Tempo Beverages Ltd.

Consolidated Financial Statements

As of December 31, 2018

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Consolidated Statement of Financial Position as at

	Note	December 31 2018 NIS thousands	December 31 2017 NIS thousands
Current assets			
Cash and cash equivalents		**15,674**	12,732
Trade receivables	4	**322,507**	290,962
Other receivables	5	**42,713**	35,214
Derivative instruments		**1,344**	162
Inventory	6	**311,783**	287,301
Current tax assets		**11,095**	2,360
Total current assets		**705,116**	628,731
Long-term loans and receivables	7	**34,585**	41,108
Fixed assets	9	**647,692**	602,312
Intangible assets	10	**32,377**	37,523
Investment in equity accounted investee companies	8	**34,849**	6,338
Inventory in process		**4,624**	5,790
Deferred taxes	24	**9,868**	11,808
Total long-term assets		**763,995**	704,879
Total assets		**1,469,111**	1,333,610

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

Consolidated Statement of Financial Position as at

	Note	December 31 2018 NIS thousands	December 31 2017 NIS thousands
Liabilities			
Short-term credit from banks	11	**359,263**	288,191
Trade payables	12	**217,244**	225,983
Other payables	13	**103,542**	109,238
Derivative instruments		**-**	700
Current maturities of debentures	15	**23,634**	23,856
Current tax liabilities		**1,526**	14,676
Total current liabilities		**705,209**	662,644
Liabilities to banking institutions	14	**104,202**	41,579
Other long-term liabilities, including derivatives	14	**2,860**	2,737
Debentures	15	**67,435**	90,353
Deferred taxes	24	**27,715**	31,707
Employee benefits	16	**8,785**	4,545
Total non-current liabilities		**210,997**	170,921
Total liabilities		**916,206**	833,565
Equity			
Non-controlling interest		**617**	641
Share capital		**1**	1
Share premium		**147,334**	147,334
Translation reserve		**2,177**	914
Retained earnings		**402,776**	351,155
Total equity attributable to equity holders of the Company	17	**552,288**	499,404
Total equity		**552,905**	500,045
Total liabilities and equity		**1,469,111**	1,333,610

Jacques Beer **Chairman of the Board and CEO**	**Amir Borenstein** **Deputy Chairman of the Board**	**Eyal Tregerman** **CFO**

Date of approval of financial statements: March 28, 2019

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

Consolidated Statement of Income for the year ended December 31

	Note	2018 NIS thousands	2017 NIS thousands	2016 NIS thousands
Revenues from sales, net	18	**1,403,176**	1,334,301	1,240,562
Cost of sales	19	**857,913**	787,984	725,932
Gross profit		**545,263**	546,317	514,630
Selling and marketing expenses	20	**(343,978)**	(325,855)	(297,256)
General and administrative expenses	22	**(85,306)**	(82,612)	(76,611)
Other income	21	**1,263**	992	1,030
Other expenses	21	**(615)**	-	(4,445)
Operating profit		**116,627**	138,842	137,348
Financing income	23	**4,164**	479	1,555
Financing expenses	23	**(14,272)**	(17,732)	(14,499)
Financing expenses, net		**(10,108)**	(17,253)	(12,944)
Share in profits of equity-accounted investee companies	8	**3,662**	2,388	115
Profit before taxes on income		**110,181**	123,977	124,519
Taxes on income	24	**(22,462)**	(33,803)	(28,747)
Profit for the year		**87,719**	90,174	95,772
Attributed to:				
Equity holders of the Company		**87,743**	90,159	95,716
Non-controlling interest		**(24)**	15	56
		87,719	90,174	95,772

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

Consolidated Statement of Income and Loss and Other Comprehensive Income for the year ended December 31

	2018	2017	2016
	NIS thousands	NIS thousands	NIS thousands
Profit for the year	**87,719**	90,174	95,772
Components of the other comprehensive income after initial recognition were or will be carried to profit and loss:			
Foreign currency translation differences in respect of foreign operations	**1,263**	914	-
Components of the other comprehensive income not carried to profit and loss:			
Defined benefit plan actuarial gains (losses), net of tax	**(122)**	79	548
Other comprehensive income, net of tax	**1,141**	993	548
Total comprehensive income for the year	**88,860**	91,167	96,320
Comprehensive income (loss) attributed to:			
Equity holders of the Company	**88,884**	91,152	96,264
Non-controlling interests	**(24)**	15	56
Total comprehensive income for the year	**88,860**	91,167	96,320

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

Statement of Changes in Shareholders' Equity

	Share Capital	Share Premium	Translation Reserve	Retained Earnings	Total	Non-controlling interests	Total equity
	Attributable to the shareholders of the Company						
	NIS thousands						
For the year ended December 31, 2018							
Balance as at January 1, 2018	**1**	**147,334**	**914**	**351,155**	**499,404**	**641**	**500,045**
Dividend paid	**-**	**-**	**-**	**(36,000)**	**(36,000)**	**-**	**(36,000)**
Foreign currency translation differences in respect of foreign operations	**-**	**-**	**1,263**	**-**	**1,263**	**-**	**1,263**
Actuarial losses from defined benefit plan, net of tax	**-**	**-**	**-**	**(122)**	**(122)**	**-**	**(122)**
Profit for the year	**-**	**-**	**-**	**87,743**	**87,743**	**(24)**	**87,719**
Balance as at December 31, 2018	**1**	**147,334**	**2,177**	**402,776**	**552,288**	**617**	**552,905**
For the year ended December 31, 2017							
Balance as at January 1, 2017	1	147,334	-	300,917	448,252	626	448,878
Dividend paid	-	-	-	(40,000)	(40,000)	-	(40,000)
Foreign currency translation differences in respect of foreign operations	-	-	914	-	914	-	914
Actuarial gains from defined benefit plan, net of tax	-	-	-	79	79	-	79
Profit for the year	-	-	-	90,159	90,159	15	90,174
Balance as at December 31, 2017	1	147,334	914	351,155	499,404	641	500,045
For the year ended December 31, 2016							
Balance as at January 1, 2016	1	147,334	-	229,653	376,988	570	377,558
Dividend paid	-	-	-	(25,000)	(25,000)	-	(25,000)
Actuarial gains from defined benefit plan, net of tax	-	-	-	548	548	-	548
Profit for the year	-	-	-	95,716	95,716	56	95,772
Balance as at December 31, 2016	1	147,334	-	300,917	448,252	626	448,878

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

Statement of Cash Flows for the Year ended December 31

	2018	**2017**	**2016**
	NIS thousands	**NIS thousands**	**NIS thousands**
Cash flows from operating activities			
Profit for the year	**87,719**	90,174	95,772
Adjustments:			
Depreciation	**94,136**	86,696	79,395
Amortization of intangible assets	**8,949**	11,182	9,228
Gain on revaluation of investment	-	(701)	-
Share of Company in profits of equity-accounted investee companies	**(3,662)**	(2,388)	(115)
Financing expenses, net	**13,963**	12,239	14,302
Capital (gain) loss from sale of fixed assets, net	**(1,263)**	(301)	1,871
Taxes on income	**22,462**	33,803	28,747
	222,304	230,704	229,200
Change in inventory	**(22,747)**	(16,547)	(15,212)
Change in trade receivables and other receivables	**(34,211)**	(49,455)	(14,361)
Change in trade payables and other payables	**(16,664)**	(5,254)	22,863
Change in employee benefits	**4,071**	4,096	814
	(69,551)	(67,160)	(5,896)
Income tax paid	**(46,352)**	(40,917)	(23,741)
Net cash provided by operating activities	**106,401**	122,627	199,563
Cash flows from investing activities			
Changes in pledged deposit	**-**	-	5,458
Acquisition of subsidiary, net of the acquired cash	-	(4,197)	-
Dividends from investee companies	**1,700**	3,775	-
Investment in investee companies	**(19,500)**	(2,800)	(6,000)
Proceeds from sale of fixed assets	**1,565**	1,970	871
Acquisition of fixed assets	**(123,553)**	(136,012)	(70,731)
Acquisition of intangible assets	**(3,679)**	(5,714)	(20,946)
Investment in long-term receivables	**(40,622)**	(47,916)	(34,056)
Receipts from investment in long-term receivables	**19,731**	20,846	18,064
Net cash used in investing activities	**(164,358)**	(170,048)	(107,340)

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

Statement of Cash Flows for the Year ended December 31 (cont'd)

	2018	2017	2016
	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities			
Short-term credit, net	**61,204**	135,993	(19,527)
Distributed dividend	**(36,000)**	(40,000)	(25,000)
Receipt of long-term loans	**100,000**	-	-
Repayment of debentures	**(23,190)**	(23,190)	(23,190)
Repayment of long-term loans	**(27,509)**	(22,307)	(21,860)
Repayment of other long- term liabilities	**(140)**	(140)	(357)
Interest paid	**(13,576)**	(13,575)	(14,135)
Net cash provided by (used in) financing activities	**60,789**	36,781	(104,069)
Net change in cash and cash equivalents	**2,832**	(10,640)	(11,846)
Cash and cash equivalents as at the beginning of the year	**12,732**	23,372	35,218
Impact of exchange rate fluctuations on balance of cash and cash equivalents	**110**	-	-
Cash and cash equivalents as at the end of the year	**15,674**	12,732	23,372

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

Note 1 – General

A. The reporting entity

Tempo Beverages Ltd. (hereinafter – the "Company") is an Israeli-resident company which was incorporated in Israel. The official address of the Company is 2 Giborei Israel Street, Sapir Industrial Zone, Netanya. The consolidated financial statements of the Company as of December 31, 2018 include those of the Company and its subsidiaries (hereinafter together – the "Group"), and the rights of the Group in equity-accounted investee companies. The Company is held under the joint control of Tempo Beer Industries Ltd. (60%) and Heineken International B.V. (40%). The Group engages in the manufacture, import, marketing and distribution of non-alcoholic drinks, alcoholic drinks, wines and hard drinks.

The debentures of the Company are listed for trade on the Tel Aviv Stock Exchange.

B. Definitions

In these financial statements -

1. **The Company** – Tempo Beverages Limited.
2. **The Group** – Tempo Beverages Limited and its consolidated subsidiaries
3. **Consolidated companies / subsidiaries** – Companies, whose financial statements are fully consolidated, directly or indirectly, with those of the Company.
4. **Investee companies** – Companies, including a joint venture, the investment of the Company in which is included, directly or indirectly, in the financial statements on the equity basis.
5. **Joint arrangements** – Arrangements in which the Group has joint control, achieved pursuant to a contractual agreement that requires unanimous consent regarding activities that significantly impact the yield from the arrangement.
6. **Parent Company / Tempo Industries** – Tempo Beer Industries Ltd.
7. **Interested parties** – As defined in Paragraph (1) of the definition of an "interested party" in a company in Article 1 of the Securities Law – 1968.
8. **Related party** - As defined in International Accounting Standard 24 (2009), "Related Party Disclosures"

Note 2 - Basis of Preparation of the Financial Statements

A. Statement of compliance with IFRS

The consolidated financial statements have been prepared by the Group in accordance with International Financial Reporting Standards (IFRSs). The financial statements have been prepared also in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 28, 2019.

B. Functional and presentation currency

These consolidated financial statements are presented in NIS, which is the Company's functional currency, and have been rounded to the nearest thousand. The NIS is the currency that represents the principal economic environment in which the Company operates.

C. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

- Derivative financial instruments measured at fair value through profit or loss;
- Deferred tax assets and liabilities;
- Assets and liabilities in respect of employee benefits;
- Inventory measured at the lower of cost and net realization value.
- Investments in affiliated companies / joint ventures

For further information regarding the measurement and these assets and liabilities see Note 3 regarding significant accounting policies.

D. Use of estimates and judgments

Information about assumptions made by the Group with respect to the future and other reasons for uncertainty with respect to estimates that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities in the next financial year is presented below:

<u>Contingent liabilities</u>
Management of the Company assesses whether it is more likely than not that an outflow of economic resources will be required in respect of legal claims pending against the Company and its investees based on, inter alia, the opinion of its legal counsel. For further information on the Company's exposure to claims see Note 28 regarding contingent liabilities.

Note 2 - Basis of Preparation of the Financial Statements (cont’d)

D. Use of estimates and judgments (cont'd)

Determining fair value
For purposes of preparing the financial statements, the Company must determine the fair value of certain assets and liabilities. Additional information pertaining to the determination of the fair value is included in Note 26 – Financial Instruments.

In determining the fair value of an asset or liability, the Group uses observed market data whenever possible. The measurement of fair value is divided into three levels in the fair value hierarchy, based on data used in the valuation, as follows:
- Level 1: quoted (unadjusted) data on an active market for identical instruments.
- Level 2: directly or indirectly observed, not included in Level 1.
- Level 3: data not based on observed market data.

E. Operating cycle

The ordinary operating cycle of the Company is one year. Current assets and current liabilities are items that are designated and expected to be realized within the Company’s ordinary operating cycle. The operating cycles of the Barkan segment is mostly one to two years.

F. Initial application of new standards

(1) IFRS 9 (2014), *Financial Instruments*

As from January 1, 2018, the Company applies IFRS 9, *Financial Instruments* (in this item: “the standard” or “IFRS 9”), which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. (in this item “IAS 39”). The Company has chosen to apply the standard as from January 1, 2018 without amendment of the comparative data. Implementation of the standard had no impact on the financial statements.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through profit or loss and fair value through other comprehensive income. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

Impairment of financial assets

IFRS 9 replaces the impairment model of IAS 39 with an 'expected credit loss' (ECL) model. The model applies to financial assets measured at amortized cost, and investments in debt instruments measured at fair value through other comprehensive income, but not to investments in equity instruments.

For information pertaining to changes in the major accounting policies of the Group as a result of the implementation of IFRS 9, see Notes 3D, H.

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

F. Initial application of new standards (cont'd)

(2) IFRS 15, *Revenue from Contracts with Customers*

As from January 1, 2018 the Company began application of International Financial Reporting Standard 15 ("IFRS 15" or "the standard") which provides guidance on revenue recognition. The Standard stipulates two revenue recognition approaches: at one point in time or over time.

The standard introduces a new five step model for recognizing revenue from contracts with customers:

(1) Identifying the contract with the customer.
(2) Identifying distinct performance obligations in the contract.
(3) Determining the transaction price.
(4) Allocating the transaction price to distinct performance obligations.
(5) Recognizing revenue when the performance obligations are satisfied.

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

As part of the initial application of the standard, the Company has chosen to apply the following expedients:

(1) Application of the cumulative effect approach only for contracts not yet completed at the transition date; and

(2) Examining the aggregate effect of contract changes that occurred before the date of initial application, instead of examining each change separately.

In addition, the Standard sets out disclosure requirements that are newer and broader than the current ones.

The Company elected to implement the Standard using the cumulative impact approach. Implementation of the Standard had no impact on the financial statements.

Based on the assessment of the Company, the customers that were presented in the statement of financial position meet the criteria of receivables, as the term is defined in the Standard.

For information concerning changes in the Group's significant accounting policies that resulted from implementation of the standard, see Note 3K.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities In this note, in all places in which the Group elected accounting alternatives permitted by accounting standards and/or elected accounting policy regarding an issue for which there is no explicit provision in accounting standards, disclosure is set out in **bold** type. The bold type does not indicate that such accounting policy is more important than the non-bolded accounting policies.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation

(1) Business combinations

The Group implements the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taking into account when assessing control.

