

G WILLI FOOD INTERNATIONAL LTD
Form 20-F
April 30, 2015

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, 2014

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)

Itai Loewenstein, Chief Financial Officer
4 Nahal Harif St. Northern Industrial Zone,

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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
Ordinary Shares, NIS 0.10 par value per share	Nasdaq Capital Market

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 12,974,245 ordinary shares, NIS 0.10 nominal value per share as of December 31, 2014.

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 Non-accelerated filer

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 3.889 = \$1.00, the representative exchange rate on December 31, 2014.

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 ;
- 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, 2014, 2013 and 2012 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, 2011 and 2010 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 six months:

	High	Low
November 2014	3.889	3.782
December 2014	3.994	3.889
January 2015	3.998	3.899
February 2015	3.966	3.844
March 2015	4.053	3.926
April 2015 (through April 27, 2015)	4.014	3.929

The representative exchange rate for NIS on December 31, 2014 was NIS 3.889 = \$1.00, and the representative exchange rate for NIS on April 27, 2015 was NIS 3.931 = \$1.00.

The average exchange rate of NIS 3.578 = USD 1.00 was for the year ended December 31, 2014, NIS 3.610 for the year ended December 31, 2013, NIS 3.858 for the year ended December 31, 2012, 3.579 for the year ended December 31, 2011 and 3.732 for the year ended December 31, 2010.

Income Statement Data:
In accordance with IFRS

	2014		2013	2012	2011	2010
	NIS	USD	NIS	NIS	NIS	NIS
Revenue	328,741	84,531	336,032	286,509	264,404	271,143
Cost of sales	249,136	64,062	252,355	217,468	202,699	194,957
Gross profit	79,605	20,469	83,677	69,041	61,705	76,186
Selling expenses	39,696	10,207	35,130	28,915	27,482	31,077
General and administrative expenses	19,231	4,945	19,408	16,715	17,375	17,818
Other Income	(2,943)	(757)	(54)	(46)	(240)	(96)
Total operating expenses	55,984	14,395	54,484	45,584	44,617	48,799
Operating profit	23,621	6,074	29,193	23,457	17,088	27,387
Finance income	2,794	718	13,008	8,716	1,480	5,543
Finance expense	375	96	876	410	313	666
Finance income, net	2,419	622	12,132	8,306	1,167	4,877
Profit before taxes on income	26,040	6,696	41,325	31,763	18,255	32,264
Taxes on income	(7,186)	(1,848)	(9,517)	(7,757)	(3,906)	(6,991)
Profit from continuing operations	18,854	4,848	31,808	24,006	14,349	25,273
Profit from discontinued operations	-	-	-	-	4,172	4,884
Profit for the year	18,854	4,848	31,808	24,006	18,521	30,157
Attributable to:						
Owners of the Company	18,854	4,848	31,808	24,006	18,311	28,177
Non-controlling interest	-	-	-	-	210	1,980
Net Income	18,854	4,848	31,808	24,006	18,521	30,157
Basic and diluted earnings per Share from continuing operations	1.45	0.37	2.45	1.85	1.06	1.96
Basic and diluted earnings per Share from discontinued operations	-	-	-	-	0.29	0.22
Basic and diluted earnings per Share	1.45	0.37	2.45	1.85	1.35	2.18
Shares Used in Computing Earnings per Share	12,974,245	12,974,245	12,974,245	12,977,481	13,534,954	12,876,294
Dividend declared per share	-	-	-	-	-	-

Balance Sheet Data:

In accordance with IFRS

	2014		2013	2012	2011	2010
	NIS	USD	NIS	NIS	NIS	NIS
Working capital	340,780	87,626	325,926	292,596	267,204	249,044
Total assets	411,349	105,772	395,048	384,717	347,683	367,284
Short-term bank debt	-	-	18	9,930	-	5,780
Shareholders' equity	386,066	99,271	365,843	333,761	310,317	306,872
Capital stock	12,974,245	12,974,245	12,974,245	12,977,481	13,534,954	12,876,294

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. In addition, a significant portion of our short term bank borrowings, when needed, are in United States Dollars and/or 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 from time to time a portfolio of marketable securities traded on the Tel Aviv Stock Exchange as well as other stock exchanges and certain bonds traded abroad. This portfolio of marketable securities is subject to various market risks resulting from fluctuations in interest rates and foreign currency, 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.

