see Section 1.16.1.6 of Chapter A to this report.	September 14, 2020
Franchise agreement - one of the Max Chain's stores in Haifa	**The Company** **The franchisee** - Ori Max's cousin	The first franchise period shall conclude in July 2023. The engagement is automatically renewed in 3 additional periods of one year each, unless one of the parties terminates the agreement through the provision of 30 days' prior notice prior to the completion date of the first engagement period or the relevant extension period.	Once-off payment on the execution date and payment of royalties to the Company, in an immaterial amount, as customary in the Company's franchise agreements.	For more information about the franchise agreements executed by the Company, see Section 1.16.1.6 of Chapter A to this report.	June 27, 2020
Engagement for the provision of services - ERP-based technology services and a license for Comax software	**The Company** **Service provider** - Native Data Systems (1995) Ltd. Commencing as of June 2021, the AMI Foundation, the controlling shareholder of Moose Holdco, is the controlling shareholder of the service provider.	Commencing as of 2008, the service provider has been providing the Company with services for its ERP systems (including cash registers, terminals, book-keeping), software (cash registers and terminals) and an automatically renewing license for Comax software. The parties are acting towards executing a detailed agreement, which specifies the terms and conditions of their engagement as applicable from the	A monthly payment in accordance with the number of subscriptions used in a calendar month and/or the services provided by the service provider to the Company in a given calendar month. The annual payment is approximately ILS 2.1 million per year.		The engagement between the parties commenced in 2008, prior to when the AMI Foundation acquired the control of the service provider. The terms of engagement remained unchanged after the acquisition of control, as said.

Substance of the agreement	Parties to the agreement	Period of the agreement	Consideration	Additional details	Board approval date of the agreement
		commencement of the provision of the services.			
Franchise agreement - one of the Max Chain's stores in Tel Aviv	**The Company** **The franchisee** - leased the property to operate the franchise from a company owned by Ori Max.	The first franchise period shall conclude in February 2027. The engagement will automatically renew for 3 additional periods of three years each, unless one of the parties terminates the agreement through the provision of 30 days' prior notice prior to the completion date of the first engagement period or the relevant extension period.	Once-off payment on the execution date and payment of royalties to the Company, in an immaterial amount, as customary in the Company's franchise agreements.		December 28, 2022. The agreement was signed after the date of the report on February 26, 2023.
Engagement for the provision of services - fuel services	**The Company** **Service provider** - Ten Petroleum Company Ltd. The AMI Foundation, the controlling shareholder of Moose Holdco, is the controlling shareholder of the service provider.	From 2018 it has been providing the Company with fueling services for the Company's vehicles. The first period of engagement was for 3 years, and it automatically renews for additional one year periods, unless either party provides 30 days' notice prior to terminating the engagement.	A monthly payment depending on the quantity of fuel, the price of fuel for the customer less the discount given to the Company. The payment in 2022 totaled approximately ILS 1.3 million.	The total payments to the service provider exceeded the negligibility threshold in 2022, and it was therefore brought to the board of directors for its ratification and to be classified as a non-exceptional engagement.	March 19, 2023 (ratification as a non-exceptional transaction)

Moreover, for details regarding the approval of the Company's engagement in D&O liability policy, in accordance with Regulation 1B1 of the Relief Regulations, see Section 2.2 of Regulation 29A below.

3. **Negligible Transactions -**

On September 14, 2020, the Company's board of directors resolved to adopt guidelines and rules for the classification of a transaction by the Company or by one of its subsidiaries with an interested party as being a negligible transaction, as provided in Regulation 41 of the

Securities Regulations (Annual Financial Statements), 2010 (the "**Financial Statement Regulations**"). The Company's board of directors determined that these rules and guidelines shall also be used to examine the scope of disclosure in periodic reports and prospectuses (including in shelf offering reports) for a transaction by the Company or one of its subsidiaries with a controlling shareholder or in which a controlling shareholder has a personal interest in approving, as provided in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 and in Regulation 54 of the Securities Regulations (Details in a Prospectus and Draft Prospectus - Structure and Form), 1969. The types of transactions stipulated in the aforementioned regulations shall hereby jointly be referred to as: "**interested party transactions**".