The Group recognizes goodwill as of the date of acquisition on the basis of the fair value of the consideration that was transferred and the fair value as of the date of acquisition of an equity right in the acquiree that was previously held by the Group, less the net amount that was allocated upon acquisition to identifiable assets that were acquired and to liabilities that were assumed. In a business combination that was achieved in stages, **the difference between the fair value as of the date of acquisition of the equity rights in the acquiree that were previously held by the Group and the carrying value as of the same date is carried to profit and loss as part of the item entitled "revenues" or "other expenses".**

(2) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date on which control is lost. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(3) Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company.

Measurement of non-controlling interests on the date of the business combination

Non-controlling interests that are instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (e.g., ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Allocation of profit and loss and other comprehensive income to the shareholders

Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests. Profit or loss and other comprehensive income are allocated to the owners of the Company and the non-controlling interests, even when the result is a negative balance of the non-controlling interests.

Transactions with non-controlling interests, while retaining control

Transactions with non-controlling interests while retaining control are accounted for as equity transactions. **Any difference between the consideration paid and the change in non-controlling interests is included in the owners' share in equity of the Company directly in retained earnings.**

Note 3 – Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

(4) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

B. Investment in associate companies and joint ventures

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. There is a rebuttable presumption that significant influence exists when the Group holds between 20% and 50% of another entity. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account.
Joint ventures are joint arrangements in which the Group has rights to the net assets of the arrangement.

The investments in associates and joint ventures are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

C. Foreign currency

1. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currency and measured in terms of historical cost are translated using the exchange rate at the date of the transaction.
Exchange rate differences, deriving from the translation to the functional currency are recognized in profit and loss.

2. Foreign operations

The assets and liabilities of the foreign operations were translated into shekels on the basis of the exchange rates that were in effect as of the reporting date. Expenses and revenues of the foreign operations were translated into shekels on the basis of the exchange rates that were in effect as of the date of the transactions.

The exchange rate differentials in respect of the translation are recognized in other comprehensives income and are presented in equity under the item entitled "Foreign currency translation differences in respect of foreign operations'.

When the settlement of loans that were placed is not planned and is not expected in the foreseeable future, gains and losses on translation differentials that derive from these monetary items are included as part of the investment in the foreign operations, net, are recognized in other comprehensive income and are presented in equity as part of the translation reserve.

Note 3 – Significant Accounting Policies (cont'd)

D. Financial instruments

(1) Non-derivative financial assets

The following is a summary of Company policy pertaining to financial instruments as applied subsequent to January 1, 2018 further to the implementation of IFRS 9.

Initial recognition and measurement of financial assets and financial liabilities
The Company initially recognizes trade receivables on the date that they are created. All other financial assets and liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. As a rule, a financial asset or a financial liability is initially measured at fair value plus, in the event of financial assets or financial liabilities that are not presented at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. A trade receivable without a significant financing component is initially measured at the transaction price.

Subsequent recognition and measurement of financial assets
The Company has balances of trade and other receivables that are held as part of a business model, the goal of which is the collection of contractual cash flows. Contractual cash flows in respect of such financial assets contain only payments of principle and interest that reflect consideration in respect of the time value of money and credit risk. Accordingly, these financial assets are measured at amortized cost.

Derecognition of financial assets
Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The following is a summary of Company policy pertaining to financial instruments as applied prior to January 1, 2018.

<u>Initial recognition of financial assets</u>
The Group initially recognizes loans and receivables on the date that they are created. All other financial assets acquired in a regular way purchase are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument, i.e., on the date the Group undertook to purchase or sell the asset. Non-derivative financial instruments comprise trade and other receivables, loans, and cash and cash equivalents.

<u>Derecognition of financial assets</u>
Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.
Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Note 3 – Significant Accounting Policies (cont'd)

D. Financial instruments (cont'd)

(1) Non-derivative financial assets (cont'd)

<u>Derecognition of financial assets</u> (cont'd)
Regular way sales of financial assets are recognized on the trade date, i.e., on the date the Company undertook to sell the asset.
The Group classifies its financial assets according to the following categories:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost, less any impairment losses. Loans and receivables include cash and cash equivalents, trade accounts receivable, other accounts receivable and loans.

Cash and cash equivalents
Cash and cash equivalents consist of cash balances available for immediate use and call deposits. Cash equivalents consist of short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

(2) Derivative financial instruments

Economic hedges
Hedge accounting is not applied to derivative instruments that economically hedge financial assets and liabilities denominated in foreign currencies. Derivatives are recognized initially at fair value. Attributable transaction costs are carried to profit and loss when incurred. **Changes in the fair value of derivatives are recognized immediately in profit or loss under financing income or expenses.**

(3) Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date that they are originated.
Financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.
Financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.
Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.
The Group has non-derivative financial liabilities as follows: loans and credit from banks and others, debentures, and trade and other payables.
Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legal enforceable right to offset the amounts recognized and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Note 3 - Significant Accounting Policies (cont'd)

D. Financial instruments (cont'd)

(4) CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is remeasured every period in accordance with the actual increase/decrease in the CPI.

E. Fixed assets

(1) Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation.
Cost includes expenditures that are directly attributable to the acquisition of the asset and any cost that is directly attributable to bringing the asset to the location and working condition that enable it to operate in accordance with the intentions of Management.

When major parts of a fixed asset item (including costs of major periodic inspections) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Gains and losses on disposal of a fixed asset item are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

(2) Subsequent costs

The cost of replacing part of a fixed asset item and other subsequent costs are recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

(3) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease agreements are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably expected that the Group will obtain ownership of the asset at the end of the leasing period.

Note 3 - Significant Accounting Policies (cont'd)

E. Fixed assets (cont'd)

(3) Depreciation (cont'd)

The estimated useful lives for the current and comparative periods are as follows:

	Years
• Lands under finance lease and buildings	20 – 50
• Machinery and equipment	10
• Office furniture and equipment	3 – 17
• Motor vehicles and Boats	5 – 17
• Computers	3 – 4
• Selling equipment	3 – 10
• Returnable packaging	2 – 10
• Vineyards	4 – 10

Depreciation methods and useful lives are reviewed at each financial year-end and adjusted if appropriate.

F. Intangible assets

Intangible assets, including in respect of brand names, distribution rights and customer relations, acquired by the Group and having finite useful lives, are measured at cost, less amortization.

Goodwill generated as a result of the acquisition of subsidiaries is presented as part of intangible assets. For additional information on the measurement of goodwill upon initial recognition, see section A(1) above.
In succeeding periods, goodwill is measured at cost, less accrued impairment losses.

(1) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

(2) Amortization

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset.

Amortization is recognized in profit or loss on a straight-line basis, over the estimated useful lives of the intangible assets from the date they are available for use, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in each asset. Goodwill is not systematically amortized, rather it is checked at least once a year for impairment.

The estimated useful lives are as follows:

	Years
• Brand names	10 – 15
• Software	3 – 5
• Distribution rights	5 – 7
• Customer relations	3 – 5

The Group examines at least at the end of each year the estimates regarding the amortization method and the useful lives. When necessary, adjustments are made to these estimates.

Note 3 - Significant Accounting Policies (cont’d)

F. Intangible assets (cont'd)

(2) Amortization (cont'd)

The Group examines the useful life of an intangible asset that is not periodically amortized at least once a year in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

G. Inventories

Inventories are measured at the lower of cost and net realizable value. **The cost of raw material inventories is based on the “moving average” method**, and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition.
In the case of work in progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.
The cost of items transferred from biological assets is their fair value less estimated selling costs at the date of transfer.

H. Impairment

(1) Non-derivative financial assets

The following is a summary of Company policy pertaining to impairment of financial instruments as applied subsequent to January 1, 2018 further to the implementation of IFRS 9.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The following is a summary of Company policy pertaining to impairment of financial instruments as applied prior to January 1, 2018.

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include breach of contract by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate.

In respect of material financial assets, the Group assesses the need to record impairment losses on the basis of each asset separately. In respect of all of the other financial assets, the Group assesses the need to record an impairment loss on a collective basis, according to groups having similar credit risk characteristics.

All of the impairment losses are carried to profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

H. Impairment (cont'd)

(1) Non-derivative financial assets (cont'd)

Provision for doubtful debts

The financial statements include specific provisions for doubtful debts that reflect fairly, on the basis of Management estimate, the inherent loss in the debts, collection of which is deemed to be doubtful. In determining the fairness of the provisions, Management relies on, among other things, an assessment of the risk on the basis of information it has regarding the financial position of the debtors, the scope of their activity, and an assessment of the collateral received from them. Doubtful debts which Company Management believes to be uncollectable are written off. In addition, the financial statements include a general provision for doubtful debts in respect of certain customer groups in accordance with characteristics and risks that Company Management believes to be inherent in the debts.

(2) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventory and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Once a year and on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash generating unit that contains goodwill.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its net selling price (fair value less costs to sell). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or to the cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amounts of the assets in the cash-generating unit on a pro rata basis.

Impairment losses recognized in prior periods are re-assessed at each reporting date in order to ascertain whether indications exist that the losses decreased or are non-existent. An impairment loss is reversed if changes occurred in the estimates that were used to determine its recoverable value only if the carrying value of the asset, after reversing the impairment loss, does not exceed the carrying value net of depreciation or amortization that would have been determined had the impairment loss not been recognized.

Note 3 - Significant Accounting Policies (cont'd)

H. Impairment (cont'd)

(3) Investments in associates and joint ventures

An investment in an associate or joint venture is tested for impairment when objective evidence indicates there has been impairment (as described in Paragraph (1) above).

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price. In assessing value in use of an investment in an associate or joint venture, the Group either estimates its share of the present value of estimated future cash flows that are expected to be generated by the associate or joint venture, including cash flows from operations of the associate or joint venture and the consideration from the final disposal of the investment, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount. An impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or in the joint venture.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized, and only to the extent that the investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

I. Employee benefits

(1) Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies or by central severance pay provident funds. They are classified as defined contribution plans and as defined benefit plans.

(a) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The Group's obligations for contributions to a defined contribution plan are recognized as an expense in profit or loss in the periods during which related services are rendered by employees.

Note 3 - Significant Accounting Policies (cont'd)

I. Employee benefits (cont'd)

(1) Post-employment benefits (cont'd)

(b) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). The discount rate is the yield at the reporting date on high-quality linked corporate debentures denominated in the shekel currency, that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the calculation results in a net asset for the Group, an asset is recognized up to the net present value of economic benefits available in the form of a refund from the plan or a reduction in future contributions to the plan. An economic benefit in the form of refunds or reductions in future contributions is considered available when it can be realized over the life of the plan or after settlement of the obligation.

When the benefits granted to employees by the plan are improved or curtailed, the portion of the increased benefit relating to past service by employees or the gain or loss on curtailment are recognized in profit or loss when the plan improvement or curtailment occurs.

Remeasurement of the net defined benefit liability (asset) including actuarial gains and losses, the return on plan assets (excluding interest) is recognized immediately directly in retained earnings through other comprehensive income.

Interest costs in respect of a defined benefit obligation and interest income on plan assets that were recognized in profit or loss are presented under financing income and expenses, respectively.

The Group offsets an asset relating to one benefit plan from the liability relating to another benefit plan only when there is a legally enforceable right to use the surplus of one plan to settle the obligation in respect of the other plan, and there is intent to settle the obligation on a net basis or to simultaneously realize the surplus of one plan and settle the obligation in the other plan.

Note 3 - Significant Accounting Policies (cont'd)

I. Employee benefits (cont'd)

(1) Post-employment benefits (cont'd)

(c) Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(2) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Company expects the benefits to be fully settled.

J. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.
Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The carrying amount of the provision is adjusted each period to reflect the time that has passed and is recognized as a financing expense.

Legal claims

A provision for claims is recognized if, as a result of a past event, the Company has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably.

Note 3 - Significant Accounting Policies (cont'd)

K. Revenue

The following is a summary of Company policy pertaining to revenue as applied subsequent to January 1, 2018 further to the implementation of IFRS 15.

Revenues

The Company recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Company expects to be entitled in exchange for the transfer of goods or services promised to the customer, other than amounts collected for third parties.

Determining the price of the transaction

The transaction price is the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

The following is a summary of Company policy pertaining to revenue as applied subsequent to January 1, 2018 further to the implementation of IFRS 15.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. When the credit period is short and constitutes the accepted credit in the industry, the future consideration is not discounted. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership over the goods have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of products in Israel, transfer usually occurs when the product is received at the customer's warehouse, but for some international shipments transfer occurs upon loading the goods onto the relevant carrier.

L. Financing income and expenses

Financing income includes interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains recognized in profit or loss. Interest income is recognized as it accrues.

Financing expenses include interest expenses on loans received, changes in the fair value of financial assets at fair value through profit or loss, losses in respect of exchange rate differentials, and impairment losses in respect of financial assets (except for losses in respect of a decline in value of trade receivables presented as part of general and administrative expenses).

Credit costs not capitalized to qualifying assets are carried to profit and loss on the effective interest method.

In the statements of cash flows, interest received and dividends received are presented as part of cash flows from investing activities. Interest paid and dividends paid are presented as part of cash flows from financing activities.

Note 3 - Significant Accounting Policies (cont'd)

M. Income tax expense

Income tax expense includes current and deferred tax. Current and deferred taxes are recognized in profit or loss unless the tax derives from items that are carried directly to equity or to other comprehensive income. In such cases, the income tax expense is carried to equity or to other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and it includes changes in tax payments related to prior years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries, to the extent that it is not expected that they will reverse in the foreseeable future and to the extent the Group controls the date of reversal. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset by the Group if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized in the accounting records for tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax in respect of inter-company transactions in the consolidated financial statements is recorded according to the tax rate applicable to the buying company.

N. Discounts from suppliers

Discounts from suppliers which are not contingent on meeting certain targets are included in the financial statements when the Company makes the relative purchases that entitle it to the discount.

O. Leased assets

Leases, including leases of lands from the Israel Lands Authority or from other third parties, where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets are measured at an amount equal to the lower of its fair value and the present value of the minimum future lease payments. Future payments for exercising an option to extend the lease from the Israel Lands Administration are not recognized as part of an asset and corresponding liability since they constitute contingent lease payments that are derived from the fair value of the land on the future dates of renewing the lease agreement. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases, and the leased assets are not recognized on the Group's statement of financial position.
The lease period takes into consideration an option to extend the lease period if at the beginning of the lease it was probable that the option will be exercised.

Payments made under operating leases, other than conditional lease payments, are recognized in profit or loss on a straight-line basis over the term of the lease.

Note 3 - Significant Accounting Policies (cont'd)

P. Standards not yet adopted

(1) Amendment to IFRS 9, *Financial Instruments: Classification of financial instruments including early repayment options*

The Amendment clarifies that financial instruments with an early repayment feature that may lead to a situation in which reasonable compensation is received or paid upon early termination of the contract can meet the SPPI (solely payment of principal and interest) criterion and therefore be measured at amortized cost or fair value through other comprehensive income. The basis for conclusions of the Amendment clarifies that prepayment for the fair value of the instrument does not necessarily meet the SPPI criterion.

