Tempo Beverages Ltd.

Consolidated Financial Statements

As of December 31, 2019

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Contents

Consolidated Statement of Financial Position as at

	Note	December 31 2019 NIS thousands	 2018 NIS thousands
Current assets			
Cash and cash equivalents		**36,690**	15,674
Trade receivables	4	**350,600**	322,507
Other receivables	5	**42,015**	42,713
Derivative instruments		**116**	1,344
Inventory	6	**296,859**	311,783
Current tax assets		**14,483**	11,095
Total current assets		**740,763**	705,116
Long-term loans and receivables	7	**33,212**	34,585
Fixed assets	9	**775,683**	647,692
Intangible assets	10	**28,769**	32,377
Investment in equity accounted investee companies	8	**39,583**	34,849
Inventory in process		**7,633**	4,624
Deferred taxes	24	**6,587**	9,868
Total long-term assets		**891,467**	763,995
Total assets		**1,632,230**	1,469,111

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

Consolidated Statement of Financial Position as at

	Note	December 31 2019 NIS thousands	December 31 2018 NIS thousands
Liabilities			
Short-term credit from banks	11	**341,042**	359,263
Trade payables	12	**222,948**	217,244
Other payables	13	**104,486**	103,542
Derivative instruments		**58**	-
Current maturities of debentures	15	**31,745**	23,634
Current maturities of liabilities in respect of leasing	30	**28,721**	-
Current tax liabilities		**308**	1,526
Total current liabilities		**729,308**	705,209
Liabilities to banking institutions	14	**82,866**	104,202
Other long-term liabilities	14	**2,745**	2,860
Long-term liabilities in respect of leasing	30	**99,685**	-
Debentures	15	**79,656**	67,435
Deferred taxes	24	**25,416**	27,715
Employee benefits	16	**9,763**	8,785
Total non-current liabilities		**300,131**	210,997
Total liabilities		**1,029,439**	916,206
Equity			
Non-controlling interest		**635**	617
Share capital		**1**	1
Share premium		**147,334**	147,334
Translation reserve		**(2,286)**	2,177
Retained earnings		**457,107**	402,776
Total equity attributable to equity holders of the Company	17	**602,156**	552,288
Total equity		**602,791**	552,905
Total liabilities and equity		**1,632,230**	**1,469,111**

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

Date of approval of financial statements: March 26, 2020

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

Consolidated Statement of Income for the year ended December 31

	Note	2019 NIS thousands	2018 NIS thousands	2017 NIS thousands
Revenues from sales, net	18	**1,514,821**	1,403,176	1,334,301
Cost of sales	19	**945,062**	857,913	787,984
Gross profit		**569,759**	545,263	546,317
Selling and marketing expenses	20	**(349,095)**	(343,978)	(325,855)
General and administrative expenses	22	**(84,222)**	(85,306)	(82,612)
Other income	21	**68**	1,263	992
Other expenses	21	**(590)**	(615)	-
Operating profit		**135,920**	116,627	138,842
Financing income	23	**1,927**	4,164	479
Financing expenses	23	**(21,813)**	(14,272)	(17,732)
Financing expenses, net		**(19,886)**	(10,108)	(17,253)
Share in profits of equity-accounted investee companies	8	**3,022**	3,662	2,388
Profit before taxes on income		**119,056**	110,181	123,977
Taxes on income	24	**(29,279)**	(22,462)	(33,803)
Profit for the year		**89,777**	87,719	90,174
Attributed to:				
Equity holders of the Company		**89,759**	87,743	90,159
Non-controlling interest		**18**	(24)	15
		89,777	87,719	90,174

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

	2019 NIS thousands	2018 NIS thousands	2017 NIS thousands
Profit for the year	**89,777**	87,719	90,174
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	**(4,463)**	1,263	914
Components of the other comprehensive income not carried to profit and loss:			
Defined benefit plan actuarial gains (losses), net of tax	**(428)**	(122)	79
Other comprehensive income, net of tax	**(4,891)**	1,141	993
Total comprehensive income for the year	**84,886**	88,860	91,167
Comprehensive income (loss) attributed to:			
Equity holders of the Company	**84,868**	88,884	91,152
Non-controlling interests	**18**	(24)	15
Total comprehensive income for the year	**84,886**	88,860	91,167

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

Statement of Changes in Shareholders' Equity

	Attributable to the shareholders of the Company						
	Share Capital	Share Premium	Translation Reserve	Retained Earnings	Total	Non-controlling interests	Total equity
				NIS thousands			
For the year ended December 31, 2019							
Balance as at January 1, 2019	**1**	**147,334**	**2,177**	**402,776**	**552,288**	**617**	**552,905**
Dividend paid	**-**	**-**	**-**	**(35,000)**	**(35,000)**	**-**	**(35,000)**
Foreign currency translation differences in respect of foreign operations	**-**	**-**	**(4,463)**	**-**	**(4,463)**	**-**	**(4,463)**
Actuarial losses from defined benefit plan, net of tax	**-**	**-**	**-**	**(428)**	**(428)**	**-**	**(428)**
Profit for the year	**-**	**-**	**-**	**89,759**	**89,759**	**18**	**89,777**
Balance as at December 31, 2019	**1**	**147,334**	**(2,286)**	**457,107**	**602,156**	**635**	**602,791**
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

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

Statement of Cash Flows for the Year ended December 31

	2019	2018	2017
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities			
Profit for the year	**89,777**	87,719	90,174
Adjustments:			
Depreciation	**126,675**	94,136	86,696
Amortization of intangible assets	**7,635**	8,949	11,182
Gain on revaluation of investment	**-**	-	(701)
Share of Company in profits of equity-accounted investee companies	**(3,022)**	(3,662)	(2,388)
Financing expenses, net	**17,720**	13,963	12,239
Capital loss (gain) from sale of fixed assets, net	**1,322**	(1,263)	(301)
Taxes on income	**29,279**	22,462	33,803
	269,386	222,304	230,704
Change in inventory	**14,276**	(22,747)	(16,547)
Change in trade receivables and other receivables	**(22,268)**	(34,211)	(49,455)
Change in trade payables and other payables	**3,552**	(16,664)	(5,254)
Change in employee benefits	**4,263**	4,071	4,096
	(177)	(69,551)	(67,160)
Income tax paid	**(32,775)**	(46,352)	(40,917)
Net cash provided by operating activities	**236,434**	106,401	122,627
Cash flows from investing activities			
Acquisition of subsidiary, net of the acquired cash	**7,585**	-	(4,197)
Dividends from investee companies	**3,770**	1,700	3,775
Investment in investee companies and partnership	**(4,250)**	(19,500)	(2,800)
Proceeds from sale of fixed assets	**1,389**	1,565	1,970
Acquisition of fixed assets	**(86,117)**	(123,553)	(136,012)
Acquisition of intangible assets	**(1,931)**	(3,679)	(5,714)
Investment in long-term receivables	**(39,814)**	(40,622)	(47,916)
Receipts from investment in long-term receivables	**21,049**	19,731	20,846
Net cash used in investing activities	**(113,489)**	(164,358)	(170,048)