During their ordinary course of business, the Company and its subsidiaries, perform or may perform interested party transactions, primarily involving the acquisition of services (like portfolio management services for the Company's investments), buying or leasing goods, products or land (like purchasing fuel), marketing transactions, buying and distributing products, transactions involving giving and receiving various kinds of management and consulting services[6], etc. These pertain to transactions which are immaterial for the Company, both from a quantitative and qualitative perspective, and they are generally performed at market terms and at similar terms and conditions to other transactions performed with third-parties. Therefore, the Company's board of directors determined that an interested party transaction which is not an exceptional transaction (as such term is defined in the Companies Law[7]), will be deemed a negligible transaction if it satisfies a two-stage test: (1) Qualitative test: If, in terms of its characteristics, nature and impact on the Company, it is immaterial to the Company and there are no special considerations emerging from the entirety of circumstances attesting to the materiality of the transaction; and (2) Quantitative test: The Company's board of directors determined that absent special qualitative considerations emerging from the entirety of relevant circumstances, an interested party transaction shall be deemed negligible if the calculated relevant ratio/criteria for a transaction (one or more, as stated below) is at a rate of less than 2% and provided that the annual scope of the transaction does not exceed ILS 1 million.

[6] Provided that these transactions do not constitute an engagement between the Company with the controlling shareholder or relative thereof, pertaining to their terms of service, as detailed in Section 270(4) of the Companies Law.

[7] It is clarified that a transaction not in the ordinary course of business for the Company, or which is not at market terms, or which may materially impact the Company's profitability, property or its undertakings, will not be classified as a negligible transaction.

One or more of the criteria/ratios relevant to a particular transaction is examined when considering the classification of a transaction as being negligible, on the basis of the Company's most recent annual consolidated financial statements: **sales ratio**: The total sales relevant to the interested party transaction divided by total annual sales; **cost of sales ratio**: The cost of an interested party transaction divided by the total annual cost of sales; **profit ratio**: The actual or forecasted profit or loss attributable to an interested party transaction divided by the average annual profit or loss in the last three years, calculated on the basis of the last 12 quarters for which audited or reviewed financial statements were published; **assets ratio**: The scope of assets which are the subject of the interested party transaction divided by the total assets; **liability ratio**: The liabilities which are the subject of the interested party transaction divided by the total liabilities; **operating expense ratio**: The scope of the expense which is the subject of the interested party transaction divided by the total annual operating expenses.

In instances where, at the Company's discretion, all the above quantitative criteria are irrelevant to examine whether an interested party transaction is negligible, then the transaction will be considered negligible according to another relevant criteria, which shall be determined by the Company's CFO, provided that the relevant criteria calculated for the transaction is less than 2%. For multi-year transactions, the annual scope of the transaction will be taken into account when examining negligibility. For example: For a multi-year insurance transaction, the annual insurance payments or payouts will be considered. It should be noted that even if the interested party transaction satisfied the above quantitative test, it will not be deemed negligible if qualitative considerations indicate that it is material, whether due to its impact on the Company or due to its importance in being disclosed to the investor public. Separate transactions which are interdependent, whereby in reality they are part of the same engagement (for example when jointly negotiating for many transactions), shall be examined as a single transaction.

The Company's board of directors has decided that the audit committee shall survey the manner that the provisions of this procedure are being implemented by the Company on an annual basis, and shall also sample the transactions classified as negligible under the procedure. When examining a sample of the aforementioned transactions, the audit committee shall examine, *inter alia*, the way that the prices and other terms and conditions of the transaction are set, under the circumstances, and shall examine the impact of the transaction on the Company's commercial position and on its operating results.

Regulation 24: Holdings by Interested Parties and Senior Officers

For details regarding the holdings of interested parties and senior officers of the Company, see the Company's immediate report dated January 5, 2023 (Reference No: 2023-01-003283), hereby included by way of reference.

Regulation 24A: Authorized Capital, Outstanding Capital and Convertible Securities

For details regarding the Company's authorized and outstanding share capital, see Note 18 to the Financial Statements.

Regulation 24B: Company's Shareholder Register

For details regarding the Company's shareholder register, see the immediate report published by the Company on February 5, 2023 (Reference No: 2023-01-012406), included herein by way of reference.

