

G WILLI FOOD INTERNATIONAL LTD  
Form 20-F  
June 30, 2011

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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, 2010

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)

Baruch Shusel  
Chief Financial Officer  
4 Nahal Harif St. Northern Industrial Zone,  
Yavne 81106, Israel

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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

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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 13,573,679 outstanding ordinary shares, NIS 0.10 nominal value per share as of December 31, 2010.

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 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 3.549 = \$1.00, the representative exchange rate on December 31, 2010.

## PRESENTATION OF FINANCIAL AND SHARE INFORMATION

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). We initially adopted IFRS in our financial statements for the year ended December 31, 2008. Our previous financial statements were prepared in accordance with generally accepted accounting principles in Israel (“Israeli GAAP”), which included reconciliation to U.S. GAAP. Following the Company’s adoption of IFRS, as issued by the IASB, the Company is no longer required to reconcile its financial statements prepared in accordance with IFRS to U.S. GAAP.

## 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 exchange rate;
- 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;
- our inability to accurately predict consumption of our products;
- we may not successfully integrate our prior acquisitions;
- our inability to anticipate changes in consumer preferences;
- product liability claims and other litigation matters;
- interruption to our storage facilities;
- 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 protect our intellectual property rights;

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- our inability to meet the Nasdaq listing requirements;
- significant concentration of our shares are held by one shareholder;
- our management could lose a major amount of its indirect ownership of our common stock through litigation;
- we are controlled by and have business relations with Willi-Food and its management;
- The price of our ordinary shares may be volatile;
- 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;
- difficulties in acquiring jurisdiction and enforcement liabilities against our officers and directors who are based in Israel; 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-Risk Factors" and Item 5: "Operating and Financial Review and Prospects – 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, 2010, 2009 and 2008 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 year ended December 31, 2007 is derived from our audited consolidated financial statements not appearing in this report. The 2006 financial data is derived from other audited consolidated financial statements not appearing in this report which is prepared in accordance with Israeli GAAP. All of the financial data set forth below are in thousands (except 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   |
|-----------------------------------|-------|-------|
| December 2010                     | 3.665 | 3.549 |
| January 2011                      | 3.71  | 3.528 |
| February 2011                     | 3.713 | 3.602 |
| March 2011                        | 3.635 | 3.481 |
| April 2011                        | 3.473 | 3.395 |
| May 2011                          | 3.538 | 3.377 |
| June 2011 (through June 24, 2011) | 3.485 | 3.363 |

The representative exchange rate for NIS on December 31, 2010 was NIS 3.549 = \$1.00, and the representative exchange rate for NIS on June 24, 2011 was NIS 3.445= \$1.00.

The average exchange rate of NIS 3.732 = USD 1.00 was for the year ended December 31, 2010, NIS 3.933 for the year ended December 31, 2009, NIS 3.588 for the year ended December 31, 2008, 4.108 for the year ended December 31, 2007 and 4.457 for the year ended December 31, 2006.

Income Statement Data:  
In accordance with IFRS

|   | 2010    |        | 2009    |         | 2008    |         | 2007    |         |
|---|---------|--------|---------|---------|---------|---------|---------|---------|
|   | NIS     | USD    | NIS     | USD     | NIS     | USD     | NIS     | USD     |
| Revenue   | 348,358 | 98,157 | 303,460 | 85,506  | 289,068 | 81,451  | 201,617 | 56,811  |
| Cost of sales   | 247,572 | 69,758 | 219,569 | 61,868  | 228,839 | 64,480  | 156,062 | 43,977  |
| Gross profit  | 100,786 | 28,399 | 83,891  | 23,638  | 60,229  | 16,971  | 45,555  | 12,834  |
| Selling expenses  | 45,048  | 12,693 | 35,598  | 10,030  | 31,800  | 8,960   | 20,602  | 5,805   |
| General and administrative expenses                         | 22,217  | 6,260  | 20,451  | 5,762   | 16,863  | 4,751   | 12,280  | 3,460   |
| Other (Income) expenses                                     | (47)    | (13)   | (5,330) | (1,502) | 1,846   | 520     | (454)   | (128)   |
| Total operating expenses                                    | 67,218  | 18,940 | 50,719  | 14,290  | 50,509  | 14,231  | 32,428  | 9,137   |
| Operating profit  | 33,568  | 9,459  | 33,172  | 9,348   | 9,720   | 2,740   | 13,127  | 3,699   |
| Finance income  | 5,543   | 1,478  | 2,744   | 773     | (4,167) | (1,174) | 2,111   | 595     |
| Finance expense   | 1,301   | 284    | 1,273   | 359     | 673     | 190     | (323)   | (91)    |
| Finance income (expense), net                               | 4,242   | 1,194  | 1,471   | 414     | (4,840) | (1,364) | 2,434   | 686     |
| Profit before taxes on income                               | 37,810  | 10,653 | 34,643  | 9,762   | 4,880   | 1,376   | 15,561  | 4,385   |
| Taxes on income   | 8,483   | 2,390  | 5,043   | 1,421   | 1,117   | 315     | 2,174   | 613     |
| Profit from continuing operations                           | 29,327  | 8,263  | 29,600  | 8,341   | 3,763   | 1,061   | 13,387  | 3,772   |
| Profit (loss) from discontinued operations                  | 830     | 234    | 1,928   | 543     | (3,496) | (985)   | (8,748) | (2,460) |
| Profit for the year   | 30,157  | 8,497  | 31,528  | 8,884   | 267     | 76      | 4,639   | 1,307   |
| Attributable to:  |         |        |         |         |         |         |         |         |
| Owners of the Company                                       | 28,177  | 7,939  | 30,436  | 8,576   | (786)   | (221)   | 2,342   | 660     |
| Non-controlling interest                                    | 1,980   | 558    | 1,092   | 308     | 1,053   | 297     | 2,297   | 647     |
| Net Income  | 30,157  | 8,497  | 31,528  | 8,884   | 267     | 76      | 4,639   | 1,307   |
| Basic and diluted earnings (loss) per Share from continuing | 2.12    | 0.6    | 2.81    | 0.75    | 0.3     | 0.08    | 1.14    | 0.3     |

|  |            |            |            |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| operations   |            |            |            |            |            |            |            |            |            |
| Basic and diluted earnings (loss) per Share from discontinued operations | 0.06       | 0.02       | 0.15       | 0.04       | (0.38 )    | (0.1 )     | (0.91 )    | (0.24 )    | (0.06 )    |
| Basic and diluted earnings (loss) per Share                              | 2.18       | 0.61       | 2.96       | 0.79       | (0.08 )    | (0.02 )    | (0.23 )    | (0.06 )    | (0.06 )    |
| Shares Used in Computing Earnings per Share                              | 12,876,294 | 12,876,294 | 10,267,893 | 10,267,893 | 10,267,893 | 10,267,893 | 10,267,893 | 10,267,893 | 10,267,893 |
| Dividend declared per share  | -          | -          | -          | -          | -          | -          | -          | -          | -          |

## Income Statement Data:

In accordance with Israeli GAAP

|   | 2006      |           |
|---|-----------|-----------|
|   | NIS       | USD       |
| Sales                                       | 191,460   | 53,948    |
| Cost of sales                               | 143,581   | 40,457    |
| Gross profit                                | 47,879    | 13,491    |
| Sales and Marketing                         | 21,100    | 5,945     |
| General and administrative                  | 14,151    | 3,987     |
| Total Operating expenses                    |           |           |
| Operating Income                            | 35,251    | 9,932     |
| Financial Income, Net                       | 12,628    | 3,559     |
| Other Income, Net                           | 4,925     | 1,388     |
| Pre Tax Income                              | 18,248    | 5,142     |
| Income taxes                                | 35,801    | 10,089    |
| Income after taxes on income                | 5,379     | 1,516     |
| Minority interest                           | 30,422    | 8,573     |
| Net Income                                  | 1,807     | 509       |
| Earnings per Share Basic                    | 28,615    | 8,063     |
| Shares Used in Computing Earnings per Share | 9,028,223 | 9,028,233 |
| Dividend declared per share                 | -         | -         |

## Balance Sheet Data:

In accordance with IFRS

|                      | 2010       |            | 2009       |            | 2008       |            |
|----------------------|------------|------------|------------|------------|------------|------------|
|                      | NIS        | USD        | NIS        | USD        | NIS        | USD        |
| Working capital      | 249,044    | 70,173     | 148,359    | 41,803     | 122,396    | 34,487     |
| Total assets         | 367,284    | 103,489    | 282,719    | 79,662     | 273,342    | 77,019     |
| Short-term bank debt | 5,780      | 1,629      | 10,372     | 2,923      | 17,562     | 4,948      |
| Shareholders' equity | 306,872    | 86,467     | 206,480    | 58,180     | 185,582    | 52,291     |
| Capital stock        | 12,876,294 | 12,876,294 | 10,267,893 | 10,267,893 | 10,267,893 | 10,267,893 |

## Balance Sheet Data:

In accordance with Israeli GAAP

|                      | 2007       |            | 2006       |            |
|----------------------|------------|------------|------------|------------|
|                      | NIS        | USD        | NIS        | USD        |
| Working capital      | 142,645    | 40,193     | 144,323    | 40,666     |
| Total assets         | 239,452    | 67,470     | 219,971    | 61,981     |
| Short-term bank debt | 5,978      | 1,684      | --         | -          |
| Shareholders' equity | 190,607    | 53,707     | 171,739    | 48,391     |
| Capital stock        | 10,267,893 | 10,267,893 | 10,267,893 | 10,267,893 |

## 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 wide documentary credits 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 (over 1,500 in Israel and abroad), a major and 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 21% of our sales in 2010. We generally do not require and do not receive collateral from those 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 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, who accounted for approximately 11% and 10%, respectively of our revenue during 2010. 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 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. The loss of either or both of them could have a material adverse effect on our business and operations.

We are dependent on Arla Foods amba, 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.

We are dependent on Arla, which supplies a high percentage (29% in 2010) of our dairy and dairy substitute products, although we are not dependent on any single supplier in respect of a majority of our products. 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 affect on our results of operations. We have a distribution agreement with Arla pursuant to which we serve as Arla's sole and exclusive agent and distributor in Israel of certain products for a ten-year period from March 2005. See "Item 4. Information on the Company – B. Business Overview – Suppliers". If this supplier raises its 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 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 involved in 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.

In 2007, a number of our suppliers increased their product prices to us due to increases in milk, wheat, corn and rice prices. This reduced our profitability during the year.

In 2008, the global purchase price of a number of our key products decreased sharply due to the global recession. This reduced our profitability during 2008 because of the sharp decrease in the selling prices of our products that we had previously purchased or committed to purchase at higher prices. Because we purchase many of our products from outside Israel, there is a lag of time from when we purchase inventory from our suppliers (or commit to purchase inventory from our suppliers) until the time 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 the market price.

In 2010 - 2011 the cost of food commodities and other food products is subject to cyclical and 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 utility costs at our production 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 passing on the increased costs to customers, we are likely to experience an increase in our costs which may materially reduce our margin of profitability.

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. If actual consumption does not meet the prediction, and the shelf life of such products expire 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), we will not be able to meet the needs of our customers and our potential revenues may be adversely affected.

We may not successfully integrate our recent acquisitions

In light of our acquisition of Shamir Salads (2006) Ltd., our success will depend in part on our ability to manage the combined operations of this company, to integrate the operations and personnel of this 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 this operation could also place additional pressures on our management as well as on our key personnel. The failure to successfully manage this integration could have an adverse material effect on our results of operations.

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 involve risks such as product contamination or spoilage, misbranding, product tampering, and other adulteration of food products. Consumption of a contaminated, spoiled, misbranded, tampered 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 facilities.

We store most of our products in two main locations – a logistics center warehouse situated in Yavne, Israel, and a factory and logistics center situated in Barkan, Israel, used for products being distributed to customers. Any interruption to these storage facilities, 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 increasing our expenses, 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 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.

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", "Shamir Salads", "Pizza Top", "Gold Food", "Donna Rozza", "Manchow", "Krisponim", "Bubles", "Gold Frost" and "Habulgaria". 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.

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 2010, our stock price has been trading in a range from \$5.42 to \$7.90 per share. Under Nasdaq's Marketplace Rule 5450(a)(2), ("Rule") any company whose share has a closing bid price less than \$1.00 for 30 consecutive business days may be subject to a delisting proceeding instigated 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 defined under the Rule, our ordinary shares may be delisted from trading on the Nasdaq Global Market.



Delisting from the Nasdaq Global 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 on the OTC Bulletin Board or on the “pink sheets”. The OTC Bulletin Board and “pink sheets” are generally considered to be less efficient markets, 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.

In July 2003 and in November 2004, we received letters from the Nasdaq Stock Market informing us that we had failed to meet a continued listing requirement, that we have 500,000 publicly held shares, and that our ordinary shares were therefore subject to delisting from the Nasdaq Capital Market, unless a proper plan for complying with the requirement was presented. Following the receipt of the November 2004 letter, Willi Food Investments Ltd. and Mr. Joseph Williger sold 75,000 of our shares to the public and at the same time we distributed a one to one stock dividend to our shareholders. As a result of these actions, we then complied with the abovementioned listing requirements and the threat of delisting was removed.

One shareholder owns a large percentage of our shares.

As of the date of this Annual Report, Willi-Food Investments Ltd., which we refer to as Willi-Food, owned approximately 52.84% of our ordinary shares. Mr. Joseph Williger, who serves as Chief Executive Officer and director of our company and serves as Chairman of the Board of Willi-Food, held, as of June 24, 2011, approximately 21.03% of the outstanding shares of Willi-Food (approximately 21.26% on a fully-diluted basis). Mr. Zwi Williger, who serves as Chief Operating Officer and Chairman of the Board of our company and serves as a director and Chief Executive Officer of Willi-Food, held, as of June 24, 2011 approximately 37.11% of the outstanding shares of Willi-Food (approximately 37.52% on a fully-diluted basis).

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.

Our management could lose a major amount of its indirect ownership of our ordinary shares through litigation.

In 2008, Mr. Arcadi Gaydamak (“Gaydamak”) borrowed approximately NIS 76 million (US \$20 million) from companies owned by Messrs. Zwi Williger and Joseph Williger (the “Williger Brothers”). These loans were secured by Gaydamak’s equity securities of Willi-Food, the parent company to G. Willi Food (“Parent”). The loans included a provision whereby the Williger Brothers had a call option to acquire the Parent equity if Gaydamak defaulted under the loans. In September 2008, Gaydamak defaulted under these loans, and accordingly the Williger Brothers increased their ownership of the Parent by exercising their call option to acquire such interests; Zwi Williger by 21.65% and Joseph Williger by 21.65%.

Gaydamak filed a lawsuit in Israel in September 2009 against the Williger Brothers and others, claiming, among other things, that the Williger Brothers did not rightfully exercise the call option. The Company is not a party to the lawsuit. The Williger Brothers have informed us that their legal counsel has advised them that the lawsuit is without merit, and that they intend to vigorously contest the dispute. The Williger Brothers indicated that their attorneys advised that, according to all the information and documents presented to them, that the Williger Brothers exercised the call options in a rightful and bona fide manner. We have been further advised that the loan agreements were breached by Gaydamak and, at the time of the breach, Gaydamak also declared that he had no intention of paying his debts to the



Williger Brothers. At the same time, other creditors submitted significant claims against the assets of Gaydamak and placed attachments on his assets, and therefore a real risk arose that the Willi-Food securities would also be attached. Under these circumstances, in addition to the breach of the loan agreement, by not presenting all the required securities and other breaches, there was also a definite anticipatory breach of the loan payment and a real risk to the securities. Under these circumstances, management believes that the Williger Brothers clearly had the full right to exercise the call option and the lawsuit is without merit.

There are also currently criminal proceedings pending against Gaydamak in Israel for money laundering. He was also convicted of a crime in France and was sentenced to six years in prison. Part of his conviction in France was overturned by the Court of Appeal in France on April 2011, however, the Court did not change Gaydamaks' conviction in tax evasion, hence reducing the prison sentence to three years.

According to the Williger Brothers' legal counsel, such lawsuit is presumably baseless and has a very low chance of success.

However, in the event the lawsuit is ruled against the Williger Brothers, their ownership interest in Willi-Food would be reduced (Zwi Williger from approximately 37.11% to approximately 19.98% and Joseph Williger from approximately 21.03% to approximately 3.90%) and Gaydamak would own a significant indirect interest in our company.

We are controlled by and 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, a 37.11% shareholder of Willi-Food, the Chairman of our Board of Directors and our Chief Operating Officer and a director and Chief Executive Officer in Willi-Food, and Mr. Joseph Williger, a 21.26% shareholder of Willi-Food, a director and our Chief Executive Officer and the chairman of the Board of Directors of Willi-Food, 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 with us, and a service agreement we have with Willi-Food. All such transactions include consideration.

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 the possible detrimental effects of any such conflicts of interest by complying with the procedures mandated by Israeli law.

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 markets in general have, 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. 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 extremely 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 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 are placing a significant strain on our management, operational and financial resources and systems. We are a relatively young 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, on a stand alone basis, 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.

All of our assets are pledged to bank.

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 into which we import and 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, manufacturing, 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 Trade and Industry, 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 certain of our food products into 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 Trade and Industry 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. The recuperation that started in the last months of 2009 continued into 2010, unemployment rates have decreased and the gross domestic product increased by app.4.6%. This has resulted in our customer base, both in the retail and in the wholesale markets, expanding their purchases from us, both in quantities and by purchasing higher cost food products. 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.

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

Political, economic and military conditions in Israel have a direct influence on us because our operations are located there. 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. Several Arab countries still 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. We could be adversely affected by restrictive laws or policies directed towards Israel and Israeli businesses. In December 2008, Israel was engaged in an armed conflict with Hamas in the Gaza Strip, in the southern region of Israel. During the summer of 2006, Israel was engaged in an armed conflict with Hezbollah, a Lebanese Islamic Shiite militia group, which disrupted most daily civilian activity in northern Israel. These events have at times caused considerable damage to the Israeli economy. As a result of the political and military situation, Israel's economy has at times suffered considerably. Ongoing or revived hostilities related to Israel may have a material adverse effect on our business and on our share price. The last months revolutions that took place in the surrounding countries can have a direct and indirect influence on Israel's political and economical situation, at this point the company's management cannot predict the impact on its business.

Many of our executive officers and employees in Israel are obligated to perform annual military reserve duty in the Israeli Defense Forces and 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.

Additionally, boycotts of products, prompted by political, religious or other factors, may affect our financial condition and results of operations, From time to time Pro-Arab organizations over the world promote local boycotts on Israeli origin products.

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 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 predicated upon civil liabilities and criminal penalties against us, our directors or our officers under Federal securities laws. Further, it is unclear if extradition treaties now in effect between the United States and Israel would permit effective enforcement of criminal penalties of the Federal securities laws. It may also be difficult to enforce civil liabilities under United States federal 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, Yavneh, 81106, Israel. The Company's telephone number in Israel is (972) 8-9321000

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., which we refer to herein as Gold Frost, for NIS 336 thousand (USD 95 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 (USD 10.3 million). Following this issuance, as of May 30, 2006, the Company held approximately 75.7% of Gold Frost's share capital. See "Item 10. Additional Information – 10C. Material Contracts". 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 October 5, 2006 the Company raised \$10.0 million through private placement of shares of its ordinary shares and warrants to institutional investors. The Company issued a total of 1,652,893 ordinary shares at a purchase price of \$6.05 per share, and the Company also issued warrants to purchase 561,982 additional shares at an exercise price of \$8.00 per share. After deducting closing costs and fees, the Company received net proceeds of approximately \$9.6 million. See "Item 10. Additional Information – 10C. Material Contracts".

On January 19, 2007, the Company established a fully-owned subsidiary in the US, WF Kosher Food Distributors LTD. ("WF") in order to acquire the operations and assets of Laish Israeli Food Products Ltd. ("Laish"), a U.S. importer and distributor of kosher food products for approximately \$3.5 million in cash. The sources for the purchase price were a bank loan in the amount of \$1.5 million taken by WF and cash on hand from the Company. On July 14, 2008 the Company announced that WF has ceased the activities of its operations effective immediately. See "Item 10. Additional Information – 10C. Material Contracts".

In February 2007, the Company formed a joint global kosher trade and export company ("Baron") with the Baron family (an unrelated third party), kosher food exporters located in Israel. The Company owned a 50.1% interest in Baron, and the Baron family owned the remaining interest. Under the terms of the agreement, in consideration for the 50.1% interest in Baron, the Company paid \$1 million in owner's loans that were converted into equity on April 1, 2008. Under the terms of the agreement, all of the food export operations of the Baron family were executed under the new entity, and Baron was engaged in the food export activities performed until then by the Baron family. On September 2, 2009, the Company signed an agreement to sell all of its holdings in Baron and to assign all of its rights and obligations to the Baron family. In exchange for the sale of shares and the assignment of rights and obligations, the Baron family agreed to pay US\$ 937,500, which was paid to the Company on the date of execution of the agreement. As a result of the sale of the shares of Baron, the Company recognized a capital loss of NIS 1.5 million (USD 0.4 million). See "Item 10. Additional Information – 10C. Material Contracts".





Since April 2007, the Company operates from a logistics center situated in Yavne, Israel, that replaced the Company's previous logistics center, located nearby, as well as the Company's use of numerous external warehouse facilities. The logistics center was established in an effort to reduce the Company's operating costs, increase its logistical efficiency and to optimize its overall operational activity. For more information, see "Item 4D. Property, Plants and Equipment."

In January 2008, Willi Food purchased 51% of the interests of Shamir Salads (2006) Ltd. ("Shamir"), an Israeli manufacturer and distributor of pre-packaged chilled kosher Mediterranean dips and spreads in Israel and abroad. See "Item 10. Additional Information – 10C. Material Contracts".

In February 2008, the Company's subsidiary Gold Frost purchased a 51% interest from the owners of a dairy distributor in Denmark Kirkeby International Foods A/S ("Kirkeby"), and the former owner remained with the remaining interest. In June 2009, Gold Frost signed an agreement to sell its 51% interest in Kirkeby to Kirkeby and/or to the former owner for \$400,000. According to the terms of the agreement, an amount equal to the balance of outstanding invoices owed by Gold Frost to Kirkeby would be deducted as a down payment, and the remainder was paid by deducting the purchase price by a pre-determined amount for each shipment of goods that Gold Frost would purchase from Kirkeby or from the former owner, and the balance of the consideration, was paid in April 2011. See "Item 10. Additional Information – 10C. Material Contracts".

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 February 5, 2009, the Company launched a tender offer (as extended on March 5, 2009) to purchase from the holders of shares and/or depositary interests of Gold Frost all of the issued and outstanding share capital of Gold Frost which were not already held by the Company for a price of 5 pence per share or per depositary interest in cash. The proposed tender offer was not successful.

On June 22, 2009, the Company launched a second tender offer to purchase from the holders of shares and/or depositary interests of Gold Frost all of the issued and outstanding share capital of Gold Frost which were not already held by the Company for a price of 7 pence per share or per depositary interest in cash. On July 27, 2009, the Company announced that it had successfully completed the second tender offer. As of the time of expiration of the tender offer, an aggregate of 2,706,388 Gold Frost shares and depositary interests were duly tendered. Such shares and depositary interests constituted, together with the shares held by the Company, more than 95% of the issued and outstanding share capital of Gold Frost. In accordance with Israeli law, the Company purchased all of the issued and outstanding Gold Frost shares and depositary interests which were not owned by the Company (including those not tendered in the tender offer) at the tender offer price and paid an aggregate amount of approximately £370,430 for all such shares and depositary interests.

On March 17, 2010, the Company raised a \$20.0 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, and the Company also granted to the underwriter an option, exercisable within 30 days from the date of the public offering, to purchase up to an additional 330,579 ordinary shares. This option expired without the underwriter's exercise of such option. After deducting closing costs and fees, the Company received net proceeds of approximately \$19.0 million. See "Item 10. Additional Information – 10C. Material Contracts".

The Company's principal executive offices are situated at 4 Nahal Harif St., Northern Industrial Zone, Yavne, 81106 Israel. The Company's telephone number 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.co.il.



## CAPITAL EXPENDITURES

Our capital expenditures were \$1.7 million, \$0.5 million and \$0.8 million for the three years ended December 31, 2010, 2009 and 2008, respectively. See "Item 4D. Property, Plants and Equipment" for a description of the logistic center.

There is currently one material capital expenditure in progress – approximately \$0.7 million in Shamir to build two new packaging lines and improvement of a third line.

## B. BUSINESS OVERVIEW

### Overview

The Company is an Israeli-based company engaged, directly and through subsidiaries, in the development, import, export, manufacturing, marketing and distribution of a wide variety of over 1,000 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 250 suppliers located in Israel and throughout the world, including from the Far East (China, India, the Philippines and Thailand), Eastern Europe (Poland, Latvia and Bulgaria), South America (Argentina, Ecuador and Costa Rica), the United States, Canada, Western and Northern Europe (The Netherlands, Belgium, Germany, Sweden, Denmark and France) and Southern Europe (Spain, Portugal, Italy, Turkey, Greece).

The Company's products are marketed and sold to over 2,000 customers in Israel and around the world (for example — to The Netherlands, England, Denmark, Belgium, Ukraine, France, Switzerland, Russia etc.), including supermarket chains, wholesalers and institutional consumers. The Company markets most of its products under the brand name "Willi-Food," chilled salads under the name "Shamir Salads" and some of the chilled and frozen products under the brand name "Gold Frost." Certain products are marketed under brand names of the manufacturers or under other brand names. In addition, the Company distributes some of its products on an exclusive basis, as described further below.

During the last three 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. The Company continues to re-evaluate its strategic position and to consider other business opportunities. As part of this re-evaluation, the Company is also considering forming strategic alliances with or entering into different lines of business. The Company has no current plans, arrangements or agreements with respect to any mergers, acquisitions, or additional financing.

As of June 24, 2011, the Company's principal shareholder, Willi-Food, held approximately 52.84% of the Company's outstanding share capital. The primary assets of Willi Food are the Company's ordinary shares. See "Item 7. Major Shareholders and Related Party Transactions". 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" and "Shamir Salads" brand names and to increase market penetration of products that are currently sold through, among other things, 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; 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 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 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 the international food markets, mainly in the U.S. and Europe, by purchasing food distribution companies and/or increasing cooperation with local existing distributors and/or exporting products directly to the customer; and
- to penetrate new markets within the Middle East 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 the Palestinian administered areas are low.

In addition, the Company has:

- promoted the value of the "Willi-Food" brand and introduced additional food products to the Israeli marketplace under the brand name "Willi-Food" and "Shamir Salads".
  - initiated sales in the U.S. and Europe; and
- entered into arrangements with recognized manufacturers to market their products under their respective brand names, in addition to brand names under which the Company currently markets its products.

## Segments

We import, manufacture, market and distribute two kinds of line segments: import segment and manufacturing segment.

### Import Segment

We import, market and distribute a broad variety of over 700 food products. Sales of import segment products accounted for approximately 78% of our sales in 2010. These products are sold by us and by Gold Frost.

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 okra, mushrooms (whole and sliced) and terfess, artichoke (hearts and bottoms), beans, asparagus, capers, corn kernels, baby corn, palm hearts, bamboo shoots, vine leaves (including vine leaves stuffed with rice), sour pickles, mixed pickled vegetables, pickled peppers, an assortment of black and green olives, garlic, roasted eggplant sun dried tomatoes and edamame soybeans. These products are primarily imported from China, Spain, Greece, Thailand, South America, Turkey, France, India, Poland, Morocco and The Netherlands.
- **Canned Fish:** including tuna (in oil or in water), sardines, anchovies, smoked and pressed cod liver, herring, fish paste and salmon. These products are primarily imported from the Philippines, Thailand, Portugal, Canada, Spain, Greece, Germany and Sweden.
- **Canned Fruit:** including pineapple (sliced or pieces), peaches, apricot, pears, cherries, mangos, cherries, mandarins litchis and fruit cocktail. These products are primarily imported from China, 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, Argentina, Turkey, Italy, Holland and Spain.
- **Dairy and Dairy Substitute Products:** including hard and semi-hard cheeses (parmesan, edam, kashkaval and emmental), molded cheeses (brie, camembert and danablu), feta, Bulgarian cheese, Muzzarella, smoked cheeses, pizza top, goat cheese, butter, butter spreads, margarine, melted cheese, cheese alternatives, condensed milk, coffee whitener, whipped cream and others. These products are primarily imported from Greece, France, Latvia, Denmark, Bulgaria, Italy, The Netherlands and the United States.
- **Dried Fruit, Nuts and Beans:** including figs, apricots, prunes, papaya, pineapple, sunflower seeds, sesame seeds, walnuts, pine nuts, cashew nuts, pistachio and peanuts. These products are primarily imported from Greece, Turkey, India, China, Thailand and the United States.
- **Other Products:** including, among others, instant noodle soups, coffee creamers, lemon juice, halva, Turkish delight, cookies, vinegar, sweet pastry and crackers, sauces, corn flour, pastes, rice, rice sticks, pasta, spaghetti and noodles, breakfast cereals, corn flakes, instant coffee, rusks, coconut milk, tortilla, dried apples snacks, ice cream, frozen pizza, chocolate bars and chocolate paste, tea, deserts (such as tiramisu and pastries) and light and alcoholic beverages (such as ouzo, sangria and mohito). These products are primarily imported from The Netherlands, Germany, Romania, Italy, Greece, Belgium, the United States, Scandinavia, China, Thailand, Turkey, India, and South America (including Argentina).

#### Manufacturing Segment

We manufacture, market and distribute a broad line of over 400 Mediterranean style chilled salads. The products are manufactured in our logistics center at the industrial zone in Barkan, Israel and are distributed across the country and to several clients abroad. Sales of manufacturing segment products accounted for approximately 22% of our sales in 2010. These products are sold in a variety of sizes and types of receptacles and are intended for use by the individual consumer as well as by the institutional consumer food markets.

We aim to broaden the variety of manufacturing products we distribute.

The principal products in the manufacturing segment product line are Chilled Salads: including hummus, tehina, avocado, eggplant, potato, carrot, tomato, egg, red beet, hot pepper, cabbage, olive, tuna, mushrooms, cherub, coleslaw and ikra salads.



## Export Segment

On 2009 we shut down our export segment after selling our holdings in Baron and selling Gold Frost's holdings in Kirkeby. The operating data of the export segment is presented as a discontinued operation in our financial statements.

## Products

The products (import and manufacturing segment) that generated the largest sales volume for the year ended December 31, 2010 were chilled salads (22% of sales), dairy and dairy substitute products (19% of sales) and canned vegetables (16% of sales).

The products (import and manufacturing segment) that generated the largest sales volume for the year ended December 31, 2009 were chilled salads (24% of sales), dairy and dairy substitute products (18% of sales) and canned vegetables (17% of sales).

The products (import and manufacturing segment) that generated the largest sales volume for the year ended December 31, 2008 were chilled salads (24% of sales), dairy and dairy substitute products (17% of sales) and canned vegetables (16% of sales).

The allocation mentioned above does not include the product line "Other Products" in the Import segment, as it 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. See "Government Regulation".

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. See "Government Regulation".

## Suppliers

### Import Segment

We are not a manufacturer in the import segment; we purchase final food products only. We purchase food products from over 150 suppliers, including suppliers located in Israel, the Far East (China, India, the Philippines and Thailand), Eastern Europe (Hungary, Poland, Latvia and Bulgaria), South America (Argentina, Ecuador and Costa Rica), the United States Canada and in Western, Northern and Southern Europe (Sweden, Denmark, Greece, The Netherlands, Italy, Portugal, Spain, Belgium, Germany, France, Turkey and Cyprus).

In addition, we actively maintain contact with approximately 150 suppliers world-wide through which we assess, on an on-going basis, world market trends, fluctuations in prices, international trends, 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 import segment products we import are seasonal agricultural products, such as artichokes, cherries, mushrooms and peaches. In order to assure ourselves 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 in the import segment is made in US 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). Supply is generally made to us against letters of credit for a period of up to 90 days.

#### Manufacturing Segment

In the case of the manufacturing segment, Shamir manufactures all of the chilled salads. In the manufacturing segment, we purchase raw ingredients from over 60 non-exclusive local suppliers to manufacture the chilled salads. Most of those purchases are denominated in NIS.

#### General

We are not dependent on any given supplier for the supply of a majority of our products. We purchase most of our products from several suppliers. We are dependent on one source of supply — Arla from Denmark — with respect to a large part of our dairy and dairy substitute products — a part of the import segment. A distribution agreement between us and Arla grants us an exclusive and non-transferable right to market and distribute cheese and butter products manufactured by Arla and its affiliated companies in Israel. Our exclusivity is subject to our purchase of certain minimum quotas of products. The agreement was signed in March 2005 for a period of 5 years. In July 2007, the agreement was extended for a period of 10 years from March 2005 and is renewable automatically for a further period of five years, unless notice of termination is provided by either party. Arla has the right to terminate the agreement on three months notice under certain circumstances, including in the case of the death or permanent incapacity of Zwi Williger or his ceasing to be involved in our business or if we fail to satisfy its minimum purchase requirements under the agreement.

