

G WILLI FOOD INTERNATIONAL LTD

Form 20-F

April 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission File No. 000-29256

G. WILLI-FOOD INTERNATIONAL LTD.

(Exact name of Registrant as specified in its charter
and translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

4 Nahal Harif St., Northern Industrial Zone, Yavne, 81106, Israel
(Address of principal executive offices)

Amir Kaplan, Chief Financial Officer

4 Nahal Harif St. Northern Industrial Zone,

Yavne 81106, Israel

Tel: 972-8-932-1000

(Name, Telephone, E-mail and/or Facsimile number and Address of Registrant's Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
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Ordinary Shares, NIS 0.10 par value per share	Nasdaq Capital Market
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Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report:

The registrant had 13,240,913 ordinary shares, NIS 0.10 nominal value per share as of December 31, 2017.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer Accelerated filer

Emerging growth company Non-accelerated filer

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financing Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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PRESENTATION OF INFORMATION

In this Annual Report, references to the “Company”, “we” and “us” refer to G. Willi-Food International Ltd. and its consolidated subsidiaries.

The Company presents its consolidated financial statements in New Israeli Shekels, the currency of the State of Israel. Unless otherwise specified or the context otherwise requires, references to “\$”, “US\$”, “Dollars”, “USD” and “U.S. Dollars” are to the United States Dollars and references to “NIS” are to New Israeli Shekels.

Solely for the convenience of the reader, this Annual Report contains translations of certain NIS amounts into U.S. Dollars at specified rates. These translations should not be construed as representations that the translated amounts actually represent such dollar or NIS amounts, as the case may be, or could be converted into U.S. Dollars or NIS as the case may be, at the rates indicated or at any other rate. Therefore, unless otherwise stated, the translations of NIS into U.S. Dollars have been made at the rate of NIS 3.467 = \$1.00, the representative exchange rate on December 31, 2017.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this Annual Report that are not historical facts, including, without limitation, certain statements made in the sections hereof entitled “Information on the Company,” “Dividends,” “Operating and Financial Review and Prospects,” and “Quantitative and Qualitative Disclosures about Market Risk” are statements of future expectations and other forward-looking statements that are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, the risks set forth in “Item 3. Key Information – D. Risk Factors”, including the following.

- changes affecting currency exchange rates, including the NIS/U.S. Dollar and NIS/Euro exchange rates;
- payment default by, or loss of, one or more of our principal clients;
- the loss of one or more of our key personnel;
- termination of arrangements with our suppliers, and in particular Arla Foods amba;
- increasing levels of competition in Israel and other markets in which we do business;
- increase or decrease in global purchase prices of food products;
- interruption to our storage facilities;
- our inability to accurately predict consumption of our products or changes in consumer preferences;
- product liability claims and other litigation matters;
- our insurance coverage may not be sufficient;
- our operating results may be subject to variations from quarter to quarter;
- our inability to successfully compete with nationally branded products;
- our inability to successfully integrate our acquisitions;
- our inability to protect our intellectual property rights;
- significant concentration of our shares are held by one shareholder;
- we are controlled by and have business relations with Willi-Food Investments Ltd. and its management;
- the price of our ordinary shares may be volatile;
- our inability to meet the Nasdaq listing requirements;
- our inability to maintain an effective system of internal controls;
- all of our assets are pledged to creditors;
- cyber-attacks on the Company's information systems;
- changes in laws and regulations, including those relating to the food distribution industry, and inability to meet and maintain regulatory qualifications and approvals for our products;

- economic conditions in Israel;
- changes in political, economic and military conditions in Israel, including, in particular, economic conditions in the Company's core markets; and
- our international operations may be adversely affected by risks associated with international business.

The Company is under no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. See "Item 3. Key Information – D. Risk Factors" and "Item 5. Operating and Financial Review and Prospects – A. Results of Operations".

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIME TABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated financial data for each of the years in the three-year period which ended December 31, 2017, 2016 and 2015 are derived from our audited consolidated financial statements set forth elsewhere in this report, which have been prepared in accordance with IFRS as issued by IASB. The selected consolidated financial data for the years ended December 31, 2014 and 2013 is derived from our audited consolidated financial statements not appearing in this report. All of the financial data set forth below are in thousands (except share and per share amounts). You should read the following selected consolidated financial data in conjunction with "Item 5. Operating and Financial Review and Prospects" and the consolidated financial statements and notes thereto appearing elsewhere herein. Historical results are not necessarily indicative of any results to be expected in any future period.

Recent Exchange Rates of NIS to one U.S. Dollar

The table shows the high and low exchange rate of NIS per one U.S. Dollars for the last seven months:

	High	Low
April 2018 (through April 26, 2018)	3.596	3.568
March 2018	3.495	3.431
February 2018	3.535	3.427
January 2018	3.460	3.388
December 2017	3.550	3.467
November 2017	3.544	3.499
October 2017	3.542	3.491

The representative exchange rate for NIS on December 31, 2017 was NIS 3.467 = \$1.00, and the representative exchange rate for NIS on April 26 2018 was NIS 3.579 = \$1.00.

The average exchange rate of NIS 3.599 = USD 1.00 was for the year ended December 31, 2017, NIS 3.841 for the year ended December 31, 2016, NIS 3.884 for the year ended December 31, 2015, NIS 3.577 for the year ended December 31, 2014 and NIS 3.610 for the year ended December 31, 2013.

Income Statement Data:
In accordance with IFRS

For the year ended December 31

	2017		2016	2015	2014	2013
	NIS	USD	NIS	NIS	NIS	NIS
Revenue	311,978	89,985	294,202	312,514	328,741	336,032
Cost of sales	237,645	68,545	217,585	237,452	249,136	252,355
Gross profit	74,333	21,440	76,617	75,062	79,605	83,677
Selling expenses	42,090	12,140	39,405	37,294	39,696	35,130
General and administrative expenses	15,839	4,569	14,577	32,926	19,231	19,408
Other Income	(361)	(104)	(112)	(2,182)	(2,943)	(54)
Total operating expenses	57,568	16,605	53,870	68,038	55,984	54,484
Operating profit	16,765	4,835	22,747	7,025	23,621	29,193
Finance income	17,937	5,173	(3,425)	3,363	2,794	13,008
Finance expense	3,769	1,087	3,143	978	375	876
Finance income, net	14,168	4,086	(6,568)	2,385	2,419	12,132
Profit before taxes on income	30,933	8,921	16,179	9,410	26,040	41,325
Taxes on income	(5,910)	(1,705)	(5,327)	(2,566)	(7,186)	(9,517)
Profit from continuing operations	25,023	7,216	10,852	6,844	18,854	31,808
Profit for the year	25,023	7,216	10,852	6,844	18,854	31,808
Attributable to:						
Owners of the Company	25,023	7,216	10,852	6,844	18,854	31,808
Net Income	25,023	7,216	10,852	6,844	18,854	31,808
Basic and diluted earnings per Share	1.89	0.54	0.82	0.52	1.45	2.45
Shares Used in Computing Earnings per Share	13,240,913	13,240,913	13,240,913	13,090,729	12,974,245	12,974,245

Balance Sheet Data:
In accordance with IFRS

	2017		2016		2015	2013
	NIS	USD	NIS	NIS	NIS	NIS
Working capital	374,981	108,157	347,222	352,437	325,926	
Total assets	436,922	126,023	411,471	415,150	395,048	
Short-term bank debt	-	-	-	16	18	
Shareholders' equity	415,581	119,868	391,004	399,712	365,843	
Capital stock	13,240,913	13,240,913	13,240,913	13,240,913	12,974,245	

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Related to Our Business and Industry

Our results of operations may be impacted by monetary risk. Our portfolio of marketable securities is subject to various market risks.

We are exposed to fluctuations in the rate of the United States Dollar and Euro versus the NIS. Most of our income is in NIS, whereas most of our purchases are in United States Dollars and in Euros. A significant depreciation in the NIS vis-à-vis the United States Dollar and/or Euro could have a material adverse effect on our results of operations and financial condition.

We strive to minimize market risks arising from exchange rate fluctuations and the cost of imported goods, especially by opening documentary credit arrangements (a/k/a letters of credit) for suppliers abroad, holding foreign currency reserves and initiating forward transactions and foreign currency options.

As a method of investing cash reserves, we hold a portfolio of marketable securities traded on the Tel Aviv Stock Exchange as well as other stock exchanges. This portfolio of marketable securities is subject to various market risks resulting from fluctuations in interest rates, exchange rates, price fluctuations and other market risks in Israel and abroad. We do not utilize derivative securities for trading purposes, enter into swap arrangements or otherwise hedge our currency in a manner that we believe could expose us to significant market risk.

In order to reduce these risks, the Board has adopted the procedure of regularly removing available funds in the Company's accounts for management by internal investment manager. In addition, the Board has revised the Company's investment policy, has appointed members of the Board to the investment committee and has added the Co-Chairman of the Board to such investment committee.

Our financial instruments consist mainly of cash and cash equivalents, current accounts receivable, current accounts payable and accruals. In view of their nature, the fair value of the financial instruments, included in working capital, is usually identical or close to their book value.

Our business may be materially affected if any of our major clients defaults on its payment to us.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of trade receivables. Despite our large number of clients (approximately 1,500 in Israel and abroad), a major part of our sales is made to a limited number of customers. Our largest customer is Shufersal Ltd. ("Shufersal"). Sales to Shufersal accounted for 16% of our sales in 2017. During 2015, one of our largest customers, Mega Retail Ltd. ("Mega"), at that time, the second largest supermarket chain in Israel, experienced financial difficulties and entered into a court-approved creditor arrangement with its suppliers. In July 2016, the Mega chain (127 branches nationwide) was sold as a single block to Yenot-Bitan Ltd (another supermarket chain) ("Yenot-Bitan"). We generally do not require and do not receive collateral from the big chain supermarkets customers, although we do require and receive collateral from most of the remainder of our clients in Israel to ensure security of collecting payments. In addition we buy credit insurance for many of our customers. We maintain an allowance for doubtful debts based upon factors surrounding the credit risk of specific customers, historical trends and other information which our management believes adequately covers all reasonably anticipated losses in respect of trade receivables. There can be no assurance that this allowance will be adequate. In the event that any of our major clients default on their payment obligations to us, we will not possess sufficient security to collect the entire debt.

We depend on a small number of principal clients who have in the past bought our products in large volumes. We cannot assure that these clients or any other client will continue to buy our products in the same volumes, on the same terms or at all.

Despite our wide dispersion of clients, we have one major client, Shufersal, which owns, among other things, supermarket stores which accounted for approximately NIS 50.1 million of our revenue during 2017. We do not have long term purchase contracts with our clients, and our sales arrangements with our clients do not have minimum purchase requirements. We cannot assure that our major clients will continue to buy our products at all or in the same volumes or on the same terms as they have in the past. Losing one or more of them may adversely affect our business results. In addition, we cannot assure that we will be able to attract new customers. Our failure to do so may significantly reduce our sales.

The failure to attract and retain key personnel could adversely affect our business.

Our success also depends in large part on our ability to continue to attract, retain, develop and motivate highly skilled professional personnel. Competition for certain employees, particularly top management, is intense. We may be unable to continue to attract and retain sufficient numbers of highly skilled employees. Our inability to attract and retain additional key employees or the loss of one or more of our current key employees could adversely impact our business, financial condition and results of operations.

In particular, we depend on the management services provided to us by Zwi Williger and Joseph Williger, through management companies that they control, each of whom holds senior management positions with us. We do not have any key-man life insurance policy on either Zwi Williger or Joseph Williger. See "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders". The loss of either or both of Zwi Williger and/or Joseph Williger

could adversely impact our business, financial condition and results of operations.

We work with a limited number of key suppliers. If these suppliers raise prices or terminate their engagement with us, our operating results could be adversely affected.

Although no single company supplies a majority of any of our products, for some of our dairy products and their substitutes, we are dependent on Arla, a Danish company which supplies a high percentage of our products (15% in 2017 and 13% in 2016). Terminating the engagement with any supplier, and Arla in particular, or a material change in the engagement terms for purchasing products from those suppliers, may have an adverse effect on our results of operations.