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

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

	2019	2018	2017
	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities			
Short-term credit, net	**(14,319)**	61,204	135,993
Distributed dividend	**(35,000)**	(36,000)	(40,000)
Receipt of long-term loans	**-**	100,000	-
Issuance of debentures	**52,325**	-	-
Repayment of debentures	**(31,524)**	(23,190)	(23,190)
Repayment of long-term banks loans	**(27,772)**	(27,509)	(22,307)
Repayment of principle of liabilities in respect of leasing	**(27,141)**	-	-
Repayment of other long- term liabilities	**(140)**	(140)	(140)
Interest paid	**(18,146)**	(13,576)	(13,575)
Net cash provided by (used in) financing activities	**(101,717)**	60,789	36,781
Net change in cash and cash equivalents	**21,228**	2,832	(10,640)
Cash and cash equivalents as at the beginning of the year	**15,674**	12,732	23,372
Impact of exchange rate fluctuations on balance of cash and cash equivalents	**(212)**	110	-
Cash and cash equivalents as at the end of the year	**36,690**	15,674	12,732

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, 2019 include those of the Company and its subsidiaries (hereinafter together – the "Group"), and the rights of the Group in equity-accounted investee companies and partnership. 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. Significant event

Subsequent to the date of the statement of financial position, the "Corona Crisis" burst onto the local Israeli and global stage as a result of the worldwide spreading of the Corona virus in Israel and around the world. Further to the guidelines issued by the Israeli government on March 14, 2020, regarding contention with the spreading of the Corona virus, especially regarding the closing of cultural and leisure activities, including restaurants, event halls, coffee houses, bars and night clubs (hereinafter – "On-Trade Channel"), commencing from March 15, 2020, the Company management estimates that implementation of the aforementioned guidelines and the closure of the cultural and leisure activities can be expected to have a negative impact on the activities of the Group, especially in connection with the On-Trade Channel and to negatively affect the sales turnover of the Group. The Company is taking steps to minimize the damages. As of the date of approval of the financial statements, in view of the fact that we are dealing with a crisis that is characterized by a great deal of uncertainty involving among other things the length of the crisis and the steps being taken by the Government, the Company cannot estimate the scope of the aforementioned effects on its operations. In the opinion of the Company, should the spreading of the virus worsen and continue for the long term, such spreading may have a significant negative impact on the operations of the Group.

C. 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 and partnership** – Companies and a partnership, 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 26, 2020.

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:

Contingent liabilities
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 16, *Leases*

As from January 1, 2019 (hereinafter: “the date of initial application”) the Group applies International Financial Reporting Standard 16, *Leases* (hereinafter: “IFRS 16” or “the standard”), which replaced International Accounting Standard 17, *Leases* (hereinafter: "IAS 17" or "the previous standard").

The main effect of the application of the standard is reflected in annulment of the existing requirement from lessees to classify leases as operating (off-balance sheet) or finance leases and the presentation of a unified model for lessees to account for all leases similarly to the accounting treatment of finance leases in the previous standard.

In accordance with IFRS 16, for agreements in which the Group is the lessee, the Group recognizes a right-of-use asset and a lease liability at the inception of the lease contract for all the leases in which the Group has a right to control identified assets for a specified period of time, other than exceptions specified in the standard. Accordingly, the Group recognizes depreciation and amortization expenses in respect of a right-of-use asset, tests a right-of-use asset for impairment in accordance with IAS 36 and recognizes financing expenses on a lease liability. Therefore, as from the date of initial application, payroll and lease payments relating to assets leased under an operating lease, which were presented in the income statement, are capitalized to assets and written down as depreciation and amortization expenses.

Furthermore, as part of the initial application of the standard, the Group has chosen to apply the following expedients:

(1) Applying the practical expedient regarding the recognition and measurement of leases where the underlying asset has a low value on an individual lease basis;
(2) Not separating non-lease components from lease components and instead accounting for all the components as a single lease component;
(3) Relying on a previous definition and/or assessment of whether an arrangement is a lease in accordance with the accounting principles that existed before IFRS 16 with respect to agreements that exist at the date of initial application;

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

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

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

(4) Applying the practical expedient regarding the recognition and measurement of short-term leases, for both leases that end within 12 months from the date of initial application and leases for a period of up to 12 months from the date of their inception for all groups of underlying assets to which the right-of-use relates;

(5) Using hindsight when determining the lease term if the contract includes an extension or termination option;

The Company elected to adopt the Standard using the cumulative approach, without correcting comparative amounts.

The table below presents the cumulative effects of the items affected by the initial application on the statement of financial position as at January 1, 2019:

	According to IAS 17	The change	According to IFRS 16
	NIS thousands	NIS thousands	NIS thousands
Fixed assets	647,692	137,934	785,626
Receivables	42,713	(1,664)	41,049
Current maturities of leasing liability	-	25,569	25,569
Long-term liabilities in respect of leasing	-	110,701	110,701

In measurement of the lease liabilities, the Group discounted lease payments using the nominal incremental borrowing rate at January 1, 2019. The discount rates used to measure the lease liability range between 1.5% and 5.3% (weighted average of 2.5 %). This range is affected by differences in the lease term, differences between asset groups, etc.

(2) Amendment to IFRS 9, *Financial Instruments: Classification of financial assets containing an early repayment option*

The Amendment clarifies that financial instruments with a prepayment 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 applied to annual periods commencing on January 1, 2019.

Implementation of the Amendment had no material impact on the financial statements.

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

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

(3) 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 will 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 applied to annual periods commencing on January 1, 2019.

Implementation of IFRIC 23 had no material impact on the financial statements.

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.

Initial recognition of financial assets
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.

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.
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)

Derecognition of financial assets (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 prior to January 1, 2018.

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

The following is a summary of the major changes in accounting policy further to the implementation of the Amendment as from January 1, 2019

(1) Determining whether an arrangement contains a lease

On the inception date of the lease, the Group determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the following two rights throughout the lease term:
(a) The right to obtain substantially all the economic benefits from use of the identified asset; and
(b) The right to direct the identified asset's use.

Note 3 - Significant Accounting Policies (cont'd)

O. Leased assets (cont'd)

The following is a summary of the major changes in accounting policy further to the implementation of the Amendment as from January 1, 2019 (cont'd)

(2) Leased assets and lease liabilities

Contracts that award the Group control over the use of a leased asset for a period of time in exchange for consideration, are accounted for as leases. Upon initial recognition, the Group recognizes a liability at the present value of the balance of future lease payments (these payments do not include certain variable lease payments), and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments, plus initial direct costs incurred in respect of the lease. Since the interest rate implicit in the Group's leases is not readily determinable, the incremental borrowing rate of the lessee is used.
Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model, and depreciated over the shorter of the lease term or useful life of the asset.

