


# MAX STOCK LTD.

ANNUAL REPORT 2023

# MAX STOCK HIGHLIGHTS

## FULL YEAR 2023

1,119₪
Revenue

60M₪
Dividend paid

6.7%
% Increase in revenue

28%
Increase in EPS attributable to shareholders

2.4%
Same Store Sales

63
Branches throughout Israel (**)

151.4M₪
Adjusted EBITDA (*)

62.1K
NET OWNED SqM in Israel (**)

92.0M₪
Net profit

0.58₪
EPS attributable to shareholders

(*) Pre IFRS-16 and stock-based compensation

(**) AS OF DECEMBER 31, 2023







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# Chapter A

## DESCRIPTION OF COMPANY’S BUSINESS AFFAIRS

# Chapter A Description of the Company's business

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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, 2023, included in Chapter B of this report; |
| "**Financial Statements**" | : | The Company's consolidated financial statements for the year ended on December 31, 2023, included in Chapter C of this report; |
| "**Prospectus**" | : | Company's shelf prospectus dated November 24, 2023 (as published on November 23, 2023) (Reference No: 2023-01-127674), included herein by way of reference; |
| The "**Companies Law**" | : | The Israel Companies Law, 1999; |
| The "**Securities Law**" | : | The Israel Securities Law, 1968; |
| The "**date of the report**" or the "**report date**" | : | December 31, 2023; |
| The "**publication date of the report**" | : | March 26, 2024. |

## 1.3. <u>Company's Activities and a Description of the Development of Its Business Affairs</u>

### 1.3.1. <u>General</u>

The Company is engaged in a retail business through operating a national “discount” chain of stores trading under the “Max - Fun Shopping” and “Mini Max” names, which offers a range of various household and consumer products at attractive prices (the “**Max Chain**” or the “**Chain**”). For more information about the products the Group imports and sells at the Chain’s stores see Section 1.13 below.

**<u>The Chain’s Stores</u>**

<u>Israel</u>

As of the date of the report and as of the publication date of the report, the Chain has sixty-three (63) and sixty-five (65) branches, respectively, throughout Israel, from Kiryat Shmona to Eilat, which are mostly operated by subsidiaries (the “**owned branches**”) and partially through franchises.

In 2023, the Company continued implementing its growth strategy including the opening of five (5) new owned branches in Mishor Adumim, Gush Etzion, Be’erot Itzhak, Bat Yam and Kiryat Gat along with the opening of three (3) other branches operating as franchises in Tel Aviv, Akko and Jerusalem (Pisgat Zeev). Additionally, the Company closed an owned branch in Jerusalem and it sold an owned “Mini Max” store in Kiryat Atta to a franchisee.

Subsequent to the date of the report, in February and March 2024, the Chain opened two (2) new owned branches in Yavne and Kiryat Yam. Additionally, the Nesher store closed in March 2024 and it is expected to be replaced with a new store in Nesher (the Tel Hanan complex) in April 2024. These stores are also owned branches.

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

(a) Stores under the “Max - Fun Shopping” brand name, 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 Chain includes 44 of these kinds of large stores,[1] which are owned branches operated by the Company's subsidiaries and a granddaughter company (second-tier subsidiary), excluding 9 stores operated by franchisees; these stores include two flagship stores in Rishon Letzion (with an area of approximately 5,500 sqm (gross, approximately 3,240 sqm net); and in Kfar Saba (with an area of approximately 5,800 sqm (gross, approximately 4,100 sqm net).

(b) Stores under the "Mini Max" brand name, 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. The Mini Max chain includes 19 stores, all of which are operated by franchisees.

Portugal

During the reported period the Company continued to build a Max Stock chain in Portugal. The chain in Portugal is called "Max 10" and offers its customers a range of products priced at up to EUR 10 per item, in a wide range of divisions which also exist in the chain in Israel, including office equipment, homeware, toys, arts and crafts, beauty and pharmaceuticals, cleaning and more.

The Company opened its first branch in Braga in northern Portugal in May 2023, a second branch in the city of Porto in June 2023 and in November 2023 it opened a branch in the city of Matosinhos. The branch in Porto closed in December 2023 and as of the date of the report and as of the publication date of the report, the chain in Portugal has two (2) branches.

It should be noted that the impact of the activities in Portugal on adjusted EBITDA[2] in 2023 was a loss of approximately ILS 5 million, primarily

[1] As of December 31, 2023. As of the publication date of the report, the Chain has 46 stores under the "Max – Fun Shopping" brand name, including 9 franchisees, and including the Chain's activities in Nesher (while the Nesher branch closed in the beginning of March 2024 and a new branch in Nesher (the Tel Hanan complex) is expected to open and replace it in April 2024).

[2] Adjusted EBITDA - EBITDA while offsetting the impact of Standard 16 and expenses for share-based payments recognized during the reported period. For additional details, see Section 7 of the Board Report.

arising from salary expenses, professional and marketing services for establishing the operations.

For more information about an agreement executed by the Company to establish and manage a Max Stock store chain in Portugal see Section 1.29.1 below.

***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.***

**The Group's operating activities**

As of December 31, 2023, the majority of the Company's revenues (approximately 91.2%) derive from the owned branches (not including the Portugal operations). The Company's business strategy is to primarily continue focusing on these stores, operated by subsidiaries (for more information, see Section 1.29.1 below). The Company is also concurrently acting to expand the 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, including the fact that approximately 75% of the Company's products sold in 2023 are at a price of ILS 10 or less; 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, in addition to the groups administered by the Chain on the social media networks, there are hundreds of thousands of members of various groups engaged with the Company via social networks not opened by the Company but, rather, by customers (for additional details, see Section 1.16.1.1 below). The Company operates via social media networks in order to inform the Group's customers about 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, including the Chain's customer loyalty program called "Max's Friends" (for more information about the club see Section 1.16.1.1 below).

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

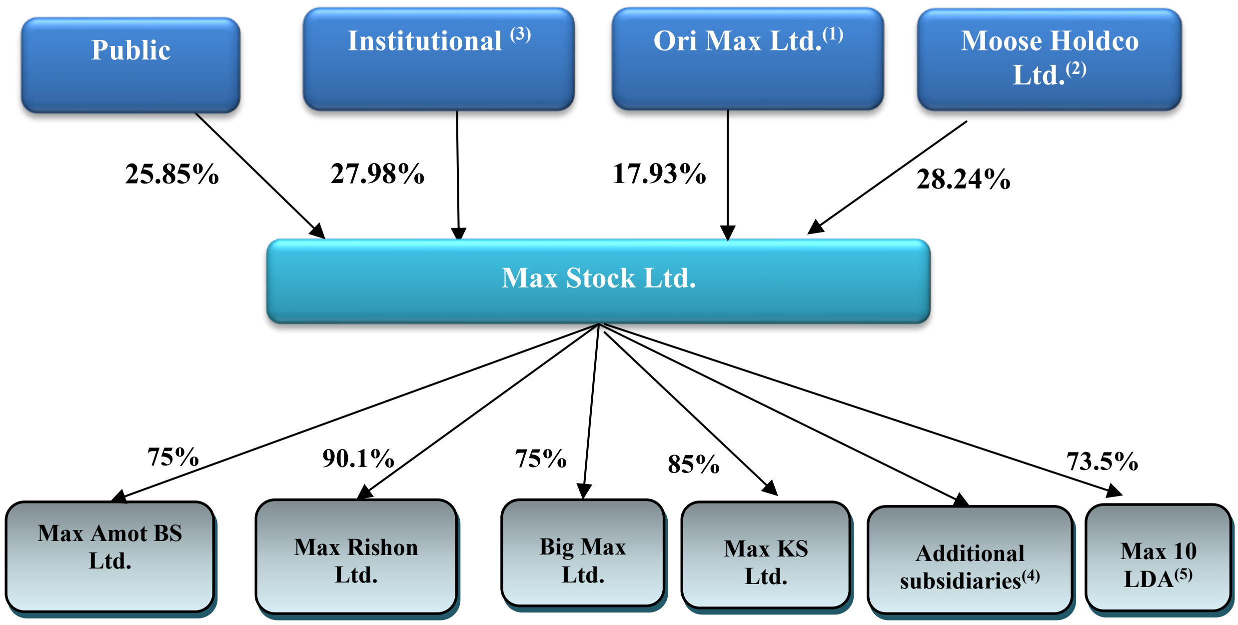
The Company was established by Ori Max in 2004 as a private company called "Max Stock Ltd". On November 17, 2015, the Company's name was changed to "Max Management Israel Ltd." and on March 10, 2020, its name was changed back to its current name - Max Stock Ltd.

On September 14, 2020, the tender offer of Company shares to institutional investors was completed under a prospectus published by the Company on September 14, 2020 (Reference No: 2020-01-092029) and the Company became a public company. On September 17, 2020, the Company's shares commenced trade on the Tel Aviv Stock Exchange ("**TASE**").

As of the publication date of this report the holdings in the Company are as detailed in Section 1.3.3 below.

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:




It should be clarified that the above chart presents the Group's primary 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) 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 (Councillors) – 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 institutional investors which are interested parties: The Phoenix Holdings Ltd, Y.D. More Investments Ltd. and Migdal Holdings Insurance and Finance. For more information see the immediate reports published by the Company on January 7 and 15, 2024 (Reference No: 2024-01-002584 and 2024-01-006411, respectively).

(4) As of the publication date of this report, the Company has 39 active subsidiaries[3], which are private companies incorporated in Israel, the majority of which are held by the Company in rates ranging between 75% to 100%[4]. These subsidiaries, together with another granddaughter company (second-tier subsidiary), operate a total of 37 owned stores operating under the "Max - Fun Shopping" brand which is part of the Max Store Chain. For details about the Company's acquisition of minority rights from shareholders of the subsidiaries, see Note 18D 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" for the Group's operations there. At the time the subsidiary

[3] Including the subsidiaries established to operate the stores in Yavne and Kiryat Yam which opened in February and March 2024, and subsidiaries established to operate the new stores in Tel Hanan (Nesher) and Gadera which as of the date of the report and as of the publication date of the report have not yet opened. The store in Tel Hanan is anticipated to open in April 2024, and the store in Gadera is anticipated to open in H2 2024.

[4] Excluding the Nesher branch in which, as of the date of the report, the manager holds 45% of the subsidiary's outstanding share capital, but the branch was closed in March 2024, and apart from another branch in which the Company holds approximately 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.

was established the Company held 75% of the share capital of Max 10 LDA, pursuant to an engagement agreement with the local partner, Fortera Properties, and as of the publication date of this report, the Company owns 73.5% of the share capital of said subsidiary (after issuing shares totaling 2% of its share capital to the subsidiary's CEO). For information about the engagement agreement and the activities in Portugal, see Section 1.29.1 of this report.

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]

To the best of the Company's knowledge, over 2022-2023 no off-exchange transactions were performed with the Company's securities by interested parties (as of the date of this report).

It should be noted that on January 31, 2022 the Company was informed by Oria & Iris Ltd.[6] ("**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 were 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.

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

[6] A company wholly owned by Mr. Evan Charles Neumann, who was one of the Company's controlling shareholders and interested parties until February 8, 2023. It should be clarified that in light of the fact that Mr. Neumann is no longer an interested party in the Company, the Company has no information whether he continues to hold Company shares through Oria & Iris.

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

### 1.6.1. Details regarding dividends distributed by the Company, share buybacks and distributable profits

From January 1, 2022, through the publication date of the report, the Company did not distribute any dividends other than as provided in the table below:

| **Date** | **Dividends per share** | **Total dividends distributed** | **Additional details** |
|---|---|---|---|
| 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 18C to the Financial Statements.[7] |
| April 3, 2023 | Approximately ILS 0.43 | Approximately ILS 60 million | For more information see the immediate report published by the Company on March 20, 2023 (Reference No: 2023-01-024298), and its correction dated March 20, 2023 (Reference No: 2023-01-024403), included herein by way of reference and Note 18C to the Financial Statements.[8] |

1.6.2. On March 25, 2024, the Company's board of directors approved the distribution of dividends totaling ILS 60 million - ILS 0.43 per share. The

[7] 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.

[8] Further to the immediate reports published by the Company on March 20, 2023, the Company announced that effective as of the "ex-dividend date" being March 27, 2023, the exercise prices for the unlisted options (Max Stock Op2020) were adjusted, all as detailed in the Company's immediate report dated March 27, 2023 (Reference No: 2023-01-028255), included herein by way of reference.

dividend distribution date is April 16, 2024. For details regarding the Company's aforementioned resolution, see the immediate report dated March 26, 2024 (Reference No: 2024-01-031500), included herein by way of reference, and Note 29 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 expired on June 18, 2023._As of December 31, 2022, the Company bought back 3,658,971 Company shares totaling approximately ILS 19.9 million.[9] For more information about the Buyback Plan see the Company's immediate report dated June 19, 2022 (Reference No: 2022-01-061923), included herein by way of reference, and Note 18E to the Financial Statements.

1.6.4. As of December 31, 2023, the Company has distributable profits (as defined in Section 302 of the Companies Law), totaling ILS 167,012 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.

[9] For information about 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.

## 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 2023 and 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 2023 and as of the publication date of the report, a number of events with macro-economic implications shook the world and Israel in particular which may also impact the Company's operations. In 2023 the global economy continued to deal with the inflation crisis which commenced in 2021, with central banks, headed by the US Federal Reserve, adopting a consistent policy to increase interest rates. However, in January 2024, the Bank of Israel announced that interest will be lowered to 4.5% and the Governor of the Bank of Israel clarified that he is intending to continue lowering the interest but noted that there is a high level of uncertainty due to the Swords of Iron war.[10] For more information about this matter see Section 1.8.2 below.

Similarly, the Russia-Ukraine war continued throughout the reported period, which has resulted in a commodity crisis and an increase in global energy prices since breaking out in 2022; however, as of the date of the report and as of its publication date, the Russia-Ukraine war has not had a material impact on the Company's general operating environment or on the Company's operations and its results .

[10] Bank of Israel interest announcement of January 2024 - Published on the Bank of Israel website www.boi.org.il.

There were three central events in Israel in 2023 with security, economic and political implications: (a) The judicial reform and the subsequent protests; (b) The Swords of Iron war; (c) Israel's credit rating being downgraded. For additional details see Section 1.8.10 below.

1.8.2. <u>The inflation and interest rates</u>

The global inflation crisis which started in 2021 continued throughout 2023; however, inflation in Israel and around the world moderated towards the end of 2023 and the start of 2024. Thus, total inflation in Israel in 2023 ended the year with an approximately 3% total increase (down compared with inflation of approximately 5.3% in 2022), accordingly to the upper inflation target of 3% set by the Israeli government. However, on February 2024 Israel's CPI was increased of approximately 0.4% compared to January 2024, and the accumulated inflation rate for the past 12 months ended at February 2024 decreased  to approximately 2.5%. Some of the reasons for the moderation with the increased inflation rates can be attributed to events like the reopening of China's borders, which led to a certain recovery with supply segments and a recovery of global trade, reduction in freight costs, improvement in meeting delivery schedules and more.[11]

Similarly, in the first nine months of 2023, *inter alia*, in the shadow of the protests against the judicial reform (as described in Section 1.8.10 below) the Israeli economy dealt with a consistent increase in inflation rates, along with a slowdown in the high-tech sector which is a central growth engine, and a particular slowdown in the real estate market. The uncertainty in the Israeli economy, *inter alia*, due to the aforementioned events, and primarily the Swords of Iron war and the possible expansion of the hostilities also on the northern front, led to negative growth forecasts, an anticipated increase in the government deficit and Israel's debt:GDP ratio, as well as the Israeli share market underperforming relative to other markets.

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[11] See, for example, the macro-economic forecast published by the Research Division of the Bank of Israel in January 2024 https://boi.org.il/publications/pressreleases/b01-01-24 and Bank of Israel interest announcement of January 2024 - Published on the Bank of Israel website www.boi.org.il.

In response to the high inflation rates recorded throughout 2023 (and despite the moderation recorded at the end of 2023 and start of 2024), the Bank of Israel increased the Bank of Israel interest to a peak of 4.75%, and as of the publication date of the report (among other things, due to the above-stated moderation with inflation), the Bank of Israel interest is 4.5%.[12]

For more information about the impact of inflation and increased interest rate on the Company's activities, see Section 2.4 of the Company's Board Report.

As of the publication date of the report, the Company does not foresee special risks with its continued operations due to the higher inflation and interest rates and it does not foresee material changes in its cost structure and level of profitability. There is also no foreseen material increase in the Company's financing costs.

***The Company's assessments regarding the possible impact the increased prime interest rate and Consumer Price Index may have on the Chain's operations as well as the trend with inflation, as described above, constitute "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. <u>Increasing costs of freight and raw materials</u>

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

[12] See the Bank of Israel notice of January 2024.

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.

The recovery in global trade, as mentioned above, continued in 2023. This was seen with an easing of constraints on segments of the supply chain and an increase in demand, while ocean freight costs concurrently remained stable and a trend was even recorded involving a small decline until the stabilization to pre-COVID-19 prices. However, with the breakout of the "Swords of Iron" war, the Yemenite Houthi terror organization started attacking cargo ships sailing on ocean trade routes by the Red Sea, primarily targeting Israeli ships and ships traveling to Israel. Among other things, these attacks resulted in alternate ocean freight routes being used which caused an increase in shipping times and ocean freight costs, while over January and March 2024 ocean freight charges more than doubled.[13] The Company assesses that these kinds of attacks are liable to continue and harm segments of the supply chain and cause a renewed increase in the prices of goods, however, true to date, the foregoing is not having a material impact on the Company's results.

For more information about how the Company is responding to the impact of the war on freight costs and times, see Section 2.3 of the Company's Board Report.

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

[13] For more information, see, for example, the Drewry index of ocean freight prices https://www.drewry.co.uk/supply-chain-advisors/supply-chain-expertise/world-container-index-assessed-by-drewry.

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. According to Bank of Israel data, in 2023 the USD exchange rate increased by approximately 3%.[14]

It should be noted that 2023 was characterized with exchange rate volatility which also continued throughout the war. However, the USD:ILS exchange rate as of the date of the report (ILS 3.63) and as of the publication date of the report (ILS 3.62) are lower than the rate prior to the war (ILS 3.86).

As of the publication date of the report it is apparent that the trend of the strengthening USD:ILS exchange rate came to an end in 2024, and as of the publication date of the report the USD has decreased by approximately 0.3% to ILS 3.62.[15] For more information see Notes 1 and 16D.1 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 2023, the Consumer Price Index rose

[14] For more information see the representative exchange rate for the USD on the Bank of Israel website https://www.boi.org.il/roles/markets/exchangerates.

[15] The USD:ILS exchange rate is currently as of March 22, 2024.

by approximately 3%, compared with an increase of approximately 5.3% in 2022.[16]

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 in 2023 approximately 74% 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 smart purchases for all Israeli consumers, including new customers, and it may attract more customers to the Chain's stores.

It should be noted that according to data of the Bank of Israel, the unemployment rate in Israel in 2023[17], rose to approximately 4.5% compared with approximately 3.6% in 2022, and according to a forecast prepared by the Research Division at the Bank of Israel, the outlook is for unemployment to increase to approximately 5.3% on average in 2024. Similarly, according to data from the Bank of Israel, growth in Israel[18] in 2023 is estimated at approximately 2% (compared with growth of approximately 6.5% in the same period the previous year). The Bank of

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[16] For details see the media release published by the Central Bureau of Statistics on January 15, 2024 https://www.cbs.gov.il/he/mediarelease/Madad/DocLib/2024/019/10_24_019b.pdf.

[17] It should be clarified that the presented unemployment rate is the "broad unemployment rate" which according to the data of the Bank of Israel reflects the unemployment rate for people between the ages of 25-64. For more details see the macro-economic outlook published by the Research Division at the Bank of Israel of January 2024 https://boi.org.il/publications/pressreleases/b01-01-24/#_ftnref3 (the "**BOI 2024 outlook**").

[18] The growth rate is presented in terms of GDP.

Israel's growth outlook for 2024 is projected at approximately 2%, and approximately 5% in 2025.

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 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. <u>Changes in the security, political and economic situation in Israel</u>

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 stores operating under the "Max – Fun Shopping" brand name 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. In 2023 there were changes in Israel's political and security situation due to three (3) central events:

- <u>Advance of the judicial reform and general public protests</u>

  In January 2023 the Israeli government initiated measures with the objective of reforming the Israeli judicial 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. On July 26, 2023, Amendment No. 3 to the Basic Law: The Judiciary was approved whose purpose was to revoke the grounds for reasonableness, while on January 1, 2024, the amendment to the law was invalidated by the High Court of Justice. No additional legislation has advanced as of the publication date of the report, and due to the outbreak of the "Swords of Iron" war it is unknown if and when the legislation under the judicial reform will be renewed. As of the date of the report and its publication date, the judicial reform and the enacted legislation has not had an impact on the Company's operations and/or its results. Notwithstanding, among other things, in light of the outbreak of the war and the uncertainty regarding the continuation of the legislation, the Company is unable to assess the impact of the continued legislation on the Israeli economy in general and specifically on the Company's operations and results.

- "Swords of Iron" war

The "Swords of Iron" war broke out in the State of Israel on October 7, 2023 (the "**war**"), following a surprise attack by the Hamas terror organization from Gaza against settlements in the western Negev. Hostilities subsequently also broke out by the country's northern border.

As of the publication date of the report, the height of the war is over, the scope of military reserve call-ups has been reduced and economic recovery is apparent in various economic sectors, including a gradual return to personal consumption. However, there are still a number of sectors which have not returned to their typical operations, including businesses primarily based in regions in proximity to the hostilities which are still closed. Similarly, residents vacated from their homes in proximity to the Lebanese and Gazan borders have also not yet returned home.

For more information about the impact of the war on the Company's activities, see Section 2.3 of the Company's Board Report.

It should be noted that as of the publication date of the report the Company is unable to reliably assess the scope of the future impact of the war on the Company's operating activities (other than the implications described in the Board Report and as stated above in this report), among other things, in light of the sharp volatility experienced by the markets, the uncertainty regarding the duration of the fighting, its severity, the implications of the war on the Company's operating segments and additional measures which may be taken by the government. The Company's board of directors and management are continuing to examine the Company’s performance and to make any necessary changes.

- Israel’s credit rating

In 2023, apparently in response to political developments and along with a particular slowdown in the Israeli economy as described above, the Fitch, S&P and Moody’s credit rating agencies announced that they would be placing Israel on a negative rating watch and changing its credit rating from “stable” to “negative”.

On February 9, 2024, *inter alia*, subsequent to the “Swords of Iron” war and the uncertainty regarding the opening of a new front on Israel’s northern borders, Moody’s credit agency announced that it would be downgrading the Israeli government’s credit rating from “A1” to “A2”, with Israel’s credit rating outlook remaining “negative”.[19] As of the publication date of the report, the S&P and Fitch rating agencies have not yet released an update about Israel’s rating, and the assessment is that a rating downgrade by Moody’s is also liable to impact the ratings of S&P and Fitch.

The downgrade of Israel’s credit rating, for the first time in the country’s history, among other things, is liable to increase Israel’s interest costs when raising new capital through issuing government bonds. The Company assesses that the change in Israel’s credit rating is liable to have an impact on Israel’s macro-economic environment, including as described above in Sections 1.8.2-1.8.6, and directly or indirectly on the Company’s business affairs. However, because the Company has not issued debt, the credit downgrade is not impacting the Company and/or its activities.

***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 the “Swords of Iron” war, Israel’s credit downgrade, changes***

[19] See the report published on the Moody’s website on February 9, 2024 https://www.moodys.com/research/Moodys-downgrades-Israels-ratings-to-A2-changes-outlook-to-negative--PR_484801.