On October 19, 2017, our wholly owned subsidiary, Gold Frost Ltd., which we refer to herein as Goldfrost, received a notice from Arla to end their exclusive distribution agreement effective as of December 31, 2017. Representatives of Goldfrost and representatives of Arla have met several times and have agreed that Goldfrost may place new orders for additional dairy products produced by Arla and to be sold by Goldfrost during the first half of 2018. The termination of the engagement with Arla, and our anticipated termination of our supply arrangement with Arla at end of the first half of 2018, will have an adverse effect on our revenues and our results of operations. However, the Company believes that it will be able to enter into agreements in the near future with alternative suppliers for a portion of the products currently purchased from Arla.

For more information, see “Item 4. Information on the Company – B. Business Overview – Suppliers”.

If one or more of our suppliers raises their prices, our operating results may be adversely affected. See risk factor below - "Increases or decreases in global product prices have in the past, and in the future, may continue to have a material adverse effect on our profitability". We believe that there are alternative suppliers for purchasing our products; however, we cannot assure that the products of the alternative suppliers will become immediately available and that the terms of purchase will be similar to the current ones.

We may not be able to successfully compete with larger competitors who have greater operations, financial, marketing, labor and other resources than we have.

The food distribution business in Israel is highly competitive. We face competition from existing competitors in respect of imported as well as locally manufactured food products. Local producers are not subject to the financial risks of importing food products or to governmental policies regarding taxation of imported food products to which we as importers are subject. We may also face competition from potential newcomers to the local food manufacturing business as well as from existing importers and/or manufacturers not currently offering the same lines of products as us. In addition, in the event we further expand our activity in the international food markets, we will also face competition from manufacturers and/or distributors from the locations in which we expand our activity. Certain of our current and potential competitors are substantially more established, benefit from substantially greater market recognition and have greater financial, marketing, labor and other resources than we have. If any of our competitors materially reduces prices, we may be required to reduce our prices in order to remain competitive. Such reductions, if effected, could have a material adverse effect on our financial condition and results of operations.

Increases or decreases in global product prices have in the past, and in the future may continue to have a material adverse effect on our profitability.

The cost of food commodities and other food products is cyclical and subject to other market factors and may fluctuate significantly. As a result, our cost in securing these products is subject to substantial increases over which we have no control. In addition, fuel costs, which represent the most significant factor affecting both utility costs at our facilities and our transportation costs, are subject to wide fluctuations. Although we are making best efforts, we cannot assure that we will be able to pass on to customers the increased costs associated with the procurement of these products. Moreover, there has in the past been, and there may in the future be, a time lag between the incurrence of such increased costs and the transfer of such increases to customers. To the extent that increases in the prices of our products cannot be passed on to customers or there is a delay in doing so, we are likely to experience an increase in our costs which may materially reduce our margin of profitability.

Further, there is an additional lag from the date we purchase inventory from our suppliers situated outside of Israel (or commit to purchase inventory from our suppliers) until the date we sell this inventory to our customers in Israel. To the extent that the purchase price of products that we purchase decreases from the time that we purchase our inventory (or commit to purchase our inventory) until the time we sell the inventory to our customers, our margin of profitability may be materially reduced if we are not able to sell our products at prices exceeding such purchase prices.

Increases or decreases in global product prices in the future may have a material adverse effect on our profitability.

Our results of operations may be adversely affected if we do not accurately predict the rate of consumption of our products.

We hold inventory of basic foodstuffs (such as preserved food, dairy and dairy substitute products, edible oils, pasta and rice (and other food products, and we accumulate inventories of these products based on our prediction of the consumption of these products by our customers. If actual consumption does not meet the prediction, and the shelf life of such products expires or we cannot otherwise sell such products, this may materially and adversely affect our financial condition and results of operations. On the other hand, to the extent we do not have adequate inventory of these critical products (due, for example, to an emergency situation or our failure to predict the rate of consumption of our products), we will not be able to meet the needs of our customers and our potential revenues may be adversely affected.

We may be unable to anticipate changes in consumer preferences, which may result in decreased demand for our products.

Our success depends in part on our ability to anticipate the tastes and eating habits of consumers and to offer products that appeal to their preferences. Consumer preferences change from time to time and our failure to anticipate, identify or react to these changes could result in reduced demand for our products, which would adversely affect our operating results and profitability.

We may be subject to product liability claims for misbranded, adulterated, contaminated or spoiled food products.

We sell food products for human consumption, which involves risks such as product contamination or spoilage, misbranding, product tampering, and other adulteration of food products. Consumption of a contaminated, spoiled, misbranded, tampered with or adulterated product may result in personal illness or injury. We could be subject to claims or lawsuits relating to an actual or alleged illness or injury, and we could incur liabilities that are not insured or that exceed our insurance coverage. Even if product liability claims against us are not successful or fully pursued, these claims could be costly and time consuming and may require management to spend time defending the claims rather than operating our business. A product that has been actually or allegedly misbranded or becomes adulterated could result in: product withdrawals, product recalls, destruction of product inventory, negative publicity, temporary plant closings, and substantial costs of compliance or remediation. Any of these events, including a significant product liability judgment against us, could result in a loss of confidence in our food products, which could have an adverse effect on our financial condition, results of operations or cash flows.

We may be adversely affected by any interruption to our storage facility.

We store most of our products in one main location – a logistics center warehouse situated in Yavne, Israel, used for products being distributed to customers. Any interruption to this storage facility, whether by power failure, flooding or other event, would have a material impact on our ability to trade in the ordinary course.

Our insurance coverage may not be sufficient to cover our losses in the event our products are subject to product liability claims or our products are subject to recall. In such event, it would have a material adverse effect on us.

Our products may become the subject of product liability claims, and there can be no assurance that our property insurance coverage limits will be adequate or that all such claims will be covered by insurance. A product recall or a product liability claim, even one without merit or for which we have substantial coverage, could result in significant expenses, including legal defense costs, thereby lowering our earnings and, depending on revenues, potentially resulting in additional losses. Successful product liability claims or other judgment against us in excess of our insurance coverage could have a material adverse effect on us and our reputation.

Our operating results may be subject to variations from quarter to quarter.

Our operating results may be subject to variations from quarter to quarter depending on, among other things, the timing of sales campaigns and special events initiated by both us and our customers, the major Jewish holidays (such as the Jewish New Year and Passover), our ability to manage future inventory levels in line with business opportunities and anticipated customers' demand, competitive developments in the market, changes in government regulations, periodic work stoppages or disruptions, changes in the rates of inflation in Israel and fluctuations in NIS/Dollar and NIS/Euro exchange rates. There can be no assurance that our sales or net income (if any) in any particular quarter will not be lower than the preceding and/or comparable quarter or that our sales or net income (if any) in a particular quarter will be indicative of our results of operations for the entire year. The trading prices of our ordinary shares may fluctuate significantly in response to variations in our operating results.

Our branded products may not be able to compete successfully with nationally branded products.

For sales of our branded products to retailers, the principal competitive factors are price, product quality and quality of service. For sales of branded products to consumers, the principal competitive factors are price and product quality. In many cases, competitors with nationally branded products may have a competitive advantage over our products primarily due to name recognition.

Competition to obtain shelf space for our branded products with retailers is primarily based on the expected or historical performance of our product sales relative to our competitors. The principal competitive factors for sales of our branded products to consumers are brand recognition and loyalty, product quality and price. Most of our branded competitors have significantly greater resources and brand recognition than we do.

Competitive pressures or other factors could cause us to lose market share, which may require us to lower prices, increase marketing expenditures, and/or increase the use of discounting or promotional programs, each of which would adversely affect our margins and could result in a decrease in our operating results and profitability.

We may not successfully integrate our acquisitions.

We have made acquisitions in the past and may do so in the future. Our success will depend in part on our ability to manage the combined operations of any acquired company, to integrate the operations and personnel of such company together with our other subsidiaries into a single organizational structure, and to replace those subsidiary managers who have departed or may in the future leave our employ. There can be no assurance that we will be able to effectively integrate the operations of our subsidiaries and our acquired businesses into a single organizational structure. Integration of operations could also place additional pressures on our management as well as on our other key personnel. The failure to successfully manage any integration could have an adverse material effect on results of our operations.

If we are unable to protect our intellectual property rights, our competitive position could be compromised.

We market certain products under the trademarks "Willi-Food", "Donna Rozza", "Manchow", "Gold Frost", "Tifeeret", "Say cheese", and "Emma". Although we have registered trademarks for these brands, we cannot assure that the degree of protection these and other trademarks offer will be sufficient to protect our rights in these marks.

One shareholder owns a large percentage of our shares.

As of April 29 2018, Willi-Food owned approximately 61.93% of our ordinary shares (approximately 61.93% on a fully diluted basis), and as of such date B.S.D. Crown Ltd. ("BSD") held approximately 67.76% of our outstanding shares (approximately 67.76% on a fully diluted basis). In addition to its control of Willi-Food, BSD directly owns 5.83% of our ordinary shares. See "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders".

Our Articles of Association do not provide for cumulative voting rights with respect to the election of directors and every resolution of the company in the general meeting of shareholders is deemed duly passed if passed by a simple majority of the shareholders present and voting unless another majority is required by the Israeli Companies Law (the "Companies Law") or by our Articles of Association. Therefore, our major shareholders are able to control the outcome of matters requiring shareholder approval that do not require a special majority.

We have business relations with Willi-Food and its management.

Willi-Food, our controlling shareholder, is a holding company whose main asset is the ordinary shares it owns in our company. Willi-Food currently does not directly conduct any material business.

Certain of our key personnel also serve in management positions in Willi-Food. By serving in dual capacities, these persons may experience conflicts of interest involving the two companies. Israeli law imposes procedures, including, for certain material transactions, a requirement of shareholder approval, as a precondition to entering into interested party transactions. These procedures may apply to transactions between Willi-Food and us. However, we cannot assure that we will be able to avoid possible detrimental effects of any such conflicts of the price of our ordinary shares may be volatile.

If our ordinary shares are delisted from Nasdaq, the liquidity and price of our ordinary shares and our ability to issue additional securities may be significantly reduced.

The market price of our ordinary shares has fluctuated significantly and may be affected by our operating results, changes in our business, changes in the products we market and distribute, and general market and economic conditions which are beyond our control. In addition, the stock market in general has, from time to time, experienced significant price and volume fluctuations that are unrelated or disproportionate to the operating performance of individual companies. These fluctuations have affected stock prices of many companies without regard to their specific operating performance. For these reasons, the price of our ordinary shares may fluctuate significantly in the future.

Also, the financial markets in the United States and other countries have experienced significant price and volume fluctuations, and market prices of public companies have been and continue to be volatile. Volatility in the price of our ordinary shares may be caused by factors outside of our control and may be unrelated or disproportionate to our results of operations. In the past, following periods of volatility in the market price of a public company's securities, shareholders have frequently instituted securities class action litigation against that company. Litigation of this kind could result in substantial costs and a diversion of our management's attention and resources.

We may in the future fail to comply with the Nasdaq Capital Market regulations and listing requirements as to minimum share price, minimum net income, minimum number of shareholders and public float and other requirements, and as a result Nasdaq may initiate procedures to delist our ordinary shares from the Nasdaq Capital Market. In addition, under Nasdaq's Listing Rules, any company whose shares have a closing bid price less than \$1.00 for 30 consecutive business days may be subject to a delisting proceeding by Nasdaq.

On February 18, 2016, trading of the Company's ordinary shares was halted by Nasdaq following announcement by the Company of an investigation by the Israel Securities Authority regarding possible breaches of the Israeli securities laws and criminal offenses. To the best knowledge of Company management, the investigation relates to an investment of approximately US\$ 2.25 million made during January 2016 in the form of bonds of a European company which allegedly served as a collateral to a loan obtained by Mr. Gregory Gurtovoy, at that time the controlling shareholder of the Company, or another individual, and which was unrelated to the Company's operations. Following the public disclosure of this information, trading of the Company's ordinary shares on the Nasdaq Capital Market resumed on April 7, 2016. See "Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – Legal Proceedings".