We do not generally enter into written agency or other agreements with our suppliers. However, we have written agreements with 18 foreign suppliers from the import segment that confirms 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 – 24 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 letters of confirmation accounted for 31% and 28% of our purchases in 2010 and in 2009, respectively. In a few instances we did not fulfill our commitment to the minimum purchase requirements, but since the commencement of our activities, no supplier has terminated its agreement with us due to our failure to comply with the minimum purchase requirements. Our purchases are not motivated by a desire to meet minimum purchase requirements, and the considerations in purchasing products from these suppliers are identical to those for purchasing from other suppliers.

We do not have any supplier who accounts for more than 10% of the total purchases in the years 2010 and 2009.

The average volume of our credit balance with our suppliers amounted in 2010 to NIS 38.6 million (US\$10.9 million) consisting of 56 days of suppliers credit on average, in 2009 to NIS 47.3 million (US\$13.3 million) consisting of 79 days of suppliers credit on average and in 2008 to NIS 48.6 million (US\$ 13.7 million) consisting of 62 days of suppliers credit on average.

## Customers

The Company's products (import and manufacturing segments) are marketed and sold to over 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, manufactures, institutional customers and the customers in the Palestinian Authority referred herein as the "private sector".

The first major group includes the largest Israeli supermarket chains in the organized market in Israel, including: (i) Shufersal Ltd. (including the chains: Shufersal Deal, Shufersal Big, Shufersal Sheli, Shufersal, Yesh and Katif); (ii) Mega Retail Ltd. (which also includes Mega, MegaBool, Mega in the City and Shefa Shuk); and (iii) Co-Op Israel (which also includes Co-Op Jerusalem, Mister Zol, Pashut Zol and M.M.N). 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 logistic center or directly from their stores. Merchandise is then delivered directly to each branch or to the supermarket's chain distribution center.

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

The Company's sales, by customer group, for the years ended December 31, 2010 and 2009 are as follows:

| Customer Groups  | Percentage of Total Sales<br>Year Ended December 31 |   |      |   |
|--|---|---|------|---|
|  | 2010  |   | 2009 |   |
| Supermarket Chains in the organized market   | 25  | % | 28   | % |
| Private Supermarket Chains, mini-markets,<br>wholesalers, manufacturers, institutional consumers<br>and the customers in the Palestinian Authority | 75  | % | 72   | % |
|  | 100   | % | 100  | % |

The Company's largest customer (a supermarket chain in the organized market) accounted for 11% and 19% of the Company's sales in 2010 and 2009, respectively.

The loss of this major customer 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.

We agreed to pay the large supermarket retail chains in the organized market incentives calculated as a fixed percentage of the annual sales to such customer. Other incentives include penetration discounts for sales of our new products, selves stocking, 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 incentives typically range from 5% to 9% of our annual sales to such customers and are generally paid at the beginning of each year with respect to the previous year's sales. 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. For the years ended December 31, 2010, 2009 and 2008, we paid and/or are obligated to pay approximately NIS 3,728 thousand (USD 1,050 thousand), NIS 3,970 thousand (USD 1,052 thousand) NIS 4,686 thousand (USD 1,241 thousand), respectively, with respect of such incentives.

Our engagement with private sector customers is not subject to any exclusivity provisions or framework agreement, and they have no specific term. Prior to any engagement with a potential private sector customer, we examine the financial stability of such potential customer and determine the extent of the credit and period for which credit would be granted. Most of the 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 of this sector (mainly private supermarket chains and wholesalers) are also awarded incentives based on the increase in volume of sales to such customers in excess of a certain agreed amount, or incentives calculated as a fixed percentage of the annual sales to such customer. The extent of such incentives varies between 0.5%-9% of the increase in volume of sales to such customers in excess of a certain agreed amount or of the annual sales turnover of each relevant customer (depending on the agreement with each customer).

The average aggregate debit balance of the Company's customers with the Company amounted in 2010 to NIS 87.9 million (USD 24.8 million) and the average time period within which our accounts receivable were paid was 90 days, in 2009 to NIS 74.8 million (USD 21.1 million) and the average time period within which our accounts receivable were paid was 91 days and in 2008 to NIS 83.3 million (USD 23.5 million) and the average time period within which our accounts receivable were paid was 81 days.

In the event that a client does not respect its financial commitments, the Company may elect to foreclose on the collateral or the promissory note given by customers in the private sector. In 2008-2010, no significant use of this means was implemented. The Company strives to minimize its credit risks 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.

In July 13, 2005, Club Market Marketing Chains Ltd., one of the three largest food chains in Israel, owner of 114 stores and a major customer of the Company, encountered major financial difficulties, announcing that it could not pay its debts to its creditors. The District Court of Tel Aviv accepted Club Market's petition for a stay of procedures against it and appointed receivers for Club Market. On August 28, 2005, the court allowed the sale of Club Market to Shufersal, subject to several conditions. As of September 1, 2005, Club Market's activities were substantially transferred to Shufersal. This merger of two of the three largest food chains in Israel strengthened Shufersal's buying power with local food suppliers (such as the Company) and the dependency of local food suppliers on Shufersal has grown.

The Company submitted a claim of debt with the receivers with respect to Club Market's debt to the Company, amounting to NIS 6.5 million (USD 1.8 million), including VAT (NIS 5.5 million net of VAT (USD 1.5 million), as of July 13, 2005. As of the date of this Annual Report, the Company has received approximately NIS 2.6 million (USD 0.73 million). In view of this claim and the ratification of the creditors' arrangement by the court on December 12, 2005, the Company is expected to receive a proportional share of its claim of debt. The Club Market receivers established the rate of payment to be approximately 51% of the total debts. The receivers have approved the Company's claim of debt in the amount of NIS 5.6 million (USD 1.58 million), including the NIS 2.6 million (USD 0.73 million) already received by the Company. There is no assurance as to the portion of the debt owed by Club Market that will actually be paid to the Company.



The Company's bad debt expenses for the years ended December 31, 2010, 2009 and 2008 amounted to NIS 433 thousand (USD 122 thousand), NIS 456 thousand (USD 128 thousand), and NIS 702 thousand (USD 198 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, though in cases of sales of certain products to clients situated in different areas of Israel, the Company distributes products through external distributors with whom it does not have exclusivity agreements. Sales by these distributors are not significant.

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 generally 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 11 refrigeration trucks, eight regular trucks and four 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 logistic 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 part 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 or direct distribution or by wholesalers.

In the import segment, 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 45 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 quantities may be even higher than 70 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. In the manufacturing segment, 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 20 days. 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, 2010 amounted to NIS 37.6 million (USD 10.6 million) compared with NIS 44.8 million (USD 12.6 million) as of December 31, 2009.



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 certain articles typical to the culture and/or cuisine of each specific festival.

The Company maintains close contact with its consumer markets in an effort to be attentive to market needs, market trends, demand for certain products and their value to the market. 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 festivals 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). The Company's subsidiary Shamir, increases its sales significantly in the week prior to Israel's Independence Day. 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 believes that it presently faces direct competition from both 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. The Company believes that it may also face competition from potential new-comers to the food business, as well as from existing importers and/or manufacturers currently not involved in the same lines of products as the Company.

For example, certain of the products imported by the Company such as canned fish, corn, 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, Tet-Bet 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 Shastowitz with respect to fish products, the new Vita Pri HaGalil, Yachin-Zan laKol, Williger of the Neto Group, Alaska and Johnson with respect to canned vegetable and canned fruit products, Osem, Barila, the new Vita Pri HaGalil, Williger of the Neto Group and Tomer with respect to pasta products, Tnuva, Tara, Strauss, Siman, Machlvot Gad and Meshek

Zuriel with respect to dairy and dairy substitute products, Strauss, Osem, Miki's salads, Mashani and Yad-Hamelech salads with respect to chilled salads, 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 extent of the import of food products to Israel. However, it believes it 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 products, their prices, offers for performing transactions and business opportunities while diversifying sources of supply as well as following the selling prices of competing products 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 2001, the trademark's validity was extended for an additional fourteen years (until 2015). The Company markets certain products under the trademark "Gold-Frost," which was registered in Israel in February 2002. The Company also markets certain products under the trademark "Shamir Salads," which was registered in Israel in January 1995.

The Company also markets cheeses and cheese substitute for pizza under the trademark "Pizza Top" which was registered in Israel in September 2002. On February 16, 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 and to 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 "Bubles," which was registered in Israel in December 2006, markets snacks under the trademark "Krisponim," which was registered in Israel in January 2007, markets edamame soybeans under the trademark "Manchow," which was registered in Israel in June 2007, and markets the trademark "Habulgaria," which was registered in Israel in February 2009.

The Company also markets sardines under the trademark "Selective", which was registered in Israel in February 2009 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", "Raskas", "Danesita", "Nobeleza Gaucha", "Hazer Baba", "Sera", "Daawat", "Zanetti", "Ferro", "Hahne", "Arla" and "Lurpak". The Company imports several products for the Shufersal chain under the brand name "Shufersal". The Company also imports several products for the Co-Op Israel chain under the brand name "Kochav Habait", and for Mega retail chain under the brand "Mega".

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

The Company also owns five trademarks which are not currently used.

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 Trade 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 has imported, or will import, food products outside of Israel, we may be subject to quotas and other import laws and regulations 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. Israeli government policy in favor of exposing the local market to certain imported products has directly impacted the Company's operations since September 1991, when certain customs duties levied by category, formerly levied on products, including those imported by the Company, were canceled.

The Company is required to obtain import licenses for the import of certain food products from the Ministry of Trade and Industry of the State of Israel. The Company has obtained the necessary import licenses for the products imported by it as required by the import authorities. 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 four times, as a result of which the Company was required to pay an immaterial amount of fines.

Most of the products which the Company imports and markets in the import segment are approved as Kosher by and/or under the supervision of various supervisory institutions including, the Chief Rabbinate of Israel, Chug Chatam Sofer, Badatz Ha'eda HaChareidit, 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, Triangle K, etc.) 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. The expenses for obtaining the Kashrut approval are relatively low.

Most of the products which the Company manufactures are approved as Kosher by and/or under the supervision of Badatz Ha'eda Hachareidit (except for "Kosher to Passover" products) and the Chief Rabbinate of Israel.



### C. ORGANIZATIONAL STRUCTURE

The Company's principal shareholder, Willi Food, as of June 24, 2011, held approximately 52.84% of the Company's outstanding share capital. 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 June 24, 2011, had three active subsidiaries:

| Subsidiary | Jurisdiction of Organization | Company's Ownership Interest |   |
|------------|------------------------------|------------------------------|---|
| Gold Frost | Israel                       | 100                          | % |
| W.F.D.     | Israel                       | 100                          | % |
| Shamir     | Israel                       | 51.0                         | % |

The offices of Gold Frost and W.F.D, our wholly owned subsidiary, are located in Yavne, Israel, at the offices of the Company.

The offices of Shamir are located in Barkan, Israel.

#### Gold Frost

In May 2001, the Company acquired all the shares of Gold Frost in consideration for NIS 336 thousand (USD 89 thousand). 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 March 9, 2006, Gold Frost completed an initial issuance to the public on the London AIM market which yielded gross proceeds of NIS 36.5 million (USD 9.7 million). Following this issuance, as of May 30, 2006, the Company held approximately 75.7% of Gold Frost's outstanding share capital. During November 2007- January 2008, the Company purchased on the AIM market an additional approximately 14.3% of Gold Frost's outstanding share capital, reaching an 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 February 5, 2009 the Company launched a tender offer (as extended on March 5, 2009) to purchase from the holders of shares and/or depositary interests of Gold Frost all of the issued and outstanding share capital of Gold Frost which were not already held by the Company for a price of 5 pence per share or per depositary interest in cash. The proposed tender offer was not successful.

On June 22, 2009, the Company launched a second tender offer to purchase from the holders of shares and/or depositary interests of Gold Frost all of the issued and outstanding share capital of Gold Frost which were not already held by the Company for a price of 7 pence per share or per depositary interest in cash. On July 27, 2009 the Company

announced that it had successfully completed the second tender offer. As of the time of expiration of the tender offer, an aggregate of 2,706,388 Gold Frost shares and depositary interests were duly tendered. Such shares and depositary interests constituted, together with the shares held by the Company, more than 95% of the issued and outstanding share capital of Gold Frost. In accordance with Israeli law, the Company purchased all of the issued and outstanding Gold Frost shares and depositary interests which were not owned by the Company (including those not tendered in the tender offer) at the tender offer price and paid an aggregate amount of approximately £370,430 for all such shares and depositary interests.

On February 28, 2006, a relationship agreement between Gold Frost, the Company and others was signed, defining the relationship between the two companies. See "Item 10. "Additional Information – 10C. Material Contracts".

W.F.D.

Since November 1995, the Company incorporated a wholly-owned subsidiary, W.F.D. The Company occasionally imports certain products through this subsidiary, which then sells these products to the Company. W.F.D. has no assets, facilities or obligations, other than those amounts owed to suppliers overseas with respect to products purchased from them. W.F.D. had no sales for each of the last two years

Shamir

In January 2008, the Company purchased 51% of the interests of Shamir Salads (2006) Ltd. ("Shamir"), an Israeli manufacturer and distributor of pre-packaged chilled kosher Mediterranean dips and spreads in Israel and abroad.

For more information see "Item 4. Information on the Company – 4A. History and Development of the Company" and "Item 10. Additional Information – 10C. Material Contracts."

#### D. PROPERTY, PLANTS AND EQUIPMENT

The Company's principal executive offices are situated at a logistic center in the northern industrial zone of Yavne, at 4 Nahal Harif St., Israel, 35 km south of Tel-Aviv. The Company purchased the land on which its current logistic center is located from Titanic Food Ltd. ("Titanic"), a private Israeli company controlled by Messrs. Joseph Williger, the Company's Chief Executive Officer and a director, and Zwi Williger, the Company's Chief Operating Officer and Chairman of the Board, at the same price that it was purchased by Titanic, in August 2005. The logistic center is 8,600 square meters (approximately 77,400 square feet) and is located on a plot of 19,000 square meters (approximately 171,000 square feet). The current logistic center replaced the Company's previous logistic center, located nearby, which the Company leased from Titanic. The new logistic center was financed mainly by the funds that were raised in the private placement in October 2006. From the transition to its current logistic center, until the end of 2010, the Company's usage of storage services in free warehouses has been insignificant.

Before the transition to the current logistic center, the Company also utilized free warehouses services, mainly in the area of the Ashdod seaport. The Company was charged only for storage per container (i.e., there is no charge for rental while the Company does not use the free warehouse services). The Company's expenses for usage of free warehouses services in the years 2010 and 2009 – NIS 805 thousand (USD 227 thousand) for the year ended December 31, 2010 and NIS 133 thousand (USD 35 thousand) for the year ended December 31, 2009. The expenses of these services for the year ended December 31, 2008 were NIS 225 thousand (USD 60 thousand).



As of December 31, 2010, the Company owned 9 refrigeration trucks (each with a capacity of 6.5 to 12 tons), eight regular trucks (each with a capacity of 15 to 27 tons) and ten combined trucks (each with capacity of 7.5 to 18 tons). Pursuant to the Transfer Agreement with Gold Frost, ten trucks and one private car were sold as of January 1, 2006 from the Company to Gold Frost. The above mentioned transfer was implemented in order to allow Gold Frost to market its products on its own accord.

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.

The total investment in the new logistics center (including the land which the Company purchased from Titanic) until December 31, 2010 amounted to NIS 42,426 thousand (USD 11,954 thousand).

#### 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, 2010 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. In accordance with the instructions of the Israeli Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)", which was published in July 2006, we adopted IFRS as issued by the IASB, with effect from January 1, 2008, based upon the guidance in IFRS 1, "First-time adoption of IFRSs", and have prepared our financial statements according to IFRS. Following our adoption of IFRS, as issued by the IASB, we are no longer required to reconcile our financial statements prepared in accordance with IFRS to U.S. GAAP.

The Company is engaged, directly and through its subsidiaries, in the design, import, manufacture, marketing and distribution of a broad range of food products purchased from over 210 suppliers worldwide and marketed throughout Israel and abroad. The products imported or manufactured by the Company are marketed in Israel and sold to over 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 (such as in the U.S., England, Belgium, France, Switzerland and Russia).

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

Since mid 2009, the Israeli market began to recover from the global economic recession that took place at the end of 2008 and in the beginning of 2009. Since then, there have been signs of improvement in some economic indicators (for example – raw commodity, consumption per person, commodity per person). The Company believes that it has successfully coped with the recession and the changes in the economic environment that affected the Company's local market as well as its customers. The Company also believes that the measures that it took - (including expanding our product lineup, introducing new products, and increased sales of higher margin products and adjusting the sale prices of the Company's products to consumers in accordance with product prices of the Company's suppliers), are positioning the Company for future growth. The Company remains focused on maximizing long-term profitability and the Company believes that it will continue to benefit from a multi-channel approach and broad kosher product base that addresses a trend toward more health-conscious food choices. The Company will continue to focus on controlling

expenses and production costs to keep its prices competitive.

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The U.S. remains a strategic region of interest for the Company. The Company's strategy is to leverage its global supplier relationships and expertise in product development and to capitalize on the growing demand for innovative kosher products for both kosher and health minded consumers in the U.S. The Company believes that the health benefits of eliminating animal fats in the 'kosherizing' process in its dairy products makes its products attractive to consumers looking for better tasting, low-cholesterol and low-fat alternatives.

For convenience purposes, the financial data for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 has been translated into U.S. Dollars using the representative exchange rate. This rate as of December 31, 2010 was NIS 3.549 = 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. Revenue Recognition – Revenue is measured at the fair value of the consideration received or receivable. Management estimates are required to determine the amounts to be reduced for estimated customer returns, rebates and other credits.

#### Allowance for customer returns -

In determining the accrual for customer returns, Management considers past experience for the each specific type of the products as well as the Company's ability to utilise the product returned.

#### Allowance for Rebates and other credits -

Allowance for rebates is determined based on expected level of revenues volumes applied to the rebate percentage agreed with the customer. Other credits relate primarily to disagreements with customers over prices and quantities. The determination of the allowance for other credits is highly subjective and management can exercise great deal of discretion over this determination. For our primary customers, allowance for other credits is determined based on past experience of collecting such differences, the aging of the balance and the Company's familiarity of the customer. Changes in these assumptions could affect our future results of operations.

2. Inventories – Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

We value our inventories at the lower of cost and net realizable value.

Cost is determined as follows:

|  |   |
|--|---|
| Raw material, components and packaging | - by the "first-in, first-out" method   |
| Processing goods                       | - cost of materials plus labor  |
| Finished products                      | - on the basis of standard cost which approximates actual production cost (materials, labor and indirect manufacturing costs) |
| Products                               | - weighted average method   |

The Company's management is required to make certain judgments and estimates that may significantly impact the ending inventory valuation at cost as well as the amount of gross profit recognized. Judgments made include recording markdowns used to sell through inventory and shrinkage. When management determines the salability of inventory has decreased, markdowns for clearance activity and the related cost impact are recorded at the time the price change decision is made. Factors considered in the determination of markdowns include current and anticipated demand, customer preferences and age of merchandise.

3. Useful lives of property, plant and equipment - the management of the Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period in order to determine the amount of depreciation expense to be recorded. The useful life of an asset is estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the asset. Changes in industry conditions may cause the estimated period of use or the value of these assets to change. We perform periodic reviews to confirm the appropriateness of estimated economic useful lives for each class of fixed assets. These factors could cause management to conclude that impairment indicators exist and require that impairment tests be performed, which could result in management determining that the value of long-lived assets is impaired, resulting in a write-down of the long-lived assets. For the two years ended December 31, 2010, no changes in assets useful lives were recorded.
4. Impairment of goodwill - Goodwill is not amortized, but is evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of the goodwill may be impaired. This evaluation requires management to make judgments relating to future cash flows, growth rates, and economic and market conditions. These evaluations are based on determining the fair value of a cash generating unit using a valuation method discounted cash flow or a relative. During 2009 and 2010 management of the Company assessed the recoverability of goodwill and determined that there was no need of impairment in goodwill associated with any of the Company's cash-generating units. During 2008 and 2007, management of the Company assessed the recoverability of goodwill and determined that goodwill associated with the Company's overseas marketing of refrigerated products activity (Kirkeby) and with the Company's export activity (WF) was not recoverable and was written off in the amount of NIS 1,067 thousands (USD 283 thousands) and NIS 3,054 thousands (USD 809 thousands), respectively. The primary factor leading to the decisions that goodwill was not recoverable in both subsidiaries was the substantial adverse difference between management's expectations regarding results of operation as

predicted at the purchase deliberations and the actual amounts. The operations of both entities were eventually discontinued as part of the discontinuation of the export segment.

5. **Deferred taxes-** Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. We recognize a deferred tax asset in our balance sheet only where we determine that it is probable that it will be recovered. A portion of the deferred tax asset recorded in our balance sheet relates to current or prior period tax losses where management considers that it is more likely than not that we will recover the benefit of those tax losses in future periods through the generation of sufficient future taxable profits. Our assumptions in relation to the generation of sufficient future taxable profits depend on our estimates of future taxable profits from the Company's regular course of business. These estimates are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter the projections, which may impact the recoverability of the deferred tax asset recorded in our balance sheet and those tax losses currently provided as not recoverable. In such circumstances, some or all of the carrying value of the deferred tax asset may require provisioning, and we would charge the expense to the profit and loss account, and conversely, some or all of the amounts provided as not recoverable may be reversed and we would credit the benefit to the profit and loss account.
  
6. **Severance pay-** The current value of the Company's obligation in respect of severance pay is based on actuarial assumptions, including discount rate (which is based on the discount rate of government bonds) market conditions, .etc. The actuarial assumptions are based on the information provided by the management of the Company regarding expected rate of termination, employees insurance policies payments and probability for compensation payments. Any change of the assumptions given by the management of the Company may change the book value of the Company's obligation in respect of severance pay and could affect our future results of operations.

#### Adoption of New and Revised Standards and Interpretations

- (1) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

- IAS 17 (amendment) "Leases"

As part of Improvements to IFRSs (2009) issued in April 2009, the International Accounting Standards Board amended the requirements of IAS 17 Leases regarding the classification of leases of land. Prior to amendment, IAS 17 generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of IAS 17. These amendments are effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively to unexpired leases at 1 January 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised Standard will be applied based on the facts and circumstances existing on 1 January 2010 (i.e. the date of adoption of the amendments). The Company entered into a long term lease agreement with the ILA with respect to a parcel of land which its facilities were constructed. The lease payments were paid in advance. The prepaid lease payments which were recognized in the balance sheet as "Prepaid Expenses" was classified to "Fixed Assets".

- IAS 27 (Amended) "Consolidated and Separate Financial Statements"

The standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. Among other things, the standard stipulates that transactions with non-controlling shareholders, in the context of which the company holds control of the subsidiary before and after the transaction, will be treated as capital transactions. In the context of transactions, subsequent to which the company loses control in the subsidiary, the remaining investment is to be measured as of the date that control is lost, at fair value, with the difference as compared to book value to be recorded to the statement of operations. The non-controlling interest in the losses of a subsidiary, which exceed its share in shareholders' equity, will be allocated to it in every case, while ignoring its obligations and ability to make additional investments in the subsidiary.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneous with early adoption of IFRS 3 (amended). The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively.

(2) Standards and Interpretations adopted with no effect on financial statements

- IAS 27 (Revised) "Consolidated and Separate Financial Statements"

The amendment provides, among other, that it is possible to designate changes in cash flows resulting from exposure to inflationary risks as specified items. In addition, the amendment states that the internal value, unlike the time value of purchased options, eligible to serve as a hedging instrument of a one party risk arising from a transaction anticipated. The standard is effective for annual periods beginning on or after January 1 2010.

- IFRS 8 Operating Segments

In the framework of the Improvements to IFRSs project from 2009, IFRS 8, with respect to Operating Segments, was amended. According to the Amendment, disclosure of a measure of segment assets is required only if that measure is regularly reported to the chief operating decision maker. The standard is effective for annual periods beginning on or after January 1 2010.

- Amendments to IAS 7 Statement of Cash Flows (adopted in advance of effective date of 1 January 2010)

The amendments specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. At this stage, the management of the Company cannot estimate the influence of the implementation of the standard on the financial statements of the Company. The standard is effective for annual periods beginning on or after January 1 2010.

- Amendment to IAS 36 "Impairment of Assets"

The amendment states that in the allocation of goodwill to cash-generating units or groups of cash-generating units for impairment examination, each unit or group of units will not be a segment of activity, before grouping segments with similar economic characteristics to one sector. The standard is effective for annual periods beginning on or after January 1 2010.

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options. The standard is effective for annual periods beginning on or after January 1 2010.

(3) Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

- **IFRIC 19 -Extinguishing Liabilities with Equity Instruments**

The Interpretation applies when a debtor extinguishing a liability fully or partly by issuing equity instruments to the creditor. If a debtor issues equity instruments to a creditor to extinguish all or part of a financial liability, those equity instruments are 'consideration paid' in accordance with IAS 39. Accordingly, the debtor should derecognize the financial liability fully or partly. The debtor should measure the equity instruments issued to the creditor at fair value, unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished. If it does, the debtor must allocate the fair value of the consideration paid between the liability extinguished and the liability retained. The debtor recognizes in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the measurement of the equity instruments issued. The provision of IFRIC 19 is effective for period beginning on January 1, 2011.

- **IFRS 9 Financial Instruments**

The Standard is part of the wider project to replace IAS 39 Financial Instruments: Recognition and Measurement, and replaces IAS 39 with respect to classification and measurement of financial assets. The standard requires financial assets to be measured at amortized cost or fair value. An investment in a debt investment is measured at amortized cost if the objective of the business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

In addition, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. Moreover, investments in equity instruments are measured at fair value and gains and losses on re-measurement are recognized in the statement of income. However, for an investment in an equity instrument that is not held for trading, the Standard allows an entity to elect to present all fair value changes from the investment in other comprehensive income (except for dividends). No amount recognized in other comprehensive income is ever reclassified to the statement of income. The Standard does not apply to financial liabilities.

The standard is effective for annual periods beginning on or after January 1 2013. Earlier adoption is permitted, under certain conditions. The standard generally requires retrospective application, except for several exceptions. In particular, if an entity adopts the standard for reporting periods beginning before January 1 2012 it is not required to restate prior periods.

- **IFRS 3 (Amended) “Business Combinations”**

The new standard stipulates the rules for the accounting treatment of business combinations. Among other things, the standard determines measurement rules for contingent consideration in business combinations which is to be measured as a derivative financial instrument. The transaction costs directly connected with the business combination will be recorded to the statement of operations when incurred. Non-controlling interests will be measured at the time of the business combination to the extent of their share in the fair value of the assets, including goodwill, liabilities and contingent liabilities of the acquired entity, or to the extent of their share in the fair value of the net assets, as aforementioned, but excluding their share in goodwill.



As for business combinations where control is achieved after a number of acquisitions (acquisition in stages), the earlier purchases of the acquired company will be measured at the time that control is achieved at their fair value, while recording the difference to the statement of operations.

The standard will apply to business combinations that take place from January 1, 2010 and thereafter. Earlier adoption is possible, on the condition that it will be simultaneous with early adoption of IAS 27 (amended).

At this stage, the management of the Company cannot estimate the influence of the implementation of the standard on the financial statements of the Company.

- Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Company has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

- Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Company has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

## 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 Ended<br>December 31,<br>2010 |    | Year Ended<br>December 31,<br>2009 |    | Year Ended<br>December 31,<br>2008 |    |
|--|------------------------------------|----|------------------------------------|----|------------------------------------|----|
| Revenues                                   | 100                                | %  | 100                                | %  | 100                                | %  |
| Cost of Sales                              | 71.07                              | %  | 72.36                              | %  | 79.17                              | %  |
| Gross Profit                               | 28.93                              | %  | 27.64                              | %  | 20.84                              | %  |
| Selling Expenses                           | 12.93                              | %  | 11.73                              | %  | 11.00                              | %  |
| General and Administrative Expenses        | 6.38                               | %  | 6.74                               | %  | 5.83                               | %  |
| Other (Income) expense                     | (0.01)                             | )% | (1.76)                             | )% | 0.64                               | %  |
| Operating profit                           | 9.64                               | %  | 10.93                              | %  | 3.36                               | %  |
| Financial Income (expenses), Net           | 1.22                               | %  | 0.48                               | %  | (1.67)                             | )% |
| Profit before taxes on income              | 10.85                              | %  | 11.42                              | %  | 1.69                               | %  |
| Taxes on income                            | 2.44                               | %  | 1.66                               | %  | 0.39                               | %  |
| Profit from continuing operations          | 8.42                               | %  | 9.75                               | %  | 1.30                               | %  |
| Profit (loss) from discontinued operations | 0.24                               | %  | 0.64                               | %  | (1.21)                             | )% |
| Profit for the year                        | 8.66                               | %  | 10.39                              | %  | 0.09                               | %  |
| Attributable to:                           |                                    |    |                                    |    |                                    |    |
| Owners of the Company                      | 8.09                               | %  | 10.03                              | %  | (0.27)                             | )% |
| Non-controlling interest                   | 0.57                               | %  | 0.36                               | %  | 0.36                               | %  |
| Net Income                                 | 8.66                               | %  | 10.39                              | %  | 0.09                               | %  |

## Year Ended December 31, 2010 Compared With Year Ended December 31, 2009

**Revenues.** Revenues for the year ended December 31, 2010 increased by approximately NIS 44,898 thousand (USD 12,651 thousand), or 14.8%, to approximately NIS 348,358 thousand (USD 98,156 thousand) from NIS 303,460 thousand (USD 85,506 thousand) for the year ended December 31, 2009.

The growth in revenues in the year 2010 was primarily due to the introduction of new products and the impact of a national media campaign that increased awareness of the Willi-Food brand throughout Israel combined with additional promotional activities.

**Cost of Sales.** Cost of sales for the year ended December 31, 2010 increased to approximately NIS 247,572 thousand (USD 69,758 thousand), or 71.07% of revenues, from approximately NIS 219,569 thousand (USD 61,868 thousand), or 72.36% of revenues, for the year ended December 31, 2009.

Throughout 2010, the Company introduced a large number of great-tasting, higher profit margin food products, which it had developed together with its suppliers, that boost sales while helped reducing the cost of sales margins.

The Company is mitigating the effects of worldwide inflation in agricultural commodities and dairy products by working closely with suppliers to anticipate adverse price trends, building inventory accordingly and raising prices to its customers.



**Gross Profit.** Gross profit for the year ended December 31, 2010 increased to NIS 100,786 thousand (USD 28,398 thousand), or 28.93% of revenues, compared to a gross profit of approximately NIS 83,891 thousand (USD 23,638 thousand), or 27.64% of revenues, in the year ended December 31, 2009.

**Selling Expenses.** Selling expenses for the year ended December 31, 2010 increased to approximately NIS 45,048 thousand (USD 12,693 thousand), or 12.93% of revenues, from approximately NIS 35,598 thousand (USD 10,030 thousand), or 11.73% of revenues, for the year ended December 31, 2009.

The increase in selling expenses was primarily due to increase in advertising and promotion expenses of NIS 3,333 thousand (USD 939 thousand) from NIS 7,253 thousand (USD 2,044 thousands) in 2010 as compared to NIS 3,920 thousands (USD 1,105 thousands) in 2009, increase in transportation to customers expenses of NIS 2,054 (USD 579 thousand) from NIS 11,399 thousand (USD 3,212 thousands) in 2010 as compared to NIS 9,345 thousands (USD 2,633 thousands) in 2009 and salaries of NIS 1,230 thousand (USD 347 thousand) from NIS 14,179 thousand (USD 3,995 thousands) in 2010 as compared to NIS 12,949 thousands (USD 3,649 thousands) in 2009.

**General and Administrative Expenses.** General and administrative expenses for the year ended December 31, 2010 increased to approximately NIS 22,217 thousand (USD 6,260 thousand), or 6.37% of revenues, from approximately NIS 20,451 thousand (USD 5,762 thousand), or 6.74% of revenues, for the year ended December 31, 2009. This increase of general and administrative expenses was attributed to increase in salaries and professional fees expenses of NIS 1,843 thousand (USD 519 thousand) NIS 14,426 thousand (USD 4,065 thousands) in 2010 as compared to NIS 12,583 thousands (USD 3,546 thousands) in 2009.

**Other Expense (Income).** Other income for the year ended December 31, 2010 amounted to NIS 47 thousand (USD 13 thousand), compared to other income of NIS 5,330 thousand (USD 1,502 thousand) for the year ended December 31, 2009. Other income for the year ended December 31, 2009 was mainly due to a capital gain on the purchase of additional shares in Gold frost in the amount of NIS 5,245 thousands (USD 1,478 thousands)

**Operating Income.** Operating income for the year ended December 31, 2010 increased by approximately NIS 396 thousand (USD 111 thousand), or by 1.19%, to approximately NIS 33,568 thousand (USD 9,458 thousand), or 9.64% of revenues, from approximately NIS 33,172 thousand (USD 9,347 thousand), or 10.93% of revenues, for the year ended December 31, 2009.