Regulation 25A: Registered Office

Registered office:	16 Hashita St., Caesarea.
Email address:	ifat@maxstock.co.il
Telephone no:	073-7695176
Fax no:	04-8241792

Regulation 26: The Company's Directors

Presented below are details of the Company's directors as of the publication date of the report:

Name of Director:	Ori Max	Zehavit Cohen (Chair)	Shay Aba	Limor Brik-Shay	Peretz Guza	Eitan Michael Stoller	Suzan Mazzawi	Guy Gissin
ID no.	033747825	058344797	034486100	039838852	051313450	017156639	029936606	057324683
Date of birth	February 27, 1977	November 16, 1963	December 12, 1977	April 4, 1983	May 25, 1952	July 30, 1974	February 6, 1976	October 15, 1961
Address for service of court documents	11A Zerubavel St., Tel Aviv	4 Bercovich St., Tel Aviv	4 Bercovich St., Tel Aviv	28 Hakurkur St., Irus	93 Hacarmel St., Kfar Saba	3 Brenner St., Herzliya	17 Irit St., Nof Hagalil, POB 14823	38B Habarzel St., Fl. 6, Tel Aviv, 6971054
Citizenship	Israeli	Israeli, American	Israeli, Canadian	Israeli	Israeli	Israeli	Israeli	Israeli
Member of a board committee/s	No	No	No	No	Financial statements examination committee and audit committee (including in its capacity as remuneration committee)	Financial statements examination committee and audit committee (including in its capacity as remuneration committee)	Financial statements examination committee and audit committee (including in its capacity as remuneration committee)	Financial statements committee
Are they an external, external expert or independent director	No	No	No	No	External director	External director	Independent director	No
The date they started to serve as director	December 16, 2004	July 20, 2017	July 20, 2017	July 20, 2017	November 23, 2020	November 23, 2020	November 23, 2020	March 13, 2023
Their education specifying the subject areas or fields they studied,	12 years education	BA in accounting, Duke University USA, MBA in	BA in economics, York University,	BA in law from Netanya Academic College;	BA in economics and extended business administration,	BA in the life sciences and society, Open University,	BA in communications, Academic College Of	LL.B., Tel Aviv University.

Name of Director:	Ori Max	Zehavit Cohen (Chair)	Shay Aba	Limor Brik-Shay	Peretz Guza	Eitan Michael Stoller	Suzan Mazzawi	Guy Gissin
the institution they studied in and the academic diploma or professional certificate they hold		finance, University of Pittsburgh, USA; MA in accounting, University of Pennsylvania, USA.	Toronto, Canada; MBA with a major in accounting and finance, Booth School of Business, University of Chicago, USA.	Licensed attorney; MA in business administration and marketing, Netanya Academic College.	Bar Ilan University.	Lifshitz College for Education; MA/Directors' course - life sciences, Haifa University/Beit Berl College; LL.B (law), Shaarei Mishpat Academic Center for Law and Science.	Emek Yezreel. Chemical engineering, Technion.	
Do they have accounting and financial expertise or hold professional qualifications	Has professional training	Possesses financial and accounting expertise	Possesses financial and accounting expertise	Has professional training	Possesses financial and accounting expertise	Has professional training	Has professional training	Possesses financial and accounting expertise
Employment in the last five years	CEO of the Company, property development	2006-present: CEO Apax Partners Israel Ltd. See below details regarding her service as a director.	2008-present: Investment manager at Apax Partners Israel. See below details regarding his service as a director.	Lawyer	7/2020-present: Committee member of the Foundation for the Benefit of Holocaust Victims; 2006-2017: Division head for Clalit Health Insurance Services (Clalit Mushlam); See below details regarding his service as a director.	2008-present: Lawyer and owner, Adv. Stoller & Co. - Law Firm.	2009-present: Owner and chairman, S. K.M Investments & Holdings Ltd.; 1995-present: CEO, Mazzawi Advertising Ltd.	Founding partner at Gissin & Co - Law Office; Manager and director at Gissin Attorneys; Chairman Harpoon Capital Consulting Ltd; Chairman - The Center for Conducting Insolvency Proceedings Ltd.

