

Tempo Beverages Ltd.

Consolidated Financial Statements

As of December 31, 2020

Consolidated Financial Statements
As of December 31, 2020

Contents

	Page
Auditors Report	
Consolidated Statements of Financial Position	2
Consolidated Statements of Income	4
Consolidated Statements of Other Comprehensive Income and Loss	5
Consolidated Statements of Changes in Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	9

Consolidated Statement of Financial Position as at

	Note	December 31	
		2020	2019
		NIS thousands	NIS thousands
Current assets			
Cash and cash equivalents		36,924	36,690
Trade receivables	4	286,106	350,600
Other receivables	5	42,797	42,015
Derivative instruments		-	116
Inventory	6	300,604	296,859
Current tax assets		5,953	14,483
Total current assets		672,384	740,763
Long-term assets			
Long-term loans and receivables	7	31,166	33,212
Fixed assets	9	761,321	775,683
Intangible assets	10	21,974	28,769
Investment in equity accounted investee companies	8	37,732	39,583
Inventory in process		7,061	7,633
Deferred taxes	24	9,448	6,587
Total long-term assets		868,702	891,467
Total assets		1,541,086	1,632,230

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

Consolidated Statement of Financial Position as at

	Note	December 31	
		2020	2019
		NIS thousands	NIS thousands
Liabilities			
Short-term credit from banks	11	48,128	341,042
Trade payables	12	234,883	222,948
Other payables	13	97,630	104,486
Derivative instruments		1,312	58
Current maturities of debentures	15	42,534	31,745
Current maturities of liabilities in respect of leasing	30	23,040	28,721
Current tax liabilities		7,753	308
Total current liabilities		455,280	729,308
Liabilities to banking institutions	14	63,004	82,866
Other long-term liabilities	14	2,576	2,745
Long-term liabilities in respect of leasing	30	92,502	99,685
Debentures	15	235,622	79,656
Deferred taxes	24	28,686	25,416
Employee benefits	16	9,272	9,763
Total non-current liabilities		431,662	300,131
Total liabilities		886,942	1,029,439
Equity			
Non-controlling interest		672	635
Share capital		1	1
Share premium		147,334	147,334
Translation reserve		(1,263)	(2,286)
Retained earnings		507,400	457,107
Total equity attributable to equity holders of the Company	17	653,472	602,156
Total equity		654,144	602,791
Total liabilities and equity		1,541,086	1,632,230

Jacques Beer
Chairman of the Board and
CEO

Amir Borenstein
Deputy Chairman of the Board

Eyal Tregerman
CFO

Date of approval of financial statements: March 25, 2021

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

Consolidated Statement of Income for the year ended December 31

	Note	<u>2020</u> NIS thousands	<u>2019</u> NIS thousands	<u>2018</u> NIS thousands
Revenues from sales, net	18	1,385,960	1,514,821	1,403,176
Cost of sales	19	883,576	945,062	857,913
Gross profit		502,384	569,759	545,263
Selling and marketing expenses	20	(303,897)	(349,095)	(343,978)
General and administrative expenses	22	(79,611)	(84,222)	(85,306)
Other income	21	786	68	1,263
Other expenses	21	(1,798)	(590)	(615)
Operating profit		117,864	135,920	116,627
Financing income	23	389	1,927	4,164
Financing expenses	23	(19,453)	(21,813)	(14,272)
Financing expenses, net		(19,064)	(19,886)	(10,108)
Share in profits of equity-accounted investee companies	8	27	3,022	3,662
Profit before taxes on income		98,827	119,056	110,181
Taxes on income	24	(24,098)	(29,279)	(22,462)
Profit for the year		74,729	89,777	87,719
Attributed to:				
Equity holders of the Company		74,692	89,759	87,743
Non-controlling interest		37	18	(24)
		74,729	89,777	87,719

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**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Profit for the year	74,729	89,777	87,719
Components of the other comprehensive income after initial recognition were or will be carried to profit and loss:			
Foreign currency translation differences in respect of foreign operations	1,023	(4,463)	1,263
Components of the other comprehensive income not carried to profit and loss:			
Defined benefit plan actuarial gains (losses), net of tax	601	(428)	(122)
Other comprehensive income, net of tax	1,624	(4,891)	1,141
Total comprehensive income for the year	<u>76,353</u>	<u>84,886</u>	<u>88,860</u>
Comprehensive income (loss) attributed to:			
Equity holders of the Company	76,316	84,868	88,884
Non-controlling interests	37	18	(24)
Total comprehensive income for the year	<u>76,353</u>	<u>84,886</u>	<u>88,860</u>

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					Non-controlling interests	Total equity
	Share Capital	Share Premium	Translation Reserve	Retained Earnings	Total		
	NIS thousands						
For the year ended December 31, 2020							
Balance as at January 1, 2020	1	147,334	(2,286)	457,107	602,156	635	602,791
Dividend paid	-	-	-	(25,000)	(25,000)	-	(25,000)
Foreign currency translation differences in respect of foreign operations	-	-	1,023	-	1,023	-	1,023
Actuarial gains from defined benefit plan, net of tax	-	-	-	601	601	-	601
Profit for the year	-	-	-	74,692	74,692	37	74,729
Balance as at December 31, 2020	1	147,334	(1,263)	507,400	653,472	672	654,144
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