**Financing Income (Expenses), Net.** Financing income, net, for the year ended December 31, 2010 was approximately NIS 4,242 thousand (USD 1,194 thousand) compared to financing expenses, net, for the year ended December 31, 2009 of approximately NIS 1,471 thousand (USD 414 thousand). The financing income for the year ended December 31, 2010 primarily included gains from marketable securities of NIS 3,300 thousand (USD 930 thousand), compared to gains from marketable securities of NIS 2,652 thousand (USD 747 thousand) in the year ended December 31, 2009, and foreign currency differences of NIS 98 thousand (USD 28 thousand) in the year ended December 31, 2010, compared to NIS 884 thousand (USD 249 thousand) in the year ended December 31, 2009. The financing expenses for the year ended December 31, 2010 primarily included bank fees of NIS 698 thousand (USD 197 thousand), compared to NIS 564 thousand (USD 159 thousand) in the year ended December 31, 2009.

**Profit before taxes on income.** Profit before taxes on income for the year ended December 31, 2010 increased by approximately NIS 3,167 thousand (USD 892 thousand), or by 9.14%, to approximately NIS 37,810 thousand (USD 10,654 thousand) from NIS 34,643 thousand (USD 9,761 thousand) for the year ended December 31, 2009.

**Taxes on Income.** Taxes on income for the year ended December 31, 2010 increased to approximately NIS 8,483 thousand (USD 2,390 thousand) from approximately NIS 5,043 thousand (USD 1,421 thousand) in the year ended December 31, 2009. The increase in taxes on income in 2010 compared to 2009 was attributable to the increase in

income before taxes.

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Profit from continuing operations. Profit from continuing operations for the year ended December 31, 2010 decreased by approximately NIS 273 thousand (USD 77 thousand), or 1%, to approximately NIS 29,327 thousand (USD 8,263 thousand), or 8.42% of revenues, from approximately NIS 29,600 thousand (USD 8,340 thousand), equal to 9.75% of revenues, for the year ended December 31, 2009.

Profit (loss) from discontinued operations. Profit from discontinued operations for the year ended December 31, 2010 was approximately NIS 830 thousand (USD 234 thousand), compared to profit from discontinued operations of NIS 1,928 thousand (USD 543 thousand) for the year ended December 31, 2009. The profit from discontinued operations for the years ended December 31, 2010 and 2009 included the Company's export segment comprised of Baron, the Danish company and WF (Laish).

Profit for the year. Profit for the year ended December 31, 2010 decreased by approximately NIS 1,371 thousand (USD 386 thousand), to approximately NIS 30,157 thousand (USD 8,497 thousand), or 8.66% of revenues, from approximately NIS 31,528 thousand (USD 8,884 thousand), equal to 10.39% of revenues, for the year ended December 31, 2009.

#### Year Ended December 31, 2009 Compared With Year Ended December 31, 2008

Revenues. Revenues for the year ended December 31, 2009 increased by approximately NIS 14,392 thousand (USD 4,055 thousand), or 4.98%, to approximately NIS 303,460 thousand (USD 85,506 thousand) from NIS 289,068 thousand (USD 81,451 thousand) for the year ended December 31, 2008. This increase in revenues resulted mainly from intensive selling and marketing activity and from the launching of new products, especially in the import segment.

Cost of Sales. Cost of sales for the year ended December 31, 2009 decreased to approximately NIS 219,569 thousand (USD 61,868 thousand), or 72.36% of revenues, from approximately NIS 228,839 thousand (USD 64,480 thousand), or 79.17% of revenues, for the year ended December 31, 2008. The decrease in cost of sales was primarily due to the strong New Israeli Shekel (NIS) compared to the US dollar.

Gross Profit. Gross profit for the year ended December 31, 2009 increased to NIS 83,891 thousand (USD 23,638 thousand), or 27.64% of revenues, as compared to a gross profit of approximately NIS 60,229 thousand (USD 16,971 thousand), or 20.83% of revenues, in the year ended December 31, 2008. The increase in the gross profit margin was primarily due to increased revenues of higher margin products in 2009, the launch of new higher-margin products and the strong New Israeli Shekel (NIS) compared to the US dollar.

Selling Expenses. Selling expenses for the year ended December 31, 2009 increased to approximately NIS 35,598 thousand (USD 10,030 thousand), or 11.73% of revenues, from approximately NIS 31,800 thousand (USD 8,960 thousand), or 11.00% of revenues, for the year ended December 31, 2008. The increase in selling expenses was primarily due to an increase in advertising and promotion expenses NIS 3,920 thousands (USD 1,105 thousands) in 2009 as compared to NIS 2,195 thousands (USD 618 thousands) in 2008 and due to an increase in maintenance and rent expenses (NIS 4,801 thousands (USD 1,353 thousands) in 2009 as compared to NIS 3,700 thousands (USD 1,043 thousands) in 2008.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2009 increased to approximately NIS 20,451 thousand (USD 5,762 thousand), or 6.74% of revenues, from approximately NIS 16,863 thousand (USD 4,751 thousand), or 5.83% of revenues, for the year ended December 31, 2008. This increase of general and administrative expenses was attributed to the payment of a management bonus that was linked to our financial results – an expense of NIS 4,078 thousands (USD 1,149 thousands) in 2009, compared to NIS 75 thousands (USD 219 thousands) that was recorded in 2008.



Other Expense (Income). Other income for the year ended December 31, 2009 amounted to NIS 5,330 thousand (USD 1,502 thousand), compared to other expense of NIS 1,846 thousand (USD 520 thousand) for the year ended December 31, 2008. Other income for the year ended December 31, 2009 was mainly due to a capital gain on the purchase of additional shares in Gold frost in the amount of NIS 5,245 thousands (USD 1,478 thousands). Other expense for the year ended December 31, 2008 was primarily due to a final arbitration award entered against the Company for damages in the amount of NIS 1,981 thousand (USD 558 thousand) in connection with a dispute with the Vitarroz Corp.

Operating Income. Operating income for the year ended December 31, 2009 increased by approximately NIS 23,452 thousand (USD 6,608 thousand), or by 241.28%, to approximately NIS 33,172 thousand (USD 9,347 thousand), or 10.93% of revenues, from approximately NIS 9,720 thousand (USD 2,739 thousand), or 3.36% of revenues, for the year ended December 31, 2008.

Financing Income (Expenses), Net. Financing income, net, for the year ended December 31, 2009 was approximately NIS 1,471 thousand (USD 414 thousand) compared to financing expenses, net, for the year ended December 31, 2008 of approximately NIS 4,840 thousand (USD 1,364 thousand). The financing income for the year ended December 31, 2009 primarily included gains from marketable securities of NIS 2,652 thousand (USD 747 thousand), compared to losses from marketable securities of NIS 4,836 thousand (USD 1,363 thousand) in the year ended December 31, 2008, and foreign currency differences of NIS 884 thousand (USD 249 thousand) in the year ended December 31, 2009, compared to NIS 1,602 thousand (USD 451 thousand) in the year ended December 31, 2008. The financing expenses for the year ended December 31, 2009 primarily included bank fees of NIS 564 thousand (USD 159 thousand), compared to NIS 584 thousand (USD 165 thousand) in the year ended December 31, 2008.

Profit before taxes on income. Profit before taxes on income for the year ended December 31, 2009 increased by approximately NIS 29,763 thousand (USD 8,386 thousand), or by 609.90%, to approximately NIS 34,643 thousand (USD 9,761 thousand) from NIS 4,880 thousand (USD 1,375 thousand) for the year ended December 31, 2008.

Taxes on Income. Taxes on income for the year ended December 31, 2009 increased to approximately NIS 5,043 thousand (USD 1,421 thousand) from approximately NIS 1,117 thousand (USD 315 thousand) in the year ended December 31, 2008. The increase in taxes on income in 2009 compared to 2008 was attributable to the increase in income before taxes.

Profit from continuing operations. Profit from continuing operations for the year ended December 31, 2009 increased by approximately NIS 25,837 thousand (USD 7,280 thousand), or 686.61%, to approximately NIS 29,600 thousand (USD 8,340 thousand), or 9.75% of revenues, from approximately NIS 3,763 thousand (USD 1,060 thousand), equal to 1.30% of revenues, for the year ended December 31, 2008.

Profit (loss) from discontinued operations. Profit from discontinued operations for the year ended December 31, 2009 was approximately NIS 1,928 thousand (USD 543 thousand), compared to a loss from discontinued operations of NIS 3,496 thousand (USD 985 thousand) for the year ended December 31, 2008. The profit (loss) from discontinued operations for the years ended December 31, 2009 and 2008 included the Company's export segment comprised of Baron, the Danish company and WF (Laish).

Profit for the year. Profit for the year ended December 31, 2009 increased by approximately NIS 31,261 thousand (USD 8,808 thousand), to approximately NIS 31,528 thousand (USD 8,884 thousand), or 10.39% of revenues, from approximately NIS 267 thousand (USD 75 thousand), equal to 0.09% of revenues, for the year ended December 31, 2008.





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, apart from Shamir.

For the year ended December 31, 2010, cash and cash equivalents increased from approximately NIS 87.1 million (USD 24.5 million) as of December 31, 2009 to approximately NIS 113.6 million (USD 32.0 million) as of December 31, 2010.

During the year ended December 31, 2010, marketable securities increased to NIS 67.9 million (USD 19.1 million) from NIS 11.4 million (USD 3.2 million) as of December 31, 2009.

Cash flow from operating activities

For the year ended December 31, 2010, the Company generated a positive cash flow from continuing operating activities of approximately NIS 20.4 million (USD 5.8 million), compared to positive cash flow from continuing operating activities of approximately NIS 14.8 million (USD 3.9 million) in the year ended December 31, 2009, primarily as a result of a decrease in trade and other payables' and other current liabilities of approximately NIS 12.4 million (USD 3.5 million) and of unrealized gain on marketable securities of approximately NIS 3.3 million (USD 0.9 million).

For the year ended December 31, 2009, the Company generated a positive cash flow from continuing operating activities of approximately NIS 14.8 million (USD 4.2 million), compared to positive cash flow from continuing operating activities of approximately NIS 15.6 million (USD 4.4 million) in the year ended December 31, 2008, primarily as a result of an increase in current assets of approximately NIS 18.2 million (USD 5.1 million) and of unrealized gain on marketable securities of approximately NIS 2.7 million (USD 0.8 million).

For the year ended December 31, 2008, the Company generated a positive cash flow from continuing operating activities of approximately NIS 15.6 million (USD 4.4 million), compared to positive cash flow from continuing operating activities of approximately NIS 11.2 million (USD 3.2 million) in the year ended December 31, 2007, primarily as a result of an increase in trade and other payables, and other current liabilities of approximately NIS 11.0 million (USD 3.1 million) and of unrealized loss on marketable securities of approximately NIS 5.2 million (USD 1.5 million) which was offset by an increase in trade receivables and other receivables of approximately NIS 4.7 million (USD 1.3 million).

Cash flow from investing activities

During the year ended December 31, 2010, the Company utilized cash flow of NIS 59.8 million (USD 16.8 million) for continuing investing activities, compared to NIS 2.1 million (USD 0.6 million) in 2009, primarily for the purchase of marketable securities, net, in the total amount of NIS 53.2 million (USD 14.9 million).

During the year ended December 31, 2009, the Company utilized cash flow of NIS 2.1 million (USD 0.6 million) for continuing investing activities, compared to NIS 3.1 million (USD 0.9 million) in 2008, primarily for the purchase of additional shares of Gold Frost in the total amount of NIS 2.3 million (USD 0.6 million).

During the year ended December 31, 2008, the Company utilized cash flow of NIS 3.1 million (USD 0.9 million) for continuing investing activities, primarily for the purchase of the subsidiaries (Shamir and the Danish dairy distributor) and the purchase of additional shares of Gold Frost in the total amount of NIS 14.9 million (USD 42.0 million) and for additions to fixed assets of NIS 3.1 million (USD 0.9 million), which was offset by proceeds from realization of marketable securities, net, in the amount of NIS 16.7 million (USD 4.7 million).

#### Cash flow from financing activities

During the year ended December 31, 2010, the Company generated a positive cash flow from continuing financing activities of NIS 66.8 million (USD 18.8 million) mainly due to proceeds from a public offering.

During the year ended December 31, 2009, the Company utilized cash flow from continuing financing activities of NIS 4.6 million (USD 1.3 million) mainly due to short term bank borrowings.

#### Cash requirements

The Company's cash requirements, net, during the years ended December 31, 2010 and 2009 were met primarily through its working capital. As of December 31, 2010, the Company had working capital of approximately NIS 249.0 million (USD 70.2 million) compared to working capital of NIS 148.4 million (USD 41.8 million) as of December 31, 2009. 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, 2010 was NIS 85.9 million (USD 24.2 million), compared to the trade receivables balance as of December 31, 2009 which was in the amount of NIS 77.8 million (USD 21.9 million). The average time period within which our accounts receivable were paid was 90 days in 2010, compared to 91 days in 2009.

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

The rate of inflation in Israel in recent years has been significantly reduced, compared to previous years. The rate of devaluation of the NIS against the U.S. Dollar, which was high until 2005, reversed course and the representative rate of the U.S. Dollar, was NIS 3.549 on December 31, 2010, compared to NIS 3.775 on December 31, 2009, NIS 3.802 on December 31, 2008, NIS 3.846 on December 31, 2007 and NIS 4.225 on December 31, 2006. As of June 24, 2011, the representative rate of the U.S. Dollar was NIS 3.445.

The annual rates of inflation in Israel during the years ended December 31, 2006, 2007, 2008, 2009, and 2010 were approximately (0.1%), 3.4%, 3.8%, 3.9% and 2.76% respectively, while during such periods the devaluation of the NIS against the U.S. Dollar was approximately (8.2%), (9.0%), (1.1%), (0.7%) and (5.8%), respectively. During each of the years ended December 31, 2006, 2007, 2008, 2009 and 2010, the rate of inflation in Israel exceeded the rate of devaluation of the NIS against the U.S. Dollar.

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 will have 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 Mizrahi Tefahot 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., Bank Mizrahi Tefahot 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., Bank Mizrahi Tefahot 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, 2010 was approximately NIS 8,043 thousand (USD 2,266 thousand).

The Company also guarantees, without limitation as to amount and for an unlimited period of time, 51% of the obligations of its subsidiary, Shamir, to Bank Mizrahi Tefahot Ltd, Israel Discount Bank Ltd. and Ben-Leumi Le'Israel Ltd. As of December 31, 2010, Shamir obligations to those banks amounted to NIS 6,089 thousand (USD 1,716 thousand).

The Company also guarantees, without limitation as to amount and for an unlimited period of time, the obligations of its wholly-owned subsidiary, W.F.D., to Bank Mizrahi Tefahot Ltd. As of December 31, 2010, W.F.D. had no obligations to Bank Mizrahi Tefahot Ltd.

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. and to Bank Mizrahi Tefahot 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 2007, the global market experienced steep price increases in agricultural commodities and cost pressures due to weather-related problems, reduced milk production, cessation of EU dairy export subsidies at the same time that consumption and demand increased in growing emerging markets. These factors negatively impacted our near term revenues and gross margins. In 2008, and especially in the fourth quarter of 2008, the decrease in our gross margin continued due to the sharp decrease of the global purchase prices of food products, resulting in the sharp decrease in the selling prices of our products as well. Because our commitments to purchase food products were based on higher prices from our vendors, the immediate consequence was a decline in our gross margin in 2008, and a decline in 2009 first quarter gross margins. The decrease of global purchase prices of food products compounded with the strengthening of the U.S. dollar versus the NIS (a devaluation of more than 13% of the NIS in relation to the U.S. Dollar in the second half of 2008 and further devaluation of 10% in first quarter of 2009) and the general effects of the global economic recession, also led to a decline in our gross margin in 2008. Since the middle of 2009, the Israeli market has begun to recover from the global economic recession

that took place in the end of 2008 and in the beginning of 2009. According to the Israeli Central Bureau of Statistics, during 2010 there has been an increase in prices of basic products such as milk products, rice, wheat and corn. This increase in prices is explained by the increase in global demand for food and the transformation of allocation of agricultural land to production of energy substitutes instead of food. There are signs of improvement in some economic indicators (for example – raw commodity, consumption per person, commodity per person). The changes in the economic environment which affected our local market, as well as our customers, the strengthening of the New Israeli Shekel (NIS) compared to the US dollar, and the measures we took to recover from the recession (including expanding our product lineup, introducing new products, and increased sales of higher margin products) led to an increase in our revenues and our gross margins. Revenues in 2010 of 348,358 (USD 98,156) compared to NIS 303,460 thousands (USD 85,506) in 2009, and NIS 289,068 thousands (USD 81,450 thousands) in 2008 and a gross margin of 28.93% in 2010 compared to 27.64% in 2009, and 20.83% in 2008.

The Company is operating from a new logistics center starting from the second quarter of 2007 with the aim of increasing the efficiency of its logistic process and reducing its operating expenses. The Company is also working towards increasing its sales to customers outside of Israel.

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, investigations, and following negative publications regarding those customers or other signs indicating financial difficulties.

In the U.S., despite the declining Jewish population (due to intermarriage and lower birth rates), a published report from August 2010 ("United States Kosher Food Market Brief" – Agri-Food Trade Service) concluded that global demand for kosher products is growing because of demand for kosher products is not limited to just the Jewish population. As the U.S. kosher market grows and becomes increasingly popular, a greater number of retail outlets have directed their attention towards buying kosher foods. Kosher foods, are among the fastest growing current trends in food processing. The majority of today's kosher consumers are classified within the following categories: 1) non-Jewish religiously-observant consumers such as Muslims and 7th Day Adventists; 2) Consumers with specific dietary restrictions and preferences, and; 3) Health and safety-conscious consumers, accounting for more than 75% of non-Jewish kosher-seeking consumers. Despite their unique characteristics kosher-food customers are marked by two key factors: 1) higher than average spending power and 2) a willingness to spend more for products that they deem superior in quality and intrinsic value. We believe that an increasing number of mainstream consumers are becoming concerned about the integrity of the food they eat for ethical or health reasons and this will provide growth opportunity for the kosher market. In addition to the increase in health-conscious consumers, we believe that other ethnic and religious groups contribute to the increase in the kosher food market since the dietary restrictions for certain other religious groups are met by kosher food.

E. OFF-BALANCE SHEET ARRANGEMENTS

Not applicable

F. TABULAR DISCLOSURE OF CONTRACTURAL OBLIGATIONS

The following table of the Company's material contractual obligations as of December 31, 2010 summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated:

| Contractual Obligations | Payments due by period    |                          |                             |           |                      |
|-------------------------|---------------------------|--------------------------|-----------------------------|-----------|----------------------|
|                         | Total                     | Less than 1<br>year      | 1-3 years<br>(in thousands) | 3-5 years | More than<br>5 years |
| Open purchase orders    | NIS 3,401<br>(USD 958)    | NIS 3,401<br>(USD 958)   | --                          | --        | --                   |
| Loans from banks (*)    | NIS 6,089<br>(USD 1,716)  | NIS 5,780<br>(USD 1,629) | NIS 309<br>(USD 87)         | --        | --                   |
| Lease agreements        | NIS 984<br>(USD 277)      | NIS 548<br>(USD 154)     | NIS 436<br>(USD 123)        | --        | --                   |
| Total                   | NIS 10,474<br>(USD 2,951) | NIS 9,729<br>(USD 2,741) | NIS 745<br>(USD 210)        | --        | --                   |

(\*) The interest rates are as follows:

Overdraft in the amount of NIS 2,214 thousand (USD 624 thousand) bears interest at an annual rate of prime +1.11% through prime+3.25%.

Short term bank loans in the amount of NIS 3,622 thousand (USD 1,021 thousand) bear annual interest of prime+1.05% through prime+2%.

Long term bank loans in the amount of NIS 1,196 thousand (USD 337 thousand) bear annual interest of prime-0.25% through prime+2.25%.

G. SAFE HARBOR

This Annual Report contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events, based on certain assumptions and information currently available to management, all of which are subject to certain risks and uncertainties including, among others:

- changes affecting currency exchange rates, including the NIS/U.S. Dollar exchange rate;
- 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;
- our inability to accurately predict consumption of our products;



- we may not successfully integrate our prior acquisitions;
- our inability to anticipate changes in consumer preferences;
- product liability claims and other litigation matters;
- interruption to our storage facilities;
- 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 protect our intellectual property rights;

- our inability to meet the Nasdaq listing requirements;
- significant concentration of our shares are held by one shareholder;
- our management could lose a major amount of its indirect ownership of our common stock through litigation;
- we are controlled by and have business relations with Willi-Food and its management;
- The price of our ordinary shares may be volatile;
- 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;
- difficulties in acquiring jurisdiction and enforcement liabilities against our officers and directors who are based in Israel; and,
- our international operations may be adversely affected by risks associated with international business.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results of operations may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

## 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           | 54  | Chief Executive Officer and Director              |
| Zwi Williger              | 56  | Chief Operating Officer and Chairman of the Board |
| Talma Barbash Knoller (1) | 53  | External Director                                 |
| Ariel Herzfeld (1)        | 56  | External Director                                 |
| Chaim Gertal (1)          | 75  | Director  |
| Gil Hochboim              | 41  | Vice President                                    |
| Baruch Shusel             | 44  | 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 Chief Executive Officer (or general manager) and a Director of the Company since its inception in January 1994. He has also served as the Chairman of the Company's subsidiaries, W.F.D. and Gold Frost, since November 1996 and April 2001, respectively. Mr. Williger has also served as a director and as chairman of the Board of Willi Food, the controlling shareholder of the Company, since December 1992 and June 1994, respectively. Mr. Williger has served as Director of Titanic, a company he owns together with Mr. Zwi Williger, since April 1990. Mr. Williger attended Bar-Ilan University in Israel and Nortrige University in Los Angeles. Mr. Williger is the brother of Zwi Williger, Chief Operating Officer and Chairman of the Board of Directors of the Company.

Zwi Williger has served as the Chief Operating Officer and Chairman of the Company since January 1997, and from inception of the Company to January 1997 as a director and Manager of Marketing Development of the Company. Mr. Williger has also served as a director of the Company's subsidiaries, W.F.D., Gold Frost and Chairman of Shamir, since November 1996, April 2001 and January 2008, respectively. In addition, Mr. Williger has served as a director of Willi Food since December 1992 and as a director of Titanic since April 1990. Mr. Williger attended Fresno University in California. Zwi Williger is the brother of Joseph Williger, Chief Executive Officer and a director of the Company.

Talma Barbash Knoller, has served as an external director since January 2011. Ms. Barbash Knoller is a member of the Audit Committee of the Company. Ms. Barbash Knoller is a Certified Public Accountant (Isr.). Ms. Barbash Knoller serves as a director and on the Investments, Comptrollers and Solvency committees of Shlomo Insurance Company Ltd. Between 2007 and 2010 Ms. Barbash Knoller served as business development officer of Naama Naot Ltd., an affiliate of the Shamrock group. Between 1996 and 2007 Ms. Barbash Knoller served as Chief Comptroller of Gmul Investment Company Ltd. (a public holding company). Ms. Barbash Knoller earned her BA degree in accounting and BA in Economy and Statistics from Tel-Aviv University, Israel.

Ariel Herzfeld has served as an external director since August 30, 2006, and on September 1, 2009 he was re-appointed for one additional three-year period by the annual general meeting of the shareholders. Mr. Herzfeld is a senior partner in the Israeli CPA firm, M. Herzfeld & Co. and in Herzfeld-Cohen Management Services where he provides auditing, consulting and management services, to a wide variety of private and public organizations. Mr. Herzfeld also served as a director (including a member of the audit committee) in TADIRAN GROUP Ltd., a prominent Israeli importer of appliances & airconditions that is traded on the Tel-Aviv Stock Exchange. Mr. Herzfeld was the managing partner in charge of the audit-force nominated by the Israeli Parliamentary Investigation Commission for locating and restoring property for Holocaust victims in Bank Hapoalim B.M (one of the largest banks in Israel). Mr. Herzfeld earned his BA degree from the University of Denver in Colorado in 1978 and his MBA, in which he majored in information systems analysis, from the Ono Academic College, in 2005. Mr. Herzfeld is a Certified Public Accountant (Isr.) and a Certified System.

Chaim Gertal, has served as a director of the Company since August 2010. Mr. Gertal is a member of the Audit Committee of the Company. From 1979 to 1999, Mr. Gertal was the general manager of Hanetz Import & Export Ltd., a subsidiary of Shufersal Ltd., the biggest supermarket chain in Israel and at the same time served as head of Food importers committee at the Israeli chamber of commerce. From 1954 to 1979 he served in the IDF, inter alia as commander of a logistics center, after being trained in logistics system management, and retired as a colonel). Mr. Gertal received his degree in Economy, Political Science and Sociology (B.A.) from Bar-Ilan University, Israel.

Gil Hochboim returned to the Company as Vice President in June 2007, with responsibility for mergers and acquisitions and general operations. Mr. Hochboim served as Chief Financial Officer of the Company between August 2000 and October 2006. Between March 1998 and August 2000, he served as deputy manager of Ha'menia Goods Transport Corp. Ltd., and between April 1995 and February 1998, as deputy comptroller of Dan Hotels Corp. Ltd. Mr. Hochboim is a certified public accountant (Israel). He received his BA in Accounting and Business Management from the College of Management, Tel Aviv, Israel.

Baruch Shusel has served as Chief Financial Officer since December 30, 2010. Mr. Shusel has extensive experience in the food retail market. Prior to joining the Company he was the Chief Financial Officer of L.D.S. (Commodities) Ltd. (which was one of the largest sugar importers in Israel) where he began working in January 2001. Between January 1995 and December 2000 Mr. Shusel served as the controller of Sugat (1967) (which is one of the largest food manufacturers in Israel). Mr. Shusel is a certified public accountant (Israel). He received his BA in Accounting and Economics and his MSc in Industrial Management from Ben Gurion University of the Negev, Beer Sheva, Israel.

## B. COMPENSATION

### Compensation of Directors and Officers

The aggregate compensation paid by the Company to its directors and officers as a group for the fiscal year 2010 was approximately NIS 3.9 million (USD 1.1 million), excluding bonuses in an aggregate amount of approximately NIS 4.2 million (USD 1.1 million) paid to Messrs. Joseph and Zwi Williger. These amounts include all contingent or deferred compensation payable to directors or officers during 2010. These amounts also include payments to non-executive directors in the aggregate amount of approximately NIS 176 thousand (USD 50 thousand) during 2010.

The foregoing does not include amounts expended by the Company for motor vehicles made available to its officers, expenses (including business travel, professional and business association dues and expenses) reimbursed to officers and other benefits commonly reimbursed and paid for by companies in Israel. The Company provides motor vehicles to key employees and certain officers, at the Company's expense.

See also "Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions".

#### Management Service Agreements

As of June 1, 1998, the Company entered into management services agreements with companies controlled by each of Messrs. Joseph and Zwi Williger, respectively (collectively, the "Williger Management Companies"), pursuant to which Messrs. Joseph and Zwi Williger provide management services on behalf of the Williger Management Companies to the Company (the "Management Services Agreements").

The term of each of the Management Services Agreements was for a period of four years commencing on June 1, 1998 (the "Management Services Period"), each of which was automatically renewed on June 1, 2002 for additional two years periods and were automatically renewed for an additional period of two years in June 1, 2004. Under these agreements, the Company has the ability to terminate the Management Services Agreements only upon six months notice prior to the end of the Management Services Period or any extension thereof as the case may be. In the event the Company terminates any of the Management Services Agreements prior to the expiration of the Management Services Period or any extension thereof, for any reason whatsoever, it is obligated to pay all amounts due under the respective Management Services Agreements through the expiration of the Management Services Period or any extension thereof, as the case may be.

Each of the Management Services Agreements provides for monthly service fees equal to USD 24,500 (excluding VAT) and an annual bonus at a rate of 3% of the Company's pre-tax consolidated annual profits, if such profits are equal to or less than NIS 3.0 million (approximately USD 0.8 million), or at a rate of 5% if such profits exceed such level. The Management Services Agreements further provide that benefits in general, including the social benefits of Messrs. Joseph or Zwi Williger, and income tax payments, national insurance payments and other payments due by employees with respect of their employment, are to be paid for at the sole expense of the Williger Management Companies. The Williger Management Companies undertook to indemnify the Company with respect to any claims against the Company with respect to employer/employee relations. In addition, each of the Management Services Agreements includes non-competition provisions for the duration of the Management Services Period as well as confidentiality provisions.

In July 2005, the Management Services Agreements was amended as follows:

- (1) The term of the Management Services Agreements were extended indefinitely, subject to clauses (2), (5) and (6) below.
- (2) Each of the parties to the Management Services Agreements may terminate the agreement at any time, and for any reason, by prior written notice, which will be delivered to the other party as follows:
  - The Company may terminate the agreement at any time, and for any reason, by prior written notice of at least 18 months.
  - Each Williger Management Company may terminate the agreement at any time, by prior written notice of at least 180 days.



- (3) The Company may waive receiving actual management services from the Williger Management Company during the prior notice period, but this will not eliminate its obligation to continue paying the Williger Management Company the management fees owed to the Williger Management Company until the termination of the prior notice period.
- (4) If a Williger Management Company terminates the Management Services Agreement, the Williger Management Company will be entitled to receive the management fees for a period of six (6) months, which shall begin after the prior notice period, whether or not it provides the Company with any management services during such six-month period.
- (5) In the event the Williger Management Company provides the management services to the Company without the presence of Messrs. Zwi Williger or Joseph Williger, as the case may be, and/or in the case of the death and/or permanent disability of Messrs. Zwi Williger or Joseph Williger, the Company will be entitled to terminate the Management Services Agreement immediately.
- (6) Both Messrs. Zwi Williger and Joseph Williger have agreed with the Company that if a liquidation order or receivership order is issued against a Williger Management Company which prevents the Williger Management Company from continuing to provide the management services according to the Management Services Agreement, they will immediately commence working for the Company in return for pay and social benefits costing the Company the same amount as the monthly management fees that the Company paid the Williger Management Company to that date, or alternatively, at their sole discretion, shall begin providing the Company with management services via another company owned and controlled by them under the conditions of the Management Services Agreement.
- (7) In addition, the Management Services Agreements contain provisions regarding the Company providing vehicles for the use of Messrs. Zwi Williger and Joseph Williger, and regarding full reimbursement of expenses incurred by Messrs. Zwi Williger and Joseph Williger while providing the management services to the Company, including reasonable lodging and travel expenses in Israel and abroad, phone expenses in their home and mobile phone expenses, including calls abroad related to providing the management services to the Company, subject to providing receipts.

These amendments were approved unanimously by the Audit Committee and the Board of Directors on May 4, 2005, and Messrs. Zwi Williger and Joseph Williger did not participate in the meetings of the Audit Committee and the Board of Directors. These amendments were approved by the Company's shareholders on July 20, 2005.

On February 15, 2006, in light of the decision of the Israeli Securities Authorities to limit the duration of the aforesaid Management Services Agreements to a period of five (5) years, the Board of Directors decided to limit the duration of the Management Services Agreements to a period of five (5) years each, both ending five years after the date of their approval by the General Meeting of Shareholders (i.e. July 19, 2010).

On March 16, 2008, the Management Services Agreements with Messrs. Zwi Williger and Joseph Williger were amended as follows:

- (a) The current monthly services fees according to the Management Services Agreements will cease to be linked to the US Dollar and will be translated to NIS 102,900 (excluding VAT) linked to changes in the Israeli CPI.
- (b) The terms of the Management Services Agreements are to be extended indefinitely, subject to clause (c) below; provided however that in the event the Williger Management Company provides the management services to the Company without the presence of Messrs. Zwi Williger or Joseph Williger, as the case may be, and/or in the case of



the death and/or permanent disability of Messrs. Zwi Williger or Joseph Williger, the Company will be entitled to terminate the Management Services Agreement immediately.

(c) Each of the parties to the Management Services Agreements may terminate the agreement at any time, and for any reason, by prior written notice which will be delivered to the other party as follows:

- The Company may terminate the agreement at any time, and for any reason, by prior written notice of at least 36 months.
- The Williger Management Company may terminate the agreement at any time, by prior written notice of at least 180 days.

(d) If a Williger Management Company is to terminate the Management Services Agreement, the Williger Management Company would be entitled to receive the management fees for a period of twelve (12) months, which will begin after the prior notice period, whether or not it provides the Company with any management services during such twelve-month period.

In addition, the Management Services Agreements contain provisions entitling each of Messrs. Zwi Williger and Joseph Williger to 30 vacation days per year, during which days the applicable Williger Management Company will not provide management services to the Company. Unused vacation days may be accumulated and paid for in lieu of taking such days as vacation.

The amendments were approved unanimously by the Audit Committee and the Board of Directors on January 2, 2008, and Messrs. Zwi Williger and Joseph Williger did not participate in the meetings of the Audit Committee and the Board of Directors. These amendments were approved by the Company's shareholders on March 13, 2008.

Under the Transfer Agreement dated February 16, 2006, and effective as of January 1, 2006 between the Company and Gold Frost, 50% of the Company's rights and obligations stipulated in the management agreement with Mr. Zwi Williger were transferred to Gold Frost and 20% of the Company's rights and obligations stipulated in the management agreement with Mr. Joseph Williger were transferred to Gold Frost.

#### Employment Agreements

In June 2007, the Company entered into an employment agreement with Mr. Gil Hochboim, pursuant to which Mr. Hochboim agreed to serve as the Vice President of the Company. The agreement provides for a monthly salary and benefits customarily provided by the Company to its senior employees, including bonuses and the use of a vehicle.