Name of Director:	Ori Max	Zehavit Cohen (Chair)	Shay Aba	Limor Brik-Shay	Peretz Guza	Eitan Michael Stoller	Suzan Mazzawi	Guy Gissin
List of the corporations in which they serve as director	Director of the Company and representative of the Company as director in the Company's subsidiaries; Director of Ori Max Ltd., Schwartz Max Investments Ltd., Leah & Eliad Holdings Ltd., Max and Neumann Ltd.	Director of the Company and the following companies: Apax Partners Israel Ltd., S.R. Accord Ltd., AMI Consulting Ltd., Gazit Globe Ltd., Go Global Travel Ltd., Ramet Trom Ltd., Ten - Petroleum Company Ltd., Native Systems Ltd., The Stef Foundation for Education for Creativity and Industrial Entrepreneurship (R.A.), and a number of SPVs owned by AMI Foundation	Director of the Company and the following companies: Psagot Investments in Insurance Agencies Ltd., and a number of SPVs owned by AMI Foundation,	Director of the Company, Moose Holdco Ltd. and a number of SPVs owned by AMI Opportunities Fund	Shlomo Holdings Ltd., Bayit Bakfar Ltd., Fattal Properties (Europe) Ltd.	-	S.K.M Investments & Holdings Ltd.	Guy Gissin & Co. Trust Company Ltd; Xenon Security Management Ltd; Xenon Security Trust Ltd; Max - Gissin Ltd; Eliad Maximum Investments Ltd.
Are they an employee of the Company, a subsidiary, affiliate or interested party of the Company	Co-CEO of the Company, director of the subsidiaries	CEO of Apax Partners Israel Ltd. and partner of Apax Partners LLP which, *inter alia*, advises the controlling shareholder of the Company	Employee of Apax Partners Israel Ltd. which advises the controlling shareholder of the Company (AMI	No	No	No	No	No

Name of Director:	Ori Max	Zehavit Cohen (Chair)	Shay Aba	Limor Brik-Shay	Peretz Guza	Eitan Michael Stoller	Suzan Mazzawi	Guy Gissin
		(AMI Foundation and Moose Holdco Ltd.)	Foundation and Moose Holdco Ltd.)					
Are they a relative of another interested party of the corporation	No	No	No	No	No	No	No	No
Are they a director who the Company sees as having accounting and financial expertise in order to satisfy the minimum number established by the board of directors under Section 92(a)(12) of the Companies Law[8]	No	Yes	Yes	No	Yes	No	No	Yes

Directors who ended their service during the period of the report:

Mr. Evan Charles Neumann stopped serving as one of the Company's directors on February 27, 2022. For additional details see the Company's immediate reports dated January 23, 2022 and July 12, 2022 (Reference No: 2022-01-009627 and 2022-01-073503, respectively), hereby included by way of reference.

[8] On September 14, 2020, the Company's board of directors established that the minimum number of directors with accounting and financial expertise required under Section 92(a)(12) of the Companies Law, 5759-1999 is 2 directors.

Mr. Oren Elezra stopped serving as one of the Company’s directors on April 25, 2022. For more information, see the immediate report published by the Company on April 25, 2022 (Reference No: 2022-01-041760), included herein by way of reference.

Mr. Shlomo Zohar stopped serving as one of the Company’s directors on December 28, 2022. For more information, see the immediate report published by the Company on December 29, 2022 (Reference No: 2022-01-124119), included herein by way of reference.

<u>Regulation 26A: Company’s Senior Officers</u>

Presented below are details of the senior officers who are not members of the Company’s board of directors as of the publication date of the report:

Name of officer	Shlomo Cohen	Nir Dagan	Oz Corsia	Ifat Nir-Katz	Paz Oz	Dana Gottesman-Erlich	Ofir Edri
ID no.	033750035	043376904	033788373	031684293	301279493	037575735	040490039
Date of birth	April 1, 1977	September 11, 1981	March 10, 1977	April 26, 1978	December 3, 1987	August 8, 1975	October 11, 1980
Position in the Company	Deputy CEO	Deputy CEO and Head of Finance	Chief Supply Chain Officer	VP, Chief Legal Officer & Corporate Secretary	Group Controller	Internal Auditor	Chief Chain Stores Officer
Date on which they started their service	August 1, 2015	August 1, 2016	July 4, 2013	March 1, 2019	April 16, 2018	October 1, 2019	December 28, 2022
The position they hold in a subsidiary of the Company, one of its affiliate companies or in one of its interested parties	N/A	CFO of the subsidiaries	N/A	N/A	Controller of the subsidiaries	N/A	N/A
Are they a relative of a senior officer of the	No	No	No	No	No	No	No