On January 10, 2017, the Company received a letter from the Listing Qualifications Department of Nasdaq notifying the Company that it is no longer in compliance with Nasdaq Listing Rule 5620(a) because it did not hold an annual meeting of shareholders within 12 months of the end of the Company's fiscal year ended December 31, 2015. The letter provided that the Company had 45 calendar days to submit a plan to regain compliance, which the Company did on February 23, 2017. That plan indicates the scheduling by the Company of the convening of an annual meeting of shareholders held June 20, 2017, and Nasdaq subsequently accepted the plan.

If we fail to meet the continued listing criteria under the Rule, our ordinary shares may be delisted from trading on the Nasdaq Capital Market.

Delisting from the Nasdaq Capital Market could have an adverse effect on our business and on the trading of our ordinary shares. If a delisting of our ordinary shares were to occur, our shares would trade in the over-the-counter market such as on the OTC Bulletin Board or on the “pink sheets”. The over-the-counter market is generally considered to be a less efficient market, and this could diminish investors’ interest in our ordinary shares as well as significantly impact our share price and the liquidity of our ordinary shares. Any such delisting may also severely complicate trading of our shares by our shareholders, or prevent them from re-selling their shares at/or above the price they paid. Furthermore, our relatively low trading volumes may make it difficult for shareholders to trade shares or initiate any other transactions. Delisting may also make it more difficult for us to issue additional securities or secure additional financing.

If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or prevent fraud, and investor confidence and the market price of our ordinary shares may be adversely affected.

Our reporting obligations as a public company place a significant strain on our management, operational and financial resources and systems. We implemented financial and disclosure control procedures and corporate governance practices that enable us to comply, with the Sarbanes-Oxley Act of 2002 and related Securities and Exchange Commission, or the SEC, rules. For example, we developed accounting and financial capabilities, including the establishment of an internal audit function and development of documentation related to internal control policies and procedures. Failure to establish the necessary controls and procedures would make it difficult to comply with SEC rules and regulations with respect to internal control and financial reporting. We need to take further actions to continue to improve our internal controls. If we are unable to implement solutions to any weaknesses in our existing internal controls and procedures, or if we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or prevent fraud and investor confidence and the market price of our ordinary shares may be adversely impacted.

Substantially all of our assets are pledged to banks, which limits our ability to incur further debt.

We have pledged substantially all of our assets to Bank Leumi Le'Israel Ltd, and Bank Hapoalim Ltd. in order to secure credit lines from each of these banks. If we were to utilize these credit lines, we expect that the proceeds from the sale of any of these assets may be used to prepay the principal amount owed on the credit lines secured by these pledges. As a result of these arrangements, our ability to dispose of pledged assets may require the consent of these banks, and our ability to incur further debt (whether secured or unsecured) is limited.

Our results of operations may be impacted by cyber-attacks on the Company's information systems.

Suspension or malfunction of internal or third-party systems, or unauthorized access, misuse, computer viruses and cyber-attacks affecting such systems, could impact our results of operations. Our businesses rely on secure processing, storage, transmission and reception of personal, confidential and proprietary information on our systems. We may become the target of attempted unauthorized access, computer viruses or malware, and other cyber-attacks designed to access and obtain information on our systems or to disrupt and cause other damage to our services. Although these threats may originate from human error or technological failure, they may also originate from the malice or fraud of internal parties, such as employees, or third parties, including foreign state actors and extremist parties. Additionally, we could also be adversely impacted if any of the third-party vendors, exchanges, clearing houses or other financial institutions to which we are interconnected are subject to cyber-attacks or other informational security breaches. Such events could cause interruptions to our systems, reputational damage, client dissatisfaction, legal liability, enforcement actions or additional costs, any and all of which could adversely affect our financial condition and operations. While we continue to devote significant resources to monitor and update our systems and implement information security measures to protect our systems, there can be no assurance that any controls and procedures we have in place will be sufficient to protect us from future security breaches. As cyber threats are continually evolving, our controls and procedures may become inadequate and we may be required to devote additional resources to modify or enhance our systems in the future.

Risks Related to Our Location in Israel

We are subject to regulations and other policies of the Israeli government and of other countries from which we import and into which we export. If we are unable to obtain and maintain regulatory qualifications or approvals for our products, our business may be adversely affected.

Regulatory, licensing and quotas: The import, export, storage, marketing, distribution and labeling of some major food products are subject to extensive regulation and licensing by various Israeli government and municipal agencies, principally the Ministry of Health, the Ministry of Economy (f/k/the Ministry of Industry, Trade and Labor), the Ministry of Agriculture and the Ministry of Finance. To the extent that we have imported and exported, or will import and export, food products outside of Israel, we may be subject to quotas and other import and export laws and regulations which may limit our ability to sell or buy certain of our food products into or from these countries. We are required to maintain our distribution processes in conformity with all applicable laws and regulations. In the event that such laws and regulations change, or we fail to comply with such laws and regulations, we may be prevented from trading within Israel or another part of the world.

Tariffs: The Ministry of Finance and the Ministry of Economy of the State of Israel may increase the levels of tariffs on importing goods. This would have a direct impact on us and our financial performance by increasing our costs which we may not be able to pass on to our customers.

Kosher Licenses: Under kosher regulations, we are required to ascertain that the food products which we offer for sale bear kosher certification approved by certain authorities such as the Chief Rabbinate of Israel. There is a risk that the relevant authorities in Israel or other areas of the world responsible for issuing kosher licenses may change the criteria for obtaining such licenses. In such circumstances, we may be prohibited from obtaining kosher licenses for various products that we sell into the various kosher markets. Failure to comply with such applicable laws and regulations in relation to kosher licenses could subject us to civil sanctions, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, any of which could have a material adverse effect on us and our financial performance.

Economic conditions in Israel affect our financial performance.

A major part of our sales are made in Israel, and consequently our financial performance is dependent to a significant extent on the economy of Israel. A deterioration of the economic situation in Israel, or periodic work stoppages or disruptions, may erode the real wages and lower the buying power of our potential customers. This in turn may adversely affect our activities and business results

We may be affected by political, economic and military conditions in Israel and the Middle East.

We are incorporated under the laws of the State of Israel, our principle offices are located in central Israel and all of our officers, employees and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel have a direct influence on us. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could materially and adversely affect our operations. During the winter of 2012 and the summer of 2014, Israel was engaged in an armed conflict with Hamas, a militia group and political party operating in the Gaza Strip. This conflict involved missile strikes by Hamas against civilian targets in various parts of Israel and negatively affected business conditions in Israel. We estimate that the conflict with Hamas in 2014 reduced the Company's sales by approximately NIS 16 million. Ongoing or revived hostilities related to Israel may have a material adverse effect on our business and on our share price. The political uncertainty in surrounding countries, including Egypt and Syria, are affecting the political stability of those countries. This instability may lead to deterioration of the political relationships that exist between Israel and these countries, and have raised concerns regarding security in the region and the potential for armed conflict. In addition, Iran is believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. The tension between Israel and Iran and/or these groups may escalate in the future and turn violent, which could affect the Israeli economy generally and us in particular.

Many of our executive officers and employees in Israel are obligated to perform annual military reserve duty in the Israeli Defense Forces and, in addition, may be called to active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of our other employees due to reserve duty. Any disruption in our operations may harm our business.

Our commercial insurance does not cover property, asset or operational losses that may occur as a result of events associated with the security situation in the Middle East. Although the Israeli government currently reimburses for the value of direct damages that are caused by terrorist attacks or acts of war, and if certain conditions are met covers indirect damages (up to limited amounts) as well, we cannot assure you that this government coverage will be maintained. Any losses or damages incurred by us could have a material adverse effect on our business.

Additionally, several Arab countries restrict business with Israeli companies and these restrictions may have an adverse impact on our operating results, financial condition or the expansion of our business. From time to time pro-Arab organizations in various locations around the world promote local boycotts of products from Israel. Prompted by political, religious or other factors, these and other restrictive laws or policies directed towards Israel and Israeli businesses may affect our financial condition and results of operations.

It will be extremely difficult to acquire jurisdiction and enforce liabilities against us, our officers and directors who are based in Israel.

We are organized under the laws of the State of Israel. The majority of our officers and present directors reside outside of the United States and most of our operations and assets, and the assets of these persons, are located outside the United States. As a result, it may not be possible for United States investors to enforce their legal rights, to effect service of process or to enforce judgments of United States courts against us, our directors or our officers under federal securities laws of the United States. Further, it is unclear if extradition treaties now in effect between the United States and Israel would permit effective enforcement of criminal penalties under such securities laws. It may also be difficult to enforce civil liabilities under such securities laws in actions initiated in Israel.

Our international operations may be adversely affected by risks associated with international business.

We purchase food products from over 150 suppliers located around the world. Therefore, we are subject to certain risks that are inherent in an international business. These include, but are not limited to:

- varying regulatory restrictions on sales of our products to certain markets and unexpected changes in regulatory requirements;
- tariffs, customs, duties, quotas and other trade barriers;
- global or regional economic crises;
- difficulties in managing foreign operations and foreign distribution partners;
- longer payment cycles and problems in collecting accounts receivable;
- fluctuations in currency exchange rates;
- political risks;
- foreign exchange controls which may restrict or prohibit repatriation of funds;
- export and import restrictions or prohibitions, and delays from customs brokers or government agencies;
- seasonal reductions in business activity in certain parts of the world; and
- potentially adverse tax consequences.

Depending on the countries involved, any or all of the foregoing factors could materially harm our business, financial condition and results of operations.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company was incorporated in Israel in January 1994 under the name G. Willi-Food Ltd. and commenced operations in February 1994. It changed its name to G. Willi-Food International Ltd. in June 1996. The Company's corporate headquarters and principal executive offices are located at 4 Nahal Harif Street, Northern Industrial Zone, Yavne 81106, Israel. The Company's telephone number in Israel is +972 8-9321000, its fax number is +972-8-9321001, its e-mail address for communications is willi@willi-food.co.il and its web site is www.willi-food.com. The information contained in its web site, or that can be accessed therefrom, does not constitute a part of this annual report and is not incorporated by reference herein. We have included our website address in this annual report solely for informational purposes.

In May 1997, the Company completed an initial offering to the public in the United States (the "Initial Public Offering") of 1,397,500 units, each unit consisting of one ordinary share and one redeemable ordinary share purchase warrant.

In May 2001, the Company acquired all the shares of Gold Frost Ltd. for NIS 336 thousand (USD 90 thousand). Gold Frost, which was registered in 1977 in Israel, is engaged in designing, developing and distributing frozen and chilled food products.

On March 9, 2006, the Company's subsidiary, Gold Frost, completed an initial issuance to the public on the London AIM market which yielded gross proceeds of NIS 36.5 million (\$9.8 million). Following this issuance, as of May 30, 2006, the Company held approximately 75.7% of Gold Frost's share capital. During November 2007 - January 2008, the Company purchased on the AIM market an additional approximately 14.3% of Gold Frost's share capital, reaching aggregate holdings of up to 90% of Gold Frost's share capital.

On May 20, 2008, a special general meeting of Gold Frost approved the cancellation of its ordinary share listing to the AIM Market of the London Stock Exchange. The cancellation of Gold Frost's AIM admission took place on May 27, 2008. On July 27, 2009, the Company announced that it had successfully completed a tender offer for all of the issued and outstanding share capital of Gold Frost which was not already held by the Company. The Company paid an aggregate amount of approximately £370,430 (\$619,198) for all such shares and depositary interests.

On March 17, 2010, the Company raised net proceeds of approximately a \$19 million through a public offering of its ordinary shares. The Company issued a total of 3,305,786 ordinary shares at a purchase price of \$6.05 per share.

On May 4, 2014, Mr. Zwi Williger and Mr. Joseph Williger sold their controlling stake (approximately 58% of the outstanding shares) in Willi-Food to BSD, a company listed on the London Stock Exchange, the ultimately controlling shareholder of which was Mr. Alexander Granovsky.

On July 15, 2015, Mr. Granovsky sold his indirect controlling interest in BSD to Mr. Gregory Gurtovoy, according to public filings and information supplied to the Company.

On May 7, 2017, Mr. Joseph Williger informed Willi-Food that he is the controlling shareholder of BSD through private companies he owns, and that he is therefore the controlling shareholder of Willi-Food, and therefore the Company, as from May 5, 2017.