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

Statement of Cash Flows for the Year ended December 31

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Cash flows from operating activities			
Profit for the year	74,729	89,777	87,719
Adjustments:			
Depreciation	123,984	126,675	94,136
Amortization of intangible assets	8,163	7,635	8,949
Share of Company in profits of equity-accounted investee companies	(27)	(3,022)	(3,662)
Financing expenses, net	14,926	17,720	13,963
Capital loss (gain) from sale of fixed assets, net	2,099	1,322	(1,263)
Taxes on income	24,098	29,279	22,462
	<u>247,972</u>	<u>269,386</u>	<u>222,304</u>
Change in inventory	(2,844)	14,276	(22,747)
Change in trade receivables and other receivables	58,374	(22,268)	(34,211)
Change in trade payables and other payables	3,922	3,552	(16,664)
Change in employee benefits	3,235	4,263	4,071
	<u>62,687</u>	<u>(177)</u>	<u>(69,551)</u>
Income tax paid	(7,893)	(32,775)	(46,352)
	<u>302,766</u>	<u>236,434</u>	<u>106,401</u>
Net cash provided by operating activities			
Cash flows from investing activities			
Paid of deferred consideration in respect of acquisition of subsidiary	(914)	-	-
Acquisition of subsidiary, net of the acquired cash	-	7,585	-
Dividends from investee companies	3,161	3,770	1,700
Investment in investee companies and partnership	(1,283)	(4,250)	(19,500)
Proceeds from sale of fixed assets	313	1,389	1,565
Acquisition of fixed assets	(85,542)	(86,117)	(123,553)
Acquisition of intangible assets	(1,334)	(1,931)	(3,679)
Investment in long-term receivables	(21,072)	(39,814)	(40,622)
Receipts from investment in long-term receivables	20,255	21,049	19,731
	<u>(86,416)</u>	<u>(113,489)</u>	<u>(164,358)</u>
Net cash used in investing activities			

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

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

	2020	2019	2018
	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities			
Short-term credit, net	(291,529)	(14,319)	61,204
Distributed dividend	(25,000)	(35,000)	(36,000)
Receipt of long-term loans	-	-	100,000
Issuance of debentures	198,120	52,325	-
Repayment of debentures	(31,524)	(31,524)	(23,190)
Repayment of long-term banks loans	(21,280)	(27,772)	(27,509)
Repayment of principle of liabilities in respect of leasing	(30,255)	(27,141)	-
Repayment of other long- term liabilities	(140)	(140)	(140)
Interest paid	(14,584)	(18,146)	(13,576)
Net cash provided by (used in) financing activities	(216,192)	(101,717)	60,789
Net change in cash and cash equivalents	158	21,228	2,832
Cash and cash equivalents as at the beginning of the year	36,690	15,674	12,732
Impact of exchange rate fluctuations on balance of cash and cash equivalents	76	(212)	110
Cash and cash equivalents as at the end of the year	36,924	36,690	15,674

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

Notes to 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, 2020 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

On March 14, 2020, the Israeli government issued guidelines regarding contention with the spreading of the Corona virus, including with regard to the closing of business involved in cultural and leisure activities, including *inter alia* restaurants, event halls, coffee houses, bars and night clubs (hereinafter – “On-Trade Channel”), commencing from March 15, 2020.

During the second, third and fourth quarters of the year, the guidelines issued by the government in connection with the aforementioned restrictions in activity changed from time to time. Implementation of these guidelines had a negative impact on the operations of the Group, especially in the On-Trade Channel. During the course of 2020, the sales volume of the Group decreased by 8.5% when compared with the same period last year. In addition, the Company is exposed to enhanced collection risks in respect of the cessation of activity of the On-Trade Channel, due to the fact that the Company extended broad credit to support customers belonging to this group. As of the date of approval of the financial statements, there are bills that have not been paid by these customers and, at present, the Company is unable to estimate the volume of this phenomenon and the impact of the Corona virus on the volume of the doubtful debts of the Company. The Company included a general provision for expected credit losses in respect of this customer group.

The Company implemented a variety of means in order to minimize the damages. As part of these steps, following publication of the aforementioned government guidelines, the Company placed some 300 employees of the Group (including Barkan Wineries Ltd.) on unpaid leave (out of a total of 1,300 employees). At the beginning of June, most of the employees of the Company who had been furloughed were returned to work. However, some 100 employees whose activity centered around the customers whose operations had ceased, as above, were once again placed on unpaid leave during the second quarter and as of the date of approval of the financial statements, the vast majority of them were returned to work. At the same time, the Company took additional steps in order to adapt its expense structure to the reduced turnover, including enhanced utilization of vacation days and a temporary reduction in the salaries of members of management, the CEO of the Company and the deputy chairman of the Board of Directors.

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 constantly monitors developments and possible effects on the financial statements. Notwithstanding, the Company cannot estimate the scope of the aforementioned effects on its operations.

Notes to the Consolidated Financial Statements

Note 1 – General (cont'd)

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 25, 2021.

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.

Notes to the Consolidated Financial Statements

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

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 adoption of new standards, amendments to standards and interpretations**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.

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

Notes to the Consolidated 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.

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.

Notes to the Consolidated Financial Statements

Note 3 – Significant Accounting Policies (cont'd)**A. Basis of consolidation (cont'd)****(3) Non-controlling interests (cont'd)**

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.**

(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.

Notes to the Consolidated Financial Statements

Note 3 – Significant Accounting Policies (cont'd)**C. Foreign currency (cont'd)****2. Foreign operations (cont'd)**

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.