The Amendment is effective for annual periods beginning on or after January 1, 2019.

The Group has examined the effects of applying the Amendment, and in its opinion the effect on the financial statements will be immaterial.

(2) IFRIC 23, *Uncertainty Over Income Tax Treatments*

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes. According to IFRIC 23, when determining the taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity's tax position, the entity should recognize the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept the entity's tax position, the entity is required to reflect the uncertainty in its accounts by using one of the following methods: the most likely outcome or the expected value. IFRIC 23 clarifies that when the entity examines whether or not it is probable that the tax authority will accept the entity's position, it is assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and that it has full knowledge of all relevant information when doing so. Furthermore, according to IFRIC 23 an entity has to consider changes in circumstances and new information that may change its assessment. IFRIC 23 also emphasizes the need to provide disclosures of the judgments and assumptions made by the entity regarding uncertain tax positions.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. The interpretation includes two alternatives for applying the transitional provisions, so that companies can choose between retrospective application or prospective application as from the first reporting period in which the entity initially applied the interpretation.

The Group has examined the effects of applying IFRIC 23, and in its opinion the effect on the financial statements will be immaterial.

(3) Amendment to IFRS 3, *Business Combinations*

The Amendment clarifies whether a transaction to acquire an operation is the acquisition of a "business" or an asset. For the purpose of this examination, the Amendment added an optional concentration test so that if substantially all of the fair value of the acquired assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the acquisition will be of an asset. In addition, the minimum requirements for definition as a business have been clarified, such as for example the requirement that the acquired processes be substantive so that in order for it to be a business, the operation shall include at least one input element and one substantive process, which together significantly contribute to the ability to create outputs. Furthermore, the Amendment narrows the reference to the outputs element required in order to meet the definition of a business and added examples illustrating the aforesaid examination.

Note 3 - Significant Accounting Policies (cont'd)

P. Standards not yet adopted (cont'd)

(3) Amendment to IFRS 3, *Business Combinations (cont'd)*

The Amendment is effective for transactions to acquire an asset or business for which the acquisition date is in annual periods beginning on or after January 1, 2020, with earlier application being permitted.

In the opinion of the Group, application of the Amendment is not expected to have a material effect on the financial statements.

(4) IFRS 16, *Leases*

The standard replaces IAS 17, *Leases* (IAS 17) and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize a right-of-use asset and a lease liability in its financial statements. Nonetheless, IFRS 16 includes two exceptions to the general model whereby a lessee may elect to not apply the requirements for recognizing a right-of-use asset and a liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value.
In addition, IFRS 16 permits the lessee to apply the definition of the term lease according to one of the following two alternatives consistently for all leases: retrospective application for all the lease agreements, which means reassessing the existence of a lease for each separate contract, or alternatively to apply a practical expedient that permits continuing with the assessment made regarding existence of a lease based on the guidance in IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*, with respect to leases entered into before the date of initial application of the Standard. Furthermore, the standard determines new and expanded disclosure requirements from those required at present.

IFRS 16 is applicable for annual periods as of January 1, 2019. Early adoption is permissible.
IFRS 16 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application consistently for all leases: full retrospective application or recognizing a cumulative effect, which means application (with the possibility of certain practical expedients) as from the initial implementation date.

The Company intends on adopting the Standard commencing on January 1, 2019, using the cumulative impact approach.

Expected effects:

- The Group plans to elect to apply the transitional provision of recognizing a lease liability at the date of initial application, according to the present value of the future lease payments discounted at the incremental borrowing rate of the lessee at that date, and concurrently recognizing a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of the standard is not expected to have an effect on the balance of retained earnings at the date of initial application.

Note 3 - Significant Accounting Policies (cont’d)

P. Standards not yet adopted (cont'd)

(4) IFRS 16, *Leases* (cont'd)

Expected effects (cont'd)

- In respect of leases in which the group is the lessee and which were classified prior to the date of initial implementation as operating leases, especially in cases in which the Group elected to implement the aforementioned expediencies of the Standard, the Group has to recognize, at the date of initial implementation, a right-of-use asset and a liability in respect of a lease for all of the leases in which it has the right to control identifiable assets for a defined period of time. These changes are expected to result in an increase of NIS 140 million in the balance of right-of-use assets at the date of initial application and an increase of an identical amount in the balance of the lease liability at the date of initial application. Accordingly, depreciation and amortization expenses will be recognized in respect of the right-of-use asset, and the need for recognizing impairment of the right-of-use asset will be examined in accordance with IAS 36. Furthermore, financing expenses will be recognized in respect of the lease liability. Therefore, as from the date of initial application, payroll and leasing expenses, relating to leased assets under operating leases, which were previously presented in the statement of income, will be capitalized to assets and amortized as part of depreciation and amortization in subsequent periods. In addition, the nominal discount rates used for measuring the lease liability are in the range of 1.5% to 5.3%. This range is affected by differences in the length of the lease term, differences between the various groups of assets, different discount rates of Group companies, and so forth.

In the opinion of the Group, the Standard is expected to have an impact on the financial statements in the following issues:

- An increase in non-current assets and financial liabilities.
- A change in principal financial rations such as an increase in the leverage ratio and an increase in EBITDA.
- An increase in operating profit and financing expenses.
- An increase in cash flows from operating activities and a decrease in cash flows from financing activities.

The Company has loans and debentures that contain certain financial covenants.

The Company reached agreements with the lending bank whereby these financial covenants will be calculated in a manner that ignores the impact of the Standard. The Company is exploring the consequences of the implementation of the new Standard regarding the expected compliance with the financial covenants that were set out in the trust document of the debentures. In the opinion of the Company, the Standard will not impair its compliance with these financial covenants.

<u>The Group elected to apply the following expediencies as set out in the Standard</u>:

(1) Not applying the requirement to recognize a right-of-use asset and a lease liability in respect of short-term leases of up to one year. In addition, not applying the requirement to recognize a right-of-use asset and a lease liability for leases that end within 12 months from the date of initial application.

(2) Relying on a previous assessment of whether an arrangement contains a lease in accordance with current guidance with respect to agreements that exist at the date of initial application.

(3) Not applying the requirement to recognize a right-of-use asset and a lease liability in respect of leases where the underlying asset has a low value.

(4) Using hindsight when determining the lease term, meaning data presently available that may not have been available at the original date of entering into the agreement.

Note 4 – Trade accounts receivable

	December 31,	
	2018	2017
	NIS’000	NIS’000
Trade accounts receivable(*)	**355,351**	322,944
Less; provision for impairment	**(32,844)**	(31,982)
	322,507	290,962

(*) See also Note 26A.

Note 5 - Other receivables

	December 31,	
	2018	2017
	NIS’000	NIS’000
Employees	**1,613**	1,583
Institutions	**6,142**	4,115
Advances to suppliers	**3,358**	1,790
Prepaid expenses	**7,459**	8,125
Income receivable	**23,241**	17,985
Related parties	**-**	291
Other receivables	**545**	425
Current maturities of long-term receivables	**355**	900
	42,713	35,214

Note 6 - Inventories

	December 31,	
	2018	2017
	NIS’000	NIS’000
Raw and auxiliary materials	**31,572**	21,953
Packaging and other materials	**35,327**	27,808
Products in process	**98,076**	99,740
Finished and purchased goods	**146,808**	137,800
	311,783	287,301

Note 7 – Long-term loans and receivables

	December 31,	
	2018	**2017**
	NIS'000	**NIS'000**
Long-term liabilities	**49,604**	46,400
Less accumulated amortization	**(30,957)**	(26,467)
Amortized cost	**18,647**	19,933
Loans to others	**16,293**	22,075
Less: current maturities	**(355)**	(900)
Net balance	**15,938**	21,175
	34,585	41,108

Note 8 - Investee Companies

A. Details pertaining to entities of the Group

	Incorporated and operates in	% of ownership and voting As at December 31, 2018	2017
Consolidated companies			
Tempo Marketing (1981) Ltd. (hereinafter – "Tempo Marketing")	Israel	**100%**	100%
Aqua Nova Waters Ltd.	Israel	**100%**	100%
Barkan Wineries Ltd.	Israel	**100%**	100%
Neni Ltd.	Israel	**100%**	100%
Tempo Beverages Cyprus Ltd.	Cyprus	**100%**	100%
Equity-accounted companies			
Adir R.Y. Trading Ltd.	Israel	**50%**	50%
Masterpiece Team Ltd.	Israel	**50%**	-

B. Barkan Wineries Ltd. (hereinafter – "Barkan Wineries")

Barkan Wineries is a private company, engaged primarily in the production, import, and marketing of wines and alcoholic beverages.
Tempo Marketing purchases and distributes exclusively the products manufactured and imported by Barkan Wineries Group in the State of Israel and the Palestinian Authority, this during a period of five years, commencing from the date on which the purchase and distribution agreement of Barkan Wineries entered into effect (January 2005). At the end of the engagement period, the agreement is automatically renewed for additional periods of five years each.

Note 8 - Investee Companies (cont'd)

B. Barkan Wineries Ltd. (cont'd)

To secure the liabilities of Barkan Wineries to three banks, the Company furnished guarantees to each of the aforementioned banks. The guarantees amounted to NIS 120 million, NIS 70 million and NIS 40 million. Should the liabilities of Barkan Wineries to each of the banks fall below NIS 40 million, NIS 35 million and NIS 20 million, respectively, the Company has the right to cancel the guarantees. As at December 31, 2018, the liabilities of Barkan Wineries to these banks amounted to NIS 128 million, NIS 37 million and NIS 25 million, respectively.

Barkan Wineries undertook toward some of the banks that finance it that the Company would remain a controlling shareholder in Barkan Wineries.

C. Adir R.Y. Trade Ltd. (hereinafter – "Adir")

In 2017 and 2016, the Company purchased 50% of the shares of Adir. Adir is a company engaged in, among other things, the import, marketing and distribution of soft drinks.

The Company and Adir signed a distribution agreement whereby the Company will serve as the sole distributer of Adir's products (hereinafter – the "Products") in Israel and in the Palestinian Authority. In addition, the Company will render additional logistical services dealing with the distribution of the products for a period of 7 years.

In accordance with the terms set out in the agreement, decisions regarding certain activities will be made solely with the consent of all of the shareholders. Therefore, the investment constitutes a joint arrangement. The joint arrangement is treated as a joint venture, accounted for under the equity method.

The Company is a guarantor of the liabilities of Adir toward banking institutions which finance its activity, on the basis of the Company's relative share in the shares of Adir. As at December 31, 2018 has no outstanding liabilities to banks.

D. Tempo Beverages Cyprus Ltd.

During March 2017, the Company inaugurated its activity in Cyprus, including marketing, sales and distribution of beverage products, including products sold by it in Israel. The activity is conducted through Tempo Beverages Cyprus Ltd., a wholly-owned subsidiary of the Company, which was incorporated under the laws of Cyprus (hereinafter – "Temp Cyprus"). Among other products, Tempo Cyprus sells and markets beers produced by Heineken and a variety of alcohol products under the Pernod Ricard label.

E. Neni Ltd. (hereinafter – "Neni")

In 2016, the Company acquired 51% of the ownership and control of Neni, a company engaged in the import, marketing and distribution of coffee, tea and related products and in the rendering of technical and training services related to the aforementioned products.

Taking into consideration that the other shareholder in Neni continued serving as the CEO of the company and his consent is required in connection with certain decisions, as set out in the agreement, the investment in Neni was treated in accordance with the equity method of accounting.

The agreement also stipulated that the Company has the right to undertake the distribution and sales activity of the aforementioned products, in return for a distribution commission.

Note 8 - Investee Companies (cont'd)

E. Neni Ltd. (cont'd)

On June 21, 2017, the Company signed an agreement with the other shareholder of Neni, whereby the Company acquired the balance of his shares in Neni (49%), including his undertaking not to compete and to pay the management fees due to him, in return for an amount of NIS 7.5 million. As a result of the acquisition, the Company increased its share in Neni to 100%. Taking the above into consideration, the financial statements of Neni were consolidated for the first time with the financial statements of the Company, as from the aforementioned date.

As part of the acquisition, the Company recorded a gain of NIS 701 thousand, representing the gain on the re-measurement of the fair value of the 51% of the shares of the acquiree company held by the Company prior to achievement of control. This gain was recognized as part of other income in the consolidated statement of income.

Subsequent to the date of the statement of financial position, a merger order was issued whereby Tempo Marketing absorbed Neni which was liquidated further to the merger, pursuant to the Companies Act 1999.

F. Masterpiece Team Ltd. (hereinafter – “Masterpiece”)

On August 9, 2018, an agreement went into effect, whereby the Company signed an agreement with Rotdan's Group Ltd., the importer of flavored vodka marketed under the "Van Gogh" brand name (hereinafter – the “Van Gogh agreement”, “Rotdan's” and the “Products”, respectively), whereby: (i) the Company acquired half of all of the rights pursuant to the agreement with the holder of the "Van Gogh" brand, for the marketing, sale and distribution of the Products within the borders of the State of Israel and the Palestinian Authority (hereinafter – the “brand owner”, the “franchise agreement”, and the “territory”, respectively); (ii) the Company and Rotdan's founded a company held jointly in equal shares (hereinafter – the “Joint Company”) and each one of them transferred to the joint company its share in the franchise agreement, against an allotment of shares in the joint company; and (iii) the joint company entered into an agreement with the brand holder for the marketing, sale and distribution of the products within the borders of the State of Israel for a period ending on February 28, 2025 (hereinafter – the “New Franchise Agreement”).

The New Franchise Agreement set out minimum purchase targets of products from the brand holder, and if the joint company does not meet such targets, the brand holder has the right, within the restrictions set out in the New Franchise Agreement, to cancel the agreement. In addition, the franchise agreement sets the prices and the payment terms of the products, as well as causes for the cancellation of the agreement.

The Van Gogh Agreement contains provisions regarding the activity of the Joint Company, the management of the Joint Company and the rights and obligations of the parties as shareholders in the Joint Company – each party versus the other party.

The Joint Company is treated in the financial statements as a joint venture, pursuant to the equity method of accounting.

Concurrent with the above, a distribution agreement was signed between the Joint Company and the Company, whereby the Company will hold the sole rights to perform the sales and distribution activity of the products in the territory (hereinafter – the “Distribution Agreement”). The Distribution Agreement contains provisions regarding to, among other things, restrictions on the sale of products that compete with the "Products", minimum quantities in respect of which, if the Company does not meet, the Joint Company will have cause to cancel the Distribution Agreement, the distribution commission, marketing, sales promotion and running the operation dealing with the products.

The Company is guarantor for the liabilities of Masterpiece to the bank that finances its activity, on the basis of the relevant portion of the Company in the shares of Masterpiece. The amount of Masterpiece's liabilities for which the Company is guarantor as at December 31, 2018 is NIS 2.4 million.