Our financial instruments consist mainly of cash and cash equivalents, current accounts receivable, short-term borrowings, 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 significant part of our sales is made to a limited number of customers (mainly the organized market). Our two largest customers, Shufersal Ltd. and Mega Retail Ltd. (Blue Square), accounted for 23% of our sales in 2014. We generally do not require and do not receive collateral from these customers, although we do require and receive collateral from most of the remainder of our clients in Israel to ensure security of collecting payments. 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 defaults on its 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 two major clients, Shufersal Ltd. and Mega Retail Ltd., both of which own, among other things, supermarket chains, which accounted for approximately 17% and 6%, respectively, of our revenue during 2014. 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. Their failure to do so may significantly reduce our sales. 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.

We are dependent on our key personnel. The loss of any of our key personnel could have a material adverse effect on our business.

We depend on a small number of technical staff, managers and directors, including 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. In connection with the sale of their controlling stake (approximately 58% of the outstanding shares) in Willi-Food to B.S.D. Crown Ltd. ("BSD") (f/k/a Emblaze Ltd.), a company listed on the London Stock Exchange, on May 4, 2014, Mr. Zwi Williger and Mr. Joseph Williger agreed to continue to serve as chairman of the board and president, respectively, or as joint chief executive officers, of the Company for an additional period of three years from May 2014. See "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders". The loss of either or both of Mr. Zwi Williger and Mr. Joseph Williger could have a material adverse effect on our business and operations.

We are dependent on Arla Foods a.m.b.a, or "Arla", and we also work with a limited number of other 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, we are dependent on Arla, a Danish company which supplies a high percentage of our dairy and dairy substitute products (36% in 2014 and 45% in 2013). 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. Our wholly-owned subsidiary Gold Frost Ltd., which we refer to herein as Gold Frost, has a distribution agreement with Arla pursuant to which Gold Frost serves as Arla's sole and exclusive agent and distributor in Israel of certain products for a ten-year period from June 2005, which was extended in April 2015 for an additional five years until June 2020. See "Item 4. Information on the Company – B. Business Overview – Suppliers". If Arla or other 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 food 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, 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. A successful product liability claim 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 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.

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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 numerous 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", "Pizza Top", "Gold Food", "Donna Rozza", "Manchow", "Krisponim", "Bubbles", "Gold Frost", "Habulgaria", "Napotizza", "Tifeeret", "Bloose", "ICHOC", "Gelato", "Say cheese", "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 27, 2015, Willi-Food Investments Ltd. which we refer to as Willi-Food, owned approximately 59.36% of our ordinary shares (approximately 58.05% on a fully-diluted basis), and as of such date, BSD held approximately 61.65% of the outstanding shares and 62.21% of the voting rights of Willi-Food (approximately 59.10% on a fully-diluted basis). In addition to its control of Willi-Food, BSD directly owns 133,334 of our ordinary shares and holds irrevocable proxy from Zwi Williger, our Chairman of the Board, with respect to an additional 504,407 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 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.

Willi-Food, Mr. Zwi Williger (Chairman of our Board of Directors), and Mr. Joseph Williger (a director and our President) have been and continue in certain cases to be party to certain agreements and arrangements relating to our operations. Such transactions include service and employment arrangements between each of Messrs. Joseph and Zwi Williger and us, and a service agreement we have with Willi-Food. All such service agreements, which include consideration, were renewed for additional three-year periods following approval by shareholders on August 21, 2014. Pursuant to the sale of their controlling stake in Willi-Food to BSD on May 4, 2014, Mr. Zwi Williger and Mr. Joseph Williger agreed to continue to serve as Chairman of the Board and President, respectively, or as joint chief executive

officers, of the Company for an additional period of three years. See "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders".

In addition, 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 interest by complying with the procedures mandated by Israeli law.

Mr. Zwi Williger and Mr. Joseph Williger transferred control of Willi-Food to BSD in May 2014. Although Mr. Zwi Williger and Mr. Joseph Williger have agreed to continue to serve the Company for an additional period, BSD has no experience in the development, import, export, and marketing of food products.

In connection with the sale of their controlling stake (approximately 58% of outstanding shares) in Willi-Food to BSD (on May 4, 2014, Mr. Zwi Williger and Mr. Joseph Williger agreed to continue to serve as Chairman of the Board and President, respectively, or as joint chief executive officers, of the Company for an additional period of three years from May 2014. BSD, formerly a global technology company mainly in the IT, software and mobile sectors, has no experience in the development, import, export, and marketing of food products, and there is no guarantee that the Company will continue to be managed in the same manner as prior to closing of the transaction.