D. Financial instruments**(1) Non-derivative financial assets*****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.

Notes to the Consolidated Financial Statements

Note 3 – Significant Accounting Policies (cont'd)

D. Financial instruments (cont'd)

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

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.

(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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

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.

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

	<u>Years</u>
• 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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

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:

	<u>Years</u>
• 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.

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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**H. Impairment****(1) Non-derivative financial assets****Financial assets impaired by credit risk**

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.

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.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial asset.

(2) Non-financial assets

The carrying amounts of the Company'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.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the assessments of market participants regarding the time value of money and the risks specific to the asset or 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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

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

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

I. Employee benefits (cont'd)

(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.

K. Revenue

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.

The model for recognizing revenue from contracts with customers includes five phases for analyzing transactions in order to determine the timing and amount of revenue recognition:

- A. Identifying the contract
- B. Identifying distinct performance obligations in the contract
- C. Determining the price of the transaction
- D. Allocating the transaction price to distinct performance obligations
- E. Recognizing revenue upon the fulfillment of performance obligations

1. Identifying the contract

The Company accounts for a contract with a customer only when all of the following conditions are met:

- (a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
- (b) The Company can identify the rights of each party in relation to the goods or services that will be transferred;
- (c) The Company can identify the payment terms for the goods or services that will be transferred;
- (d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- (e) It is probable that the consideration, to which the Company is entitled to in exchange for the goods or services transferred to the customer, will be collected.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**K. Revenue (cont'd)****1. Identifying the contract (cont'd)**

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: the Company has no remaining obligations to transfer goods or services to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

2. Identifying a performance obligation

On the contract's inception date the Company assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

- (a) Goods or services (or a bundle of goods or services) that are distinct; or
- (b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Company identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Company's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract. In order to ascertain whether a promise to transfer goods or services is separately identifiable, the Company examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

3. 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 Company takes into account the effects of all the following elements when determining the transaction price: variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and consideration payable to the customer.

Variable consideration

The transaction price includes fixed amounts and amounts that may change as a result of discounts, refunds, credits, price concessions, incentives, performance bonuses, penalties, claims and disputes and contract modifications, the consideration in respect of which has not yet been agreed by the parties.

The Company includes variable consideration, or part of it, in the transaction price only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Company revises the amount of the variable consideration included in the transaction price.

4. Satisfaction of a performance obligation

Revenue is recognized when the Company satisfies a performance obligation by transferring control over promised goods or services to the customer.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**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 provision for expected credit losses 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.

M. Income tax expenses

Income tax expenses include current and deferred tax. Income tax expenses are recognized in profit or loss or in other comprehensive income in the event that they derive from items that are carried to other comprehensive income.

Current taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include changes in tax payments related to prior years.

Deferred taxes

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 taxes are 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.

A deferred tax asset is recognized in the accounting records in respect of carried forward losses, 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.

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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

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.

(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

Notes to the Consolidated Financial Statements

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. New standards, amendments to standards and interpretations not yet adopted

Amendment to IAS 1, Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

The Amendment replaces certain requirements for classifying liabilities as current or non-current.

The Amendment is effective for reporting periods beginning on or after January 1, 2023 with earlier application being permitted. The Amendment is applicable retrospectively, including an amendment to comparative data. The Company has not yet commenced examining the effects of applying the Amendment on the financial statements.

Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts

According to the Amendment, when assessing the costs of satisfying the contract, the costs that should be taken into consideration should also include indirect costs in addition to incremental costs.

The date of initial adoption of the Amendment was set for January 1, 2022, by way of adjusting retained earnings for the cumulative effects as of that date. The Amendment may impact the identification and measurement of onerous contracts in the Company which may be manifested in the creation of provisions which the Company is currently unable to evaluate. The Company is in the process of studying the Amendment and plans on implementing it on time.

Notes to the Consolidated Financial Statements

Note 4 – Trade accounts receivable

	December 31,	
	2020	2019
	NIS'000	NIS'000
Trade accounts receivable(*)	322,575	384,160
Less: provision for impairment	(36,469)	(33,560)
	<u>286,106</u>	<u>350,600</u>

(*) See also Note 26A.

Note 5 - Other receivables

	December 31,	
	2020	2019
	NIS'000	NIS'000
Employees	1,640	1,928
Institutions	4,321	2,655
Advances to suppliers	550	1,559
Prepaid expenses	8,514	7,413
Income receivable	25,703	27,189
Other receivables	1,014	916
Current maturities of long-term receivables	1,055	355
	<u>42,797</u>	<u>42,015</u>

Note 6 - Inventories

	December 31,	
	2020	2019
	NIS'000	NIS'000
Raw and auxiliary materials	16,029	21,664
Packaging and other materials	41,988	39,969
Products in process	87,258	85,903
Finished and purchased goods	155,329	149,323
	<u>300,604</u>	<u>296,859</u>

Notes to the Consolidated Financial Statements

Note 7 – Long-term loans and receivables

	December 31,	
	2020	2019
	NIS'000	NIS'000
Long-term liabilities	59,764	55,883
Less accumulated amortization	(38,974)	(36,307)
Amortized cost	20,790	19,576
Loans to others	11,431	13,991
Less: current maturities	(1,055)	(355)
Net balance	10,376	13,636
	31,166	33,212

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, 2020 and 2019
<u>Consolidated companies</u>		
Tempo Marketing (1981) Ltd. (hereinafter – “Tempo Marketing”)	Israel	100%
Aqua Nova Waters Ltd.	Israel	100%
Barkan Wineries Ltd.	Israel	100%
Tempo Beverages Cyprus Ltd.	Cyprus	100%
<u>Equity-accounted companies</u>		
Adir R.Y. Trading Ltd.	Israel	50%
Masterpiece Team Ltd.	Israel	50%
Sumitz Holdings Ltd.	Israel	30%
Sparks Foodtech Food Technologies L.P.	Israel	25%
BFF 2 Pay Ltd.	Israel	20%

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.