***in the prime interest rate or with 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 field 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 85 and 39 branches, the "Dan Deal" chain (whose control is owned by Shufersal), which includes approximately 13 branches and the Big Stock chain, which includes approximately 7 branches; as well as international chains, such as "Miniso", which has approximately 19 branches as of the date of this report, as well as the chain store "Jumbo Greece" (which commenced operating in 2023 and as of the date of the report and as of the publication date of the report operates one store in Eilat), and the "Flying Tiger" Danish chain store, which commenced operations in Israel in Q1 2022, and which has 22 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, Amazon and Temu, 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 execution of profit sharing agreements with the branch managers, with some of them executing shareholder agreements with the Company 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, and some of them entering financial incentive agreements based on the profits earned from the store's operations based on meeting defined targets. The engagement structures establish a close relationship and a sense loyalty of the managers to the stores managed by them 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 over the period spanning approximately 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 2022-2023 the Company engaged with suppliers with expertise in the pharma and toiletry, flowers and plants, lighting, clothing, food and confectionary operating segments, in order to establish a "store in store", 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 2022 and 2023, 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. Apparel basics - this category includes undershirts, underwear, basic t-shirts, swimwear, socks, and more. During 2022 and 2023, the Group's revenue from the products offered in this category accounted for approximately 6% and 7% 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 26 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, inflatable 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, 2022 and December 31, 2023, the products offered from these additional categories accounted for approximately 23% and 24% of all the products offered by the Chain. Additionally, in the pharm, toiletry and confectionary segments, the Chain respectively opened a "store in store" in approximately 14 and 18 of the Chain's branches, which are being operated and managed personally by the suppliers. Additionally, the Chain entered into a subletting agreement with its confectionary supplier with respect to its Yavne branch, in which the supplier operates a store under the name "Duty Free", which sells fruits, vegetables, dry goods and confectionary and which is operated independently by the supplier. 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 2021, 2022 and 2023*:

| | **2023** | | **2022** | | **2021** | |
|---|---|---|---|---|---|---|
| | **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 | 103,771 | 9% | 97,096 | 9% | 80,149 | 8% |
| Toys and baby products | 142,138 | 13% | 134,205 | 13% | 133,110 | 14% |
| Disposable utensils, party products and storage containers | 151,879 | 14% | 143,203 | 14% | 124,678 | 13% |
| Homeware | 296,601 | 27% | 288,730 | 28% | 280,258 | 29% |
| **Total** | **694,389** | **63%** | **663,234** | **64%** | **618,195** | **64%** |

(*) The comparison figures for 2021 have been reclassified in accordance with how they are presented in the Company's 2023 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 2 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. <u>Below are details on the results of the Group's activities, segmented by the Group's stores:</u>

| | | For the Year Ended | | |
|---|---|---|---|---|
| | | **31.12.2023** | **31.12.2022** | **31.12.2021** |
| **General data** | | | | |
| Number of owned branches | | 35 | 32 | 30 |
| Net retail area (sqm) | | 62,119 | 58,297 | 49,761 |
| Human capital | Branches | 1,932 | 1,712 | 1,847 |
| | Logistics center | 72 | 72 | 95 |
| | Administration and headquarters | 113 | 106 | 102 |
| **Operating Results (ILS 000's)** | | | | |
| Cost of goods sold | Fixed costs | 5,768 | 6,049 | 6,505 |
| | Variable costs | 645,149 | 624,442 | 590,778 |
| Rent | Fixed | 56,216 | 46,938 | 37,570 |
| | Variable | - | - | - |
| Capital investments in the branches | | 28,302 | 23,590 | 35,922 |
| Total salary expenses attributed to retail activities | | 155,472 | 155,983 | 140,409 |
| **Data on proceeds and sales** | | | | |
| Income per sqm | | 18,582 | 18,225 | 19,113 |
| Rate of change in same store sales (%) | | 2.4% | (1.5%) | 6.5% |

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

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

| | For the Year Ended | | |
|---|---|---|---|
| | **31.12.2023** | **31.12.2022** | **31.12.2021** |
| Rate of change in retail areas/sales floor | 6.5% | 20% | 9% |
| Change of rate in same stores sales | 2.4% | (1.5%) | 6.5% |

* The figures in the above table are only relevant to the owned branches in Israel.

## 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 2023, the average expenditure by a customer per transaction at an owned branch declined by approximately 0.1%, and at a store operated as a franchise by approximately 2.7%, compared to the average total expenditure of a customer in one purchase in 2022.

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 (included an Instagram channel dedicated to the

Arab sector), where it publishes updates regarding products and new sales as well as Tik Tok videos. 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 3.6 million visits to its official website in the 12-month period until December 31, 2023, and approximately 4.2 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 235,000 followers on its official Instagram page, compared to approximately 170,800, 190,300 and 226,700 followers as of December 31, 2021, December 31, 2022 and December 31, 2023 (respectively).
- In the Company's official Facebook group, there are approximately 340,000 members on or around the publication date of this report, compared to approximately 311,000, 330,500 and 338,000 members as of December 31, 2021, December 31, 2022 and December 31, 2023 (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 41,500 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 the Chain’s customers can join at the Chain’s branches or via the social media networks. As of the date of the report and as of its publication date it is free to join “Max’s Friends”, and just involves giving the customer’s contact details (mobile number and email). Club members are intermittently entitled to discounts on specific products, at the Chain’s discretion. As of December 31, 2023, approximately 165,000 customers are registered as “Max’s Friends”.

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.

Additionally, starting in 2021 the Company expanded its marketing and promotional activities of its products, and in specific instances it also acts, 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 2023 the Chain continued with these collaborations, and towards the back-to-school season in Q3 2023, and towards Purim in Q1 2024, 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 63 stores across Israel (and in proximity to the publication date of this report, through 65 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:

| | **Owned 'Max - Fun Shopping' store** | **Owned 'Mini Max' store** | **Franchised 'Max - Fun Shopping' store** | **Franchised 'Mini Max' store** | **Total** |
|---|---|---|---|---|---|
| | **Number of branches** | | | | |
| **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** | **8** | **16** | **56** |
| Opened in 2022 | **2*** | **-** | **1** | **-** | **3** |
| Converted to a different format in 2022 | **-** | **-** | **-** | **-** | **-** |
| Closed in 2022 | **-** | **-** | **-** | **-** | **-** |
| **For year ended December 31, 2023** | **35** | **-** | **9** | **19** | **63** |
| Opened in 2023 | **5**** | **-** | **1** | **2** | **8** |
| Converted to a different format in 2023 | **-** | **(1)** | **-** | **1** | **-** |
| Closed in 2023 | **(1)** | **-** | **-** | **-** | **(1)** |

* During 2022, two new owned stores opened in Nahariya and in Nof Hagalil, as well as a flagship store in Kfar Saba which replaced an existing store. Similarly, in 2022 a franchised "Max – Fun Shopping" store opened in Romema, Jerusalem.

** Five new owned stores opened in 2023 in Mishor Adumim, Gush Etzion, Be'erot Itzhak, Bat Yam and Kiryat Gat. Additionally, one store closed in Jerusalem (Talpiyot), while that subsidiary operates an additional store in Jerusalem (Talpiyot). A franchised 'Max - Fun Shopping' store also opened in Pisgat Zeev, Jerusalem as well as two franchised Mini Max stores in Tel Aviv and Akko in 2023.

Below is a summary of the number of stores split into the Chain's store types:

| 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 | | |
| | | 2023 | 2022 | 2021 | | 2023 | 2022 | 2021 |
| 'Max - Fun Shopping' stores | **37** | **35** | **31** | 29 | 9 | 9 | **8** | 7 |
| 'Mini Max' stores | **-** | **-** | 1 | 1 | **19** | **19** | **16** | 16 |

*As of the date of this report, the Company (via its subsidiaries) has entered into agreements to open 4 stores in 2024, one of which opened in February 2024 in Yavne; the second which opened in March 2024 in Kiryat Yam; the third is anticipated to open in Nesher (Tel Hanan complex) in April 2024 replacing the old store in Nesher which closed in March 2024; and the fourth store is anticipated to open in H2 2024 in Gadera. Additionally, the Company entered into lease agreements for three (3) additional owned stores which it anticipates taking possession in 2025 and 2026, and a lease agreement to expand the existing branch in Tiberius already in 2024.

***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. Below is a disclosure on the geographic spread of the Group's and the franchisees' stores:

| Region | Owned branches / franchisees | Number of stores For the year ended | | |
|---|---|---|---|---|
| | | 31.12.2023 | 31.12.2022 | 31.12.2021 |
| North | Ownership | **10** | **10** | 8 |
| | Franchisees | **9** | **7** | 7 |
| Jerusalem and its surroundings | Ownership | **5** | **5** | 5 |
| | Franchisees | **4** | **3** | 2 |
| Center | Ownership | **12** | **9** | 9 |
| | Franchisees | **15** | **13** | 13 |
| South | Ownership | **8** | **8** | 8 |
| | Franchisees | - | - | - |

1.16.1.5. As of December 31, 2021, 2022, and 2023 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, 2021, 2022, and 2023 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. Stores operated by subsidiaries

As of the date of this report, the Group operates 35 stores – including 34 stores through subsidiaries and one store through an indirect subsidiary (granddaughter company). The majority of the Group's revenues derive from stores operating under the "Max – Fun Shopping" brand name, which are operated by subsidiaries. According to the Company's business model, with some of the owned branches the shares of the subsidiary managing and operating that branch are held by a store manager (most of them in rates ranging between 9.9% to 25%) 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, 19 Partners manage Chain stores under this model; with the other stores the Company has entered into a financial incentive agreement with the branch managers under a profit-based model based on meeting targets set for those employee managers. The branch managers, Partners or employee managers are Chain managers (with an average seniority of approximately 7.5 years) who were promoted to their position. For information about the acquisition of minority shareholdings in the subsidiaries, see Note 18D to the Financial Statements.

With all of the Chain's owned branches, 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 managers, irrespective of whether the manager is a Partner or an employee, 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. The Company provides the subsidiary with advisory services and the right to use the brand name relevant to the store, in consideration for a 2.75% fixed rate commission of the store's sales turnover. As of the date of this report, the vast majority of Max Chain's stores operating under the "Max – Fun Shopping" brand name are operated by subsidiaries and the remainder are operated by franchisees. Based on the Shareholders Agreements with the manager Partners, 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.

In the Company's opinion, both of the described models allow it to align the interests of the manager and the Company, to attract quality personnel and to save on managerial resources, while promoting a relationship between the manager, 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 2023, the Company exercised the option against three of the Partners, one who concluded his service as store manager, and two others who moved over to the profit based financial incentive mechanism model for employed managers. Another option was exercised against a fourth manager subsequent to the date of the report who also transitioned to the financial incentive mechanism model for employee managers. For further details see Note 18D to the Financial Statements.

1.16.1.7. Stores operated by franchisees

As of the date of this report, 28 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, all of the Max Chain's stores operating under the "Mini Max" brand name are operated by franchisees.

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. **<u>Distribution</u>**

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.

For details about the Company's engagement in an agreement for the establishment and lease of a consolidated logistics center in Kibbutz Shomria, see Section 1.19.2 of this report.

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., Naaman – Vardinon, 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 "Big 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 2023, competition characteristic of 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, as of the date of the report and as of its publication date, international chains, such as 'Jumbo Greece' (which commenced operating in the reported period and which currently only operates one store in Eilat) and the "Flying Tiger" Danish store chain (which commenced its operations in Israel in Q1 2022) have entered the Israeli market. As of the date of this report and as of its publication date, 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 and mix, operating in different types of locations (usually in shopping malls), price ranges and they accordingly target different customers.

As apparent from that stated above, 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 63 branches across the country, and 65 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, Temu and others from abroad. 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. **<u>Seasonality</u>**

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 1.31.9 below.

The table below conveys the segmentation of the Group's sales based on quarters for 2022 to 2023 (in percentages):

| Year | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| 2022 | 24% | 24% | 28% | 24% |
| 2023 | 25% | 23% | 28% | 24% |

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, 2022, and December 31, 2023 is approximately ILS 90,147 thousands, and approximately ILS 105,072 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 63 stores. The stores include 35 shops which are operated by the Company's subsidiaries and a second-tier subsidiary as well as 28 shops which are operated by franchisees. In proximity to the publication date of this report, the Group's Chain spans 65 stores, including 37 operated by subsidiaries and a second-tier subsidiary and the rest of which are operated by franchises.

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 stores under the "Max – Fun Shopping" brand name, covering an average area of approximately 1,750 sqm of retail space per store, and located at independent locations[20] in city centers or commercial areas. The Chain's stores operating under the "Mini Max" brand name have an average area of approximately 200 sqm of retail space per store, and are 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 10 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.

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

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 the Company has given 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[21] 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 2022 and 2023 to approximately ILS 54,461 thousands and approximately ILS 67,180 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.

[21] Reflects interest and principal payments for the leases in accordance with IFRS16.

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

| Duration until end of contract | As of December 31, 2023 | |
|---|---|---|
| | Number of branches | Monthly rent (ILS) |
| **No option** | | |
| Up to one year | 12 | 1,069,207 |
| 1-5 years | 24 | 3,986,522 |
| 5-10 years | 3 | 599,170 |
| **Upon exercise of an option** | | |
| 1-5 years | 2 | 151,706 |
| 5-10 years | 18 | 2,959,994 |
| 10-15 years | 7 | ,022,041 |
| 15 years + | 4 | 1,135,056 |

As of December 31, 2021, 2022, and 2023 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. **Company's headquarters and logistics centers**

Kibbutz Shomria Logistics Center

On November 29, 2023, the Company signed a lease agreement with a company in the Mega Or Holdings Ltd. corporate group (in partnership with Kibbutz Shomria), with respect to the construction of a project in Kibbutz Shomria with an area of approximately 31,000 sqm, which shall serve as a consolidated logistics center for the Company's operations, a role which is currently being performed by three logistics centers and external suppliers (hereinafter: the "**consolidated logistics center**"). The Company anticipates that it will gain possession of the consolidated logistics center in May 2024. Based on milestones, the consolidated logistics center is expected to replace the logistic centers currently used by the Company. For more information see the immediate report published by the Company on November 29, 2023 (Reference No: 2023-01-108526).

The Company assesses that the customization works on the logistics center for its needs will cost approximately ILS 30 million.

Company's headquarters and central logistics center

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 "**Hashitah 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 Hashitah 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 (the "**Haeshel logistics center**"). 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.

On January 2, 2024, due to the Company signing the Shomria consolidated logistics center lease agreement, as stated above, the Company gave notice that it would terminate the lease agreement for the Haeshel logistics center on December 31, 2024. The Company is intending to continue its engagement with the Hashitah logistics center to support the Company's headquarters and for additional storage areas. For additional details regarding the material lease agreements see Note 10D to the Financial Statements.

Or Akiva Logistics Center

As of the date of this report, the Company rents one site in Or Akiva, which serves as a logistics center, as specified below:

A logistics center covering an area of approximately 2,800 sqm, and a loading and unloading area of approximately 500 sqm, in Or Akiva. 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 date of this report, the Company is in the second extension until December 31, 2026.

Notwithstanding the foregoing regarding the second extension period. due to transition to the Shomria consolidated logistics center (as stated above in this section), on March 10, 2024, the Company executed an addendum to said lease agreement whereby a replacement tenant will take the Company's place in the lease and the lease of the Or Akiva logistics center will end on May 31, 2024.

The rent[22] paid by the Company for its offices and logistics centers amounted in the years 2022[23] and 2023 to approximately ILS 7,512

[22] See footnote 11 above.

[23] It should be noted that until March 31, 2022, the Company leased another site in Or Akiva (a logistics center covering an area of approximately 4,300 sqm, in a lot of approximately 7,300 sqm).

thousands[24], and ILS 7,739 thousands, respectively. As of December 31, 2022, and December 31, 2023, the total amount of guarantees provided by the Company for securing its obligations under the lease agreements was approximately ILS 13,368 thousands and ILS 17,976 thousands, respectively.

1.20. **Intangible Assets**

As of the date of this report, the Company has twenty-six (26) 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 (4) registered trademarks in the United Kingdom and four (4) registered trademarks in the EU for “Max”, “Max5”, “Max 10” and “Max Stock”. The Company uses the “Max10” trademark for its 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 Company has neglected the registration of the aforementioned trademarks in light of the fact that their actual registration is contingent upon a declaration for utilizing these marks in the US.

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.

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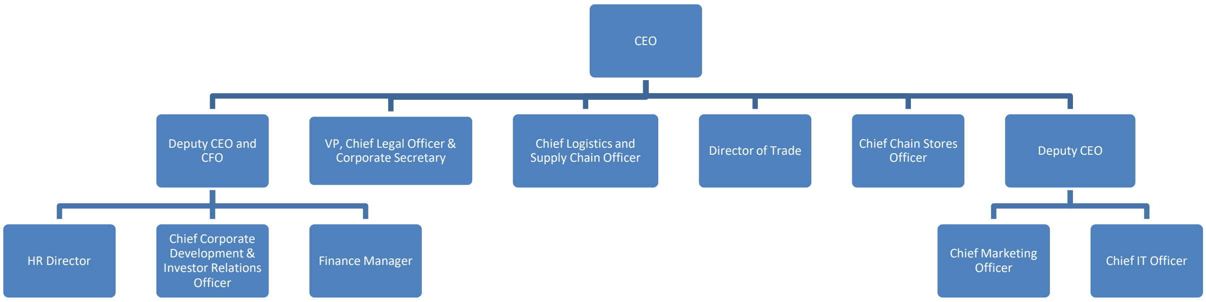
[24] The comparison figures have been restated whereby they reflect the payment of interest and principal for the lease in accordance with IFRS16 for 2022 in accordance with how the rent amount is presented in this report for 2023.

## 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, 2022 and 2023, the Group had 1,890 and 2,117 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 2022:[25]

| Department/operating segments | On or about the publication date of the report | As of December 31, 2023 | As of December 31, 2022 |
|---|---|---|---|
| Administration and headquarters* | 111 | 113 | 106 |

[25] 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.

| Department/operating segments | On or about the publication date of the report | As of December 31, 2023 | As of December 31, 2022 |
|---|---|---|---|
| Logistic centers* | 71 | 72 | 72 |
| Store managers and employees** | 2,048 | 1,932 | 1,712 |
| **Total** | **2,230** | **2,117** | **1,890** |

* 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. 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 and the immediate report published by the Company on March 13, 2023 (Reference No: 2023-01-026694).

1.21.4.2. In April 2023, Mr. Oz Corsia, Senior VP Supply Chain, gave notice that he will conclude his role at the Company on June 30, 2023. Mr. Eliezer (Elik) Kaplan, who has taken over Mr. Oz Corsia's position, started working at the Company on May 1, 2023, and has been appointed Chief Logistics and Supply Chain Officer as of July 1, 2023.

1.21.4.3. On May 4, 2023, Mr. Shay Aba gave notice that he will be concluding his role as one of the Company's directors on May 31, 2023. For more information, see the immediate report published by the Company on May 7, 2023 (Reference No: 2023-01-048510), included herein by way of reference; on June 13, 2023, Mr. Erez Nahum replaced Mr. Aba as one of the Company's directors. For more information, see the immediate report published by the Company on June 13, 2023 (Reference No: 2023-01-055324), included herein by way of reference.

1.21.4.4. On June 1, 2023, Mr. Shahar Kanizo was appointed to serve as the Company's Director of Trade, reporting to the Company's CEO.

1.21.5. <u>Dependence on employees</u>

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. <u>Description of the employee remuneration plan</u>

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 8.3 of Chapter 8 of the Prospectus (the "**Options Plan**").

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 8.4 to Chapter 8 of the Prospectus.

1.21.7. <u>Bonuses and nature of employment terms & conditions</u>

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 3.2% 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,[26] which has been acting as the Company's supplier for approximately sixteen 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 approximately 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.

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

## 1.23. **Working Capital**

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

### 1.23.1. Inventory

The quantity of products held by the Company in stock is determined based on past experience of product sales (considering, *inter alia*, the seasonality 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 2021 and the start of 2022 were higher than the Company's average days of inventory in previous years. Notwithstanding, from H2 2022 until the end of 2023 there was a decline in freight costs and therefore the Company decreased the scope of inventory held by it which was primarily seen in the number of days of inventory (84 days in Q4 2023, as opposed to 124 days of inventory in Q4 2021). The utilization of inventory contributed to the cash-flow from operating activities in 2022 and 2023. 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 2022 and 2023 were 108 and 85 days, respectively.

### 1.23.2. Product return policy

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. Supplier and customer credit

1.23.3.1. Customer credit – 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 2022 and 2023 amounted to approximately ILS 100 million and approximately ILS 136 million, respectively. The average suppliers' credit days in 2023 was 75 days, compared to 68 days in 2022.

## 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 a loan from a banking institution in an aggregate amount of ILS 20 million (without linkage). The loan was subject to variable interest at a rate of prime plus a margin of 0.23% per annum. The entire loan was repaid in June 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. The Company prepaid the entire loan in June 2023.

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. The Company prepaid the entire loan in June 2023.

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, 2022 and 2023, and on or about the publication date of this report, the outstanding balance of the loans (including current maturities) totals approximately ILS 47,562 thousands, approximately ILS 33,022 thousands, and approximately ILS 31,041 thousands, respectively.

1.24.3. <u>Average and effective interest rate</u>

The rates of the average and effective interest on outstanding loans in 2022-2023, which were not designated by the Company for a specific use, were as follows:

| | 2022 | 2023 |
|---|---|---|
| | Average interest rate27 | |
| ILS long-term bank loans | 3.01% | 6.4% |
| ILS short-term bank loans | 3.22% | 6.37% |

1.24.4. Restrictions in procuring credit

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

[27] Approximate to the effective interest rate.

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. **Relevant Labor Law Provisions**

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).

In 2022 a plan was formulated to increase the minimum wage in five tranches – until it reaches ILS 6,000 per month in December 2025. However, this plan was ultimately not approved.

Notwithstanding, on March 23, 2023, the Minister of Labor signed an increase to the minimum wage, whereby as of April 1, 2023, the monthly minimum wage will total ILS 5,571.75, and the hourly minimum wage will come to ILS 30.61. The increase in the wage was approved in light of an increase in the average salary in the economy in 2023, and considering the linkage mechanism established in the Wage Protection Law whereby the minimum wage should not be less than 47.5% of the average salary in the economy.

Recently, following the increase in the average salary in the economy in January 2024, the Minister of Labor announced that he is intending on approving an additional increase in the minimum wage to be effective as of April 1, 2024, whereby the minimum monthly salary will be increased to ILS 5,880 and the minimum hourly wage will accordingly be updated to ILS 32.30.

The increase in the minimum wage, including the minimum hourly rate, is liable to have an impact on the Company's results, since the vast majority of its employees are minimum wage employees. However, raises in the minimum wage like what occurred in recent years did not have a material impact on the Company's results, *inter alia*, due to the close administration of wages at the Chain's branches.

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 March 20, 2023, for the 2022 annual period, and it is publishing the second report for the year ended December 31, 2023, together with the publication of this report.

Similarly, various laws were enacted in Israel on the backdrop of the Swords of Iron war related to declaring an emergency situation in the economy, including an enactment of the Employee Protection in Emergency Law, 2006 (the "**Employee Protection Law**").

Prior to amending the law, the Employee Protection Law prohibited terminating an employee absent from work due to instructions related to a special situation declared in the country, including circumstances involving an employee being absent due to needing to supervise a child below the age of 14 in their care due to the educational institute at which they learn or stay being closed, or a child with special needs below the age of 21. The amendment of the Employee Protection Law significantly expanded the aforementioned protections from termination to other employee groups (including employees absent from work due to their child's educational institute being closed due to a directive issued by a local authority, an employee absent from work due to their place of residence being evacuated, an employee who is the parent or spouse of a hostage or missing person and others).

The Company has taken various actions in order to deal with the risks and exposures arising from the war, including making personnel changes due to the situation. However, in light of the fact that the Company operated throughout the war and as of the publication date of the report all of the Chain's branches are operating (apart from the Kiryat Shmona branch which is operated by a franchisee), none of the Company's employees were placed on furlough.