Note 9 – Fixed assets

A. Composition and changes

	Land and buildings	Machinery, equipment & instruments	Vineyards	Vehicles and boats	Office furniture, equipment & computers	Selling equipment	Returnable packaging	Total
				NIS'000				
Cost:								
Balance as of January 1, 2017	306,424	680,932	99,599	20,225	48,884	83,826	72,569	1,312,459
Additions in respect of business combinations	-	-	-	1,910	228	10,907	-	13,045
Additions	25,963	51,495	6,297	6,052	3,947	13,354	9,189	116,297
Disposals	(650)	(3,545)	(214)	(2,579)	(8,025)	(10,555)	(261)	(25,829)
Balance as of December 31, 2017	331,737	728,882	105,682	25,608	45,034	97,532	81,497	1,415,972
Impact of changes in exchange rate	**8**	**-**	**-**	**168**	**19**	**66**	**13**	**274**
Additions	**43,278**	**66,418**	**4,190**	**2,664**	**5,254**	**11,051**	**13,983**	**146,838**
Disposals	**-**	**(8,063)**	**-**	**(316)**	**(5,452)**	**(7,116)**	**(2,417)**	**(23,364)**
Balance as of December 31, 2018	**375,023**	**787,237**	**109,872**	**28,124**	**44,855**	**101,533**	**93,076**	**1,539,720**
Depreciation								
Balance as of January 1, 2017	113,145	482,831	10,785	15,958	36,480	71,227	51,953	782,379
Depreciation for the year	10,899	34,531	3,986	1,020	3,609	8,968	10,777	73,780
Additions in respect of business combinations	-	-	-	760	112	4,707	-	5,579
Disposals	(619)	(3,030)	(157)	(2,307)	(7,815)	(10,239)	(96)	(24,263)
Balance as of December 31, 2017	123,415	514,332	14,614	15,431	32,386	74,663	62,634	837,475
Impact of changes in exchange rate	**1**	**-**	**-**	**-**	**1**	**9**	**1**	**12**
Depreciation for the year	**12,157**	**34,955**	**4,095**	**1,279**	**3,958**	**9,922**	**11,792**	**78,158**
Disposals	**-**	**(6,331)**	**-**	**(226)**	**(5,410)**	**(6,227)**	**(1,893)**	**(20,087)**
Balance as of December 31, 2018	**135,573**	**542,956**	**18,709**	**16,484**	**30,935**	**78,367**	**72,534**	**895,558**
Carrying value								
As of January 1, 2017	193,279	198,101	88,814	4,267	12,404	12,599	20,616	530,080
Payments on account of fixed assets								1,100
								531,180
As of December 31, 2017	208,322	214,550	91,068	10,177	12,648	22,869	18,863	578,497
Payment on account of fixed assets								23,815
								602,312
As of December 31, 2018	**239,450**	**244,281**	**91,163**	**11,640**	**13,920**	**23,166**	**20,542**	**644,162**
Payment on account of fixed assets								**3,530**
								647,692

Note 9 – Fixed assets (cont'd)

B. The group has assets that were fully depreciated but which are still in use. The original cost of these assets as at December 31, 2018 amounted to NIS 511 million (December 31, 2017 amounted to NIS 478 million).

C. Leases

The Company's property is leased under a capital lease from the Israel Lands Authority for leasing periods ending in 2043 and 2049.

D. For information pertaining to pledges, see Note 28(C).

Note 10 – Intangible assets

	Brands, trademarks and others	Software	Total
	NIS'000	NIS'000	NIS'000
Cost			
Balance as of January 1, 2017	56,933	32,655	89,588
Additions in respect of business combination	15,718	-	15,718
Acquisitions	4,755	959	5,714
Disposals	-	(105)	(105)
Balance as of December 31, 2017	77,406	33,509	110,915
Impact of changes in the exchange rate	**145**	**-**	**145**
Acquisitions	**-**	**3,679**	**3,679**
Balance as of December 31, 2018	**77,551**	**37,188**	**114,739**
Amortization			
Balance as of January 1, 2017	33,786	28,426	62,212
Amortization for the year	9,726	1,456	11,182
Disposals	-	(2)	(2)
Balance as of December 31, 2017	43,512	29,880	73,392
Impact of changes in the exchange rate	**21**	**-**	**21**
Amortization for the year	**7,305**	**1,644**	**8,949**
Balance as of December 31, 2018	**50,838**	**31,524**	**82,362**
Carrying value			
As of January 1, 2017	23,147	4,229	27,376
As of December 31, 2017	33,894	3,629	37,523
As of December 31, 2018	**26,713**	**5,664**	**32,377**

Note 11 – Short-term bank credit

This note provides information pertaining to the contractual terms of the Group's interest-bearing loans and credit, measured at amortized cost. Additional information regarding the exposure of the Group to interest, currency and liquidity risks is provided in Note 26, Financial Instruments.

Current liabilities

	Interest rates December 2018	December 31, 2018	December 31, 2017
	%	NIS'000	NIS'000
Short-term loans from banks	**1.2 – 1.25**	**331,420**	270,216
Current maturities of long-term loans		**27,843**	17,975
Total current liabilities		**359,263**	288,191

(*) Loans bearing variable annual interest at between the prime rate less 0.55% and the prime rate less 0.5%.

Note 12 – Trade accounts payable

	December 31, 2018	December 31, 2017
	NIS'000	NIS'000
Open debts	**216,122**	218,628
Post-dated checks and notes payable	**1,122**	7,355
	217,244	225,983

For additional information pertaining to suppliers who are related and interested parties, see Note 29, Related and Interested Parties. For information regarding the exposure of the Group to currency and liquidity risks in respect of suppliers, see Note 26, Financial Instruments.

Note 13 – Other payables

	December 31, 2018	December 31, 2017
	NIS'000	NIS'000
Liabilities to employees and other liabilities in respect of payroll (*)	**34,450**	34,758
Government institutions	**12,938**	17,894
Advances from customers	**700**	1,300
Packaging deposits	**15,625**	19,983
Liabilities to related and interested parties	**6,800**	7,837
Other payables and accrued expenses	**32,889**	27,326
Current maturities of other long-term liabilities	**140**	140
	103,542	109,238

(*) Including a provision for vacation and convalescence pay.

For additional information pertaining to payables who are related and interested parties, see Note 29, Related and Interested Parties. For information regarding the exposure of the Group to currency and liquidity risks in respect of suppliers, see Note 26, Financial Instruments.

Note 14 – Long-term liabilities to banking institutions and others, including derivatives

A. Composition

	Interest rates December 2018	December 31, 2018	December 31, 2017
	%	NIS'000	NIS'000
Loans from banks -			
In NIS (unlinked)	**2.37-6.14**	**132,045**	59,554
Other long term liabilities, including derivatives		**3,000**	2,877
		135,045	62,431
Less – current maturities		**(27,983)**	(18,115)
		107,062	44,316

B. On June 25, 2013, a bank furnished the Company with a long-term loan in an amount of NIS 50 million. The loan was in lieu of short-term credit furnished by the bank to the Company in the past. The loan is unlinked, bears annual interest at a rate of 4.85% and is repayable in instalments until 2023 (average life span of 5.25 years). The Company undertook to comply with certain financial covenants, to be calculated on the basis of its financial statements. As of the date of the financial statements, the Company is in compliance with the financial covenants.

On February 25 and 26, 2018, the Company was furnished with loans from two banking institutions in amounts of NIS 75 million and NIS 25 million, respectively (hereinafter – the "Loans").

The loans were furnished to the Company in lieu of short-term credit furnished in the past to the Company by banking institutions in identical amounts, for purposes of the ongoing operations of the Company.

The loans are unlinked and bear annual interest at rates of 2.5% and 2.35%, respectively, and they are repayable in quarterly payments until 2026.

To secure the repayment of the NIS 75 million loan, the Company extended its commitment to meet the abovementioned financial covenants, until the final repayment of this loan.

The following is a breakdown of the financial covenants undertaken by the Company:

Financial covenants	Financial ratio	Results of calculation (as of December 31, 2018)
Ratio of tangible shareholders' equity to total balance sheet	Period from June 30, 2017 through the full repayment of the loan, not less than– 20%	35.4%
Tangible shareholders' equity	Not less than NIS 180,000 thousand, linked to the ICPI	519,395
Ratio of net debt to the EBITDA	Period from June 30, 2017 through the full repayment of the loan, not more than – 3.75.	2.45

Note 15 – Debentures

A. Composition

	December 31,	
	2018	**2017**
	NIS'000	**NIS'000**
Debentures (including interest payable)	**91,069**	114,209
Less current maturities (including interest payable)	**(23,634)**	(23,856)
	67,435	90,353

B. On March 10, 2010, the Company issued debentures (Series A) for an amount of NIS 120 million (NIS 117 million net of issuance costs). The debentures are unlinked and bear fixed annual interest of 5.55%, payable on February 28 and August 31 between the years 2010 – 2020. The balance of the debentures are repayable in three equal installments, on February 28 of each of the years 2018 – 2020. The Series A debentures were rated by Midroog Ltd. as A1.

C. On September 22, 2014, the Company issued series B Debentures in a total amount of NIS 111.9 million (NIS 110.7 million net of issuance costs). The debentures are unlinked and bear fixed annual interest at a rate of 3.2%.
The interest on the debentures is paid in equal semi-annual installments on June 30 and December 31 of each of the years 2015 through 2024, commencing on June 30, 2015.
The balance of the debentures is repayable in seven equal installments, to be paid on December 31 of each of the years 2018 through 2024.
The debentures are rated by Midroog Ltd. as A1 stable.

As part of the trust deed, the following provisions, among others, were set out:

<u>Restrictions on the distribution of a dividend:</u>

- In the event that the shareholders' equity after the distribution amounts to at least NIS 200 million, the Company will be entitled to make a distribution of the higher of up to 50% of the net income of the Company (consolidated) for that year, or at a rate of up to 50% of the distributable income pursuant to the Companies Law which derived commencing from the financial statements of the Company as of June 30, 3014 (inclusive) on which a distribution was not made.
- In the event that the shareholders' equity after the distribution amounts to less than NIS 200 million, the Company will be entitled to make a distribution of the higher of up to 30% of the net income of the Company (consolidated) for that year, or at a rate of up to 30% of the distributable income pursuant to the Companies Law which derived commencing from the financial statements of the Company as of June 30, 3014 (inclusive) on which a distribution was not made.
- The Company is not permitted to make a distribution in the event that, following the distribution, the shareholders' equity is less than NIS 170 million.
- At the date of the declaration of the dividend distribution, the Company is not in material breach of the provisions of the trust deed.
- The Company is not permitted to make a distribution if it is not in compliance with the financial covenants that require it to pay additional interest.
- The Company is not permitted to make a distribution of revaluation income that accrued commencing with the date of the first issuance of the debentures.

Note 15 – Debentures (cont'd)

C. (cont'd)

Restrictions on the distribution of a dividend: (cont'd)

- The Company is not permitted to make a distribution to its shareholders in the event that there exist at the Company any of the warning indicators (as that term is defined in the Securities Regulations (Periodic and Immediate Reports) – 1970). This restriction shall not apply in the event that any of the following warning indicators, in respect of which the board of directors of the Company stipulated that they do not indicate a liquidity problem at the Company: (a) a working capital deficit or a working capital deficit for a period of twelve months or continuous negative cash flow from current operations; (b) opinion or review report of the independent auditor of the Company as of the date of the financial statements that contain a clause drawing attention to the financial condition of the entity.

Interest adjustment mechanism:

- In the event that the shareholders' equity amounts to less than NIS 170 million, the interest rate to be borne by the unamortized balance of the principal of the debentures will increase by 0.25% per annum above the interest rate set in the tender.
- If the ratio of the shareholders' equity of the Company (including the minority interest) to the total balance sheet of the Company falls below 15%, the interest rate to be borne by the unamortized balance of the principal of the debentures will increase by 0.25% per annum above the interest rate set in the tender.
- If the financial debt to EBITDA ratio rises above 5, the interest rate to be borne by the unamortized balance of the principal of the debentures will increase by 0.25% per annum above the interest rate set in the tender.
- If the rating of the debentures by Midroog Ltd. or any other rating company that replaces Midroog falls to two rating levels below the rating of the debentures immediately prior to the issuance, (A2), the interest rate to be borne by the unamortized balance of the principal of the debentures will increase by 0.5% per annum above the interest rate set in the tender. In respect of every additional reduction in rating, the interest rate will increase by an additional 0.25%. The maximum additional interest pursuant to this mechanism shall not exceed 1% even if there is an additional reduction in the rating of the debentures.

The maximum additional interest to be granted in respect of breaches of financial covenants, together with the additional interest in respect of the aforementioned reduction in rating, shall not exceed in the aggregate 1.5% above the interest rate shareholders' equity in the tender.

Right to demand immediate repayment:

The trust deed contains a number of causes whereby the holders of the debentures have the right to demand immediate repayment, including:

- In the event that the shareholders' equity amounts to less than NIS 150 million for two successive quarters.
- If the ratio of shareholders' equity (including the minority interest) to the balance sheet falls below 14% for a period of two successive quarters.
- if the rating of the debentures falls below BBB- or an equivalent rating.
- If the debentures cease being rated for a period of at least 60 business days due to circumstances contingent solely on the Company.
- If the Company makes a distribution that does not comply with the obligations of the Company in connection with the restrictions on the distribution of a dividend, as above.

Note 15 – Debentures (cont'd)

C. (cont'd)

Right to demand immediate repayment (cont'd):

- If any of the following were presented for immediate repayment: (1) Another (or other) series of debentures issued by the Company: (2) Another (one or more) financial debt of the Company (except for a non-recourse debt of the Company), the unamortized balance (or accumulated balances) of which at the date of the demand for immediate payment exceeds the lower of NIS 80 million or an amount that constitutes 15% of the balance sheet of the Company based on its consolidated financial statements, on condition that the lender of the aforementioned debt (including holders of debentures) did not cancel his demand to present the debt for immediate repayment within 45 days of the date that it was presented for immediate repayment.
- If control in the Company was transferred in a manner that as a result thereof, the rating of the debentures was lowered when compared with the rating immediately preceding the transfer of control and such transfer was not approved by the meeting of the holders of the debenture with a regular majority.
- If a merger took place, as part of which the Company is either the receiving company or the target company, unless the company and/or the receiving company declared in a hearing that there is no reasonable concern that as a result of the merger, the merged company will not be able to meet its liabilities to the holders of the debentures.

As of the date of approval of the financial statements, the Company is in compliance with all of the terms of the trust deed.

Note 16 – Employee benefits

Employee benefits including post-employment benefits and other long-term benefits. Short-term benefits are presented as part of "Other payables".
Regarding post-employment benefits, the Group has defined benefit plans in respect of which it deposits amounts in central severance pay funds and appropriate insurance policies. Defined benefit plans entitle qualified employees to a one-time payment based on their employment agreements. In addition, the Company has a defined deposit plan in respect of some of its employees who are subject to article 14 of the Severance Pay Law – 1963.