Notes to the Consolidated Financial Statements

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, 2020, the liabilities of Barkan Wineries to these banks amounted to NIS 350 thousand.

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 distributor 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, 2020 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.

Notes to the Consolidated Financial Statements

Note 8 - Investee Companies (cont'd)

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

2. (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:

	<u>NIS'000</u>
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)
	<u>7,585</u>
Identified assets and liabilities, net	<u>7,585</u>

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)
	<u>7,585</u>

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.

Notes to the Consolidated Financial Statements

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, 2020 is NIS 1.5 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 and indirectly guaranteed by the Company as at December 31, 2020 is NIS 2.4 million.

Notes to the Consolidated Financial Statements

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 Samed 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 State of Israel 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, 2020, the partnership has no liabilities toward the Bank.

Notes to the Consolidated Financial Statements

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, 2019	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
Additions	10,868	60,348	2,839	1,465	6,064	5,692	8,109	95,385
Additions to right-of-use assets	5,568	-	(79)	16,026	-	-	-	21,515
Disposals	(854)	(44,823)	-	(10,833)	-	(1,448)	(20,206)	(78,164)
Impact of changes in exchange rate	42	-	-	106	38	52	14	252
Balance as of December 31, 2020	444,467	761,697	154,143	111,093	56,655	106,966	88,764	1,723,785

Notes to the Consolidated Financial Statements

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, 2019	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)	-	(1,163)	(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
Depreciation for the year	14,026	39,187	5,495	1,576	4,220	9,153	9,128	82,785
Depreciation in respect of right-of-use assets	5,284	-	2,611	24,165	-	-	-	32,060
Disposals	(842)	(42,892)	-	(6,515)	-	(974)	(20,206)	(71,429)
Impact of changes in exchange rate	16	-	-	31	15	26	3	91
Balance as of December 31, 2020	171,893	504,745	33,701	58,488	39,635	91,519	70,390	970,371
Carrying value-depreciated cost								
As of January 1, 2019	239,450	244,281	91,163	11,640	13,920	23,166	20,542	644,162
Payments 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
As of December 31, 2020	272,574	256,952	120,442	52,605	17,020	15,447	18,374	753,414
Payment on account of fixed assets								7,907
								761,321

Notes to the Consolidated Financial Statements

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, 2020 amounted to NIS 482 million (December 31, 2019 amounted to NIS 515 million).

C. Leases

The Company's property is leased under a capital lease from the Israel Lands Authority for leasing periods ending in 2048 and 2056.

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 January 1, 2019	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
Impact of changes in the exchange rate	34	-	34
Acquisitions	-	1,334	1,334
Balance as of December 31, 2020	79,681	40,453	120,134
Amortization			
Balance as at January 1, 2019	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
Amortization for the year	6,151	2,012	8,163
Balance as of December 31, 2020	62,693	35,467	98,160
Carrying value			
As of January 1, 2019	26,713	5,664	32,377
As of December 31, 2019	23,105	5,664	28,769
As of December 31, 2020	16,988	4,986	21,974

Notes to the Consolidated Financial Statements

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 31,	
	December	2020	2019
	%	NIS'000	NIS'000
Short-term loans from banks	1.08	28,267	319,762
Current maturities of long-term loans		19,861	21,280
Total current liabilities		<u>48,128</u>	<u>341,042</u>

(*) Loans bearing variable annual interest at between the prime rate less 0.52%.

Note 12 – Trade accounts payable

	December 31,	
	2020	2019
	NIS'000	NIS'000
Open debts	<u>234,883</u>	<u>222,948</u>

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,	
	2020	2019
	NIS'000	NIS'000
Liabilities to employees and other liabilities in respect of payroll (*)	37,162	37,656
Government institutions	11,975	11,184
Advances from customers	700	1,400
Packaging deposits	10,499	13,541
Liabilities to related and interested parties	4,985	7,282
Other payables and accrued expenses	32,169	33,282
Current maturities of other long-term liabilities	140	140
	<u>97,630</u>	<u>104,486</u>

(*) 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.

Notes to the Consolidated Financial Statements

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

A. Composition

	<u>Interest rates</u>	<u>December 31,</u>	
	<u>December</u>	<u>2020</u>	<u>2019</u>
	<u>%</u>	<u>NIS'000</u>	<u>NIS'000</u>
Loans from banks - In NIS (unlinked)	2.35-4.88	82,865	104,146
Other long term liabilities		<u>2,716</u>	2,885
		<u>85,581</u>	107,031
Less – current maturities		<u>(20,001)</u>	(21,420)
		<u>65,580</u>	<u>85,611</u>

- 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:

<u>Financial covenants</u>	<u>Financial ratio</u>	<u>Results of calculation (as of December 31, 2020)</u>
Ratio of tangible shareholders' equity to total balance sheet shall be no less than 20%		44.16%
Tangible shareholders' equity shall not be less than NIS 180,000 thousand, linked to the ICPI		629,508
Ratio of net debt to the EBITDA shall not exceed 3.75		1.60

Notes to the Consolidated Financial Statements

Note 15 – Debentures

A. Composition

	December 31,	
	2020	2019
	NIS'000	NIS'000
Debentures (including interest payable)	278,156	111,401
Less current maturities (including interest payable)	(42,534)	(31,745)
	<u>235,622</u>	<u>79,656</u>

B. Debentures – Series A

On March 10, 2010, the Company issued debentures (Series A) for an amount of NIS 120 million (NIS 117 million net of issuance costs). On February 28, 2020, the debentures were repaid in full.