In December 2010, the Company entered into an employment agreement with Mr. Baruch Shusel, pursuant to which Mr. Shusel agreed to serve as the Chief Financial Officer of the Company. The agreement provides for a monthly salary and benefits customarily provided by the Company to its senior employees, including bonuses and the use of a vehicle.

### C.

### BOARD PRACTICES

#### Terms of Office

Directors are elected by the shareholders at the annual general meeting of the shareholders, except in certain cases where Directors (who are not External Directors) are appointed by the Board of Directors, and their appointment is later ratified at the first meeting of the shareholders thereafter. Except for External Directors (as discussed below), Directors serve until the next annual general meeting of the shareholders.



### Alternate Directors

The Articles of Association of the Company provide that any director may, by written notice to the Company, appoint another person to serve as an alternate director. Under the Israeli Companies Law, the directors of the Company cannot appoint an incumbent director or an incumbent alternate director as an alternate director. The term of appointment of an alternate director may be for a specified period, or until notice is given of the termination of the specified period or of the appointment. A Director on a Board Committee may appoint anyone to be his Alternate subject to the potential alternate not being a member of such committee, and if the appointing Director is an External Director then the alternate must be an External Director having suitable financial and accountancy expertise or professional qualifications, as those of the appointing director. Except for the foregoing regarding a committee of the Board of Directors, an External Director cannot appoint an alternate director.

### Audit Committee

#### Nasdaq Requirements

Our ordinary shares are listed for quotation on the Nasdaq Capital Market, and we are subject to the rules of the Nasdaq Capital Market applicable to listed companies. Under the current Nasdaq rules, a listed company is required to have an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. Talma Barbash Knoller, Haim Gertal and Ariel Herzfeld qualify as independent directors under the current Nasdaq requirement and are members of the Audit Committee. The role of the audit committee for Nasdaq purposes includes assisting the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the Company's accounting, auditing and reporting practices.

#### Companies Law Requirements

Under the Israeli Companies Law, the board of directors of a public company must appoint an audit committee, comprised of at least three directors including all of the external directors, with a majority of independent directors but excluding a:

- chairman of the board of directors;
- controlling shareholder or his relative;
- any director employed by or who provides services to the company on a regular basis.
- any director employed by the main shareholder or by any corporation controlled by the main shareholder;
  - any director employed by or who provides services to the company on a regular basis;
- any director employed by or who provides services to the company main shareholder on a regular basis or by corporation controlled by the main shareholder;
  - any director who is main livelihood in the main shareholder;

The Chairman of the audit committee must be an external director.

The responsibilities of the audit committee under the Israeli Companies Law include identifying irregularities in the management of the company's business and approving related party transactions as required by law - approval among other things, "actions" or "transactions" (as such terms are defined in the Israeli Companies Law), overseeing the business management practices of the Company in consultation with the Company's internal auditor and independent auditors, and making recommendations to the Board to improve such practices and approving transactions with affiliates.

Furthermore, Israeli Companies law requires that the financial statements of a company be brought before committee of the board, the financial statements review committee. The majority of the members of this committee are required to be independent directors, in accordance with the independence criteria set forth in the Israeli Companies law, and the committee is to be chaired by an external director. The committee is required to discuss the financial statements and present to the board its recommendations with respect to the proposed financial statements. Israeli Companies law permits the audit committee of a company to perform the functions of the financial statements review committee, provided the audit committee meets the requirements set forth regarding the composition and function of the financial statements review committee. Since our audit committee meets these requirements, the Company's audit committee also performs the functions of the financial statements review committee.

### Independent Directors

The Company is a “Controlled Company” within the meaning of the Nasdaq rules since more than 50% of its voting power is held by Willi Food. As a Controlled Company, the Company is exempt from certain Nasdaq independence requirements, such as the requirement that a majority of the Board of Directors be independent and the rules relating to independence of directors approving nominations and executive compensation.

### External Directors under the Israeli Companies Law / Financial Experts

The Israeli Companies Law requires that the Company have at least two external directors on its Board of Directors. The election of an external director under the Israeli Companies Law must be approved by a general meeting of shareholders provided that either: (a) the majority of shares voted at the meeting, including at least a majority of the shares of non-controlling shareholders or who and must meet certain non-affiliation criteria—all as provided under Israeli law, voted at the meeting, vote in favor of such arrangement (not including abstentions) or (b) the total number of shares voted against such arrangement does not exceed two percent of the aggregate voting rights in the company.

A “Controlling Shareholder” is defined in the Israeli Companies Law as a shareholder with the ability to control the actions of the company, whether by majority ownership or otherwise, and for the purpose of transactions with related parties, it may include a shareholder who holds at least 25% of the voting rights in the Company, provided that there is no other Shareholder who holds more than 50% of the voting rights in the Company.

The Israeli Companies Law further requires that at least one external director have financial and accounting expertise, and that the other external director(s) have professional competence, as determined by the company’s board of directors. , A director having financial and accounting expertise is a person who, due to his or her education, experience and talents is highly skilled in respect of, and understands, business-accounting matters and financial reports in a manner that enables him or her to understand in depth the company’s financial statements and to stimulate discussion regarding the manner in which the financial data is presented. Under the regulations, a director having professional competence is a person who has an academic degree in either economics, business administration, accounting, law or public administration or an academic degree in an area relevant to the company’s business, or has at least five years experience in a senior position in the business management of a corporation with a substantial scope of business, in a senior position in the public service or a senior position in the field of the company’s business.

An External Director is appointed for a period of three consecutive years and may be re-appointed for two additional three-year period only, subject to certain conditions (including approval by our shareholders at a general meeting) as provided under Israeli regulations. Under the Company’s Articles of Association, any committee of the Board of Directors to which the Board of Directors has delegated its powers in whole or in part, must include at least one External Director. Under the Israeli Companies Law, the Audit Committee must include all the External Directors.

The External Directors of the Company are Mrs. Talma Barbash Knoller, who was appointed as an External Director in January 2011, and Mr. Ariel Herzfeld, who was appointed as an External Director in August 2006 and who was re-appointed for one additional three-year period in September 2009.

#### Fiduciary Duties of an Officer

The Israeli Companies Law governs the duty of care and duty of loyalty which an Officer has to the company. An "Officer" is defined in the Israeli Companies Law as a director, general manager, chief executive officer, executive vice president, vice president, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title and other managers directly subordinate to the general manager.

The duty of loyalty and to act in good faith, requires the Officer to avoid any conflict of interest between the Officer's position in the company and personal affairs, and proscribes any competition with the company or the exploitation of any business opportunity of the company in order to receive personal advantages for him or herself or others. This duty also requires him or her to reveal to the company any information or documents relating to the company's affairs that the Officer has received due to his or her position as an Officer. The duty of care requires an Officer to act in a way that a reasonable Officer would act in the same position and under the same circumstances. This includes the duty to utilize reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information.

The Directors of the Company are entitled to obtain all information relating to such company's management and assets and to receive assistance, in special cases, from outside experts at the expense of the company. The law imposes an obligation on the directors of the company to act to convene a meeting of a company's board of directors upon becoming aware of matters that suggest infringements of law, neglect of good business practice or conduct by an Officer, which may result in a breach of duty of such Officer.

#### Internal Auditor

Under the Israeli Companies Law, Israeli companies whose securities are publicly traded are also required to appoint an internal auditor, in accordance with the proposal of the audit committee. The role of the internal controller is to examine, inter alia, whether the Company's actions comply with the law, integrity and orderly business procedures. Mr. Doron Yonisy is the internal auditor of the Company since September 2010. Mr. Joshua Freund was the internal auditor of the Company from November 1997 until August 2010.

#### Indemnification

In accordance with the Israeli Companies Law and the Company's Articles of Association, the Company has undertaken to indemnify and insure its directors and senior officers, against certain liabilities which they may incur in connection with the performance of their duties. Under the terms of such indemnification provisions, the Company may, to the extent permitted by law, indemnify an Officer for legal expenses incurred by him/her in connection with such indemnification.

In 2005, the Company restated its Articles of Association in order to conform the Company's Articles of Association to the revised provisions of the Israeli Companies Law. On May 4, 2005, the Board of Directors and Audit Committee of the Company also approved an exemption in advance to any Director or Officer from any liability to the Company attributed to damage or loss caused by breach of the Director's or Officer's duty of care owed to the Company, except for such breach of duty of care in distribution (as such term is defined in the Israeli Companies Law).





Also, the Board of Directors, the Audit Committee and the shareholders approved an irrevocable indemnification of the Officers by the Company with respect to any liability or expense paid for by the Officer or that the Officer may be obligated to pay.

#### Approval of Related Party Transactions under the Israeli Companies Law

The Israeli Companies Law requires that an Office Holder promptly disclose any direct or indirect personal interest that he/she or his/her affiliates may have, and all related material information known to him/her, in connection with any existing or proposed transaction by the company. If the Office Holder complies with such disclosure requirements, the company may approve the transaction in accordance with the provisions of its articles of association and the Israeli Companies Law. Under the Israeli Companies Law, if the Office Holder has a personal interest in the transaction, the approval must confirm that the transaction is not adverse to the company's interest.

In most circumstances, the Israeli Companies Law restricts Office Holders who have a personal interest in a matter which is considered at a meeting of the board or the audit committee from being present at such meeting, participating in the discussions or voting on any such matter.

Generally, under the Israeli Companies Law the compensation of an Officer who is a director, or the compensation of an Officer who holds a controlling interest in the company, requires the approval of the Audit Committee, the Board of Directors and the general meeting of the shareholders of the company. The Israeli Companies Law also requires that a transaction between the company and its Officer and also a transaction between the company and another person in which an Officer has a personal interest, requires the approval by both the audit committee and the of the Board of Directors if such transactions are not extraordinary transactions, although, as permitted by law and subject to any relevant stock exchange rule. If such transactions are extraordinary transactions (that is, a transaction other than in the ordinary course of business, otherwise than on market terms, or is likely to have a material impact on the company's profitability, assets or liabilities), in addition to Audit Committee approval, the transaction also must be approved by the Board of Directors, and, in certain circumstances, the shareholders of the Company at a general meeting. Under the Israeli Companies Law, an extraordinary transaction between a public company and a person having control of the company or an extraordinary transaction between a public company and another person, in which a controlling member has a personal interest, must be approved by the Audit Committee, the Board of Directors and a meeting of the shareholders, provided that either: (a) the majority of shares voted at the meeting, including at majority of the shares voted by shareholders who do not have a personal interest in the matter and who are present at the meeting, are voted in favor of such arrangement (abstentions shall not be included in the total of the votes) or (b) the total number of shares of the shareholders referred to in clause (a) voting against such arrangement does not exceed two percent of the aggregate voting rights of the company.

Under the Israeli Companies Law, a private placement to a shareholder becoming a Controlling Shareholder, or a private placement to a principal shareholder (a holder of 5% or more of a company's issued share capital or voting rights) or due to which a shareholder will become a principal shareholder of at least 20% of the voting rights in the Company before such placement, is also subject to the approval of the Audit Committee, the Board of Directors and a meeting of the shareholders, as specified above. Directors with respect to whom the foregoing matters are brought for Board of Directors or Audit Committee approval are not entitled to be present during discussions of, nor to participate in the vote for approval of, such matters at the Board of Directors and/or Audit Committee meetings, unless a majority of Audit Committee or Board members, as the case may be, have a personal interest in such matter or the matter involves non-extraordinary transactions between the company and either a Director or a third party in which a Director has a personal interest. The Israeli Companies Law further provides that in the event that a majority of board members have a personal interest in such a matter, it also requires shareholder approval. In cases in which the approval of the audit committee is required, the audit committee may only approve such transactions if two statutory independent directors are members of the audit committee and at least one of them is present at the meeting at which

the transaction is approved.

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EMPLOYEES

Since December 31, 2010, the Company, including its subsidiaries, employed a total of 227 persons (all of them are located in Israel), 17 of whom were in management, 26 of whom were in accounting and importing positions, 47 of whom were involved in the Company's sales and marketing departments and 137 of whom were employed in logistics networks (manufacturing, warehousing and transportation). This compares with 242 employees as of December 31, 2009, 19 of whom were in management, 23 of whom were in accounting and importing positions, 42 of whom were involved in the Company's sales and marketing departments, and 158 of whom were employed in logistics networks (warehousing and transportation).

Since December 31, 2010, 73 additional employees (stewards and sales people) were engaged on an hourly basis. On December 31, 2009, the number was 77. Other employees were supplied by temporary manpower companies, on as needed bases.

Most of the Company's employees are party to written employment contracts. Regarding the Company's management services agreements with companies controlled by Messrs. Joseph and Zwi Williger, see "Item 6. Directors, Senior Management and Employees – B. Compensation - Management Service Agreements".

During the first half of 2009, the Company's management took actions to reduce the Company's expenses by, among other things, a temporary six-month 5% decrease in management's salaries.

The Company believes that its working relations with its employees are satisfactory. Israeli labor laws are applicable to most of the Company's employees, as are certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) (the "Histadrut") and the Coordination Bureau of Economic Organizations (including the Manufacturers' Association of Israel) (the "MAI"), by order of the Israeli Ministry of Labor. These provisions, along with the Israeli labor laws, principally concern the length of the work day, minimum daily wages for professional employees, paid annual sick leave, prohibition of discrimination, insurance for work-related accidents, social security, procedures for termination of employment by dismissal, entitlement to and calculation of severance pay and other terms of employment.

In addition, Israeli employers, including the Company, are required to provide certain escalations in wages in relation to the increase in the Israeli CPI. The specific formula for such escalation varies according to agreements between the Government of Israel, the MAI and the Histadrut.

A general practice in Israel, which is followed by the Company, is the maintenance of a pension plan to the benefit of its employees (the "Pension Plan"). Each month, both the Company and its employees allocate sums to the Pension Plan. Types of Pension Plans may vary, while a commonly used Pension Plan is known as "Manager's Insurance". Pension Plans provide a combination of savings plan, insurance and severance pay benefits to participating employees. Some of the sums allocated monthly by the Company to the employees' Pension Plans are on account of severance pay to which the employees may be entitled, upon termination of employment. Each month the employee contributes an amount which equals to 3.33% to 7.5% of his insured salary, and the Company contributes an additional sum of between 6.66% to 15.83% to his insured salary. In addition, Israeli law generally requires payment of severance pay upon the retirement or death of an employee or termination of employment without due cause. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute (which is similar, to some extent, to the United States Social Security Administration). The payments thereto amount to 6.95% to 17.90% of wages; the employee's share being 3.5% to 12% (depending on the marginal level of wages) and the employer's share being 3.45% to 5.90%.



## E. SHARE OWNERSHIP

For information regarding the share ownership of Directors and Officers of the Company see "Item 7. Major Shareholders and Related Party Transactions".

### Employee Share Option Plan

In May 1997, the Board of Directors of the Company adopted an employee share option plan (the "1997 Share Option Plan"), pursuant to which the Company granted options to purchase 180,000 ordinary shares to employees, officers, Directors and consultants of the Company and the subsidiary (including 160,000 options to related parties).

Of the above, options to purchase an aggregate of 130,000 ordinary shares were granted to Mr. Joseph Williger and Mr. Zwi Williger at an exercise price equal to the nominal value per share of NIS 0.10. The options were exercisable as to 20% every six-months anniversary from the date of grant, on a cumulative basis, during a period of five years. These options were exercised in January 2000.

Options to purchase 35,000 ordinary shares were held by the Company's Officers and Directors (as a group) and options to purchase 15,000 ordinary shares were held by other employees. The options, granted as of the effective date of the Company's initial public offering under the Company's 1997 Share Option Plan, are generally exercisable during a five-year period commencing on the 24th month anniversary from the date of grant, at an exercise price equal to the initial public offering price per share - USD 4.10 per share, which was equal to the fair market value of the shares on the date of the grant. On April 2004, Zwi Williger and Joseph Williger exercised 15,000 options each at an exercise price of USD 4.10 per share. The 1997 Share Option Plan was terminated in May 2004, and the remaining 20,000 options expired unexercised.

On January 2008, Willi-Food's Board of Directors adopted an employee's stock incentive plan, initiated also for the Company's employees. On 2009 the plan has been amended.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. MAJOR SHAREHOLDERS

The following table sets forth, as of June 24, 2011, the number of ordinary shares beneficially owned by (i) each shareholder known to the Company to own more than 5% of the ordinary shares and (ii) all directors and officers as a group:

| Name and Address                                  | Number of<br>Ordinary<br>Shares<br>Beneficially<br>Owned | Percentage<br>of<br>Ordinary<br>Shares |
|---|--|--|
| Willi Food (1)                                    | 7,171,737  | 52.84 %                                |
| Joseph Williger (1)(2)                            | 7,180,337 (2)  | 52.90 %                                |
| Zwi Williger (1)(2)                               | 7,676,144 (2)  | 56.55 %                                |
| All directors and officers as a group (2 persons) | 7,684,744 (2)  | 56.61 %                                |

(1) Willi Food's securities are traded on the Tel Aviv Stock Exchange. The principal executive offices of Willi Food are located at 4 Nahal Harif St., Northern Industrial Zone, Yavne, 81106 Israel. The business address of each of Messrs. Joseph Williger and Zwi Williger is c/o the Company, 4 Nahal Harif St., Northern Industrial Zone,

Yavne, 81106 Israel.

- (2) Includes 7,171,737 Ordinary Shares owned by Willi Food. Messrs. Zwi Williger and Joseph Williger serve as directors and executive officers of Willi Food and of the Company.

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In August 2007, the Company announced the sale by Messrs. Zwi Williger and Joseph Williger of approximately 42% of the outstanding shares of Willi Food to Mr. Arie Bar Lev (Arcadi Gaydamak) ("Gaydamak"). On September 24, 2008, each of the Williger Management Companies exercised its call option rights on shares in Willi Food and warrants (series 2) certificates to acquire shares in Willi Food that were held by Gaydamak and were granted by Gaydamak to the Williger Management Companies as security for loans that each made to Gaydamak. As a result, Zwi Williger (through his management company Zvi V & Co. Company Ltd.) acquired 2,059,539 additional shares of Willi Food and 150,000 additional warrants (series 2) certificates of Willi Food, and Joseph Williger (through his management company Yossi Willi Management & Investments Ltd.) acquired 2,059,538 additional shares of Willi Food and 150,000 additional warrants (series 2) certificates of Willi Food.

Loans from the Williger Management Companies to Gaydamak were made under separate loan and option agreements signed on August 31, 2008, pursuant to which each of the Williger Management Companies loaned NIS 38 million to Gaydamak. Each loan was secured by securities in several companies, including a first priority lien on 2,059,539 (2,059,538 in the case of Yossi Willi Management & Investments Ltd.) shares of Willi Food (50% of Gaydamak's total Willi Food shares) and on 150,000 warrants (series 2) certificates (50% of Gaydamak's total Willi Food warrants (series 2) certificates). Under the loan and option agreements, the Williger Management Companies were granted call rights to acquire any or all of the securities on the occurrence of a default.

All of the shareholders of the Company (including Willi Food) have the same number of votes for each ordinary share held. Accordingly, the major shareholders of the Company, Willi Food, do not have voting rights that are different from those of the Company's other shareholders. The Company believes that 5,888,935 Ordinary Shares (approximately 43.38% of its outstanding Ordinary Shares) are held by persons who are not officers, directors or the owners of 10% of the Company's outstanding Ordinary Shares. As of June 24, 2011, there were 18 holders of Ordinary Shares of record registered with a United States mailing address, including banks, brokers and nominees. These holders of record, including a part of the Company's shares held by Willi Food through brokers, represented as of June 24, 2011 approximately 74.95% of the total outstanding Ordinary Shares. Because these holders of record include banks, brokers and nominees, the beneficial owners of these Ordinary Shares may include persons who reside outside the United States.

## B. RELATED PARTY TRANSACTIONS

### Management Service Agreements.

For information regarding Management Services Agreements with Mr. Zwi Williger, Chairman of the Board of Directors and Chief Operating Officer of the Company, and Mr. Joseph Williger, a director and Chief Executive Officer of the Company, through Williger Management Companies, see "Item 6. Directors, Senior Management and Employees - 6B. Compensation - Management Service Agreements".

### Lease

Shamir leases two joined buildings for its operation (factory, logistics and head office) owned by Plasto construction Ltd. and Industrial Buildings Corporation Ltd.- the first is 2,516 square meters, the monthly rent is NIS 40,432 (USD 11,393) (linked to the Israeli CPI from December 2005) and the lease ends on January 2012. The second is 2,192 squared meters, the monthly rent is NIS 41,141 (USD 11,592) (linked to the Israeli CPI from December 2005) and the term of the lease ends on January 2012. In addition to these two joined buildings, Shamir leases cooling chambers and offices located in Beer-Sheva owned by Raguan brothers Ltd. and in Miluot owned by Miluot Ltd.





## Services to Willi Food

The Company has been providing certain services to Willi Food on an on-going basis since the Company's commencement of operations, including office space and certain management, financial and administrative services. On April 1, 1997, the Company entered into a service agreement with Willi Food, which became effective as of May 19, 1997, the effective date of the Company's initial public offering. Pursuant to this agreement, Willi Food is entitled to manage its operations from the Company's executive offices in Yavne, including use of office facilities.

The Company also agreed to provide Willi Food with accounting and secretarial services. In consideration for the use of the Company's facilities and such other services, Willi Food agreed to pay the Company a monthly fee equal to NIS 6,683 (USD 1,883) plus VAT. This fee is payable quarterly and is linked to the Israeli CPI. The agreement is for an unlimited term, and is mutually terminable upon three months prior notice. The Company believes that the fees for these services and the terms of such agreement are no less favorable to it than could be obtained from an unaffiliated third party.

As of April 1, 1997, the Company and Willi Food entered into an agreement pertaining to the allocation of corporate opportunities which may arise from time to time. The agreement provides that Willi Food will make available and provide a right of first refusal to the Company with regard to any corporate opportunity offered to Willi Food, which relates to the food business.

On March 31, 2003, the Board of Directors authorized Willi Food to participate in the import license lottery of the Israeli Ministry of Industry and Trade, provided that Willi Food agreed that if it wins an import license it will: (i) coordinate with the Company the items of merchandise to be imported using the import license; and (ii) in consideration for the transfer of the merchandise that is imported using the import license, the Company will sell the merchandise, retaining 20% of the selling proceeds for itself and transferring the balance, if any, to Willi Food. The Board of Directors determined that this arrangement is not an extraordinary transaction. In 2010, the amount retained by the Company pursuant to this arrangement was NIS 146 thousand (USD 41 thousand).

## C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

The financial statements required by this item are found at the end of this report, beginning on page F-1.

#### Dividend Policy

On November 21, 2005, the Board of Directors of the Company declared a cash dividend of NIS 0.55 (USD 0.15) per share (or an aggregate of NIS 4,754 thousand (USD 1,340 thousand)) payable to its shareholders of record as of January 11, 2006. The cash dividend was paid on January 25, 2006. Apart from the abovementioned, the Company has never declared or paid cash dividends on its ordinary shares. The Company may declare cash dividends in the future, depending on its financial and operational condition and on its expansion strategy.

## Legal Proceedings

- (1) On February 13 2007, a suit was filed against the Company, in which a financial remedy was requested in the amount of NIS 144,543 due to the alleged violation of a distribution agreement and the illicit collection of payments. On September 6, 2009, both the plaintiffs and the Company filed their summations. The Company's legal counsel estimate that the Company has a reasonable chance to defend itself, but at the same time, the Company's legal counsel believe their opinion is conditional in light of the inquiries conducted for the case and in light of the court's remarks regarding the failure to disclose the entirety of the relevant documents. Therefore, the Company estimates that there is a chance the court will accept the plaintiff's claim, and therefore the Company's financial statements include a provision for the entire sum of the claim.
- (2) On February 21, 2007, a lawsuit was filed against Goldfrost by Cukierman & Co. Investment House Ltd. in the Tel Aviv-Jaffa Magistrates Court in the amount of NIS 273,852, claiming nonpayment of fees for professional services rendered. A statement of defense was filed. The Company's legal counsel estimate that the Company has a reasonable chance to defend itself but at the same time, the Company's legal counsel believe Goldfrost will have to pay a certain amount and therefore the Company's financial statements include a provision for a certain sum of the claim.
- (3) In September 2007, Thurgeman Construction Co. Ltd. ("Thurgeman") filed a claim against the Company in the District Court of Tel Aviv for the amount of NIS 4,449 thousand (plus VAT) (USD 1,253 thousand) regarding a dispute in connection with the construction of the Company's logistics center in Yavne (the "Project") pursuant to a contract between the parties, dated as of September 9, 2005. Under the terms of the contract, Thurgeman was to serve as the operating contractor for the construction of the frame and the surrounding portions for the construction of the Project.

During the course of construction on the Project, the parties raised several claims against each other in connection with the progress of construction on the Project. The Company claimed that Thurgeman grossly violated the terms of the contract by continuous delays in the completion of the Project, and by performing the construction work in a negligent and unprofessional manner and with inferior quality. Thurgeman counterclaimed that it performed the construction work according to the terms of the contract and that any delays in the work were not caused through any fault of Thurgeman. Furthermore, Thurgeman claimed that the Company withheld certain payments to which Thurgeman was entitled for additional work on the Project, causing Thurgeman damages.

At the end of November 2007, the Company filed a statement of defense, which included a counterclaim against Thurgeman and its executive, Dotan Thurgeman, which contained among other things, a claim of defamation, a claim for damages caused by the delay in delivery of the completed Project, and damages caused by Thurgeman's poor and careless work on the Project. The sum of the damages claimed by the Company in the counterclaim was NIS 5 million (USD 1.4 million). In February 2008, Thurgeman filed a response to the counter claim. The parties started performing the preliminary proceedings.

At the current preliminary stage of the dispute, the Company's management and legal counsel cannot assess the chances of the parties.

- (4) On July 7, 2008, WF filed a lawsuit in the Supreme Court of the State of New York, Country of New York, against Laish Israeli Food Ltd., Laish Dairy Ltd., 860 Nostrand Associates Llc., Arie Steiner, Eli Biran (WF's former CEO) and others. The plaintiffs assert claims, inter alia, of fraud, conversion and breach of contract against the seller and former principal of Laish Israeli Food and related parties. Certain defendants have filed motions to dismiss the claim. On August 27, 2008, 860 Nostrand Associates LLC. Filed a lawsuit against the Company, in the amount of USD 142,949(which shall be adjusted according to the alleged rent period) claiming that the defendant is liable to

it as a guarantor of a certain lease that was allegedly signed by WF. Damages are being sought. The discovery process in the proceedings has commenced and is ongoing. Limited discovery remains to be completed before the hearing which is not scheduled yet.

- (5) On September 22, 2008, a lawsuit was filed against the Company, WF and one of the Company's officers by several WF's Israeli vendors in the Tel Aviv-Jaffa Magistrates Court in the amount of NIS 1,349,899 (USD 357,589), claiming nonpayment of WF for food products that they allegedly supplied to WF. A statement of defense was filed. The Company's management and legal counsel believe that the lawsuit against Company and the Company's officer are without merit, and they intend to vigorously defend against such claims. The amount of the claim is included in WF's financial statements under trade payables item.
- (6) On May 14, 2009, the Company received from the Sellers of Shamir Salads (the "Sellers") a notice cancelling the acquisition agreement of Shamir Salads (the "Shamir agreement"), and on May 18, 2009, the Company was notified of unilateral actions taken by the Sellers with respect to a change in Shamir Salads's board composition and signatory rights and replacement of the articles of association of Shamir Salads in an effort by the Sellers to deprive the Company of its board representation and signatory rights in Shamir Salads.

The Company submitted an urgent application to the district court of Tel Aviv requesting, among other things, a declaratory judgment that the Agreement is in full force and effect and various injunctions against the Sellers. The court issued injunction providing that the Sellers are prohibited from taking any action not in accordance with the signatory rights in Shamir Salads in effect prior to May 18, 2009, performing any disposition of the shares of Shamir Salads held by the Company, taking any action not in accordance with the articles of association of Shamir Salads as in effect prior to May 18, 2009, and/or interfering with the functions of Shamir Salads's board of directors as composed prior to May 18, 2009. In addition, pursuant to the injunction, the Sellers are prohibited from interfering with the functions of the co-CEO of Shamir Salads nominated by the Company and/or from preventing the deputy CFO of Shamir Salads from participating in the discussions to approve the financial statements of Shamir Salads.

On June 17, 2009, the Sellers filed a petition with the district court in Tel Aviv for temporary relief against the Company and others, a declaratory judgment and other relief in connection with an alleged fundamental breach by the Company of the Shamir Agreement, and for the return of the shares in Shamir Salads and the consideration paid therefore. In a hearing which took place on June 22, 2009, the parties agreed (i) to suspend the court proceedings between the parties, (ii) to appoint an arbitrator in all aspects of the dispute, (iii) to hear the claims of both parties arising from the dispute, and (iv) that the application for temporary relief filed by the Sellers be removed. The temporary injunction against the Sellers will remain in effect until the end of the arbitration proceedings. In the framework of these proceedings, the Company submitted a claim for declaratory relief pursuant to which the Seller's notice of cancellation of the Shamir Agreement was given unlawfully and is void, as well as for an advance that was paid in excess and of additional damages that was caused to the Company in the amount of approximately NIS 3.9 million (USD 1.1 million).

On August 4, 2009, the Sellers submitted a counterclaim against the Company and others for declaratory orders determined in proceedings that were submitted to the court, as well as for payment to Sellers of a sum of NIS 6.97 million (USD 1.9 million) for non-payment of the consideration in the Shamir Agreement and tarnishing the Sellers' reputation and good name, and a sum of NIS 3.5 million (USD 1.0 million) to Shamir Salads for damages that the Company allegedly caused to Shamir Salads and its reputation, as well as a petition to split relief. Claims for additional relief against additional defendants (but not including the Company) were also included in the framework of the claim. The evidentiary stage of the arbitration proceedings commenced on November 3, 2009. On December 24, 2009 the sellers submitted a request, which was accepted, to correct its statement of claim. On January 27, 2010, the Company submitted an amended statement of defense. On February 28, 2010, the Sellers submitted an amended statement of reply. Hearings regarding the arbitration took place from November 2009 and further hearings will take place during 2011. The Company, based on the opinion of its legal counsel, believes that the plaintiffs' likelihood of success in the proceedings is low and the Company's success in the proceedings is higher than 50 percent.



- (7) On November 2010, the Company was served with a purported class action lawsuit alleging that it misled its customers by illegally marking a lower calorie value of a product than its real value. The groups which the lawsuit desires to represent include any Israeli resident who bought this product due to such person's preference for low calorie product (the "Group"). The plaintiff appraises the group's damages at NIS 2.5 million (approximately USD 700 thousand). On January 2011, the Company presented the prosecution with an official notice from the products manufacture together with test results from an external laboratory that the calorie value indicated on the product was accurate. At the current preliminary stage of the dispute, the Company's management and legal counsel cannot assess the chances of the parties.

Other than as stated above, there is no pending or, to the Company's knowledge, threatened legal proceedings, the outcome of which, in the Company's view, would have a material adverse affect on the Company's consolidated financial position.

For information concerning taxes to which stockholders in the United States may be subject, see "Item 10. Additional Information- Taxes".

#### B. SIGNIFICANT CHANGES

We are not aware of any significant changes bearing upon our financial condition since the date of the audited consolidated financial statements included in this Annual Report.

### ITEM 9. THE OFFER AND LISTING

#### A. OFFER AND LISTING DETAILS

Our ordinary shares have been traded on the Nasdaq Capital Market since May 19, 1997. On March 15, 2006, the ticker symbol of our ordinary shares was changed from "WILCF" to "WILC". The warrants that were issued as part of our initial public offering in May 1997 expired in May 2000.

The following table sets forth for the periods indicated the closing representative high and low bid quotations of our ordinary shares as reported by Nasdaq and adjusted according to the split by bonus share which took place on December 2004. The bid quotations are expressed in United States Dollars and are not adjusted for retail mark-up, mark-down or commissions and do not necessarily represent actual transactions.

| Calendar Period                        | Ordinary Shares |      |
|--|-----------------|------|
|  | High            | Low  |
| 2011                                   |                 |      |
| Second Quarter (through June 24, 2011) | 7.85            | 6.94 |
| First Quarter                          | 7.90            | 6.55 |
| 2010                                   | 7.10            | 5.42 |
| First Quarter                          | 7.10            | 5.76 |
| Second Quarter                         | 6.07            | 5.42 |
| Third Quarter                          | 6.47            | 5.60 |
| Fourth Quarter                         | 6.95            | 6.23 |
| 2009                                   | 6.30            | 0.86 |
| First Quarter                          | 1.63            | 0.86 |
| Second Quarter                         | 2.29            | 1.26 |
| Third Quarter                          | 4.50            | 2.22 |
| Fourth Quarter                         | 6.30            | 4.32 |
| 2008                                   | 6.95            | 1.39 |
| 2007                                   | 8.90            | 5.20 |
| 2006                                   | 8.83            | 3.22 |
| 2005                                   | 8.47            | 3.00 |
| June 2011 (through June 24, 2011)      | 7.41            | 6.94 |
| May 2011                               | 7.77            | 7.30 |
| April 2011                             | 7.85            | 7.40 |
| March 2011                             | 7.90            | 7.24 |
| February 2011                          | 7.55            | 7.27 |
| January 2011                           | 7.26            | 6.55 |
| December 2010                          | 6.90            | 6.23 |

#### B. PLAN OF DISTRIBUTION

Not applicable.