The Group has elected to apply the practical expedient by which short-term leases of up to one year and/or leases in which the underlying asset has a low value, are accounted for such that lease payments are recognized in profit or loss on a straight-line basis, over the lease term, without recognizing an asset and/or liability in the statement of financial position.

(3) The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively.

(4) Variable lease payments

Variable lease payments that depend on an index or a rate, are initially measured using the index or rate existing at the commencement of the lease and are included in the measurement of the lease liability. When the cash flows of future lease payments change as the result of a change in an index or a rate, the balance of the liability is adjusted against the right-of-use asset.

(5) Depreciation of right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

• Vineyards	9-22 years
• Buildings	2-16 years
• Motor vehicles	3-7 years

Note 3 - Significant Accounting Policies (cont’d)

O. Leases (cont'd)

The following is a summary of the major changes in accounting policy further to the implementation of the Amendment as from January 1, 2019 (cont'd)

(6) Reassessment of lease liability

Upon the occurrence of a significant event or a significant change in circumstances that is under the control of the Group and had an effect on the decision whether it is reasonably certain that the Group will exercise an option, which was not included before in the lease term, or will not exercise an option, which was previously included in the lease term, the Group re-measures the lease liability according to the revised leased payments using a new discount rate. The change in the carrying amount of the liability is recognized against the right-of-use asset, or recognized in profit or loss if the carrying amount of the right-of-use asset was reduced to zero.

Policy applicable prior to January 1, 2019

Leases, including leases of lands from the Israel Lands Administration 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 and a liability is recognized at an amount equal to the lower of its fair value and the present value of the minimum 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 and the amounts of the amortization take 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.

P. Standards not yet adopted

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.

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.

Note 4 – Trade accounts receivable

	December 31,	
	2019	2018
	NIS'000	NIS'000
Trade accounts receivable(*)	**384,160**	355,351
Less; provision for impairment	**(33,560)**	(32,844)
	350,600	322,507

(*) See also Note 26A.

Note 5 - Other receivables

	December 31,	
	2019	2018
	NIS'000	NIS'000
Employees	**1,928**	1,613
Institutions	**2,655**	6,142
Advances to suppliers	**1,559**	3,358
Prepaid expenses	**7,413**	7,459
Income receivable	**27,189**	23,241
Other receivables	**916**	545
Current maturities of long-term receivables	**355**	355
	42,015	42,713

Note 6 - Inventories

	December 31,	
	2019	2018
	NIS'000	NIS'000
Raw and auxiliary materials	**28,938**	31,572
Packaging and other materials	**32,695**	35,327
Products in process	**85,903**	98,076
Finished and purchased goods	**149,323**	146,808
	296,859	311,783

Note 7 – Long-term loans and receivables

	December 31,	
	2019	2018
	NIS'000	NIS'000
Long-term liabilities	**55,883**	49,604
Less accumulated amortization	**(36,307)**	(30,957)
Amortized cost	**19,576**	18,647
Loans to others	**13,991**	16,293
Less: current maturities	**(355)**	(355)
Net balance	**13,636**	15,938
	33,212	34,585

Note 8 - Investee Companies

A. Details pertaining to the directly-held entities of the Group

	Incorporated and operates in	% of ownership and voting As at December 31, 2019	2018
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%**	50%
Sumitz Holdings	Israel	**30%**	-%
Sparks Foodtech Food Technologies L.P.	Israel	**30%**	-%
BFF 2 Pay Ltd.	Israel	**30%**	-%

* On March 10, 2019, a merger order was issued whereby Tempo Marketing absorbed Neni, a company that engaged in the importing, marketing and distribution of coffee, tea and associated products.

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 exclusively distributes 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 went 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, 2019, the liabilities of Barkan Wineries to these banks amounted to NIS 72 million, NIS 35 million and NIS 28 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, 2019 has no outstanding liabilities to banks.

D. Tempo Beverages Cyprus Ltd.

1. 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.

2. On May 15, 2019, after all of the preconditions were met, the transaction was consummated between Tempo Cyprus and Fereos Fourpoint Distribution Ltd. (hereinafter – "Fereos"), a company that engages in the importing, marketing and distribution of wines and alcohol in Cyprus, whereby Tempo Cyprus acquired sole ownership and control of Fereos and the shareholder loans that were granted to that company in an amount of €2.6 million.

Note 8 - Investee Companies (cont'd)

D. Tempo Beverages Cyprus Ltd. (cont'd)

The following table presents the impact of the acquisition on the assets and liabilities of the Group as of the date of acquisition:

	NIS'000
Trade and other receivables	**6,254**
Inventory	**4,620**
Intangible assets	**2,160**
Fixed assets	**2,579**
Short-term bank credit	**(2,534)**
Trade and other payables	**(2,239)**
Long-term liabilities	**(800)**
Accounts payable	**(2,455)**
Identified assets and liabilities, net	**7,585**

Aggregate cash flows deriving to the Group as a result of the acquisition transaction:

Cash and cash equivalents paid	**7,744**
Cash and cash equivalents of a subsidiary	**(159)**
	7,585

E. 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.

Note 8 - Investee Companies (cont'd)

E. Masterpiece Team Ltd. (cont'd)

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, 2019 is NIS 3.6 million.

F. Sumitz Holdings Ltd. (hereinafter – "Sumitz")

On September 25, 2019, an agreement signed between the Company and Sumitz Ltd. went into effect (hereinafter – the "agreement"). Sumitz Ltd. is the holder of the franchise usage rights to import "Zumex" juice squeezing machines (hereinafter – the "franchise") and, in addition, it sells, distributes and markets vegetables and fruit in cold storage for use in preparing juice.

Pursuant to the provisions of the agreement, (i) Sumitz was established and the intangible assets connected to operations were transferred to it from Sumitz Ltd, in return for an allotment of shares in accordance with article 104A of the Income Tax Ordinance; (ii) Sumitz acquired from Sumitz Ltd. and from the holder of shares in Sumitz Ltd fixed assets, inventory and the franchise; (iii) Sumitz allotted to the Company and to Adir, in equal parts, shares constituting 60% of its share capital in return for NIS 5.25 million; (iv) Sumitz entered into a new franchise agreement with the owner of the Zumex brand names, valid through December 31, 2024.

In addition, the Company and Adir were given an option to purchase an additional 15%, based on the multipliers set out in the agreement.