C. Debentures – Series B

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 four equal installments, to be paid on December 31 of each of the years 2021 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.

Notes to the Consolidated Financial Statements

Note 15 – Debentures (cont'd)

C. Debentures – Series B (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.

Notes to the Consolidated Financial Statements

Note 15 – Debentures (cont'd)

C. Debentures – Series B (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.

D. Debentures – Series C

On January 23, 2020, the Company issued Debentures Series C in an amount of NIS 150 million (NIS 149 million net of issuance costs).

On May 17, 2020, the series C debentures were expanded in an amount of NIS 50 million (NIS 49 million net of issuance costs).

The debentures are unlinked and bear fixed annual interest at a rate of 1.58% (hereinafter – the “Base Interest”). The interest in respect of the debentures is paid semi-annually, on March 31 and September 30 of each of the years until 2029.

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.

Notes to the Consolidated Financial Statements

Note 15 – Debentures (cont'd)

D. Debentures – Series C (cont'd)

Restrictions regarding the distribution of a dividend (cont'd)

- 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.

Financial covenants and 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 base interest rate.
- 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 base interest rate.
- 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 base interest rate.
- 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 base interest rate. 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.

Notes to the Consolidated Financial Statements

Note 15 – Debentures (cont'd)

D. Debentures – Series C (cont'd)

Financial covenants and interest adjustment mechanism (cont'd)

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 base interest rate.

The right to demand immediate repayment:

In addition to standard causes for demanding immediate repayment, including non-repayment or non-fulfillment of a material liability, a material impairment of the Company's business and a real concern regarding non-compliance with material liabilities toward holders of debentures, failure to issue financial statements, suspension or delisting of debentures, default events (freezing proceedings, an arrangement pursuant to article 350, a compromise or arrangement, liquidation, seizure of company assets (in whole or in part), receivership, etc.), various actions by the Sheriff's office against the Company, a merger subject to exceptions, a fundamental breach of the terms of the debentures, as well as a situation in which the Company ceases or declares its intention to cease repayment of its debts, etc., the debentures will be presented for immediate repayment in the following cases:

- 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 the Company records a "going concern warning" on its financial statements for a period of two consecutive quarters.
- If a change is made in the major operations of the Company.

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

Notes to the Consolidated Financial Statements

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. 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,	
	2020	2019
	NIS'000	NIS'000
Present value of the obligations	17,233	18,278
Fair value of plan assets*	(7,961)	(8,515)
	<u>9,272</u>	<u>9,763</u>

* Plan assets consist of equity instruments in central severance pay funds.

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

	Year ended December 31,	
	2020	2019
	NIS'000	NIS'000
Obligation in respect of defined benefit plan as of beginning of period	18,278	17,059
Reclassified to short-term	(2,946)	(3,841)
Benefits paid and disposed	(1,250)	(1,011)
Current service costs and interest costs	4,020	5,186
Actuarial losses (gains) carried to other comprehensive income	(869)	885
	<u>17,233</u>	<u>18,278</u>

(2) Changes in plan assets

	Year ended December 31,	
	2020	2019
	NIS'000	NIS'000
Fair value of plan assets as of beginning of period	8,515	8,274
Benefits paid and disposed	(774)	(566)
Interest income	309	478
Actuarial gains (losses) carried to other comprehensive income	(89)	329
	<u>7,961</u>	<u>8,515</u>

(3) Expense carried to profit and loss

	Year ended December 31,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
Current service costs	3,589	4,711	4,701
Interest costs	431	475	510
Interest income	(309)	(478)	(488)
	<u>3,711</u>	<u>4,708</u>	<u>4,723</u>

Notes to the Consolidated Financial Statements

Note 16 – Employee benefits (cont'd)

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

	Year ended December 31,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
Accumulated balance, beginning of period	3,637	4,193	4,362
Amounts recognized during period	780	(556)	(169)
Accumulated balance, end of period	4,417	3,637	4,193

(5) Actuarial assumptions and sensitivity analysis

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

	2020	2019	2018
	%	%	%
Discount rate, end of period	1.6	2.4	3.0
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, 2020		December 31, 2019	
	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	1,860	(1,570)	1,870	(1,577)
Discount rate	(1,587)	1,897	(1,593)	1,907

(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		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
Amount recognized as an expense in respect of a defined deposit plan	9,023	9,120	9,032

Notes to the Consolidated Financial Statements

Note 17 – Equity

A. Share capital

	December 31, 2020 and 2019
	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,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
	25,000	35,000	36,000

Note 18 – Revenues from sales, net

	Year ended December 31,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
(1) From Company production:			
Sales, net	927,645	1,027,865	1,004,187
Less excise tax	102,036	115,045	116,580
	825,609	912,820	887,607
(2) From purchased goods:			
Sales, net	560,351	602,001	515,569
Total sales	1,385,960	1,514,821	1,403,176