#### C. MARKETS

In May 1997, our ordinary shares began trading on the Nasdaq Capital Market under the symbol "WILCF". On March 15, 2005, the Company's NASDAQ ticker symbol was changed to "WILC".

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES ON THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Purposes and Objects of the Company

We are a public company registered under the Israeli Companies Law as G. Willi-Food International Ltd., registration number 52-004320-9.

Pursuant to Article 6 of our articles of association, we were formed for the purpose of importing, exporting and marketing products and other commodities. Our Board of Directors is empowered to embark on or withdraw from any business in which we deal. Under our articles of association, our Board of Directors is entitled to donate reasonable amounts to worthy causes, even if such donation is not within the framework of our business considerations.

The Powers of Directors

The powers of a Director to vote on a proposal, arrangement or contract in which such Director is materially interested is limited by the relevant provisions of the Israeli Companies Law. In addition, the power of the Directors to vote compensation to themselves or any members of their body requires the approval of the Audit Committee and the shareholders at a general meeting, in addition to the approval of the Board of Directors. Compensation and indemnification of expenses of External Directors must be in accordance with the applicable provisions of the Israeli Companies Law.

The Israeli Companies Law and our Articles of Association require that a Director or Office Holder promptly disclose, either at a board meeting or by way of a general notice, any personal interest that he or she may have and all related material information know to him or her in connection with any existing or proposed transaction by the Company. In addition, if the transaction is an extraordinary transaction (as defined in the Israeli Companies Law), the member of the Board of Directors or Office Holder, must also disclose any personal interest held by his or her spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing.

Once the Director or Office Holder complies with the above disclosure requirements, the Company may approve the transaction in accordance with the provisions of the Articles of Association. If the transaction is with a third party in which the member of the Board of Directors or Office Holder has a potential interest, the approval must confirm that



the transaction is not adverse to the Company's interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the Articles of Association, it also must be approved by the Audit Committee and then by the Board of Directors, and, under certain circumstances, by a meeting of the shareholders of the Company. See "Item 6. Directors, Senior Management and Employees - 6C. Board Practices – Approval of Related Party Transactions under the Israeli Companies Law".

Directors with respect to whom the foregoing matters are brought for Board of Directors or Audit Committee approval are not entitled to be present during discussions of, nor to participate in the vote for approval of, such matters at Board and/or Audit Committee meetings, unless a majority of Audit Committee or Board members, as the case may be, have a personal interest in such matter or the matter involves non-extraordinary transactions between the company and either a Director or a third party in which a Director has a personal interest. The Israeli Companies Law further provides that in the event that a majority of board members have a personal interest in such a matter, shareholder approval is also required.

The Articles of Association provide that the Board of Directors, subject to the Israeli Companies Law, may, at its discretion from time to time in accordance with the needs of the Company, make decisions to borrow and/or obtain credit facilities in any amount and to secure the repayment thereof either by mortgage, charge or other security on the Company's undertakings or on its property, in whole or in part (both existing and future) including the share capital of the company which is, at the time, uncalled.

Subject to applicable provisions of the Israeli Companies Law regarding matters that the Board of Directors may not delegate to a committee, or matters for which a committee may only make recommendation to the Board of Directors, the Board of Directors may delegate its powers to committees consisting of at least three (3) Directors, including at least one External Director. A resolution passed or an action taken by a directors' committee has the same validity as a resolution passed or an action taken by the Board of Directors, unless otherwise specifically expressed in the resolution of the Board of Directors that established said committee.

#### Rights Attached to Shares

The Company is authorized to issue 49,893,520 Ordinary Shares, par value NIS 0.10 and 106,480 Preferred Shares, par value NIS 0.10, each ranking *pari passu*. The Company may alter the share capital of the Company in accordance with the provisions of the Israeli Companies Law and the Articles of Association. The rights attached to the Company's Shares are as follows:

#### Dividend Rights

Holders of Ordinary Shares are entitled to participate *pari passu* with all other shareholders of the Company's Ordinary Shares in any distribution of a dividend, whether in cash, assets, or in any other legal form, declared, as well as the right to participate *pari passu* with all other holders of our Ordinary Shares in the distribution of bonus shares resolved by the Company. The Articles of Association note that a shareholder shall not be entitled to receive a dividend or bonus shares as above, and shall not be entitled to exercise any right as a shareholder unless he has paid in full all notices of call delivered to him, together with linkage differences, interest and expenses owed, as applicable, on calls which have not been paid by him on time.

#### Voting Rights

Holders of Ordinary Shares of the Company have the right to receive notices of general meetings of the Company, to be present, and to participate and vote therein. Each holder of Ordinary Shares in the Company has the right to one vote per share in the general meetings of the Company on all matters submitted to a vote of shareholders. A shareholder may vote in person, via proxy, or by means of a written form ("Voting Instrument") described in the Articles of Association. Any resolution of the Company in a general meeting shall be deemed duly passed if passed by a simple majority of registered shareholders present and voting, unless a different majority is required by the Israeli Companies Law or the Articles of Association.



Under the Articles of Association, the Directors are elected annually by the registered shareholders at the annual meeting. Directors hold office until the conclusion of the next annual meeting or until their earlier removal or resignation. In addition, at least two (2) External Directors who comply with the qualifications described in the Israeli Companies Law must serve on the Board of Directors. External Directors are appointed by a majority vote at a general meeting, provided that: (i) the majority vote includes at least one-third of the total number of the voted of the non-controlling shareholders voting at the meeting, with abstentions not taken into consideration in calculating the total number of the non-controlling shareholders, and (ii) the total number of non-controlling shareholders voting against the resolution appointing an External Director is not more than 1% of the overall voting rights in the Company. External Directors are appointed for a term of three (3) years and their office may be extended by a resolution of the general meeting for an additional three (3) years. An External Director may be removed from office only in accordance with the relevant provisions of the Israeli Companies Law.

If no Directors are elected at an annual meeting, then the persons who served as Directors immediately prior to the annual meeting will continue to serve as directors unless otherwise determined by the annual meeting or by the Board of Directors. A Director who has ceased to serve in office is eligible for reelection. The Board of Directors has the power to appoint additional Directors to fill a vacancy, so long as the number of directors will not exceed a number of Directors approved at a general meeting. Any Director so appointed will hold office until the conclusion of the next annual meeting unless he is removed or resigns earlier.

#### Rights in the Company's Profits

The shareholders of the Company have the right to share in the Company's profits distributed as a dividend and any other permitted distribution. See "Dividend Rights" above.

#### Rights in the Event of Liquidation

Holders of Ordinary Shares are entitled to receive any return of capital, *pari passu*, with all other ordinary shareholders, upon the dissolution of the Company. Holders of Ordinary Shares are also entitled to participate, *pari passu*, with all other Ordinary Shareholders in the distribution of the surplus of the Company's assets available for distribution in the event of dissolution of the Company which remain after the Company has paid the holders of Ordinary Shares all amounts payable as return of capital.

#### Liability to Further Capital Calls by the Company

If the terms of allotment of any shares of the Company do not specify a particular date for the payment of all of the consideration which is to be paid therefore, or any part thereof, our board of directors may, from time to time, as it deems fit, make calls on the shareholders in respect of the amounts not yet paid for their shares, whether on account of the par value of the shares or on the account of the premium, and each shareholder shall be obligated to pay the Company the amount so demanded from him not later than the date of payment set forth in the notice containing the call. Shareholders shall be given prior notice of at least fourteen (14) days in respect of any call. In the event that amounts set forth in the call have not been paid in whole or in part as of the date of payment set forth in the call, the shareholders shall be obligated to pay linkage differences or interest (or both) on the outstanding amounts, as determined by the Board of Directors.

#### Changing Rights Attached to Shares

Under the Articles of Association, the Company may, by resolution of a general meeting, vary the rights attached to any class of shares on the Company's stamp or its printed name (unless otherwise determined in the terms of issue of the shares of such class), after obtaining the written consent of the holders of the majority of the issued shares of said

class or with the approval of a resolution duly passed at a class meeting of the holders of such class of shares.

### Annual and Extraordinary Meetings

The Board of Directors must convene an annual meeting at least once every calendar year, within fifteen months of the preceding general meeting, at a place prescribed by the board so long as it is in the State of Israel. Per the Articles of Association and subject to the provisions of the Israeli Companies Law, notices to shareholders regarding the convocation of a general meeting are to be published in two daily Hebrew language newspapers circulated in Israel. Notice need not be served to our shareholders on an individual basis.

The Board of Directors will convene a special, extraordinary meeting upon receipt of a written request from either (i) two directors or 25% of the total number of directors; (ii) one or more shareholders holding at least 5% of the issued share capital and at least 1% of the shareholders' voting power; or (iii) one or more shareholders holding no less than 5% of our issued voting shares. If the Board is required to convene an extraordinary meeting, it shall convene it at a time which is at least 21 days, but not longer than 35 days after the date of the notice of convening such meeting. In the event that the board of directors does not convene an extraordinary meeting within the timeframe set forth above, those that submitted the request for such meeting, or part of them representing more than one-half of the voting rights of all of them, may convene the extraordinary meeting themselves, provided that such meeting is held within three months of the time when the extraordinary meeting was requested.

### Limitations on the Rights to Own Securities

The Articles of Association do not place limitations on the rights to own securities. Under the Articles no limitations apply to the transfer of shares in the Company and the number of shareholders is unlimited.

### Changes in the Company's Capital

Changes in the capital of the Company are subject to the approval by ordinary majority of the shareholders at a general meeting. Shareholders may resolve to increase the authorized share capital; consolidate our share capital and divide it into shares of greater value than existing shares; divide existing shares into shares of lesser value; cancel any authorized share capital which has not yet been allotted (provided there is no undertaking to allot such share capital); or reduce the capital by way of a distribution if such distribution has been approved by a court, in accordance with the relevant provisions of the Israeli Companies Law. If the shareholders resolve to increase the share capital, the new shares will be subject to the same provisions applicable to the shares of the original capital.

Neither the Memorandum of Association nor Articles of Association of the Company nor the laws of the State of Israel restrict in any way the ownership or voting of ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel.

## C. MATERIAL CONTRACTS

Set forth below are summaries of our material contracts. Because these are summaries, they are qualified by reference to the actual agreements, which are attached as exhibits to this Annual Report.

Acquisition of the operation of Laish Israeli Food Products, Ltd. In January 19, 2007, the Company established a fully-owned subsidiary in the U.S., WF, in order to acquire the operations and assets (including inventory, account receivables, and account payables) of Laish, a U.S. importer and distributor of kosher food products for approximately \$3.5 million in cash. The sources for the purchase price were a bank loan in the amount of \$1.5 million taken by WF and cash on hand from the Company. On July 14, 2008 the Company announced that WF had ceased the activities of its operations effective immediately.



Agreement with Baron Family to Form Global Kosher Trade and Export Company. On February 13, 2007, the Company signed an agreement with the Baron family (an unrelated third party), kosher food exporters located in Israel, to form a joint global kosher trade and export company - Baron. The Company holds a 50.1% interest in Baron, and the Baron family holds the remaining interest. Under the terms of the agreement, all of the current food export operations of the Baron family will be executed under the new entity.

Under the terms of the agreement, the new entity is to be managed by Lior Baron, as CEO, and Yaakov Baron, as Chairman, and the board of directors is to consist of four members – the CEO, Chairman, Zwi Williger and Joseph Williger. The parties agreed that in the event of a dispute regarding ordinary course business matters the representatives of Willi-Food on the board will have three votes, rather than two. Under the terms of the agreement, in consideration for the 50.1% interest, the Company paid \$1 million in owner's loans that was converted into equity on April 1, 2008.

Under the agreement, the Baron family will be engaged in the food export activities which involved the export of kosher products from more than 100 suppliers, predominantly from Israel, to the U.S., Canada, England, Belgium, France, Switzerland, Australia, South Africa, Mexico, Argentina and Chile. Product categories currently exported include candies, preserves, cakes and cookies, snacks, cereals, frozen pastries and ice creams, baby food and general grocery items.

On September 2, 2009, the Company signed an agreement to sell all of its holdings in Baron and to assign all of its rights and obligations to the Baron family. In exchange for the sale of shares and the assignment of rights and obligations, the Baron family agreed to pay US\$ 937,500, which was paid to the Company on the date of execution of the agreement. As a result of the sale of the shares of Baron the Company recognized a capital loss of NIS 1.5 million (USD 0.4 million).

Agreement with the owners of a manufacturer and global distributor of kosher dairy products to form a new Company. In October 2007, the Company's subsidiary, Gold Frost, signed a binding letter with the owners of a manufacturer and global distributor of kosher dairy products (the "Distributor"), who are based in Denmark, to form a new joint company ("Kirkeby"). Gold Frost holds a 51% interest in Kirkeby, and the owners of the distributor hold the remaining interest. A significant aspect of this transaction is the fact that Kirkeby has a US dairy import license.

As part of the transaction, the Distributor transferred to Kirkeby \$200 thousand as well as 35 customers from 15 countries worldwide, including a US import license. Kirkeby was granted the exclusive right to use the distributor's trademarked brand name in sales and marketing of kosher products. The Distributor retained the right to use its trademarked brand name for non-kosher dairy products. It is intended that ultimately Kirkeby will seek to broaden its penetration into the kosher European and North American markets. In consideration for the 51% interest in Kirkeby, Gold Frost paid at the closing \$400 thousand to the Distributor. In June 2009, Gold Frost signed an agreement to sell its 51% interest in Kirkeby to Kirkeby and/or to the former owner for \$400,000. According to the terms of the agreement, an amount equal to the balance of outstanding invoices owed by Gold Frost to Kirkeby was deducted as a downpayment, and the remainder was paid by deducting in the purchase price by a pre-determined amount for each shipment of goods that Gold Frost purchased from Kirkeby or from the former owner, and the balance of the consideration was paid to Gold Frost until April 2011.

Acquisition of Shamir Salads (2006) Ltd. In November 2007, Willi Food announced its intention to purchase 51% of the interest of Shamir, an Israeli manufacturer and distributor of pre-packaged chilled kosher Mediterranean dips and spreads in Israel and abroad. The acquisition subsequently closed in the first quarter of fiscal 2008.





According to the agreement, the acquisition cost of Shamir was contingent upon the sum of the audited net profit, after neutralizing capital gains that Shamir was to present in its audited financial statements for the year 2008, being multiplied by 2.55. As of December 31, 2008, and according to the total net profit that Shamir presented for the year ended December 31, 2008, the sum of the compensation was calculated on the sum of the advance that was paid at the closing of the agreement.

On May 14, 2009, the Company received from the Sellers of Shamir (the "Sellers") a notice cancelling the acquisition agreement of Shamir (the "Shamir Agreement"), and on May 18, 2009, the Company was notified of unilateral actions taken by the Sellers with respect to a change in Shamir's board composition and signatory rights and replacement of the articles of association of Shamir in an effort by the Sellers to deprive the Company of its board representation and signatory rights in Shamir.

The Company submitted an urgent application to the district court in Tel Aviv requesting, among other things, a declaratory judgment that the acquisition agreement is in full force and effect and various injunctions against the Sellers. The court issued injunction providing that the Sellers are prohibited from taking any action not in accordance with the signatory rights in Shamir in effect prior to May 18, 2009, performing any disposition of the shares of Shamir held by the Company, taking any action not in accordance with the articles of association of Shamir as in effect prior to May 18, 2009, and/or interfering with the functions of Shamir's board of directors as composed prior to May 18, 2009. In addition, pursuant to the injunction, the Sellers are prohibited from interfering with the functions of the co-CEO of Shamir nominated by the Company and/or from preventing the deputy CFO of Shamir from participating in the discussions to approve the financial statements of Shamir. The Shamir Agreement is currently subject to legal proceedings, the details of which can be found in "Item 8. Financial Information – A. Legal Proceedings."

Public Offering in March 2010. On March 17, 2010, we completed a public offering of our ordinary shares. The Company issued a total of 3,305,786 ordinary shares at a purchase price of \$6.05 per share, and the Company also granted to the underwriter an option, that was exercisable within 30 days from the date of the public offering, to purchase up to an additional 330,579 ordinary shares. As to the date of this report the option was expired. After deducting closing costs and fees, the Company received net proceeds of approximately \$19.0 million.

For information with respect to the Company's other material contracts, see "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions."

#### D. EXCHANGE CONTROLS

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of our ordinary shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect, pursuant to which currency controls can be imposed by administrative action at any time and from time to time.

#### E. TAXATION

The following is a summary of the material current tax laws of the State of Israel as they relate to the Company and its shareholders. This section also contains a discussion of some Israeli tax consequences to persons who hold or who will acquire our ordinary shares. This summary does not purport to be a complete analysis of all potential Israeli tax law consequences that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of this kind of investor include tax-exempt entities, banks, certain financial companies, broker-dealers, investors that own, directly or indirectly, 10% or more of our outstanding voting rights, or foreign companies, if Israeli residents hold 25% or more of their shares or have the right to 25% or more of their income or profit, all of whom are subject to special tax regimes not covered in

this discussion.

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The discussion is based on legislation yet to be subject to judicial or administrative interpretation, and there can be no assurance that the views expressed herein will accord with any such interpretation in the future. This discussion is not intended and should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

Potential investors are urged to consult their own tax advisors as to the Israeli or other tax consequences of the purchase, ownership and disposition of the Shares including, in particular, the effect of any foreign, state or local taxes.

#### Israeli Tax Reforms

Israeli companies are generally subject to corporate tax at the rate of 24% of their taxable income in 2011 (25% in 2010). The corporate tax rate is scheduled to decline to 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015 and 18% in 2016 and thereafter.

As of 2010, Israeli companies are subject to regular corporate tax rate for their capital gains. In 2009, Israeli companies were generally subject to capital gains tax at a rate of 25% for such gains (other than capital gains from the sale of listed securities derived by companies with respect to which the provisions of Section 6 of the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985, or the Inflationary Adjustments Law, or the provisions of Section 130A of the Ordinance, applied immediately before the 2006 Israeli tax reform came into force, which were subject to the regular corporate tax rate).

#### Corporate Tax Structure

##### General

The corporate tax rate applicable in 2010 was 25%. This rate was reduced to 24% in 2011 and is scheduled originally to be gradually reduced to 18% by 2016.

Amendment No. 174 to the Income Tax Ordinance, enacted in January 2010, provides that Israeli Accounting Standard No. 29 will not apply with respect to the tax years 2007, 2008 and 2009, and as a result the International Financial Reporting Standards (IFRS) will not apply for the purposes of determining taxable income in these tax years. The affect of this amendment on our financial statements, included in this annual report, is not material.

#### Corporate Taxation Under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985 (the "Inflationary Adjustments Law") is designed to neutralize the erosion of capital investments in businesses and to prevent tax benefits resulting from the deduction of inflationary financial expenses. The Inflationary Adjustments Law applies a supplementary set of inflationary adjustments to the normal taxable profit computed according to regular historic cost principles. Generally, the Inflationary Adjustments Law provides tax deductions and adjustments to depreciation deductions and tax loss carry forwards to mitigate the effects resulting from an inflationary economy. Until 2008, our taxable income was determined under the Inflationary Adjustments Law. In February 2008, the Israeli Parliament approved Amendment No. 20 to the Inflationary Adjustments Law (the "Amendment"). The Amendment repealed the Inflationary Adjustments Law as of January 1, 2008 and set certain transitional rules.

#### Taxation of the Company Shareholders

##### Dividends

##### Israeli resident

- Individual - The distribution of dividend by an Israeli resident company to an Israeli resident individual will generally be subject to income tax at a rate of 20%. However, a 25% tax rate will apply if the dividend recipient is a "Significant Shareholder" (i.e., a person who holds, directly or indirectly, e or together with other, 10% or more of one of the Israeli resident company's means of control ) at the time of distribution or at any time during the preceding 12 months period.
- Corporation - Dividend distributed by an Israeli resident corporation to another Israeli resident corporation will be generally exempt from income tax provided the income from which such dividend is distributed was derived or accrued within Israel.

##### Non Israeli resident

Under the Israeli Income Tax Ordinance non-Israeli resident (either individual or corporation) is generally subject to an Israeli income tax on the receipt of dividends at the rate of 20% (25% if the dividends recipient is a "Significant Shareholder" (as defined above) at the time of distribution or at any time during the preceding 12 months period, those rates are subject to a reduced tax rate under an applicable double tax treaty. Thus, under the Double Tax Treaty between the State of Israel and the U.S. ("Israel-U.S. Tax Treaty") the following rates will apply in respect of dividend distributed by an Israeli resident company to a U.S. resident:

- If the U.S. resident is a corporation which holds at the taxable year which precede the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying corporation and not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain type of interest or dividends – the tax rate is 12.5%.



- If both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company's income which was entitled to a reduced tax rate applicable to an "approved enterprise" or "privileged enterprise" under the Israeli Law for the Encouragement of Capital Investments of 1959– the tax rate is 15%.

- In all other cases, the tax rate is 25%.

The aforementioned rates under the Israel -U.S. Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

Withholding tax at source from dividend distributed by the company

An Israeli resident company whose shares are listed in a stock exchange is obligated to withhold tax, upon the distribution of a dividend, from the amount distributed, at the following rates:

- Israeli resident corporation – 0%.
- Israeli resident individual – 20%.
- Non-Israeli resident – 20% subject to a reduced tax rate under the provisions of an applicable double tax treaty.

#### Capital Gain Tax

##### General

Capital gain tax is imposed on the disposal of capital assets by an Israeli resident and on the disposal of such assets by a non- Israel resident if those assets are either (i) located in Israel; (ii) they are shares or a right to a share in an Israeli resident corporation (iii) they represent a directly or indirectly rights to assets located in Israel. The Israeli Tax Ordinance distinguishes between "Real Gain" and the "Inflationary Surplus". Real Gain is the excess of the total capital gain over Inflationary Surplus computed generally on the basis of the increase in the Israeli CPI between the date of purchase and the date of disposal.

Inflationary Surplus, that accrued until December 31, 1993, is subject to a tax rate of 10% while Inflationary Surplus that accrued after this date is exempt from any tax.

##### Capital Gain Tax Applicable to Israeli Resident Shareholders

The Capital gain accrued at the sale of an asset purchased on or after January 1, 2003 will be taxed as follows:

- Individual - The real capital gain will be subject to tax at the rate of 20%. If the shareholder is a Significant Shareholder (as defined above) at any time during the 12 months period preceding such sale, the tax rate will be 25%. A capital gain derived by an individual claiming deduction of financing expenses in respect of such gain will be taxed at the rate of 25%.
- Corporation - The real capital gain derived by corporation will be generally subject to tax at the corporate tax rate (25% in 2010, 24% in 2011). However, the real capital gain derived from sale of securities, as defined in Section 6 of the Inflationary Adjustment Law, by a corporation, which was subject upon August 10, 2005 to the provisions of Section 6 of the Inflationary Adjustment Law, will be taxed at the corporate tax rate (25% in 2010, 24% in 2011).

The Capital gain accrued at the sale of an asset purchased prior to January 1, 2003 will be subject to tax at a blended rate. The marginal tax rate for individuals (up to 45% in 2010, 2011) and the regular corporate tax rate for corporations (25% in 2010, 24% in 2011) will be applied to the gain amount which bears the same ratio to the total gain realized as the ratio which the holding period commencing at the acquisition date and terminating on January 1, 2003 bears to the total holding period. The remainder of the gain realized will be subject to capital gains tax at the rates applicable to an asset purchased after January 1, 2003 (see aforementioned).

At the sale of traded securities a detailed return, including a computation of the tax due, should be filed and an advanced payment should be paid on January 31 and June 30 of every tax year in respect of sales of securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Israeli Income Tax Ordinance and regulations promulgated thereunder the aforementioned return should not be filed and no advance payment should be paid. Capital gain is also reportable on the annual income tax return.

#### Capital Gain Tax Applicable to Non-Israeli Resident Shareholders

Capital gain from the sale of the Shares by a non-Israeli shareholder are exempt under the Israeli income tax ordinance from Israeli taxation provided the following cumulative conditions are met: (i) the Shares were purchased upon or after the registration of the Shares at the stock exchange (ii) the seller doesn't have a permanent establishment in Israel to which the derived capital gain is attributed (iii) if the seller is a corporation, less than 25% of its means of control, directly and indirectly, are held by Israeli resident shareholders. In addition, the sale of the Shares may be exempt from Israeli capital gain tax under an applicable tax treaty. Thus, the U.S.-Israel Tax Treaty exempts U.S. resident from Israeli capital gain tax in connection with such sale, provided (i) the U.S. resident owned, directly or indirectly, less than 10% of an Israeli resident company's voting power at any time within the 12 – month period preceding such sale; and (ii) the seller, being an individual, is present in Israel for a period or periods of less than 183 days at the taxable year; and (iii) the capital gain from the sale was not derived through a permanent establishment of the U.S. resident in Israel.

#### Taxation of investors engaged in a business of trading securities

Individual and corporate shareholder dealing in securities in Israel are taxed at the tax rates applicable to business income (in 2010 - 25% tax rate for a corporation and a marginal tax rate of up to 45% for individual. in 2011 - 24% tax rate for a corporation and a marginal tax rate of up to 45% for individual). If the shareholder is a non-Israeli resident then such taxation is subject to the provisions of any applicable double tax treaty.

#### Withholding at source from capital gains upon the sale of traded securities

Either the seller, the Israeli stockbrokers and the financial institution through which the sold securities are held are obliged, subject to the above mentioned exemptions, to withhold tax upon the sale of securities from the real capital gain at the rate of 25% in respect of corporation and 20% in respect of an individual. [Redraft - Unclear???

#### U.S. Federal Income Tax Considerations

The following is a general discussion of certain material U.S. federal income tax consequences of ownership and disposition of the Company's shares by a "U.S. holder" (as defined below). This discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder in light of the holder's particular circumstances and does not address U.S. state, local and non-U.S. tax consequences. The discussion applies only to U.S. holders (as defined below) that hold the shares as capital assets for U.S. federal income tax purposes and it does not describe all of the tax consequences that may be relevant to holders subject to special rules, such as certain financial institutions, insurance companies, dealers and traders in securities or foreign currencies, persons holding the



shares as part of a hedge, straddle, conversion transaction or other integrated transaction, persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, persons liable for the alternative minimum tax, tax-exempt organizations, or shareholders that own or are deemed to own 10% or more of the Company's voting power.

This discussion is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. Shareholders are urged to consult their own tax advisors regarding the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of shares in light of their particular circumstances.

The discussion below applies only to U.S. holders. As used herein, a "U.S. holder" is a beneficial owner of the Company's shares that is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the entity. Partners or members of such entities should consult their tax advisors regarding the tax consequences of investments in the Company's shares.

#### Taxation of Distributions

Subject to the discussion in "- Passive Foreign Investment Company Rules" below, distributions paid on the Company's shares, other than certain pro rata distributions of ordinary shares, will be treated as a dividend to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Since the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, U.S. holders will generally be required to treat such distributions as taxable dividends and include them in income on the date of receipt. Subject to applicable limitations, dividends paid to certain non-corporate U.S. holders in taxable years beginning before January 1, 2011, will be taxable at a maximum rate of 15%. The amount of a dividend will include any amounts withheld by the Company or its paying agent in respect of Israeli taxes. The amount of the dividend will be treated as foreign source dividend income and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code.

Dividends paid in NIS will be included in a U.S. holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. holder may have foreign currency gain or loss if the holder does not convert the amount of such dividend into U.S. dollars on the date of its receipt. Such gain or loss would generally be treated as U.S. source ordinary income or loss.

Subject to applicable limitations that may vary depending upon a U.S. holder's particular circumstances, Israeli taxes withheld from dividends at a rate not exceeding the rate provided by the U.S.-Israel income tax treaty will be creditable against the holder's U.S. federal income tax liability. Israeli taxes withheld in excess of the rate allowed by the treaty will not be eligible for credit against a U.S. holder's federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Instead of claiming a credit, a U.S. holder may, at the holder's election, deduct the otherwise creditable foreign taxes in computing the taxable income for the year, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all foreign taxes paid or accrued in the taxable year. The rules governing foreign tax credits are complex and holders should consult their own tax advisors regarding the availability

of foreign tax credits and the deductibility of foreign taxes in their particular circumstances.

### Sale and Other Disposition of the Company's Shares

Subject to the discussion in "- Passive Foreign Investment Company Rules" below, gain or loss realized on the sale or other disposition of shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. holder held the shares for more than one year. The amount of gain or loss will be equal to the difference between the tax basis in the shares disposed of and the amount realized on the disposition. Such gain or loss will generally be U.S. source gain or loss for foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

### Passive Foreign Investment Company Rules

The Company believes that it was not a "passive foreign investment company" for U.S. federal income tax purposes, or PFIC, for the taxable year of 2009. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets (including, among others, equity investments in less than 25%-owned entities) from time to time, there can be no assurance that the Company will not be considered a PFIC for any taxable year. If the Company were to be treated as a PFIC for any taxable year during which a U.S. holder held a share in the Company, certain adverse consequences could apply to the U.S. holder. Specifically, gain recognized by a U.S. holder on a sale or other disposition of a share would be allocated ratably over the U.S. holder's holding period for the share. The amounts allocated to the taxable year of the sale or other exchange and to any year before the Company became a PFIC would be taxed as ordinary income in the current year. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. holder during the preceding three years or the U.S. holder's holding period, whichever is shorter, would be subject to taxation as described above. Certain elections may be available (including a mark-to-market election) to U.S. holders that may mitigate the adverse consequences resulting from PFIC status. In addition, if we were to be treated as a PFIC in a taxable year in which we pay a dividend or the prior taxable year, the 15% dividend rate discussed above with respect to dividends paid to certain non-corporate holders would not apply.

### Information Reporting and Backup Withholding

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless (i) the U.S. holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the U.S. holder provides a correct taxpayer identification number and certifies that the U.S. holder is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENTS BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to foreign private issuers and fulfills the obligation with respect to such requirements by filing reports with the Securities and Exchange Commission. You may read and copy any document we file with the Securities and Exchange Commission without charge at the Securities and Exchange Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the Securities and Exchange Commission at such address, at prescribed rates. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, Directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as United States companies whose securities are registered under the Exchange Act.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exchange rate risk: The Company regularly assesses currency rate risks to minimize any adverse effects on the Company's business as a result of currency fluctuations.

The Company's foreign currency exposure gives rise to market risk associated with exchange rate movements of the NIS, the Company functional and reporting currency, against the USD and Euros. Most of the Company's purchases are denominated in USD and Euros, whereas its income and other expenses are denominated mostly in NIS. Consequently, devaluation of the NIS against the other currencies may cause a negative impact on the Company profit margins.

The Company strives to minimize market risks arising from exchange rates and the cost of imported goods, especially by opening wide documentary credits for suppliers abroad and holding foreign currency surpluses, initiates forward transactions and foreign currency options.

The table below details the sensitive analysis in respect to exposure relating to exchange rate risk:

| Gain (loss) from exchange rate change NIS(000) | Fair net NIS(000) | Gain (loss) from exchange rate change NIS(000) |
|--|-------------------|--|
|--|-------------------|--|

|                         |        |        |       |     |      |
|-------------------------|--------|--------|-------|-----|------|
| Change in exchange rate | (10 )% | (5 )%  |       | 5 % | 10 % |
| USD                     | (516 ) | (258 ) | 5,160 | 258 | 516  |
| Change in exchange rate | (10 )% | (5 )%  |       | 5 % | 10 % |
| EURO                    | (425 ) | (212 ) | 4,248 | 212 | 425  |

Credit risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Despite the Company's large number of clients (over 1,500 in Israel and around the world), a major and significant part of its sales are made to only a limited number of customers (mainly in the organized market). The Company generally does not require and does not receive collateral from those major customers. However, it does require and receive collateral from most of the remainder of its clients to insure security of collecting payments. The Company maintains an allowance for doubtful debts, based upon factors surrounding the credit risk of specific customers, historical trends and other information which management believes adequately covers all anticipated losses in respect of trade receivables. There can be no assurance that this allowance will be adequate. In the event that any of the Company's major clients defaults on its payment obligations to us, the Company will not possess sufficient collateral to collect the entire debt. The Company strives to minimize the credit risks by constantly reviewing the credit it extends to customers versus the collateral 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 in the future.

Interest rate risk: The Company invests part of its cash reserves in instruments that bear fixed interest rate. The Company, as part of its investing policy, invests part of its cash reserves in bonds and convertible debentures that bears fixed interest rate; as a result, the Company is espoused to changes in interest rates.

The table below details the sensitive analysis in respect to exposure relating to investment in instruments with fix interest rate:

|  | Gain (loss) from interest change \$(000) |       | Fair value \$(000) | Gain (loss) from interest change \$(000) |        |
|--|--|-------|--------------------|--|--------|
| Change in Interest as % of interest rate | (10 )%                                   | (5 )% |                    | 5 %                                      | 10 %   |
| Increase\decrease in financial Income    | 180                                      | 90    | 14,058             | (90 )                                    | (180 ) |

#### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Not applicable.

ITEM 15T. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, are responsible for establishing and maintaining our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). These controls and procedures were designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. We evaluated these disclosure controls and procedures under the supervision of our CEO and CFO as of December 31, 2010. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to meet these objectives.