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, complying with the principle of adhering to the declared purpose (according to which personal data must only be used for the purposes for which it was collected as communicated to the subject of the data at the time the data was collected and in accordance with the purposes for which the database in which the said personal data is stored was established and registered), confidentiality, the subjects of the information having inspection, correction and deletion rights, engagements with third parties that process personal information for the Company and the obligation to enter into a data processing agreement with said third parties in accordance with the Data Security Regulations and the Privacy Protection Authority's directive regarding outsourcing 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, gathering and processing biometric information about employees and direct mailouts/segment targeting (making contact with an individual based on them belonging to a population group based on one or more characteristics; i.e., making contact based on segmented data).

As of the publication date of the report, the Company has registered a customer database with the Registrar of Databases under the Privacy Protection Authority which it manages in connection with the personal data of the customers as well as the database it manages in connection with employees and candidates. 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 (including commercial data and security cameras).

1.26.4. **<u>Consumer Laws</u>**

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, and having an undue influence, 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, specific instructions regarding particular types of products, etc.), price labeling and marking, warnings, warranty and post-sale service and a warranty sticker (for certain products), 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 a criminal and administrative enforcement mechanism in connection with violations of consumer protection laws, granting the Consumer Protection Authority enforcement and supervisory powers, including to impose financial sanctions. According to a policy published by the Consumer Protection Authority, the default for enforcement in the consumer protection sector is enforcement through an administrative proceeding, however, in certain instances, the Consumer Protection Authority may direct the enforcement to criminal proceedings (for example, when the violation caused a significant scope of damages, when the violation has been committed against the elderly, legally incompetent, minors or a consumer public with mental, emotional or physical challenges, etc.).

According to the consumer protection laws, the Consumer Protection Authority 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. **Liability for Defective Products Law, 1980**

This law imposes on the Company, as an importer, or as the supplier (as the case may be), liability for bodily damage caused as a result of defect/s in the product/s imported or supplied by the Company (as the case may be) as specified in the said law, 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. **The Standards Law, 1953 (the "Standards Law") and the Standards of the Israeli Standards Institution**

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, as aforementioned, 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. **<u>Extending the Temporary Order to Reduce Custom Duties Until May 31, 2028</u>**

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

The effectiveness of the temporary enactments which expired on December 31, 2023 (or earlier), was extended until May 31, 2028, by virtue of the Customs Fees, Exemptions and Purchase Tax for Goods Order (Amendment no. 4 and Temporary Enactment no. 8), 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.

It should be noted that with respect to a number of products such as food oils (classified as custom items 15.12-15.14), iron and steel rods (classified as custom items 72.13-72.28), or materials and items made from them (classified under custom item subclass 76.04) - the reduced custom levies were extended until June 30, 2025, under the Customs Fees, Exemptions and Purchase Tax for Goods (Temporary Enactment No. 10) Decree, 2023 and the Customs Fees, Exemptions and Purchase Tax for Goods (Temporary Enactment No. 11) Decree, 2023.

1.26.9. **Section 30A of the Communications Law (Bezeq and Broadcasts), 1982 (the "Spam law")**

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

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. **Material Agreements**

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

1.27.2. Agreements regarding primary subsidiaries - As of the date of this report, the subsidiaries Max Rishon Ltd., Big Max Ltd. Max Kfar Saba Ltd. and Max Amot Beer Sheva 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, as well as an amendment thereto which became effective as of October 1, 2023, see Section 8.1.4 of Chapter 8 of the Prospectus and Regulation 21 to Chapter D to this report.

1.27.4. Contract for leasing and establishing a consolidated logistics center – for details about the lease and construction agreement for the consolidated logistics center in Kibbutz Shomria, see Section 1.19.2 above.

## 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 stores under the "Max - Fun Shopping" name in additional areas throughout Israel, including by opening flagship stores, alongside additional stores under the "Mini Max" name in city centers. During the reported period the Company opened five (5) new owned branches (operated by the Company by subsidiaries) in Mishor Adumim, Gush Etzion, Be'erot Itzhak, Bat Yam and Kiryat Gat. Similarly, subsequent to the date of the report, two additional owned branches opened in the beginning of February 2024 and the beginning of March 2024 in Yavne and Kiryat Yam, respectively. The Nesher branch closed in the middle of March 2024, and it is expected to be replaced with a new branch opening in the Tel Hanan complex in April 2024. For details about new stores, see Section 1.30 below.

Lease agreements were also signed for new branches anticipated to open in 2024-2026 and to expand an existing store, 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 the Company through subsidiaries, but also intermittently examines the opening of stores operated by franchisees along with expanding the stores under the “Max - Fun Shopping” name as stated above. Stores operated by franchisees are generally located in city centers and operate under the “Mini Max” name. As part of these measures the Company entered into three franchise agreements to open new stores in Akko, Tel Aviv (Ramat Aviv/Gush Hagadol area) and in Jerusalem (Pisgat Zeev neighborhood), while the latter is under the “Max - Fun Shopping” format and the others are under the “Mini Max” name. These three (3) store opened in 2023.

In 2022 the Company rebranded its stores which were previously operating under the “Max 20” brand name to “Mini Max”, 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.

In accordance with market research conducted by the Company through an external research agency, the Company assesses that it will be able to expand to additional cities in Israel, to expand its presence in existing cities, and to enter market segments that have not yet been seized (whitespace). Over the last five years, the total net retail areas (in sqm) in the Group’s stores (operated by the Company and by subsidiaries and not including franchises) has more than doubled, from approximately 24.5 thousand sqm as of December 31, 2017, to approximately 62.1 thousand sqm as of December 31, 2023. The Company assesses that by the end of 2025 the net retail area of the Company’s branches (in sqm) in Israel is expected to come to approximately 80 thousand sqm (double the net retail area existing as of the end of 2019, approximately 40 thousand sqm.  Additionally, over the long-run and by the end of 2030 the Company assesses that its net retail areas will come to approximately 110 thousand sqm.

The Company accordingly has an annual target to open 3-5 new stores, as stated above. The Company 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 1,750 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 (3) – four (4) years, and should be expected to be optimized in the metrics examined for each new store that is opened (Maturity Level) within four (4) years. The Company assesses that in general, the structure and design of the stores operating under the "Max – Fun Shopping" brand name allows a relatively low capital investment at the time of construction.

The Company has also made a significant investment in infrastructure in recent years in order to support the planned growth in Israel. The Company accordingly entered into an agreement with a company in the Mega Or corporate group to construct and lease a consolidated logistics center in Kibbutz Shomria with an area of approximately 31,000 sqm, together with an option to increase the area to approximately 40,000 sqm which shall serve as a consolidated logistics center (as described in Section 1.19.2 above), instead of the Company's current operations entailing approximately three different logistics centers, in addition to working with external logistics suppliers. The transition to a consolidated logistics center is intended to support the Company's expansion and growth plan in Israel in the coming years, and the Company assesses that this will contribute to streamlining the Chain's logistics and supply chain activities, considering the growth until now along with the anticipated growth in the Company's operations and retail areas.

***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;[28] (d) adjusted EBITDA profitability increase of approximately 13% (similar to the rate in 2023) with a potential of expanding the margin over the long-run to approximately 14%; and I 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 2019-2023 period), save for the annual growth target with 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**").

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**

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

**Financing**”). The Initial Financing shall be provided by the Company (87.5%) and Fortera (12.5%), subject to milestones established in the business plan. As of the publication date of the report, the total Initial Financing invested for the operations until now comes to approximately EUR 4.2 million. 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.

As a result, in 2023 the Company accordingly opened three (3) branches in Portugal, with one of the branches closing in December 2023. See Section 1.3.1 of this report for more information about the opening of these branches.

According to the above, the Company and Fortera 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.

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 local partner in Portugal to assist it and to meet local parties as part of its penetration into the market.

***The Company’s assessments concerning that stated above, including the results of the first stores 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 infrastructure which supports efficient and effective management of the Company's inventory. In addition to the Company's six (6) primary product categories (as described above in Section 1.13), the stores offer products involving changing trends, under approximately 26 additional categories, including sport accessories, fashion accessories, pet products and accessories, various tools, vehicle products, mobile phone accessories, camping and outdoor products, and more. Additionally, with respect to particular product categories, like pharmaceutical and toiletry products, flowers and plants, lighting and food and confectionary, which operate under a "store in store" model through their own professional employees, the Company has engaged specialty suppliers, in order to bring a wider 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 independently and/or through local suppliers who specifically order for the Company. 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 and/or by local suppliers who specifically order for 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, including products unique to the Chain, and thereby give the Company a competitive advantage and differentiation. 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 75% 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 continued to focus on opening stores in new locations and established five (5) new owned branches (Mishor Adumim, Gush Etzion, Be'erot Itzhak, Bat Yam and Kiryat Gat). For more information see Section 1.29.1 above.

Additionally, in 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.

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. The Chain's attractive price level is obtained through 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 strictly adhering to operational efficiency along with supply chain improvements and streamlining measures, including through the consolidated logistics center, and by increasing the scope of merchandise directly imported and managed by the Company independently.

***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, the security and political situation in Israel 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 owned stores in Mishor Adumim, Gush Etzion, Be'erot Itzhak, Bat Yam and Kiryat Gat (while the total gross retail areas gained by the Company in 2023 for these branches is estimated at approximately 10,200 sqm). An additional store opened in Yavne with a gross area of approximately 3,300 sqm and a store in Kiryat Yam with a gross area of approximately 1,775 sqm. The Company also entered into additional lease agreements for new branches which it expects to gain possession and open, as specified below:

(1) In 2024 - New branches in Gadera and Tel Hanan (Nesher) (which shall replace the old branch in Nesher which closed in March 2024). The branch in Tiberius will also be expanded with an additional gross area of approximately 280 sqm. The total additional gross retail areas to be gained by the Company in 2024 for these branches is estimated at approximately 4,700 sqm, less a total gross area of approximately 800 sqm of the old Nesher branch which closed in March 2024.

(2) In 2025-2026 - new branches in Gan Yavne, Ad Halom junction (Beer Tuvia) and Beer Sheva. The total additional gross retail areas to be gained by the Company over 2025-2026 for these branches is estimated at approximately 9,000 sqm.

(3) The Company is also negotiating additional locations to open branches over 2024-2027.

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, the security and political situation in Israel 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 is liable to cause a decline in the demand for the Group's products. However, the Company estimates, noting the information included in Section 1.8.5 above, that precisely in times of recession, there might be increased demand for the Group's products, in light of its pricing policy and the wide selection of products offered by it (including basic products). 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, as well as in the event of a possible economic downturn in the Israeli economy (including due to the rating downgrade as described above in Section 1.8.10), may have a positive effect on the Group's scope of sales, since its products are sold at attractive prices.

Additionally, in the reported period, the Israeli government initiated legislative measures whose purpose is to reform the Israeli judicial system. This led to a wave of protests by the Israeli public. These measures were suspended with the outbreak of the "Swords of Iron" war in October 2023. As of the publication date of this report, the Company is unable to assess whether and how the judicial reform will impact its operating activities, if they advance, and as of the publication date of this report the Company is unable to assess the possible impact the war will have on its operations if it protracts or expands to additional fronts, as well as the impact of the economic changes resulting from the war, including due to the rating downgrade. For more information, see Section 1.8.10 above.

1.31.2. The security situation in Israel

The "Swords of Iron" war broke out in Israel in the reported period in October 2023 (for more details see Section 1.8.10 above).

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 1.8.4 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, including due to attacks by the Houthi terror organization on ocean freight routes in the Red Sea, relative to costs prior to the outbreak of the "Swords of Iron" war, are liable to harm the Company's profitability. As of the date of the report and the publication date hereof, there has been a significant increase in freight costs due to attacks on cargo ships by the Houthi terror organization on ocean freight routes in the Red Sea. For more details see Section 2.3 of the Company's Board Report attached as Chapter B to this report.

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.

**Industry factors**

1.31.8. 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.

1.31.9. 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.

1.31.10. 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.

1.31.11. 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.

1.31.12. 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.

1.31.13. 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.

1.31.14. 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, the Company performs an annual managerial exercise preparing for a cyber attack, advised by external consultants who specialize in the field, and it implemented work procedures for continued operations and to prepare for a cyber and ransom event. The aforementioned managerial exercise was performed during the reported period.

**Special factors**

1.31.15. 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.

1.31.16. 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 | |

| Type of Risk | Risk Factors | Impact on Company's Business Affairs | | |
|---|---|---|---|---|
| | | High Impact | Medium Impact | Low Impact |
| | 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 | |

**It should be noted that notwithstanding that stated above, the concurrent manifestation of multiple risk factors is liable to have a cumulative effect with more significant implications on the Company's operating activities than that stated above.**

***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, 2023

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, 2023 (the "**reported period**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Regulations**").

***The Company shares in the deep pain of the families of the victims, IDF soldiers and defense personnel who have fallen in the "Swords of Iron" war, and it wishes a speedy recovery for the injured and the safe return home of all IDF soldiers and hostages.***

## 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 Since 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 (the "**Max Chain**" or the "**Chain**"). As of the publication date of the report, the Company operates 65[1] branches throughout Israel, from Kiriat Shmona to Eilat, which are mostly operated by subsidiaries ("**owned stores**") and partially through franchises, as well as 2 owned stores in Portugal.

1.3 For more information about the Company's operations and a description of the development of its business affairs, see section 1.3 of Chapter A to this report.

[1] As of December 31, 2023, the Company operates 63 branches throughout Israel, from Kiriat Shmona to Eilat, which are mostly operated by subsidiaries and partially through franchises. The Nesher branch closed in March 2024 and it is expected to be replaced with a new branch opening in Nesher (the Tel Hanan complex) in April 2024.

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

2.1 In 2023, the Company continued implementing its growth strategy including the opening of five new owned branches in the cities of Gush Etzion, Mishor Adumim, Be'erot Itzhak, Bat Yam and Kiriat Gat along with the opening of three other branches operating as franchises in Tel Aviv, Akko and Jerusalem. Additionally, the Company closed an owned branch in Jerusalem and it sold an owned "Mini Max" store in Kiriat Atta to a franchisee. The Company opened two additional owned stores in Yavne and Kiriat Yam subsequent to the date of the report.

The Company concurrently continued to develop its new operations involving a Max Stock chain in Portugal. The Company opened its first three branches in 2023, in the cities of Braga, Porto and Matosinhos. The branch in Porto closed in December 2023. The impact of these activities on adjusted EBITDA[2] in 2023 was a loss of approximately ILS 5 million, primarily arising from salary expenses, professional and marketing services for establishing the operations.

2.2 The growth in the Company's activities continued in 2023. This was seen in the approximately 6.7% increase in the Company's sales turnover relative to the same period the previous year, along with growth of approximately 18.4% in the Company's net accounting profit. This increase is attributable to the opening of new branches and an increase of approximately 2.4% in SSS3. The increase in SSS is due to an increase in the number of customers visiting the branches and an increase in seasonal sales relative to the same period YoY.

For more information about the Company's financial and operating metrics for 2023, see section 7 below.

For more information about the Company's 2023 operating results relative to the same period year-on-year, see section 5 below.

2.3 Impact of the "Swords of Iron" war on the Company's operations

The "Swords of Iron" war broke out in the State of Israel on October 7, 2023 (hereinafter: the "war"), following a surprise attack by the Hamas terror organization from Gaza against

[2] Adjusted EBITDA - EBITDA while offsetting the impact of Standard 16 and expenses for share-based payments recognized during the reported period. For additional details, see section 7 below.

[3] 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 last year.For additional details see section 7.1 below.

settlements in the western Negev. Hostilities of a lesser magnitude subsequently also broke out by the country's northern border. For more information about the war and its current or possible impact on the economy, see Chapter A of this report, as follows: sections 1.8.1 and 1.8.10 (*Swords of Iron war*); section 1.8.2 (*Inflation and interest rates*); section 1.8.3 (*regarding increased freight and raw material costs*), section 1.8.4 (*exchange rate volatility*); section 1.8.10 (*Israel's credit rating*).

Impact on the Company's stores

The Company's stores were closed at the outbreak of the war, and as of October 9, 2023, and over the duration of approximately two weeks, the stores gradually reopened with a reduced scope of operations. From the end of October 2023 and as of the date of this report, 61 out of the Company's 63 stores in Israel were fully open and operating as usual, and two of the Company's branches remained closed (a branch owned by the Company in Sderot and the Company's branch in Kiriat Shmona, operated by a franchisee), as a result of the foregoing. As of the publication date of the report, the Company's Sderot branch has reopened.

Due to the fact that the Company primarily focuses on basic products required throughout the year, including emergency periods, and in light of the fact that the Company sells a diverse and changing range of products at attractive prices, the Company assesses at this stage, based on the information available to it, as of the approval date of the financial statements, and in light of the operating metrics (KPIs) examined by the Company and it meeting its cash-flow targets, that the war has not had a material impact on the Company's operating activities. Additionally, as of the publication date of the report, the Company's manpower has not materially changed to how it stood prior to the war.

SSS in October declined by approximately 16% as a result of the war and due to the partial operation of the Company's stores in October 2023, as stated above. Subsequently, over November-December 2023, with the return to full operation (other than the Sderot and Kiriat Shmona branches which remained closed throughout Q4, as stated above), there was an approximately 11% increase in SSS, whereby, the total SSS in Q4 2023 increased by approximately 2.6%.

Presented below is a table summarizing the change in SSS (unreviewed and unaudited figures) compared with the same period YoY:

| | **For the three-month period ended on December 31, 2023** | **For October 2023** | **For November-December 2023** | **For the twelve-month period ended on December 31, 2023.** |
|---|---|---|---|---|
| Compared with the parallel period in 2022 | 2.6% | (16%) | 11% | 2.4% |

<u>Impact on the supply chain</u>

Shipping costs have increased due to the war's impact on shipping routes from the East to Israel. Moreover, the Company's delivery times from the East to Israel have increased by approximately 21-30 days. The Company assesses that the extended and pricier shipping is not having a material impact on the Company's results due to the fact that extensive leeway is built into the delivery schedule as part of the Company's ordering schedule.

Other than as stated above, the war has not had any other material impacts on the supply chain and costs.

<u>Impact on the implementation of the Company's growth plans</u>

The war did not have a material impact on the implementation of the Company's growth plans. The Company has opened 5 new stores (4 owned and one franchised stores) from the outbreak of the war and as of the publication date of the report. The Company also entered into an agreement for the construction and lease of a consolidated logistics center in Kibbutz Shomria with the objective of supporting the Company's Israeli growth and expansion plans in the coming years. For more information about the establishment of the consolidated logistics center, see section 3.9 below.

A protraction of the war is liable to have additional broad implications on many different sectors and geographical areas in the country. Furthermore, the potential volatility with the prices of goods, currency exchange rates, availability of materials, manpower, local services and access to local resources may impact entities primarily operating with or in Israel.

It should be noted that the Company is unable to reliably assess the scope of the future impact of the war on the Company's operating activities (other than the implications described above), among other things, in light of the sharp volatility experienced by the markets, the uncertainty regarding the duration of the fighting, its severity, scope, the implications of the war on the Company's operating segments and additional measures which may be taken by the government. The Company's board of directors and management are continuing to closely monitor the Company's performance during the war, including scope of sales, the Company's ability to satisfy its liabilities upon maturity, manpower and reserve military call-ups, and to make the necessary adjustments.

***The Company's assessments regarding the possible implications and impacts of the war, as described above, on the Company's operations, businesses and results, fall within the definition of forward-looking information, as defined in the Israel Securities Law, 1968. Among other things, these assessments are based on the information held by the Company as of the publication date of the report. There is therefore no certainty that these assessments will indeed actualize, in whole or in part, and they may be different, including materially different, to how it has been forecasted as said, as a result of various factors including the implications of the war and the uncertainty prevailing with respect to its characteristics and duration, the state of the economy and as a result of the effects of the Company's risk factors as described in section 1.31 of Part A of the periodic report.***

2.4 <u>Impact of inflation and increased interest rates on the Company's activities</u>

The Company has examined the impact of the increased prime interest rate by the Bank of Israel and the increased consumer price index due to both global and local inflation on its liabilities and financial results. The Company has liabilities to banking corporations which are linked to the prime interest rate totaling approximately ILS 33,022 thousands as of December 31, 2023. In 2023, the Company made early repayment of loans from banking corporations in an amount totaling approximately ILS 8,896 thousands and it invested some of the cash balances in short-term deposits with banking corporations as part of measures taken to reduce the impact of the increased interest rates. The Company also pays rent for its store branches, logistic centers 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.

As of the publication date of the report, the Company does not foresee special risks with its continued operations due to the higher inflation and interest rates and it does not foresee material changes in its cost structure and level of profitability. There is also no foreseen material increase in the Company's financing costs.

For more information about the impact of inflation and increased interest rates on the economy, 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.***

2.5 Impact of the increased minimum wage on the Company's operating activities

For more information about the impact of the increased minimum wage on the Company's activities, see section 1.8.8 of Chapter A of this report.

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 reported period

3.1 On February 8, 2023, Moose Holdco Ltd. and Ori Max Ltd. entered into a new shareholders' agreement in place of the shareholders' agreement dated September 10, 2020. Moose Holdco also unilaterally informed the Company that it waives half of the management fees it is entitled to under the management agreement and clarified to the Company that its unilateral waiver of management fees was, among other things, made in light of the scope of management services provided by it as of the date of the report. The change has been effective since January 1, 2023. For more information about that stated above see Regulation 21 in Chapter D of this report.

3.2 For more information about the amendment of the management fee agreement with a controlling shareholder company, see Regulation 22 in Chapter D of this report.

3.3 For more information about changes to the Company's board of directors, see section 1.21.4 of Chapter A of this report.

3.4 For more information regarding material changes to the Company's senior management personnel and its officers, see section 1.21.4 of Chapter A of this report.

3.5 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 was paid on April 3, 2023. For more information about the distribution of dividends to the Company's shareholders, see section 1.6.1 of Chapter A of this report.

3.6 In 2023, dividend distributions totaling approximately ILS 15,559 thousands were distributed to minority shareholders of the Company's subsidiaries (for stores not fully controlled by the Company).

3.7 In 2023 the Company acquired minority interests in a number of subsidiaries from minority shareholders ranging from 10%-20% of the share capital. Following the acquisition, the Company's holding rate in the subsidiaries increased to 100%.

3.8 For more information about payments to relatives of interested parties employed by the Company, see Note 28 to the Company's financial statements as of December 31, 2023, attached to the periodic report (the "**annual financial statements**") and Regulation 22 in Chapter D to this report.

3.9 On November 29, 2023, the Company signed a construction and lease agreement for a logistics center in the south which shall serve as a consolidated logistics center for the Company's operations. For more information, see the immediate report published by the Company on November 29, 2023 (Ref. No: 2023-01-108526) and section 1.19.2 of Chapter A to this report and Note 10D to the Company's annual financial statements.

3.10 On March 25, 2024, the Company's board of directors approved the distribution of a dividend totaling 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 26, 2024 (Ref. No: 2024-01-031500).

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

## 4. Financial Position

| | As of December 31 ILS 000's | |
|---|---|---|
| | 2023 | 2022 |
| Trade receivables (customers) | 99,211 | 81,790 |
| Inventory | 144,582 | 159,354 |
| Other current assets | 146,164 | 99,890 |
| Non-current assets | 719,190 | 654,289 |
| **Total Assets** | **1,109,147** | **995,323** |
| Trade payables (liabilities to vendors, suppliers and service providers) | 138,508 | 97,009 |
| Other current liabilities | 125,085 | 114,350 |
| Non-current liabilities | 616,708 | 569,726 |
| Total shareholders' equity | 228,846 | 214,238 |
| **Total Liabilities and Equity** | **1,109,147** | **995,232** |

### Assets

4.1 Trade receivables (customers) - The balance of trade receivables as of December 31, 2023, totaled approximately ILS 99,211 thousands, compared with approximately ILS 81,790 thousands as of December 31, 2022. 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, 2023, totaled approximately ILS 144,582 thousands, compared with approximately ILS 159,354 thousands as of December 31, 2022.

4.3 Other current assets - The balance of other current assets as of December 31, 2023, totaled approximately ILS 146,164 thousands, compared with approximately ILS 99,890 thousands as of December 31, 2022. The increase is primarily attributable to the cash and cash equivalents line item and is attributable to an increase in the Company's operating activities.