Note 19 – Cost of sales

	Year ended December 31,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
Use of materials	311,299	335,817	329,214
Payroll and related expenses	52,778	63,622	63,686
Depreciation	60,958	58,189	52,138
Other manufacturing expenses	50,517	52,031	48,309
	475,552	509,659	493,347
Purchases of purchased goods	408,024	436,093	367,330
Changes in work in progress inventory	-	-	(825)
Changes in inventory finished products	-	(690)	(1,939)
	883,576	945,062	857,913

Notes to the Consolidated Financial Statements

Note 20 – Selling and marketing expenses

	Year ended December 31,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
Payroll and related expenses	146,217	162,083	166,635
Advertising	49,512	67,618	63,597
Depreciation and amortization	54,088	51,408	30,217
Rent and building maintenance	9,211	10,255	14,004
Truck and forklift maintenance	14,366	19,577	27,945
Distribution commissions	10,570	11,848	11,649
Shipping	5,038	5,782	7,739
Other expenses	14,895	20,524	22,192
	303,897	349,095	343,978

Note 21 – Other expenses and income

	Year ended December 31,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
Income			
Gain on realization of fixed assets, net	-	-	1,263
Others	786	68	-
	786	68	1,263
Expenses			
Losses on realization of fixed assets, net	1,610	535	-
Others	188	55	615
	1,798	590	615

Notes to the Consolidated Financial Statements

Note 22 – General and administrative expenses

	Year ended December 31,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
Payroll and related expenses	40,055	40,845	45,141
Management fees	7,222	9,419	8,975
Depreciation and amortization	7,962	7,635	4,752
Provision for expected credit losses	4,154	1,308	1,650
Other expenses	20,468	25,215	24,988
	79,811	84,422	85,506
Participation of parent company in general and administrative expenses	(200)	(200)	(200)
	79,611	84,222	85,306

Note 23 – Financing expenses, net

	Year ended December 31,		
	2020	2019	2018
	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	24	55	44
Others	365	457	307
	389	1,927	4,164
Expenses			
Interest on debentures	5,767	3,478	4,222
Interest to banks	5,507	10,133	9,544
Changes in fair value of financial derivatives	1,935	4,368	-
Interest expense in respect of leasing liabilities	3,698	3,723	-
Others	-	111	452
Exchange rate differences	2,546	-	54
	19,453	21,813	14,272
Total financing expenses, net	(19,064)	(19,886)	(10,108)

Notes to the Consolidated Financial Statements

Note 24 - Income Tax**A. Details regarding the tax environment of the Group****(1) Corporate tax rate**

The tax rate applicable to the Company in the years 2018 – 2020 is 23%.

(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 2020 is NIS 2.35 per liter (in 2019 is NIS 2.34, in 2018 – NIS 2.31 per liter).

b. Excise tax on alcoholic beverages

The excise tax applicable to alcoholic beverages is a fixed amount per liter of alcohol sold or imported and it varies from year to year, depending upon the change in the Consumer Price Index. The excise tax in 2020 was NIS 85.51 per liter of alcohol (in 2019 – NIS 85.25, in 2018 – NIS 84.24 per liter of alcohol).

Notes to the Consolidated Financial Statements

Note 24 - Income Tax (cont'd)

B. Composition of income tax income (expense)

	Year ended December 31,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
Current taxes			
Tax expenses in respect of the current year	(19,683)	(27,599)	(24,467)
Tax expenses in respect of prior years	(4,185)	(570)	-
	(23,868)	(28,169)	(24,467)
Deferred taxes:			
Recording and reversal of temporary differences	(4,587)	(1,110)	2,005
Taxes in respect of prior years	4,357	-	-
	(230)	(1,110)	2,005
Taxes on income	(24,098)	(29,279)	(22,462)

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

	Year ended December 31,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
Income before taxes on income	98,827	119,056	110,181
Primary tax rate of the Company	23%	23%	23%
Tax calculated according to the Company's primary tax rate	22,730	27,383	25,342
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	(6)	(696)	(842)
Non-deductible expenses	1,228	1,210	1,193
Losses in respect of which deferred taxes were not recorded	-	329	-
Utilization of tax losses in respect of which deferred taxes were not recorded in the past	-	-	(3,872)
Taxes in respect of prior years	(172)	570	-
Others	318	483	596
Taxes on income	24,098	29,279	22,462

Notes to the Consolidated Financial Statements

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	Provision for expected credit losses	Others	Total
	NIS'000	NIS'000	NIS'000	NIS'000	NIS'000
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)
Changes carried to profit and loss	(3,109)	(279)	540	2,618	(230)
Changes against other comprehensive income	-	(179)	-	-	(179)
Deferred tax asset (liability) as of December 31, 2020	(35,406)	5,367	7,580	3,221	(19,238)

	December 31,	
	2020	2019
	NIS'000	NIS'000
Presented in the statement of financial position as part of deferred tax asset	9,448	6,587
Deferred tax liability	(28,786)	(25,416)
	(19,238)	(18,829)