(b) Management's Annual Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and





- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management recognizes that there are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and the circumvention provide only reasonable assurance with respect to financial statement preparation and presentation, and may not prevent or detect all misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management (with the participation of the CEO and CFO) assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In conducting its assessment of internal control over financial reporting, management based its evaluation on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Tread way Commission. Our management has concluded, based on its assessment, that our internal control over financial reporting was effective as of December 31, 2010 based on these criteria.

(c) Changes in Internal Control Over Financial Reporting. There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### ITEM 16. [RESERVED]

##### ITEM 16A. -- AUDIT COMMITTEE FINANCIAL EXPERT

The Company's Board of Directors has determined that Ariel Herzfeld is the "Audit Committee Financial Expert" for the Company, as such term is defined in Item 16A of Form 20-F. Mr. Herzfeld serves on the Company's Audit Committee of the Board of Directors. Mr. Herzfeld is an "Independent Director" as defined in the Nasdaq listing standards applicable to us.

##### ITEM 16B. -- CODE OF ETHICS

On June 23, 2004, the Company's Board of Directors adopted a Code of Ethics for the Company that applies to all directors, officers and other employees of the Company. A copy of the Code of Ethics is available for review on the Company's website at [www.willi-food.co.il](http://www.willi-food.co.il).

## ITEM 16C. -- PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the aggregate fees for professional services and other services rendered by Brightman Almagor Zohar & Co. in Israel, a member of firm of Deloitte Touche Tomhatsu to the Company in 2010 and 2009.

|                | NIS     |          | USD 2010 | USD 2009 |
|----------------|---------|----------|----------|----------|
|                | 2010    | NIS 2009 |          |          |
| Audit Fees (1) | 360,000 | 360,000  | 101,437  | 101,437  |
| Tax Fees (2)   | -       | 37,000   | -        | 10,425   |
| Prospectus (3) | 18,500  | -        | 5,213    |          |
| TOTAL          | 378,500 | 397,000  | 106,650  | 111,862  |

(1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can reasonably provide, and include the company audit; statutory audits; comfort letters and consents; attest services; and assistance with and review of documents filed with the SEC.

(2) Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance and representation in connection with tax audits, tax advice related to mergers and acquisitions, transfer pricing, and requests for rulings or technical advice from taxing authority.

## ITEM 16D. -- EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

## ITEM 16E. -- PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS

Below is a list of purchases of the Company's ordinary shares by affiliated purchasers during calendar year 2010 and from January 1, 2011 to June 24, 2011. There were no purchases by the Company of the Company's ordinary shares during such periods.

| Period         | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet<br>Be<br>Purchased<br>Under<br>Plans or<br>Programs |
|----------------|---|------------------------------------|--|--|
| March 26, 2010 | 10,000                                    | 5.800                              | N/A  | N/A  |
| July 15, 2010  | 138,100                                   | 6.000                              | N/A  | N/A  |

## ITEM 16F. -- CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.



ITEM 16G. -- CORPORATE GOVERNANCE

The following are the significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing standards of the Nasdaq:

- Executive Sessions – Under Nasdaq rules, U.S. domestic listed companies, must have a regularly scheduled meetings at which only independent directors are present. We do not have such executive sessions.
- Compensation of Officers - Under Nasdaq rules, executive compensation must be determined or recommended to the Board for determination by a compensation committee comprised solely of independent directors or by independent directors constituting a majority of the Board's independent directors. Not all of our executive compensation is determined in this manner.
- Nominations of Directors - Under Nasdaq rules, U.S. domestic listed companies, must have a nominations committee comprised solely of independent directors and must have director nominees selected or recommended by a majority of its independent directors. Our directors are not nominated in this manner.
- Nominations Committee Charter or Board Resolution - Under Nasdaq rules, U.S. domestic listed companies, must adopt a formal written charter or board resolution, as applicable, addressing the nominations process and such related matters as may be required under the federal securities laws. We do not have such a formal written charter or board resolution.
- Quorum - Under Nasdaq rules, U.S. domestic listed companies by-laws provide for a quorum of at least 33 1/3 percent of the outstanding shares of the company's common voting stock. According to our articles our quorum should be at least 25 percent of the outstanding shares of our common voting stock.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this Item.

ITEM 18. FINANCIAL STATEMENTS

The financial statements required by this item are found at the end of this annual report, beginning on page F-1.

ITEM 19. EXHIBITS

| Exhibit Number | Description  |
|----------------|--|
| †1.1           | Memorandum of Association of the Company, as amended (1)   |
| 1.2            | Articles of Association of the Company, as amended (4)   |
| 2.1            | Specimen of Certificate for ordinary shares (2)  |
| 4.1            | Share Option Plan (2)  |
| †4.2           | Management Agreement between the Company and Yossi Willi Management Investments Ltd., dated June 1, 1998 (3)   |
| †4.3           | Amendment to the Management Agreement between the Company and Yossi Willi Management Investments Ltd., dated August 1, 2005 (4)  |
| †4.4           | Management Agreement between the Company and Zwi W. & Co. Ltd., dated June 1, 1998 (3)   |
| †4.5           | Amendment to the Management Agreement between the Company and Zwi W. & Co., Ltd., dated August 1, 2005 (4)   |
| †4.6           | Lease of Company's premises with Titanic Food Ltd., dated November 23, 1998 (3)  |
| †4.7           | Services Agreement between the Company and Willi Food, dated April 1, 1997 (3)   |
| †4.8           | Transfer Agreement between the Company and Gold Frost dated February 16, 2006 (4)  |
| †4.9           | Lease agreement for Logistics Center between the Company and Gold Frost dated February 16, 2006 (4)  |
| 4.10           | Relationship Agreement between the Company, Gold Frost, Willi Food, Zwi Williger and Joseph Williger dated February 28, 2006 (4)   |
| 4.11           | Placing Agreement between the Company, Gold Frost, certain officers of Gold Frost and Corporate Synergy dated March 2, 2006 (4)  |
| 4.12           | Lock In Agreement, between the Company, Gold Frost, Corporate Synergy and certain officers of Gold Frost, dated March 2, 2006 (4)  |
| 4.13           | Securities Purchase Agreement, dated as of October 25, 2006, among the Company and the investors identified on the signature pages thereto. (5)                            |
| 4.14           | Registration Rights Agreement, dated as of October 25, 2006, among the Company and the investors signatory thereto. (5)  |
| 4.15           | Asset Purchase Agreement, dated as of January 19, 2007, by and among the Company, WF Kosher Food Distributors, Ltd., Laish Israeli Food Products Ltd. and Arie Steiner.(6) |
| †4.16          | Agreement, dated February 11, 2007, between the Company and Mr. Ya'acov Baron, Ms. Hedva Baron, Mr. Li'or Baron, Ms. Gozlan Or'na and Ms. Michal Baron Sha'hak. (6)        |
| †4.17          | Agreement, dated January 2, 2008, between the Company and Mr. Jacob Ginsberg, Mr. Amiram Guy and Shamir Salads 2006 Ltd. (7)   |
| 4.18           | Share Purchase Agreement, dated February 13, 2008, between Gold Frost and Kirkeby Cheese Export A/S. (7)   |
| 4.19           |  |

Shareholders Agreement, dated February 13, 2008, between Gold Frost and Kirkeby Cheese Export A/S. (7)

4.20 Co-operation Agreement, dated January 1, 2008, between Kirkeby Cheese Export A/S, Haarby Mejeri/Kirkeby Dairy ApS and Kirkeby International Foods A/S. (7)

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- 8.1 Subsidiaries of the Company\*
- 12.1 Certification of CEO of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 12.2 Certification of CFO of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 13.1 Certification of CEO of the Company pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 13.2 Certification of CFO of the Company pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 15.(a).1 Consent of Independent Registered Public Accounting Firm\*

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† English translations from Hebrew original.

- (1) Incorporated by Reference to the Registrant's Annual Report on Form 20-F for the Fiscal year ended December 31, 1997.
- (2) Incorporated by reference to the Company's Registration Statement on Form F-1, File No. 333-6314.
- (3) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2001.
- (4) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2005.
- (5) Incorporated by reference to the Company's Registration Statement on Form F-3, File No. 333-138200.
- (6) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2006.
- (7) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2007.

\* Filed Herewith

G. WILLI-FOOD INTERNATIONAL LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2010

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G. WILLI-FOOD INTERNATIONAL LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
To the Board of Directors and Shareholders of  
G. Willi-Food International Ltd.

We have audited the accompanying consolidated statements of financial position of G. Willi-Food International Ltd. ("the Company") and its subsidiaries as of December 31, 2010 and 2009 and the related consolidated Statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated statements of financial position of the Company and its subsidiaries as of December 31, 2010 and 2009 and the consolidated Statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2010, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

Brightman Almagor Zohar & Co.

Certified Public Accountants  
A member firm of Deloitte Touche Tomhatsu

Tel-Aviv, Israel  
June 30, 2011

G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(NIS in thousands)

|   | Note | December 31,<br>2 0 1 0<br>NIS<br>(in thousands) | 2 0 0 9     | 2 0 1 0(*)<br>US Dollars |
|---|------|--|-------------|--------------------------|
| <b>Assets</b>   |      |  |             |                          |
| <b>Current assets</b>                                 |      |  |             |                          |
| Cash and cash equivalents                             | 4a   | 113,631  | 87,104      | 32,018                   |
| Financial assets at fair value through profit or loss | 4b   | 67,890   | 11,356      | 19,129                   |
| Trade receivables                                     | 4c   | 85,902   | 77,752      | 24,203                   |
| Other receivables                                     | 4d   | 2,307  | 1,990       | 650                      |
| Inventories   | 4e   | 37,614   | 44,810      | 10,599                   |
| Total current assets                                  |      | 307,344  | 223,012     | 86,599                   |
| <b>Non-current assets</b>                             |      |  |             |                          |
| Property, plant and equipment                         |      | 71,350   | 66,467      | 20,105                   |
| Less -accumulated depreciation                        |      | 20,512   | 16,889      | 5,780                    |
|   | 7    | 50,838   | 49,578      | 14,325                   |
| Long term receivables                                 |      | -  | 760<br>(**) | -                        |
| Prepaid expenses                                      |      | 2,405  | 2,384       | 678                      |
| Goodwill  | 8a   | 1,936  | 1,936       | 546                      |
| Intangible assets, net                                | 9a   | 4,067  | 4,674       | 1,146                    |
| Deferred taxes  | 15c  | 694  | 375         | 195                      |
| Total non-current assets                              |      | 59,940   | 59,707      | 16,890                   |
| Total assets  |      | 367,284  | 282,719     | 103,489                  |
| <b>Equity and liabilities</b>                         |      |  |             |                          |
| <b>Current liabilities</b>                            |      |  |             |                          |
| Short-term bank credit                                | 11   | 5,780  | 10,372      | 1,629                    |
| Trade payables  | 10a  | 32,959   | 49,382      | 9,285                    |
| Provisions  | 13   | 268  | 145         | 76                       |
| Current tax liabilities                               |      | 5,910  | 2,801       | 1,665                    |
| Other payables and accrued expenses                   | 10b  | 10,326   | 8,976       | 2,910                    |
| Employees Benefits                                    | 14a  | 3,057  | 2,977       | 862                      |
| Total current liabilities                             |      | 58,300   | 74,653      | 16,427                   |
| <b>Non-current liabilities</b>                        |      |  |             |                          |
| Long-term bank loans                                  | 11   | 309  | 97          | 87                       |
| Deferred taxes  | 15c  | 522  | 445         | 147                      |
| Retirement benefit obligation                         | 14   | 1,281  | 1,044       | 361                      |
| Total non-current liabilities                         |      | 2,112  | 1,586       | 595                      |
| <b>Commitments and contingent liabilities</b>         |      |  |             |                          |

|  |         |         |         |
|--|---------|---------|---------|
| Shareholders' equity                         |         |         |         |
| Share capital                                | 1,444   | 1,113   | 407     |
| Additional paid in capital                   | 128,863 | 59,056  | 36,310  |
| Capital fund                                 | 247     | 247     | 70      |
| Foreign currency translation reserve         | 736     | 639     | 207     |
| Retained earnings                            | 170,060 | 141,883 | 47,917  |
| Equity attributable to owners of the Company | 301,350 | 202,938 | 84,911  |
| Non-controlling interest                     | 5,522   | 3,542   | 1,556   |
|  | 306,872 | 206,480 | 86,467  |
| Total equity and liabilities                 | 367,284 | 282,719 | 103,489 |

(\*) Convenience Translation into U.S. Dollars.

(\*\*) Reclassified according to the amended IAS 17 see note 2(X)1.

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

G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(NIS in thousands)

|   | Note | 2 0 1 0 | Year ended December 31,<br>2 0 0 9                      2 0 0 8 |          | 2 0 1 0(*) |
|---|------|---------|---|----------|------------|
|   |      |         | NIS   |          | US Dollars |
|   |      |         | (in thousands)  |          |            |
| Revenue   | 19a  | 348,358 | 303,460   | 289,068  | 98,156     |
| Cost of sales                                     | 19b  | 247,572 | 219,569   | 228,839  | 69,758     |
| Gross profit                                      |      | 100,786 | 83,891  | 60,229   | 28,398     |
| Operating costs and expenses                      |      |         |   |          |            |
| Selling expenses                                  | 19c  | 45,048  | 35,598  | 31,800   | 12,693     |
| General and administrative expenses               | 19d  | 22,217  | 20,451  | 16,863   | 6,260      |
| Other (income) expenses                           | 20   | (47 )   | (5,330 )  | 1,846    | (13 )      |
|   |      | 67,218  | 50,719  | 50,509   | 18,940     |
| Operating profit                                  |      | 33,568  | 33,172  | 9,720    | 9,458      |
| Finance income                                    | 21a  | 5,543   | 2,744   | (4,167 ) | 1,562      |
| Finance expense                                   | 21b  | 1,301   | 1,273   | 673      | 368        |
| Finance income (expense), net                     |      | 4,242   | 1,471   | (4,840 ) | 1,194      |
| Profit before taxes on income                     |      | 37,810  | 34,643  | 4,880    | 10,652     |
| Taxes on income                                   | 15a  | 8,483   | 5,043   | 1,117    | 2,390      |
| Profit from continuing operations                 |      | 29,327  | 29,600  | 3,763    | 8,262      |
| Profit (Loss) from discontinued operations        |      | 830     | 1,928   | (3,496 ) | 234        |
| Profit for the year                               |      | 30,157  | 31,528  | 267      | 8,496      |
| Attributable to:                                  |      |         |   |          |            |
| Owners of the Company                             | 22a  | 28,177  | 30,436  | (786 )   | 7,939      |
| Non-controlling interest                          |      | 1,980   | 1,092   | 1,053    | 557        |
| Net income  |      | 30,157  | 31,528  | 267      | 8,496      |
| Earnings (loss) per share                      22 |      |         |   |          |            |
| Basic from continuing operations                  |      | 2.12    | 2.81  | 0.30     | 0.60       |
| Basic from discontinued operations                |      | 0.06    | 0.15  | (0.38 )  | 0.02       |
| Basic earnings (loss) per share                   |      | 2.18    | 2.96  | (0.08 )  | 0.62       |
| Diluted from continuing operations                |      |         |   |          |            |
| Diluted from discontinued operations              |      | 0.06    | 0.15  | (0.38 )  | 0.02       |
| Diluted earnings (loss) per share                 |      | 2.18    | 2.96  | (0.08 )  | 0.62       |

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Shares used in computation of<br>basic EPS   | 12,876,294 | 10,267,893 | 10,267,893 | 12,876,294 |
| Shares used in computation of<br>diluted EPS | 12,876,294 | 10,267,893 | 10,267,893 | 12,876,294 |

(\* ) Convenience translation into U.S. Dollars.

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

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G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(NIS in thousands)

|  | 2 0 1 0<br>NIS<br>(in thousands) | Year ended December 31,<br>2 0 0 9 | 2 0 0 8 | 2 0 1 0(*)<br>US Dollars |
|--|----------------------------------|------------------------------------|---------|--------------------------|
| Net income   | 30,157                           | 31,528                             | 267     | 8,496                    |
| Other comprehensive income                               |                                  |                                    |         |                          |
| Translation differences for foreign operations           | 97                               | 52                                 | 742     | 27                       |
| Other comprehensive income for the year                  | 97                               | 52                                 | 742     | 27                       |
| Total comprehensive income for the year                  | 30,254                           | 31,580                             | 1,009   | 8,523                    |
| Total comprehensive income for the year attributable to: |                                  |                                    |         |                          |
| Owners of the Company                                    | 28,274                           | 30,475                             | (3 )    | 7,966                    |
| Non-controlling interest                                 | 1,980                            | 1,105                              | 1,012   | 557                      |
|  | 30,254                           | 31,580                             | 1,009   | 8,523                    |

(\*) Convenience translation into U.S. Dollars.

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

**G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(NIS in thousands)

|  | Share capital | Additional paid in capital | Capital fund | Foreign currency translation reserve | Retained earnings | Attributable to owners of the parent | Non-controlling interest | Total shareholders' equity |
|--|---------------|----------------------------|--------------|--------------------------------------|-------------------|--------------------------------------|--------------------------|----------------------------|
| Balance – January 1, 2008                              | 1,113         | 59,056                     | -            | (414 )                               | 112,233           | 171,988                              | 18,619                   | 190,607                    |
| Profit for the year                                    | -             | -                          | -            | -                                    | (786 )            | (786 )                               | 1,053                    | 267                        |
| Currency translation differences                       | -             | -                          | -            | 783                                  | -                 | 783                                  | (41 )                    | 742                        |
| Total comprehensive income for the year                |               |                            |              | 783                                  | (786 )            | (3 )                                 | 1,012                    | 1,009                      |
| Non-controlling interests in newly acquired subsidiary | -             | -                          | -            | -                                    | -                 | -                                    | 3,350                    | 3,350                      |
| Purchase of non-controlling interest                   | -             | -                          | 247          | -                                    | -                 | 247                                  | (9,362 )                 | (9,115 )                   |
| Dividend paid to non-controlling interests             | -             | -                          | -            | -                                    | -                 | -                                    | (269 )                   | (269 )                     |
| Balance - December 31, 2008                            | 1,113         | 59,056                     | 247          | 369                                  | 111,447           | 172,232                              | 13,350                   | 185,582                    |
| Profit for the year                                    | -             | -                          | -            | -                                    | 30,436            | 30,436                               | 1,092                    | 31,528                     |
| Currency translation differences                       | -             | -                          | -            | 39                                   | -                 | 39                                   | 13                       | 52                         |
| Total comprehensive income for the year                |               |                            |              | 39                                   | 30,436            | 30,475                               | 1,105                    | 31,580                     |
| Purchase of non-controlling interest                   | -             | -                          | -            | -                                    | -                 | -                                    | (7,559 )                 | (7,559 )                   |
| Dividend paid to non-controlling interests             | -             | -                          | -            | -                                    | -                 | -                                    | (101 )                   | (101 )                     |
| Disposal of subsidiary                                 | -             | -                          | -            | 231                                  | -                 | 231                                  | (3,253 )                 | (3,022 )                   |
| Balance - December 31, 2009                            | 1,113         | 59,056                     | 247          | 639                                  | 141,883           | 202,938                              | 3,542                    | 206,480                    |
| Profit for the year                                    | -             | -                          | -            | -                                    | 28,177            | 28,177                               | 1,980                    | 30,157                     |
| Currency translation differences                       | -             | -                          | -            | 97                                   | -                 | 97                                   | -                        | 97                         |
| Total comprehensive income for the year                |               |                            |              | 97                                   | 28,177            | 28,274                               | 1,980                    | 30,254                     |
| Public offering  | 331           | 69,807                     | -            | -                                    | -                 | 70,138                               | -                        | 70,138                     |
| Balance - December 31, 2010                            | 1,444         | 128,863                    | 247          | 736                                  | 170,060           | 301,350                              | 5,522                    | 306,872                    |

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



G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(NIS in thousands)

|  | 2 0 1 0   | Year ended December 31,          |          | 2 0 1 0(*)<br>US Dollars |
|--|-----------|----------------------------------|----------|--------------------------|
|  |           | 2 0 0 9<br>NIS<br>(in thousands) | 2 0 0 8  |                          |
| <b>Cash flows - operating activities</b>   |           |                                  |          |                          |
| Profit from continuing operations  | 29,327    | 29,600                           | 3,763    | 8,262                    |
| Adjustments to reconcile net profit to net cash from continuing operating activities(Appendix A) | (8,890 )  | (14,803 )                        | 11,790   | (2,504 )                 |
| Net cash from continuing operating activities  | 20,437    | 14,797                           | 15,553   | 5,758                    |
| Net cash from (used in) discontinued operating activities  | (21 )     | 2,876                            | 3,346    | (6 )                     |
| <b>Cash flows - investing activities</b>   |           |                                  |          |                          |
| Acquisition of property plant and equipment  | (6,206 )  | (1,839 )                         | (3,109 ) | (1,749 )                 |
| Proceeds from sale of property plant and Equipment   | 717       | 276                              | 165      | 202                      |
| Additions to intangible assets   | -         | -                                | (300 )   | -                        |
| Additions to prepaid expenses  | (1,077 )  | (1,086 )                         | (1,579 ) | (303 )                   |
| Long term deposit, net   | 14        | (7 )                             | (44 )    | 4                        |
| Proceeds from realization (purchase) of marketable securities, net                               | (53,234 ) | 663                              | 16,714   | (15,000 )                |
| Disposal of subsidiary   | -         | 2,185                            | -        | -                        |
| Purchase of subsidiaries   | -         | -                                | (5,664 ) | -                        |
| Net cash from (used in) continuing investing activities  | (59,786 ) | 192                              | 6,183    | (16,846 )                |
| Net cash used in discontinued investing activities   | -         | (30 )                            | (36 )    | -                        |
| <b>Cash flows - financing activities</b>   |           |                                  |          |                          |
| Proceeds of Public offering, net   | 70,248    | -                                | -        | 19,794                   |
| Deferred expenses related to Public Offering   | -         | (110 )                           | -        | -                        |
| Short-term bank credit, net  | (3,609 )  | (3,362 )                         | (1,797 ) | (1,017 )                 |
| Purchase of additional shares in subsidiary  | -         | (2,314 )                         | (9,250 ) | -                        |
| Repayment of loans   | (1,016 )  | (1,601 )                         | (1,369 ) | (286 )                   |
| Proceeds of loans  | 1,200     | 487                              | 6,803    | 338                      |
| Net cash from (used in) continuing financing activities  | 66,823    | (6,900 )                         | (5,613 ) | 18,829                   |
| Net cash used in discontinued financing activities   | (926 )    | (2,566 )                         | (2,312 ) | (261 )                   |
| Increase in cash and cash equivalents  | 26,527    | 8,369                            | 17,121   | 7,474                    |
| Cash and cash equivalents at the beginning of the financial year                                 | 87,104    | 78,749                           | 61,649   | 24,544                   |
| Net foreign exchange difference on cash and cash equivalents from discontinued activities        | -         | (14 )                            | (21 )    | -                        |
| Cash and cash equivalents of the end of the financial year                                       | 113,631   | 87,104                           | 78,749   | 32,018                   |

(\*)

Convenience Translation into U.S. Dollars.

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

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**G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**APPENDICES TO CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(NIS in thousands)

A. Adjustments to reconcile net profit to net cash from operating activities

|   | 2010      | Year ended December 31, |          | 2010(*)<br>US Dollars |
|---|-----------|-------------------------|----------|-----------------------|
|   |           | 2009                    | 2008     |                       |
|   |           | NIS<br>(in thousands)   |          |                       |
| Revaluation of loans from banks and others  | (11 )     | 32                      | 106      | (3 )                  |
| Deferred income taxes   | 1,343     | 739                     | (505 )   | 378                   |
| Capital Gain on purchase of additional shares in subsidiary                       | -         | (5,245 )                | -        | -                     |
| Unrealized loss (gain) on marketable securities                                   | (3,300 )  | (2,652 )                | 5,186    | (930 )                |
| Depreciation and amortization   | 5,815     | 5,777                   | 5,022    | 1,638                 |
| Capital gain on disposal of property<br>plant and equipment                       | (47 )     | (85 )                   | (85 )    | (13 )                 |
| Employees benefit, net  | 237       | 50                      | 545      | 67                    |
| Change in value of warrants to issue shares                                       | -         | (5 )                    | (1,035 ) | -                     |
| <b>Changes in assets and liabilities:</b>   |           |                         |          |                       |
| Increase in trade receivables and other receivables                               | (8,470 )  | (7,196 )                | (4,665 ) | (2,385 )              |
| Decrease (Increase) in inventories  | 7,196     | (10,986 )               | (3,789 ) | 2,028                 |
| Decrease in long term receivables   | 760       | 103                     | -        | 214                   |
| Increase (Decrease) in trade and other payables, and other<br>current liabilities | (12,413 ) | 4,665                   | 11,010   | (3,498 )              |
|   | (8,890 )  | (14,803 )               | 11,790   | (2,504 )              |
| <b>Supplemental cash flow information:</b>  |           |                         |          |                       |
| Interest paid   | 449       | 627                     | 835      | 127                   |
| Income tax paid   | 2,994     | 2,191                   | 3,736    | 844                   |

(\*) Convenience Translation into U.S. Dollars.

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

G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL

A. Description of Business:

G. Willi-Food International Ltd. ("the Company") was incorporated in Israel in January 1994 and is engaged in the import, export, marketing and distribution of food products.

The Company is a subsidiary of Willi-Food Investments Ltd. ("the parent company"). The shares of the parent company are registered for trade on the Tel-Aviv Stock Exchange.

B. Definitions:

|                         |   |   |
|-------------------------|---|---|
| The Company             | - | G. WILLI-FOOD INTERNATIONAL LTD.  |
| The Group               | - | the Company and its Subsidiaries, a list of which is presented in Note 5.   |
| Subsidiaries            | - | companies in which the Company exercises control (as defined by IAS 27), and whose financial statements are fully consolidated with those of the Company. |
| Related Parties         | - | as defined by IAS 24.   |
| Interested Parties      | - | as defined in the Israeli Securities law and Regulations, 1968.   |
| Controlling Shareholder | - | as defined in the Israeli Securities law and Regulations, 1968.   |
| NIS                     | - | New Israeli Shekel.   |
| CPI                     | - | the Israeli consumer price index.   |
| Dollar                  | - | the U.S. dollar.  |
| Euro                    | - | the United European currency.   |

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Applying international accounting standards (IFRS)

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

B. Basis of preparation

Until December 31, 2003, Israel was considered a country in which hyper-inflation conditions exist. Therefore, non-monetary balances in the balance sheet were presented on the historical nominal amount and were adjusted to changes in the CPI. As of December 31, 2003 when the economy ceased to be hyper-inflationary and the Company no longer adjusted its financial statements to the ISRAELI CPI, the adjusted amounts as of this date were used as the historical costs. The financial statements were edited on the basis of the historical cost, except for:

§ Assets and liabilities measured by fair value: financial assets measured by fair value recorded directly as profit or loss.

§ Inventories are stated at the lower of cost and net realizable value.



G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. Basis of preparation (Cont.)

§Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.

§Liabilities to employees as described in note 2U.

C. Foreign currencies

(1) Functional and presentation currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are presented in the New Israeli Shekel ("NIS"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements. As for exchange rates and changes in them during the presented periods see note 2W.

(2) Translation of foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. (Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined). Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(3) Recognition of exchange differences

Exchange differences are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional, currency'). The consolidated financial statements are presented in 'NIS', which is the company's functional and the group's presentation currency.

(4) Translation of the financial statements of foreign operations

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate

significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Cash and cash equivalents

Cash equivalents include unrestricted liquid deposits, maturity period of which, as at the date of investments therein, does not exceed three months.

E. Basis of consolidation

(1) General

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(2) Non-controlling Interest

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling's share of changes in equity since the date of the combination. Losses applicable to the non-controlling in excess of the non-controlling's interest in the subsidiary's equity are allocated against the interests of the Group.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

F. Business combination

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date, except for other types of non-controlling interests are measured on the basis specified in

another IFRS.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Business combination (Cont.)

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Regarding the amendment to IFRS 3, "Business Combinations", see note 2(X)3.

G. Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Regarding the amendment to IAS 36, "Impairment of Assets", see note 2(X)1

Regarding the amendment to IFRS 3, "Business Combinations", see note 2(X)3

H. Discontinued operations

Exercised activities constitute discontinued activities when they represent a separate major line of business activity or geographical area of operations, or constitute part of a single and coordinated design for the exercise of an area of business activity, or a geographical area of activity, which is central and separate. Revenues and expenses belonging to discontinued activities are presented in the consolidated statements of operations less taxes on income in all periods presented as "Profit (Loss) from discontinued operations". Cash flows due to discontinued activities are presented together in the cash flow report for each reporting period presented in accordance with the classification of operating activity, investment activity and finance activity.

I. Property, plant and equipment

Property, plant and equipments are tangible items, which are held for use in the manufacture or supply of goods or services, or leased to others, which are predicted to be used for more than one period. The Company presents its

property, plant and equipments items according to the cost model.

Under the cost method - a property, plant and equipment are presented at the balance sheet at cost (net of any investment grants), less any accumulated depreciation and any accumulated impairment losses. The cost includes the cost of the assets acquisition as well as costs that can be directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Property, plant and equipment (Cont.)

Depreciation is calculated using the straight-line method at rates considered adequate to depreciate the assets over their estimated useful lives. Amortization of leasehold improvements is computed over the shorter of the term of the lease, including any extension period, where the Company intends to exercise such option, or their useful life.

|   | %                     |
|---|-----------------------|
| The annual depreciation and amortization rates are: |                       |
| Construction  | 4                     |
| Motor vehicles                                      | 15-20 (mainly<br>20%) |
| Office furniture and equipment                      | 6-15 (mainly<br>15%)  |
| Computers   | 20-33 (mainly<br>33%) |
| Machinery and equipment                             | 10                    |

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

J. Intangible assets, except goodwill

An intangible asset is an identifiable non-monetary asset without physical substance.

An intangible asset with an indefinite useful life shall not be amortized.

In accordance with IAS 36, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount:

- (a) annually, and  
(b) whenever there is an indication that the intangible asset may be impaired.

Intangible assets with a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses. Amortization is charged according to the straight-line method over their estimated useful life. See also Note 9.

Useful lives of Intangible assets:

|   | Years |
|---|-------|
| Intangible assets acquired in a business combination: |       |
| Technology knowledge                                  | 10    |
| Customers relationship                                | 15    |
| Trade name  | 25    |

Other intangible asset:

Trade name

7

Intangible assets acquired separately

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Intangible assets, except goodwill (Cont.)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Regarding the amendment to IFRS 3, "Business Combinations", see note 2(X)3.

K. Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

L. Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes all the cost of purchase, direct labor, fixed and variable production over heads and other cost that are incurred, in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Inventories (Cont.)

Cost determined as follows:

- |  |   |  |
|--|---|--|
| Raw material, components and packaging | - | by the "first-in, first-out" method;   |
| Processing goods                       | - | cost of materials plus labor   |
| finished products                      | - | on the basis of standard cost which approximates actual production cost (materials, labor and indirect manufacturing costs). |
| Products                               | - | weighted average method  |

M. Financial assets

(1) General

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition:

- Financial assets 'at fair value through profit or loss' (FVTPL)
  - Loans and receivables

(2) Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. See also note 4b.

(3) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(4) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date.

G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M. Financial assets (Cont.)

(4) Impairment of financial assets (Cont.)

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets, an objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

N. Financial liabilities and equity instruments issued by the Group

(1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Financial liabilities and equity instruments issued by the Group (Cont.)

(2) Consumer price index financial liabilities

The Company has Consumer Price Index ("CPI")-linked financial liabilities that are not measured at fair value through profit or loss. For those liabilities, the Company determines the effective interest rate as a real rate plus linkage differences according to the actual changes in the CPI up to the balance sheet date.

O. Derivative financial instruments

The Group enters into a certain derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately.

P. Revenue recognition

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.

(1) 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.

(2) Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(3)

Dividend revenue

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

|     |         |
|-----|---------|
| Q.  | Leasing |
| (1) | General |

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. In instance of operating lease agreements where lease payments are not paid at the beginning of the lease period, or where the lease payments are reduced, and the Group is getting additional benefits from the lesser, operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Lease agreements with the ILA with respect to a parcel of land is classified as finance leases. The prepaid lease payments are recognized on the balance sheet as "Property, plant and equipment", and are amortized on a straight-line basis over the lease period.

|     |            |
|-----|------------|
| R.  | Provisions |
| (1) | General    |

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(2)

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

S. Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date using the Black&Sholts model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

T. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(2) Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

U. Employee benefits

(1) Post-Employment Benefits

The Group's post-employment benefits include: benefits to retirees and liabilities for severance benefits. The Group's post-employment benefits are classified as Defined Benefit Plans.

Expenses in respect of a Defined Benefit Plan are carried to the income statement in accordance with the Projected Unit Credit Method, while using actuarial estimates that are performed at each balance sheet date. The current value of the Group's obligation in respect of the defined benefit plan is determined by discounting the future projected cash flows from the plan by the market yields on government bonds, denominated in the currency in which the benefits in respect of the plan will be paid, and whose redemption periods are approximately identical to the projected settlement dates of the plan.