Name of officer	Shlomo Cohen	Nir Dagan	Oz Corsia	Ifat Nir-Katz	Paz Oz	Dana Gottesman-Erlich	Ofir Edri
Company or of another interested party of the Company							
Their education specifying the subject areas or fields they studied, the institution they studied in and the academic diploma or professional certificate they hold	High-school education	BA in business management with a major in accounting from the academic track from the College for Management; CPA; LLM, Bar Ilan University	High-school education	BA in law from the Interdisciplinary Center Herzliya; BA in business management, major in finance from the Interdisciplinary Center Herzliya; MA in dispute resolution from Bar Ilan University; licensed attorney and holder of a mediation certificate from Gevim Institute.	BA in economics and accounting, Rupin Academic Center; CPA	BA business management, major in accounting, academic track from The College of Management; MA in public administration, major in internal audit, Bar Ilan University; CPA; licensed internal auditor	High-school education
Employment in the last five years	2015-present: Deputy CEO of the Company	July 2016-present: CFO of the Company; July 2012-July 2016: Controller of Israir Aviation and Tourism Ltd.	Chief Logistics Officer of the Company	March 2019-present: Company's general counsel and corporate secretary; 2015-2019: partner in the companies and capital markets department of Zysman, Aharoni, Gayer & Co.; 2006-2015: legal advisor to Reshit and corporate secretary of Mashbir 365 Holdings Ltd.	April 2018-present: controller of the Company; 2016-2018: Assistant controller of Israir Aviation and Tourism Ltd.;	Partner in BDO Israel	Company Chief Chain Stores Officer

* An organizational restructuring of the Company's senior management was approved by the Company's remuneration committee and board of directors on December 28, 2022. Under the change, Ms. Maya Goldin, Ms. Talia Sessler, Ms. Moran Ironi and Mr. Eran Tsairi no longer fall under the definition of "senior officer in the Company" pursuant to the Securities Law, as they no longer report to the Company's CEO. For more information about the restructuring of the Company's management, see Section 12.21.4.5 of Chapter A to this report.

Regulation 26B: Company's Authorized Signatories

As of the date of the report, the Company does not have independent signatories.

Regulation 27: Auditor

Company's auditors: E&Y Israel Kost Forer Gabbay & Kasierer.

Address: 2 Palyam Blvd, Haifa 3309502.

Regulation 29: Board Recommendations and Resolutions

Presented below are details of recommendations made by the board of directors to the general meeting and resolutions which do not require the approval of the general meeting regarding the following matters:

(1) Payment of Dividends or a Distribution, Per the Companies Law, in Any Other Manner, or a Distribution of Bonus Shares

(1.1) On June 18, 2022, the Company's board of directors approved a buyback of the Company's shares in a scope of up to ILS 40 million, pursuant to the Company's buyback plan which shall be effective as of June 19, 2022 through June 18, 2023. For more information, see the immediate report published by the Company on June 19, 2022 (Reference No: 2022-01-061923), included herein by way of reference, Section 1.5.8 of Chapter A of this report, and Note 18G to the Financial Statements.

(1.2) On August 15, 2022, the Company's board of directors approved the distribution of a dividend totaling ILS 40 million, which was paid on September 6, 2022. For more information, see the immediate report published by the Company on August 16, 2022 (Reference No: 2022-01-083898), included herein by way of reference, Section 1.6.2 of Chapter A of this report, and Note 18E to the Financial Statements.

(1.3) On March 19, 2023, the Company's board of directors approved the distribution of a dividend totaling ILS 60 million, which was paid on April 3, 2023. For more information, see the immediate report published by the Company on March 20, 2023 (Reference No: 2023-01-024298), included herein by way of reference, Section 1.6 of Chapter A of this report, and Note 29 to the Financial Statements.

(2) Changes in the Corporation's Authorized or Outstanding Share Capital

On February 16, 2022, further to the resolution adopted by the Company's board of directors on February 16, 2022, the Company allotted 235,813 (non-marketable) options to one of the Company's officers, which are exercisable into 235,813 ordinary Company shares with no par value. For more information, see the immaterial private placement report published by the Company on February 17, 2022 (Reference No: 2022-01-017052), included herein by way of reference.

(3) Amendment of the Company's Articles of Association

On February 9, 2023, at the request of the Company's controlling shareholders, Mr. Ori Max and Moose Holdco, the board of directors approved adding an agenda item regarding amending the Company's articles of association to the Company's general meeting. The amendment of the articles of association was approved by the general meeting on March 13, 2023. For more information see the Company's immediate report dated February 9, 2023 (Reference No: 2023-01-014668), included herein by way of reference.

(4) Extraordinary General Meeting Resolutions

On March 13, 2023, the Company's extraordinary general meeting convened, *inter alia*, its agenda items included a resolution to approve the appointment of the following non-external directors for an additional term of service on the Company's board of directors: Ms. Zehavit Cohen, Mr. Ori Max, Mr. Shay Aba, Ms. Limor Brik-Shay and Ms. Suzan Mazzawi (independent director); a resolution to approve the appointment of Mr. Guy Gissin to serve on the Company's board of directors; and a resolution to amend the Company's articles of association, as described above. All of the resolutions were approved by the Company's general meeting. For additional details see the Company's immediate reports dated February 6, February 14, February 23 and March 13, 2023 (Reference No: 2023-01-012667, 2023-01-014668, 2023-01-017389 and 2023-01-026638, respectively), included herein by way of reference.