	December 31,	
	2018	**2017**
	NIS-000	**NIS-000**
Present value of the obligations	**17,059**	14,505
Fair value of plan assets*	**(8,274)**	9,960
	8,785	4,545

* Plan assets consist of equity instruments in managers insurance policies and in a central severance pay fund

Note 16 – Employee benefits (cont'd)

(1) Changes in present value of liability in respect of defined benefit plans

	Year ended December 31,	
	2018	2017
	NIS'000	NIS'000
Obligation in respect of defined benefit plan as of beginning of period	**14,505**	14,414
Addition in respect of business combination	**-**	700
Benefits paid and disposed	**(2,227)**	(6,266)
Current service costs and interest costs	**5,211**	5,805
Actuarial gains carried to other comprehensive income	**(430)**	(148)
Obligation in respect of defined benefit plan as of end of period	**17,059**	14,505

(2) Changes in plan assets

	Year ended December 31,	
	2018	2017
	NIS'000	NIS'000
Fair value of plan assets as of beginning of period	**9,960**	14,183
Addition in respect of business combination	**-**	380
Benefits paid and disposed	**(1,575)**	(5,110)
Amounts deposited	**-**	60
Interest income	**488**	493
Actuarial losses carried to other comprehensive income	**(599)**	(46)
Fair value of plan assets as of end of period	**8,274**	9,960

(3) Expense carried to profit and loss

	Year ended December 31,		
	2018	2017	2016
	NIS'000	NIS'000	NIS'000
Current service costs	**4,701**	5,315	6,159
Interest costs	**510**	490	885
Interest income	**(488)**	(493)	(884)
	4,723	5,312	6,160

(4) Actuarial gains and losses carried directly to other comprehensive income

	Year ended December 31,		
	2018	2017	2016
	NIS'000	NIS'000	NIS'000
Accumulated balance, beginning of period	**4,362**	4,260	3,737
Amounts recognized during period	**(169)**	102	523
Accumulated balance, end of period	**4,193**	4,362	4,260

Note 16 – Employee benefits (cont'd)

(5) Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions as of the reporting date (weighted average):

	2018	2017	2016
	%	%	%
Discount rate, end of period	**3.0**	3.3	3.4
Future increase in salaries	**2.5**	2.5	2.5

The assumptions regarding future mortality rate are based on published statistical data and on accepted mortality tables.

Reasonable possible changes in one of the actuarial assumptions as at the reporting date, assuming that the rest of the assumptions remain unchanged, have the following impact on the liability in respect of the defined benefit:

	December 31, 2018		December 31, 2017	
	Increase (decrease) of liability		Increase (decrease) of liability	
	Increase of 1%	Decrease of 1%	Increase of 1%	Decrease of 1%
	NIS'000	NIS'000	NIS'000	NIS'000
Rate of future increase in salaries	**1,077**	**(911)**	1,104	(944)
Discount rate	**(923)**	**1,104**	(934)	1,115

(6) Impact of the plan on the Group's future cash flows

The Group's estimate of the life-span of the plan (based on weighted average) as at the end of the reporting period is 10 years (for 2017 –10 years).

(7) The Group has defined deposit plans in respect of some of its employees, under the scope of article 14 of the Severance Pay Law – 1963.

	Year ended December 31		
	2018	2017	2016
	NIS'000	NIS'000	NIS'000
Amount recognized as an expense in respect of a defined deposit plan	**9,032**	8,467	6,844

Note 17 – Equity

A. Share capital

	December 31, 2018 and 2017
	NIS
Issued and paid in share capital	1,000
Registered capital	100,000

B. Dividends

The following dividends were declared and paid by the Company:

	Year ended December 31,		
	2018	2017	2016
	NIS'000	NIS'000	NIS'000
	36,000	40,000	25,000

Note 18 – Revenues from sales, net

	Year ended December 31,		
	2018	2017	2016
	NIS'000	NIS'000	NIS'000
(1) From Company production:			
Sales, net	**1,004,187**	1,003,964	990,570
Less excise tax:	**116,580**	116,286	113,943
	887,607	887,678	876,627
(2) From purchased goods:			
Sales, net	**515,569**	446,623	363,935
Total sales	**1,403,176**	1,334,301	1,240,562

Note 19 – Cost of sales

	Year ended December 31,		
	2018	2017	2016
	NIS'000	NIS'000	NIS'000
Use of materials	**329,214**	312,836	324,450
Payroll and related expenses	**63,686**	56,940	52,132
Depreciation	**52,138**	49,895	44,666
Other manufacturing expenses	**48,309**	48,725	45,253
	493,347	468,396	466,501
Purchases of purchased goods	**367,330**	320,233	267,371
Changes in work in progress inventory	**(825)**	(560)	(7,959)
Changes in inventory finished products	**(1,939)**	(85)	19
	857,913	787,984	725,932

Note 20 – Selling and marketing expenses

	Year ended December 31,		
	2018	**2017**	**2016**
	NIS'000	**NIS'000**	**NIS'000**
Payroll and related expenses	**166,635**	155,167	140,452
Advertising	**63,597**	61,097	52,575
Depreciation and amortization	**30,217**	31,230	27,991
Rent and building maintenance	**14,004**	14,036	12,255
Truck and forklift maintenance	**27,945**	26,075	25,691
Distribution commissions	**11,649**	10,888	11,337
Shipping	**7,739**	8,108	7,888
Other expenses	**22,192**	19,254	19,067
	343,978	325,855	297,256

Note 21 – Other expenses and income

	Year ended December 31,		
	2018	**2017**	**2016**
	NIS'000	**NIS'000**	**NIS'000**
Income			
Gain on realization of fixed assets, net	**1,263**	47	-
Gain on revaluation of investment to fair value (see Note 8)	-	701	-
Others	-	244	1,030
	1,263	992	1,030
Expenses			
Loss on decline in value and from the sale of fixed assets	-	-	1,871
Others	**615**	-	2,574
	615	-	4,445

Note 22 – General and administrative expenses

	Year ended December 31,		
	2018	**2017**	**2016**
	NIS'000	**NIS'000**	**NIS'000**
Payroll and related expenses	**45,141**	44,062	39,294
Management fees	**8,975**	10,393	11,698
Depreciation and amortization	**4,752**	3,837	3,429
Impairment expenses	**1,650**	959	168
Other expenses	**24,988**	23,561	22,222
	85,506	82,812	76,811
Participation of parent company in expenses			
Participation of parent company in general and administrative expenses	**(200)**	(200)	(200)
	85,306	82,612	76,611

Note 23 – Financing expenses, net

	Year ended December 31,		
	2018	**2017**	**2016**
	NIS'000	**NIS'000**	**NIS'000**
Income			
Changes in fair value of financial derivatives	**3,813**	-	208
Exchange rate differences	**-**	-	1,079
Interest in respect of loans to employees	**44**	71	28
Others	**307**	408	240
	4,164	479	1,555
Expenses			
Interest on debentures	**4,222**	5,346	6,445
Interest to banks	**9,544**	8,097	7,819
Changes in fair value of financial derivatives	**-**	2,286	-
Others	**452**	280	235
Exchange rate differences	**54**	1,723	-
	14,272	17,732	14,499
Total financing expenses, net	**(10,108)**	(17,253)	(12,944)

Note 24 - Income Tax

A. Details regarding the tax environment of the Group

(1) Corporate tax rate

The following are the tax rates that are relevant to the Company in the years 2016 – 2018:

2016 – 25%
2017 – 24%
2018 – 23%

On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate would be reduced as from January 1, 2016.

Furthermore, on December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

The deferred tax as at December 31, 2018 were calculated according to the tax rate expected to apply on the date of reversal.

Current taxes for the reported periods are calculated according to the tax rates presented above.

(2) Industrial company

The Company qualifies as an “Industrial Company” as defined in the Law for the Encouragement of Industry (Taxes) – 1969 and accordingly it is entitled, among other things, to increased depreciation expenses in respect of equipment used for its industrial activity.

(3) Excise tax

Alcoholic beverages that are either imported or manufactured in Israel, as well as certain raw materials, are subject to excise tax pursuant to the Excise Tax Law (Goods and Services) – 1952. There are periodic changes in the rates of this tax, with the resultant positive or negative impact on the business results of the Group.

a. Excise tax on beer products
Excise tax on imported and local beer products is a fixed amount per sold liter, calculated each year on the basis of the change in the Consumer Price Index. The excise tax on beer in 2018 is NIS 2.31 per liter. (in 2017 – NIS 2.30, in 2016 – NIS 2.31 per liter).

b. Excise tax on alcoholic beverages
The excise tax applicable to alcoholic beverages is a fixed amount per liter of alcohol sold or imported and it varies from year to year, depending upon the change in the Consumer Price Index. The excise tax in 2018 was NIS 84.24 per liter of alcohol (in 2017 – NIS 83.99, in 2016 – NIS 84.24 per liter of alcohol).

Note 24 - Income Tax (cont'd)

B. Composition of income tax income (expense)

	Year ended December 31,		
	2018	**2017**	**2016**
	NIS'000	**NIS'000**	**NIS'000**
Current taxes			
Tax expenses in respect of the current year	**(24,467)**	(35,547)	(32,373)
Tax expenses in respect of prior years	**-**	(2,720)	-
	(24,467)	(38,267)	(32,373)
Deferred taxes:			
Recording and reversal of temporary differences	**2,005**	2,005	100
Change in tax rates	**-**	-	3,526
Taxes in respect of prior years	-	2,459	-
	2,005	4,464	3,626
Taxes on income	**(22,462)**	(33,803)	(28,747)

C. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense:

	Year ended December 31,		
	2018	**2017**	**2016**
	NIS'000	**NIS'000**	**NIS'000**
Income before taxes on income	**110,181**	123,977	124,519
Primary tax rate of the Company	**23%**	24%	25%
Tax calculated according to the Company's primary tax rate	**25,342**	29,755	31,130
Additional tax (tax saving) in respect of:			
Neutralization of calculated tax in respect of the share of the Company in the profits of equity-accounted investee companies	**(842)**	(573)	(29)
Non-deductible expenses	**1,193**	883	948
Losses in respect of which deferred taxes were not recorded	**-**	3,469	-
Change in deferred taxes as a result of a change in tax rates	**-**	-	(3,526)
Utilization of tax losses in respect of which deferred taxes were not recorded in the past	**(3,872)**	-	-
Taxes in respect of prior years	-	261	-
Others	**596**	8	224
Taxes on income	**22,462**	33,803	28,747

Note 24 - Income Tax (cont'd)

D. Deferred tax assets and liabilities

(1) Recognized deferred tax assets and liabilities

The deferred taxes were calculated on the basis of the tax rates expected to apply on the date of reversal, as detailed above.

Deferred tax assets and liabilities attributed to the following items:

	Fixed assets	Employee benefits	Carry-forward losses	Provision for doubtful debts	Others	Total
	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000
Deferred tax asset (liability) as of December 31, 2016	(40,007)	5,891	-	6,575	4,179	(23,362)
Changes carried to profit and loss	6,464	(1,774)	(1,161)	224	711	4,464
Business combinations (see Note 8)	(144)	-	2,232	-	(3,066)	(978)
Changes against other comprehensive income	-	(23)	-	-	-	(23)
Deferred tax asset (liability) as of December 31, 2017	(33,687)	4,094	1,071	6,799	1,824	(19,899)
Changes carried to profit and loss	**1,767**	**729**	**(1,071)**	**198**	**382**	**2,005**
Changes against other comprehensive income	**-**	**47**	**-**	**-**	**-**	**47**
Deferred tax asset (liability) as of December 31, 2018	**(31,920)**	**4,870**	**-**	**6,997**	**2,206**	**(17,847)**

	December 31,	
	2018	2017
	NIS'000	NIS'000
Presented in the statement of financial position as part of deferred tax asset	**9,868**	11,808
Deferred tax liability	**(27,715)**	(31,707)
	(17,847)	(19,899)

(2) Tax losses and deductions carried forward to future years

The Company has losses from marketable securities which were not recognized for tax purposes in an amount of approximately NIS 1,200 thousand (adjusted). The losses will be deductible in future years only against income from marketable securities, if any exists in those years. In respect of the difference in real terms, no deferred taxes were recognized.

E. Tax assessments

1. Some of the Group companies were issued final tax assessments up to and including the 2015 tax year. In respect of the rest of the Group companies, tax assessments were deemed to be final through the year ended 2013.
2. Pursuant to a legal opinion obtained by the Company, it is entitled to a tax benefit under the Law for the Encouragement of Capital Investment – 1959 since it is in compliance with the terms of a "competitive enterprise" as the term is defined in the aforementioned law. The Israeli Tax Authorities dispute this opinion and, therefore, the Company was issued assessments under orders for the years 2011 – 2012, in respect of which the Company appealed to the District Court.

   Taking the above into consideration, that it is not possible to estimate the results of the assessment deliberations and the hearings on this matter, the Company included its tax expenses in respect of these years at the regular tax rates of 24% and 25%, respectively. Therefore, the aforementioned orders and the appeal do not have an effect on the financial statements of the Company.

Note 25 – Financial risk management

A. General

The Group is exposed to the following risks, deriving from use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (including currency risk and interest risk)

This note provides information pertaining to the exposure of the Group to each of the aforementioned risks, the objectives of the Group, and the policies and processes regarding the measurement and management of the risk. Additional quantitative disclosure is presented throughout these consolidated financial statements.

B. Credit risk

Trade and other accounts receivable
The exposure of the Group to credit risks is influenced primarily by the personal characteristics of each customer. Company Management set down a credit policy whereby each new customer undergoes a detailed examination regarding the quality of its credit before the Company offers the customer the Group's normal credit and shipping terms. The investigation performed by the Group includes third-party credit ratings. The Group sets purchase limits for each customer, reflecting the customer's maximum credit limit. Customers who do not meet the Group's criteria regarding credit quality can still purchase from the Group if they pay cash up front.

C. Liquidity risk

The approach of the Group in managing its liquidity risk is to ensure, to the extent possible, that it has enough liquid resources to meet its liabilities on time, in both normal times and in times of pressure, without incurring undesirable losses or damage to its reputation.

D. Market risks

Currency risk
The Group is exposed to currency risk in respect of purchases, raw materials and purchased goods, and loans denominated in various currencies of the functional currencies of the Group companies, primarily the dollar and the euro.

Interest risk
The Company has shekel loans that are linked to the Prime Rate. The Company does not hedge against the possibility of changes in interest rates and operates on the basis of market conditions to reduce the exposure and reduce its finance costs.

Note 26 – Financial instruments

A. Credit risk

The following table presents aging of customer debts:

	December 31, 2018		December 31, 2017	
	Gross	Impairment	Gross	Impairment
	NIS'000	NIS'000	NIS'000	NIS'000
Not in arrears	**309,328**	**4,875**	279,470	4,477
Arrears of 0 – 30 days	**13,998**	**306**	10,567	220
Arrears of 31 – 120 days	**3,610**	**69**	5,552	93
Arrears of more than 120 days	**28,415**	**27,594**	27,355	27,192
	355,351	**32,844**	322,944	31,982

Part of the credit to customers is insured with credit insurance and with various other collateral.

Note 26 – Financial instruments (cont'd)

B. Liquidity risks

The following table presents the contractual maturity dates of the financial liabilities, including estimated interest payments.