On June 11, 2017, a General Meeting of the Willi-Foods' Shareholders approved the appointment of the following BSD nominated directors: Messrs. Joseph Williger, Zwi Williger, Kobi Navon and Bensai Sao, and the termination of the term of office of all then current directors (other than the external directors): Mr. Ilan Admon, Gregory Gurtovoy, Eli Arad, Shalhevet Hasdiel and Arik Safran. On June 12, 2017, Willi-Foods' Board of Directors approved the

appointment of Mr. Gil Hochboim as a director.

On June 20, 2017, a General Meeting of Shareholders of the company approved the appointment of the following directors: Messrs. Yoseph Williger, Zwi Williger, Gil Hochboim and David Donin and the termination of the term of office of all then current directors of the company (other than the external directors): Messrs. Ilan Admon, Gregory Gurtovoy and Ilan Cohen. On June 20, 2017 the Board of Directors of the company approved the appointment of Mr. Victor Bar as a director.

CAPITAL EXPENDITURES

Our capital expenditures were \$0.76 million, \$0.56 million and \$0.83 million for the three years ended December 31, 2017, 2016 and 2015, respectively. Our capital expenditures from January 1, 2018 until March 31, 2018 were approximately \$14,000. For more information, see " – D. Property, Plants and Equipment".

B. BUSINESS OVERVIEW

Overview

The Company is an Israeli-based company engaged, directly and through subsidiaries, in the development, import, export, marketing and distribution of a wide variety of over 600 food products world-wide. In the year ended December 31, 2017, substantially all of our revenue was generated in Israel, with less than 1% of our revenue resulting from exports outside Israel.

The Company purchases food products from over 120 suppliers located in Israel and throughout the world, including from the Far East (China, India, the Philippines and Thailand), Ethiopia, Eastern Europe (Poland, Lithuania and Latvia), South America (Ecuador), the United States, Canada, Western and Central Europe (the Netherlands, Belgium, Monaco, Germany, Sweden, Switzerland, Denmark, and France) and Southern Europe (Spain, Portugal, Italy, Turkey and Greece)

The Company's products are marketed and sold to approximately 1,500 customers in Israel and around the world (for example, to customers in the United States, England and France), including to supermarket chains, wholesalers and institutional consumers. The Company markets most of its products under the brand name "Willi-Food," and some of its chilled and frozen products under the brand name "Gold Frost". Certain products are marketed under brand names of other manufacturers or under other brand names. In addition, the Company distributes some of its products on an exclusive basis, as described further below.

Following changes in management in recent years, the Company continues to re-evaluate its strategic position and consider other business opportunities. As part of this re-evaluation, the Company is considering forming strategic alliances with or entering into different lines of business, expanding its product lines, and increasing product sales with existing customers while adding new customers. In addition, the Company is examining M&A opportunities to further increase its market presence.

As of April, 29, 2018, the Company's principal shareholder, Willi-Food, held approximately 61.93% of our ordinary shares (approximately 61.93% on a fully diluted basis). The primary assets of Willi-Food are the Company's ordinary shares. See "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders". Willi-Food's securities are traded on the Tel Aviv Stock Exchange.

Business Strategy

The Company's business strategy is:

- to promote the "Willi-Food" brand name and other brand names used by the Company (such as "Gold Frost" and "Tifeeret") and to increase market penetration of products through marketing efforts and advertising campaigns;
- to expand its current food product lines and diversify into additional product lines, as well as to respond to market demand ;
- to consider new fields of activity/operating segments; and

·to expand the Company's activity in the international food markets, mainly in the U.S. and Europe.

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Utilizing management's expertise in identifying market demand and preferences, as well as its supplier sourcing abilities, the Company intends:

to continue to locate, develop and distribute additional food products, some of which may be new to Israeli consumers;

to penetrate new food segments within Israel through the establishment of food manufacturing factories or the establishment of business relationships and cooperation with existing Israeli food manufacturers;

to increase its inventory levels from time to time both to achieve economies of scale on its purchases from suppliers and to more fully meet its customers' demands;

to further expand into international food markets, mainly in the U.S. and Europe, by purchasing food distribution companies, increasing cooperation with local existing distributors and/or exporting products directly to the customer; and

to penetrate new markets through the establishment of business relationships and cooperation with representatives in such markets subject to a positive political climate.

The Company has developed certain trade relationships locally, as well as in areas administered by the Palestinian Authority, although current sales volumes to Palestinian-administered areas remain low.

Principal Products

We and Gold-Frost import, a broad variety of over 600 food products. These products are sold, marketed and distributed by us. A small percentage of our products purchased from suppliers in Israel.

We aim to broaden the variety of products we import. We expect to launch additional new products into our product lines in the near future while continuing to develop new and innovative food products.

The principal products in the import segment product line are as follows:

Canned Vegetables and Pickles: including mushrooms (whole and sliced), artichoke (hearts and bottoms), beans, asparagus, capers, corn kernels, baby corn, palm hearts, vine leaves (including vine leaves stuffed with rice), sour pickles, mixed pickled vegetables, pickled peppers, an assortment of olives, garlic, roasted eggplant sun and dried tomatoes. These products are imported primarily from China, Greece, Thailand, Turkey, India, and the Netherlands.

Canned Fish: including tuna (in oil or water), sardines, anchovies, smoked and pressed cod liver, herring, fish paste and salmon. These products are primarily imported from the Philippines, Thailand, Greece, Germany and Sweden.

Canned Fruit: including pineapple (sliced or pieces), peaches, apricots, pears, mangos, cherries, litchis and fruit cocktail. These products are primarily imported from China, Monaco, the Philippines, Thailand, Greece and Europe.

Edible Oils: including olive oil, regular and enriched sunflower oil, soybean oil, corn oil and rapeseed oil. These products are primarily imported from Belgium, Turkey, Italy, the Netherlands and Spain.

Dairy and Dairy Substitute Products: including hard and semi-hard cheeses (parmesan, edam, kashkaval, gouda, havarti, cheddar, pecorino, manchego, maasdam, rossiysky, iberico and emmental), molded cheeses (Brie, Camembert and Bloose), feta, Bulgarian cubes, goat cheese, fetina, butter, butter spreads, margarine, melted cheese, cheese alternatives, condensed milk, whipped cream and others. These products are primarily imported from Greece,

France, Lithuania, Denmark, Germany, Italy and the Netherlands.

Dried Fruit, Nuts and Beans: including figs, apricots and organic apricots, chestnuts organic chestnuts, sunflower seeds, sesame seeds, walnuts, pine nuts, cashews, banana chips, pistachios and peanuts. These products are primarily imported from Greece, Turkey, India, China, Thailand and the United States.

Other Products: including, among others, instant noodle soup, frozen edamame soybeans, freeze dried instant coffee, bagels, breadstick, coffee creamers, lemon juice, halva, Turkish delight, cookies, vinegar, sweet pastry and crackers, sauces, corn flour, rice, rice sticks, pasta, organic pasta, spaghetti and noodles, breakfast cereals, corn flakes, rusks, rusks, tortilla, dried apples snacks, deserts (such as tiramisu and pastries) and light and alcoholic beverages. These products are primarily imported from the Netherlands, Germany, Italy, Greece, Belgium, the United States, Scandinavia, Switzerland, China, Thailand, Turkey, India, and South America.

Product Information

The products that generated the largest sales volume for the year ended December 31, 2017 were dairy and dairy substitute products (39% of sales), fish products (17% of sales) canned vegetables (13% of sales).

The products that generated the largest sales volume for the year ended December 31, 2016 were dairy and dairy substitute products (37% of sales), canned vegetables (14% of sales), dried fruit, nuts and beans products and edible oil products (less than 10 % of sales).

The products that generated the largest sales volume for the year ended December 31, 2015 were dairy and dairy substitute products (33% of sales), canned vegetables (14% of sales), dried fruit, nuts and beans products and edible oil products (less than 10% of sales).

The allocation mentioned above does not include the product line "Other Products" in the Import segment, as this product line includes products that have no characteristic definition.

Most of the products that we import and market are approved as kosher by, and/or under the supervision of, various supervisory institutions, including the Chief Rabbinate of Israel, Badatz Edah HaChareidis, Badatz Beit Yosef, Chug Chatam Sofer, certain Jewish organizations administering Kashrut procedures and certifications (such as the Union of the Orthodox Jewish Congregation of America (referred to as OU), Badatz Igud Harabanim Manchester, OK, Circle K and Triangle K) and rabbis of local Jewish congregations abroad. For more information, see “– Government Regulation” in this section below.

Our products are packaged by various manufacturers and suppliers abroad and labeled with Hebrew, English and, in certain cases, Arabic and Russian labels, in accordance with our instructions and requirements and in accordance with applicable law. For more information, see “– Government Regulation” in this section below.

Suppliers

We purchase food products from over 120 suppliers, including suppliers located in Israel, the Far East (China, India, the Philippines and Thailand), Ethiopia, Eastern Europe (Poland, Latvia, and Lithuania), South America (Ecuador and Argentina), the United States, Canada and in Western, Northern and Southern Europe (Sweden, Denmark, Greece, Monaco, the Netherlands, Italy, Monaco, Portugal, Spain, Belgium, Germany, France, and Turkey).

In addition, we actively maintain contact with our suppliers world-wide through which we assess, on an on-going basis, world market trends, fluctuations in prices, and other issues relevant to our business. Our management and personnel visit food trade fairs world-wide on a regular basis and endeavor to create new business relationships with potential suppliers.

Certain of the products we import are seasonal agricultural products, such as artichokes, cherries, mushrooms, eggplants and peaches. In order to ensure a continued supply of these seasonal items, we generally make arrangements with the producers of such products at the beginning of the season for the terms of purchase of such items for the upcoming year.

A substantial portion of our purchases from suppliers outside of Israel is made in U.S. Dollars (such as purchases from the Far East, the United States, South America and certain European countries) with the remaining purchases usually made in Euros and other foreign currencies. Supply is generally made to us against letters of credit for a period of up to 90 days. No single supplier provides us with for the majority of our products, most of which we purchase from several suppliers. However, we are dependent on one supplier, Arla, with respect to a large part of our products (15% in 2017 and 13% in 2016).

Until December 31, 2017, a distribution agreement between our wholly-owned subsidiary Gold Frost and Arla granted Gold Frost an exclusive and non-transferable right to market and distribute in Israel dairy and dairy substitute products manufactured by Arla and its affiliated companies. On October 19, 2017, Goldfrost received a notice from Arla to end their exclusive distribution agreement effective as of December 31, 2017. Representatives of Goldfrost and representatives of Arla have met several times and have agreed that Goldfrost may place new orders for additional dairy products produced by Arla and to be sold by Goldfrost during the first half of 2018. The termination of the engagement with Arla, and our anticipated termination of our supply arrangement with Arla at the of the first half of 2018, have an adverse effect on our revenues and our results of operations.

We do not generally enter into written agency or other agreements with our suppliers. However, we have written agreements with approximately 13 foreign suppliers that confirm our exclusive appointment as the sole agent and/or distributor of such suppliers, either with respect to a specific product or with respect to a line of products, within the State of Israel. These exclusivity rights have generally been granted for periods of 12 – 36 months and are automatically extendable unless terminated by either party upon prior notice, and in certain cases are conditioned upon our compliance with certain minimum purchase requirements. The suppliers from which we received such written agreements accounted for 30%, 24% and 23% of our purchases in 2017, 2016 and 2015, respectively. In a few instances we did not fulfill the minimum purchase requirements of such agreements, but no supplier has ever terminated its agreement with us due to our failure to comply with such minimum purchase requirements. Our purchases are not motivated by a desire to meet such minimum purchase requirements, and the considerations in purchasing products from these suppliers are identical to those for purchasing from other suppliers.

In addition to Arla, we purchased several products from a single supplier in 2017 and, as a result, that supplier accounted for more than 10% of our total purchases; however, purchases from this supplier were made due to economies of scale, operational efficiency and convenience, and the Company does not consider itself dependent on this supplier. The average volume of our credit balance with our suppliers in 2017 was NIS 14.7 million (US\$ 4.2 million) consisting of 24 days of suppliers credit on average, in 2016 was NIS 15.3 million (US\$ 4.4 million) consisting of 26 days of suppliers credit on average and in 2015 was NIS 14.9 million (US\$ 4.3 million) consisting of 24 days of suppliers credit on average.