Actuarial profits and losses are recognized in earning when incurred.

The Group's liability in respect of the Defined Benefit Plan which is presented in the Group's balance sheet, includes the current value of the obligation in respect of the defined benefit, net of the fair value of the Defined Benefit Plan assets.

(2) Short term employee benefits

Short term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that does not exceed 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

Short term company benefits include the company's liability for short term absences, payment of grants, bonuses and compensation. These benefits are recorded to the statement of operations when created. The benefits are measured on a non capitalized basis. The difference between the amount of the short term benefits to which the employee is entitled and the amount paid is therefore recognized as an asset or liability.

V. Earnings (loss) per share

Basic earnings (loss) per share is computed with regard to income or loss attributable to the Company's ordinary shareholders, and is calculated for income (loss) from continuing operations attributable to the ordinary shareholders of the reported entity, should such be presented. Basic earnings per share is to be computed by dividing income(loss) attributed to holders of ordinary shares of the Company (numerator), by the weighted average of the outstanding ordinary shares (denominator) during the period.

In the computation of diluted earnings per share, the Company adjusted its income (loss) attributable to its ordinary shareholders by multiplying their diluted EPS and the weighted average of the outstanding shares for the effects of all the dilutive potential ordinary shares of the Company.

W.Exchange Rates and Linkage Basis

(1) Balances in foreign currency or linked thereto are included in the financial statements based on the representative exchange rates, as published by the Bank of Israel, that were prevailing at the balance sheet date.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

W.Exchange Rates and Linkage Basis (Cont.)

(2) Following are the changes in the representative exchange rate of the U.S. dollar vis-a-vis the NIS and in the Israeli CPI:

|  | Representative<br>exchange<br>rate<br>of the Euro<br>(NIS per €1) | Representative<br>exchange<br>rate<br>of the dollar<br>(NIS per \$1) | CPI "in<br>respect of"<br>(in points) |
|--|---|--|---------------------------------------|
| <b>As of:</b>                          |   |  |                                       |
| December 31, 2010                      | 4.7379  | 3.549  | 108.0                                 |
| December 31, 2009                      | 5.4417  | 3.775  | 105.2                                 |
|  | %   | %  | %                                     |
| <b>Increase (decrease) during the:</b> |   |  |                                       |
| Year ended December 31, 2010           | (12.93 )  | (6 )   | 2.66                                  |
| Year ended December 31, 2009           | 2.73  | (0.71 )  | 3.91                                  |
| Year ended December 31, 2008           | (6.4 )  | (1.14 )  | 3.80                                  |

X. Adoption of new and revised Standards and interpretations

(1) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

- IAS 17 (amendment) "Leases"

As part of Improvements to IFRSs (2009) issued in April 2009, the International Accounting Standards Board amended the requirements of IAS 17 Leases regarding the classification of leases of land. Prior to amendment, IAS 17 generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of IAS 17. These amendments are effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively to unexpired leases at 1 January 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised Standard will be applied based on the facts and circumstances existing on 1 January 2010 (i.e. the date of adoption of the amendments). The Company entered into a long term lease agreement with the ILA with respect to a parcel of land which its facilities were constructed. The lease payments were paid in advance. The prepaid lease payments which were recognized in the balance sheet as "Prepaid Expenses" were re-classified and presents now as to "Fixed Assets".

The adoption of the amendment has affected the financial position as follows:

December 31,

|   | 2010<br>NIS | 2009<br>NIS | 2010<br>US Dollars |
|---|-------------|-------------|--------------------|
| Increase in Property, plant and equipment | 9,978       | 10,193      | 2,811              |
| Decrease in long term prepaid expenses    | 9,978       | 10,193      | 2,811              |

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

X. Adoption of new and revised Standards and interpretations (Cont.)

(1) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) (Cont.)

- IAS 27 (Revised) "Consolidated and Separate Financial Statements"

The amendment provides, among other, that it is possible to designate changes in cash flows resulting from exposure to inflationary risks as specified items. In addition, the amendment states that the internal value, unlike the time value of purchased options, eligible to serve as a hedging instrument of a one party risk arising from a transaction anticipated. The standard is effective for annual periods beginning on or after January 1, 2010.

The affect of the amendment on the statement of cash flow of prior years is as follows:

|   | December 31, |          |
|---|--------------|----------|
|   | 2009         | 2008     |
|   | NIS          | NIS      |
| Increase in cash flow from Investment activity  | (2,314 )     | (9,250 ) |
| Decrease in cash flow from Financing activities | (2,314 )     | (9,250 ) |

The standard prescribes the rules for the accounting treatment of consolidated and separate financial statements as follows:

- Transactions with non-controlling shareholders, in the context of which the company holds control of the subsidiary before and after the transaction, will be treated as capital transactions.
- In the context of transactions, subsequent to which the company loses control in the subsidiary, the remaining investment is to be measured as of the date that control is lost, at fair value.
- The non-controlling interest in the losses of a subsidiary, which exceed its share in shareholders' equity, will be allocated to it in every case, while ignoring its obligations and ability to make additional investments in the subsidiary.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter.

The standard is implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard is implemented prospectively.

- Amendment to IFRS 8 Operating Segments

The Amendment, discloser of a measure of segment assets is required only if that measure is regularly reported to the chief operating decision maker. The standard is effective for annual periods beginning on or after January 1 2010.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

X. Adoption of new and revised Standards and interpretations (Cont.)

(2) Standards and Interpretations adopted with no effect on financial statements

- Amendments to IAS 7 Statement of Cash Flows (adopted in advance of effective date of 1 January 2010)

The amendments specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows.. The amendment is effective for annual periods beginning on or after January 1 2010.

- Amendment to IAS 36 "Impairment of Assets"

The amendment states that in the allocation of goodwill to cash-generating units or groups of cash-generating units for impairment examination, each unit or group of units will not be a segment of activity, before grouping segments with similar economic characteristics to one sector. The standard is effective for annual periods beginning on or after January 1 2010.

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options. The standard is effective for annual periods beginning on or after January 1 2010.

(3) Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

- IFRIC 19 - Extinguishing Liabilities with Equity Instruments

The Interpretation applies when a debtor extinguishing a liability fully or partly by issuing equity instruments to the creditor. If a debtor issues equity instruments to a creditor to extinguish all or part of a financial liability, those equity instruments are 'consideration paid' in accordance with IAS 39. Accordingly, the debtor should derecognize the financial liability fully or partly. The debtor should measure the equity instruments issued to the creditor at fair value, unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished. If it does, the debtor must allocate the fair value of the consideration paid between the liability extinguished and the liability retained. The debtor recognizes in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the measurement of the equity instruments issued. The provision of IFRIC 19 is effective for period beginning on January 1, 2011.

At this stage, the management of the Group can not estimate the influence of the implementation of the standard on the financial statements of the Group.

G. WILLI-FOOD INTERNATIONAL LTD.  
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

X. Adoption of new and revised Standards and interpretations (Cont.)

(3) Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (Cont.)

- IFRS 9, Financial Instruments

The Standard is part of the wider project to replace IAS 39 Financial Instruments: Recognition and Measurement, and replaces IAS 39 with respect to classification and measurement of financial assets. The standard requires financial assets to be measured at amortized cost or fair value. An investment in a debt investment is measured at amortized cost if the objective of the business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

In addition, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. Moreover, investments in equity instruments are measured at fair value and gains and losses on remeasurement are recognized in the statement of income. However, for an investment in an equity instrument that is not held for trading, the Standard allows an entity to elect to present all fair value changes from the investment in other comprehensive income (except for dividends). No amount recognized in other comprehensive income is ever reclassified to the statement of income. The Standard does not apply to financial liabilities.

The standard is effective for annual periods beginning on or after January 1 2013. Earlier adoption is permitted, under certain conditions. The standard generally requires retrospective application, except for several exceptions. In particular, if an entity adopts the standard for reporting periods beginning before January 1 2012 it is not required to restate prior periods. At this stage, the management of the Group can not estimate the influence of the implementation of the standard on the financial statements of the Group.

- Amendment to IFRS 7 Financial instruments: Disclosures

In October 2010, an amendment to IFRS 7 Financial instruments: Disclosures was published. The amendment broadens the disclosures requirement regarding financial assets that were transferred to other parties (hereinafter - the amendment to IFRS 7), and will be effective for reporting periods commencing on July 1, 2011 or beyond.

Amendment to IAS 1 (revised) Presentation of Financial Statements

According to the amendment items in the statement of comprehensive income will be presented in the statement of changes in equity or in the disclosures to the financial statements. The amendment will be effective for reporting periods commencing January 1, 2011 or after. Earlier adoption is possible.

Amendment to IFRS 3(2008) Business combinations

The amendment of IFRS 3(2008) was issued to clarify that the new requirements for contingent consideration set out in IFRS 3(2008) should not be applied to business combinations whose acquisition date preceded the application of IFRS 3(2008). The amendments are effective for annual periods beginning on or after 1 July 2010, with earlier application permitted.

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G. WILLI-FOOD INTERNATIONAL LTD.  
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NOTE 3 - SIGNIFICANT ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION

A. General

In the application of the Group's accounting policies, which are described in Note 2, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

B. Significant judgments in applying accounting policies

The following are the significant judgments, apart from those involving estimations (see below), that the management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

Revenue recognition - the Group has recognized in revenues amounted to NIS 348,358 thousands in the year ended December 31, 2010 (NIS 303,460 thousands in the year ended December 31, 2009) for selling food products. The Group has given the buyers a right to return the product. According to the Group's estimations the rate of the products returns, based on the Group's past experience regarding similar transactions, will not be more than 1.7% of total revenues. As a result, the group recognized the revenues and created an accrual for customer's returns, at the same time. Any change of 1% in the Group's estimation will increase \ decrease the Group's revenues in the amount of NIS 3,483 thousands (NIS 3,035 thousands in the year ended December 31, 2009).

Useful lives of property, plant and equipment - the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. There were no changes in the estimations of useful lives of property, plant and equipment in the current reporting period.

Impairment of goodwill - Determining whether goodwill is impaired requires an estimation by the management of the Company of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was NIS 1,936 thousand (USD 546 thousand), following disposal of Goodwill relating to a disposal of subsidiary in the amount of NIS 1,893 thousands (USD 501 thousand), an impairment loss in the amount of NIS 1,067 thousands recognized in the year ended December 31, 2008.

Deferred taxes- the company recognizes deferred tax assets for all of the deductible temporary differences up to the amount as to which it is anticipated that there will be taxable income against which the temporary difference will be deductible. During each period, for purposes of calculation of the utilizable temporary difference, management uses estimates and approximations as a basis which it evaluates each period.

Measurement of obligation for employee benefits - The current value of the Group's post-employment benefits obligation is based on an actuarial estimation, using a large number of assumptions, including capitalization rate. Changes in the actuarial assumptions may affect the value of the Group's post-employment benefits obligations. The Group estimates the capitalization rate once in a year, based on the capitalization rate of government bonds. Other assumptions are determined based on market conditions and on the Group's past experience.

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G. WILLI-FOOD INTERNATIONAL LTD.  
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## NOTE 4

## CURRENT ASSETS

## A. Cash and cash equivalents - composition

|                          | 2010           | December 31,<br>2009  | 2010<br>US Dollars |
|--------------------------|----------------|-----------------------|--------------------|
|                          |                | NIS<br>(in thousands) |                    |
| Cash in bank             | 16,557         | 4,687                 | 4,665              |
| Short-term bank deposits | 97,074         | 82,417                | 27,353             |
| <b>Total cash</b>        | <b>113,631</b> | <b>87,104</b>         | <b>32,018</b>      |

## B. Other financial assets

|  | 2010   | December 31,<br>2009  | 2010<br>US Dollars |
|--|--------|-----------------------|--------------------|
|  |        | NIS<br>(in thousands) |                    |
| <b>Financial assets carried at fair value through profit or loss (FVTPL)</b> |        |                       |                    |
| <b>Held for trading non-derivative financial assets</b>                      |        |                       |                    |
| Shares   | 18,675 | 2,546                 | 5,262              |
| Governmental loan and other bonds  | 38,492 | 7,273                 | 10,846             |
| Certificate of participation in mutual fund                                  | 10,723 | 1,537                 | 3,021              |
|  | 67,890 | 11,356                | 19,129             |

## C. Trade receivables

## (1) Composition

|                                     | 2010   | December 31,<br>2009  | 2010<br>US Dollars |
|-------------------------------------|--------|-----------------------|--------------------|
|                                     |        | NIS<br>(in thousands) |                    |
| Trade receivables                   | 84,299 | 79,029                | 23,751             |
| Less - allowance for doubtful debts | 1,603  | 1,277                 | 452                |
|                                     | 85,902 | 77,752                | 24,203             |

The average credit period on sales of goods is 90 days. Trade receivables are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits are examined periodically based on the Company's collection experience with each



customer and additional external information. 97% of the Company's customers complied with their credit limits.

Of the trade receivables balance at the end of the year, NIS 9,301 thousand and 8,598 thousands (2009: NIS 12,526 thousands) are due from significant customers. There are no other customers who represent more than 10% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of NIS 943 thousands (2009: NIS 547 thousands) which are past due at the reporting date for which the Group has not provided allowance for doubtful accounts as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The average credit period for overdue customer debit balances is 45 days as of December 31, 2010.

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G. WILLI-FOOD INTERNATIONAL LTD.  
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NOTE 4

- CURRENT ASSETS (Cont.)

C. Trade receivables (Cont.)

(2) Aging of past due but not impaired

|            | 2 0 1 0               | December 31,<br>2 0 0 9 | 2 0 1 0<br>US Dollars |
|------------|-----------------------|-------------------------|-----------------------|
|            | NIS<br>(in thousands) |                         |                       |
| 0-120 days | 943                   | 547                     | 266                   |
| Total      | 943                   | 547                     | 266                   |

(3) Movement in the allowance for doubtful debts

|                                      | 2 0 1 0               | December 31,<br>2 0 0 9 | 2 0 1 0<br>US Dollars |
|--------------------------------------|-----------------------|-------------------------|-----------------------|
|                                      | NIS<br>(in thousands) |                         |                       |
| Balance at beginning of the year     | 1,277                 | 1,158                   | 360                   |
| Amounts written off as uncollectible | -                     | (435 )                  | -                     |
| Change in allowance doubtful debts   | 326                   | 554                     | 92                    |
| Balance at end of the year           | 1,603                 | 1,277                   | 452                   |

D. Other receivables

|                        | 2 0 1 0               | December 31,<br>2 0 0 9 | 2 0 1 0<br>US Dollars |
|------------------------|-----------------------|-------------------------|-----------------------|
|                        | NIS<br>(in thousands) |                         |                       |
| Prepaid expenses       | 543                   | 487                     | 153                   |
| Income receivables     | 33                    | -                       | 9                     |
| Government authorities | -                     | 1,072                   | -                     |
| Advances to suppliers  | 1,087                 | 229                     | 307                   |
| Others                 | 644                   | 202                     | 181                   |
|                        | 2,307                 | 1,990                   | 650                   |

E. Inventories

|  | 2 0 1 0 | December 31,<br>2 0 0 9 | 2 0 1 0<br>US Dollars |
|--|---------|-------------------------|-----------------------|
|  | NIS     |                         |                       |

(in thousands)

|  |        |        |        |
|--|--------|--------|--------|
| Raw and auxiliary materials            | 2,260  | 1,479  | 637    |
| Finished products and goods in process | 31,772 | 38,106 | 8,953  |
|  | 34,032 | 39,585 | 9,590  |
| Advances to suppliers                  | 3,582  | 5,225  | 1,009  |
|  | 37,614 | 44,810 | 10,599 |

The inventories are presented net of impairment provision.

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 5 - INVESTMENTS IN SUBSIDIARIES

A. Consolidated Subsidiaries

The consolidated financial statements include the financial statements of the following Subsidiaries:

| Subsidiary                                 | Location | Jurisdiction<br>of<br>Organization | Company's Ownership Interest |          |
|--|----------|------------------------------------|------------------------------|----------|
|  |          |                                    | December 31,<br>2010         | 2009     |
| Gold Frost Ltd ("Goldfrost")               | Israel   | Israel                             | 100.00 %                     | 100.00 % |
| Shamir Salads (2006) Ltd ("Shamir Salads") | Israel   | Israel                             | 51.00 %                      | 51.00 %  |
| WF Kosher Food Distributors Ltd. ("WF")    | USA      | USA                                | 100.00 %                     | 100.00 % |

B. On July 27, 2009 the Company announced that it has successfully completed its tender offer to purchase from the holders of shares and/or depositary interests of Goldfrost, all of the issued and outstanding share capital of Goldfrost not already held by the Company for a price of 7 pence per share or per depositary interest in cash. This tender offer was commenced on June 22, 2009.

As of the time of expiration of the tender offer, an aggregate of 2,706,388 Goldfrost shares and depositary interests were duly tendered. Such shares and depositary interests constitute, together with the shares held by the Company, more than 95 per cent of the issued and outstanding share capital of Goldfrost. In accordance with Israeli law, the Company purchased all of the issued and outstanding Goldfrost shares and depositary interests were not owned by it (including those not tendered in the tender offer) at the tender offer price and paid an aggregate amount of approximately £370,430 for all such shares and depositary interests.

C. On June 2009, Goldfrost had signed an agreement with a Danish Dairy distributor (the "Distributor") to sell its 51% interest in the Distributor to the Distributor and/or to the Distributor other shareholder ("Other Shareholder") for US\$ 400 thousands. Goldfrost acquired its 51% interest from the Other Shareholder in February 2008. According to the terms of the agreement, an amount equal to the balance of outstanding invoices owed by Goldfrost to the Distributor will be deducted as a down payment, and the rest will be paid by deduction in the purchase price by a pre-determined amount for each shipment of goods that Goldfrost will purchase from the Distributor or from the Other Shareholder, and the balance of the consideration, if any, will be paid in April 2011. As of December 31, 2010 the outstanding balance equals NIS 410 thousands.

Goldfrost was granted the exclusive right to distribute all of the products of the Distributor and the Other Shareholder in Israel until April 2012, so long as Goldfrost purchases a minimum quantity of products from the Distributor or from the Other Shareholder at fair market prices and that meet specified quality standards. As a result of the sale of the shares of the Distributor Goldfrost recognized a capital gain of NIS 1.2 million.



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NOTE 5 - INVESTMENTS IN SUBSIDIARIES (Cont.)

D. On September 2, 2009 the Company had signed an agreement ("Agreement") to sell all of its holdings in Baron, kosher food exporters located in Israel, and to assign all of its rights and obligations under the Founders Agreement from February 2007 to a private company owned by the Baron Family, who hold, as of the date of the Agreement the remaining shares in Baron.

In exchange for the sale of shares and the assignment of rights and obligations, Baron Family agreed to pay US\$ 937,500, which was paid to the Company on the date of execution of the Agreement. As a result of the sale of the shares of the Baron the Company recognized a capital loss of NIS 1.5 million.

NOTE 6 - LONG-TERM RECEIVABLES

Long term receivables consist of the outstanding balance owed by the Distributor (see Note 5 above). As of December 31, 2010 this balance is included in Other Receivables.

G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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| NOTE 7  | PROPERTY PLANT AND EQUIPMENT |                               |                   |                           |                               |                     |          |
|---|------------------------------|-------------------------------|-------------------|---------------------------|-------------------------------|---------------------|----------|
|   | Building                     | Machinery<br>and<br>equipment | Motor<br>Vehicles | Leasehold<br>improvements | Computers<br>and<br>equipment | Office<br>Furniture | Total    |
| <b>Consolidated Cost:</b>                                       |                              |                               |                   |                           |                               |                     |          |
| Balance - January 1, 2009                                       | 42,267                       | 9,086                         | 9,510             | 356                       | 2,865                         | 1,577               | 65,661   |
| <b>Changes during 2009:</b>                                     |                              |                               |                   |                           |                               |                     |          |
| Additions   | 159                          | 825                           | 531               | 158                       | 83                            | 115                 | 1,871    |
| Dispositions  | -                            | -                             | (810 )            | -                         | -                             | -                   | (810 )   |
| Balances relating to subsidiary consolidated for the first time | -                            | -                             | (149 )            | -                         | (75 )                         | (38 )               | (262 )   |
| Effect of foreign currency exchange differences                 | -                            | -                             | 7                 | -                         | -                             | -                   | 7        |
| Balance - December 31, 2009                                     | 42,426                       | 9,911                         | 9,089             | 514                       | 2,873                         | 1,654               | 66,467   |
| <b>Changes during 2010:</b>                                     |                              |                               |                   |                           |                               |                     |          |
| Additions   | 629                          | 820                           | 4,233             | 70                        | 425                           | 29                  | 6,206    |
| Dispositions  | -                            | -                             | (1,323 )          | -                         | -                             | -                   | (1,323 ) |
| Balance - December 31, 2010                                     | 43,055                       | 10,731                        | 11,999            | 584                       | 3,298                         | 1,683               | 71,350   |
| <b>Accumulated depreciation:</b>                                |                              |                               |                   |                           |                               |                     |          |
| Balance - January 1, 2009                                       | 2,611                        | 1,657                         | 5,712             | 38                        | 2,172                         | 972                 | 13,162   |
| <b>Changes during 2009:</b>                                     |                              |                               |                   |                           |                               |                     |          |
| Additions   | 1,643                        | 936                           | 1,216             | 35                        | 409                           | 171                 | 4,410    |
| Dispositions  | -                            | -                             | (619 )            | -                         | -                             | -                   | (619 )   |
| Balances relating to subsidiary consolidated for the first time | -                            | -                             | (29 )             | -                         | (31 )                         | (4 )                | (64 )    |
| Balance - December 31, 2009                                     | 4,254                        | 2,593                         | 6,280             | 73                        | 2,550                         | 1,139               | 16,889   |
| <b>Changes during 2010:</b>                                     |                              |                               |                   |                           |                               |                     |          |
| Additions   | 1,653                        | 1,026                         | 1,137             | 42                        | 381                           | 37                  | 4,276    |

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|                 |        |       |        |     |       |       |        |
|-----------------|--------|-------|--------|-----|-------|-------|--------|
| Dispositions    | -      | -     | (653 ) | -   | -     |       | (653 ) |
| Balance -       |        |       |        |     |       |       |        |
| December 31,    |        |       |        |     |       |       |        |
| 2010            | 5,907  | 3,619 | 6,764  | 115 | 2,931 | 1,176 | 20,512 |
| Net book value: |        |       |        |     |       |       |        |
| December 31,    |        |       |        |     |       |       |        |
| 2010            | 37,148 | 7,112 | 5,235  | 469 | 367   | 507   | 50,838 |
| December 31,    |        |       |        |     |       |       |        |
| 2009            | 38,172 | 7,318 | 2,809  | 441 | 323   | 515   | 49,578 |
| Net book value  |        |       |        |     |       |       |        |
| (Dollars in     |        |       |        |     |       |       |        |
| thousands):     |        |       |        |     |       |       |        |
| December 31,    |        |       |        |     |       |       |        |
| 2010            | 10,467 | 2,005 | 1,475  | 132 | 103   | 143   | 14,325 |

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G. WILLI-FOOD INTERNATIONAL LTD.  
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NOTE 8

- GOODWILL

## A. Composition

|  | 2010           | December 31,<br>2009 | 2010       |
|--|----------------|----------------------|------------|
|  | NIS            |                      | US Dollars |
|  | (in thousands) |                      |            |
| <b>Cost</b>  |                |                      |            |
| Balance at beginning of year   | 1,936          | 7,985                | 546        |
| Additional amounts recognized from business combinations occurring during the year | -              | -                    | -          |
| Disposal of subsidiary   | -              | (2,960 )             | -          |
| Balance at end of year   | 1,936          | 5,025                | 546        |
| <b>Accumulated impairment losses</b>   |                |                      |            |
| Balance at beginning of year   | -              | 4,156                | -          |
| Impairment losses recognized in the year   | -              | -                    | -          |
| Disposal of subsidiary   | -              | (1,067 )             | -          |
| Balance at end of year   | 1,936          | 3,089                | 546        |
| <b>Carrying amount</b>   |                |                      |            |
| At the beginning of the year   | 1,936          | 3,829                | 546        |
| At the end of the year   | 1,936          | 1,936                | 546        |

## B. Annual test for impairment

During 2010 and 2009, the Group assessed the recoverability of goodwill, and determined that there is no need of impairment in any of the cash-generating units. During 2008, the Group assessed the recoverability of goodwill, and determined that goodwill associated with the Group's overseas marketing of refrigerated products activity was not recoverable and was written off in the amount of NIS 1,067 thousands.

On March 2010, the Group ordered from Giza-Zinger-Even Consulting, an assessment opinion for the recoverability of goodwill due to the purchase of 51% of the interest in Shamir Salads (2006) LTD (herewith in "Shamir Salads"). Based on this opinion, the Group determined that no impairment to goodwill was necessary. On March 2011, the Groups CFO examined the different criteria upon which the 2010 estimation was based on and determined that due to the improvement in Shamir Salads financial results and in consideration with criteria set by IAS 36, there is no need for an updated assessment to the Groups goodwill.

## C. Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Export activity (Baron that was acquired in the year 2007 and was sold in the year 2009).

- Export activity (WF established in 2007 and acquired the activity of Laish, a U.S. based distributor).
- Salad production and marketing activity (Shamir Salads that was acquired in the year 2008).

Overseas marketing of refrigerated products activity (The distributor that was acquired in the year 2008 and was sold in the year 2009).

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NOTE 8 - GOODWILL

C. Allocation of goodwill to cash-generating units (Cont.)

Before recognition of impairment losses, the carrying amount of goodwill was allocated to the following cash-generating units:

|   | 2010           | December 31,<br>2009 | 2010       |
|---|----------------|----------------------|------------|
|   | NIS            |                      | US Dollars |
|   | (in thousands) |                      |            |
| Marketing activity of chilled and frozen products (Goldfrost) | 36             | 36                   | 10         |
| Export activity (WF)  | 3,089          | 3,089                | 870        |
| Salad production and marketing activity (Shamir Salads)       | 1,900          | 1,900                | 535        |

D. Allocation of goodwill to cash-generating units

Salad production and marketing activity (Shamir Salads)

The recoverable amount of this cash-generating unit is determined based on the economic value approach. Key assumptions used in the calculation of the value of the recoverable sum are:

- (1) The value of use estimate was conducted using the unleveraged cash flow capitalization method, with the projected cash flow deriving from the profit expectation of the activity with certain adjustments, based on the 2010 activity budget and the current status of activity, and without taking into account the future synergy potential with the Company's activity. Key assumptions in the cash flow projection:
  - (a) Revenues - the assumption is that in the projection years, the activity revenues will grow at a rate of 2% per year, reflecting the activity's share of annual potential market growth as well as the growth in the extant of revenues from institutional bodies and from product exports. Growth is not contingent on capital investments that increase production capacity.
  - (b) Gross profit - the assumption is that the gross profit rate will be 30% in the projected years (the same rate assumed in the 2010 budget).
  - (c) Operational expenses - regarding selling expenses, a 100% expenditure flexibility rate was assumed relative to the yearly increase in revenues. Regarding administrative and general expenses, a 50% expenditure flexibility rate was assumed relative to the yearly increase in revenues, due to the fact that a significant portion of these expenses are fixed.
  - (d) Tax - deducted according to the statutory tax rate.

(e) Depreciation and investments - yearly depreciation of NIS 1.03 million was assumed for the projected years. It was also assumed that the accounting depreciation would be equal to the economic depreciation and therefore, according to the activity assumptions, investments would equal depreciation.

(f) Working capital - for the purpose of the projection a normal capital rate of 9% of revenues was assumed, based on the working capital items, with the exception of suppliers, from the activity's financial statement of operations as of December 31 2009, and the suppliers' portion of revenues in accordance with the average for 2008-2009.

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NOTE 8 - GOODWILL (Cont.)

D. Allocation of goodwill to cash-generating units (Cont.)

Salad production and marketing activity (Shamir Salads) (Cont.)

- (2) Long term growth rate - an average long term yearly growth rate of 1.7% was assumed, based on the average long term growth rate for the population according to the Central Bureau of Statistics.
- (3) Capital price - in order to estimate the capital price of the activity an estimate was made of the weighted capital cost (WACC), using the CAPM model to calculate equity capital prices based on comparison with public companies dealing in the area. The main parameters used for the purpose of estimating the proper equity capital cost for the activity - risk-free interest of 3.3%, specific risk premium (expressing the activity's specific risks, such as the shareholder dispute that impacts activity and prevents the creation of synergy with the Company, the fact that activity is more limited in comparison with the compared companies, the limited presence of activity in major retail chains), market premium - 6.5% (the average gap between the yearly market yield and the risk-free interest in the market), beta - 0.65 determined by studying companies similar in certain characteristics to the activity and which shares are traded on a continuous basis (no public companies with identical activity were found). Total cost of equity capital - 16.0%. To calculate the net debt price also used for the purposes of the WACC calculation, a debt price of 7.5% was assumed and a tax rate of 18%. Based on these calculations, using a debt ration worth 25%, taking into account the capital structure of the activity reflecting Management's future projections, and the capital structure of the comparison companies), the WACC received was 13.5%, and before tax - 16.6%.

NOTE 9 - INTANGIBLE ASSETS

A. Composition:

|  | 2010           | December 31,<br>2009 | 2010<br>US Dollars |
|--|----------------|----------------------|--------------------|
|  | NIS            |                      |                    |
|  | (in thousands) |                      |                    |
| <b>Cost</b>                                    |                |                      |                    |
| Customers relationship                         | 1,364          | 1,364                | 384                |
| Brand name                                     | 3,570          | 3,570                | 1,006              |
| technological know-how                         | 439            | 439                  | 124                |
|  | 5,373          | 5,373                | 1,514              |
| <b>Accumulated amortization and impairment</b> |                |                      |                    |
| Customers relationship                         | 273            | 182                  | 77                 |
| Brand name                                     | 901            | 429                  | 254                |
| technological know-how                         | 132            | 88                   | 37                 |
|  | 1,306          | 699                  | 368                |
| <b>Amortized cost</b>                          | <b>4,067</b>   | <b>4,674</b>         | <b>1,146</b>       |

B. Amortization rates - see note 2J.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 10

## - DETAILS OF CURRENT LIABILITIES

| A.                                     | Trade payables |   | 2010<br>US Dollars |
|--|----------------|---|--------------------|
|  | 2010           | December 31,<br>2009<br>NIS<br>(in thousands) |                    |
| Open accounts                          | 20,266         | 34,926  | 5,710              |
| Accrued expenses                       | 659            | 641   | 185                |
| Checks payables                        | 12,034         | 13,815  | 3,390              |
|  | 32,959         | 49,382  | 9,285              |
| B. Other payables and accrued expenses |                |   |                    |
| Government authorities                 |                | 3,124   | 382                |
| Customer advances                      |                | 572   | 451                |
| Related parties                        |                | 5,379   | 5,774              |
| Accrued expenses                       |                | 1,134   | 1,564              |
| Other                                  |                | 117   | 805                |
|  |                | 10,326  | 8,976              |
|  |                |   | 2,910              |

NOTE 11

## - BANK LOANS AND OTHER CREDIT PROVIDERS

A. Loans and other credits Comprised as follows:

|                | Interest rate as of December 31 | Current         |       | Non-current                           |      | Total           |       |
|----------------|---------------------------------|-----------------|-------|---------------------------------------|------|-----------------|-------|
|                |                                 | 2010            | 2009  | 2010                                  | 2009 | 2010            | 2009  |
|                | annual %                        | NIS in thousand |       | As of December 31,<br>NIS in thousand |      | NIS in thousand |       |
| <b>Banks:</b>  |                                 |                 |       |                                       |      |                 |       |
| Overdraft      | L+1/P+1-P+3.25                  | 1,274           | 1,152 | -                                     | -    | 1,274           | 1,152 |
| <b>Loans:</b>  |                                 |                 |       |                                       |      |                 |       |
| CPI linked     |                                 | -               | -     | -                                     | -    | -               | -     |
| In U.S dollars | L+1                             | -               | 1,324 | -                                     | -    | -               | 1,324 |
| Not linked     | P-0.25 – P+3.25                 | 4,506           | 7,619 | 309                                   | 97   | 4,815           | 7,716 |

|            |       |        |     |    |       |        |
|------------|-------|--------|-----|----|-------|--------|
| Others:    |       |        |     |    |       |        |
| CPI linked | -     | 277    | -   | -  | -     | 277    |
|            | 5,780 | 10,372 | 309 | 97 | 6,089 | 10,469 |

B. Due dates as of December 31, 2010

Thousand NIS

|                              |       |
|------------------------------|-------|
| First year - Current portion | 886   |
| Second year                  | 309   |
| Total                        | 1,195 |



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## NOTE 12 - LIABILITIES UNDER FINANCE LEASE ARRANGEMENTS

Capital leases:

(1)General

One of the Company's subsidiaries entered into several finance leasing arrangements of cars which ended during 2010. The group's commitment for lease payments is assured by the legal ownership of the lessor.