(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

- Some of the Group companies were issued final tax assessments up to and including the 2018 tax year. In respect of the rest of the Group companies, tax assessments were deemed to be final through the year ended 2015.
- 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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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, 2020				
	NIS		Foreign Currency		
	Unlinked NIS'000	Linked to the CPI NIS'000	Dollar NIS'000	Euro NIS'000	Total NIS'000
Current assets;					
Cash and cash equivalents	23,381	-	5,740	7,803	36,924
Trade accounts receivable	251,110	-	10,761	24,235	286,106
Other receivables	12,882	530	15,968	13,417	42,797
Non-current assets:					
Long-term loans and receivables	30,481	350	-	335	31,166
	<u>317,854</u>	<u>880</u>	<u>32,469</u>	<u>45,790</u>	<u>396,993</u>
Current liabilities:					
Overdrafts and short-term loans from banking institutions	48,061	-	-	67	48,128
Trade accounts payable	142,232	-	24,111	68,540	234,883
Other payables	80,688	12,015	-	4,927	97,630
Derivative instruments	-	-	1,172	140	1,312
Current maturities of debentures	42,534	-	-	-	42,534
Current maturities of leasing liabilities	1,117	19,423	978	1,522	23,040
Non-current liabilities					
Liabilities to banking institutions	63,004	-	-	-	63,004
Debentures	235,622	-	-	-	235,622
Liabilities in respect of leasing	14,317	64,107	12,528	1,550	92,502
Other long-term liabilities	-	2,576	-	-	2,576
	<u>627,575</u>	<u>98,121</u>	<u>38,789</u>	<u>76,746</u>	<u>841,231</u>
Total risk, net	<u>(309,721)</u>	<u>(97,241)</u>	<u>(6,320)</u>	<u>(30,956)</u>	<u>(444,238)</u>

Notes to the Consolidated Financial Statements

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, 2019				
	NIS		Foreign Currency		
	Unlinked NIS'000	Linked to the CPI NIS'000	Dollar NIS'000	Euro NIS'000	Total 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
	<u>364,629</u>	<u>711</u>	<u>47,379</u>	<u>49,914</u>	<u>462,633</u>
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
	<u>772,202</u>	<u>112,746</u>	<u>30,897</u>	<u>78,107</u>	<u>993,952</u>
Total risk, net	<u>(407,573)</u>	<u>(112,035)</u>	<u>16,482</u>	<u>(28,193)</u>	<u>(531,319)</u>

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, 2020:

- The Company has forward contracts for the purchase of \$11 million for an amount of NIS 36.5 million, for the period until June 2021.
- The Company has forward contracts for the purchase of €3.5 million for an amount of NIS 14 million for the period until March 2021.

Notes to the Consolidated Financial Statements

Note 26 – Financial instruments (cont'd)

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

2. Derivatives (cont'd)

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.

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,	
	2020	2019
	Equity / gain (loss)	Equity / gain (loss)
	NIS'000	NIS'000
Increase in CPI of 1.5%	(1,459)	(1,680)
Increase in exchange rate of:		
US dollar of 5%	2,741	2,111
Euro of 5%	(703)	(257)

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,	
	2020	2019
	NIS'000	NIS'000
Financial liabilities at fixed interest	361,021	215,547
Financial liabilities at variable interest	28,267	319,762

Notes to the Consolidated Financial Statements

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.

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	<u>Equity/Loss</u>	<u>Equity/Loss</u>
	<u>Increase in interest</u>	<u>Increase in interest</u>
	<u>NIS'000</u>	<u>NIS'000</u>
Instruments at variable interest rates	<u>(283)</u>	<u>(3,198)</u>

A decrease in interest of a similar rate as at December 31, 2020 and 2019 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, 2020		December 31, 2019	
		Carrying value	Fair value	Carrying value	Fair value
		NIS'000	NIS'000	NIS'000	NIS'000
Non-current liabilities:					
Debentures	*1	278,156	286,077	111,401	115,035
Long-term bank loan	**3	82,865	84,319	104,146	106,032
Long-term loans from others	3	2,716	1,880	2,885	2,156

(*) 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, 2020 – 1.85%-2.4% (2019 – 2.0%-2.5%).

Notes to the Consolidated Financial Statements

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.

Subsequent to the date of the statement of financial position, on January 1, 2021, the agreement was renewed for an additional five years.

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 to 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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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. As of the date of approval of the financial statements, the Company is trying to have the agreement renewed under similar terms.

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 was renewed as from January 1, 2019 for an additional two years and it was automatically extended for an additional year.

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 and is trying to have the agreement renewed under similar terms.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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 28A5.

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.

Notes to the Consolidated Financial Statements

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 7,600 thousand. In the opinion of Company Management, based on its legal counsel, the Company will not incur any expenses in respect of the results of the suits beyond the provision that is included in the financial statements.

2. On 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.

On December 13, 2020, the parties filed a motion with the court to have a compromise agreement approved. As of the date of approval of the financial statements, the compromise agreement is still before the court, awaiting its approval.

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.

3. 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.

Notes to the Consolidated Financial Statements

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

A. Contingent liabilities (cont'd)

4. 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.

5. 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 20, 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.

Tempo Marketing and others appealed this sanction to the courts and on November 9, 2020, the court issued its decision whereby part of the claims of Tempo Marketing and the others were sustained. Therefore, Tempo Marketing and the others did not comply with the collection goals in 2016, however the amount of the sanction was reduced. The share of Tempo Marketing in the reduced sanction is NIS 2.3 million. The Company corrected the provisions included in its accounting records accordingly and, together with additional manufacturers and importers of drink containers, it has filed a motion to receive permission to appeal the ruling of the court. Concurrently, the Ministry of Environmental Protection also filed a motion to request permission to appeal the court ruling.