	December 31, 2018						
	Carrying Value	Contractual Cash flow	Up to 6 months	6-12 months	1-2 years	2-4 years	More than 4 years
	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000
Non-derivative financial liabilities							
Short-term overdrafts and loans from banks	**359,263**	**365,390**	**352,213**	**13,177**	**-**	**-**	**-**
Suppliers	**217,244**	**217,244**	**217,244**	**-**	**-**	**-**	**-**
Current maturities of debentures	**23,634**	**26,338**	**13,740**	**12,598**	**-**	**-**	**-**
Other payables	**103,542**	**103,542**	**103,542**	**-**	**-**	**-**	**-**
Long-term bank loans	**104,202**	**112,809**	**-**	**-**	**24,277**	**42,339**	**46,193**
Debentures	**67,435**	**73,656**	**-**	**-**	**25,314**	**24,887**	**23,455**
Other long-term liabilities	**2,860**	**2,860**	**-**	**-**	**140**	**140**	**2,580**
Total	**878,180**	**901,839**	**686,739**	**25,775**	**49,731**	**67,366**	**72,228**

	December 31, 2017						
	Carrying Value	Contractual Cash flow	Up to 6 months	6-12 months	1-2 years	2-4 years	More than 4 years
	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000
Non-derivative financial liabilities							
Short-term overdrafts and loans from banks	288,191	292,440	285,201	7,239	-	-	-
Suppliers	225,983	225,983	225,983	-	-	-	-
Current maturities of debentures	23,856	27,362	14,252	13,110	-	-	-
Other payables	109,238	109,238	109,238	-	-	-	-
Long-term bank loans	41,579	45,711	-	-	17,333	17,997	10,381
Debentures	90,353	99,993	-	-	26,338	37,936	35,719
Other long-term liabilities	2,737	2,737	-	-	140	349	2,248
Total	781,937	803,464	634,674	20,349	43,811	56,282	48,348

Note 26 – Financial instruments (cont'd)

C. CPI and foreign currency risks

1. Exposure to CPI and foreign currency risk

The following table presents CPI and foreign currency risk, based on denominated values:

	December 31, 2018				
	NIS		Foreign Currency		
	Unlinked	Linked to the CPI	Dollar	Euro	Total
	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000
Current assets;					
Cash and cash equivalents	**5,905**	**-**	**4,782**	**4,987**	**15,674**
Trade accounts receivable	**295,487**	**-**	**9,652**	**17,368**	**322,507**
Other receivables	**10,668**	**355**	**14,852**	**16,838**	**42,713**
Derivative instruments	**-**	**-**	**561**	**783**	**1,344**
Non-current assets:					
Long-term loans and receivables	**34,185**	**366**	**-**	**34**	**34,585**
	346,245	**721**	**29,847**	**40,010**	**416,823**
Current liabilities:					
Overdrafts and short-term loans from banking institutions	**359,263**		**-**	**-**	**359,263**
Trade accounts payable	**123,879**	**-**	**16,398**	**76,967**	**217,244**
Other payables	**87,667**	**11,755**	**-**	**4,120**	**103,542**
Current maturities of debentures	**23,634**	**-**	**-**	**-**	**23,634**
Non-current liabilities					
Liabilities to banking institutions	**104,202**	**-**	**-**	**-**	**104,202**
Debentures	**67,435**	**-**	**-**	**-**	**67,435**
Other long-term liabilities	**-**	**2,860**	**-**	**-**	**2,860**
	766,080	**14,615**	**16,398**	**81,087**	**878,180**
Total risk, net	**(419,835)**	**(13,894)**	**13,449**	**(41,077)**	**(461,357)**

Note 26 – Financial instruments (cont'd)

C. CPI and foreign currency risks (cont'd)

1. Exposure to CPI and foreign currency risk (cont'd)

	December 31, 2017				
	NIS		Foreign Currency		
	Unlinked	Linked to the CPI	Dollar	Euro	Total
	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000
Current assets;					
Cash and cash equivalents	5,118	-	1,972	5,642	12,732
Trade accounts receivable	281,795	-	7,279	1,888	290,962
Other receivables	13,262	665	9,950	11,337	35,214
Derivative instruments	-	-	-	162	162
Non-current assets:					
Long-term loans and receivables	39,244	452	-	1,412	41,108
	339,419	1,117	19,201	20,441	380,178
Current liabilities:					
Overdrafts and short-term loans from banking institutions	287,877	314	-	-	288,191
Trade accounts payable	143,238	-	14,858	67,887	225,983
Other payables	91,094	14,989	-	3,155	109,238
Derivative instruments	-	-	498	202	700
Current maturities of debentures	23,856	-	-	-	23,856
Non-current liabilities					
Liabilities to banking institutions	41,579	-	-	-	41,579
Debentures	90,353	-	-	-	90,353
Other long-term liabilities	69	2,688	-	-	2,737
	678,066	17,971	15,356	71,244	782,637
Total risk, net	(338,647)	(16,854)	3,845	(50,803)	(402,459)

2. Derivatives:

The fair value of the forward contracts and options on foreign currency is based on their listed market prices when available. In the absence of such market prices, the fair value was estimated on the basis of the discounting of the difference between the forward price denominated in the contract and the current forward price in respect of the balance of the period of the contract to maturity, using an appropriate interest rate.

The following is a breakdown of the exposure of the Company to foreign currency risks in respect of derivative financial instruments:

As of December 31, 2018:

- The Company has forward contracts for the purchase of $4.5 million for an amount of NIS 16 million, for the period until December 2019.
- The Company has forward contracts for the purchase of €6 million for an amount of NIS 25 million for the period until March 2019.

Note 26 – Financial instruments (cont'd)

C. CPI and foreign currency risks (cont'd)

2. Cont'd

As of December 31, 2017:

- The Company has forward contracts for the purchase of $15 million for an amount of NIS 52.2 million, for the period until December 2018.
- The Company has forward contracts for the purchase of €12 million for an amount of NIS 50 million for the period until June 2018.

3. Sensitivity analysis

The weakening of the shekel against the following currencies and the increase in the Consumer Price Index would have increased (decreased) shareholders' equity and the profit and loss by the following amounts (without the tax effect). This analysis was performed under the assumption that all other variables, especially interest rates, remained constant:

	Year ended December 31,	
	2018	**2017**
	Equity / gain (loss)	**Equity / gain (loss)**
Increase in CPI of 1.5%	**(208)**	(253)
Increase in exchange rate of:		
US dollar of 5%	**853**	3,303
Euro of 5%	**(1,657)**	(222)

The strengthening of the shekel by similar percentages against the aforementioned currencies, together with the decrease in the Israel Consumer Price Index by a similar percentage as at December 31 had a narrowing impact, albeit in an opposite direction, under the assumption that all of the other variables remained constant.

For additional information regarding the fair value hierarchy, see Note 2D.

D. Interest rate risk

1. The following is a breakdown of the types of interest of financial liabilities:

	December 31,	
	2018	**2017**
	NIS'000	**NIS'000**
Financial liabilities at fixed interest	**223,114**	173,763
Financial liabilities at variable interest	**331,420**	270,216

Note 26 – Financial instruments (cont'd)

D. Interest rate risk (cont'd)

2. Sensitivity analysis of the fair value of instruments at fixed interest

The Group's assets and liabilities at fixed interest are not measured at fair value through profit and loss. Therefore, a change in interest rates as of the balance sheet date is not expected to have any impact on profit and loss in respect of changes in the value of the assets and liabilities at fixed interest.

3. Cash flow sensitivity analysis regarding instruments at variable interest rates

A change of 1 percentage point in interest rates at the reporting date would increase or decrease the shareholders' equity and profit and loss by the following amounts (with the tax effect). This analysis was done under the assumption that the rest of the variables, especially foreign currency exchange rates, remained constant.

	December 31, 2018	December 31, 2017
	Equity/Loss	Equity/Loss
	Increase in interest	Increase in interest
	NIS'000	NIS'000
Instruments at variable interest rates	**(3,314)**	(2,702)

A decrease in interest of a similar rate as at December 31, 2018 and 2017 had an identical impact, although in opposing directions, under the assumption that all of the other variables remained constant.

E. Fair value

Financial instruments measured at fair value for disclosure purposes only

The carrying value of certain financial assets and liabilities, including cash and cash equivalents, trade accounts receivable, other receivables, bank overdrafts, short-term loans and credit, trade accounts payable and other accounts payable agree with or approximate their fair value.

The fair value of the rest of the financial assets and liabilities and the carrying value as presented in the financial statements are as follows:

	Fair Value	December 31, 2018		December 31, 2017	
		Carrying value	Fair value	Carrying value	Fair value
	Level	NIS'000	NIS'000	NIS'000	NIS'000
Non-current liabilities:					
Debentures	***1**	**91,069**	**92,819**	114,209	120,937
Long-term bank loan	****3**	**132,045**	**132,194**	59,554	62,635
Long-term loans from others	**3**	**3,000**	**2,324**	2,877	2,168

(*) Fair value of debentures is based on their stock market price.

(**) The interest rates used to discount the forecasted cash flow estimate based on the government yield curve, as at the reporting date, plus an appropriate fixed credit margin. The interest rates used to discount as at December 31, 2018 – 2.6%-3.2% (2017 – 2.4%-2.7%).

Note 27 - Commitments

A. Agreement with PepsiCo Inc. and with Seven Up International (hereinafter jointly – "PepsiCo")

On April 13, 2015, the Company renewed its agreements with Pepsico, whereby the Company was granted a franchise for the sole manufacture, market, sale and distribution in Israel of Pepsico's beverages, including Pepsi Cola, Pepsi Max, Diet Pepsi, Miranda, Seven Up and Diet Seven Up (hereinafter – the "Agreement").

The agreement is valid for five years, commencing on January 1, 2015 and it will be automatically extended for additional periods of five years each, subject to the right of either of the parties to terminate the agreement upon the period of advanced notification, as set out in the agreement.

B. Agreement with Tradall S.A.

On October 20, 2016, the Company signed an addendum to the agreement with Tradall S.A., whereby the Company will continue to distribute Bacardi Breezer alcohol products, until March 31, 2019. In addition, the parties undertook to invest a minimum amount in marketing and promotion of products, minimum sales targets were set, and the purchase price was set by the Company.

C. Agreement with Aqua Minerale San Benedetto S.P.A.

The Company signed an agreement with Aqua Minerale San Benedetto S.P.A. (hereinafter – San Benedetto) whereby the Company will exclusively distribute in Israel and in the Palestinian Authority the mineral water manufactured by San Benedetto. In accordance with the provisions of the agreement the Company is not allowed to distribute mineral water of competitors of San Benedetto, but it is allowed to distribute mineral water manufactured in Israel subject to the conditions specified in the agreement.
The agreement is in effect from May 1, 2000 and will continue to be in effect until one of the parties cancels it upon advance notice of one year.

D. Agreement with Pernod Ricard Europe S.A.

On July 7, 2010, the Company entered into an agreement with Pernod Ricard Europe S.A. (hereinafter – the "agreement" and "Pernod" respectively) which was amended on July 5, 2012, regarding the exclusive marketing, sale and distribution in Israel of the alcoholic beverages manufactured and distributed by companies of the Pernod Group (hereinafter – the "Products"), including the "Absolut" vodka brand, and the whiskey brands "Jameson", "Chivas" and "Ballentines".

On March 27, 2018, the engagement between the parties was renewed, at terms that are similar to those in the agreement, for an additional period of seven years.

Note 27 - Commitments (cont'd)

E. Agreement with XL Energy Corp.

On September 2, 2009, the Company entered into an agreement with XL Energy Corp. (hereinafter – “XL”) whereby the Company was granted the exclusive rights of marketing, selling, and distribution of XL products in Israel. The agreement period is 10 years, commencing on January 1, 2010 and it is automatically renewable for five additional years.

In consideration of the distribution agreement, XL is entitled to receive certain percentages of the profit, as defined in the agreement, of the Company as a result of distribution of the products. During 2011, the Company started producing the aforementioned products at its Netanya plant.

On January 26, 2017, the engagement was extended for an additional 10 years, commencing from 2020. In addition, the territorial coverage of the agreement was broadened to include Cyprus as well.

F. The Law for the Promotion of Competition in the Food Industry - 2014

On March 19, 2014, the Law for the Promotion of Competition in the Food Industry – 2014 was passed (hereinafter – the “Food Law”). The Food Law includes, among other things, the following provisions: (1) Prohibition of a vendor's involvement in setting the price to the consumer charged by the retailer in respect of a product of another vendor; (2) Prohibition of the involvement of the retailer regarding the price to the consumer charged by another retailer for a product; (3) Prohibitions of a vendor whose sales turnover to retailers (as the term is defined in the Food Law) exceeded NIS 300 million or a vendor which has a monopoly (hereinafter – a “large vendor”), including – restricting a large vendor in arranging products in the retailer's store (which has at least three stores and the sales turnover in all of its stores exceeds NIS 250 million) (hereinafter – a “large retailer”); prohibition of a large vendor's involvement in setting the price to the consumer charged by a retailer; prohibition of a large vendor's involvement in allotting selling space by a retailer; prohibition of a large vendor's involvement in the purchase of a product that the large vendor supplies in any volume out of the purchases of the retailer and its involvement in the purchase or sale of products supplied by a different vendor to the retailer; (4) Prohibition of a large retailer's being a party to an arrangement, the result of which is "prohibited costing", with a large vendor included in the list of large vendors and large retailers regarding which the Commissioner found that the definitions of "large vendor" and "large retailer" were met (as set out in this clause, paragraph 3 above).

Regarding this matter, "prohibited costing" was defined as the sale of part of the units of the product at a price that is lower than the marginal cost of supplying the product to a large retailer or the sale of products, the total price of which is lower than or equal to the total price that the large vendor offers to the large retailer for the purchase of a smaller number of units of the same product; (5) Prohibition of a vendor's transferring payments to a large retailer, in money or in kind, except for a number of exceptions set out (the above does not prohibit the vendor from lowering the unit price of the product it supplies to the large retailer); (6) Granting authority to the Commissioner to give to a large retailer which sells a product of a large vendor, instructions regarding the steps it has to take in connection with the same product or with alternatives for the same product including in connection with shelf space; (7) Requiring the large vendor to report to the Commissioner, once a year, regarding its annual sales turnover to retailers, except where the large vendor declared that it meets the terms of a "large vendor"; (8) Prohibition of a large vendor's conditioning the sale of any of its products to a retailer on the purchase of another product of the same large vendor.

Note 27 - Commitments (cont'd)

G. Agreement with Stock International S.R.O.

Pursuant to agreements that were signed in June 2016 between Barkan Wineries and Stock International S.R.O. (hereinafter – "Stock"), the owner of the rights to the brand name of products in the alcoholic beverage industry, Barkan Wineries was granted a license to continue producing, marketing and selling the products in Israel, in return for variable royalties, until December 31, 2020. As part of these agreements, minimum sales targets were set, as well as product-specific variable royalty rates.

H. Agreement with San Pellegrino

On July 17, 2016, an agreement was signed between San Pellegrino S.P.A. (hereinafter – "San Pellegrino") and the Group, pursuant to which the Group will continue being considered as the sole distributor in Israel for mineral water (plain and carbonated) produced by San Pellegrino. San Pellegrino undertook not to engage another distributor and/or not to market these products by itself within Israel.

The agreement period is two years (hereinafter – the "first agreement period") and it will be extended automatically for an additional year, unless either of the parties notifies the other party of its desire not to extend the period, at least three months prior to the termination date of the first agreement period.