The Company guaranteed the liabilities of Sumitz toward the bank that finances its operations, in accordance with the relative holding of the Company in the shares of Sumitz. The amount of the Sumitz liabilities which are directly guaranteed by the Company as at December 31, 2019 is NIS 440 thousand.

Note 8 - Investee Companies (cont'd)

G. Sparks Foodtech Food Technologies Limited Partnership (hereinafter – “Sparks Foodtech”)

On June 11, 2019, the Innovation Authority decided that a consortium of investors, including the Company, the Tnuva Food Enterprise and the OurCrowd and Finestere Investment Funds (all in equal shares) won a tender to set up and operate a technology incubator in the field of foods (foodtech) previously issued by the Innovation Authority.

Pursuant to the terms of the tender, Sparks Foodtech was established and it will operate in the Safed regional district for a period of eight years. It will engage in locating promoters and startup companies in the foodtech industry, with an initial investment together with the Innovation Authority. In addition, Sparks Foodtech will also engage in accompaniment and assistance to the portfolio companies in the initial life cycle stages of those companies. According to the business plan of the incubator, Sparks Foodtech is slated to invest in projects over the period of its operations, and according to the investment model, the State of Israel will invest in those companies 85% of the amount of the investment, with Sparks investing the balance of the amount of the investment (15%).

Sparks Foodtech will have the option of purchasing the share of the Company in each portfolio company, in return for payment of the amount the State of Israel invested, plus interest, subject to the fulfillment of a number of different conditions.

The Company guaranteed the liabilities of Sparks Foodtech toward the bank that finances its operations, in accordance with the relative holding of the Company in the partnership. As at December 31, 2019, the partnership has no liabilities toward the Bank.

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, 2018	331,737	728,882	105,682	25,608	45,034	97,532	81,497	1,415,972
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)
Impact of changes in exchange rate	8	-	-	168	19	66	13	274
Balance as of December 31, 2018	375,023	787,237	109,872	28,124	44,855	101,533	93,076	1,539,720
Recognition of right-of-use assets in respect of initial implementation of IFRS 16(*)	**38,691**	**-**	**41,157**	**58,086**	**-**	**-**	**-**	**137,934**
Balance as of January 1, 2019 after initial implementation	**413,714**	**787,237**	**151,029**	**86,210**	**44,855**	**101,533**	**93,076**	**1,677,654**
Additions	**14,491**	**31,587**	**354**	**1,636**	**4,330**	**6,942**	**9,557**	**68,897**
Additions to right-of-use assets	**-**	**-**	**-**	**17,694**	**-**	**-**	**-**	**17,694**
Additions as part of business combinations	**669**	**-**	**-**	**1,322**	**1,471**	**-**	**-**	**3,462**
Disposals	**-**	**(72,652)**	**-**	**(1,885)**	**(7)**	**(5,504)**	**(1,701)**	**(81,749)**
Impact of changes in exchange rate	**(31)**	**-**	**-**	**(648)**	**(96)**	**(301)**	**(85)**	**(1,161)**
Balance as of December 31, 2019	**428,843**	**746,172**	**151,383**	**104,329**	**50,553**	**102,670**	**100,847**	**1,684,797**

(*) See Note 30, Initial implementation of IFRS 16, *Leasing*. Pursuant to the transition method that was elected, comparative amounts were not restated.

Note 9 – Fixed assets (cont'd)

A. Composition and changes (cont'd)

	Land and buildings	Machinery, equipment & instruments	Vineyards	Vehicles and boats	Office furniture, equipment & computers	Selling equipment	Returnable packaging	Total
	NIS'000							
Depreciation								
Balance as of January 1, 2018	123,415	514,332	14,614	15,431	32,386	74,663	62,634	837,475
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)
Impact of changes in exchange rate	1	-	-	-	1	9	1	12
Balance as of December 31, 2018	135,573	542,956	18,709	16,484	30,935	78,367	72,534	895,558
Depreciation for the year	**13,512**	**37,199**	**4,459**	**1,483**	**4,111**	**9,736**	**10,399**	**80,899**
Depreciation in respect of right-of-use assets	**4,332**	**-**	**2,427**	**21,939**	**-**	**-**	**-**	**28,698**
Additions as part of business combinations	**-**	**-**	**-**	**507**	**376**	**-**	**-**	**883**
Disposals	**-**	**(71,705)**	**-**	**(1,1,163)**	**(7)**	**(4,702)**	**(1,461)**	**(79,038)**
Impact of changes in exchange rate	**(8)**	**-**	**-**	**(19)**	**(15)**	**(87)**	**(7)**	**(136)**
Balance as of December 31, 2019	**153,409**	**508,450**	**25,595**	**39,231**	**35,400**	**83,314**	**81,465**	**926,864**
Carrying value-depreciated cost								
As of January 1, 2018	208,322	214,550	91,068	10,177	12,648	22,869	18,863	578,497
Payments 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
As of December 31, 2019	**275,434**	**237,722**	**125,788**	**65,098**	**15,153**	**19,356**	**19,382**	**757,933**
Payment on account of fixed assets								**17,750**
								775,683

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, 2019 amounted to NIS 515 million (December 31, 2018 amounted to NIS 511 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 at January1, 2018	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**
Addition as part of business combinations (see Note 8.D.2)	**2,160**	**-**	**2,160**
Impact of changes in the exchange rate	**(64)**	**-**	**(64)**
Acquisitions	**-**	**1,931**	**1,931**
Balance as of December 31, 2019	**79,647**	**39,119**	**118,766**
Amortization			
Balance as at January1, 2018	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**
Amortization for the year	**5,704**	**1,931**	**7,635**
Balance as of December 31, 2019	**56,542**	**33,455**	**89,997**
Carrying value			
As of January 1, 2018	33,894	3,629	37,523
As of December 31, 2018	26,713	5,664	32,377
As of December 31, 2019	**23,105**	**5,664**	**28,769**

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 2019	December 31, 2019	December 31, 2018
	%	NIS'000	NIS'000
Short-term loans from banks	**1.2 – 1.25**	**319,762**	331,420
Current maturities of long-term loans		**21,280**	27,843
Total current liabilities		**341,042**	359,263

(*) 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, 2019	December 31, 2018
	NIS'000	NIS'000
Open debts	**222,948**	216,122
Post-dated checks	**-**	1,122
	222,948	217,244

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, 2019	December 31, 2018
	NIS'000	NIS'000
Liabilities to employees and other liabilities in respect of payroll (*)	**37,656**	34,450
Government institutions	**11,184**	12,938
Advances from customers	**1,400**	700
Packaging deposits	**13,541**	15,625
Liabilities to related and interested parties	**7,282**	6,800
Other payables and accrued expenses	**33,282**	32,889
Current maturities of other long-term liabilities	**140**	140
	104,486	103,542

(*) 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

A. Composition

	Interest rates December 2019	December 31, 2019	December 31, 2018
	%	NIS'000	NIS'000
Loans from banks -			
In NIS (unlinked)	**2.35-4.88**	**104,146**	132,045
Other long term liabilities		**2,885**	3,000
		107,031	135,045
Less – current maturities		**(21,420)**	(27,983)
		85,611	107,062

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 Company reached an understanding with the lender bank whereby the aforementioned financial covenants will be calculated without taking into account the impact of IFRS 16, *Leasing*.