The price of our ordinary shares may be volatile.

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.

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.

We may in the future fail to comply with the Nasdaq Capital Market regulations and listing requirements as to 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.

Since the beginning of 2015, our stock price has been trading in a range from \$5.48 to \$7.00 per share. Under Nasdaq's Marketplace Rule 5450(a)(1) (the "Rule"), 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. We now satisfy this requirement as our stock price is well above \$1.00 per share. 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.

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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 are a relatively small company with limited accounting personnel and other resources with which to address our internal controls and procedures. In addition, 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., Bank Mizrahi-Tefahot 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.

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 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/a 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.

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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 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.

In addition, in 2011 to mid-2012 our business results were adversely affected by the national protest against the cost of food products, pressuring us to decrease our selling prices to our customers. The pressure from such protests decreased during 2012 and 2013 but rose again beginning in mid-2014. The result of such protests and a strong price awareness by consumers continues to affect the food industry and the level of pricing. An ongoing consumer demand for price reductions may have a material adverse effect on us and our financial performance.

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 some 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 recent revolutions and 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, it is widely believed that Iran, which has previously threatened to attack Israel, has been stepping up its efforts to achieve nuclear capability. Iran is also 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 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;
 - 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.

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.

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In May 2001, the Company acquired all the shares of Gold Frost Ltd. for NIS 336 thousand (\$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.

In September 2011, the Company initiated a share repurchase program permitting the Company to repurchase up to \$5 million of the Company's ordinary shares over the period of twelve months as part of its ongoing consideration of alternative methods to take advantage of the Company's strong cash position. In February 2012, in light of the global and Israeli economic situations, the Company terminated its repurchase program after having purchased approximately \$2.9 million of its ordinary shares.

On May 4, 2014, Mr. Zwi Williger and Mr. Joseph Williger sold their controlling stake (approximately 58% of outstanding shares) in Willi-Food to BSD (f/k/a Emblaze Ltd.), a company listed on the London Stock Exchange. See "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders".

CAPITAL EXPENDITURES

Our capital expenditures were \$2.03 million, \$0.98 million and \$0.57 million for the three years ended December 31, 2014, 2013 and 2012, respectively. For more information, see "Item 4. Information on the company-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. Most of the Company's sales are made in Israel with widespread demand in the Israeli marketplace, as well as products which cater to more select groups.

The Company purchases food products from over 150 suppliers located in Israel and throughout the world, including from the Far East (China, India, the Philippines and Thailand), Ethiopia, Eastern Europe (Poland, Lithuania, Bulgaria and Latvia), South America (Ecuador and Costa Rica), 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, 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 Unites 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.

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During the last five years, the Company has acquired controlling interests in several businesses and has formed joint ventures with other businesses. Some of these businesses were not successful and, accordingly, the Company sold them at prices similar to the original acquisition costs. One of these businesses (Shamir Salads) was sold by the Company in 2011 at 2.7 times of the original acquisition cost. The Company continues to re-evaluate its strategic position and to consider other business opportunities. As part of this re-evaluation, the Company also considers forming strategic alliances with or entering into different lines of business.

As of April 27, 2015, the Company's principal shareholder, Willi-Food, held approximately 59.36% of our ordinary shares (approximately 58.05% 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.

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 import, market and distribute a broad variety of over 600 food products. These products are sold by us and by Gold Frost. A small percentage of our products are 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.

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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 black and green olives, filled 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 danablu), feta, Bulgarian cubes, goat cheese, fetina, butter, yogurts, butter spreads, margarine, melted cheese, cheese alternatives, condensed milk, whipped cream and others. These products are primarily imported from Greece, France, Latvia, Denmark, Germany, Bulgaria, Italy, the United States 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, frozen pizzas and pastries, breakfast cereals, corn flakes, rusks, couscous, rusks, gnocchi, tortilla, dried apples snacks, chocolate bars and chocolate paste, tea, deserts (such as tiramisu and pastries) and light and alcoholic beverages. These products are primarily imported from the Netherlands, Germany, Romania, 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, 2014 were dairy and dairy substitute products (25% of sales), canned vegetables (17% of sales), dried fruit, nuts and beans (12% of sales) and edible oils (less than 10% of sales).