Regulation 29A: Company Resolutions

Presented below are details regarding release, insurance or indemnification undertakings to officers in effect on the report date (Regulation 29A(4)):

(1) **Officer Release and Indemnification**

On September 14, 2020, the Company's general meeting and board of directors approved granting letters of release and indemnification, as follows:

Letters of indemnification – the Company approved granting letters of indemnification for directors and officers serving and/or who shall serve in the Company from time to time and/or who shall be employed on behalf of the Company in subsidiaries and/or affiliates of the Company as stipulated in the letters of indemnification. Within this framework, the

Company undertakes to indemnify in advance the officers, as per the foregoing, for any indebtedness or expense (as stipulated in the letter of indemnity) and/or reasonable litigation expenses, including indemnification from an Administrative Enforcement Proceeding (as defined in the letter of indemnity) and subject to its provisions, provided that the total maximum amount for indemnification shall not exceed, on the aggregate, for all officers, an amount equal to the higher of 25% of the Company's shareholder equity (as it shall be, under the Company's most recent consolidated financial statements, as they shall be prior to the occurrence of an indemnity event) or ILS 78 million, this for each officer and for all of them jointly, for an individual event and on the aggregate for all events. Similarly, the Company undertook to retrospectively indemnify the officers. Said indemnification shall not be granted for any act or omission whatsoever which occurred prior to the date of the completion of the AMI Foundation Investment Transaction (as defined in Chapter 3 of the Prospectus) and shall not apply to breaches and representations made in the framework of said transaction.

<u>Release</u> – the Company approved granting letters of indemnification to directors serving and/or who shall serve in the Company from time to time and/or who shall be employed on behalf of the Company in subsidiaries and/or affiliates of the Company as stipulated in the letters of release. Within this framework, the Company releases the directors, as per the foregoing, as they shall be from time to time and each of them individually, from liability for damage which shall be and/or which has been caused to it, either directly or indirectly, due to breach of the duty of care of said directors towards the Company and towards the other companies in the group, occurring in the course of their activities due to them being directors of the Company, or directors on behalf of the Company in subsidiaries and/or affiliates of the Company, all subject to and in accordance with the law. Notwithstanding, the release shall not apply with respect to liability for damages caused as a result of breach of the duty of care in a distribution (as defined in the Companies Law), and/or in any proceedings entailing a "counter-claim" of the Company against the director in response to said director's claim against the Company, except in the event the director's claim is to preserve protective rights under employment law sourced in the law and/or under a personal employment agreement between the director and the Company. Similarly, said release shall not apply to: (1) Any resolution or transaction in which the controlling shareholder or officer of the Company whatsoever (including a different officer than the one for whom the letter of release was issued) has a personal interest, as such terms are defined in the Companies

Law; and (2) Any act or omission whatsoever which occurred prior to the date of the completion of the AMI Foundation investment transaction and shall not apply to breaches and representations in the framework of said transaction.

(2) **Insurance Policies**

2.1. On September 14, 2020, the Company's board of directors and general meeting approved entering into an insurance policy with Israeli and foreign insurers to cover liability of directors and officers of the Company and its subsidiaries, with respect to directors and officers who serve and/or will serve in the Company from time to time, including directors and officers considered controlling shareholders of the Company, as they shall be from time to time, for a period of one year, from September 14, 2020, until September 13, 2021, with a liability cap of up to USD 10 million per event and for an annual insurance period (the "**Basic Policy**"). The terms of the Basic Policy shall be identical for all directors and officers of the Company, including directors and officers considered controlling shareholders of the Company or their relatives.

On September 9, 2021, in accordance with Regulation 1B1 of the Relief Regulations, the Company's remuneration committee approved extending the Company's engagement in the Basic Policy in an amount of USD 10 million per event and for the insurance period, for an additional period of 12 months.

On September 12, 2022, in accordance with Regulation 1B1 of the Relief Regulations, the Company's remuneration committee approved extending the Company's engagement in the Basic Policy in an amount of USD 10 million per event and for the insurance period, for an additional period of 12 months.