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

Financial covenants / Financial ratio	Results of calculation (as of December 31, 2019)
Ratio of tangible shareholders' equity to total balance sheet shall be no less than 20%	38.34%
Tangible shareholders' equity shall not be less than NIS 180,000 thousand, linked to the ICPI	572,699
Ratio of net debt to the EBITDA shall not exceed 3.75	2.06

Note 15 – Debentures

A. Composition

	December 31,	
	2019	2018
	NIS'000	NIS'000
Debentures (including interest payable)	**111,401**	91,069
Less current maturities (including interest payable)	**(31,745)**	(23,634)
	79,656	67,435

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. On February 28, 2020, the debentures were repaid in full.

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%.
On July 28, 2019, the Series B debentures were expanded by a total amount of NIS 52.8 million (a net amount of NIS 52.3 million after deducting issuance costs). The debentures were issued at a fixed annual rate of interest of 1.35%.
The interest on the debentures is paid in equal semi-annual installments on June 30 and December 31 of each of the years until 2024.
The balance of the debentures is repayable in five equal installments, to be paid on December 31 of each of the years 2020 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:

Restrictions on the distribution of a dividend:

- 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,	
	2019	**2018**
	NIS'000	**NIS'000**
Present value of the obligations	**18,278**	17,059
Fair value of plan assets*	**(8,515)**	(8,274)
	9,763	8,785

* 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,	
	2019	2018
	NIS'000	NIS'000
Obligation in respect of defined benefit plan as of beginning of period	**17,059**	14,505
Reclassified to short-term	**(3,841)**	-
Benefits paid and disposed	**(1,011)**	(2,227)
Current service costs and interest costs	**5,186**	5,211
Actuarial losses (gains) carried to other comprehensive income	**885**	(430)
Obligation in respect of defined benefit plan as of end of period	**18,278**	17,059

(2) Changes in plan assets

	Year ended December 31,	
	2019	2018
	NIS'000	NIS'000
Fair value of plan assets as of beginning of period	**8,274**	9,960
Benefits paid and disposed	**(566)**	(1,575)
Interest income	**478**	488
Actuarial gains (losses) carried to other comprehensive income	**329**	(599)
Fair value of plan assets as of end of period	**8,515**	8,274

(3) Expense carried to profit and loss

	Year ended December 31,		
	2019	2018	2017
	NIS'000	NIS'000	NIS'000
Current service costs	**4,711**	4,701	5,315
Interest costs	**475**	510	490
Interest income	**(478)**	(488)	(493)
	4,708	4,723	5,312

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

	Year ended December 31,		
	2019	2018	2017
	NIS'000	NIS'000	NIS'000
Accumulated balance, beginning of period	**4,193**	4,362	4,260
Amounts recognized during period	**(556)**	(169)	102
Accumulated balance, end of period	**3,637**	4,193	4,362

Note 16 – Employee benefits (cont'd)

(5) Actuarial assumptions and sensitivity analysis

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

	2019	2018	2017
	%	%	%
Discount rate, end of period	**2.4**	3.0	3.3
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, 2019		December 31, 2018	
	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	**1,429**	**(1,201)**	1,077	(911)
Discount rate	**(1,217)**	**1,468**	(923)	1,104

(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 2018 –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		
	2019	2018	2017
	NIS'000	NIS'000	NIS'000
Amount recognized as an expense in respect of a defined deposit plan	**9,120**	9,032	8,467

Note 17 – Equity

A. Share capital

	December 31, 2019 and 2018
	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,		
	2019	2018	2017
	NIS'000	NIS'000	NIS'000
	35,000	36,000	40,000

Note 18 – Revenues from sales, net

	Year ended December 31,		
	2019	2018	2017
	NIS'000	NIS'000	NIS'000
(1) From Company production:			
Sales, net	**1,027,865**	1,004,187	1,003,964
Less excise tax:	**115,045**	116,580	116,286
	912,820	887,607	887,678
(2) From purchased goods:			
Sales, net	**602,001**	515,569	446,623
Total sales	**1,514,821**	1,403,176	1,334,301

Note 19 – Cost of sales

	Year ended December 31,		
	2019	2018	2017
	NIS'000	NIS'000	NIS'000
Use of materials	**335,817**	329,214	312,836
Payroll and related expenses	**63,622**	63,686	56,940
Depreciation	**58,189**	52,138	49,895
Other manufacturing expenses	**52,031**	48,309	48,725
	509,659	493,347	468,396
Purchases of purchased goods	**436,093**	367,330	320,233
Changes in work in progress inventory	-	(825)	(560)
Changes in inventory finished products	**(690)**	(1,939)	(85)
	945,062	857,913	787,984

Note 20 – Selling and marketing expenses

	Year ended December 31,		
	2019	**2018**	**2017**
	NIS'000	**NIS'000**	**NIS'000**
Payroll and related expenses	**162,083**	166,635	155,167
Advertising	**67,618**	63,597	61,097
Depreciation and amortization	**51,408**	30,217	31,230
Rent and building maintenance	**10,255**	14,004	14,036
Truck and forklift maintenance	**19,577**	27,945	26,075
Distribution commissions	**11,848**	11,649	10,888
Shipping	**5,782**	7,739	8,108
Other expenses	**20,524**	22,192	19,254
	349,095	343,978	325,855

Note 21 – Other expenses and income

	Year ended December 31,		
	2019	**2018**	**2017**
	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	**-**	-	701
Others	**68**	-	244
	68	1,263	992
Expenses			
Loss on decline in value and from the sale of fixed assets	**535**	-	-
Others	**55**	615	-
	590	615	-

Note 22 – General and administrative expenses

	Year ended December 31,		
	2019	2018	2017
	NIS'000	NIS'000	NIS'000
Payroll and related expenses	**40,845**	45,141	44,062
Management fees	**9,419**	8,975	10,393
Depreciation and amortization	**7,635**	4,752	3,837
Doubtful debt expenses	**1,308**	1,650	959
Other expenses	**25,215**	24,988	23,561
	84,422	85,506	82,812
Participation of parent company in general and administrative expenses	**(200)**	(200)	(200)
	84,222	85,306	82,612