Customers

The Company's products are marketed and sold to approximately 1,500 customers throughout Israel and outside of Israel.

The Company's customers generally fall within one of the following three groups:

- large retail supermarket chains, and
- small retail supermarket chains, and
- other customers, including small private grocery shops, government institution, wholesalers, restaurants, hotels, hospitals and more.

The first group of customers above includes the large retail food marketing chains: Shufersal Ltd., Yenot Bitan, Rami-Levy Ltd, Co-Op Israel, "Osher-Ad", Viktory, Yohananof and others. The large retail food marketing chains usually consist of dozens of stores with nationwide deployment.

The Company contracts with those supermarket chains through the buyers in the head office of the supermarket chain, after which the Company receives orders from the supermarket chain's logistics center or directly from individual stores. Merchandise is then delivered directly to each branch or to the supermarket's chain distribution centers. The Company is not accustomed to setting fixed prices that apply to all such customers, but rather sets ad-hoc prices for a transaction or for several transactions. Simultaneous with closing of sale prices with the buyers at the chains' central offices, quantities of the products to be supplied to the branches are routinely determined directly with the branches.

A number of provisions of a law entitled "Promoting Competition in the Food Industry" (the "Food Law"), which went into effect on January 15, 2015, regulating the operations of food suppliers and retailers, are applicable to the Company (which is not defined as a large supplier in respect of its engagements with retailers subject to the provisions of the Food Law), including a prohibition on any interference on the part of a supplier in a retailer's determination of the consumer price that such retailer will collect on another suppliers' merchandise, or the terms of such sale; a prohibition on retailers interfering in any way in a supplier's determination regarding what products to sell other retailers and what prices to charge for those products, or the terms of such sale; a ban on suppliers transferring payments (in cash or cash equivalents) to a large retailer, other than by lowering the price per unit of a product, subject to certain exceptions; a prohibition on interfering in any way in the price per product collected by a retailer for that supplier's products, the allocation of any share of sales space for that supplier's products, the purchase of products provided by that supplier on any scale in proportion to the retailer's purchase of the product from alternative suppliers; and a prohibition on interfering in the purchase or sale of products provided to a retailer by another supplier, including quantities and purchase targets, sales space allocated to them in stores and other commercial terms. In 2017, the Company had one retail customer, Shufersal, that is considered a large supplier according to the Food Law, the scope of Company sales to which exceeded 10% of its income in 2017. As a result, the Company's interaction with this customer is required to meet certain principles for engagement, including those impacting commercial agreements, logistics and monetary collection.

The second group of customers includes the small retail chains of up to 15 stores, usually in a regional deployment

Generally, the Company's engagement with small retail chains does not involve exclusivity, or other obligatory terms of operations. Prior to entering into an engagement with such customer, the Company gauges the customer's financial stability and determines the scope of credit to assign to and the sureties to obtain from such customer. Small retail chains are generally requested to provide deferred checks as sureties, and some are requested to provide additional sureties, including promissory notes, personal guarantees and bank guarantees. In addition, the Company insures most of its small retail chains with credit insurance. In 2017, more than 50% of the Company's small retail chains were insured with credit insurance policies by credit insurance companies.

The Company undertakes toward some of its small retail chains that are not subject to the provisions of the Food Law to pay a fixed incentive in the form of a percentage of sales, or an incentive in the event the scope of sales exceeds the scope agreed upon between the parties. The Company undertakes towards a small number of small retail chains to provide discounts for the inclusion of new products, as well as limited-time discounts for the opening of new stores. Furthermore, the Company undertakes towards a small number of the small retail chains to participate in payments for the customers' advertisements, at rates determined in negotiations between the parties, and subject to the actual execution of the advertisements in various media, including in print newspapers, or in specific advertisement placed inside a customer's stores.

The sale prices to small retail chains are determined in negotiations that occur frequently, usually on a monthly basis, owing to the lack of uniformity in the purchase terms for different products from different manufacturers, and owing to variable market conditions. The Company is not accustomed to setting fixed prices that apply to all such customers, but rather sets ad-hoc prices for a transaction or several transactions.

The Company's sales by customer group for the years ended December 31, 2017, 2016 and 2015 were as follows:

	Percentage of Total Sales Year Ended December 31			
Customer Groups	2017	2016		
large retail supermarket chains	50 %	49 %		
other customers	50 %	51 %		
	100%	100 %		

The average aggregate debit balance of the Company's customers with the Company in 2017 was NIS 88.1 million (USD 25.4 million) and the average time period within which our accounts receivable were paid was 86 days, in 2016 was NIS 85.5 million (USD 24.7 million) and the average time period within which our accounts receivable were paid was 90 days and in 2015 it was NIS 88.8 million (USD 25.6 million) and the average time period within which our accounts receivable were paid was 86 days.

In the event that a customer in the small retail supermarket chains or other customers does not respect its financial commitments, the Company may elect to foreclose on the collateral or the promissory note given by such customer. Since 2008, the Company has made no significant use of this foreclosure power. The Company strives to minimize its credit risk by constantly reviewing the credit it extends to customers versus the security it receives. As a result, the Company has ceased selling products to certain customers and considerably reduced sales to other customers, and may continue to do so.

Distribution, Marketing and Sales

The Company principally distributes and markets its products on its own. The Company markets its products via internal sales agents, although with sales of certain products to clients situated in different areas of Israel, the Company utilizes external distributors, with whom it does not have exclusivity agreements.

The Company generally has no written agreements with its customers, nor are its arrangements with its customers on an exclusive or binding basis. The Company generally extends its customers approximately 60-90 days credit, and in limited cases up to 110 days credit, beginning at the end of the month in which the sale took place. Most of the large retail supermarket chains generally effect payment by wire transfers or cash payments on the due date, while other customers are generally required to provide post-dated promissory notes at least one month prior to the date of the expected payment. The Company does not require the large retail supermarket chains to provide any kind of security for payments; however, other customers may be required to provide security, including personal guarantees.

Sales are made by the placement of customers' orders (except for part of the dairy and dairy substitute products), which are directed to the Company's regional office and placed by the sales personnel or directly by the customers. Orders are delivered by the Company's transport network (including four refrigeration trucks, three regular trucks and ten combined trucks) and by independent transporters. In certain cases, the Company transports products directly from port to customers, utilizing the services of independent transporters. In some instances, the Company transfers the merchandise to the logistics centers of the supermarket chains, and the supermarket chains themselves are responsible for the distribution of the merchandise to their chain stores for a commission charged to the Company.

The sale of most of our dairy and dairy substitute products is performed by external distributors, although some of these sales are made by "van sale" sales agents using small terminals. The sales agents supply these products

immediately from the stock of products in the refrigeration trucks in which they travel.

Some of the marketing and distribution to institutional clients in the private sector (such as hotels, police, prisons, the Ministry of Defense and "kibbutz" collective settlements) is done by winning tenders, direct distribution or by wholesalers.

With imported products, the Company generally holds an inventory of products which the Company believes to be sufficient to meet market requirements for a period of up to 60 days. Occasionally, the Company may take advantage of low priced merchandise and purchase larger amounts than usual of a product with long shelf life. In those cases, the inventory may be sufficient to meet market requirements for more than 60 days. Products ordered by customers in full container loads are generally forwarded directly to the customers' facilities without being stored in the Company's facilities. The Company does not regularly maintain a significant backlog of orders from customers; orders received by customers are generally filled within one week. The Company's inventory as of December 31, 2017 amounted to NIS 39.9 million (USD 11.5 million) compared with NIS 41.9 million (USD 12.1 million) as of December 31, 2016.

The Company maintains close contact with its consumers in an effort to be attentive to market needs, market trends, and demand for certain products in various markets. The Company also regularly gathers information on new products manufactured world-wide, including by attending food exhibitions and maintaining close relations with manufacturers and suppliers world-wide.

The Company is responsible for the products it markets in Israel under the Israeli Law of "Liability for Defective Products Law, 1980" and it has also purchased an insurance policy for product liability.

Seasonality

Each year as the Passover, Shavuot, and Rosh Hashana holidays approach, the Company usually increases its inventories in order to provide a fast response to the market's demand. Usually there is an increase in the Company's sales prior to the Rosh Hashanah holiday (celebrated in September-October), the Pesach (Passover) holiday (celebrated in March-April) and Shavuot (celebrated in May). Despite the impact of the holiday season on the Company's activities, the Company's quarterly sales are not materially affected as a result of these holiday seasons.

Competition

The food distribution business in Israel is highly competitive with respect to imported, as well as locally manufactured, food products. The Company faces direct competition both from local manufacturers, as well as from a number of importers of food products. The food market in Israel is very price sensitive.

For each of the categories of products distributed by the Company, there exists competition by dozens of local manufacturers as well as from other importers. The barriers to entry in the food market are low, and new potential competitors are constantly joining the market. In addition to new-comers to the food business, the Company faces potential competition from existing importers and/or manufacturers currently not offering the same lines of products as the Company.

For example, certain of the products imported by the Company, such as canned fish, corn flakes, edible oils, certain pickles, olives, pasta, cereal, sweet pastry and crackers and certain dairy products, are also produced by local manufacturers in Israel. Local producers are not subject to the financial risks of importing food products or to governmental policies regarding taxation of imported food products to which the Company is subject.

To the Company's knowledge, several of its competitors (Shemen, Taaman and Solbar with respect to edible oils, Fodor (Starkist and Yona), Posidon and Williger of the Neto Group, Filtuna, the new Vita Pri HaGalil and Shastowits with respect to fish products, the new Vita Pri HaGalil, Yachin-Zan laKol, Williger of the Neto Group, and Tomer with respect to canned vegetable and canned fruit products, Osem, Barila, the new Vita Pri HaGalil, Williger of the Neto Group, Taaman and Tomer with respect to pasta products, Tnuva, Tara, Strauss, Seyman, Gad Dairy and Meshek Zuriel with respect to dairy and dairy substitute products, for example) are substantially more established, have greater market recognition and have greater financial, marketing, human and other resources than those of the Company. If any of the Company's major competitors materially reduces prices, the Company would experience significantly more

competitive pressure and a decrease in profitability. The Company cannot predict whether it could successfully compete with these pressures and, if it were unable to do so, the Company's business would be adversely impacted.

The Company's management does not have precise information regarding the import of food products to Israel. However, it believes the Company is currently one of the leading companies in Israel in its line of products.

The Company endeavors to compete by reacting to the availability of competitor products and their prices, while diversifying sources of supply and setting product prices according to changing market conditions.

Intellectual Property Rights

The Company markets certain products under the trademark “Willi-Food,” which was approved for registration in Israel in May 1997 for certain uses relating to the food industry. In 2015, the trademark's validity was extended for an additional ten years. The Company markets certain products under the trademark “Gold-Frost,” which was registered in Israel in February 2002.

The Company also markets cheeses and cheese substitutes such as "Ha-Bulgaria", which was registered in Israel in February 2009, "SAY CHEESE", which was registered in Israel in July 2012, and "EMMA", which was registered in Israel in December 2013.

The Company also markets certain products under the trademark "Gold Food", which was registered in Israel in November 2002 for different uses in the food industry.

The Company markets frozen edamame soybeans under the trademark "Manchow," which was registered in Israel in October 2007.

The Company also markets a line of products with kosher supervision by Badatz Edah HaChareidis under the trademark "Tifeeret", which was registered in Israel in September 2010 for different uses in the food industry.

The Company also markets pasta and sauces under the trademark "Donna Rozza," which was registered in Israel in August 2005 for different uses in the food industry.

Other products marketed by the Company under their original brand name are “Completa”, "Del Monte", "Danesita", "Nobeleza Gaucha", "Fetina", "Sera", "Daawat", "Zanetti", "Ferro", "Hahne", "Pastor" and "Kolios".

The Company imports several products for the Shufersal chain under the brand name “Shufersal”.