On September 23, 2016, the Company entered into a marketing and distribution agreement with San Pellegrino, in respect of ice tea beverages under the "Nestea" brand (hereinafter – the "products" and the "agreement", respectively). According to the agreement, the Company will have sole distribution and marketing rights regarding the products for a period of one year. As at the date of approval of the financial statements, the Company has been continuing distribution and marketing of the products pursuant to the provisions of the agreement.

Note 27 - Commitments (cont'd)

I. Agreement to purchase grapes

- Barkan Wineries undertook to purchase grapes from vineyards each harvest year, in accordance with the terms set out in various agreements. As part of these agreements, on May 31, 2010 Barkan Wineries entered into a grape supply agreement with a company under the control of an interested party in Barkan, in connection with an area of 900 dunams (of which 95 dunams are a joint activity and the balance under a regular agreement). The agreement is valid through December 31, 2017. As at the date of approval of the financial statements, Barkan Wineries has been considering an extension of the engagement at similar terms.
  In addition, Barkan Wineries has other agreements as follows:

- Vineyards as part of Joint Activities with vine growers – Under transactions of this kind, Barkan Wineries undertakes the costs of purchasing the inputs to set up the vineyard and the grower undertakes the growing expenses until the first harvest (usually 3 – 4 years after the planting of the vineyard). Subsequently, the expenses of the vineyard are split equally between the Barkan Wineries and the grower (except for extraordinary expenses). The grape yield under these agreements between Barkan Wineries and the growers is divided equally. According to the provisions of such agreements, Barkan Wineries purchases the entire share of the grower in the grape yield. In addition, these agreements contain provisions regarding the manner in which the yield is to be planted and in which the fruit of the harvest are to be purchased.

- Agreements to work the vineyards – Under these agreements, Barkan Wineries renders to the right holders of the vineyards farming services and covers all of the expenses involved in working of the vineyard, in return for the entire yield of the vineyard.

J. Deposit on Drink Containers

According to the Drink Container Deposit Law - (1999) (hereinafter - the deposit law), a deposit in the amount of NIS 0.30 must be made on every sale of a drink container. The deposit will be returned along with the return of the drink container to the sale point, the manufacturer or the importer.

In February 2010, the Israeli parliament passed an amendment to the Deposit Law, placing on the beverage manufacturers the responsibility to collect and recycle the bottles they sell in accordance with the percentages set out in the amendment to the law. In addition, the amendment stipulated minimum rates of collection and recycling of large beverage containers, i.e., beverage containers of 1.5 liters or larger. In respect of such large drink containers no deposit is charged, although the amendment stipulates: (i) a manufacturer or importer that does not meet the collection target stipulated in the law in respect of large drink containers will pay a fine in respect of each large drink container it does not collect in accordance with the target; and (ii) if the beverage manufacturers do not meet the collection percentages set out in the amendment in connection with large drink containers, then all of the provisions of the law in respect of all of the containers shall also apply. In the opinion of Company Management, implementation of the amendment may cause an impairment in the financial results of the Company, in amounts that cannot currently be forecasted accurately.

Note 27 - Commitments (cont'd)

J. Deposit on Drink Containers (cont'd)

Since 2010, the Company has been paying to ELA – Recycling Corporation LTD. (hereinafter – "Ela") a handling fee that was designed to assist the Ela to comply with the collection targets set out in the amendment to the Deposit Law, both regarding small containers (up to 1.5 liters) and large containers (between 1.5 – 5 liters).

On July 26, 2017, the Antitrust Court changed the agreed-upon outline which was reached between the Antitrust Commissioner and Ela, to approve the continued operation of Ela, subject to the Company's no longer being shareholder in Ela.
According to the agreed-upon outline, Ela will be allowed to continue its activity if the Company ceases being a shareholder in Ela. The continued operation of Ela was made contingent upon a number of agreed-upon conditions, including that each manufacturer or importer, including the Company, has the right to obtain services from Ela on equal terms and under agreements that are valid for up to one year.

For more information regarding a payment demand received by the Company from the Environmental Protection Ministry, in respect of failure to meet targets for the collection of large containers in 2016, see Note 28A9.

K. The Packaging Law

On March 1, 2011, the Law for the Handling of Packaging – 2011 went into effect (hereinafter – the “Packaging Law”). The objective of the Packaging Law is to regulate the manufacturing of packaging and the handling of packaging waste, so as to reduce the quantity of packaging waste, to avoid the need for burying the waste and to encourage recycling of packaging. The Packaging Law requires the manufacturers and importers of products sold in different forms of packaging to recycle the packaging waste of their products, at rates set out in the Packaging Law and the law also sets out penalties for failure to comply with the aforementioned recycling targets. In addition, the Packaging Law sets up mechanisms for carrying out the recycling through special entities to be set up for that purpose and which will be responsible for the financing of all of the costs needed for the handling of the packaging waste that was collected within the boundaries of the local authorities with which each entity entered into an agreement. On December 1, 2011, T.M.I.R. – the Israeli Manufacturers Recycling Corporation Ltd., the company founded by the Israeli Manufacturers Association was recognized as a “recognized entity” regarding the Packaging Law (hereinafter – “T.M.I.R”). As part of the founders agreement that was signed between T.M.I.R and the manufacturers and importers of packaging, including the Company, the Company was allotted a share that grants it 5.1% of the voting rights in the general meeting of T.M.I.R. In addition, as part of the agreement to render services between T.M.I.R. and the Company, the objective of which is the implementation of the provisions of the Packaging Law, it was stipulated that in return for the handling fee to be paid to T.M.I.R. by the Company, T.M.I.R. will render the services to the Company and will meet all of the obligations as set out in the Packaging Law, in order to meet the recycling targets set out in the Packaging Law.

L. Agreements with interested party companies

Regarding commitments with interested party companies, see Note 29.

Note 28 - Contingent Liabilities, Guarantees and Pledges

A. Contingent liabilities

1. In addition to the items set out below, suits and debt demands have been filed against the Company for a total amount of NIS 9,600 thousand. In the opinion of Company Management, based on its legal counsel, the Company will not incur any expenses in respect of the results of the suits beyond the provision that is included in the financial statements.

2. On June 2, 2008, the Company was issued a summary payment demand by the Customs House, updated on May 4, 2016, whereby the Company has to pay an amount of NIS 2 million, in respect of a deficit in its import taxes which, according to the Customs House, resulted from an alleged short payment of import taxes on the Bacardi Breezer drink.

   On February 19, 2018, notification was received from the Tax Authority that the deficit was cancelled.

3. On December 31, 2018, the Company was issued a best judgment assessment for 2013 whereby, according to the tax authorities, some of the payments made by the Company to Pepsico in respect of the purchase of concentrates actually constitute royalties. Therefore, the Company is required to withhold an amount of NIS 1.8 million (including interest and linkage differentials) at the source, in respect of these payments.
   In the opinion of Company Management, based on its legal counsel, this assessment will be cancelled and, therefore, no provision was set up in the financial statements in respect thereof.

4. On March 22, 2016, a suit was filed against the Company, together with a petition to approve the suit as a class action. The plaintiff claims that during the past decade, the Company engaged in an advertising campaign for the Goldstar beer product it manufactures. As part of the campaign, the Company addresses men as its sole target group, thereby harming the female group. The plaintiff claims that she was exposed to the advertising conducted by the Company and she was hurt by it. Among other things, the Plaintiff claims that the Company impaired the principle of equality and allegedly was in breach of restrictions passed by the legislature regarding the marketing and advertising of alcoholic beverages.

   The relief requested by the plaintiff is, among other things, (1) to stipulate that the advertisements advertised by the Company on television constitute a civil wrong pursuant to the Law against Discrimination regarding Products – 2001 and the Law for Restricting the Advertising and Marketing of Alcoholic Beverages – 2012, (2) to issue declarative relief whereby that the sexual discrimination and the damage to human honor caused by the manner of advertisement used by the Company are illegal and to issue an order instructing the Company to cease the discrimination in the supply of its products and desist from advertising in the manner in which it acted; (3) to levy monetary compensation in favor of the group (regarding which the Plaintiff noted that at present she is unable to quantify the size of such compensation) and the public, as the court sees fit and levy compensation for the plaintiff and her attorneys. The amount of the class action suit is NIS 20 million.

   On September 6, 2017, a court decision was rendered whereby the request to recognize the suit as a class action was rejected. On January 17, 2018, the Company received a copy of a writ of appeal filed by the Plaintiff with the Supreme Court.

Note 28 - Contingent Liabilities, Guarantees and Pledges (cont'd)

A. Contingent liabilities (cont'd)

4. (cont'd)

In the opinion of the Company Management, based on its legal counsel, the chances of the appeal being sustained are less than 50%. Therefore, no provision was included in the financial statements in respect of the appeal.

5. On September 19, 2017, a suit was filed against a wholly-owned grandchild subsidiary of the Company (hereinafter – the "Defendant"), together with a petition to approve the suit as a class action. The plaintiff claims that the Defendant manufactured and marketed "Tirosh Natural Grape Juice" and "Red Sweet Wine" in a manner that misleads and harms the consumer public that purchases these products.

The Plaintiff alleges that the Defendant claims to represent the grape juice manufactured and marketed by it, "Tirosh Natural Grape Juice", as a product that is "100% natural" and, as such, it is manufactured from "grape juice" only, whereas the Defendant actually adds to the grape juice an additive of white sugar (Sucralose), in a manner that allegedly is in breach of the law and regulations.

In addition, the Plaintiff claims that the Defendant adds to the "Red Sweet Wine", in violation of the law, an additive of white sugar (Sucralose) and does not note such additional sugar of the label of the product.

The reliefs requested by the plaintiff are: (1) compensation in an amount of NIS 118,700 thousand to the entire Group of members which, according to the Plaintiff, were harmed by the acts of commission of the Defendant; (2) to instruct the Defendant to manufacture the grape juice and the red sweet wine in accordance with the provisions of the relevant law and regulations; (3) to correct the representations that appear on the labels that are pasted onto the grape juice and red sweet wine bottles, so as to correctly reflect the essence of the product; (4) to issue any necessary order under the circumstances of the matter which are under the jurisdiction of the District Court.

In the opinion of the management of the Defendant, based on its legal counsel, the chances of the motion to be sustained are less than 50%. Consequently, no provision in respect thereof was included in the financial statements.

6. On March 7, 2018, a suit was filed against the Company, together with a motion to recognize the suit as a class action.

The Plaintiff alleges that as a long-standing consumer of the Pepsi Max product, manufactured and marketed by the Company, he has been recently suffering from leaks and a lack of gas from the product. According to the Plaintiff, the cap of the bottle in which the product is sold is not properly hermetically sealed, neither prior to opening the bottle nor after opening the bottle. The major relief being requested by the Plaintiff is compensation of NIS 306,000 thousand for the entire group which the Plaintiff alleges has been damaged as a result of the acts of commission of the Company.

In the opinion of Company Management, based on its legal counsel, the chances of the suit being sustained are less than 50%. Therefore, no provision was set up in the financial statements in respect thereof.

Note 28 - Contingent Liabilities, Guarantees and Pledges (cont'd)

A. Contingent liabilities (cont'd)

7. On August 16, 2018, a suit was filed against Neni, together with a motion to recognize the suit as a class action. The Plaintiffs claimed that they consumed hot drinks from coffee machines that were imported and/or marketed by the Defendant, and the machines were defective, whereby they put into the hot drink cups quantities of lead that deviated from the quantities allowed under Israel law and standards. The Plaintiffs claimed that by doing so, the Defendant was allegedly harming their health.

   The major reliefs being requested by the Plaintiffs are as follows:

   1. To award compensation in an amount of NIS 540,000 thousand to all of the members of the Group which they alleged were harmed as a result of an act of commission on the part of the Defendant.

   2. To order the Defendant to remove the coffee machines from business in which the machines are still located.

   3. To order to set down procedures, whereby it will conduct examinations once every six months regarding the machines it markets, in order to ensure their safe operation and that they do not constitute a public health hazard.

   In the opinion of Company Management, based on its legal counsel, the chances of the motion being sustained are less than 50% and, therefore, no provision was set up in the financial statements.

8. On August 3, 2017, a suit was received in the offices of Barkan Wineries, filed by the authority that is in charge of executing the Law for Agricultural Settlement (Restrictions Regarding Use of Land and Water) – 1967 (hereinafter – the "Law") at the Ministry of Agriculture, against an agricultural Moshav engaged by Barkan in a transaction for the purchase of the wine grape yield of the Moshav for purposes of Barkan's operation (hereinafter – the "Moshav"). In the writ of claim, the relief requested by the Plaintiff was the expropriation of the lands of the Moshav, as required by law.

   In the opinion of Company Management, based on the legal counsel of Barkan Wineries, in the lion's share of suits of this type, the parties reach compromise agreements that include commitments to conclude the breaches. However, even in the event that a court decision is rendered against the Moshav, the law affords protection to Barkan Wineries and the investments made in the lands of the Moshav. In addition, in the opinion of the legal counsel of Barkan Wineries, in view of the provisions of the law, the monetary risk faced by Barkan Wineries is less than 50%. Therefore, no provision was included for this suit in the financial statements.

Note 28 - Contingent Liabilities, Guarantees and Pledges (cont'd)

A. Contingent liabilities (cont'd)

9. On May 28, 2018, a news item appeared in the various media, whereby Zeev Elkin, the Environmental Protection Minister, announced that he had decided not to impose a deposit on soft-drink bottles with a volume of 1.5 liters or more and, in addition, to impose a fine of NIS 48 million on the producers and importers of soft drinks which did not meet the 2016 targets for bottle collections.

   On June 28, 2018, Tempo Marketing received from the Environmental Protection Ministry a payment demand in an amount of NIS 6.7 million in respect of its failure to meet the collection and recycling targets in respect of large containers that were manufactured for Tempo Marketing by Aleh in 2016.

   In the opinion of Company Management, based on its legal counsel, at this time, it is difficult to assess the amount that the Company will have to pay. Notwithstanding, there is a reasonable chance that the amount of the financial penalty will be significantly reduced, even if it is decided at the end of the process that the collection targets were not met. Therefore, based on Management assessments, the amount of the provision that was included in the financial statements in respect of this demand is adequate.

10. Regarding the approval of suits as class actions, as described in the financial statements of the Company as of December 31, 2017, in notes 28A 6 and 7, agreed-upon requests to withdraw the motions and their approval as class actions were sustained.

B. Guarantees

For information pertaining to the guarantee to secure the liabilities of investee companies to banks, see Note 8.

C. Pledges

The Group has made the following pledges:

(1) Fixed and current pledges in favor of banks, unlimited in amount – on the assets of the Company, including goodwill and on the share capital not yet demanded or paid in.

(2) As of the reporting date, the amounts secured by pledges to banking institutions in respect of credit granted by them, including guarantees and letters of credit amounted to NIS 465 million.

Note 29 – Related and interested parties

A. Benefits to interested parties

	Year ended December 31,					
	2018		2017		2016	
	No. of people	Amount	No. of people	Amount	No. of people	Amount
Benefits to interested parties employed by the Company	**2**	**9,294**	2	10,413	2	10,389
Benefits to directors not employed by the Company	**3**	**479**	3	493	3	514

B. Balances with interested parties and related parties

	December 31,	
	2018	2017
	NIS'000	NIS'000
Other receivables(*)	**-**	607
Suppliers	**17,224**	14,482
Other creditors	**6,813**	7,836

(*) The balance as at January 1, 2018 is the highest balance during the year.