Note 23 – Financing expenses, net

	Year ended December 31,		
	2019	2018	2017
	NIS'000	NIS'000	NIS'000
Income			
Changes in fair value of financial derivatives	**-**	3,813	-
Exchange rate differences	**1,415**	-	-
Interest in respect of loans to employees	**55**	44	71
Others	**457**	307	408
	1,927	4,164	479
Expenses			
Interest on debentures	**3,478**	4,222	5,346
Interest to banks	**10,133**	9,544	8,097
Changes in fair value of financial derivatives	**4,368**	-	2,286
Interest expense in respect of leasing liabilities	**3,723**	-	-
Others	**111**	452	280
Exchange rate differences	-	54	1,723
	21,813	14,272	17,732
Total financing expenses, net	**(19,886)**	(10,108)	(17,253)

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 2017 – 2019:

2017 – 24%
2018 – 23%
2019 – 23%

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, 2019 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 2019 is NIS 2.34 per liter. (in 2018 – NIS 2.31, in 2017 – NIS 2.30 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 2019 was NIS 85.25 per liter of alcohol (in 2018 – NIS 84.24, in 2017 – NIS 83.99 per liter of alcohol).

Note 24 - Income Tax (cont'd)

B. Composition of income tax income (expense)

	Year ended December 31,		
	2019	**2018**	**2017**
	NIS'000	**NIS'000**	**NIS'000**
Current taxes			
Tax expenses in respect of the current year	**(27,599)**	(24,467)	(35,547)
Tax expenses in respect of prior years	**(570)**	-	(2,720)
	(28,169)	(24,467)	(38,267)
Deferred taxes:			
Recording and reversal of temporary differences	**(1,110)**	2,005	2,005
Taxes in respect of prior years	**-**	-	2,459
	(1,110)	2,005	4,464
Taxes on income	**(29,279)**	(22,462)	(33,803)

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

	Year ended December 31,		
	2019	**2018**	**2017**
	NIS'000	**NIS'000**	**NIS'000**
Income before taxes on income	**119,056**	110,181	123,977
Primary tax rate of the Company	**23%**	23%	24%
Tax calculated according to the Company's primary tax rate	**27,383**	25,342	29,755
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	**(696)**	(842)	(573)
Non-deductible expenses	**1,210**	1,193	883
Losses in respect of which deferred taxes were not recorded	**329**	-	3,469
Utilization of tax losses in respect of which deferred taxes were not recorded in the past	**-**	(3,872)	-
Taxes in respect of prior years	**570**	-	261
Others	**483**	596	8
Taxes on income	**29,279**	22,462	33,803

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, 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)
Changes carried to profit and loss	**(377)**	**827**	**-**	**43**	**(1,603)**	**(1,110)**
Changes against other comprehensive income	**-**	**128**	**-**	**-**	**-**	**128**
Deferred tax asset (liability) as of December 31, 2019	**(32,297)**	**5,825**	**-**	**7,040**	**603**	**(18,829)**

	December 31, 2019	December 31, 2018
	NIS'000	NIS'000
Presented in the statement of financial position as part of deferred tax asset	**6,587**	9,868
Deferred tax liability	**(25,416)**	(27,715)
	(18,829)	(17,847)

(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 2014.

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, 2019		December 31, 2018	
	Gross	Impairment	Gross	Impairment
	NIS'000	NIS'000	NIS'000	NIS'000
Not in arrears	**323,581**	**4,554**	309,328	4,875
Arrears of 0 – 30 days	**24,525**	**448**	13,998	306
Arrears of 31 – 120 days	**6,532**	**147**	3,610	69
Arrears of more than 120 days	**29,522**	**28,411**	28,415	27,594
	384,160	**33,560**	355,351	32,844

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

B. Liquidity risks

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

	December 31, 2019						
	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	**341,042**	**346,033**	**334,625**	**11,408**	**-**	**-**	**-**
Suppliers	**222,948**	**222,948**	**222,948**	**-**	**-**	**-**	**-**
Current maturities of debentures	**31,745**	**34,980**	**13,895**	**21,085**	**-**	**-**	**-**
Other payables	**104,486**	**104,486**	**104,486**	**-**	**-**	**-**	**-**
Long-term bank loans	**82,866**	**88,535**	**-**	**-**	**22,086**	**37,461**	**28,988**
Debentures	**79,656**	**84,342**	**-**	**-**	**22,023**	**42,171**	**20,148**
Other long-term liabilities	**2,745**	**2,745**	**-**	**-**	**140**	**280**	**2,325**
Total	**865,488**	**884,069**	**675,954**	**32,493**	**44,249**	**79,912**	**51,461**

	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

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, 2019				
	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	**5,868**	**-**	**24,884**	**5,938**	**36,690**
Trade accounts receivable	**315,475**	**-**	**8,204**	**26,921**	**350,600**
Other receivables	**10,465**	**355**	**14,291**	**16,904**	**42,015**
Derivative instruments	**-**	**-**	**-**	**116**	**116**
Non-current assets:					
Long-term loans and receivables	**32,821**	**356**	**-**	**35**	**33,212**
	364,629	**711**	**47,379**	**49,914**	**462,633**
Current liabilities:					
Overdrafts and short-term loans from banking institutions	**339,122**	**-**	**-**	**1,920**	**341,042**
Trade accounts payable	**134,538**	**-**	**20,387**	**68,023**	**222,948**
Other payables	**88,195**	**10,365**	**-**	**5,926**	**104,486**
Derivative instruments	**-**	**-**	**58**	**-**	**58**
Current maturities of debentures	**31,745**	**-**	**-**	**-**	**31,745**
Current maturities of leasing liabilities	**757**	**26,293**	**492**	**1,179**	**28,721**
Non-current liabilities					
Liabilities to banking institutions	**82,866**	**-**	**-**	**-**	**82,866**
Debentures	**79,656**	**-**	**-**	**-**	**79,656**
Liabilities in respect of leasing	**15,323**	**73,343**	**9,960**	**1,059**	**99,685**
Other long-term liabilities	**-**	**2,745**	**-**	**-**	**2,745**
	772,202	**112,746**	**30,897**	**78,107**	**993,952**
Total risk, net	**(407,573)**	**(112,035)**	**16,482**	**(28,193)**	**(531,319)**

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, 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)

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, 2019:

- The Company has forward contracts for the purchase of $7.5 million for an amount of NIS 25.6 million, for the period until December 2020.
- The Company has forward contracts for the purchase of €6 million for an amount of NIS 23.2 million for the period until March 2020.

Note 26 – Financial instruments (cont'd)

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

2. Derivatives (cont'd)

As of December 31, 2018:

- The Company has forward contracts for the purchase of $4.5 million for an amount of NIS 16.2 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.