On October 19, 2020, the Minister of Environmental Protection publicized a notice in the Official Gazette pertaining to the failure to comply with the collection goals in 2016 and, therefore, the mandatory deposit on large containers would apply. The Minister concurrently announced that she issued, in response to feedback from the public an order postponing the mandatory deposit by a year. The Economics Committee ratified the order and set the effective date of the provisions of the Deposit Law in respect of soft drink bottles containing at least 1.5 liters at December 1, 2021.

The Manufacturers Association - Food Industry Union filed an appeal against the decision of the Minister in which they appealed the decision to publish the notification in the Official Gazette that manufacturers and importers of the soft drinks allegedly did not comply with the collection target for 2016.

Notes to the Consolidated Financial Statements

Note 28 - Contingent Liabilities, Guarantees and Pledges (cont'd)**A. Contingent liabilities (cont'd)**

5. (Cont'd)

At this stage, the Company is unable to assess the chances of success of the request for permission to appeal and the aforementioned appeals that were filed and the financial costs that will result from a decision to apply the provisions of the deposit law on large drink bottles in the event that the decision of the Minister is not cancelled.

6. On July 28, 2020, as a result of an audit conducted at Barkan Wineries in respect of the years 2017 – 2018, it was issued a payment demand from the Central Customs House in respect of a shortfall in payments of excise tax in an amount of NIS 3.7 million.
On July 29, 2020, the Company contacted the Central Customs House and made it clear to customs that it disputed the shortfall demand and that it intended on filing an objection regarding the demand.

In the opinion of Management of Barkan Wineries, based on its legal counsel, there is a reasonable chance (of more than 50%) to have part of the amount of the shortfall demand reduced. Therefore, the amount of the provision that was included in the financial statements in respect of this demand is fair.

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 97 million.

Notes to the Consolidated Financial Statements

Note 29 – Related and interested parties

A. Benefits to interested parties

	Year ended December 31,					
	2020		2019		2018	
	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	7,435	2	9,626	2	9,294
Benefits to directors not employed by the Company	3	479	3	517	3	479

B. Balances with interested parties and related parties

	December 31,	
	2020	2019
	NIS'000	NIS'000
Suppliers	18,545	17,361
Other creditors	4,634	7,384

C. Remuneration of key management executives

	Year ended December 31,					
	2020		2019		2018	
	No. of people	Amount NIS'000	No. of people	Amount NIS'000	No. of people	Amount NIS'000
Payroll and related expenses	14	14,994	12	16,446	11	16,071

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

	Year ended December 31,		
	2020	2019	2018
	NIS'000	NIS'000	NIS'000
	Transaction amounts		
Purchases of purchased products	103,026	115,980	92,315
Purchases of raw materials	-	38	72
Production services	8,681	10,279	10,397
Other purchases	15	291	564
Other manufacturing expenses	5,465	6,116	5,651
Rent expenses	2,614	2,650	2,628
Participation of the parent company in general and administrative expenses	200	200	200
Sale of raw materials	128	109	228
Participation of investee companies in expenses	2,737	3,065	2,242
Financing income, net	113	203	203

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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 any 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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

Note 29 – Related and interested parties (cont'd)**F. Transactions with controlling shareholders (cont'd)****Supply agreement (cont'd)**

Further to the approval of the relevant organs of the Company, an additional addendum to the supply agreement was approved whereby the agreement was extended until March 31, 2023 and the types of products to be bought from Preform will be limited to certain products out of all of the products bought pursuant to the supply agreement. In addition, the prices of the products to be supplied by Preform to the Company were updated in accordance with the updated price quote given by Preform to the Company on the basis of the negotiations conducted between the parties as part of which the prices of the products to be supplied were reduced a second time.

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

Note 30 – Leasing (cont'd)

(2) Right-of-usage assets (presented as part of fixed assets)

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 (*)	-	-	17,694	17,694
Additions as part of business combinations	669	-	532	1,201
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
Additions (*)	5,568	(79)	16,026	21,515
Disposals	(12)	-	(4,311)	(4,323)
Impact of changes in exchange rates	15	-	22	37
Depreciation in respect of right-of-usage assets	(5,284)	(2,611)	(24,165)	(32,060)
Balance as at December 31, 2020	35,315	36,040	41,945	113,300

(*) Including linkage differentials deducted from the right of usage asset in an amount of NIS 499 thousand (2019 – linkage differentials carried to the right of usage asset in an amount of NIS 360 thousand).

(3) Leasing liabilities

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

	December 31, 2020
	NIS'000
Up to one year	23,040
Between one and two years	16,242
Between two and four years	22,476
More than four years	53,784
Total	115,542

(4) Additional information regarding leasing liabilities

Amounts recognized in profit and loss

	Year ended December 31, 2020	Year ended December 31, 2019
	NIS'000	NIS'000
Interest expenses in respect of leasing liabilities	3,698	3,723

Notes to the Consolidated Financial Statements

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, 2020			Consolidated
	Alcoholic Beverages	Barkan	Non-alcoholic Beverages	
	NIS'000	NIS'000	NIS'000	NIS'000
Segmental revenues	541,827	169,396	674,737	1,385,960
Segmental results	87,756	31,522	79,209	198,487
Unallocated expenses				(80,623)
Operating income				117,864
Net financing expenses				(19,064)
Share of Company in profits of equity-accounted investee companies				27
Taxes on income				(24,098)
Net income for the year				74,729
Depreciation and amortization	30,385	20,455	17,631	

Notes to the Consolidated Financial Statements

Note 31 – Segment reporting (cont'd)

	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	

	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	

=====

=====