There can be no assurances as to the degree of protection registration of the Company’s trademarks will afford.

The Company's investment in registering these trademarks was insignificant.

Government Regulation

The import, export, storage, distribution, manufacturing, marketing and labeling of food products is subject to extensive regulation and licensing by various Israeli government and municipal agencies, principally the Ministry of Health, the Ministry of Finance and the Ministry of Economy and Industry. We are required to maintain our distribution processes, as well as the products imported and manufactured by us, in conformity with all applicable laws and regulations. Failure to comply with these applicable laws and regulations could subject us to civil sanctions, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, any of which could have a material adverse effect on us. We believe that we comply in all material respects with the above-mentioned requirements. To the extent that the Company exports food products outside of Israel, we may be subject to quotas and other laws and regulations of the country to which we export which may limit our ability to sell certain of our food products into these countries.

In 1978, the Israeli government issued the free import decree, which exempts the import of most food products from the requirement to acquire a license. However, preliminary permits from the Ministry of Health or the Ministry of

Agriculture are still required. These preliminary permits are granted based on laboratory analysis reports and other data.

Customs duties and charges are levied on a portion of the Company's products imported into Israel. In addition, the Company is required to obtain import licenses for the import of certain food products from the Ministry of Economy. The Company has also obtained the necessary authorization required by the Ministry of Health (Food Authority) for the import of all of its food products to Israel. The Company's products are packaged by various manufacturers and suppliers abroad and labeled in Hebrew, English and, in certain cases, Arabic and Russian, according to the Company's instructions and the requirements of the Israeli authorities. Since the beginning of the Company's activities, the Company has been found to have mislabeled packages a few times, as a result of which the Company was required to pay an immaterial amount of fines.

The government has undertaken various efforts to reduce custom duties and charges in recent years. From late 2011 through 2013, the Company and its subsidiaries received various permits to import various hard cheeses with reduced customs duties. In addition, custom duties on several other products imported or potentially imported by the Company were significantly reduced during 2013 and the beginning of 2014. In the fourth quarter of 2015, the Ministry of Finance announced a tax-free import quota program for hard cheeses (over 5,000 tons) and butter and cream (together, more than 1,250 tons) for the year 2016. In addition, new procedures were announced for quota distribution in order to increase the efficiency of the allocation and to ensure that the benefit reaches the consumer, including a competitive process exemption from certain customs duties for hard cheeses (with winners chosen by which bidder has the lowest sale price to the end consumer). The Ministry of Finance announce two more times at the end of 2016 and 2017 (for the years 2017 and 2018) a tax free import quota for hard cheese at the same mechanism like 2015. The company won a significant share of the entire quotas for each year. For more information, see "Item 5. Operating and Financial Review and Prospectus – D. Trend Information".

Most of the products which the Company imports and markets are approved as kosher by and/or under the supervision of various supervisory institutions including the Chief Rabbinate of Israel, Chug Chatam Sofer, Badatz Edeh HaChareidis, certain Jewish organizations administering Kashrut procedures and certifications (such as the Union of the Orthodox Jewish Congregation of America (OU), Badatz Igud Harabanim Manchester, OK, Circle K and Triangle K.) and rabbis of local Jewish congregations abroad. Such procedures include, in certain cases, personal supervision by a Kashrut supervisor sent by such institutions to the manufacturing facilities from which the Company purchases products, who is present at the plant during the processing of the product. Under Israeli law, the Company is required to ascertain that the kosher foodstuffs which it offers for sale bear kosher certification approved by certain authorities, such as the Chief Rabbinate of Israel, and also bear the name of the individual authorized to certify such product. Not all products marketed by the Company have been so certified, although they do bear certain kosher certification from other certification bodies.

C. ORGANIZATIONAL STRUCTURE

The Company's principal shareholder, Willi-Food, as of April 29, 2018, held approximately 61.93% of our ordinary shares (approximately 61.93% on a fully diluted basis). The primary assets of Willi-Food are the Company's ordinary shares. Willi-Food was established on November 27, 1992 and its securities have been traded on the Tel Aviv Stock Exchange since January 1993.

The Company, as of April 29, 2018, had seven active subsidiaries, as follows:

Subsidiary	Jurisdiction of Organization	Company's Ownership Interest
W.F.D. (import, marketing and trading) Ltd. ("WFD")	Israel	100%
B.H. W.F.I. Ltd. ("BHWFI")	Israel	100%
Gold Frost Ltd.	Israel	100%
<u>Gold Frost subsidiaries:</u>		
Willi-Food Quality Cheeses Ltd.	Israel	100%
Gold Frost Cheeses World Ltd.	Israel	100%
Gold Cheeses Ltd.	Israel	100%
Cheeses Farm Ltd.	Israel	100%

The offices of our active wholly owned subsidiaries are located in Yavne, Israel, at the offices of the Company.

WFD

In November 1995, the Company incorporated a wholly-owned subsidiary, WFD. The Company occasionally imports certain products through this subsidiary, which then sells these products to the Company. WFD has no assets, facilities

or obligations, other than those amounts owed to suppliers overseas with respect to products purchased from them.

BHWFI

In June 2014, the Company incorporated a wholly-owned subsidiary, BHWFI.

Gold Frost

In May 2001, the Company acquired all the shares of Gold Frost in. Gold Frost, which was registered in 1977 in Israel, is engaged in designing, developing and distributing frozen and chilled food products. The Company purchased Gold Frost in order to take advantage of Gold Frost's know-how in importing frozen and chilled products as well as of its well known brand name in the Israeli market. Gold Frost distributes over 100 products, usually packed for private consumers (in cans, jars, containers and plastic sealed and vacuumed packages), but also for institutional consumers and labeled in Hebrew, English, and in certain cases, Arabic and Russian. Gold Frost markets certain products under the trademarks "Gold Frost" and "Willi-Food" which are registered in Israel. Gold Frost is working towards broadening the variety of products that it develops and distributes. The mission of Gold Frost is to develop low fat, low cholesterol dairy chilled and frozen products aimed at the kosher and health conscious consumer market.

On February 28, 2006, a relationship agreement between Gold Frost, the Company and others was signed, defining the relationship between the two companies.

Willi-Food Quality Cheeses

In September 2011, Gold Frost established Willi-Food Quality Cheeses. Gold Frost occasionally imports certain products through this subsidiary, which then sells these products to the Company. Willi-Food Quality Cheeses has no assets, facilities or obligations, other than those amounts owed to suppliers overseas with respect to products purchased from them.

Gold Frost Cheeses World

In September 2011, Gold Frost established Gold Frost Cheeses World. Gold Frost occasionally imports certain products through this subsidiary, which then sells these products to the Company. Gold Frost Cheeses World has no assets, facilities or obligations, other than those amounts owed to suppliers overseas with respect to products purchased from them.

Gold Cheeses

In September 2011, Gold Frost established Gold Cheeses. Gold Frost occasionally imports certain products through this subsidiary, which then sells these products to the Company. Gold Cheeses has no assets, facilities or obligations, other than those amounts owed to suppliers overseas with respect to products purchased from them.

Cheeses Farm

In September 2011, Gold Frost established Cheeses Farm. Gold Frost occasionally imports certain products through this subsidiary, which then sells these products to the Company. Cheeses Farm has no assets, facilities or obligations, other than those amounts owed to suppliers overseas with respect to products purchased from them.

D. PROPERTY, PLANTS AND EQUIPMENT

The Company's principal executive offices are situated at a logistics center in the northern industrial zone of Yavne, at 4 Nahal Harif St., Israel, 35 km south of Tel Aviv. The logistics center is 9,000 square meters (approximately 81,000 square feet) and is located on a plot of 19,000 square meters (approximately 171,000 square feet).

In addition to the current logistics center, the Company makes use of so-called "free" warehouse services, mainly in the area of the Ashdod seaport. For such services, the Company is charged only for storage per container or pallet (i.e., there is no charge for rental when containers or pallets were not stored there). The Company's expenses for usage of free warehouses services were NIS 1,522 thousand (USD 439 thousand) for the year ended December 31, 2017, NIS 264 thousand (USD 76 thousand) for the year ended December 31, 2016 and NIS 181 thousand (USD 52 thousand) for the year ended December 31, 2015. In 2016 and 2015, the Company expanded its frozen storage facility at its logistics center in order to save the Company the expense of using storage services in free warehouses, as described above, and in order to improve Company's operations.

As of December 31, 2017, the Company owned five refrigeration trucks (each with a capacity of 12 tons), nine refrigeration trucks (each with a capacity of 15 to 18 tons), three combined trucks (each with capacity of 26 tons) and four private cars. As of December 31, 2017, the depreciated total cost of such vehicles amounted to approximately NIS 3,053 thousand (USD 881 thousand).

Since January 22, 2008, the Company has been operating the Yavne facility under a municipal business license as required under Israeli applicable law. The license has been granted permanently.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Company and the related notes thereto submitted in this Annual Report. The Company's financial statements as of December 31, 2017 and for the year then ended have been prepared in accordance with IFRS and interpretations issued by the IASB, which differ in certain respects from U.S. Generally Accepted Accounting Principles, or U.S. GAAP.

The Company is engaged, directly and through its subsidiaries, in the design, import, marketing and distribution of a broad range of food products purchased from over 120 suppliers worldwide and marketed throughout Israel and abroad. The products imported by the Company are marketed in Israel and sold to approximately 1,500 customers, including supermarket chains, mini-markets, wholesalers, manufacturers and institutional consumers. The Company also sells its products outside Israel to a variety of customers world-wide.

The Company was incorporated in Israel in January 1994 and commenced operations in February 1994.

For convenience purposes, the financial data for the years ended December 31, 2017, 2016 and 2015 has been translated into U.S. Dollars using the representative exchange rate. This rate as of December 31, 2017 was NIS 3.467 = USD 1.00.

The Company is not involved in any off-balance sheet transactions or long-term contractual obligations.

Critical Accounting Policies

Management's discussion and analysis is based upon the consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB for all reporting periods presented. The use of IFRS Standards requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities

and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting accounting periods presented. These estimates include, among other things, assessing the collectability of accounts receivable and the use of recoverability of inventory. Actual results could differ from those estimates. The markets of the Company's products are characterized by intense competition and a rapid turnover of products and frequent introductions of new products, all of which may impact future ability to value the Company's assets.

The following critical accounting policies may affect significant judgments and estimates used in the preparation of the consolidated financial statements.

1. Recognition of income

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

a. Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

b. Customer returns and rebates

The customer returns, rebates and other credits are being deducted from revenues. Although, in general, the Group does not grant rights of return and rebates, its enable for certain customers from time to time to return products. The Group assesses the expected customer returns and rebates according to specific information in its possession and its past experience in similar cases. According to IAS 18, these provisions are reduced from the Company's revenues. As of December 31, 2017, the provision for returns is insignificant.

2. Useful lifespan of property, plant, and equipment

During every annual reporting period, the Company's management assesses the estimated useful life span of an item of property, plant and equipment. There were no changes to the estimated useful life spans of an item of property, plant and equipment during the course of the financial reporting period.

3. Employee benefits

The current value of the Company's liability for payment of severance compensation and for pension plans for its employees is based on a significant amount of data, which are determined on the basis of actuarial valuation utilizing a large number of assumptions, including the capitalization rate. Changes in the actuarial assumptions may impact the carrying amount of the Company's liabilities for payment of severance compensation and pension payments. The Company estimates the capitalization rate once per year, based on the capitalization rate of highly rated corporate bonds. Other key assumptions are determined based on the prevailing market conditions and the Company's experience. For additional details about the assumptions utilized by the Company. See Note 10 of the financial statements.

A. RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the correlation (in percentages) between items from the Company's statements of operations to its total sales for such periods:

Year	Year
Ended	Ended
December	December
31, 2017	31, 2016

Revenues	311,978	100	%
Cost of Sales	237,645	76.2	%
Gross Profit	74,333	23.8	%
Selling Expenses	42,090	13.5	%
General and Administrative Expenses	15,839	5.1	%
Other Income	361	0.01	%
Operating profit	16,765	5.3	%
Financial Income (Loss), Net	14,168	4.5	%
Profit before taxes on income	30,933	9.9	%
Taxes on income	5,910	2	%
Net Income	25,023	8.0	%

Year Ended December 31, 2017 compared with Year Ended December 31, 2016

Revenues. Revenues for fiscal 2017 increased by NIS 17,776 thousand (USD 5,127 thousand), or 6%, to NIS 311,978 thousand (USD 89,985 thousand) from NIS 294,202 thousand (USD 84,858 thousand) recorded in fiscal year 2016. Revenues increased primarily due to an increase in personnel in the sales and trade department and due to a strike at the Ministry of Health in the third quarter of 2016 which limited release of goods from the port and caused a decrease of NIS 6 million in sales in fiscal year 2016.

Cost of Sales. Cost of sales for fiscal year 2017 increased by 9.2% to NIS 237,645 thousand (USD 68,545 thousand), or 76.2 % of revenues, from NIS 217,585 thousand (USD 62,759 thousand), or 74% of revenues recorded in fiscal year 2016. The increase in cost of sales in fiscal year 2017 compared to fiscal year 2016 was primary due to an increase in sales.

Gross Profit. Gross profit for fiscal year 2017 decreased by 2.98% to NIS 74,333 thousand (USD 21,440 thousand), or 23.82% of revenues, from NIS 76,617 thousand (USD 22,099 thousand), or 26.04% of revenues, recorded in fiscal year 2016. The decrease in gross profit in fiscal year 2017 compared to fiscal year 2016 was primary due to reductions in the prices of certain of our products as a result of an inventory with a short expiration date that the Company had to sell with lower prices and due to an increase of inventory-storage expenses.

Selling Expenses. Selling expenses for fiscal year 2017 increased by 6.81% from fiscal year 2016 to NIS 42,090 thousand (USD 12,140 thousand), or 13.49% of revenues, from NIS 39,405 thousand (USD 11,366 thousand), or 13.39 % of revenues recorded in fiscal year 2016. The increase in selling expenses was primarily due to an increase in salary expenses resulting from an increase in personnel in the sales and trade department and due to an increase in distribution expenses related to the increase in sales.

General and Administrative Expenses. General and administrative expenses for fiscal year 2017 increased by 8.66% to NIS 15,839 thousand (USD 4,569 thousand), or 5.07% of revenues, from NIS 14,577 thousand (USD 4,204 thousand), or 4.95% of revenues recorded in fiscal year 2016. The increase in general and administrative expenses was primarily due to a NIS 1.3 million (US\$ 0.3 million) write-off in fiscal year 2016 which was canceled in fiscal year 2017, with respect to the Company's estimated exposure to Mega Retail Ltd. debts.

Other Income. Other income for fiscal year 2017 amounted to NIS 361 thousand (USD 104 thousand) compared to NIS 112 thousand (USD 32 thousand) recorded in fiscal year 2016. Other income for fiscal year 2017 and 2016 mainly consisted of gain from sales of property plant and Equipment.

Operating Profit. Operating profit for fiscal year 2017 decreased by NIS 5,982 thousand (USD 1,725 thousand), or by 26.30%, to NIS 16,765 thousand (USD 4,835 thousand), or 5.37 % of revenues, from NIS 22,747 thousand (USD 6,561 thousand), or 7.73% of revenues, recorded in fiscal year 2016. The decrease in operating profit was primarily due to the decrease in the gross profit and increase in total operating expenses.

Financing Income, Net. Financing Income, net, for fiscal year 2017 amounted to NIS 14,168 thousand (USD 4,086 thousand) compared to net loss of NIS 6,568 thousand (USD 1,894 thousand) recorded in fiscal year 2016. Financing Income, net, for fiscal year 2017 consisted primarily of gain on marketable securities of NIS 12,523 (USD 3,612 thousand), gain from non-tradeable financial assets of NIS 5,357 thousand (USD 1,545 thousand) and a loss from foreign currency differences amounted to NIS 2,708 thousand (USD 781 thousand). For more information on this non- tradeable financial asset, see "Item 8. Financial Information – Legal Proceedings".

Profit before taxes on income. Profit before taxes on income for fiscal year 2017 increased by NIS 14,754 thousand (USD 4,256 thousand), or by 91.18%, to NIS 30,933 thousand (USD 8,921 thousand) from NIS 16,179 thousand (USD 4,666 thousand) recorded in fiscal year 2016. The increase in profit before taxes on income was primarily due to increase in financial income.

Taxes on Income. Taxes on income for fiscal year 2017 increased by 10.94% to NIS 5,910 thousand (USD 1,705 thousand) from NIS 5,327 thousand (USD 1,536 thousand) recorded in fiscal year 2016. The increase in taxes on income in fiscal year 2017 compared to fiscal year 2016 was mainly due to an increase in income before taxes. For more information see Note 11a (Taxes on income) of our financial statements for the year ended December 31, 2017 included in this report.

Profit for the year. Profit for fiscal year 2017 increased by 130.57% or NIS 14,171 thousand (USD 4,087 thousand), to NIS 25,023 thousand (USD 7,217 thousand), or NIS 1.89 (USD 0.54) per share or 8.02% of revenues, from NIS 10,852 thousand (USD 3,130 thousand), or NIS 0.82 (USD 0.23) per share or 3.69% of revenues, recorded in fiscal year 2016. The increase in profit for the year was primarily due to an increase in financial income.

Year Ended December 31, 2016 compared with Year Ended December 31, 2015

Revenues. Revenues for fiscal 2016 decreased by NIS 18,312 thousand (USD 4,763 thousand), or 5.9 %, to NIS 294,202 thousand (USD 76,516 thousand) from NIS 312,514 thousand (USD 81,278 thousand) recorded in fiscal 2015. Revenues decreased primarily due to (i) the impact of a shortage of inventories in the third quarter of 2016 due to a strike at the Israeli Ministry of Health in July-August 2016, which significantly delayed the release of imported Company products from customs, and (ii) the fact that the level of food product consumption in Israel has remained unchanged despite population growth.

Cost of Sales. Cost of sales for fiscal 2016 decreased by 8.4 % to NIS 217,585 thousand (USD 56,590 thousand), or 73.96 % of revenues, from NIS 237,452 thousand (USD 61,756 thousand), or 75.98% of revenues recorded in fiscal 2015. The decrease in cost of sales in fiscal 2016 compared to fiscal 2015 was primary due to a decrease in sales.

Gross Profit. Gross profit for fiscal 2016 increased by 2.1 % to NIS 76,617 thousand (USD 19,926 thousand), or 26.04% of revenues, from NIS 75,062 thousand (USD 19,522 thousand), or 24.02 % of revenues, recorded in fiscal 2015. The increase in gross profit in fiscal 2016 compared to fiscal 2015 was primary due to the Company's strategic focus on selling a favorable mix of products, which generated a higher gross margin, in addition to successful negotiations for improved commercial terms with certain suppliers.

Selling Expenses. Selling expenses increased by 5.7 % from fiscal 2015 to NIS 39,405 thousand (USD 10,249 thousand), or 13.39 % of revenues, from NIS 37,294 thousand (USD 9,699 thousand), or 11.93 % of revenues recorded in fiscal 2016. The increase in selling expenses was primarily due to an increase of 58% in promotional expenses that included an approximate NIS 3 million (USD 0.8 million) expense related to a nationwide campaign launched in the second half of 2016 aimed at broadening awareness of Willi-Food's brands and products.

General and Administrative Expenses. General and administrative expenses for fiscal 2016 decreased by 55.7 % to NIS 14,577 thousand (USD 3,791 thousand), or 4.95 % of revenues, from NIS 32,926 thousand (USD 8,563 thousand), or 10.54 % of revenues recorded in fiscal 2015. The decrease in general and administrative expenses was primarily due to a significant decrease in the costs of management salaries to Mr. Zwi Williger, the Company's former Co-Chairman of the Board of Directors and president, and Mr. Joseph Williger, a former director and president of the Company, an approximate NIS 13 million (US\$ 3.4 million). In addition, in fiscal 2015, a NIS 1.7 million (USD 0.4 million) write-off was recorded with respect to the Company's estimated exposure to Mega Retail Ltd. and Eden Briut Teva Market Ltd. debts.

Other Income. Other income for fiscal 2016 amounted to NIS 112 thousand (USD 29 thousand) compared to NIS 2,182 thousand (USD 567 thousand) recorded in fiscal 2015. Other income for fiscal 2015 was mainly comprised of a NIS 1,961 (USD 510 thousand) compensation received from Israeli authorities for the losses the Company suffered from Operation Protective Edge, an Israeli military operation in the summer of 2014.

Operating Profit. Operating profit for fiscal 2016 increased by NIS 15,722 thousand (USD 4,089 thousand), or by 223.8 %, to NIS 22,747 thousand (USD 5,916 thousand), or 7.73 % of revenues, from NIS 7,024 thousand (USD 1,827 thousand), or 2.25 % of revenues, recorded in fiscal 2015. The increase in operating profit was primarily due to the increase in the gross profit and decrease in General and Administrative expenses.

Financing Loss, Net. Financing Loss, net, for fiscal 2016 amounted to NIS 6,568 thousand (USD 1,708 thousand) compared to net income of NIS 2,385 thousand (USD 620 thousand) recorded in fiscal 2015. Financing Loss, net, for fiscal 2016 consisted primarily of non-cash provision due to uncertainty related to the collection of the remaining USD 1.6 million debt for an early redemption of a non-current financial assets. For more information on this non-current financial asset, see the fourth legal proceedings at "Item 8. Financial Information – Legal Proceedings".

Profit before taxes on income. Profit before taxes on income for fiscal 2016 increased by NIS 6,769 thousand (USD 1,760 thousand), or by 71.9 %, to NIS 16,179 thousand (USD 4,208 thousand) from NIS 9,410 thousand (USD 2,447 thousand) recorded in fiscal 2015. The increase in profit before taxes on income was primarily due to increase in operating profit.

Taxes on Income. Taxes on income for fiscal 2016 increased by 107.6% to NIS 5,327 thousand (USD 1,385 thousand) from NIS 2,566 thousand (USD 667 thousand) recorded in fiscal 2015. The increase in taxes on income in fiscal 2016 compared to fiscal 2015 was attributable to an increase in income before taxes.

Profit for the year. Profit for fiscal 2016 increased by 58.6 % or NIS 4,008 thousand (USD 1,042 thousand), to NIS 10,852 thousand (USD 2,823 thousand), or NIS 0.82 (USD 0.21) per share or 3.69% of revenues, from NIS 6,844 thousand (USD 1,780 thousand), or NIS 0.52 (USD 0.13) per share or 2.19% of revenues, recorded in fiscal 2015. The increase in profit for the year was primarily due to an increase in profit before taxes on income.

B. LIQUIDITY AND CAPITAL RESOURCES.

The Company's operations are funded mainly through equity and cash flows from operating activities. The Company's bank indebtedness is secured by certain liens on its share capital, goodwill and certain other assets. In general, the Company and its subsidiaries do not utilize bank indebtedness.

For fiscal 2017, cash and cash equivalents, net of short-term bank debt, decreased from NIS 129.6 million (USD 37.4 million) as of December 31, 2016 to NIS 113.1 million (USD 32.6 million) as of December 31, 2017.

During fiscal 2017, marketable securities, short term deposits and loans carried at fair value through profit or loss increased to NIS 143.5 million (USD 41.4 million) from NIS 104.9 million (USD 30.3 million) as of December 31, 2016.

Cash flow from operating activities

For fiscal 2017, the Company generated a positive cash flow from continuing operating activities of NIS 14.4 million (USD 4.2 million) compared to positive cash flow from continuing operating activities of NIS 17.4 million (USD 5 million) in fiscal 2016, a change as a result of an increase in profit from continuing operations from NIS 10.9 million (USD 3.1 million) in fiscal 2016 to NIS 25 million (USD 7.2 million) in fiscal 2017, a decrease in "adjustments to net cash from operating activities" of NIS 10.6 million (USD 3.1 million) from positive adjustment of NIS 6,500

thousands (USD 1,875 thousands) in fiscal 2016 to negative adjustment of NIS 10,584 thousands (USD 3,053 thousands) in 2017 primarily due to an adjustment of unrealized gain on marketable securities of NIS 7.8 million (USD 2.2 million) on 2017 compared to NIS 1.9 million (USD 0.6 million) in 2016, and a gain from non-tradeable financial assets of NIS 5 million (USD 1.5 million) in fiscal 2017 compared to loss from non-tradeable financial assets of NIS 7.7 million (USD 2.2 million) in fiscal 2016 due to an investment on non-tradeable bond. For more information see "Item 8. Financial Information – Legal Proceedings".