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,	
	2019	**2018**
	Equity / gain (loss)	**Equity / gain (loss)**
	NIS'000	**NIS'000**
Increase in CPI of 1.5%	**(1,680)**	(208)
Increase in exchange rate of:		
US dollar of 5%	**2,111**	853
Euro of 5%	**(257)**	(1,657)

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,	
	2019	**2018**
	NIS'000	**NIS'000**
Financial liabilities at fixed interest	**215,547**	223,114
Financial liabilities at variable interest	**319,762**	331,420

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, 2019	December 31, 2018
	Equity/Loss	Equity/Loss
	Increase in interest	Increase in interest
	NIS'000	NIS'000
Instruments at variable interest rates	**(3,198)**	(3,314)

A decrease in interest of a similar rate as at December 31, 2019 and 2018 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 Level	December 31, 2019		December 31, 2018	
		Carrying value	Fair value	Carrying value	Fair value
		NIS'000	NIS'000	NIS'000	NIS'000
Non-current liabilities:					
Debentures	***1**	**111,401**	**115,035**	91,069	92,819
Long-term bank loan	****3**	**104,146**	**106,032**	132,045	132,194
Long-term loans from others	**3**	**2,885**	**2,156**	3,000	2,324

(*) 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, 2019 – 2.0%-2.5% (2018 – 2.6%-3.2%).

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.

On December 10, 2019, the Company entered into an agreement with Pepsico whereby the agreement was extended until December 31, 2020. In addition, subject to the formulation of commercial agreements and to the meeting of targets, the agreement would be renewed for a five-year period commencing on January 1, 2021.

B. Agreement with Tradall S.A.

On April 14, 2019, 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, 2022. 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.

This agreement will be extended automatically for two additional one-year periods, unless either of the parties elects not extend either of the extended periods, pursuant to a mechanism set out in the agreement.

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 and it was extended automatically for an additional year. As of the date of approval of the financial statements, the Company continues distributing and marketing the products pursuant to the agreement.

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 vine growers each harvest year, in accordance with the terms set out in various agreements. including the following:

- 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 28A6.

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 9,300 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. In December 2019, the Company was issued a best judgment assessment for the years 2014 – 2017, 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 7.2 million 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.

3. 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.

4. 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)

5. 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.

6. 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.

7. Regarding the approval of suits as class actions, as described in the financial statements of the Company as of December 31, 2018, in notes 28A 4 and 8, agreed-upon requests to withdraw the motions and their approval as class actions were sustained.

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

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 415 million.

Note 29 – Related and interested parties

A. Benefits to interested parties

	Year ended December 31,					
	2019		2018		2017	
	No. of people	Amount NIS'000	No. of people	Amount NIS'000	No. of people	Amount NIS'00
Benefits to interested parties employed by the Company	**2**	**9,707**	2	9,294	2	10,413
Benefits to directors not employed by the Company	**3**	**517**	3	479	3	493

B. Balances with interested parties and related parties

	December 31,	
	2019	2018
	NIS'000	NIS'000
Suppliers	**17,361**	17,224
Other creditors	**7,384**	6,813

C. Remuneration of key management executives

	Year ended December 31,					
	2019		2018		2017	
	NIS'000		NIS'000		NIS'000	
	No. of people	Amount	No. of people	Amount	No. of people	Amount
Payroll and related expenses	**12**	**16,446**	11	16,071	11	16,534

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

	Year ended December 31,		
	2019	2018	2017
	NIS'000	NIS'000	NIS'000
	Transaction amounts		
Purchases of purchased products	**115,980**	92,315	75,327
Purchases of raw materials	**38**	72	29
Production services	**10,279**	10,397	11,229
Other purchases	**291**	564	575
Other manufacturing expenses	**6,116**	5,651	4,716
Rent expenses	**2,650**	2,628	2,620
Participation of the parent company in general and administrative expenses	**200**	200	200
Sale of raw materials	**109**	228	154
Participation of investee companies in expenses	**3,065**	2,242	1,852
Financing income	**203**	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.

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 and/or to extend it pursuant to the provisions of the law.

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 14, 2020, 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.

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) 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 no 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.

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 and/or to extend it pursuant to the provisions of the law.

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 14, 2020, 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.

The agreement includes restrictions regarding the importing and sale of products that compete with Heineken Beer.

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 supply 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.

On February 20, 2020, the general meeting of the shareholders of the Company approved (after the approval of the Audit Committee and the Board of Directors of the Company) an addendum to the supply agreement between the Company and Preform (hereinafter – the "Addendum to the Agreement"), whereby the agreement was extended for a one-year period, from December 1, 2019 through November 30, 2020 (hereinafter – the "extension period"). The prices of the products supplied by Preform to the Company during the extension period were updated in accordance with the updated offer given by Preform to the Company, based on negotiations that were conducted between the parties, as part of which the prices of preforms products were lowered. There were no other changes in the terms of the supply agreement.

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

F. Transactions with controlling shareholders (cont'd)

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.

Note 30 – Leasing

Commencing from January 1, 2019, the Company has been implementing IFRS 16, *Leasing*. As part of leasing agreements, the Group leases the following items:

1. Vehicles
2. Property and office space
3. Vineyards.

(1) Information pertaining to material leasing agreements

a. The Group leases vehicles for periods of three years and from time to time, it changes the quantity of vehicles on the basis of its current needs. The leased vehicles are identified by their license plate numbers and the leasing companies are not allowed to replace the vehicles, except if vehicles are faulty. The leased vehicles are used by the employees of the headquarters of the Group, marketing and sales personnel and other employees who have employment contracts that contain provisions requiring the Group to place a vehicle at their disposal. In addition, the Company leases trucks from a number of leasing companies, for periods of up to seven years. The trucks are used by the Company's Logistics Department for shipping purposes.

b. The Company leases land in Netanya from the parent company, for a period up to 2034. The land covers an area of 10 dunams and is located near the Company's premises in Netanya. In addition, the Group leases offices and warehouses for use in its business activity, for periods of between two to fifteen years. These periods contain options to extend the leasing agreements and it is reasonable to assume that the options will be exercised.

c. Barkan Wineries leases vineyards from various landowners for use in growing grapes. The lease periods in the agreements range from between nine years to twenty two years and they include options to extend the leasing periods. It is reasonable to assume that such options will be exercised.

(2) Right-of-usage assets

a. Composition

	Property and office space	Vineyards	Vehicles	Total
	NIS'000	NIS'000	NIS'000	NIS'000
Balance as at January 1, 2019	38,691	41,157	58,086	137,934
Additions as part of business combinations	**669**	**-**	**532**	**1,201**
Additions (*)	**-**	**-**	**17,694**	**17,694**
Depreciation in respect of right-of-usage assets	**(4,332)**	**(2,427)**	**(21,939)**	**(28,698)**
Balance as at December 31, 2019	**35,028**	**38,730**	**54,373**	**128,131**

(*) Including linkage differentials carried to the right of usage asset in an amount of NIS 360 thousand.