4.4 Non-current assets - The balance of non-current assets as of December 31, 2023, totaled approximately ILS 719,190 thousands, compared with approximately ILS 654,289 thousands as of December 31, 2022. The increase is primarily attributable to right-of-use assets for leasing new branches 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 (liabilities to vendors, suppliers and service providers) as of December 31, 2023, totaled approximately ILS 138,508 thousands, compared with approximately ILS 97,009 thousands as of

December 31, 2022. The increase is primarily attributable to the increase in the scale of the Company's operations and an extension of the payment schedule for suppliers.

4.6 Other current liabilities - The balance of other current liabilities as of December 31, 2023, totaled approximately ILS 125,085 thousands, compared with approximately ILS 114,350 thousands as of December 31, 2022. The increase is primarily attributable to accounts payable and credit balances offset by a decline in credit from banking corporations due to the early repayment of loans totaling approximately ILS 8,896 thousands in 2023.

4.7 Non-current liabilities - The balance of non-current liabilities as of December 31, 2023, totaled approximately ILS 616,708 thousands, compared with approximately ILS 569,726 thousands as of December 31, 2022. The increase is attributable to an increase in lease liabilities recognized in 2023.

**Equity**

4.8 The shareholders' equity as of December 31, 2023, totaled approximately ILS 228,846 thousands, compared with approximately ILS 214,238 thousands as of December 31, 2022. The increase is attributable to the Company's profits in the period totaling approximately ILS 92,028 thousands which was mostly offset by a dividend totaling ILS 60,000 thousands paid to the Company's shareholders, by a dividend totaling approximately ILS 15,559 thousands paid to minority shareholders and by the purchase of minority rights totaling ILS 1,300 thousands.

## 5. Operating Results

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

| | Quarter 10-12/2023 | % Turnover | Quarter 10-12/2022 | % Turnover |
|---|---|---|---|---|
| Revenues from sales | 272,267 | | 251,694 | |
| Cost of goods sold | 155,717 | | 148,104 | |
| **Gross profit** | **116,550** | *42.8%* | **103,590** | *41.2%* |
| Sales and marketing expenses | 65,353 | | 60,910 | |
| General and administrative expenses | 14,802 | | 10,279 | |
| Other income | (210) | | (1,302) | |
| Other expenses | 30 | | 22 | |
| **Operating profit** | **36,575** | *13.4%* | **33,681** | *13.4%* |
| Financing revenues | (692) | | (244) | |
| Financing expenses | 7,325 | | 5,211 | |
| **Profit before taxes on income** | **29,942** | *11.0%* | **28,714** | *11.4%* |
| Taxes on income | 7,423 | | 6,488 | |
| **Net profit** | **22,519** | *8.3%* | **22,226** | *8.8%* |
| Net profit attributable to: | | | | |
| Shareholders of the Company | 20,369 | | 19,268 | |
| Minority interests | 2,150 | | 2,958 | |
| | **22,519** | | **22,226** | |
| **Adjustments:** | | | | |
| Share-based payments | 109 | | 270 | |
| **Adjusted net profit** | **22,628** | *8.3%* | **22,496** | *8.9%* |
| Adjusted net profit attributable to: | | | | |
| Shareholders of the Company | 20,478 | | 19,538 | |
| Minority interests | 2,150 | | 2,958 | |
| | **22,628** | | **22,496** | |

#### 5.1.1 Revenues

The Company's revenues in Q4 2023 totaled approximately ILS 272,267 thousands, compared with approximately ILS 251,694 thousands in the same period YoY, an increase of approximately 8.2%. This increase is attributable to the opening of new branches and an increase of approximately 2.6% in SSS. The increase in SSS is due to an increase in the number of customers visiting the branches and an increase in seasonal sales relative to the same period YoY, despite the impact of the Swords of Iron war in October 2023 in part of which the Chain's branches were temporarily closed and subsequently opened on a reduced scale, which resulted in a decline of approximately

16% in SSS in October 2023. The branches returned to normal operations in November-December 2023 and SSS grew by approximately 11% over these months.

**5.1.2 Gross profit**

The gross profit rate in Q4 2023 was approximately 42.8% of sales turnover, compared with approximately 41.2% in the same period YoY. The gross profit in Q4 2023 totaled approximately ILS 116,550 thousands, compared with approximately ILS 103,590 thousands in the same period the previous year, an increase of approximately 12.5%. The increase in gross profitability in Q4 2023 relative to the gross profitability in the same quarter YoY is attributable to a decline in international freight prices along with an improvement in inventory management and a decrease in storage utilizations.

**5.1.3 Sales and marketing expenses**

Sales and marketing expenses in Q4 2023 totaled approximately ILS 65,353 thousands, approximately 24% of sales turnover, compared with approximately ILS 60,910 thousands in the same period the previous year, approximately 24.2% of the sales turnover. The increase is primarily attributable to an increase in amortization expenses for right of use assets following the addition of new right of use assets in 2023 as well as sale and marketing expenses totaling approximately ILS 2,544 thousands incurred by the Company as part of the establishment of the Portugal operations primarily comprising salary and marketing expenses. This increase was partially offset by compensation received from the State of Israel due to the war totaling approximately ILS 2.2 million.

**5.1.4 General and administrative expenses**

In Q4 2023, general and administrative expenses totaled approximately ILS 14,802 thousands, approximately 5.4% of sales turnover, compared with approximately ILS 10,279 thousands in the same period the previous year, approximately 4.1% of the sales turnover. The growth is primarily attributable to salary and IT expenses, as well as expenses incurred by the Company as part of the establishment of the Portugal operations totaling approximately ILS 1,077 thousands.

**5.1.5 Financing revenues**

In Q4 2023, financing revenues totaled approximately ILS 692 thousands, compared with financing revenues totaling approximately ILS 244 thousands in the same period YoY. The financing revenues derive from interest earned on deposits and currency differentials.

**5.1.6 Financing expenses**

Financing expenses in Q4 2023 totaled approximately ILS 7,325 thousands, compared with financing expenses of approximately ILS 5,211 thousands in the same period YoY. The increase in financing expenses primarily results from an increase in lease liabilities (due to new premises and increasing the liabilities for existing premises).

**5.1.7 Net profit**

The net profit in Q4 2023 totaled approximately ILS 22,519 thousands, approximately 8.3% of sales turnover, compared with a net profit of approximately ILS 22,226 thousands, approximately 8.8% of sales turnover, in the same quarter YoY. The decrease in net profitability is attributable to an increase in general and administrative expenses as stated above and an increase in the rate of financing expenses in Q4 2023 compared with the same period the previous year.

**5.1.8 Adjusted net profit**

The adjusted net profit in Q4 2023 totaled approximately ILS 22,628 thousands, approximately 8.3% of sales turnover, compared with an adjusted net profit of approximately ILS 22,496 thousands, approximately 8.9% of sales turnover, in the same quarter YoY.

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

| | For the year ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | *% Turnover* | **2022** | *% Turnover* | **2021** | *% Turnover* |
| Revenues from sales | 1,119,156 | | 1,048,801 | | 976,273 | |
| Cost of goods sold | 650,917 | | 630,491 | | 597,000 | |
| **Gross profit** | **468,239** | *41.8%* | **418,310** | *39.9%* | **379,273** | *38.8%* |
| Sales and marketing expenses | 267,648 | | 246,084 | | 207,440 | |
| General and administrative expenses | 52,201 | | 49,865 | | 43,772 | |
| Other income | (358) | | (1,585) | | (1,613) | |
| Other expenses | 368 | | 500 | | 1,100 | |
| **Operating profit** | **148,380** | *13.3%* | **123,446** | *11.8%* | **128,574** | *13.2%* |
| Financing revenues | (2,673) | | (2,664) | | (485) | |
| Financing expenses | 28,783 | | 21,471 | | 17,601 | |
| **Profit before taxes on income** | **122,270** | *10.9%* | **104,639** | *10%* | **111,458** | *11.4%* |
| Taxes on income | 30,242 | | 26,922 | | 28,909 | |
| **Net profit** | **92,028** | *8.2%* | **77,717** | *7.4%* | **82,549** | *8.5%* |
| Remeasurement of defined benefit plan | (92) | | 240 | | (351) | |
| Translating financial statements from operating currency to presentation currency | (31) | | 7 | | - | |
| **Total comprehensive profit** | **91,905** | *8.2%* | **77,964** | *7.4%* | **82,198** | *8.4%* |
| Net profit attributable to: | | | | | | |
| Shareholders of the Company | 81,008 | | 64,163 | | 68,197 | |
| Minority interests | 11,020 | | 13,554 | | 14,352 | |
| | 92,028 | | 77,717 | | 82,549 | |
| **Adjustments:** | | | | | | |
| Share-based payments | (438) | | 11,339 | | 15,502 | |
| **Adjusted net profit** | **91,590** | *8.2%* | **89,056** | *8.5%* | **98,051** | *10%* |
| Adjusted net profit attributable to: | | | | | | |
| Shareholders of the Company | 80,570 | | 75,502 | | 83,699 | |
| Minority interests | 11,020 | | 13,554 | | 14,352 | |
| | 91,590 | | 89,056 | | 98,051 | |

### 5.2.1 Revenues

The Company's revenues in 2023 totaled approximately1,119,156 thousands, compared with approximately ILS 1,048,801 thousands in the same period last year, an increase of approximately 6.7%. The increase in sales turnover is attributable to an increase of approximately 2.4% in SSS and from the opening of new branches. The increase in SSS (same store sales) is due to an increase in the number of customers visiting the branches and an increase in seasonal sales relative to the same period YoY despite an approximately 3.5% decline in the average same store basket prices.

**5.2.2 Gross profit**

The gross profit in 2023 was approximately 41.8% of sales turnover, compared with approximately 39.9% in the same period the previous year. The gross profit in 2023 totaled approximately ILS 468,239 thousands, compared with approximately ILS 418,310 thousands in the same period the previous year. In 2023 there was an increase of approximately 11.9% in gross profit attributed to an increase in the scope of the Company's operations. The increase in gross profitability in 2023 relative to the gross profitability in 2022 is attributable to a decline in international freight prices along with an improvement in inventory management and a decrease in storage utilizations.

**5.2.3 Sales and marketing expenses**

In 2023, sales and marketing expenses totaled approximately ILS 267,648 thousands, approximately 23.9% of sales turnover, compared with approximately ILS 246,084 thousands in the same period the previous year, approximately 23.5% of the sales turnover. The increase in expenses is primarily due to an increase in the amortization of right-of-use assets following the addition of new right-of-use assets in 2023, salary, electricity, depreciation and business maintenance expenses arising from the opening of new branches, and sales and marketing expenses incurred in launching activities in Portugal totaling approximately ILS 5,835 thousands which primarily included sales, amortization of right-of-use assets, advertising and marketing expenses.

**5.2.4 General and administrative expenses**

In 2023, general and administrative expenses totaled approximately ILS 52,201 thousands, approximately 4.7% of sales turnover, compared with approximately ILS 49,865 thousands in the same period the previous year, approximately 4.8% of the sales turnover. The increase is primarily attributable to general and administrative expenses incurred by the Company as part of the launch of operations in Portugal totaling approximately ILS 3,284 thousands as well as an increase in management fees due to the bonus paid to the CEO under the management fee and head office salary agreement which was partially offset through a share based payment in the same period YoY.

### 5.2.5 Other income

In 2023, other income totaled approximately ILS 358 thousands, compared with other income totaling approximately ILS 1,585 thousands in the same period the previous year. The revenues during the reported period and the same period YoY are attributable to a profit from de-recognizing lease liabilities.

### 5.2.6 Other expenses

In 2023, other expenses totaled approximately ILS 368 thousands, compared with other expenses totaling approximately ILS 500 thousands in 2022. The expenses in the reported period and in the same period YoY are attributable to a loss from writing down fixed assets.

### 5.2.7 Financing revenues

In 2023, financing revenues totaled approximately ILS 2,673 thousands, compared with financing revenues totaling approximately ILS 2,664 thousands in the same period the previous year. Financing revenues primarily derive from USD hedging transactions in 2022 and additional interest earned on deposits in 2023.

### 5.2.8 Financing expenses

In 2023, financing expenses totaled approximately ILS 28,783 thousands, compared with financing expenses totaling approximately ILS 21,471 thousands in the same period the previous year. The financing expenses and increase thereof are primarily attributable to lease liabilities due to the leasing of new branches and the extension of the lease periods at a number of existing branches as well as interest for loans from banking corporations. The increase was partially offset through a decline in expenses related to currency differentials.

### 5.2.9 Net profit

The net profit in 2023 totaled approximately ILS 92,028 thousands, approximately 8.2% of sales turnover, compared with a net profit of approximately ILS 77,717 thousands, approximately 7.4% of sales turnover, in the same period the previous year. The increase in net profitability is attributable to an increase in gross profit and a decrease in general and administrative expenses as stated above which was partially offset through an increase in financing expenses in 2023.

### 5.2.10 Adjusted net profit

The adjusted net profit in 2023 totaled approximately ILS 91,590 thousands, approximately 8.2% of sales turnover, compared with an adjusted net profit of approximately ILS 89,056 thousands, approximately 8.5% of sales turnover, in the same period the previous year.

## 6. Liquidity

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| Cash-flow from operating activities | 219,264 | 201,013 | 37,437 |
| Cash-flow utilized for investment activities | (31,853) | (26,653) | (8,894) |
| Cash-flow utilized for financing activities | (139,106) | (144,167) | (96,465) |
| Effect of exchange rate volatility on the balance of cash and cash equivalents | 18 | - | - |
| **Increase (decrease) in cash and cash equivalents** | **48,323** | **30,193** | **(67,922)** |

### 6.1 Cash-flow from operating activities

Net cash deriving from operating activities in 2023 totaled approximately ILS 219,264 thousands, compared with approximately ILS 201,013 thousands in net cash deriving from operating activities in the same period last year. The increase in cash-flow from operating activities is primarily attributable to the increase in net profit.

### 6.2 Cash-flow from investment activities

Net cash utilized for investment activity in 2023 totaled approximately ILS 31,853 thousands, compared with approximately ILS 26,653 thousands in net cash utilized for investment activity in the same period the previous year. The change is primarily attributable to an increase in the acquisition of fixed property in the reported period relative to the same period YoY.

### 6.3 Cash-flow from financing activities

Net cash utilized for financing activity in 2023 totaled approximately ILS 139,106 thousands, compared with approximately ILS 144,167 thousands in net cash utilized for financing activity in the same period the previous year. The change is primarily attributable to dividends paid to the Company's shareholders totaling ILS 60,000 thousands compared with an amount totaling approximately ILS 40,000 thousands in the same period YoY, the payment of a larger dividend to minority shareholders and an increase in lease payments in 2023 against a buyback of Company shares and higher net loan repayments to banking corporations in the same period YoY.

## 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 published 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 | |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2023 | 2022 |
| The rate of change in SSS (same store sales)[4] | 2.4% | (1.5%) | 6.5% | 2.6% | (2.8%) |
| Change in average basket[4] - Owned stores | (0.1%) | 3.2% | 8.6% | 0.7% | 1.7% |
| Change in average basket[4] - Same store sales | (3.5%) | 0.3% | 6.2% | (0.8%) | (0.5%) |
| Change in average basket[4] - Franchised stores | (2.7%) | 0.4% | 9.2% | (2%) | 2.1% |
| EBITDA (ILS 000's) | 225,319 | 187,187 | 180,489 | 58,516 | 49,537 |
| Adjusted EBITDA (ILS 000's) | 151,370 | 136,956 | 142,881 | 39,290 | 33,903 |

[4] The rate of change is relative to the same period YoY.

| 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 cash-flow 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 reported 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 reported period.<br>For a description of the adjustments made to net profit and adjusted EBITDA, see the table on the following page. |
| **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 reported period relative to a corresponding or previous reported 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):

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Net profit | 92,028 | 77,717 | 82,549 |
| Tax expenses | 30,242 | 26,922 | 28,909 |
| Financing expenses, net | 26,110 | 18,807 | 17,116 |
| Depreciation and amortization | 76,929 | 64,826 | 52,428 |
| Other expenses (revenues), net | 10 | (1,085) | (513) |
| **EBITDA** | **225,319** | **187,187** | **180,489** |
| Adjustments to adjusted EBITDA[5] | (73,949) | (50,231) | (37,608) |
| **Adjusted EBITDA** | **151,370** | **136,956** | **142,881** |

[5] Adjusted EBITDA - see section 7.1 above.

7.3 Impact of IFRS 16 - *Leases*

Presented below is a description of the impact of IFRS 16 on the Company's statement of profit and loss for Q4 2023 and the 2023 annual period (ILS 000's):

| | Q4 2023 | | Q4 2022 | |
|---|---|---|---|---|
| | **Figures as presented in the financial statements** | **Figures offsetting the impact of IFRS16** | **Figures as presented in the financial statements** | **Figures offsetting the impact of IFRS16** |
| Operating profit | 36,575 | 33,954 | 33,681 | 30,308 |
| Financing expenses, net | 6,633 | 702 | 4,967 | 920 |
| Profit before taxes on income | 29,942 | 33,252 | 28,714 | 29,388 |
| Taxes on income | 7,423 | 8,184 | 6,488 | 6,643 |
| **Net profit** | **22,519** | **25,068** | **22,226** | **22,745** |
| **EBITDA** | **58,516** | **39,181** | **49,537** | **33,633** |

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | **Figures as presented in the financial statements** | **Figures offsetting the impact of IFRS16** | **Figures as presented in the financial statements** | **Figures offsetting the impact of IFRS16** |
| Operating profit | 148,380 | 136,495 | 123,446 | 113,279 |
| Financing expenses, net | 26,110 | 2,020 | 18,807 | 2,342 |
| Profit before taxes on income | 122,270 | 134,475 | 104,639 | 110,937 |
| Taxes on income | 30,242 | 33,049 | 26,922 | 28,371 |
| **Net profit** | **92,028** | **101,426** | **77,717** | **82,566** |
| **EBITDA** | **225,319** | **151,808** | **187,187** | **125,617** |

## 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, 2023, totaled approximately ILS 33,022 thousands, compared with a total amount of approximately ILS 47,562 thousands as of December 31, 2022. The decrease in the balance of credit from banking corporations primarily derives from the early repayment of loans by the Company in light of its increased cash-flow 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 75 days EOM. The total average scope of credit provided by the Company's suppliers in 2022 and 2023 came to approximately ILS 100,000 thousands and ILS 136,000 thousands, respectively. The average number of days of credit for suppliers in 2023 was 75 days, compared with 68 days in 2022.

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.

8.6 For more information concerning the Company's sources of financing see section 1.24 of Chapter A attached to this report.

## 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 a large amount of Company products to a wide range of NGOs and hospitals. Throughout the Swords of Iron war the Company donated Company products and made financial donations to soldiers, ZAKA and other personnel helping the residents evacuated because of the war.

### 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. Peretz Guza, Mr. Guy Gissin and Mr. Erez Nahum. 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 2023 and 2022 (ILS 000's):

| Year | Audit services | Tax services | Other services |
|---|---|---|---|
| **2023** | 1,538 | 293 | 115 |
| **2022** | 1,040 | 516 | 25 |

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 2024 annual audit plan was approved in December 2023.

Scope of internal auditor's work: In 2023, the scope of the internal auditor's work was approximately 1,200 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, and 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 reported year on February 26, 2023, March 19, 2023, May 4, 2023, June 29, 2023, October 25, 2023 and December 28, 2023.

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 2023 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 2023 was approximately ILS 240 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 outcome of the audit, 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.

***The board and management wish to convey their tremendous appreciation to Max Stock's employees and managers.***

**March 25, 2024**

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

## Addendum A to the Board of Directors Report - A linkage adjusted balance sheet as of December 31, 2023 (ILS 000's)

| | ILS (*) | USD | EUR | Total |
|---|---|---|---|---|
| Current assets | | | | |
| Cash and cash equivalents | 113,230 | 14,098 | 1,529 | 128,857 |
| Trade receivables (customers) | 99,211 | - | - | 99,211 |
| Current tax rebates | 4,998 | - | - | 4,998 |
| Accounts receivable and credit balances | 10,504 | - | 1,805 | 12,309 |
| Inventory | 144,582 | - | - | 144,582 |
| | 372,525 | 14,098 | 3,334 | 389,957 |
| Non-current assets | | | | |
| Fixed assets (property, plant and equipment), net | 105,072 | - | - | 105,072 |
| Long-term loan | - | - | 1,906 | 1,906 |
| Right-of-use assets | 598,124 | - | - | 598,124 |
| Deferred taxes | 14,088 | - | - | 14,088 |
| | 717,284 | - | 1,906 | 719,190 |
| | **1,089,809** | **14,098** | **5,240** | **1,109,147** |
| Current liabilities | | | | |
| Credit from banking corporations | 14,424 | - | - | 14,424 |
| Lease liabilities | 59,122 | - | 865 | 59,987 |
| Trade payables (liabilities to vendors, suppliers and service providers) | 101,537 | 33,127 | 3,844 | 138,508 |
| Current taxes payable | 4,055 | - | 16 | 4,071 |
| Financial derivatives | - | 716 | - | 716 |
| Accounts payable and debit balances | 45,253 | - | 634 | 45,887 |
| | 224,391 | 33,843 | 5,359 | 263,593 |
| Non-current liabilities | | | | |
| Loans from banking corporations | 18,598 | - | - | 18,598 |
| Lease liabilities | 583,735 | - | 9,572 | 593,307 |
| Loans from a shareholder of a subsidiary | - | - | 1,906 | 1,906 |
| Liabilities for employee benefits | 2,897 | - | - | 2,897 |
| | 605,230 | - | 11,478 | 616,708 |
| Equity | | | | |
| Equity attributable to Company's shareholders | 221,702 | - | - | 221,702 |
| Minority interests | 7,144 | - | - | 7,144 |
| Total equity | 228,846 | - | - | 228,846 |
| | **1,058,467** | **33,843** | **16,837** | **1,109,147** |

The above figures represent the Company'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.

(*) The consumer price index does not have a material impact on the Company's operating results.

# Chapter C

## FINANCIAL STATEMENT AS OF DECEMBER 31, 2023

# Max Stock Ltd.

# Consolidated Financial Statements

# As of December 31, 2023

# Max Stock Ltd.

## Consolidated Financial Statements as of December 31, 2023

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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") and the subsidiaries (hereinafter - the "Group") as of December 31, 2023, and 2022, and the related consolidated statements of profit or loss and other comprehensive profit, changes in equity, and cash-flows for each of the three years in the period ended December 31, 2023. 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, 2023, and 2022, and their operating results, changes in their equity, and cash-flows for each of the three years in the period ended December 31, 2023, in accordance with International Financial Reporting Standards ("IFRS") and the Israeli Securities Regulations (Annual Financial Statements), 2010.

**Key audit issues**

The key issues pertaining to the audit are matters which have been or which are required to be addressed by the Company's board of directors, and which, in our professional judgment, were extremely significant in the audit of the consolidated financial statements for the current period. Among other things, these matters include, any matter which: (1) Refers, or which may refer, to material line-items or disclosures in the financial statements and (2) for which it was particularly challenging, subjective or complex for us to make a judgment. These matters are addressed in our audit and in the general formulation of our opinion on the consolidated financial statements. The manner that these items are addressed below does not generally change our opinion on the consolidated financial statements and through the below we are not giving a separate opinion on these matters or on the line-items or disclosures which they refer to.

Impairment of value of inventory

In accordance with that stated in Note 8 to the Group's financial statements, the balance of inventory as of December 31, 2023, totaled approximately ILS 144,582 thousands after a provision was recognized for the impairment of inventory totaling approximately ILS 11,494 thousands. The Company periodically examines the state of the inventory based on age. The Company periodically amends the provision for the impairment of slow-moving and dead inventory according to the aforementioned analysis.
The Group's management makes a judgment entailing estimates and assessments when recording the provision for the impairment of inventory and measuring it as the lower of cost or net disposal value, based on the latest sale prices and future market conditions which will impact the sale of the inventory.
We have identified this issue as a key audit issue due to the complexity of the matter and its materiality in the financial statements.