The products that generated the largest sales volume for the year ended December 31, 2013 were dairy and dairy substitute products (26% of sales), canned vegetables (18% of sales) and edible oils (less than 10% of sales).

The products that generated the largest sales volume for the year ended December 31, 2012 were dairy and dairy substitute products (26% of sales), canned vegetables (20% of sales) and edible oils (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, 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 150 suppliers, including suppliers located in Israel, the Far East (China, India, the Philippines and Thailand), Ethiopia, Eastern Europe (Poland, Latvia, Lithuania and Bulgaria), South America (Ecuador and Costa Rica), the United States, Canada and in Western, Northern and Southern Europe (Sweden, Denmark, Greece, Monaco, the Netherlands, Italy, Monaco, Portugal, Spain, Belgium, Germany, France, Turkey and Cyprus).

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 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 (e.g., Swedish Kronas and Swiss Francs). Supply is generally made to us against letters of credit for a period of up to 90 days.

We are not dependent on any given supplier for the majority of our products. We purchase most of our products from several suppliers. We are dependent on one supplier, Arla, with respect to a large part of our dairy and dairy substitute products. A distribution agreement between our wholly-owned subsidiary Gold Frost and Arla grants Gold Frost an exclusive and non-transferable right to market and distribute in Israel cheese and butter products manufactured by Arla and its affiliated companies. Gold Frost's exclusivity is subject to its purchase of certain minimum quotas of Arla products. The agreement was signed in March 2005 for a period of five years commencing June 2005. In July 2007, the agreement was extended for a period of 10 years from June 2005 and is renewable automatically for a further period of five years, unless notice of termination is provided by either party. On April 16, 2015, the agreement was extended for an additional five-year period until June 2020. Arla has the right to terminate the agreement on 18 months' notice if Gold Frost fails to satisfy the minimum purchase requirements under the agreement, or on 30 days' notice under certain circumstances, including but not limited to in the case of the death or permanent incapacity of Zwi Williger or his ceasing to be involved in Gold Frost's business.

We do not generally enter into written agency or other agreements with our suppliers. However, we have written agreements with 24 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 25% and 27% of our purchases in 2014 and in 2013, 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 2014 and 2013, no single supplier, including Arla, accounted for more than 10% of our total purchases. The average volume of our credit balance with our suppliers in 2014 was NIS 16.7 million (US\$ 4.3 million) consisting of 16 days of suppliers credit on average, in 2013 it was NIS 22.0 million (US\$ 5.7 million) consisting of 30 days of suppliers credit on average and in 2012 it was NIS 26.2 million (US\$ 6.7 million) consisting of 45 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 two groups:

- large retail supermarket chains in the organized market, and
- private supermarket chains, mini-markets, wholesalers, manufacturers, institutional customers, governmental customers and the customers in the Palestinian Authority, referred to herein as the "private sector".

The first group of customers above includes the largest Israeli supermarket chains in the organized market in Israel, including: (i) Shufersal Ltd. (including the chains: Shufersal Deal, Shufersal Deal Extra, Shufersal Sheli, Shufersal, Yesh Bashcuna, Yesh Heshed and Shufersal Express); (ii) Mega Retail Ltd. (which also includes Mega, MegaBool, Mega in the City, You and Zol B'Shefa); and (iii) Co-Op Israel (which also includes Co-Op Shop, Mister Zol and Pashut Zol). The Company contracts with the supermarket chains in the organized market through the buyers in the head office of the supermarket chain, and then the Company receives orders from the supermarket chain's logistics center or directly from their stores. Merchandise is then delivered directly to each branch or to the supermarket's chain distribution centers.

The second group of customers above includes private supermarket chains, mini-markets, wholesalers, food manufacturers, institutional consumers, such as catering halls, hotels, hospitals, food service companies and food producers, governmental customers such as the Israeli Ministry of Defense, as well as customers in the Palestinian Authority.

The Company's sales by customer group for the years ended December 31, 2014 and 2013 are as follows:

Customer Groups	Percentage of Total Sales Year Ended December 31			
	2014		2013	
Supermarket chains in the organized market	25	%	33	%
Private supermarket chains, mini-markets, wholesalers, manufacturers, institutional consumers, governmental customers and customers in the Palestinian Authority	75	%	67	%
	100	%	100	%

The Company's largest customer (Shufersal Ltd., a supermarket chain in the organized market) accounted for 17% and 19% of the Company's sales in 2014 and 2013, respectively. The Company's second largest customer (Mega Retail Ltd. (Blue Square), a supermarket chain in the organized market) accounted for 6% and 12% of the Company's sales in 2014 and 2013, respectively.