Note 30 – Leasing (cont'd)

(3) Leasing liabilities

Analysis of the maturity dates of the leasing liabilities of the Group

	December 31, 2019
	NIS'000
Up to one year	28,721
Between one and two years	19,769
Between two and four years	22,368
More than four years	57,548
Total	128,406

(4) Additional information regarding leasing liabilities

	Year ended December 31, 2019
	NIS'000
Interest expenses in respect of leasing liabilities	3,723

Note 31 – 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.

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, 2019			
	Alcoholic Beverages	**Barkan**	**Non-alcoholic Beverages**	**Consolidated**
	NIS'000	**NIS'000**	**NIS'000**	**NIS'000**
Segmental revenues	**612,940**	**190,596**	**711,285**	**1,514,821**
Segmental results	**106,976**	**37,442**	**76,246**	**220,664**
Unallocated expenses				**(84,744)**
Operating income				**135,920**
Net financing expenses				**(19,886)**
Share of Company in profits of equity-accounted investee companies				**3,022**
Taxes on income				**(29,279)**
Net income for the year				**89,777**
Depreciation and amortization	**30,031**	**19,480**	**17,346**	

Note 31 – Segment reporting (cont'd)

	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 32 – Subsequent events

Issuance of Series C debentures

Subsequent to the date of the statement of financial position, on January 27, 2020, the Company issued debentures (Series C) in a gross amount of NIS 150 million (NIS 149 million, net of issuance costs). The debentures are not linked and bear annual fixed interest at a rate of 1.58%. The interest in respect of the debentures is payable into semi-annual equal payments, on September 30 and March 31 of each of the years from 2020 until 2029, commencing on September 30, 2020
The balance of the debentures will be repaid in nine equal payments, to be paid on March 31 of each of the years from 2021 until 2029.
The debentures are rated by Midroog Ltd. as A1 stable.

The trust deed set out among other things the following provisions:

Restrictions regarding the distribution of a dividend:

- In the event that the shareholders' equity after the distribution amounts to at least NIS 725 million, the Company has the right to make a distribution at a rate of the higher of up to 75% of the annual net income of the Company (consolidated) in the same year, or up to 75% of the distributable income, pursuant to the Companies Act, which derived commencing from the Company’s financial statements as at September 30, 2019 (inclusive) and on the basis of which the Company did not make a distribution.
- In the event that the shareholders' equity after the distribution amounts to at least NIS 300 million, the Company has the right to make a distribution at a rate of the higher of up to 50% of the annual net income of the Company (consolidated) in the same year, or up to 50% of the distributable income, pursuant to the Companies Act, which derived commencing from the Company’s financial statements as at September 30, 2019 (inclusive) and on the basis of which the Company did not make a distribution.
- In the event that the shareholders' equity after the distribution amounts to less than NIS 300 million, the Company has the right to make a distribution at a rate of the higher of up to 30% of the annual net income of the Company (consolidated) in the same year, or up to 30% of the distributable income, pursuant to the Companies Act, which derived commencing from the Company’s financial statements as at September 30, 2019 (inclusive) and on the basis of which the Company did not make a distribution.
- The Company is prohibited from making a distribution in the event that the shareholders' equity after the distribution amounts to less than NIS 255 million.
- At the date of the declaration of the distribution, the Company is not in a material breach of the provisions of the trust deed.
- The Company is prohibited from making a distribution if the Company is not compliance of the financial covenants that require it to pay additional interest.
- The Company is prohibited from making a distribution of evaluation profits generated commencing from the date of the initial issuance of the debentures.
- The Company is prohibited from making a distribution shareholders in the event that any of the warning signs exist in respect of the Company (as the term is defined in the Securities Regulations (Periodic and Immediate Reports) – 1970.

Note 32 – Subsequent events (cont'd)

Issuance of Series C debentures (cont'd)

Interest adjustment mechanism:

- If the shareholders' equity of the Company falls below NIS 300 million, the interest rate in respect of the unamortized balance of the principal of the debentures shall increase by 0.25% per annum above the interest rate that was set in the tender.
- If the ratio of the shareholders' equity of the Company (including minority rights) to the total balance sheet of the Company falls below 17.5%, the interest rate in respect of the unamortized balance of the principal of the debentures shall increase by 0.25% per annum above the interest rate that was set in the tender.
- If the ratio of the net financial debt to EBITDA increase to more than 5, the interest rate in respect of the unamortized balance of the principal of the debentures shall increase by 0.25% per annum above the interest rate that was set in the tender.
- In the event that the rating of the debentures by Midroog Ltd. or by any other rating company that replaces Midroog Ltd. falls by two ratings below the rating of the Company immediately prior to the issuance (A1), the annual interest in respect of the unamortized balance of the principal of the debentures shall increase by 0.5% per annum above the interest rate that was set in the tender. In respect of any further decrease in rating, the interest rate shall increase by an additional 0.25%. The maximum increase in interest pursuant to this mechanism shall not exceed 1%, even if there is an additional lowering of the rating of the debentures.

The maximum amount of the increase in interest to be granted in respect of a breach of financial covenants, together with the additional interest in respect of the aforementioned reduction in rating, shall not increase by an aggregate amount of more than 1.5% above the interest rate set in the tender.

Note 32 – Subsequent events (cont'd)

Issuance of Series C debentures (cont’d)

The right to demand immediate repayment:

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

- If the shareholders' equity of the Company falls below NIS 250 million in two consecutive quarters.
- If the ratio of shareholders' equity (including minority rights) to the total balance sheet falls below 15% in two consecutive quarters.
- If the rating of the debentures falls below Baa3 or an equivalent rating.
- If the debentures cease being rated for a period of at least 60 business days, as a result of circumstances that are dependent solely upon the Company.
- If the Company executed a distribution that does not comply with the abovementioned obligations of the Company in connection with the restriction regarding the distribution of a dividend.
- If one of the following is presented for immediate repayment: (1) another or other series of debentures issued by the Company; (2) one or more financial debts of the Company (except for a non-recourse debt of the Company), the unamortized balance (or aggregate balances) of which as of the date of the demand for immediate repayment exceeds the lower of NIS 170 million or an amount that constitutes 12.5% of the balance sheet of the Company as presented in its consolidated financial statements, on condition that the lender of the aforementioned debt (including holders of debentures) did not cancel its demand for immediate repayment within 30 days following the date on which the debt was presented for immediate repayment.
- If the control over the Company was transferred and such transfer was not approved by the meeting of the holders of the debentures by a simple majority.
- If a material merger was made, as part of which the Company is the absorbing company or the target company, unless the Company and/or the absorbing company in the proceeding declared that there is no reasonable concern that as a result of the merger, the merging company will be unable to meet its liabilities toward 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.