Audit processes applied in response to the key audit issue

Presented below are the primary procedures we implemented in connection with this key issue as part of our audit:

- Assessed the accuracy of the aging and inventory turnover analysis and assessed management's judgment on the amount allocated in the provision for impairment of inventory.
- Presented the management with questionnaires.
- Based on samples, examined the calculation of the value of inventory in the Company's financial systems.
- Attended the Company's stock-takes, including examining the existence and completeness of goods on a sample basis.
- Assessed the accuracy of the disclosures included in the consolidated financial statements regarding this issue.
- Examined the inventory management data systems.

Respectfully,
KOST FORER GABBAY & KASIERER
Auditors

Haifa, Israel
March 25, 2024

## Consolidated Statements of Financial Position

| | Note | As of December 31 2023 | 2022 |
|---|---|---|---|
| | | ILS 000's | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | 128,857 | 80,534 |
| Trade receivables (customers) | 6 | 99,211 | 81,790 |
| Current tax rebates | | 4,998 | 8,484 |
| Accounts receivable and credit balances | 7 | 12,309 | 10,872 |
| Inventory | 8 | 144,582 | 159,354 |
| | | 389,957 | 341,034 |
| **Non-current assets** | | | |
| Long-term deposit | | - | 248 |
| Long-term loans | | 1,906 | - |
| Fixed assets (property, plant and equipment), net | 9 | 105,072 | 90,147 |
| Right-of-use assets, net | 10 | 598,124 | 552,840 |
| Deferred taxes, net | 27 | 14,088 | 11,054 |
| | | 719,190 | 654,289 |
| | | **1,109,147** | **995,323** |
| **Current liabilities** | | | |
| Credit from banking corporations | 11 | 14,424 | 25,395 |
| Lease liabilities | 10 | 59,987 | 52,397 |
| Trade payables (liabilities to vendors, suppliers and service providers) | 12 | 138,508 | 97,009 |
| Current taxes payable | | 4,071 | 2,733 |
| Financial derivatives | 16 | 716 | 82 |
| Accounts payable and debit balances | 13 | 45,887 | 33,743 |
| | | 263,593 | 211,359 |
| **Non-current liabilities** | | | |
| Loans from banking corporations | 14 | 18,598 | 22,167 |
| Loans from a shareholder of a subsidiary | | 1,906 | - |
| Lease liabilities | 10 | 593,307 | 544,916 |
| Liabilities for employee benefits | 17 | 2,897 | 2,643 |
| | | 616,708 | 569,726 |
| **Equity** | 18 | | |
| Equity attributable to Company's shareholders | | 221,702 | 202,067 |
| Minority interests | | 7,144 | 12,171 |
| Total equity | | 228,846 | 214,238 |
| | | **1,109,147** | **995,323** |

| March 25, 2024 | | | |
|---|---|---|---|
| Financial statements approval date | Zehavit Cohen<br>Chairperson of the Board of Directors | Ori Max<br>Director and CEO | Nir Dagan<br>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 | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| | | For the year ended December 31 | | |
| | | ILS 000's | | |
| Revenues from sales | 20 | 1,119,156 | 1,048,801 | 976,273 |
| Cost of goods sold | 21 | 650,917 | 630,491 | 597,000 |
| Gross profit | | 468,239 | 418,310 | 379,273 |
| Sales and marketing expenses | 22 | 267,648 | 246,084 | 207,440 |
| General and administrative expenses | 23 | 52,201 | 49,865 | 43,772 |
| Other income | 25 | (358) | (1,585) | (1,613) |
| Other expenses | 25 | 368 | 500 | 1,100 |
| Operating profit | | 148,380 | 123,446 | 128,574 |
| Financing revenues | 24 | (2,673) | (2,664) | (485) |
| Financing expenses | 24 | 28,783 | 21,471 | 17,601 |
| Profit before taxes on income | | 122,270 | 104,639 | 111,458 |
| Taxes on income | 27 | 30,242 | 26,922 | 28,909 |
| Net profit | | 92,028 | 77,717 | 82,549 |
| Total other comprehensive profit (loss): | | | | |
| Amounts not to be reclassified to profit or loss: | | | | |
| Profit (loss) from remeasurement of defined benefit plan | | (92) | 240 | (351) |
| Translating financial statements from operating currency to presentation currency | | (31) | 7 | - |
| Total comprehensive profit | | 91,905 | 77,964 | 82,198 |
| Net profit attributable to: | | | | |
| Shareholders of the Company | | 81,008 | 64,163 | 68,197 |
| Minority interests | | 11,020 | 13,554 | 14,352 |
| | | 92,028 | 77,717 | 82,549 |
| Total comprehensive profit attributable to: | | | | |
| Shareholders of the Company | | 80,903 | 64,369 | 67,897 |
| Minority interests | | 11,002 | 13,595 | 14,301 |
| | | 91,905 | 77,964 | 82,198 |
| **Net profit per share attributable to shareholders of the Company (ILS)** | 26 | | | |
| Base net profit | | 0.58 | 0.45 | 0.48 |
| Diluted net profit | | 0.58 | 0.45 | 0.47 |

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** | **Retained earnings** | **Total** | **Minority interests** | **Total equity** |
| | ILS 000's | | | | | | | | | | |
| **Balance as of January 1, 2021** | **- (*)** | **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 interests | - | - | - | - | - | (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 interests | - | - | - | - | - | (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** |
| Net profit | - | - | - | - | - | - | - | 81,008 | **81,008** | 11,020 | **92,028** |
| Total other comprehensive loss | - | - | - | - | (23) | - | (82) | - | **(105)** | (18) | **(123)** |
| Acquisition of minority interests | - | - | - | - | - | (830) | - | - | **(830)** | (470) | **(1,300)** |
| Cost of share-based payments | - | - | (438) | - | - | - | - | - | **(438)** | - | **(438)** |
| Exercise of options | - | 6,179 | (6,179) | - | - | - | - | - | **-** | - | **-** |
| Dividend to Company shareholders | - | - | - | - | - | - | - | (60,000) | **(60,000)** | - | **(60,000)** |
| Dividend to minority shareholders | - | - | - | - | - | - | - | - | **-** | (15,559) | **(15,559)** |
| **Balance as of December 31, 2023** | **- (*)** | **49,036** | **16,238** | **(19,900)** | **(18)** | **(10,241)** | **(325)** | **186,912** | **221,702** | **7,144** | **228,846** |

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

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

## Consolidated Statements of Cash-Flows

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| **Cash-Flows from Operating Activities** | | | |
| Net profit | 92,028 | 77,717 | 82,549 |
| Adjustments required to present cash-flows from operating activities (a) | 127,236 | 123,296 | (45,112) (*) |
| **Net cash deriving from operating activities** | 219,264 | 201,013 | 37,437 |
| **Cash-Flows from Investment Activities** | | | |
| Acquisition of fixed assets (property, plant and equipment) | (30,876) | (26,748) | (33,394) |
| Proceeds from sale of fixed assets | 674 | 25 | - |
| Repayment of deposit to lessor | 255 | 25 | - |
| Investment in a subsidiary first consolidated (b) | - | 45 | - |
| Long-term loans | (1,906) | - | - |
| Withdrawal of a short term deposit | - | - | 24,500 |
| **Net cash used for investment activities** | (31,853) | (26,653) | (8,894) |
| **Cash-flows from financing activities** | | | |
| Obtaining long-term loans from banking corporations | 13,250 | 17,000 | 25,000 |
| Repayment of long-term loans from banking corporations | (22,179) | (21,731) | (18,011) |
| Obtaining short-term loans from banking corporations | - | 11,000 | 27,458 |
| Repayment of short-term loans from banking corporations | (5,611) | (29,208) | - |
| Lease payments | (50,829) | (45,508) | (38,230) |
| Buyback of Company shares | - | (19,900) | - |
| Receipt of a shareholder loan | 1,822 | - | - |
| Acquisition of minority interests | - | (2,478) | (3,389) |
| Dividend paid to minority shareholders | (15,559) | (13,342) | (19,293) |
| Dividend paid to Company shareholders | (60,000) | (40,000) | (70,000) |
| **Net cash used in financing activities** | (139,106) | (144,167) | (96,465) |
| **Effect of exchange rate volatility on the balance of cash and cash equivalents** | 18 | - | - |
| Increase (decrease) in cash and cash equivalents | 48,323 | 30,193 | (67,922) |
| Balance of cash and cash equivalents at beginning of year | 80,534 | 50,341 | 118,263 |
| **Balance of cash and cash equivalents at end of year** | 128,857 | 80,534 | 50,341 |

(*) Reclassified.

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

## Consolidated Statements of Cash-Flows

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| **(A) Adjustments required to present cash-flows from operating activities:** | | | |
| **Adjustments to the profit or loss items:** | | | |
| Depreciation and amortization | 76,929 | 64,826 | 52,428 |
| Financing expenses, net | 25,476 | 19,327 | 19,252 |
| Profit from derecognizing lease liabilities | (358) | (1,585) | (1,613) |
| Increase (decrease) in fair value of financial derivatives | 634 | (520) | (2,136) |
| Cost of share-based payments | (438) | 11,339 | 15,502 |
| Change in liabilities for employee benefits, net | 162 | 349 | 247 |
| Taxes on income | 30,242 | 26,922 | 28,909 |
| Capital loss | 368 | 500 | 1,100 |
| | 133,015 | 121,158 | 113,689 |
| **Changes in property and liability items:** | | | |
| Increase in customers | (17,421) | (6,143) | (1,907) |
| Decrease (increase) in receivables and credit balances | (1,514) | (741) | 8,467 |
| Decrease (increase) in inventory | 14,793 | 54,302 | (86,384) |
| Increase (decrease) in trade payables (liabilities to vendors, suppliers and service providers) | 41,474 | 4,410 | (24,291) |
| Revenues (payments) from exercising financial derivatives | 2,041 | 2,069 | (2,702) (*) |
| Increase in creditors and debit balances | 10,814 | 3,955 | 1,282 |
| | 50,187 | 57,852 | (105,535) |
| **Cash paid during the year for:** | | | |
| Interest paid | (27,515) | (21,396) | (16,548) |
| Taxes paid, net | (28,451) | (34,318) | (36,718) |
| Total adjustments required to present cash-flows deriving from operating activities | 127,236 | 123,296 | (45,112) (*) |
| **(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 | 231,941 | 84,882 | 103,776 |
| Derecognizing a right-of-use asset against a lease liability | (124,727) | (11,233) | (32,570) |
| Acquisition of non-controlling interests with credit | 1,300 | - | - |

(*) 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 (73.5%) and Fortera (24.5%), 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 the "Swords of Iron" war on the Group's operations

The "Swords of Iron" war broke out in the State of Israel on October 7, 2023 (the "war"), following a surprise attack by the Hamas terror organization from Gaza against settlements in the western Negev. Hostilities of a lesser magnitude subsequently also broke out by the country's northern border. As of the publication date of the report, the height of the war is over, the scope of military reserve call-ups has been reduced and economic recovery is apparent in various economic sectors, including a gradual return to personal consumption. However, there are still a number of sectors which have not returned to their typical operations, including businesses primarily based in regions in proximity to the hostilities which are still closed. Similarly, some of the residents vacated from their homes in proximity to the Lebanese and Gazan borders have also not yet returned home.

## NOTE 1: GENERAL (Cont.)

C. Impact of the “Swords of Iron” war on the Group’s operations (Cont.)

Impact on the Company’s stores

The Company’s stores were closed at the outbreak of the war, and as of October 9, 2023, and over the duration of approximately two weeks, the stores gradually reopened with a reduced scope of operations. From the end of October 2023 and as of the date of this report, 61 out of the Company’s 63 stores in Israel were fully open and operating as usual, and two of the Company’s branches remained closed (a branch owned by the Company in Sderot and the Company’s branch in Kiriat Shmona, operated by a franchisee), as a result of the foregoing. As of the publication date of the report, the Company’s Sderot branch has reopened. Due to the fact that the Company primarily focuses on basic products required throughout the year, including emergency periods, and in light of the fact that the Company sells a diverse and changing range of products at attractive prices, the Company assesses at this stage, based on the information available to it, as of the approval date of the financial statements, and in light of the operating metrics (KPIs) examined by the Company and it meeting its cash-flow targets, that the war has not had a material impact on the Company’s operating activities. Additionally, as of the approval date of the financial statements, the Company’s manpower headcount has not materially changed to how it stood prior to the war.

Impact on the supply chain

Shipping costs have increased due to the war’s impact on shipping routes from the East to Israel. Moreover, the Company’s delivery times from the East to Israel have increased by approximately 21-30 days. The Company assesses that the extended and pricier shipping is not having a material impact on the Company’s results due to the fact that extensive leeway is built into the delivery schedule as part of the Company’s ordering schedule.

Other than as stated above, the war has not had any other material impacts on the supply chain and costs.

Compensation of damages caused by the war

The Company has claimed compensation under the Property Tax and Compensation Fund Regulations (Payment of Compensation) (War Damages and Indirect Damages) (Swords of Iron) (Temporary Enactment), 2023, primarily for the harm caused to the profitability of the stores which were closed or which only operated partially due to the war and still nonetheless paid expenses, including: rent, Arnona [municipal levies] and primarily salaries. The compensation included in the financial statements as of December 31, 2023, total approximately ILS 2.2 million.

A protraction of the war is liable to have additional broad implications on many different sectors and geographical areas in the country. Furthermore, the potential volatility with the prices of goods, currency exchange rates, availability of materials, manpower, local services and access to local resources may impact entities primarily operating with or in Israel.

It should be noted that the Company is unable to reliably assess the scope of the future impact of the war on the Company’s operating activities (other than the implications described above), among other things, in light of the sharp volatility experienced by the markets, the uncertainty regarding the duration of the fighting, its severity, its scope, the implications of the war on the Company’s operating segments and additional measures which may be taken by the government.

## NOTE 1: GENERAL (Cont.)

C. Impact of the “Swords of Iron” war on the Group’s operations (Cont.)

Compensation of damages caused by the war (Cont.)

The Company’s board of directors and management are continuing to closely monitor the Company’s performance during the war, including scope of sales, the Company’s ability to satisfy its liabilities upon maturity, manpower and reserve military call-ups, and to make the necessary adjustments.

D. Impact of increased inflation and interest

The global inflation crisis which started in 2021 continued throughout 2023; however, inflation in Israel and around the world moderated towards the end of 2023 and the start of 2024. Thus, total inflation in Israel in 2023 ended the year with an approximately 3% total increase (down compared with inflation of approximately 5.3% in 2022), at the upper inflation target of also 3% set by the Israeli government; while in February 2024 CPI increased by approximately 0.4% compared with January 2024; and the total inflation for the 12 month period ended in February 2024 declined to approximately 2.5%. The Group is directly impacted by increased inflation primarily due to the rental payments for some of its rented properties, which are linked to changes in CPI. The impact of CPI linkage in 2023 is immaterial on the Group’s results.

In response to the high inflation rates recorded throughout 2023 (and despite the moderation recorded at the end of 2023 and start of 2024), the Bank of Israel increased the Bank of Israel interest to a peak of 4.75%, and as of the publication date of the report (among other things, due to the above-stated moderation with inflation), the Bank of Israel interest is 4.5%.

The Group finances its operations from its cash balances, from the positive cash-flow from its operating activities and from short-term and long-term bank credit. As stated in Note 14 - Loans from banking corporations below, the Group’s debt is subject to variable interest linked to changes in the Bank of Israel interest and in 2023 the Company therefore acted to proactively reduce its debt by pre-paying the loans. The loan balance as of December 31, 2023 was approximately ILS 33,022 thousands and the increase in the interest rate did not materially impact the Company’s results. The Company also invested part of the cash balances in short-term deposits with banking corporations and therefore the change in the interest rate also correlated with an increase in interest revenues earned on deposits.

As of the publication date of the report, the Company does not foresee special risks with its continued operations due to the higher inflation and interest rates and it does not foresee material changes in its cost structure and level of profitability. There is also no foreseen material increase in the Company’s financing costs.

## NOTE 1: GENERAL (Cont.)

E. Impact of the judicial reform on the Group's operations

Since January 2023 the Israeli government started pursuing legislation with the objective of reforming the Israeli judicial system. This resulted in a wave of protests by the Israeli public, including warnings by economic experts regarding the Israeli economy being adversely impacted and investor "flight". On July 26, 2023, Amendment No. 3 to the Basic Law: The Judiciary was approved whose purpose was to cancel the grounds for reasonableness, while on January 1, 2024, the amendment to the law was invalidated by the High Court of Justice. No additional legislation has advanced as of the publication date of the report, and due to the outbreak of the war it is unknown if and when the legislation under the judicial reform will be renewed. As of the date of the report and its publication date, the judicial reform and the enacted legislation has not had an impact on the Company's operations and/or its results. Notwithstanding, among other things, in light of the outbreak of the war and the uncertainty regarding the continuation of the legislation, the Company is unable to assess the impact of the continued legislation on the Israeli economy in general and specifically on the Company's operations and results.

F. Impact of COVID-19 on the Group's operations

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 was 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.

In 2022, 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.

During and subsequent to 2022, the general obligation to wear face masks in closed spaces was also cancelled, including for hospitals and elderly care facilities. The obligation to wear a mask now 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 reported 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.

## 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: Financial assets and liabilities (including derivatives) which are presented at fair value through the profit or loss, provisions, 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). Potential voting rights are considered when assessing whether an entity has control.

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 or which result in an increase in the holding rate, are 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/operating currency, presentation currency and foreign currency

1. Functional/operational currency and presentation currency

The Group's operating and presentation currency is ILS.

2. 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. 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. The Company's inventory is comprised of purchased merchandise and products and its cost is measured according to the cost of purchase using the "first-in, first-out" method.

F. Fixed assets (property, plant and equipment)

Fixed assets are presented under the cost model plus direct acquisition costs, less accumulated depreciation, and do not include ongoing maintenance expenses.

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

| | % |
|---|---|
| Office furniture and equipment | 7 |
| Computers, peripheral equipment and software | 25 |
| Leasehold improvements and installations | 5-20 |

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 K below.

An asset is derecognized from the financial statements 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.)

G. Taxes on income

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.

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.

H. Revenue recognition

Revenue from the sale of goods

Revenue from 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. 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).

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.

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Revenue recognition (Cont.)

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.

I. Leases

1. The Group as a lessee

According to IFRS 16 - *Leases* (“IFRS 16”), the commencement date of a lease will be the date on which the keys are received and the lease agreement actually commences (the “commencement date”). 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.

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.

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 cash-flows 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.

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Leases (Cont.)

3. Lease extension and termination options (Cont.)

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.

J. 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 cash-flows 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 cash-flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

K. 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's financial assets are primarily comprised of cash and cash equivalents and trade receivables (customers). The balance of trade receivables (customers) is primarily comprised of credit card payments and therefore it is highly probably that the balance will be collected in full on the expected date.

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Financial instruments (Cont.)

2. Financial liabilities

Financial liabilities measured at amortized cost

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.

L. 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.

M. 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.

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 reported 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.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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

1. Amendment of IAS 8, "*Accounting Policies, Changes to Accounting Estimates and Errors*"

In February 2021, the IASB published an amendment to International Accounting Standard 8: *Accounting Policies, Changes in Accounting Estimates and Errors* (hereinafter - 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.

The above-stated amendment did not have a material impact on the Company’s consolidated financial statements.

2. 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’ (hereinafter: the “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. The amendment narrows the application of the 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 from January 1, 2023. For leasing transactions and recognizing decommissioning obligations - the amendment will be applied from the earliest possible reporting period presented in the financial statements from when 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 above-stated amendment did not have a material impact on the Company’s consolidated financial statements.

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards (Cont.)

3. Amendment to IAS 1, *Disclosure of Accounting Policies*

In February 2021, the IASB issued an amendment to IAS 1, *Presentation of Financial Statements* (hereinafter - 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 from January 1, 2023.

The amendment impacted the disclosure given on the Company’s accounting policies, however, there was no impact on the measurement, recognition or presentation of any line-items in the Company’s consolidated financial statements.

## 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

When the Company is unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, the Company uses an incremental borrowing rate. 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.

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

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 on the financial statements include a change with the amount of the allowance for the claims or not making an allowance for the claims.

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 reported period.

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

P. Estimates and assumptions (Cont.)

Lease transactions including 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.

Deferred tax assets

Deferred tax assets are recognized for unused deductible temporary differences to the extent that it is probable that taxable profit will be available
against which the losses can be utilized. Managerial judgments are required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits, against which carried-forward losses can be utilized, its source
and the tax planning strategy. The Company will create or de-recognize a deferred tax asset based on changes in these assumptions.

## 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 reported 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 reported 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.

The above amendment is not expected to have a material impact on the Company's consolidated financial statements.

B. Amendments to IAS 7, *Statement of Cash-Flow*, and IFRS 7, *Financial Instruments: Disclosures*

In May 2023 the IASB issued amendments to IAS 7, Statement of Cash-Flow, and IFRS 7, Financial Instruments: Disclosures (hereinafter: the "amendments"), in order to clarify the characteristics of supplier financing arrangements and to require additional disclosure of these arrangements.

The disclosure requirements in the amendments is intended to assist and enable users of the financial statements to assess the impacts of supplier financing arrangements on the entity's liabilities and on the entity's cash-flows and the exposure to liquidity risk.

The amendments will be implemented for annual reporting periods beginning on or after January 1, 2024. Early adoption is possible subject to making a disclosure.

The Company estimates that the above amendments are not expected to have a material impact on the Company's consolidated financial statements.

## NOTE 5: CASH AND CASH EQUIVALENTS

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Israeli currency (Shekels) | 80,099 | 76,419 |
| Foreign currency | 15,579 | 1,966 |
| Shekel-denominated deposit | 30,099 | - |
| Cash registers | 3,080 | 2,149 |
| | **128,857** | **80,534** |

## NOTE 6: CUSTOMERS

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Open accounts in Israel | 11,985 | 9,698 |
| Credit cards and collection checks (**) | 87,226 | 72,092 |
| | **99,211** | **81,790** |

(*) The balance of customers is a current/ongoing balance.
(**) Cash-flow from credit cards has been given as a security interest to guarantee the loan from a banking corporation by one of the subsidiaries. For further details see Note 15 - contingent liabilities, guarantees, commitments and charges.