Cash flow from investing activities

During fiscal 2017, the Company utilized cash flow of NIS 31 million (USD 8.9 million) for continuing investing activities compared to net cash flow from continuing investing activities of NIS 52.1 million (USD 15 million) generated in fiscal 2016 primarily due to an acquisition of marketable securities of NIS 31 million (USD 8.9 million) and a redemption of non-current financial assets of NIS 2.2 million (USD 0.6 million) compared to proceeds from marketable securities of NIS 42 million (USD 12.1 million), proceeds from short term deposit of NIS 20.3 million (USD 5.9 million) and acquisition of non-current financial assets of NIS 8.5 million (USD 2.6 million) in fiscal 2016.

Cash flow used in financing activities

During fiscal 2017, the Company had no cash flow from continuing financing activities.

Cash requirements

The Company's cash requirements, net, during the years ended December 31, 2017 and 2016 were met primarily through its working capital. As of December 31, 2017, the Company had working capital of NIS 371 million (USD 107 million) compared to working capital of NIS 347.2 million (USD 100.2 million) as of December 31, 2016. The Company believes that its working capital is sufficient for the Company's present requirements.

Trade receivables

The Company's trade receivables balance as of December 31, 2017 was NIS 86 million (USD 24.8 million) compared to the trade receivables balance as of December 31, 2016 in the amount of NIS 80.2 million (USD 23.1 million). The average time period within which our accounts receivable was paid was 86 days in 2017 compared to 89 days in 2016.

Impact of Inflation and Devaluation on Results of Operations, Liabilities and Assets

The representative rate of the U.S. Dollar was NIS 3.467 on December 31, 2017 compared to NIS 3.845 on December 31, 2016, compared to NIS 3.902 on December 31, 2015, NIS 3.889 on December 31, 2014 and NIS 3.471 on December 31, 2013. As of April 26, 2018, the representative rate of the U.S. Dollar was NIS 3.579.

The annual rates of inflation (deflation) in Israel during the years ended December 31, 2013, 2014, 2015, 2016 and 2017 were approximately 1.8%, (0.2%), (0.1%), (0.3%) and 0.4%, respectively, while during such periods the revaluation (devaluation) of the NIS against the U.S. Dollar was approximately 7.0%, (12.1%), (0%), (1.5%) and (10%), respectively.

A revaluation of the NIS in relation to the U.S. Dollar has the effect of increasing the U.S. Dollar value of any assets of the Company which consist of NIS or receivables payable in NIS. Such a revaluation also has the effect of increasing the U.S. Dollar amount of any liabilities of the Company which are payable in NIS (unless such payables are linked to the Dollar). Conversely, any decrease in the value of the NIS in relation to the U.S. Dollar has the effect of decreasing the U.S. Dollar value of any linked NIS assets of the Company and the U.S. Dollar amount of any linked NIS liabilities of the Company.

The dollar cost of the Company's operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel over the rate of inflation in the United States is offset by the devaluation of the NIS in relation to the U.S. Dollar.

Guarantees and Pledges

Principally in connection with letters of credit issued to the Company, the Company has issued a debenture to each of Bank Leumi Le'Israel Ltd and Bank Hapoalim Ltd. The Company has pledged all of its assets (including its outstanding share capital and goodwill of the Company) in favor of Bank Leumi Le'Israel Ltd. and Bank Hapoalim Ltd. to secure its obligations or those obligations incurred by the Company jointly with third parties, including obligations with respect to letters of credit with the Company's suppliers. Bank Leumi Le'Israel Ltd. and Bank Hapoalim Ltd. have agreed among them that the pledges subject to such debentures will rank pari passu. The outstanding amount of such letters of credit as of December 31, 2017 was approximately NIS 7.1 million (USD 2 million).

The Company also guarantees, without limitation as to amount and for an unlimited period of time, the obligations of its subsidiary, Gold Frost, both to Bank Leumi Le'Israel Ltd.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Not applicable.

D. TREND INFORMATION

In recent years, there has been an increase in the number of small private supermarket stores that have opened in Israel, which has resulted in greater price competition in the stores and in our business. The increased price competition in the past resulted in an increase in our cost of sales as a percentage of total revenues. In order to maintain our gross margin at its high levels, in the past we were able to change our product mix and introduce new products with higher margins to increase our gross profit.

In June 2011, a national protest began against the rise of prices of dairy products in Israel. The national protest, as well as continued economic uncertainty, caused Israeli consumers to reduce consumption of dairy products and to demand lower prices, which resulted in decreasing the Company's revenues and profits in the second half of fiscal 2011. In the second half of 2014, cost of living protests returned to Israel, and the pressure to lower prices continued into 2017. One consequence of the protests was that the Ministry of Economy established a competitive annual process for allocating quotas for the import of duty-free hard cheese products. Candidates in the competitive process had to commit to lower sale prices to the end consumer.

The food industry is characterized by a high level of competition and limited consumer loyalty. The sector is dynamic, responding to the demands, needs and various tastes of an audience numbering millions of Israeli consumers. Various macro-economic factors and industry risks, including the rate of growth and state of the local economy, the inflation rate, the growth of the food industry, and personal consumption per capita (including available income per capita) may impact the Company's operations and profitability. According to Bank of Israel's data and macro-economic sources, in the second half of 2017, the Israeli economy grew moderately, with GDP growing at an annual rate of 3.7% in the second half of 2017, after rising in the other quarters of 2017. Ongoing private consumption continued to lead economic growth. In the labor market, employment continued to grow, with average unemployment in 2017 of 3.7%, and wages continued to rise at a moderate rate. Indicators for the end of 2017 indicated an improvement in domestic activity and exports. The business product rose in the fourth quarter of 2017 by an annual rate of 4%, following a consistent increase in the other quarters of 2017. In 2017, the NIS depreciated by 3.59% against the Euro and appreciated by 10.18% against the USD. The Bank of Israel interest rate for December 2017 remained at the low level of 0.1%, and in 2017 the CPI rose by 0.1%, and the Consumer Price Index excluding the housing component decreased by 0.3%.

Recent years have seen a strengthening of private brands marketed by the large supermarket chains Shufersal Ltd. ("Shufersal") and Rami Levi Hashikma Marketing Ltd. ("Rami Levy"). The marketing of these private brands strengthens competition; however, it also allows the Company to integrate into this market by marketing its products as private brands to the large supermarket chains.

On January 15, 2015, the Food Law went into effect. Designed to advance and increase competition in the food industry in order to reduce prices to the consumer, the Food Law is divided into three main sections:

(i) provisions related to increasing the transparency of prices at large retailers ("Large Retailer", as defined therein) – the Food Law requires that large food retail chains advertise on the internet the current prices of their products in each branch, which will enable the development of internet sites to compare prices between food stores close to a consumer's residence.

(ii) provisions related to addressing regional concentration for food retailers – the industry is characterized by high concentration of food retail chains in a single geographic area. These chains force competitors from the same region and limit competition. The Food Law prohibits, among other things, the large food retail chains that control a specific region from opening new stores without the consent of the Israel Antitrust Commissioner. In addition, the anti-trust court may require these retailers to sell branches suffering from high concentration and low competition.

(iii) provisions related to advancement of competition and arrangement of fair competition in the food retail industry – the food industry is characterized by a small number of dominant suppliers, most of which have been declared monopolies. In addition, anti-competitive arrangements have been established in the industry whose purpose is to force products of medium-sized and small suppliers from the shelves and to hurt competition. The Food Law prohibits various anti-competitive arrangements by large suppliers and large food retailers, such as involvement of a supplier in the manner of arrangement of products in the stores, and in setting of prices of products from other suppliers.

In addition, the law includes a temporary order to limit the shelf space of very large suppliers (defined as retailers whose annual sales exceed NIS 1 billion) to 50% of the shelf space at large stores (defined as stores with more than 250 square meters) of larger retailers. The purpose is to enable medium-sized and small suppliers, such as the Company, to obtain shelf space at the large food retailers and thereby increase competition and lower prices for the end customer. The Company is not currently on the list of large suppliers maintained by the Anti-Trust Authority. A large supplier is defined as a supplier with revenues to retailers, or through retailers, in Israel of more than NIS 300 million, or a supplier who is a monopoly as defined in the Israel anti-trust law, with respect to a particular food products for which it was declared a monopoly.

The Company expects that in the long term the Food Law could positively affect the financial results of the Company because it may provide more shelf space to the small and medium size suppliers such as the Company and lessen the influence of our largest competitors.

In addition, the Company's management is evaluating the financial stability of its customers by entering into agreements with companies for providing business data, examining bank accounts, conducting inquiries, and following negative publicity regarding its customers or other signs indicating financial difficulties.

In May 2014, the Ministry of Finance announced the implementation of a government decision to open free of duty import quotas for hard cheeses (over 6,500 tons), yogurt (over 1,500 tons) and butter and cream (together, more than 1,250 tons). This decision revoked an earlier decision which determined an import duty on these products. Pursuant to this decision, the Company and Goldfrost won quotas for imports of a variety dairy products. Another announcement of the Ministry of Finance formulated new procedures for the distribution of duty-free quotas in order to increase the efficiency of the market and in order to ensure that the benefit reaches the consumer and that the program will operate to support small dairies in order to increase competition in the domestic market. In late 2014, the Ministry of Finance announced the opening of the competitive process for hard cheese import quotas exempt from customs duties, while the winning importers would be obligated to sell products at a lower selling price to the end consumer. The Company and Goldfrost did not participate in this process. In late 2015, the Ministry of Finance announced an additional competitive process for tax free import quotas for cheeses under the same conditions to the lowest bidder for prices to the final consumers, The Company and Goldfrost received more than 1,000 tons of cheeses and 500 tons of butter for import fully exempt from customs duties in addition to other exemptions from custom duties on other products. In late 2016, the Company and Goldfrost received more than 1,450 tons of cheeses and 600 tons of butter for import fully exempt from customs duties in addition to other exemptions from custom duties on other products. In late 2017 and in the early 2018, the Company and Goldfrost received more than 1,790 tons of cheeses and 1,250 tons of butter for import fully exempt from customs duties in addition to other exemptions from custom duties on other products. The Company believes that the effect of these reductions and procedures for the Company and Goldfrost in 2018 will be material and will contribute substantially to the development and growth in a variety of sales.

E. OFF-BALANCE SHEET ARRANGEMENTS

Not applicable.

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F. TABULAR DISCLOSURE OF CONTRACTURAL OBLIGATIONS

Not applicable.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The directors, executive officers and key employees of the Company as of the date of this Annual Report are as follows:

Name	Age	Position with the Company
Joseph Williger	61	Director, Co-Chairman of the Board
Zwi Williger	63	Director, Co-Chairman of the Board
Victor Bar(1)	53	Director
Sigal Grinboim (1)	52	External Director
Menashe Arnon (1)	77	External Director
Gil Hochboim	48	Director
David Donin (1)	61	Director
Michael Luboschitz	56	Chief Executive Officer
Amir Kaplan	38	Chief Financial Officer

(1)Members of the Company's Audit Committee

The Directors are elected at the annual general meeting of shareholders and hold office until the next annual general meeting of shareholders and until their successors have been elected. Officers serve at the discretion of the Board, subject to the terms of any agreement between officers and the Company.

The business experience of each of the Directors, executive officers and key employees of the Company is set forth below:

Joseph Williger has served as the active Co-Chairman of the board of the company (together with his brother Mr. Zwi Williger) and as a director of Willi-Food the controlling shareholder of the Company since June 20, 2017 and June 12, 2017 respectively. From January 1994 until September, 2011 he served as the Chief Executive Officer of the Company and from September 2011(when he ceased serving as Chief Executive Officer of the Company) until January, 2016 he served as president of the