2.2. On January 3, 2021, the Company's remuneration committee, in accordance with the Company's remuneration policy, approved the Company's engagement in a POSI (Public Offering of Securities Insurance) D&O liability policy (the "**POSI Policy**") for the directors and officers of the Company and its subsidiaries, as they may be from time to time. The terms of the POSI Policy and the coverage thereto shall be identical for all directors and officers of the Company, including directors and officers considered controlling shareholders of the Company or their relatives, as they may be from time to time. The POSI Policy provides an extra level of coverage beyond the Basic Policy with a liability limit of USD 10 million per event and in total for the annual insurance period. The coverage applies to claims made anywhere around the world, including in the US/Canada, connected to securities, including litigation initiated under Rule A144 of the US Securities Act, excluded from the Basic Policy, against payment of an annual premium of USD 195 thousands.

On December 13, 2021, in accordance with Regulation 1B1 of the Relief Regulations, the Company's remuneration committee approved extending the Company's engagement in the POSI Policy under the same terms specified above, for an additional period of 9 months.

On September 12, 2022, in accordance with Regulation 1B1 of the Relief Regulations, the Company's remuneration committee approved extending the Company's engagement in the POSI Policy under the same terms specified above, for an additional period of 12 months.

March 19, 2023

Date	**Max Stock Ltd.**
Zehavit Cohen	**Ori Max**
Chairperson of the Board of Directors of the Company	**CEO**

CHAPTER E – MANAGERS' DECLARATIONS ON FINANCIAL REPORTING AND DISCLOSURE

Annual Report on the Effectiveness of the Internal Control Over the Financial Reporting and Disclosure according to Regulation 9B(a)

The management, under the supervision of the board of directors of Max Stock Ltd. (the "**Company**"), is responsible for establishing and maintaining adequate internal control over the Company's financial reporting and disclosure.

For this purpose, the senior officers as of December 31, 2022 are:

1. Ori Max, CEO & Director;
2. Shlomo Cohen, Deputy CEO;
3. Nir Dagan, Deputy CEO & Head of Finance;
4. Oz Corsia, Chief Supply Chain Officer;
5. Roy Ben-Nun[1], Chief Overseas Operations;
6. Ifat Nir-Katz, Chief Legal Officer & Corporate Secretary;
7. Ofir Edri, Chief Chain Stores Officer;

Internal control over the financial reporting and disclosure includes existing Company controls and procedures which were designed by the CEO and the Company's CFO or by anyone under their supervision, or by persons actually performing the above functions, under the supervision of the Company's board of directors, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements according to the provisions of applicable law, and to ensure that information that the Company is obligated to disclose in reports published by it under applicable law is collected, processed, summarized and reported in a timely manner and in the format established by law.

The internal control includes, *inter alia*, controls and procedures designed to ensure that information that the Company is required to disclose as aforesaid, is accumulated and forwarded to Company's management, including the Company's CEO and the Company's CFO or anyone actually performing the above functions, to enable timely decision-making concerning disclosure requirements.

Due to its inherent limitations, internal control over the financial reporting and disclosure is not intended to provide absolute assurance that an erroneous presentation or omission of information in the reports will be prevented or detected.

[1] Effective as of January 1, 2023, he has no longer been one of the Company's office holders.

The management, under the supervision of the board of directors, examined and assessed the Company's internal control over the financial reporting and disclosure system and its effectiveness;

The assessment of the effectiveness of the internal control over the financial reporting and disclosure system performed by the management under the supervision of the board of directors consisted of: Mapping and identifying the commercial accounts and processes which the Company sees as very material for the financial reporting and disclosure and examining the key controls and the effectiveness of the controls.

The internal control components included controls of:

- Processes involved in closing the accounting period, drafting and preparing the financial statements and disclosures (period-end close);
- Entity level controls (ELC);
- General controls on the information systems, including the computing environment (ITGC);
- Commercial process controls: Revenues, procurement, inventories and payroll.

Based on the assessment of the effectiveness performed by the management under the supervision of the board of directors as specified above, the board of directors and management concluded that the Company's internal control over the financial reporting and disclosure as of December 31, 2022, is effective.