The loss of these major customers would have a material adverse effect on the Company's financial condition and results of operations. The Company is seeking to expand its operations in other areas so as to reduce its dependence on any single significant customer.

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We agreed to pay the large supermarket retail chains in the organized market incentives to purchase our products, which are calculated as a fixed percentage of our annual sales to such customer. Other incentives include penetration discounts for sales of our new products, shelf stocking fees, limited discounts for opening of new branches that sell our products and payments for participation in our product advertisements. The above mentioned incentives vary among customers and are usually awarded as part of a written annual framework agreement. These arrangements also generally include specific exclusions, such as direct or joint importing of products that are not considered for purposes of such incentives. Certain of these commitments are not evidenced in written agreements.

Our engagements with private sector customers are not subject to any exclusivity provisions or framework agreements, and they have no specific terms. Prior to any engagement with a potential private sector customer, we examine the financial stability of such potential customer and determine the extent of credit and period of time for which such credit will be granted. Most private sector customers are required to deposit securities as collateral (personal and/or bank guarantees as well as post-dated checks). Some of the customers in this sector (mainly private supermarket chains and wholesalers) are also awarded incentives to purchase our products based on the increase in volume of sales in excess of agreed-upon amounts, or incentives calculated as a fixed percentage of the annual sales to such customer. Other incentives include penetration discounts for sales of our new products, shelf stocking fees, limited discounts for opening of new branches that sell our products and payments for participation in our product advertisements.

Due to government regulations that became effective in January 2015, such incentives, whether provided to large supermarket retail chains or to certain private sector customers (mainly private supermarket chains customers), are in general no longer permitted. Therefore, since January 2015, the Company had reduced prices to those customers accordingly.

The average aggregate debit balance of the Company's customers with the Company in 2014 was NIS 87.7 million (USD 22.6 million) and the average time period within which our accounts receivable were paid was 86 days, in 2013 it was NIS 80.2 million (USD 20.6 million) and the average time period within which our accounts receivable were paid was 74 days and in 2012 it was NIS 66.0 million (USD 17.0 million) and the average time period within which our accounts receivable were paid was 72 days.

In the event that a customer in the private sector 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.

The Company's bad debt expenses (income) for the years ended December 31, 2014, 2013 and 2012 were expense of NIS 18 thousand (USD 5 thousand), NIS 342 thousand (USD 88 thousand) and income of NIS 11 thousand (USD 3 thousand), respectively.

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 beginning at the end of the month in which the sale took place. The supermarket chains in the organized market

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 supermarket chains in the organized market 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 two freezing trucks, five refrigeration trucks, three regular trucks and nine 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 the dairy and dairy substitute products is performed 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 76 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 90 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, 2014 amounted to NIS 48.6 million (USD 12.5 million) compared with NIS 54.0 million (USD 13.9 million) as of December 31, 2013.

The Company also participates in various sales campaigns within the supermarket chains that are intended to stimulate sales volume. Among such campaigns are food festivals initiated by the supermarket chains and certain importers, including the Company, in which the import and marketing of products from a specific country or region are celebrated and promoted. Such festivals typically involve increased display space as well as enhanced promotional activities, both with respect to the festival itself and the products. Such activities are sponsored by the supermarkets in collaboration with the importers participating in the festival. Within the framework of these festivals, the Company imports a wide variety of products which include pastries, vegetables, jams, cheese, fish, and dairy products, as well as other food products typical to the culture and/or cuisine of such festival. Our future participation in such food festivals is subject to government regulations that became effective in January 2015.

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 Defective Products, 1980, and it has also purchased an insurance policy for product liability.

Seasonality

Each year as the Passover 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) and the Pesach (Passover) holiday (celebrated in March-April). 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 "SAY CHEESE", which was registered in Israel in July 2012, "EMMA", which was registered in Israel in December 2013, "Habulgaria", which was registered in Israel in February 2009, and pizza under the trademark "Pizza Top", which was registered in Israel in September 2002. In February 2006, the Company entered into an agreement with Gold Frost under which the Company assigned to Gold Frost all its rights, title and interest in the trademark "Pizza Top".

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 also markets breakfast cereals under the trademark "Bubbles", which was registered in Israel in December 2006, markets snacks under the trademark "Krisponim," which was registered in Israel in August 2008, and 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 br