C. Remuneration of key management executives

	Year ended December 31,					
	2018		2017		2016	
	NIS'000		NIS'000		NIS'000	
	No. of people	Amount	No. of people	Amount	No. of people	Amount
Payroll and related expenses	**11**	**16,071**	11	16,534	12	18,020

D. Transactions with related and interested parties – all transactions are at market terms

	Year ended December 31,		
	2018	2017	2016
	NIS'000	NIS'000	NIS'000
	Transaction amounts		
Purchases of purchased products	**92,315**	75,327	71,105
Purchases of raw materials	**72**	29	33
Production services	**10,397**	11,229	10,140
Other purchases	**564**	575	1,249
Other manufacturing expenses	**5,651**	4,716	4,318
Rent expenses	**2,628**	2,620	2,647
Participation of the parent company in general and administrative expenses	**200**	200	200
Sale of raw materials	**228**	154	93
Participation of investee companies in expenses	**2,242**	1,852	2,129
Financing income	**203**	146	-

Note 29 – Related and interested parties (cont'd)

E. Employment agreements with the chairman of the board and an interested party in the Company

On November 20, 2011, the general meeting of Tempo Industries ratified the renewal of the Company's management agreements with Messrs. Jacques Beer and Amir Borenstein (hereinafter – the "Management Services Agreement with Jacques Beer" and the "Management Services Agreement with Amir Borenstein", respectively).

(1) The following is a summary of the principal terms of the Management Services Agreement with Jacques Beer:

Mr. Jacques Beer renders management services to the Company as its active chairman of the board of directors. In addition, in accordance with the resolution of the board of directors of the Company passed on February 23, 2011, Mr. Beer serves as the CEO of the Company, at no additional cost to the Company. Mr. Beer also serves as a director of Tempo Industries, at no additional cost.

The monthly remuneration in respect of the management services was set at $25,000, translated into shekels on January 1, 1997 and linked to the Consumer Price Index at that date. In addition, Mr. Beer is entitled to a company car, a cellular phone and a phone line at his home. Mr. Beer is also entitled to an annual bonus of 5% of the Company's pre-tax income (hereinafter – the "bonus").

As part of the renewal of the Management Services Agreement with Jacques Beer, the agreement was limited to a term of 36 months from November 14, 2011, as required by the provisions of article 275(A1) of the Companies Law (hereinafter – the "Agreement Period"), without detracting from the provisions of the original agreement in connection with the option of terminating the agreement upon advance notice.

Upon the renewal of the agreement, the following provisions were added to the Management Services Agreement with Jacques Beer:

a. The bonus, as defined above, will be paid at the end of each calendar year during the agreement period, subject to the provision that during the year or years that preceded the year of payment, the Company did not record a pre-tax loss in its financial statements (hereinafter – "prior years' losses"). To the extent prior years' losses were recorded, they will be set off against the bonus – in part or in whole, as applicable;

Note 29 – Related and interested parties (cont'd)

E. Employment agreements with the chairman of the board and an interested party in the Company (cont'd)

(1) (cont'd)

b. In any event, the bonus shall not exceed an amount equal to the monthly management fees for 36 months;

c. The management services shall be rendered at a scope that is not less than a 90% position.

On January 14, 2014, the general meeting of the shareholders of the Company approved a change in a component of the grant of the chairman of the board and the CEO of the Company, further to the approval of the board of directors and the remunerations committee and pursuant to the Company's remuneration policy, as follows:

The chairman of the board and CEO will be entitled to an annual bonus to be paid at the end of each calendar year during the agreement period, at a rate of 4.2% of the Company's pre-tax profit (for this purpose, "pre-tax profit" for purposes of the measured bonus shall be calculated as the pre-tax profit appearing in the Company's consolidated financial statements, less a return on the shareholders' equity of the Company as at the beginning of each year during the course of the remunerations program (8%), neutralizing one-time or accounting events that increase the Company's profit, not as a result of a real increase in activity), subject to the fact that in the year or years prior to the year of payment, the Company did not record in its financial statements a pre-tax loss (hereinafter – the "prior years' losses"). In the event that prior years' losses were recorded, these losses will be offset against the pre-tax profit – in whole or in part, as applicable, for purposes of calculating the bonus.

The total annual bonus to the chairman of the board and CEO shall not exceed 3% of the Company's pre-tax profit (based on the financial statements of the Company).

In addition, in any event, the total bonus of the chairman of the board and the CEO shall not exceed an amount equal to 36 payments of monthly management fees.

Further to the approval of the audit committee and board of directors of the Company, on January 15, 2017, the general meeting of the shareholders of the Company approved the reappointment of Mr. Jack Beer as the CEO of the Company in addition to his position as chairman of the board of directors, and to approve the remuneration policy in connection with his tenure. The remuneration policy has not changed since it was approved by the general meeting on January 14, 2014.

(2) The following is a summary of the principal terms of the Management Services Agreement with Amir Borenstein:

Mr. Amir Borenstein serves as a director of Tempo Industries, a director of the Company and a member of its management team, and as the active chairman of the board of directors of Barkan Wineries. In addition, in accordance with the resolution of the board of directors of Tempo Industries passed on August 24, 2010, Mr. Borenstein serves as the CEO of the Tempo Industries, at not additional cost.

The monthly remuneration in respect of the services Mr. Borenstein renders was set at $20,000, translated into shekels on February 1, 1999 and linked to the Consumer Price Index at that date. In addition, Mr. Borenstein is entitled to a company car, a cellular phone and a phone line at his home.

Note 29 – Related and interested parties (cont'd)

E. Employment agreements with the chairman of the board and an interested party in the Company (cont'd)

(2) <u>(cont'd)</u>

As part of the renewal of the Management Services Agreement with Amir Borenstein, the agreement was limited to a term of 36 months from November 14, 2011, as required by the provisions of article 275(A1) of the Companies Law (hereinafter – the "Agreement Period"), without detracting from the provisions of the Management Services Agreement with Amir Borenstein in connection with the option of terminating the agreement upon advance notice.

On January 14, 2014, the general meeting of the shareholders of the Company approved the appointment of Mr. Amir Borenstein as the deputy chairman of the board of directors, and a change in the terms of his employment, to include a bonus component, further to the approvals of the board and the remunerations committee and pursuant to the Company's remunerations policy, as follows:

The deputy chairman of the board will be entitled to an annual bonus to be paid at the end of each calendar year during the agreement period, at a rate of 2.8% of the Company's pre-tax profit (for this purpose, "pre-tax profit" for purposes of the measured bonus shall be calculated as the pre-tax profit appearing in the Company's consolidated financial statements, less a return on the shareholders' equity of the Company as at the beginning of each year during the course of the remunerations program (8%), neutralizing one-time or accounting events that increase the Company's profit, not as a result of a real increase in activity), subject to the fact that in the year or years prior to the year of payment, the Company did not record in its financial statements a pre-tax loss (hereinafter – the "prior years' losses"). In the event that prior years' losses were recorded, these losses will be offset against the pre-tax profit – in whole or in part, as applicable, for purposes of calculating the bonus.

The total annual bonus to the deputy chairman of the board shall not exceed 2% of the Company's pre-tax profit (based on the financial statements of the Company).

In addition, in any event, the total bonus of the deputy chairman of the board shall not exceed an amount equal to 36 payments of monthly management fees.

Further to the approval of the audit committee and board of directors of the Company, on January 15, 2017, the general meeting of the shareholders of the Company approved the reappointment of Mr. Amir Borenstein as the deputy-chairman of the board of directors, and to approve the remuneration policy in connection with his tenure. The remuneration policy has not changed since it was approved by the general meeting on January 14, 2014.

Note 29 – Related and interested parties (cont'd)

F. Transactions with controlling shareholders

Local manufacture of Heineken beer in Israel

The Company entered into an agreement with a company of the Heineken Group regarding a concession to manufacture at, market, sell and distribute Lager beer from the Company's Netanya plant, under the brand name "Heineken" (hereinafter – the **"concession agreement"**). Under the agreement, Tempo Industries is granted an exclusive concession for a period of 20 years (hereinafter – the **"concession period"**) to be renewed for further five-year periods on each occasion (hereinafter – the **"extension periods"**), subject to each party's right to terminate the agreement by informing the other party 12 months before the end of the concession period or any of the extension periods.

In consideration of obtaining this exclusive concession, the Company shall pay Heineken annual royalties in respect of the sale of Heineken beer.
Heineken will provide the Company with technical advice in connection with the manufacture of Heineken beer, all according to an annual budget to be agreed upon each year between Heineken and the Company. The Company shall also be entitled to purchase from Heineken other services in connection with Heineken beer, for payment of the rates generally applied by Heineken.
The parties shall agree upon marketing plans for Heineken each year. In this context, the Company shall determine the pricing policy to be approved by Heineken.

As long as the agreement between the parties remains valid, the Company shall not manufacture or import Lager beer under a brand name that is not Israeli other than Heineken, nor shall it manufacture and/or distribute beer products in Israel under international brand names that compete with the products offered as part of the variety available through any of the Heineken Group's companies, unless Heineken has no interest in the manufacture or sale of such substitute products in Israel under the conditions acceptable to the Company. In conjunction, Heineken shall not grant distribution rights for its products to any third parties, unless the Company has no interest in distributing such products under the conditions applied by Heineken.

On August 27, 2015, the board of directors of the Company approved an addendum to the franchise agreement. The addendum set out the rate of the annual royalties to be paid by the Company to Heineken in respect of the sales of Heineken beer products and the percentage of the marketing expenses for each calendar year out of the net sales receipts (as the term is defined in the updated agreement) of the Company in respect of the sales of products in the same calendar year and the mechanism for the participation of Heineken in the aforementioned marketing expenses. In addition, the definition of the territory in which the agreement applies was expanded so as to include Cyprus.

Supply agreement

On May 7, 2015, the supply agreement between the Company and Preform Beverages Ltd. (hereinafter – "Preform"), a subsidiary of the parent company, was extended for a period of 5 years, commencing from December 1, 2014. The agreement was regarding the supply of polyethylene products required by the Company to produce the bottles for the beverages it manufactures.

According to the agreement, the Company purchases from third parties the raw materials used in the manufacture of polyethylene products, and it purchases from Preform manufacturing services in connection with the manufacture of the polyethylene products for a fixed amount, as detailed in the supply agreement.

Note 29 – Related and interested parties (cont'd)

F. Transactions with controlling shareholders (cont'd)

Supply agreement (cont'd)

The price of the manufacturing services supplied to the Company pursuant to the supply agreement were updated in accordance with the updated proposal that was given to the Company, based of negotiations between the parties and the market conditions in this area.

Rental agreements

- On May 24, 2010, the Company and the subsidiary, Tempo Marketing (1981) Ltd., entered into an agreement with Tempo Industries, regarding the rental by the Company and the subsidiary of 10 dunams of land leased by the parent company, adjacent to the plant of the Company in Netanya. The rental period is twenty four years and eleven months, commencing on January 1, 2010. The annual rental fees pursuant to the agreement amount to NIS 2,000 thousand, linked to the Consumer Price Index.
- On June 15, 2005, the Company entered into an agreement with Tempo Industries whereby the Company rents property in Migdal Ha'emek for an amount of $133 thousand per annum. The original agreement was for a period of 24 months, automatically renewed for additional 12-month periods, subject to the right of the Company to terminate the agreement upon advance notice of 30 days.

Transfer pricing

Pursuant to a transfer pricing study conducted in 2018 in connection with Tempo Cyprus, and taking into consideration that all of the operating and business risks in connection with the activities of Tempo Cyprus are have borne by the Company since inception of Tempo Cyprus, it was determined that Tempo Cyprus serves as a distributor of the Company.

In the fourth quarter of 2018, a new agreement was signed between the parties, whereby Tempo Cyprus will be entitled to receive a fixed operating margin, based on a transfer pricing study, commencing from January 1, 2017.

These financial statements reflected the impact of the updating of the terms of the agreement between the parties, all in effect as from January 1, 2017.

Note 30 – Segment reporting

The accounting principles applied in the segment reporting are in agreement with the accepted accounting principles adopted for purposes of preparation and presentation of the consolidated financial statements of the Group.

Business segments

The Company is engaged in three segments:

- Alcoholic beverages – manufacture, import, marketing and distribution of alcoholic beverages.
- Non-alcoholic beverages – manufacture, import, marketing and distribution of various non-alcoholic beverages.
- Barkan segment – manufacture, importing and marketing of wine and alcoholic beverages.

Note 30 – Segment reporting (cont'd)

The segmental results are the gross profit, less selling and marketing expenses.

The Company distributes alcoholic beverages produced and marketed by companies in the Pernod Richard Group. The income and expenses in connection with the distribution of these products are presented together with the activity of the Company in the area of light alcoholic beverages as part of the alcoholic beverage operating segment. In the opinion of Company Management, both operating segments can be merged into one operating segment due to the fact that the two operating segments have similar economic characteristics, such as profitability rates, and they are similar regarding the nature of their products and services, the nature of their production processes, types of customers and product distribution methods.

	Year ended December 31, 2018			
	Alcoholic Beverages	**Barkan**	**Non-alcoholic Beverages**	**Consolidated**
	NIS'000	**NIS'000**	**NIS'000**	**NIS'000**
Segmental revenues	**553,718**	**187,516**	**661,942**	**1,403,176**
Segmental results	**111,632**	**31,215**	**58,438**	**201,285**
Unallocated expenses				**(84,658)**
Operating income				**116,627**
Net financing expenses				**(10,108)**
Share of Company in profits of equity-accounted investee companies				**3,662**
Taxes on income				**(22,462)**
Net income for the year				**87,719**
Depreciation and amortization	**27,211**	**17,052**	**16,843**	

	Year ended December 31, 2017			
	Alcoholic Beverages	**Barkan**	**Non-alcoholic Beverages**	**Consolidated**
	NIS'000	**NIS'000**	**NIS'000**	**NIS'000**
Segmental revenues	516,165	180,345	637,791	1,334,301
Segmental results	120,983	38,223	61,256	220,462
Unallocated expenses				(81,620)
Operating income				138,842
Net financing expenses				(17,253)
Share of Company in profits of equity-accounted investee companies				2,388
Taxes on income				(33,803)
Net income for the year				90,174
Depreciation and amortization	28,120	18,215	13,167	

Note 30 – Segment reporting (cont'd)

	Year ended December 31, 2016			
	Alcoholic Beverages	**Barkan**	**Non-alcoholic Beverages**	**Consolidated**
	NIS'000	**NIS'000**	**NIS'000**	**NIS'000**
Segmental revenues	474,357	167,467	598,738	1,240,562
Segmental results	119,231	39,103	59,276	217,610
Unallocated expenses				(80,262)
Operating income				137,348
Net financing expenses				(12,944)
Share of Company in profits of equity-accounted investee companies				115
Taxes on income				(28,747)
Net income for the year				95,772
Depreciation and amortization	23,789	16,882	9,910	

Note 31 – Subsequent events

Subsequent to the date of the statement of financial position, on March 28, 2019, the board of directors passed a resolution to distribute a cash dividend to the shareholders, in an amount of NIS 35 million. The dividend will be distributed on April 30, 2019.