## NOTE 7: RECEIVABLES AND OUTSTANDING BALANCES

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Advances to suppliers | 5,688 | 7,645 |
| Governmental institutions | 1,488 | 635 |
| Prepaid expenses | 3,273 | 1,432 |
| Pledged deposits | 1,860 | 1,160 |
| | **12,309** | **10,872** |

## NOTE 8: INVENTORY

A. Composition

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Inventory of finished goods | 108,637 | 145,991 |
| Merchandise in transit | 35,945 | 13,363 |
| | **144,582** | **159,354** |

B. Additional information

The allowance for writing down inventory recorded in the financial statements amounted to ILS 11,494 thousands and ILS 8,796 thousands for the years ended December 31, 2023 and 2022, 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, 2023 | 188 | 15,650 | 35,378 | 75,873 | 127,089 |
| Additions during the year | - | 4,671 | 9,359 | 16,846 | 30,876 |
| Adjustments arising from translating financial reports for external operations | - | 5 | 11 | 27 | 43 |
| Impairments during the year | - | (289) | (1,983) | (1,068) | (3,340) |
| Balance as of December 31, 2023 | 188 | 20,037 | 42,765 | 91,678 | 154,668 |
| Accumulated depreciation | | | | | |
| Balance as of January 1, 2023 | 181 | 7,866 | 10,390 | 18,505 | 36,942 |
| Additions during the year | 7 | 3,456 | 2,626 | 8,856 | 14,945 |
| Adjustments from translating financial reports for external operations | - | - | 1 | 6 | 7 |
| Impairments during the year | - | (202) | (1,122) | (974) | (2,298) |
| Balance as of December 31, 2023 | 188 | 11,120 | 11,895 | 26,393 | 49,596 |
| **Depreciated cost as of December 31, 2023** | - | 8,917 | 30,870 | 65,285 | 105,072 |

| | 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 |

## NOTE 10: LEASES

The Company has lease agreements that include leases of structures used to conduct the Company's operating activities. According to IFRS 16 - *Leases* ("IFRS 16"), the commencement date of a lease will be the date on which the keys are received and the lease agreement actually commences.
The lease agreements are for periods ranging from 4-24 years. To apply IFRS16, 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, 2023 | 743,949 |
| Additions during the year | |
| Additions to right-of-use assets due to new leases in the period | 139,558 |
| Additions for changes in lease terms | 69,095 |
| Updates to right-of-use assets for indexation | 23,288 |
| Adjustments arising from translating financial statements for external activities | 59 |
| Impairments during the year | |
| Derecognizing right-of-use assets for leases terminated during the period | (22,469) |
| Write-downs for changes in lease terms | (117,210) |
| Balance as of December 31, 2023 | 836,270 |
| Accumulated depreciation | |
| Balance as of January 1, 2023 | 191,109 |
| Additions during the year | |
| Depreciation and amortization | 61,984 |
| Adjustments arising from translating financial statements for external activities | 5 |
| Impairments during the year | |
| Impairment of right-of-use assets | (14,952) |
| Balance as of December 31, 2023 | 238,146 |
| **Depreciated cost as of December 31, 2023** | 598,124 |

## NOTE 10: LEASES (Cont.)

| | 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 |

### B. Details of lease transactions

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | ILS 000's | | |
| Interest expenses on lease liabilities | 24,090 | 16,465 | 14,880 |
| Total negative cash-flow for leases | 74,919 | 61,973 | 53,110 |

### 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 B 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%.

   On January 2, 2024, the Company informed the lessor that it would not exercise the option periods.

3) Contract for the Construction and Lease of a Logistics Center in Southern Israel

   On November 29, 2023, the Company signed a lease agreement with a company in the Mega Or Holdings Ltd. corporate group (in partnership with Kibbutz Shomria) (hereinafter: the "**Lessor**") with respect to the construction of a project in Kibbutz Shomria with an area of approximately 31,000 sqm, which shall serve as a consolidated logistics center for the Company's operations (hereinafter: the "**consolidated logistics center**"), a role which is currently being performed by three logistics centers and external suppliers.

## NOTE 10: LEASES (Cont.)

### D. Details of material lease agreements (Cont.)

3) Contract for the Construction and Lease of a Logistics Center in Southern Israel (Cont.)

Presented below is a description of the key provisions of the agreement:

Period of the lease: 10 years from the date of possession upon completion of construction of the consolidated logistics center by the Lessor which is anticipated for May 2024 (hereinafter: the "**lease period**"). The lease period will automatically be extended for two additional periods of 5 years each, and an additional period of 4 years and 11 months, subject to meeting the terms and conditions stipulated in the lease agreement (hereinafter: "**additional lease periods**"), including a 5% increase in the real rental fees at the start of each one of the additional lease periods.

Primary collateral: To secure its undertakings in the lease agreement, the Company is providing a bank guarantee in favor of the Lessor in an amount equal to approximately one month of rent (plus VAT and CPI as established in the lease agreement) at the signing of the agreement, and the guarantee will total an amount equal to 3 months of rent at the time that possession of the premises is transferred (plus VAT and CPI as established in the lease agreement).

Additional area: Under the lease agreement, the Lessor shall act to submit an application to change the city building plan zoning designation for an additional area of 10,000 sqm adjoined to the premises, and after obtaining approval, it will act to construct an additional building on this area (hereinafter: the "**additional building**"), whereby, subject to approval of the city building plan and completing construction, the Company shall have possession of a consolidated logistics center with a total area of approximately 40,000 sqm. The Lessor is required to act to publish the city building plan within 4 years from the execution date of the lease agreement, and if said city building plan is not published in the official gazette then the Company may give notice of termination of the lease agreement upon the conclusion of 5 years from the commencement of the lease period. The Company will be obligated to lease the additional building if the city building plan is published as required and if a building permit is obtained within two years from when the city building plan is published. The Company may give notice that it will not lease the additional building if the building permit is not obtained by said date.

Rent: The Company assesses that the monthly rent is anticipated to total approximately ILS 1 million (plus VAT and CPI as established in the lease agreement). The rent will likely increase in the additional periods according to the provisions of the agreement, and as a result of renting the additional area.

Investment in the construction and customization of the consolidated logistics center: The Company assesses that the customization works of the consolidated logistics center for its needs will cost approximately ILS 30 million.

Based on milestones, the consolidated logistics center will replace the logistic centers currently used by the Company whose lease agreements are described above in sections 1 and 2.

## NOTE 11: CREDIT FROM BANKS

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Short-term credit from banking corporations | 3,639 | 9,250 |
| Current maturities of long-term loans | 10,785 | 16,145 |
| | **14,424** | **25,395** |

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

## NOTE 12: LIABILITIES FOR TRADE PAYABLES

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Open accounts in Israel (*) (**) | 101,505 | 80,169 |
| Open accounts abroad | 36,971 | 16,821 |
| Credit cards and checks payable | 32 | 19 |
| | **138,508** | **97,009** |

(*) The outstanding open debts in Israel are generally under terms of payment of EOM + 75 days.
(**) For balances with related parties see Note 28 – Transactions with related parties.

## NOTE 13: CREDITORS AND DEBIT BALANCES

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Employees and institutions for payroll | 21,321 | 17,810 |
| Expenses payable | 11,666 | 8,782 |
| Governmental institutions | 8,505 | 5,354 |
| Other payables | 1,922 | 647 |
| Affiliated/related parties (*) | 2,473 | 1,150 |
| | **45,887** | **33,743** |

(*) For balances with related parties see Note 28 – Transactions with related parties.

## NOTE 14: LOANS FROM BANKS

a. Composition:

| | Rate Nominal interest rate* | As of December 31 | |
|---|---|---|---|
| | | 2023 | 2022 |
| | % | ILS 000's | |
| Loans from banking corporations | Prime + 0.2-0.55 | 29,383 | 38,312 |
| Less current maturities | | 10,785 | 16,145 |
| Long-term loans from banking corporations | | **18,598** | **22,167** |

* Approximate to the effective interest rate.

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

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| First year | 10,785 | 16,145 |
| Second year | 10,501 | 9,417 |
| Third year | 7,234 | 7,650 |
| Fourth year | 863 | 5,100 |
| | **29,383** | **38,312** |

As security interests given to guarantee loans from banking corporations to subsidiaries, 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. In October 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.

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

Contingent Liabilities (Cont.)

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 a partial stay of performance. On March 5, 2023, the District Court rendered a ruling whereby it accepted the Company's motion for a partial stay of performance up to ILS 370 thousands. The Company made the payment as required.

Two other defendants also concurrently appealed the judgment. On April 13, 2023, the insurance company submitted a response to the appeal filed by the Company and by the two other appellants, as part of which it rejected the appellants' arguments and repeated its arguments which arose as part of the earlier proceeding.

The hearing date to complete oral pleadings in a consolidated manner for both the appeal of the Company and that of the two other appellants was scheduled for February 22, 2024. At the hearing the court proposed a settlement whereby each of the parties would be liable for a prorated amount as part of which the Company would not be required to make a significant payment beyond that paid by it. A supplementary hearing has been scheduled for March 31, 2024.

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. Affidavits of evidence in chief were submitted on behalf of the defendants on February 23, 2023, and the Company submitted affidavits for the counter-claim on March 29, 2023. A summation pretrial hearing was scheduled for April 27, 2023, as part of which dates were scheduled for evidentiary hearings for December 24 and 27, 2023. At the assessment of the Company's legal advisors, no unequivocal findings regarding the legal proceedings arose during the evidentiary hearings. The parties have not yet submitted summations and a judgment has not yet been awarded.

## 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 real financial exposure for the Company, as the determination will be made according to burdens of proof and the court's impression from the parties' testimonies.

C. Concurrently with the proceedings set forth above in section 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 which was held as described above in section B; however, the mediation also addressed this proceeding. The mediation, as stated above in section 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 Company filed an amended statement of claim on March 24, 2022, the defendants filed an amended statement of defense on May 12, 2022, and the Company filed an amended reply 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, and a pretrial hearing was held on April 27, 2023, during which it was established that the evidentiary hearings will be jointly conducted with the proceeding described above in section b on December 24 and 27, 2023. At the assessment of the Company's legal advisors, no unequivocal findings regarding the legal proceedings arose during the evidentiary hearings. The parties have not yet submitted summations and a judgment has not yet been awarded.

## 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 proceedings and/or the separation mechanism to be established by the court and its financial implications, as the determination will be made according to burdens of proof and the court's impression from the parties' testimonies.

D. 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 occurring, 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. On August 21, 2023, the court approved a settlement arrangement executed by the parties which included awarding financial compensation to the class for an amount totaling ILS 320 thousands by discounting eight different kinds of products. The court also reduced attorney fees from ILS 75 thousands to ILS 55 thousands, and similarly reduced the applicants' reward from ILS 10 thousands to ILS 5 thousands. The Company commenced its implementation of the settlement arrangement according to the judgment in Q1 2024.

E. 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.

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

Contingent Liabilities (Cont.)

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. On August 16, 2023, the court rendered a ruling summarily dismissing the motion, without costs.

On January 7, 2024, the applicants filed a motion for leave to appeal to the Supreme Court for leave to appeal the District Court's judgment dated August 16, 2023. The applicants argue that the District Court erred in its judgment, *inter alia*, by establishing that they acted in bad faith, that the requested documents are irrelevant to a derivative action and with the determination that they failed to establish an evidentiary basis for the cause of action. A ruling has not yet been rendered on the motion.

The Company assesses based on an opinion obtained from its legal advisors, and at this stage of the proceedings, that the prospects the appeal will be granted (if leave to appeal is given) are less than the prospects of it being dismissed.

F. 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 end of which the court referred the parties to mediation which was unsuccessful. An evidentiary hearing has been scheduled for February 18, 2024 and was postponed for July 19, 2024. 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.

G. 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. The Company submitted its response on March 9, 2023, and, *inter alia*, it alleged various defects with how the motion was filed and how the evidence was presented, there being no privity between the applicants and the Company and that some of the respondents being subsidiaries and a franchisee of the Company are in compliance with the law. It also added in the response that the subsidiaries accepted upon themselves to meet a standard higher than that required under the law, whereby they all already have 2-3 water facilities, such that the motion is completely unnecessary. A pretrial hearing has been scheduled for October 29, 2023, but was postponed to February 12, 2024 because of the "Swords of Iron" war. At the pretrial hearing the court suggested that the parties try to come to a negotiated settlement. An evidentiary hearing has been scheduled for September 18, 2024, due to the fact that this attempt failed. The identity of the mediator or dates have not yet been established. At this preliminary stage it is not yet possible to assess the prospects of the claim.

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

Contingent Liabilities (Cont.)

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 reported period

H. 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 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 was required to act to implement the judgment by April 30, 2023. The Company completed the actions required under the settlement agreement prior to the end of Q2 2023 and the case has been closed.

**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 subsidiary in Portugal 'Max 10 LDA' (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.

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

**Engagements (Cont.)**

As of December 31, 2023, the Company holds 73.5% of the share capital of the common company and Fortera holds 24.5% of the share capital of the common company. The CEO of the common company holds the remaining 2%.

The common company is managed by a general manager appointed by the Company as well as employees of the common company in the fields of finance, trade, store management and more.

The common company opened its first store in Braga, Portugal in May 2023, a second store was opened in June in the city of Porto and a third store was opened in the city of Matosinhos in November. The store in the city of Porto closed down in December 2023.

As of December 31, 2023, the Company has provided a loan totaling approximately ILS 1,906 thousands to Fortera for its share in the financing of the common company.

Subsequent to the date of the report, the Company provided Fortera with an additional loan amount for its share in financing the common company, whereby, as of the approval date of the financial statements, the balance of the loan given by the Company to Fortera totals approximately ILS 2,129 thousands.

**Guarantees and Charges**

As of December 31, 2023, the Group has provided guarantees in favor of third-parties for the Group's lease agreements totaling approximately ILS 17,976 thousands.

The balance of the loans extended to subsidiaries by a banking corporation as of December 31, 2023, totals approximately ILS 33,022 thousands.
The Company has given the subsidiaries a guarantee up to the amount of the credit given to them in order to secure these amounts.
A first-rank fixed pledge has also been registered on one of the subsidiaries in favor of the bank over the contractual rights to receive the funds owed to the subsidiary by the credit companies to secure an amount of approximately ILS 3,639 thousands.

## NOTE 16: FINANCIAL INSTRUMENTS

### A. Financial assets

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Financial assets at amortized cost | | |
| Cash, deposits, trade receivables (customers) and long-term loans | 229,974 | 162,572 (*) |
| Total current | 228,068 | 162,324 |
| Total non-current | 1,906 | 248 |

(*) Reclassified

### B. Financial liabilities

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Financial liabilities at fair value through profit or loss | | |
| Financial derivatives | 716 | 82 |
| Total financial liabilities at fair value through profit or loss | 716 | 82 |
| Other financial liabilities at amortized cost | | |
| Trade payables (liabilities to vendors, suppliers and service providers) | 138,508 | 97,009 |
| Accounts payable and debit balances | 45,887 | 33,743 |
| Loans and credits from banks | 33,022 | 47,562 |
| Lease liabilities | 653,294 | 597,313 |
| Shareholder loans | 1,906 | - |
| Total other financial liabilities at amortized cost | 872,617 | 775,627 |
| Total current | 258,806 | 208,544 |
| Total non-current | 613,811 | 567,083 |

## 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, 2021 | 36,054 | 539,956 | 576,010 |
| Cash-flow | 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 |
| Cash-flow | (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 |
| Cash-flow | (8,929) | (50,829) | (59,758) |
| Recognition of lease liabilities, net | - | 107,111 | 107,111 |
| Other changes | - | (301) | (301) |
| Balance as of December 31, 2023 | 29,383 | 653,294 | 682,677 |

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).

## NOTE 16: FINANCIAL INSTRUMENTS (Cont.)

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

1. Market risk (Cont.)

b) Interest risk

As of December 31, 2023, there are loans totaling approximately ILS 33,022 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.

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 cash-flows 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, 2023

| | 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 | 14,424 | 10,501 | 7,234 | 863 | - | 33,022 |
| Trade payables (liabilities to vendors, suppliers and service providers) | 138,508 | - | - | - | - | 138,508 |
| Accounts payable and debit balances | 45,887 | - | - | - | - | 45,887 |
| Lease liabilities | 80,620 | 72,270 | 71,645 | 140,373 | 433,479 | 798,387 |
| Shareholder loans | - | - | - | 1,906 | - | 1,906 |
| | 279,439 | 82,771 | 78,879 | 143,142 | 433,479 | 1,017,710 |

## NOTE 16: FINANCIAL INSTRUMENTS (Cont.)

2. Liquidity risk (cont.)

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 |

E. 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.

F. 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 cash-flow 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, 2022, the Company has forward transactions to purchase USD 1.5 million for approximately ILS 5.3 million.
As of December 31, 2023, the Company has forward transactions to purchase USD 6 million for approximately ILS 22.5 million, and forward transactions to purchase EUR 1.5 million for approximately ILS 6 million.

**NOTE 16: FINANCIAL INSTRUMENTS (Cont.)**

G. 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, 2023 | 643 | (643) |
| As of December 31, 2022 | (977) | 977 |

| | 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, 2023 | 244 | (244) |
| As of December 31, 2022 | 170 | (170) |

## 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 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| Expenses for defined contribution plans | 11,525 | 11,123 | 9,874 |

2. Defined benefit plans

   The Group accounts for that part of the payment of severance pay 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.

   a) Expenses recognized in profit or loss

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| Current services cost | 911 | 996 | 818 |
| Interest expense for benefit liabilities | 123 | 72 | 42 |
| Total expenses for employee benefits | **1,034** | **1,068** | **860** |

## NOTE 17: EMPLOYEE BENEFIT LIABILITIES (Cont.)

**Post-employment benefits (Cont.)**

2. Defined benefit plans (Cont.)

b) Plan liabilities, net

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Liability for a defined benefit plan | 2,897 | 2,643 |

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

| | For the year ended December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Balance as of January 1 | 2,643 | 2,534 |
| Interest expenses | 123 | 72 |
| Current services cost | 911 | 996 |
| Benefits paid | (872) | (719) |
| Loss (gain) for re-measurement of other comprehensive profit | 92 | (240) |
| Balance as of December 31 | **2,897** | **2,643** |

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 | |
|---|---|---|
| | 2023 | 2022 |
| | % | |
| The discount rate for plan liabilities | 5.71 | 5.57 |
| The anticipated rate of return on plan assets | 5.57 | 3.33 |
| Anticipated rate of pay increases | 3.50 | 3.79 |

## NOTE 18: EQUITY

A. Composition of share capital

| | As of December 31, 2023 | |
|---|---|---|
| | Authorized | Issued and outstanding |
| | No. of shares | |
| Ordinary shares with no par value | 12,342,994,475 | 142,994,572 |

| | 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 |

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 |
| Exercise of employee share options | 369,441 |
| Balance as of December 31, 2023 | 142,994,572 |

30,000 options were exercised into 24,561 ordinary shares with no par value subsequent to the date of the report.

C. 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.
3. 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 was paid on April 3, 2023.

## NOTE 18: EQUITY (Cont.)

D. Actions with minority shareholders

1. 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.

2. 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.

3. 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.

4. In 2023 the Company purchased the minority holdings in a number of subsidiaries from minority interest holders. The acquisitions were 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.

5. On December 31, 2023, 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 1,300 thousands. The difference in the amount of ILS 989 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.

E. 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 was effective from June 19, 2022 through June 18, 2023. The acquisitions were performed from time to time as determined by a committee which had 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 were performed through trade on TASE and/or OTC (off-exchange) transactions. In total 3,658,971 ordinary Company shares were 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, 2023.

## 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 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | ILS 000's | | |
| Total expense (income) recognized from share-based payments settled through equity instruments | (438) (*) | 11,339 | 15,502 |

(*) There was a forfeiture in 2023 and income was therefore recorded.

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 "**option 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.

   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.

**NOTE 19: EMPLOYEE OPTION PLAN (Cont.)**

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 December 31, 2023, for the allotments which have been approved, is approximately ILS 28,111 thousands.

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.

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, 2027, is approximately ILS 955 thousands.

## NOTE 19: EMPLOYEE OPTION PLAN (Cont.)

Income resulted from an offeree who failed to complete their entire vesting period to be entitled to their entire equity compensation and who was subject to a forfeiture in 2023. The total income imputed in the 2023 consolidated statements of profit or loss and other comprehensive profit for share based payments settled in equity instruments is approximately ILS 438 thousands, included in 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:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | No. of options | Weighted average exercise price | No. of options | Weighted average exercise price |
| | | ILS | | ILS |
| Options for shares at the beginning of the year | 2,013,522 | 2.94 | 2,320,964 | 3.21 |
| Options for shares granted during the year | - | - | 235,813 | 9.87 |
| Options for shares expired during the year | (94,326) | 4.90 | (28,159) | 3.14 |
| Options for shares exercised during the year | (480,756) | 2.05 | (515,096) | 2.32 |
| **Options for shares at the end of year** | **1,438,440** | | **2,013,522** | |
| **Options for shares exercisable at the end of the year** | **1,171,492** | | **1,475,237** | |

The average weighted share price on the exercise date of the share options in 2023 was ILS 7.54 (in 2022 - ILS 5.66).

The range of exercise prices for the share options as of December 31, 2023, and as of December 31, 2022, is ILS 1.60-9.87.

## NOTE 20: SALES

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| Revenues from sales in owned stores | 1,021,801 | 960,159 | 877,373 |
| Revenues from sales to franchisees | 78,538 | 73,251 | 86,099 |
| Total revenues from sales (1) | **1,100,339** | **1,033,410** | **963,472** |
| Revenue from commissions/fees | 18,817 | 15,391 | 12,801 |
| **Total revenues** | **1,119,156** | **1,048,801** | **976,273** |

(1) Below is a breakdown of income from the Company's main product categories:

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| Office and school supplies | 103,771 | 97,096 | 80,149 |
| Toys and baby products | 142,138 | 134,205 | 133,110 |
| Disposable utensils, party products and storage containers | 151,879 | 143,203 | 124,678 |
| Homeware | 296,601 | 288,730 | 280,258 |
| Other | 405,950 | 370,176 | 345,277 |
| | **1,100,339** | **1,033,410** | **963,472** |

## NOTE 21: COST OF GOODS SOLD

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| Purchases | 570,924 | 509,450 | 621,390 |
| Decrease (increase) in inventory | 14,792 | 54,302 | (86,384) |
| Logistical expenses | 65,201 | 66,739 | 61,994 |
| | **650,917** | **630,491** | **597,000** |

## NOTE 22: SALES AND MARKETING EXPENSES

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| Salaries and related | 135,121 | 128,849 | 114,898 |
| Share-based payments | 72 | 3,482 | 4,823 |
| City taxes | 21,802 | 20,921 | 16,401 |
| Depreciation | 13,476 | 10,966 | 8,353 |
| Depreciation of right-of-use assets | 56,199 | 46,938 | 37,570 |
| Maintenance, security, cleaning and insurance | 18,219 | 15,965 | 12,472 |
| Electricity and water | 7,979 | 6,016 | 5,142 |
| Credit card fees | 5,326 | 4,923 | 4,344 |
| Other | 9,454 | 8,024 | 3,437 |
| | **267,648** | **246,084** | **207,440** |

## NOTE 23: GENERAL AND ADMINISTRATIVE EXPENSES

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| Management fees | 5,078 | 4,478 | 5,328 |
| Salaries and related | 20,789 | 16,960 | 10,009 |
| Share-based payments | (510) | 6,692 | 10,679 |
| Professional services | 11,519 | 9,585 | 6,796 |
| Vehicle maintenance | 6,152 | 4,785 | 4,389 |
| Computerization | 3,468 | 3,017 | 2,822 |
| Other | 5,705 | 4,348 | 3,749 |
| | **52,201** | **49,865** | **43,772** |

## NOTE 24: FINANCING EXPENSES (INCOME)

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| **Financing revenues** | | | |
| Currency differentials | - | - | (485) |
| Revenues from a deposit | (818) | (75) | - |
| Profit from financial derivatives | (1,406) | (2,589) | - |
| Income tax interest | (398) | - | - |
| Interest – related parties | (51) | - | - |
| | **(2,673)** | **(2,664)** | **(485)** |
| **Financing expenses** | | | |
| Bank interest and fees | 3,364 | 2,499 | 2,105 |
| Currency differentials | 1,278 | 2,375 | - |
| Leasing financing expenses | 24,090 | 16,465 | 14,880 |
| Interest – related parties | 51 | - | - |
| Loss from financial derivatives | - | - | 566 |
| Income tax interest | - | 132 | 50 |
| | **28,783** | **21,471** | **17,601** |

## NOTE 25: OTHER EXPENSES (INCOME)

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| **Other Income** | | | |
| Profit from derecognizing lease liabilities | (358) | (1,585) | (1,613) |
| | **(358)** | **(1,585)** | **(1,613)** |
| **Other Expenses** | | | |
| Capital loss from sale of fixed assets | 368 | 500 | 1,100 |
| | **368** | **500** | **1,100** |

## 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 | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | 2021 | |
| | 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 | 139,167 | 81,008 | 141,411 | 64,163 | 142,345 | 68,197 |
| For the computation of diluted net earnings | 140,106 | 81,008 | 142,635 | 64,163 | 143,733 | 68,197 |

## 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 2023, 2022 and 2021 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 | | |
| | 2023 | 2022 | 2023 | 2022 | 2021 |
| | ILS 000's | | | | |
| Deferred tax assets | | | | | |
| Lease | 11,394 | 8,865 | (2,529) | (1,394) | (973) |
| For employee benefits | 1,692 | 1,469 | (223) | (64) | (145) |
| Other | 1,002 | 720 | (282) | 182 | 697 |
| Deferred tax income | | | (3,034) | (1,276) | (421) |
| Deferred tax assets | 14,088 | 11,054 | | | |

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

Composition:

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | ILS 000's | | |
| Current taxes | 33,422 | 28,019 | 28,923 |
| Deferred taxes | (3,034) | (1,275) | (421) |
| Taxes for previous years | (146) | 178 | 407 |
| | 30,242 | 26,922 | 28,909 |

## 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 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | ILS 000's | | |
| Profit before taxes on income | 122,270 | 104,639 | 111,458 |
| Israel's statutory tax rate | 23% | 23% | 23% |
| Tax computed at the statutory tax rate | 28,122 | 24,067 | 25,635 |
| Increase (decrease) in taxes on income resulting from the following: | | | |
| Non-deductible expenses for tax purposes and others | (443) | 2,552 | 2,402 |
| Timing differentials which are not imputed with deferred taxes | 57 | (13) | (10) |
| Increase in losses for tax purposes for which no deferred taxes were attributed | 2,669 | 248 | 475 |
| Utilization of losses from previous years for tax purposes for which deferred taxes were not recognized | (17) | (110) | - |
| Tax differentials for previous years | (146) | 178 | 407 |
| Taxes on income | 30,242 | 26,922 | 28,909 |
| Average effective tax rate | 24.7% | 25.7% | 25.9% |

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 2017 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 as of the date of the report include: Moose Holdco Ltd. and parties affiliated thereto, Ori Max 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, 2023

| | Controlling shareholder | Affiliated companies | Key management personnel | Other affiliates/related parties |
|---|---|---|---|---|
| | ILS 000's | | | |
| Payables: | | | | |
| Trade payables (liabilities to vendors, suppliers and service providers) | - | 1,071 | - | - |
| Accounts payable and debit balances | 2,298 | - | 1,525 | 187 |

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 |

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

c. Transactions with interested and related parties

| | For the year ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | 2021 | |
| | 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)-(c)) | 2 | 3,478 | 2 | 4,478 | 3 | 5,328 |
| Annual bonus (1(a)) | 1 | 1,600 | 1 | - | 1 | - |
| Salaries expenses for key management personnel (*) (**) | 7 | 5,838 | 11 | 14,276 | 7 | 10,480 |
| Payments to relatives of interested parties employed by the company (2) | 1 | 151 | 1 | 148 | 1 | 151 |
| Share-based payment to an interested party (3) | | - | 1 | 215 | 1 | 298 |
| Director fees | 5 | 704 | 7 | 681 | 7 | 775 |
| Payments to affiliated companies for goods and services (4, 5) | 1 | 1,410 | 2 | 2,321 | 2 | 3,195 |
| Payments to an affiliated company for the provision of services (6) | 1 | 2,098 | 1 | 2,086 | 1 | 1,238 |
| Revenues from an affiliated company for the provision of services (7) | | 36 | | 72 | | 36 |
| Lease payments (8, 9, 10) | 3 | 7,864 | 3 | 7,467 | 3 | 3,009 |
| Revenues from the sale of goods and fees from related franchisees (11) | 3 | 11,716 | 3 | 11,996 | 3 | 16,211 |
| (*) Including cost of share-based payments | | 77 | | 6,431 | | 7,117 |

(**) In 2023 there was a decline in the number of key management personnel due to a restructuring of the Company's management.