Date: March 19, 2023

Managers' Declarations

CEO's Declaration according to Regulation 9B(d)(1)

I, Ori Max, declare that:

I have reviewed the periodic report of Max Stock Ltd. (the "**Company**") for 2022 (the "**Reports**");

To my knowledge, the Reports do not include any incorrect representation of a material fact and do not fail to include any representation of a material fact which is required such that the representations included therein, in view of the circumstances pursuant to which such representations were included, shall not be misleading with respect to the period of the Reports;

To my knowledge, the financial reports and any other financial information included in the Reports properly reflect, in all material respects, the financial position, the operating results and cash flows of the Company for the dates and periods referred to in the Reports;

I have disclosed to the Company's auditor, to the board of directors and to the audit committee of the Company's board of directors, based on my most recent assessment, on the internal control over the financial reporting and disclosure:

a. All significant deficiencies and material weaknesses in the establishment or exercise of the internal control over the financial reporting and disclosure which may reasonably have an adverse effect on the Company's ability to collect, process, summarize or report on financial information in a manner which casts doubt on the reliability of financial reporting and preparation of the financial reports pursuant to the provisions of the law; and

b. Any fraud, either material or immaterial, in which the CEO or anyone directly subordinated to him is involved or any other employee holding a significant position in the internal control over the financial reporting and disclosure is involved;

(1) I, alone or together with others in the Company:

a. Established controls and procedures or ensured that controls and procedures are established and maintained under my supervision, which are designed to ensure that material information concerning the Company, including its consolidated companies as defined in the Securities Regulations (Annual Financial Reports), 2010, is brought to my attention by others in the Company and in the consolidated companies, particularly during the Reports' preparation period; and

b. Established controls and procedures or ascertained that controls and procedures are established and maintained under my supervision, which are designed to provide reasonable assurance regarding the reliability of the financial reporting and preparation of the financial reports pursuant to the provisions of any law, including according to generally accepted accounting principles;

c. Assessed the effectiveness of internal control over the financial reporting and disclosure, and presented in this report the conclusions of the board of directors and management regarding the effectiveness of the internal control as aforesaid as of the date of the Reports.

Nothing stated above derogates from my responsibility or from the responsibility of any other person, pursuant to any law.

Date: March 19, 2023	Ori Max, CEO & Director

CFO's Declaration according to Regulation 9B(d)(2)

I, Nir Dagan, declare that:

I have reviewed the financial reports and any other financial information included in the reports of Max Stock Ltd. (the "**Company**") for 2022 (the "**Reports**");

To my knowledge, the financial statements and the other financial information included in the Reports do not include any incorrect representation of a material fact and do not fail to include any representation of a material fact which is required such that the representations included therein, in view of the circumstances pursuant to which such representations were included, shall not be misleading with respect to the period of the Reports;

To my knowledge, the financial reports and any other financial information included in the Reports properly reflect, in all material respects, the financial position, the operating results and cash flows of the Company for the dates and periods referred to in the Reports;

I have disclosed to the Company's auditor, to the board of directors and to the audit committee of the Company's board of directors, based on my most recent assessment, on the internal control over the financial reporting and disclosure:

a. All significant deficiencies and material weaknesses in the establishment or exercise of the internal control over the financial reporting and disclosure to the extent that it refers to the financial statements and the other financial information included in the Reports which may reasonably have an adverse effect on the Company's ability to collect, process, summarize or report on financial information in a manner which casts doubt on the reliability of financial reporting and preparation of the financial reports pursuant to the provisions of the law; and

b. Any fraud, either material or immaterial, in which the CEO or anyone directly subordinated to him is involved or any other employee holding a significant position in the internal control over the financial reporting and disclosure is involved;

(1) I, alone or together with others in the Corporation:

a. Established controls and procedures or ensured that controls and procedures are established and maintained under my supervision, which are designed to ensure that material information concerning the Company, including its consolidated companies as defined in the Securities Regulations (Annual Financial Reports), 2010, to the extent relevant to the financial statements and other financial information included in the Reports, is brought to my attention by others in the Company and in the consolidated companies, particularly during the Reports' preparation period; and

b. Established controls and procedures or ascertained that controls and procedures are established and maintained under our supervision, which are designed to provide reasonable assurance regarding the reliability of the financial reporting and preparation of the financial reports pursuant to the provisions of any law, including according to generally accepted accounting principles;

c. Assessed the effectiveness of internal control over the financial reporting and disclosure, to the extent referring to the financial reports and other financial information included in the Reports, as of the date of the Reports; my conclusions with respect to my above assessment were presented to the board of directors and the management and are incorporated in this report.

Nothing stated above derogates from my responsibility or from the responsibility of any other person, pursuant to any law.

Date: March 19, 2023	Nir Dagan, Deputy CEO & Head of Finance