## 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 wholly owned by Ori Max, one of the Company's controlling shareholders, who also serves as the Company's CEO and one of the directors dated July 20, 2017, whereby it will provide managerial and supervisory services in all areas of the Company's business (the "**management agreement**"). The Company may terminate the management agreement through the provision of six months prior notice. The monthly management fee set in the management agreement is ILS 200 thousand plus VAT as well as ILS 6.5 thousands plus VAT for expenses. The management agreement also establishes that the shareholder who serves as CEO of the Company was entitled to an annual bonus based on the increase in adjusted EBITDA in the calendar year compared to the previous year.

On September 19, 2023, the Company's general meeting approved amending the said management agreement with a wholly owned company belonging to Mr. Ori Max. According to the approval of the Company's general meeting, the monthly management fees shall remain unchanged at ILS 200 thousands, but shall be linked to the consumer price index as of October 1, 2023, in addition to ILS 6.5 thousands for expenses, plus VAT. Additionally, the calculation of the annual bonus shall change and shall be based on meeting annual net profit targets (rather than on growth in adjusted EBITDA).

(b) The company has a services agreement with another controlling shareholder company dated July 20, 2017, to receive consulting and management services from the shareholder of that company, Mr. Evan Neumann, 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, Mr. Evan Charles Neumann, the shareholder of the controlling shareholder company was appointed as co-CEO together with the shareholder mentioned above in section A. The shareholder also served as one of the Company's directors. 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 and in any other capacity on February 27, 2022.

In light of the engagement of the controlling shareholder companies described in sections (a) and (c) to this Note, the controlling shareholder company owned by Mr. Evan Charles Neumann is no longer an interested party in the Company.

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

(1) Management fees (Cont.)

(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.

On February 8, 2023, that controlling shareholder company 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, the controlling shareholder shall be entitled to quarterly management fees totaling ILS 250 thousands per calendar quarter *in lieu* of ILS 500 thousands. The other terms of the management agreement remain unchanged.
The controlling shareholder clarified to the Company that its unilateral waiver of management fees was, among other things, made in light of the scope of management services provided by it as of the date of the report.

(2) A subsidiary employs the sister of Mr. Ori Max, one of the Company's controlling shareholders who serves as CEO as well as one of the directors of the Company. The employment is consistent with the terms and conditions customarily applied by the Company. On August 14, 2023, in accordance with the provisions of Section 1B(a)(4) of the Companies Regulations (Reliefs for Interested Party Transactions), 2000, the Company's remuneration committee and board of directors approved the continued engagement of the subsidiary with Mr. Ori Max's sister. The employment of the sister by the subsidiary is in accordance with the Company's customary terms and conditions and in immaterial amounts, and without any change to her previous terms and conditions which do not exceed the average salary in the market, and which are reasonable in light of the scope of her employment, the nature of the role and her skill-set.

(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.

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

(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 36 thousands.

(8) 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.

(9) 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.

(10) One of the Group's subsidiaries entered into a lease agreement with a company belonging to one of the Company's controlling shareholders and an additional third-party who own a property on which one of the Chain's branches operates, all at arm-length terms. The lease period commenced in October 2020.

(11) Family members of one of the Company's controlling shareholders are shareholders of 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.

(12) Companies controlled by one of the Company's controlling shareholders lease properties to two of the Company's franchises. These properties serve as the Chain's franchised stores.

(13) 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 "**base 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.

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

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 base 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 base policy, including US securities litigation, including actions initiated under Rule A144 of the US Securities Act Law, which are excluded under the base policy.

The base policy and the extended insurance policy shall hereinafter jointly be referred to as the "**insurance policies**".

The Company's extended engagement in the aforementioned insurance policies is extended annually by the remuneration committee for 12-month periods, whereby, as of the date of the report, the insurance policies have been extended until September 12, 2024 according to the approval of the Company's remuneration committee of September 11, 2023.

## NOTE 29: EVENTS AFTER THE REPORTING DATE

Dividend declared

Subsequent to the date of the statement of financial position, on March 25, 2024, 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 16, 2024.

# Max Stock Ltd.

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

## As of December 31, 2023

# Financial Data from the Consolidated Statements Attributed to the Company

# As of December 31, 2023

## Table of Contents

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, 2023, and 2022, and for each of the three years the last of which ended December 31, 2023. 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,

Haifa,
March 25, 2024

Kost Forer Gabbay & Kasierer
Auditors

## 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, 2023 (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 2023 | 2022 |
|---|---|---|---|
| | | ILS 000's | |
| Current assets | | | |
| Cash and cash equivalents | B | 70,563 | 32,259 |
| Trade receivables (customers) | | 59,397 | 46,959 |
| Accounts receivable and credit balances | | 10,731 | 15,432 |
| Inventory | | 76,933 | 89,497 |
| **Total current assets** | | 217,624 | 184,147 |
| **Non-current assets** | | | |
| Deferred taxes | | 2,330 | 1,918 |
| Long-term loans | | 1,906 | - |
| Assets less liabilities attributed to investee companies, net | | 72,842 | 70,661 |
| Fixed assets (property, plant and equipment), net | | 9,818 | 10,823 |
| Right-of-use assets | | 35,252 | 92,586 |
| Total non-current assets | | 122,148 | 175,988 |
| | | 339,772 | 360,135 |
| Current liabilities | | | |
| Credit from banking corporations | | - | 5,500 |
| Lease liabilities | | 6,272 | 5,409 |
| Trade payables (liabilities to vendors, suppliers and service providers) | | 55,906 | 39,697 |
| Financial derivatives | | 716 | 82 |
| Accounts payable and debit balances | C | 18,244 | 10,801 |
| Total current liabilities | | 81,138 | 61,489 |
| Non-current liabilities | | | |
| Long-term loans from banking corporations | | - | 1,917 |
| Lease liabilities | | 36,733 | 94,497 |
| Liability for employee benefits | | 199 | 165 |
| Total non-current liabilities | | 36,932 | 96,579 |
| Shareholders' Equity | | 221,702 | 202,067 |
| | | 339,772 | 360,135 |

The accompanying additional information constitutes an integral part of the standalone financial data and information.

| March 25, 2024 | | | |
|---|---|---|---|
| Financial statements approval date | Zehavit Cohen<br>Chairperson of the Board of Directors | Ori Max<br>Director and CEO | Nir Dagan<br>Deputy CEO and CFO |

| | Additional information | For the year ended December 31 2023 | 2022 | 2021 |
|---|---|---|---|---|
| | | ILS 000's | | |
| Revenues from sales | | 494,323 | 469,504 | 487,925 |
| Cost of goods sold | | 394,826 | 400,813 | 410,704 |
| Gross profit | | 99,497 | 68,691 | 77,221 |
| Sales and marketing expenses | | 15,190 | 17,239 | 16,425 |
| General and administrative expenses | | 41,281 | 43,492 | 38,958 |
| Other income | | (29) | - | - |
| Other expenses | | 26 | 90 | - |
| Operating profit | | 43,029 | 7,870 | 21,838 |
| Financing revenues | | (3,017) | (2,765) | (522) |
| Financing expenses | | 4,377 | 6,276 | 4,333 |
| Profit before taxes on income | | 41,669 | 4,359 | 18,027 |
| Taxes on income | D | 8,781 | 3,403 | 6,636 |
| Profit before Company's share in profits of consolidated companies | | 32,888 | 956 | 11,391 |
| Company's share in profits of consolidated companies | | 48,120 | 63,207 | 56,806 |
| **Net profit** | | 81,008 | 64,163 | 68,197 |
| Total other comprehensive profit (loss): | | | | |
| Amounts not to be reclassified to profit or loss: | | | | |
| Adjustments from translating financial reports for external operations | | (23) | 5 | - |
| Remeasurement of defined benefit plan | | (82) | 201 | (300) |
| Total comprehensive profit | | 80,903 | 64,369 | 67,897 |

The accompanying additional information constitutes an integral part of the standalone financial data and information.

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| **Cash-flows from the Company's operating activities** | | | |
| Net profit attributed to the Company | 81,008 | 64,163 | 68,197 |
| **Adjustments required to present cash-flows deriving from the Company's operating activities:** | | | |
| **Adjustments to the Company's profit or loss items:** | | | |
| Depreciation and amortization | 9,267 | 8,763 | 8,770 |
| Financing expenses, net | 726 | 4,031 | 5,947 |
| Profit from derecognizing lease liabilities | (29) | - | - |
| Cost of share-based payments | (438) | 11,339 | 15,502 |
| Increase (decrease) in fair value of financial assets | 634 | (520) | (2,136) |
| Change in liabilities for employee benefits, net | 24 | 5 | 55 |
| Capital loss | 26 | 90 | - |
| Profits of consolidated companies | (48,120) | (63,207) | (56,806) |
| Taxes on income | 8,781 | 3,403 | 6,636 |
| | (29,129) | (36,096) | (22,032) |
| **Changes in the Company's asset and liability items:** | | | |
| Decrease (increase) in customers | (12,438) | 7,748 | (3,040) |
| Decrease (increase) in receivables and credit balances | 4,701 | (7,920) | 9,512 |
| Decrease (increase) in inventory | 12,564 | 59,408 | (71,455) |
| Increase (decrease) in suppliers and service providers | 16,209 | (3,214) | (12,043) |
| Revenues (payments) from exercising financial derivatives | 2,041 | 2,069 | (2,702) (*) |
| Increase (decrease) in creditors and debit balances | 3,144 | 8,677 | (3,022) |
| | 26,221 | 66,768 | (82,750) |
| **Cash paid and received by the Company during the year for:** | | | |
| Dividends received from investee companies | 69,148 | 55,388 | 73,842 |
| Interest paid | (2,702) | (6,188) | (3,248) |
| Taxes paid, net | (6,192) | (11,845) | (8,602) |
| Total adjustments required to present cash-flows deriving from operating activities | 57,346 | 68,027 | (42,790) |
| **Net cash deriving from the Company's operating activities** | 138,354 | 132,190 | 25,407 |

(*) Reclassified.

The accompanying additional information constitutes an integral part of the standalone financial data and information.

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| **Cash-flows from investment activities** | | | |
| Acquisition of fixed assets (property, plant and equipment) | (2,574) | (2,366) | (2,398) |
| Withdrawal of a short term deposit | - | - | 24,500 |
| Proceeds from sale of fixed assets | 166 | 25 | - |
| Long-term loans | (1,906) | - | - |
| Investments in consolidated companies | - | (2,613) | (3,389) |
| Repayment (grant) of loans to investee companies, net | (22,901) | (4,200) | 444 |
| **Net cash deriving from the Company's investment activities (utilized for investment activities)** | (27,215) | (9,154) | 19,157 |
| **Cash-flows from financing activities** | | | |
| Obtaining long-term loans from banking corporations | - | - | 4,000 |
| Obtaining short-term loans from banking corporations | - | - | 27,429 |
| Repayment of short-term loans from banking corporations | - | (27,458) | - |
| Repayment of long-term loans from banking corporations | (7,417) | (7,971) | (7,667) |
| Payments of lease liabilities | (5,418) | (4,977) | (5,357) |
| Buyback of Company shares | - | (19,900) | - |
| Dividends paid | (60,000) | (40,000) | (70,000) |
| **Total net cash used for the Company's financing activities** | (72,835) | (100,306) | (51,595) |
| Increase (decrease) in Company's cash and cash equivalents | 38,304 | 22,730 | (7,031) |
| Balance of Company's cash and cash equivalents as of the beginning of the year | 32,259 | 9,529 | 16,560 |
| **Balance of Company's cash and cash equivalents as of the end of the year** | 70,563 | 32,259 | 9,529 |

(a) Material non-cash activities

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Recognition of a right-of-use asset against a lease liability | 3,792 | 5,008 | 3,555 |
| Derecognizing a right-of-use asset against a lease liability | (55,246) | - | - |
| Acquisition of non-controlling interests with credit | 1,300 | - | - |

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 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Israeli currency (Shekels) | 56,042 | 30,481 |
| Foreign currencies | 14,521 | 1,778 |
| | **70,563** | **32,259** |

## 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 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Employees and institutions for payroll | 7,632 | 5,420 |
| Expenses payable | 3,988 | 3,517 |
| Institutions | 2,851 | 710 |
| Other payables | 1,300 | - |
| Affiliated/related parties | 2,473 | 1,150 |
| | **18,244** | **10,797** |

## 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 (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. The amendment to the law includes, *inter alia*, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (for depreciable assets purchased after the 2007 tax year) starting from 2008.

**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.)**

2. Tax rates applicable to the Company

The corporate tax rate in Israel for 2023, 2022 and 2021 was 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 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| **Current taxes** | 9,201 | 3,480 | 5,727 |
| **Deferred taxes** | (412) | (264) | 511 |
| **Taxes for previous years** | (8) | 187 | 398 |
| | **8,781** | **3,403** | **6,636** |

**E. Material loans, balances and engagements with investee companies**

1. Balances with investee companies

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | ILS 000's | |
| Included in customers | 48,682 | 37,932 |
| Investment in investee companies | 72,842 | 70,661 |
| | **121,524** | **108,593** |

2. Transactions with investee companies

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | | ILS 000's | |
| Sales to subsidiaries | 375,711 | 361,006 | 370,543 |
| Revenues from turnover commissions | 29,883 | 26,804 | 22,897 |
| Revenue from participation in administrative expenses | 965 | 915 | 783 |
| | **406,559** | **388,725** | **394,223** |

**E. Material loans, balances and engagements with investee companies**

3. Loans

3.1 On January 1, 2022, the Company granted a loan totaling ILS 4,200 thousands to an Israeli consolidated company. No maturity date was set for the loan. The loan bears annual interest in accordance with the interest rate under Section 3J of the Income Tax Ordinance. The loan balance as of December 31, 2023 was ILS 4,200 thousands.

3.2 In 2023 the Company gave loans totaling approximately ILS 9,560 thousands to Israeli consolidated companies, the loans do not have established maturity dates. The loans bear annual interest in accordance with the interest rate under Section 3J of the Income Tax Ordinance. The balance of loans as of December 31, 2023 was ILS 9,560 thousands.

3.3 In 2023 the Company gave loans to a consolidated company in Portugal totaling approximately ILS 13,341 thousands. The loans will be repaid within approximately 4 years from when they were given. The loans bear annual in accordance with the relevant market interest for these types of loans. The balance of loans as of December 31, 2023 was approximately ILS 13,341 thousands.

**F. Material events after the reported 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 Statements of Comprehensive Profit

Presented below is a summary of the Company's statements of profit and loss for each quarter in 2023 (ILS 000's):

| Line-item | 10-12/2023 | 7-9/2023 | 4-6/2023 | 1-3/2023 | 10-12/2022 |
|---|---|---|---|---|---|
| Revenues | 272,267 | 314,500 | 252,767 | 279,622 | 251,694 |
| Cost of goods sold | 155,717 | 182,655 | 148,729 | 163,816 | 148,104 |
| **Gross profit**<br>**%** | **116,550**<br>**42.8%** | **131,845**<br>**41.9%** | **104,038**<br>**41.2%** | **115,806**<br>**41.4%** | **103,590**<br>**41.2%** |
| Sales and marketing expenses | 65,353 | 74,297 | 62,727 | 65,271 | 60,910 |
| General and administrative expenses | 14,802 | 13,360 | 10,594 | 13,445 | 10,279 |
| Other income | (210) | - | (148) | - | (1,302) |
| Other expenses | 30 | - | 338 | - | 22 |
| **Operating profit** | **36,575** | **44,188** | **30,527** | **37,090** | **33,681** |
| Financing revenues | (692) | (636) | (781) | (1,352) | (244) |
| Financing expenses | 7,325 | 8,719 | 6,788 | 6,739 | 5,211 |
| **Pre-tax profit** | **29,942** | **36,105** | **24,520** | **31,703** | **28,714** |
| Taxes on income | 7,423 | 9,025 | 6,196 | 7,598 | 6,488 |
| **Net profit** | **22,519** | **27,080** | **18,324** | **24,105** | **22,226** |
| Remeasuring defined benefit plan | (92) | - | - | - | 240 |
| Translating financial statements from operating currency to presentation currency | 74 | (15) | (62) | (28) | 7 |
| **Total comprehensive profit** | **22,501** | **27,065** | **18,262** | **24,077** | **22,473** |

For more information, see Section 5.1 of the Board Report.

## Regulation 11: List of Investments in Subsidiaries and Investees

As of the publication date of the report, the Company has 39 active subsidiaries[1] which are private companies incorporated in Israel, the majority of which are held by the Company at rates ranging between 75% to 100%.[2] These subsidiaries, which also include a granddaughter

[1] Including the subsidiaries established in 2023 to operate the stores in Tel Hanan (Nesher) and in Gadera, which as of the date of the report and its publication date have not yet opened, as well as stores in Yavne and Kiriat Yam which opened after the date of the report, in the beginning of February 2024 and March 2024, respectively. The store in Tel Hanan is expected to open in April 2024 and the store in Gadera is expected to open in H2 2024.

[2] Other than one branch in which the manager holds 45% of the subsidiary's outstanding share capital (which closed in March 2024), 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.

company (second-tier subsidiary), operate a total of 37 stores under the “Max - Fun Shopping” brand which is part of the Max Store Chain.

Presented below is a list of the Company’s investments, as of the date of the statement of 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 authorized share capital | No. of shares in 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 of | | | Balance of bonds and loans issued (received) in the statement of financial position as of December 31, 2023 (ILS) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | equity | voting rights | authority to appoint directors | |
| Big Max Ltd. | Unlisted | Ordinary | 10,000 | 100 | ILS 75 | ILS 4,495 | 75% | 75% | 100% | - |
| Max Rishon Ltd. | Unlisted | Ordinary | 50,000 | 1,000 | ILS 901 | ILS 7,674 | 90.1% | 90.1% | 100% | - |
| Max Kfar Saba Ltd. | Unlisted | Ordinary | 10,000 | 100 | ILS 85 | ILS 7,291 | 85% | 85% | 100% | - |
| Max Amot Beer Sheva Ltd. | Unlisted | Ordinary | 10,000 | 100 | ILS 75 | ILS 4,741 | 75% | 75% | 100% | - |

## 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 2023, the Company acquired minority interests from minority shareholders in three of its subsidiaries at a rate ranging between 10%-20% of the share capital and after the date of the reports the Company acquired minority holdings in another subsidiary. Following these acquisitions, the Company's holding rate in the subsidiaries increased to 100%. For more information, see Section 3.7 of the Board Report and Note 18D. to the financial statements attached to this report.

## 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 received by the date of the statement of financial position, for 2023 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 2023 | For the period following the balance sheet date | For 2023 | For the period following the balance sheet date | For 2023 | For the period following the balance sheet date |
| Big Max Ltd. | 5,993 | - | 2,054 | 355 | - | - | 6,285 | - |
| Max Rishon Ltd. | 2,400 | - | 1,861 | 332 | - | - | - | - |
| Max Kfar Saba Ltd. | 4,012 | - | 2,056 | 350 | - | - | 850 | - |
| Max Amot Beer Sheva Ltd. | 6,321 | - | 1,622 | 299 | - | - | 4,627 | - |

**Regulation 20: TASE Trading**

Throughout 2023, and as of the approval date of the financial statements, 394,002 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.

Similarly, it should be noted that the Company published a shelf prospectus on November 23, 2023 (Reference No: 2023-01-127674).

## Regulation 21: Payments to Interested Parties and Senior Officers

Senior Officers

Presented below is an overview 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 to the Company or corporations under its control, as recognized in the Company's financial statements (in terms of cost to the Company) (ILS 000's):

| Payee details | | | | Remuneration for services (*) | | | | | | | Other compensation | | | 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% | 17.93% | - | 1,600 | - | 2,478 | - | - | - | - | - | - | 4,078 |
| Nir Dagan(2) | Deputy CEO and CFO | 100% | - | 877.311 | 300 | - | - | - | - | - | - | - | - | 1,177.311 |
| Shlomo Cohen(3) | Deputy CEO | 100% | - | 876.463 | 285 | - | - | - | - | - | - | - | - | 1,161.463 |
| Ifat Nir-Katz(4) | VP, Chief Legal Officer & Corporate Secretary | 100% | - | 669.467 | 180 | 77 | - | - | - | - | - | - | - | 926.467 |
| Ofir Edri(5) | Chief Chain Stores Officer | 100% | - | 691.068 | 180 | - | - | - | - | - | - | - | - | 871.068 |

(*) The above officers are not awarded any additional compensation apart from that described in the table.

[3] Mr. Max provides CEO services to the Company through Ori Max Ltd. - a company wholly owned by him.

(**) The salary component alone 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 reflects the expense recorded by the Company in 2023 according to IFRS 2 for the options.

Presented below are additional details about the terms of service and employment of the senior officers included in the above table:

(1) Ori Max - Mr. Max has been serving as CEO of the Company since inception pursuant to service agreements signed from time to time. As of the date of the report and as of its publication date, Mr. Max (through "Ori Max Ltd." (co. no. 51-507096-9), a company wholly owned by him) has a services agreement dated July 20, 2017 (amended with the approval of the general meeting on September 19, 2023[4] and which became effective from October 1, 2023) (in this regard - the "**Services Agreement**"). Pursuant to the Services Agreement, Mr. Max is entitled to compensation for his service as CEO of the Company, as follows: (a) Management fees totaling ILS 200 thousands, linked to the CPI as of October 1, 2023 (while for the period from January 1, 2023 through October 1, 2023, these management fees were not linked to the CPI); (b) Vehicle maintenance expense reimbursement totaling ILS 6,500 per month; (c) Reimbursement of reasonable business expenses incurred in the performance of his role (subject to presenting appropriate documentation); and (d) An annual bonus calculated based on annual net profit targets for the Company,[5] based on the following formula:[6] (1) In the event that based on its consolidated financial statements in a given year the Company presents a net annual profit ranging between ILS 70-80 million, Mr. Max shall receive an annual bonus totaling 4 months of the amended management fees; (2) In the event that based on its consolidated financial statements in a given year the Company presents a net annual profit ranging between ILS 80-100 million, Mr. Max shall receive an annual bonus totaling 8 months of the amended management fees; or (3) In the event that based on its consolidated financial statements in a given year the Company presents a net annual profit exceeding ILS 100 million, Mr. Max shall receive an annual bonus totaling 12 months of the amended

[4] For more information about the general meeting resolution see Section 3.3 to Regulation 29 below.

[5] It should be noted that the financial performance of operations or companies which may be acquired in the future will not be included as part of the calculation for the annual bonus and the mechanism to calculate it for Mr. Max.

[6] It should be noted that until the aforementioned amendment of the Services Agreement, which became effective on October 1, 2023, the formula for calculating Mr. Max's annual bonus was based on the adjusted EBITDA KPI, as follows: (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 the 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.

management fees. 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 aforementioned monthly management fees. Under the Services Agreement and in accordance with the shareholders' agreement dated July 20, 2017 (as amended in March 2019 and 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 Mr. Max together with his permitted transferees (as these terms are defined in the Shareholders Agreement) no longer has the right to appoint a single director on 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.

On March 19 and March 25, 2024, the Company's remuneration committee and board of directors, respectively, in accordance with the Services Agreement between the Company and Mr. Max, and the bonus tiers established therein, approved the grant of an annual bonus to Mr. Max for the 2023 annual period totaling 8 months of the amended management fees, reflecting an amount totaling ILS 1,600,000, as detailed in the above table.

(2) Nir Dagan - Mr. Nir Dagan served as CFO of the Company starting on August 1, 2016 and on December 28, 2022 he was appointed as Deputy CEO and CFO of the Company (in a full-time position). On August 14, 2023, the Company's remuneration committee and board of directors approved amending Mr. Dagan's terms of employment, whereby, commencing as of October 1, 2023, his gross monthly salary was amended to ILS 60,000 (instead of a gross monthly salary of ILS 51,000 paid until October 1, 2023); (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 tax being grossed in full as of October 1, 2023); (4) Prior notice in accordance with applicable 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 unlisted 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 100,000 unlisted options into 77,827 ordinary shares of the Company with no par value. As of the publication date of the report, Mr. Dagan has 135,813 outstanding options.

On March 19 and March 25, 2024, the Company's remuneration committee and board of directors, respectively, in accordance with the Company's remuneration policy and based on targets set by the Company's board of directors, approved the grant of an annual bonus to Mr. Dagan for 2023 totaling 5 of Mr. Dagan's monthly salaries, reflecting a total payment of ILS 300,000, as detailed in the above table.

(3) 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. (1) On August 14, 2023, the Company's remuneration committee and board of directors approved amending Mr. Cohen's terms of employment, whereby, commencing as of October 1, 2023, his gross monthly salary was amended to ILS 57,000 (instead of a gross monthly salary of ILS 52,000 paid until October 1, 2023); (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 tax being grossed in full as of October 1, 2023); (4) Prior notice in accordance with applicable 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 unlisted 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 97,960 unlisted options into 76,917 ordinary shares of the Company with no par value. As of the publication date of the report, Mr. Cohen has 137,853 outstanding options.

On March 19 and March 25, 2024, the Company's remuneration committee and board of directors, respectively, in accordance with the Company's remuneration policy and based on targets set by the Company's board of directors, approved the grant of an annual bonus to Mr. Cohen for 2023 totaling 5 of Mr. Dagan's monthly salaries, totaling ILS 285,000, as detailed in the above table.

(4) Ifat Nir-Katz - Ms. Ifat Nir-Katz serves as the Company's Chief Legal Officer and Corporate Secretary since March 1, 2019. On December 28, 2022, Ms. Nir-Katz was appointed as VP, Chief Legal Officer and Corporate Secretary (in a full-time position). (1) On August 14, 2023, the Company's remuneration committee and board of directors approved amending Ms. Nir-Katz's terms of employment, whereby, commencing as of October 1, 2023, her gross monthly salary was amended to ILS 45,000 per month (instead of a gross monthly salary of ILS 40,000 paid until October 1, 2023); (2) Fringe benefits including vacation days, sick days, convalescence pay, pension contributions, work disability insurance, and further education fund, all in accordance with applicable law; (3) A personal vehicle (with the tax being grossed in full as of October 1, 2023); (4) Increased prior notice of 60 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 her employment. Similarly, Ms. Nir-Katz 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 29 below).

On November 29, 2020, Ms. Nir-Katz was approved an allotment of 141,517 unlisted options which can be exercised into 141,517 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, Ms. Nir-Katz has exercised 108,496 unlisted options into 48,820 ordinary shares of the Company with no par value. As of the publication date of the report, Ms. Nir-Katz has 33,021 outstanding options.

On March 19 and March 25, 2024, the Company's remuneration committee and board of directors, respectively, in accordance with the Company's remuneration policy and based on targets set by the Company's board of directors, approved the grant of an annual bonus to Ms. Nir-Katz for 2023 totaling 4 of Ms. Nir-Katz's monthly salaries, reflecting an amount totaling ILS 180,000.

(5) Ofir Edri - Mr. Ofir Edri serves as the Company's Chief Chain Stores Officer commencing as of October 1, 2017. On December 28, 2022, Mr. Edri was appointed to serve as VP Chain Stores of the Company (in a full-time position). (1) On August 14, 2023, the Company's remuneration committee and board of directors approved amending Mr. Edri's terms of employment, whereby, commencing as of October 1, 2023, his gross monthly salary was amended to ILS 45,000 per month (instead of a gross monthly salary of ILS 37,000 paid until October 1, 2023); (2) Fringe benefits including vacation days, sick days, convalescence pay, pension contributions, work disability insurance, and further education fund, all in accordance with applicable law; (3) A personal vehicle (with the tax being grossed in full); (4) Prior notice in accordance with applicable 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. Edri 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. Edri was approved an allotment of 94,327 unlisted options which can be exercised into 94,327 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. Edri has not exercised any options, and the balance of Mr. Edri's outstanding options remains unchanged - 94,327 unlisted options.

On March 19 and March 25, 2024, the Company's remuneration committee and board of directors, respectively, and in accordance with the Company's remuneration policy and based on targets set by the Company's board of directors, approved the grant of an annual bonus to Mr. Edri for 2023 totaling 4 of Mr. Edri's monthly salaries, reflecting a total payment of ILS 180,000.

Interested Parties

Presented below is an overview 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 financial statements of the Company, 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 | |
| Moose Holdco Ltd. (1) | Management and consulting services | - | 28.24% | - | - | - | 1,000 | - | - | - | - | - | - | 1,000 |

Presented below are additional details about payments made to the interested parties included in the above table:

(1) 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 of 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 pro-rated share for each calendar quarter during which the Management Agreement is 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 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 are not 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 tier classification 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 the 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 said 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.

(2) Director fees

All of the Company's directors, save for Messr. Ori Max, one of the Company's controlling shareholders who serves as the Company's CEO, and save for Messrs. Zehavit Cohen and Erez Nahum, 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 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). In 2023, the Company's directors were paid a total amount of approximately ILS 704 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 include Moose Holdco Ltd. and Mr. Ori Max under a shareholders agreement executed by these parties 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 reported 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 shareholders.

   1.2. Management services by Ori Max - for details about the services 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. It should be noted that the services agreement was approved on July 27, 2017, by the Company's competent organs and was amended with the approval of the Company's general meeting (following the approval of the Company's remuneration committee and board of directors) on September 19, 2023. The aforementioned amendment to the management agreement became effective as of October 1, 2023, for a three year period. For more information about the aforementioned general meeting approval, see Section 3.3 of Regulation 29 below.

   1.3. 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. On August 14, 2023, the Company's board of directors and remuneration committee approved Ms. Efrat Max's continued employment in the same role and under the same terms and conditions. For more information see the immediate report published by the Company on August 15, 2023 (Reference No: 2023-01-093906), and Note 28C(2) 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<br>**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<br><br>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<br>**Lessee** - one of the Company's subsidiaries | The first lease period concluded in August 2022, and was extended until August 2026. The lessee has 2 additional options to extend the agreement by 4 years each. | Monthly rental payments at market terms. | | September 14, 2020 |
| **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<br>**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.<br>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**<br>**The franchisee** - a company owned by the | The engagement automatically renews on March 1 of each year, unless one of the parties terminates the | Payment of royalties to the Company, in an immaterial amount, as customary in the | The Company's undertaking to not open additional stores in | September 14, 2020 |

| Substance of the agreement | Parties to the agreement | Period of the agreement | Consideration | Additional details | Board approval date of the agreement |
|---|---|---|---|---|---|
| | parents and brother of Ori Max's wife[7] | agreement through the provision of 90 days' prior notice prior to the completion date of the agreement's extension. | Company's franchise agreements. | 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 1.16.1.7 of Chapter A to this report. | |
| **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 1.16.1.7 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, leased the property to operate the franchise from a company owned by Ori Max | 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 | 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 1.16.1.7 of Chapter A to this report. | June 30, 2019 |

[7] 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 |
|---|---|---|---|---|---|
| | | completion date of the first engagement period or the relevant extension period. | | | |
| **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. A detailed agreement, which specifies the terms and conditions of the parties' engagement as applicable from the commencement of the provision of the services was signed on December 28, 2023. The agreement is effective for as long as there are orders in effect and automatically renewing licenses. Each one of the parties may terminate the engagement for the licensing of the ERP and cashier software through the provision of 180 days' prior written warning. | 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 5.2 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 and the signed contract entrenched these agreements. The audit committee gave its approval on December 28, 2023, after it established in accordance with the transaction with interested parties policy that said engagement is not exceptional and is not negligible. |

| 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 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. | For more information about the franchise agreements executed by the Company, see Section 1.16.1.7 of Chapter A to this report. | December 28, 2022. The contract was executed subsequent to 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 policies, 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**".

In 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[8], 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[9]), will be deemed a negligible transaction if it satisfies a two-stage test: (1) <u>Qualitative test</u>: 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;

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[8] 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.

[9] 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.

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.

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 holdings of interested parties and senior officers of the Company, see the Company's immediate report dated January 7, 2024 (Reference No: 2024-01-002584), 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 March 4, 2024 (Reference No: 2024-01-019153), 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 about the Company's directors as of the publication date of the report:

| **Name of Director:** | **Ori Max** | **Zehavit Cohen (Chair)** | **Erez Nahum** | **Limor Brik-Shay** | **Peretz Guza** | **Eitan Michael Stoller** | **Suzan Mazzawi** | **Guy Gissin** |
|---|---|---|---|---|---|---|---|---|
| **ID no.** | 033747825 | 058344797 | 043245190 | 039838852 | 051313450 | 017156639 | 029936606 | 057324683 |
| **Date of birth** | 27.02.1977 | 16.11.1963 | 29.07.1981 | 04.04.1983 | 25.05.1952 | 30.07.1974 | 6.2.1976 | 15.10.1961 |
| **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 | 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** | 16.12.2004 | 20.7.2017 | 13.6.2023 | 20.7.2017 | 23.11.2020 | 23.11.2020 | 23.11.2020 | 13.3.2023 |
| **Their education specifying the subject areas or fields they studied, the institution they** | 12 years education | BA in accounting, Duke University USA, MBA | BA in law and economics, Haifa University; Licensed attorney; MBA Columbia | BA in law from Netanya Academic College; Licensed | BA in economics and extended business administration, Bar Ilan | BA in the life sciences and society, Open University, Lifshitz College | BA in communications , Academic College Of Emek Yezreel. | LL.B., Tel Aviv University. |

| Name of Director: | Ori Max | Zehavit Cohen (Chair) | Erez Nahum | Limor Brik-Shay | Peretz Guza | Eitan Michael Stoller | Suzan Mazzawi | Guy Gissin |
|---|---|---|---|---|---|---|---|---|
| **studied in and the academic diploma or professional certificate they hold** | | in finance, University of Pittsburgh, USA; MA in accounting, University of Pennsylvania, USA. | University (USA). | attorney; MA in business administration and marketing, Netanya Academic College. | University. | for Education; MA/Directors' course - life sciences, Haifa University/Beit Berl College; LL.B (law), Shaarei Mishpat Academic Center for Law and Science. | 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.<br><br>See below details regarding her service as a director. | 2018-present: Investment manager, Apax Partners Israel Ltd. | 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 Multidisciplinary Center for Mediation Ltd; Chairman Insolvency Division at the Smadar |

| Name of Director: | Ori Max | Zehavit Cohen (Chair) | Erez Nahum | Limor Brik-Shay | Peretz Guza | Eitan Michael Stoller | Suzan Mazzawi | Guy Gissin |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Ottolengh Israeli Institute of Commercial Arbitration. |
| **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., Infinity Labs R&D Ltd., U.J. Knowledge Farm Veterinary and Orthopedics Ltd., S.R Accord Ltd., AMI Consulting Ltd., Gazit Globe Ltd., Vetneuro Ltd., Zebra - Emergency Veterinary Services Ltd., Pet-DI Ltd., Ramet Trom Ltd., Ten - | Director of the Company and of the following companies: Alligator Midco Ltd; Alligator Holdco Ltd; Everest AP.PS Ltd; Alligator Topco Ltd; My Pet Ltd; Lautsa Ltd; Himalaya AP.PS Ltd; Ramet-Trom Ltd; Native Systems Ltd | 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. | Gissin & Co., Attorneys; G.Gissin, Attorneys; Harpoon Capital Consulting Ltd; Guy Gissin & Co. Trust Company Ltd; Multidisciplinary Center for Mediation Ltd; Max - Gissin Ltd; Eliad Maximum Investments Ltd. |

| Name of Director: | Ori Max | Zehavit Cohen (Chair) | Erez Nahum | Limor Brik-Shay | Peretz Guza | Eitan Michael Stoller | Suzan Mazzawi | Guy Gissin |
|---|---|---|---|---|---|---|---|---|
| | | 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 funds advised by Apax | | | | | | |
| **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 (AMI Foundation and Moose Holdco Ltd.) | Investment manager at Apax Partners Israel Ltd., which, among other things, advises AMI Opportunities and Moose Holdco, one of the Company's controlling shareholders. | No | No | No | No | No |
| **Are they a relative of another** | No | No | No | No | No | No | No | No |

| Name of Director: | Ori Max | Zehavit Cohen (Chair) | Erez Nahum | Limor Brik-Shay | Peretz Guza | Eitan Michael Stoller | Suzan Mazzawi | Guy Gissin |
|---|---|---|---|---|---|---|---|---|
| interested party of the corporation | | | | | | | | |
| 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[10] | No | Yes | Yes | No | Yes | No | No | Yes |

[10] 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, 1999 is 2 directors.

Directors who ended their service during the period of the report:

Mr. Shay Aba resigned from serving as one of the Company's directors on May 4, 2023. Mr. Aba ended his role on May 31, 2023. For more information see the immediate report published by the Company on May 7, 2023 (Reference No: 2023-01-048510).

## Regulation 26A: Company's Senior Officers

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** | **Ifat Nir-Katz** | **Paz Oz** | **Dana Gottesman-Erlich** | **Ofir Edri** | **Shahar Kanizo** | **Eliezer (Elik) Kaplan** |
|---|---|---|---|---|---|---|---|---|
| **ID no.** | 033750035 | 043376904 | 031684293 | 301279493 | 037575735 | 040490039 | 062886924 | 037613262 |
| **Date of birth** | 1.4.1977 | 11.9.1981 | 26.4.1978 | 3.12.1987 | 8.8.1975 | 11.10.1980 | 28.10.1982 | 15.11.1975 |
| **Position in the Company** | Deputy CEO | Deputy CEO and CFO | VP, Chief Legal Officer & Corporate Secretary | Finance Manager | Internal Auditor | Chief Chain Stores Officer | Director of Trade | VP Supply Chain and Logistics |
| **Date on which they started their service** | 1.8.2015 | 1.8.2016 | 1.3.2019 | 16.4.2018 | 1.10.2019 | 28.12.2022 | 1.6.2023 | 1.7.2023 |
| **The position they hold in a subsidiary of the Company, one of its affiliated companies or in one of its** | N/A | CFO of the subsidiaries | N/A | Finance Manager of the subsidiaries | N/A | N/A | N/A | N/A |

| Name of officer | Shlomo Cohen | Nir Dagan | Ifat Nir-Katz | Paz Oz | Dana Gottesman-Erlich | Ofir Edri | Shahar Kanizo | Eliezer (Elik) Kaplan |
|---|---|---|---|---|---|---|---|---|
| **interested parties** | | | | | | | | |
| **Are they a relative of a senior officer of the Company or of another interested party of the Company** | No | No | No | No | No | No | No | No |
| **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 | 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 | 12 years education | BA in business management, Rupin Academic Center |
| **Employment** | 2015-present: | July 2016- | March 2019- | April 2018- | Partner in BDO | October 2017- | June 2016-May | 2017-2018 - |

| Name of officer | Shlomo Cohen | Nir Dagan | Ifat Nir-Katz | Paz Oz | Dana Gottesman-Erlich | Ofir Edri | Shahar Kanizo | Eliezer (Elik) Kaplan |
|---|---|---|---|---|---|---|---|---|
| **in the last five years** | Deputy CEO of the Company | December 2022: CFO of the Company; July 2012-July 2016: Controller of Israir Aviation and Tourism Ltd. | present: VP, Chief Legal Officer & Corporate Secretary of the Company; 2015-2019: Partner in the companies and capital markets department of Zysman, Aharoni, Gayer & Co.; | December 2022: Controller of the Company; 2016-2018: Assistant controller of Israir Aviation and Tourism Ltd.; | Israel | December 2022: Company Chief Chain Stores Officer | 2023: Category Manager at Max Stock | CEO of Max Management Israel Ltd.; 2020-2022 - CEO of Borderline Israel |

* In April 2023, Mr. Oz Corsia, Senior VP Supply Chain of the Company, gave notice that he will conclude his role at the Company on June 30, 2023. Mr. Eliezer (Elik) Kaplan, who has taken over Mr. Corsia's position, started working at the Company on May 1, 2023, and has been appointed VP Logistics and Supply Chain as of July 1, 2023.

**Regulation 26B: Company's Authorized Signatories**

As of the date of the report, the Company does not have independent authorized signatories, as such term is defined under Section 37(d) of the Securities Law.

**Regulation 27: Auditor**

Company's auditors: E&Y Israel Kost Forer Gabbay & Kasierer.

Address: 2 Palyam Blvd, Haifa 3309502.

**Regulation 28: Changes in the Articles of Association or Incorporation Memorandum**

See Regulation 29(2) below.

**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 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 and supplementary immediate report published by the Company on March 20, 2023 (Reference No: 2023-01-024298 and 2023-01-024403), included herein by way of reference, Section 1.6.1 of Chapter A of this report, and Note 18C. to the financial statements.

(1.2) On March 25, 2024, the Company's board of directors approved the distribution of a dividend totaling ILS 60 million, which shall be paid on April 16, 2024. For more information, see the immediate report published by the Company on March 26, 2024 (Reference No: 2024-01-031500), included herein by way of reference, Section 1.6.2 of Chapter A of this report, and Note 29 to the financial statements.

(2) 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 14, 2023 (Reference No: 2023-01-014668), included herein by way of reference.

(3) <u>Extraordinary General Meeting Resolutions</u>

(3.1) On March 13, 2023, the Company's extraordinary general meeting convened, *inter alia*, with an agenda including 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 (who as of May 31, 2023, no longer serves as one of the Company's directors), Ms. Limor Brik-Shay and Ms. Suzan Mazzawi (independent director); as well as 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 2023-01-026688, respectively), included herein by way of reference.

(3.2) On June 13, 2023, the Company's extraordinary general meeting convened with an agenda to appoint Mr. Erez Nahum as one of the Company's directors. Mr. Nahum's appointment was approved at the general meeting. For more information see the immediate reports published by the Company on May 9, 2023 and June 13, 2023 (Reference No: 2023-01-042529 and 2023-01-055321, respectively).

(3.3) On September 19, 2023, the Company's extraordinary general meeting convened with an agenda including amending the management agreement between the Company and a company wholly owned by Mr. Ori Max, for the services provided by him to the Company for a three (3) year period commencing as of October 1, 2023, as follows:

(a) Monthly management fee linked to the CPI - Mr. Max shall be entitled to monthly compensation totaling ILS 200,000 which shall be linked to the CPI as of October 1, 2023 (the "**amended management fee**").

(b) Quantitative target (annual bonus) - In lieu of the EBITDA KPI previously set to determine Mr. Max's entitlement to an annual bonus prior to the amendment, it was established that the quantitative target on which Mr. Max's entitlement to an annual bonus will be determined will be amended to meeting annual net profit targets, as follows:

i. For an annual net profit of ILS 70-80 million - A bonus based on 4 * the amended management fees.

ii. For an annual net profit of ILS 80-100 million - A bonus based on 8 * the amended management fees.

iii. For an annual net profit exceeding ILS 100 million - A bonus based on 12 * the amended management fees.

For more information see that stated in Regulation 21(1) above, and the immediate reports published by the Company on August 15, 2023 and September 19, 2023 (Reference No: 2023-01-093900 and 2023-01-088150, respectively).

(3.4) On November 22, 2023, the Company's extraordinary general meeting convened with an agenda including a resolution to approve the following appointments as non-external directors on the Company's board of directors: Mr. Peretz Guza and Mr. Eitan Stoller. All of the resolutions were approved by the Company's general meeting. For additional details see the Company's immediate reports dated October 18 and November 22, 2023 (Reference No: 2023-01-117141 and 2023-01-126930, respectively), hereby included 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 to 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.

Release – 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 11, 2023, the Company's remuneration committee approved in accordance with Regulation 1B1 of the Relief Regulations and in accordance with the Company's remuneration policy the extension of the Company's engagement with Israeli 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, 2023, until September 13, 2024, 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.

2.2. On September 11, 2023, in accordance with Regulation 1B1 of the Relief Regulations, the Company's remuneration committee approved in accordance with the Company's remuneration policy extending the Company's engagement in the POSI Policy (as defined below) for an additional period of 12 months. The 'POSI Policy' is a '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.

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| **March 25, 2024** | |
| **Date** | **Max Stock Ltd.** |
| **Zehavit Cohen**<br>**Chairperson of the Board of Directors of the Company** | **Ori Max**<br>**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, 2023 are:**

1. Ori Max, CEO & Director;
2. Shlomo Cohen, Deputy CEO;
3. Nir Dagan, Deputy CEO & Head of Finance;
4. Ifat Nir-Katz, Chief Legal Officer & Corporate Secretary;
5. Elik Kaplan, Chief Logistics and Supply Chain Officer;
6. Ofir Edri, Chief Chain Stores Officer;
7. Shahar Kanizo, VP Trade;

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.

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, 2023, is effective.

Date: March 25, 2024

## 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 2023 (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.

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| Date: March 25, 2024 | 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 2023 (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.

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| Date: March 25, 2024 | Nir Dagan, Deputy CEO<br>& Head of Finance |