(2)Capital lease assets

Net book value of the company's capital lease assets:

|          | 2 0 1 0        | December 31,<br>2 0 0 9 | 2 0 1 0<br>US Dollars |
|----------|----------------|-------------------------|-----------------------|
|          | NIS            |                         |                       |
|          | (in thousands) |                         |                       |
| Vehicles | -              | 491                     | -                     |

## NOTE 13 - PROVISIONS

A. Composition:

|                  | Current<br>December 31, |         | Non current<br>December 31, |         | Total<br>December 31, |         |
|------------------|-------------------------|---------|-----------------------------|---------|-----------------------|---------|
|                  | 2 0 1 0                 | 2 0 0 9 | 2 0 1 0                     | 2 0 0 9 | 2 0 1 0               | 2 0 0 9 |
|                  | NIS                     |         | NIS                         |         | NIS                   |         |
|                  | (in thousands)          |         |                             |         |                       |         |
| Legal claims     | 268                     | 145     | -                           | -       | 268                   | 145     |
| Total provisions | 268                     | 145     | -                           | -       | 268                   | 145     |

B. Movement in Provisions:

|  | Legal claims   |            |
|--|----------------|------------|
|  | NIS            | US Dollars |
|  | (in thousands) |            |
| Balance at the beginning of year 2010                      | 145            | 41         |
| Additional recognized provisions during the year           | 123            | 35         |
| Provisions payments/ closing                               | -              | -          |
| Increase related to passage of time - currency differences | -              | -          |
| Balance at the end of year 2010                            | 268            | 76         |

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 13 - PROVISIONS (Cont.)

C. Additional information:

(1) On February 13 2007, a suit was filed against the Company, in which a financial remedy was requested in the amount of NIS 144,543 due to the alleged violation of a distribution agreement and the illicit collection of payments. Over the course of 2007, a statement of defense and a response were filed, and preliminary proceedings were carried out. In addition, pre-trial hearings were held in which the Court instructed the parties to conclude their pre-trial proceedings and a date was set to file affidavits. In 2008, after the affidavits were filed, pre-trial hearings were held, in which the plaintiffs were given the opportunity to file a supplement to an opinion they submitted before November 5, 2008, and the defendant was given an opportunity for completion 30 days later. Inquiries in the case were completed and dates were set for the filing of affidavits. On September 6, 2009, both the plaintiffs and the Company filed their summations. The Company's legal counsel estimate that the Company has a reasonable chance to defend itself, but at the same time, the Company's legal counsel believe their opinion is conditional in light of the inquiries conducted for the case and in light of the court's remarks regarding the failure to disclose the entirety of the relevant documents. Therefore, the Company estimates that there is a chance the court will accept the plaintiff's claim, and therefore the Company's financial statements include a provision for the entire sum of the claim.

(2) On February 21, 2007, a lawsuit was filed against Goldfrost by Cukierman & Co. Investment House Ltd. in the Tel Aviv-Jaffa Magistrates Court in the amount of NIS 273,852, claiming non payment of fees for professional services rendered. A statement of defense was filed. The Company's legal counsel estimate that the Company has a reasonable chance to defend itself but at the same time, the Company's legal counsel believe Goldfrost will have to pay a certain amount and therefore the Company's financial statements include a provision for a certain sum of the claim.

NOTE 14 - EMPLOYEE BENEFITS

A. Composition:

|                                      | 2010           | December 31,<br>2009 | 2010       |
|--------------------------------------|----------------|----------------------|------------|
|                                      | NIS            |                      | US Dollars |
|                                      | (in thousands) |                      |            |
| <b>Post Employment Benefits:</b>     |                |                      |            |
| Benefits to retirees                 | 1,281          | 1,044                | 361        |
| <b>Short term employee benefits:</b> |                |                      |            |
| Accrued payroll and related expenses | 2,046          | 2,126                | 577        |
| Short term absence compensation      | 1,011          | 851                  | 285        |
|                                      | 3,057          | 2,977                | 862        |



G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 14 - EMPLOYEE BENEFITS (Cont.)

B. Defined benefit plans

The principal assumptions used for the purposes of the actuarial valuations were as follows:

|                                    | Valuation at<br>2 0 1 0 | 2 0 0 9   |
|------------------------------------|-------------------------|-----------|
| Discount rate                      | 4.35%-4.5%              | 4.6%-4.8% |
| Expected return on the plan assets | 2.35%-4.8%              | 2.6%-4.8% |
| Rate of increase in compensation   | 4%                      | 4%        |
| Expected rate of termination:      |                         |           |
| 0-1 years                          | 35%-60%                 | 35%-60%   |
| 1-2 years                          | 30%                     | 30%       |
| 2-3 years                          | 20%                     | 20%       |
| 3-4 years                          | 10%-15%                 | 10%-15%   |
| 4-5 years                          | 10%                     | 10%       |
| 5 years and more                   | 7.5%                    | 7.5%      |

Assumptions regarding future mortality rates are based on mortality tables published and approved by the Ministry of Finance and updated as of December 31 2001. The mortality rate of an active beneficiary at retirement age (67 for men, 63 for women), is 0.6433% for men and 0.3574% for women.

Until the completion of the study of the existence or non-existence of a deep market for high-quality corporate debentures, the Group makes use of a capitalization rate appropriate to the market yield on government debentures.

If the study in question establishes that Israel possesses a deep market for high-quality corporate debentures, the Group must restate the sums of the liabilities using a capitalization rate appropriate to the market yield on AA-rated corporate debentures.

The Group cannot estimate the impact of the change on its Financial Statements, in the event that a decision is made to use the capitalization rate of debentures.

The projected yield on a plan's assets is adapted to the manner in which compensation is accrued according to the plan's characteristics and the behavior of the market.

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

| Year ended December 31, |         |            |
|-------------------------|---------|------------|
| 2 0 1 0                 | 2 0 0 9 | 2 0 1 0    |
| NIS                     |         | US Dollars |
| (in thousands)          |         |            |

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|   |          |        |        |
|---|----------|--------|--------|
| Current service cost  | 1,116    | 1,102  | 314    |
| Interest cost   | 168      | 134    | 47     |
| Expected return on the plan assets                                      | (141 )   | (106 ) | (40 )  |
| Employer contribution   | (1,035 ) | (948 ) | (292 ) |
| Interest losses on severance payment allocated to remuneration benefits | 20       | 23     | 6      |
| Actuarial losses (gains) recognized in the year                         | 297      | (35 )  | 84     |
| Benefit paid during the year  | (188 )   | (120 ) | (53 )  |
|   | 237      | 50     | 66     |

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 14 - EMPLOYEE BENEFITS (Cont.)

B. Defined benefit plans (Cont.)

The expenses included in the income statement are as follows:

|                                     | Year ended December 31, |         |            |
|-------------------------------------|-------------------------|---------|------------|
|                                     | 2 0 1 0                 | 2 0 0 9 | 2 0 1 0    |
|                                     | NIS                     |         | US Dollars |
|                                     | (in thousands)          |         |            |
| Cost of sales                       | (8 )                    | 62      | -          |
| Selling expenses                    | 151                     | (5 )    | (60 )      |
| General and administrative expenses | 94                      | (7 )    | (62 )      |
|                                     | 237                     | 50      | (122 )     |

Movements in the present value of the defined benefit obligation in the current period were as follows:

|                                    | Year ended December 31, |         |            |
|------------------------------------|-------------------------|---------|------------|
|                                    | 2 0 1 0                 | 2 0 0 9 | 2 0 1 0    |
|                                    | NIS                     |         | US Dollars |
|                                    | (in thousands)          |         |            |
| Opening defined benefit obligation | 3,778                   | 2,806   | 1,065      |
| Current service cost               | 1,116                   | 1,102   | 314        |
| Interest cost                      | 168                     | 134     | 47         |
| Actuarial gains                    | 262                     | 211     | 74         |
| Benefits paid                      | (890 )                  | (475 )  | (251 )     |
| Closing defined benefit obligation | 4,434                   | 3,778   | 1,249      |

Movements in the fair value of the defined benefit assets in the current period were as follows:

|   | Year ended December 31, |         |            |
|---|-------------------------|---------|------------|
|   | 2 0 1 0                 | 2 0 0 9 | 2 0 1 0    |
|   | NIS                     |         | US Dollars |
|   | (in thousands)          |         |            |
| Opening defined benefit assets  | 2,734                   | 1,812   | 770        |
| Expected return on the plan assets                                      | 141                     | 106     | 40         |
| Actuarial gains (losses)  | (35 )                   | 246     | (10 )      |
| Employer contribution   | 1,035                   | 948     | 292        |
| Benefits paid   | (702 )                  | (355 )  | (198 )     |
| Interest losses on severance payment allocated to remuneration benefits | (20 )                   | (23 )   | (6 )       |
| Closing defined benefit assets  | 3,153                   | 2,734   | 888        |

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 14 - EMPLOYEE BENEFITS (Cont.)

B. Defined benefit plans (Cont.)

Adaption of the current value of defined benefit plan liability and the fair value of the plan's assets to the assets and liabilities recognized in the Balance Sheets:

|  | Year ended December 31, |       |            |
|--|-------------------------|-------|------------|
|  | 2010                    | 2009  | 2010       |
|  | NIS                     |       | US Dollars |
|  | (in thousands)          |       |            |
| Present value of funded liability                                      | 4,434                   | 3,778 | 1,249      |
| Fair value of plan assets - accumulated deposit in executive insurance | 3,153                   | 2,734 | 888        |
| Net liability deriving from defined benefit obligation                 | 1,281                   | 1,044 | 361        |

Actual return on the plan's assets and compensation rights:

|                                  | Year ended December 31, |      |            |
|----------------------------------|-------------------------|------|------------|
|                                  | 2010                    | 2009 | 2010       |
|                                  | NIS                     |      | US Dollars |
|                                  | (in thousands)          |      |            |
| Expected return on plan's assets | 141                     | 106  | 40         |
| Actuarial gains (losses)         | (35 )                   | 246  | (10 )      |
| Actual return on plan's assets   | 106                     | 352  | 30         |

Comparison to previous years:

|   | 2010           | Year ended December 31, |       | 2010  |
|---|----------------|-------------------------|-------|-------|
|   |                | 2009                    | 2008  |       |
|   | NIS            |                         |       |       |
|   | (in thousands) |                         |       |       |
| Present value of obligation due to defined benefit plan | 4,434          | 3,778                   | 2,806 | 1,249 |
| Fair value of plan assets                               | 3,153          | 2,734                   | 1,812 | 888   |
| Plan deficit  | 1,281          | 1,044                   | 994   | 361   |

C. Short term employee benefits

(1)

Composition:

|                                      | 2009  | December 31,<br>2008 | 2009    |
|--------------------------------------|-------|----------------------|---------|
|                                      | NIS   | NIS                  | Dollars |
| Accrued payroll and related expenses | 2,046 | 2,126                | 576     |
| Short term absence compensation      | 1,011 | 851                  | 285     |
| Total                                | 3,057 | 2,977                | 861     |

G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 14 - EMPLOYEE BENEFITS (Cont.)

C. Short term employee benefits (Cont.)

(2) Additional information:

(a) Paid Vacation Days

In accordance with the Yearly vacation Law, 1951, Company employees are entitled to a number of paid vacation days for each year of work. In accordance with the law in question (and addition as set in personal agreements between the Company and several of its employees), the number of yearly work days to which each employee is entitled is established based on said employee's seniority.

The employee may use vacation days based on his needs and with the Company's consent, and to accrue the remainder of unused vacation days. Employees who have discontinued their employment without using the balance of their vacation days are entitled to payment for the vacation days in question.

The balance of the Group's vacation provision is in accordance with the vacation eligibility of each individual employee, according to the personal agreement between each employee and the company to which they belong, and in accordance with the employee's salary. The balance of the Group's vacation provision as of December 31 2010 is NIS 1,011 thousand (NIS 851thousand as of December 31 2009).

(b) Paid Sick Days

In accordance with the Sick Pay Law, 1976, Company employees are entitled to 18 sick days a year (a day and a half per month). Sick days are deducted only upon receipt of medical confirmation of an employee's illness. Employees who have discontinued their employment without using the balance of their sick days shall not be entitled to payment for the balance of sick days in question, and therefore such a provision is not listed in the Company's books.

NOTE 15 - INCOME TAXES

A. Composition

|                                 | 2010   | Year ended December 31 |        | 2010<br>US Dollars |
|---------------------------------|--------|------------------------|--------|--------------------|
|                                 |        | 2009                   | 2008   |                    |
|                                 |        | NIS<br>(in thousands)  |        |                    |
| Current taxes                   | 8,725  | 5,568                  | 1,622  | 2,458              |
| Taxes in respect of prior years | -      | (1,264 )               | -      | -                  |
| Deferred taxes (C. below)       | (242 ) | 739                    | (505 ) | (68 )              |
|                                 | 8,483  | 5,043                  | 1,117  | 2,390              |



G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 15

## INCOME TAXES (Cont.)

## B. Reconciliation of the statutory tax rate to the effective tax rate

|   | Year ended December 31,       |          |          |                    |
|---|-------------------------------|----------|----------|--------------------|
|   | 2010<br>NIS<br>(in thousands) | 2009     | 2008     | 2010<br>US Dollars |
| Income before income taxes  | 37,810                        | 34,643   | 4,880    | 10,654             |
| Statutory tax rate  | 25 %                          | 26 %     | 27 %     | 25 %               |
| Tax computed by statutory tax rate  | 9,453                         | 9,007    | 1,318    | 2,664              |
| Tax increments (savings) due to:  |                               |          |          |                    |
| Non-deductible expenses   | 146                           | 304      | 1,180    | 41                 |
| Deferred tax in respect of losses for which valuation allowance was provided                                      | -                             | -        | 1,110    |                    |
| Tax exempt income   | (46 )                         | (1,763 ) | (367 )   | (13 )              |
| Permanent differences   | 134                           | 35       | 36       | 38                 |
| Temporary differences for which deferred taxes were not provided  | (980 )                        | (910 )   | (1,977 ) | (277 )             |
| Effect of decrease in tax rate on deferred taxes assets   | -                             | 19       | 5        | -                  |
| Differences in the definition of capital and non-monetary items for tax purposes and financial reporting purposes | (15 )                         | (23 )    | (22 )    | (4 )               |
| Previous year taxes   | -                             | (1,264 ) | -        | -                  |
| Other   | (209 )                        | (362 )   | (166 )   | (59 )              |
|   | 8,483                         | 5,043    | 1,117    | 2,390              |

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|         |    |  |         |            |
|---------|----|--|---------|------------|
| NOTE 15 | -  | INCOME TAXES (Cont.)                     |         |            |
|         | C. | Deferred Taxes                           |         |            |
|         |    | December 31,                             |         |            |
|         |    | 2 0 1 0                                  | 2 0 0 9 | 2 0 1 0    |
|         |    | NIS                                      |         | 0(*)       |
|         |    | (in thousands)                           |         | US Dollars |
|         |    | (70 )                                    | 669     | (20 )      |
|         |    | 242                                      | (720 )  | 68         |
|         |    | -  | (19 )   | -          |
|         |    | 172                                      | (70 )   | 48         |
|         |    | Deferred taxes arise from the following: |         |            |
|         |    | 397                                      | 319     | 112        |
|         |    | 606                                      | 557     | 170        |
|         |    | 518                                      | -       | 146        |
|         |    | (1,071 )                                 | (985 )  | (302 )     |
|         |    | (278 )                                   | 39      | (78 )      |
|         |    | 172                                      | (70 )   | 48         |

For 2010 - Deferred taxes were computed at rates of 25%.

D. Reduction of Corporate Tax Rates

The Company and its subsidiaries were not assessed for Income Taxes. According to section 145 of the Tax Ordinance assessments for the years 2004 and backward are considered final.

On February 26, 2008, the Knesset ratified the third reading of the Income Tax Law ("Inflation Adjustments") (Amendment 20) (Limitation of Term of Validity) - 2008 (hereinafter: "The Amendment"), pursuant to which the application of the inflationary adjustment law was terminated in tax year 2007 and as of tax year 2008, the law is no longer apply, other than transition regulations whose intention is to prevent distortions in tax calculations.

According to the amendment, in tax year 2008 and thereafter, the adjustment of revenues for tax purposes is no longer be considered a real-term basis for measurement. Moreover, the linkage to the CPI of the depreciated sums of fixed assets and carryover losses for tax purposes was discontinued, in a manner whereby these sums was adjusted until the CPI at the end of 2007 and their linkage to the CPI was end as of that date.

E. In July 2005, the Israeli Knesset passed the Law for Amending the Income Tax Ordinance (No. 147), 2005, according to which commencing in 2006 the corporate income-tax rate would be gradually reduced, for which a 31% tax rate was established, through 2010, in respect of which a 25% tax rate was established.

On July 23, 2009, the Knesset passed the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) - 2009, which provided, inter-alia, an additional gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rates applicable as from the 2009 tax year are as follows: in the 2009 tax year- 26%, in the 2010 tax year- 25%, in the 2011 tax year - 24%, in the 2012 tax year - 23%, in the 2013 tax year- 22%, in the 2014 tax year - 21%, in the 2015 tax year - 20% and as from the 2016 tax year the company tax rate will be 18%. The aforementioned change in the tax rates had no material impact on the Company's financial position or results of operations.

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NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Commitments

(1) The Company has agreed to pay the large supermarket retail chains in the organized market and to certain of the customers in the private sector incentives calculated as a fixed percentage of the annual sales to such customer or incentives based on the increase in volume of sales to such customers in excess of a certain agreed amount with respect to the year 2009. The extent of such incentives varies between 0.5%-9% of the annual sales turnover of each relevant customer (depending on the agreement with each customer) and are usually awarded as part of a written annual framework agreement.

(2) As of June 1, 1998, the Company entered into certain management services agreements with certain companies controlled by each of Messrs. Joseph and Zwi Williger, respectively (collectively, the "Williger Management Companies"), pursuant to which Messrs. Joseph and Zwi Williger are to provide management services on behalf of the Williger Management Companies to the Company (the "Management Services Agreements").

The Management Services Agreements were for a period of four years commencing on June 1, 1998 (the "Management Services Period"), were automatically renewed on June 1, 2002 for two years and were automatically renewed for an additional period of two years in June 2004.

Each of the Management Services Agreements provided for monthly services fees equal to US\$ 24,500 (excluding VAT) and an annual bonus at a rate of 3% of the Company's consolidated pre-tax annual profits, if such profits are equal to or less than NIS 3.0 million (approximately USD 0.8 million), or at a rate of 5% if such profits exceed such level.

On May 4, 2005 the Company's Audit Committee and Board of Directors decided to amend the terms of the abovementioned agreements, mainly extending the management services period for an unlimited period, with an option to terminate them by the Company's advance notice of 18 months and the Management Companies' advance notice of 180 days. The General Meeting of the Company's shareholders ratified these amendments on July 20, 2005.

On February 15, 2006 the Company's board of directors resolved, in light of the expressed position of the Israeli Securities Authority, to set those agreements for a five-year period following ratification by the Company's shareholders General Meeting, i.e., until July 19, 2010.

On January 2, 2008 the Audit Committee and the Board of Directors unanimously approved the amendment of the Management Services Agreements with Messrs. Zwi Williger and Joseph Williger. In accordance to the new Management Services Agreements the terms were amended as follows:

- (a) The current monthly services fees according to the Management Services Agreements will cease to be linked to the US Dollar and will be translated to NIS 102,900 (excluding VAT) linked to changes in the Israeli consumer price index.
- (b) The terms of the Management Services Agreements are to be extended indefinitely, subject to clause (3) below; provided however that in the event the Williger Management Company provides the management services to the Company without the presence of Messrs. Zwi Williger or Joseph Williger, as the case may be, and/or in the case



of the death and/or permanent disability of Messrs. Zwi Williger or Joseph Williger, the Company will be entitled to terminate the Management Services Agreement immediately.

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NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

A. Commitments (Cont.)

(2) Cont.

(c) Each of the parties to the Management Services Agreements may terminate the agreement at any time, and for any reason, by prior written notice which will be delivered to the other party as follows:

The Company may terminate the agreement at any time, and for any reason, by prior written notice of at least 36 months.

The Williger Management Company may terminate the agreement at any time, by prior written notice of at least 180 days.

(d) If a Williger Management Company is to terminate the Management Services Agreement, the Williger Management Company would be entitled to receive the management fees for a period of twelve (12) months, which would begin after the prior notice period, whether or not it provides the Company with any management services during such twelve-month period.

In addition, the Management Services Agreements contain provisions entitling each of Messrs. Zwi Williger and Joseph Williger to 30 vacation days per year, during which days the applicable Williger Management Company will not provide management services to the Company. Unused vacation days may be accumulated and paid for in lieu of taking such days as vacation.

(3) On April 1, 1997 the Company entered into an agreement to provide the Parent Company administrative services pursuant to which the Company may provide office facilities leased by the parent company for a monthly fee of NIS 4,500 (USD 1,268) to be adjusted annually for changes in the Israeli CPI.

(4) The Company does not generally enter into written agency or other agreements with its suppliers. However, the Company has written agreements with eighteen foreign suppliers that confirm the exclusive appointment of the Company 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.

(5) Shamir Salads signed distribution agreements with 25 distributors that distributes Shamir Salads products all over Israel for a commission that range between 6% to 16% of the distributor sales, depending of the customer. Shamir Salads has no commitment to any of those distributors for ongoing relationship.

(6) Shamir Salads leases two joined buildings for its operation (factory, logistics and head office) – the first is 2,516 square meters, the monthly rent is NIS 40,432 (linked to the CPI from December 2005) and the lease ends on January 2012. The second is 2,192 square meters, the monthly rent is NIS 41,141 (linked to the CPI from December 2005) and the lease ends on January 2012.

In addition to these two joined buildings, Shamir Salads leases cooling chambers and offices located in Beer-Sheva and in Miluot.

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NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

(B)Contingent liabilities

- (1)On February 13 2007, a suit was filed against the Company, in which a financial remedy was requested in the amount of NIS 144,543 due to the alleged violation of a distribution agreement and the illicit collection of payments. On September 6, 2009, both the plaintiffs and the Company filed their summations. The Company's legal counsel estimate that the Company has a reasonable chance to defend itself, but at the same time, the Company's legal counsel believe their opinion is conditional in light of the inquiries conducted for the case and in light of the court's remarks regarding the failure to disclose the entirety of the relevant documents. Therefore, the Company estimates that there is a chance the court will accept the plaintiff's claim, and therefore the Company's financial statements include a provision for the entire sum of the claim.
- (2)On February 21, 2007, a lawsuit was filed against Goldfrost by Cukierman & Co. Investment House Ltd. in the Tel Aviv-Jaffa Magistrates Court in the amount of NIS 273,852, claiming non payment of fees for professional services rendered. A statement of defense was filed. The Company's legal counsel estimate that the Company has a reasonable chance to defend itself but at the same time, the Company's legal counsel believe Goldfrost will have to pay a certain amount and therefore the Company's financial statements include a provision for a certain sum of the claim.
- (3)In September 2007, Thurgeman Construction Co. Ltd. ("Thurgeman") filed a claim against the Company in the District Court of Tel Aviv for the amount of NIS 4,449 thousand (plus VAT) (USD 1,253 thousand) regarding a dispute in connection with the construction of the Company's logistics center in Yavne (the "Project") pursuant to a contract between the parties, dated as of September 9, 2005. Under the terms of the contract, Thurgeman was to serve as the operating contractor for the construction of the frame and the surrounding portions for the construction of the Project.

During the course of construction on the Project, the parties raised several claims against each other in connection with the progress of construction on the Project. The Company claimed that Thurgeman grossly violated the terms of the contract by continuous delays in the completion of the Project, and by performing the construction work in a negligent and unprofessional manner and with inferior quality. Thurgeman counterclaimed that it performed the construction work according to the terms of the contract and that any delays in the work were not caused through any fault of Thurgeman. Furthermore, Thurgeman claimed that the Company withheld certain payments to which Thurgeman was entitled for additional work on the Project, causing Thurgeman damages.

At the end of November 2007, the Company filed a statement of defense, which included a counterclaim against Thurgeman and its executive, Dotan Thurgeman, which contained among other things, a claim of defamation, a claim for damages caused by the delay in delivery of the completed Project, and damages caused by Thurgeman's poor and careless work on the Project. The sum of the damages claimed by the Company in the counterclaim was NIS 5 million (USD 1.4 million). In February 2008, Thurgeman filed a response to the counter claim. The parties started performing the preliminary proceedings.

At the current preliminary stage of the dispute, the Company's management and legal counsel cannot assess the chances of the parties.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

(B)Contingent liabilities (Cont.)

(4)On July 7, 2008, WF filed a lawsuit in the Supreme Court of the State of New York, Country of New York, against Laish Israeli Food Ltd., Laish Dairy Ltd., 860 Nostrand Associates Llc., Arie Steiner, Eli Biran (WF's former CEO) and others. The plaintiffs assert claims, inter alia, of fraud, conversion and breach of contract against the seller and former principal of Laish Israeli Food and related parties. Certain defendants have filed motions to dismiss the claim. On August 27, 2008, 860 Nostrand Associates LLC. Filed a lawsuit against the Company, in the amount of US\$ 142,949(which shall be adjusted according to the alleged rent period) claiming that the defendant is liable to it as a guarantor of a certain lease that was allegedly signed by WF. Damages are being sought. The discovery process in the proceedings has commenced and is ongoing. Limited discovery remains to be completed before the hearing which is not scheduled yet.

(5)On September 22, 2008, a lawsuit was filed against the Company, WF and one of the Company's officers by several WF's Israeli vendors in the Tel Aviv-Jaffa Magistrates Court in the amount of NIS 1,349,899 (USD 357,589), claiming nonpayment of WF for food products that they allegedly supplied to WF. A statement of defense was filed. The Company's management and legal counsel believe that the lawsuit against Company and the Company's officer are without merit, and they intend to vigorously defend against such claims. The amount of the claim is included in WF's financial statements under trade payables item.

(6) On May 14, 2009, the Company received from the Sellers of Shamir Salads (the "Sellers") a notice cancelling the acquisition agreement of Shamir Salads (the "Shamir agreement"), and on May 18, 2009, the Company was notified of unilateral actions taken by the Sellers with respect to a change in Shamir Salads's board composition and signatory rights and replacement of the articles of association of Shamir Salads in an effort by the Sellers to deprive the Company of its board representation and signatory rights in Shamir Salads.

The Company submitted an urgent application to the district court of Tel Aviv requesting, among other things, a declaratory judgment that the Agreement is in full force and effect and various injunctions against the Sellers. The court issued injunction providing that the Sellers are prohibited from taking any action not in accordance with the signatory rights in Shamir Salads in effect prior to May 18, 2009, performing any disposition of the shares of Shamir Salads held by the Company, taking any action not in accordance with the articles of association of Shamir Salads as in effect prior to May 18, 2009, and/or interfering with the functions of Shamir Salads's board of directors as composed prior to May 18, 2009. In addition, pursuant to the injunction, the Sellers are prohibited from interfering with the functions of the co-CEO of Shamir Salads nominated by the Company and/or from preventing the deputy CFO of Shamir Salads from participating in the discussions to approve the financial statements of Shamir Salads.

On June 17, 2009, the Sellers filed a petition with the district court in Tel Aviv for temporary relief against the Company and others, a declaratory judgment and other relief in connection with an alleged fundamental breach by the Company of the Shamir Agreement, and for the return of the shares in Shamir Salads and the consideration paid therefore. In a hearing which took place on June 22, 2009, the parties agreed (i) to suspend the court proceedings between the parties, (ii) to appoint an arbitrator in all aspects of the dispute, (iii) to hear the claims of both parties arising from the dispute, and (iv) that the application for temporary relief filed by the Sellers be removed. The temporary injunction against the Sellers will remain in effect until the end of the arbitration proceedings. In the

framework of these proceedings, the Company submitted a claim for declaratory relief pursuant to which the Seller's notice of cancellation of the Shamir Agreement was given unlawfully and is void, as well as for an advance that was paid in excess and of additional damages that was caused to the Company in the amount of approximately NIS 3.9 million (US\$ 1.1 million).

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

(B)Contingent liabilities (Cont.)

(6) Cont.

On August 4, 2009, the Sellers submitted a counterclaim against the Company and others for declaratory orders determined in proceedings that were submitted to the court, as well as for payment to Sellers of a sum of NIS 6.97 million (US\$ 1.9 million) for non-payment of the consideration in the Shamir Agreement and tarnishing the Sellers' reputation and good name, and a sum of NIS 3.5 million (US\$ 1.0 million) to Shamir Salads for damages that the Company allegedly caused to Shamir Salads and its reputation, as well as a petition to split relief. Claims for additional relief against additional defendants (but not including the Company) were also included in the framework of the claim. The evidentiary stage of the arbitration proceedings commenced on November 3, 2009. On December 24, 2009 the sellers submitted a request, which was accepted, to correct its statement of claim. On January 27, 2010, the Company submitted an amended statement of defense. On February 28, 2010, the Sellers submitted an amended statement of reply. Hearings regarding the arbitration took place from November 2009 and further hearings will take place during 2011. The Company, based on the opinion of its legal counsel, believes that the plaintiffs' likelihood of success in the proceedings is low and the Company's success in the proceedings is higher than 50 percent.

(7) On November 2010, the Company was served with a purported class action lawsuit alleging that it misled its customers by illegally marking a lower calorie value of a product than its real value. The groups which the lawsuit desires to represent include any Israeli resident who bought this product due to such person's preference for low calorie product (the "Group"). The plaintiff appraises the group's damages at NIS 2.5 million (approximately US\$ 700 thousand). On January 2011, the Company presented the prosecution with an official notice from the products manufacture together with test results from an external laboratory that the calorie value indicated on the product was accurate. At the current preliminary stage of the dispute, the Company's management and legal counsel cannot assess the chances of the parties.

NOTE 17 - SHAREHOLDERS' EQUITY

Composition:

|                          | Ordinary shares<br>of NIS 0.1 par value each<br>December 31 |            |
|--------------------------|---|------------|
|                          | 2 0 1 0   | 2 0 0 9    |
| Authorized share capital | 50,000,000  | 50,000,000 |
| Issued and outstanding   | 13,573,679  | 10,267,893 |

On March 17, 2010, the Company raised a US\$ 20.0 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 US\$ 6.05 per share, and the Company also granted to the underwriter an option, exercisable within 30 days from the date of the public offering, to purchase up to an additional 330,579 ordinary shares. This option expired without the underwriter's exercise of such option. After deducting closing costs and fees, the Company received net proceeds of approximately US\$ 19.0 million.



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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 18

## OPTIONS PLANS

On January 2008 the Parent Company's Board of Directors adopted a Stock Incentive Plan. The Parent Company was authorized to grant up to 100,000 options to several of the Group's employees. On August 4, 2009 according to a decision of the Company's audit committee and Board of Directors from March 12, 2009, the option plan has been amended - the number of the options that the Parent Company was authorized to grant increased up to 200,000, the expiration dates extended in six months, and the purchase price per share payable upon exercise of an option was determined on NIS 11.5 subject to adjustments and not linked to the changes in the Consumer Price Index (in place of NIS 19 linked to the changes in the Consumer Price Index). 135,000 options were granted to the Group's employees on August 4, 2009.

The options granted vest in three equal annual instalments commencing August 2010 and will expire in 2, 3 and 4 years, respectively.

The Company utilizes the Black-Scholes model. The Company estimated the fair value, utilizing the following assumptions (all in weighted averages):

|                            | 2010      |
|----------------------------|-----------|
| Risk-free interest rate    | 2.5%-3.7% |
| Expected life of options   | 2-4 years |
| Expected annual volatility | 45%-51%   |

Share options exercised during the year.

The following share options were exercised during the year.

| Option series | Number<br>exercised | Exercise<br>date | Share price at<br>exercise date |
|---------------|---------------------|------------------|---------------------------------|
| August 2009   | 7,000               | August 20        | 10.61                           |
|               | 3,333               | October 3        | 10.61                           |
|               | 12,999              | October 10       | 10.61                           |
|               | 667                 | October 11       | 10.61                           |
|               | 4,666               | October 12       | 10.61                           |
|               | 1,167               | October 16       | 10.61                           |

A summary of the status of the Company's stock option plans as of December 31, 2010, 2009 and changes during the years then ended, is presented below:

| Number of options<br>Year ended December 31 |           |
|---|-----------|
| 2010  | 2009      |
| Number of                                   | Number of |

|                                      | options | Weighted<br>average<br>exercise<br>price<br>(NIS) | options | Weighted<br>average<br>exercise<br>price<br>(NIS) |
|--------------------------------------|---------|---|---------|---|
| Balance at the beginning of the year | 135,000 | 10.73   | 19,000  | 14.04   |
| Granted                              | -       | -   | 135,000 | 11.5  |
| Exercised                            | 29,832  | 10.61   | 7,000   | 13.53   |
| Forfeited                            | 28,667  | -   | 12,000  | -   |
| Balance at the end of the year       | 76,501  | 10.61   | 135,000 | 10.73   |
| Options exercisable at the year end  | -       | -   | -       | -   |

G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

## NOTE 19 - SELECTED CONSOLIDATED STATEMENTS OF OPERATIONS DATA

|  | A. Revenues |   |          |            |
|--|-------------|---|----------|------------|
|  | 2 0 1 0     | Year ended December 31,<br>2 0 0 9          2 0 0 8 |          | 2 0 1 0    |
|  |             | NIS<br>(in thousands)                               |          | US Dollars |
| Sale of products manufactured by the group       | 77,215      | 73,596  | 70,248   | 21,757     |
| Sale of other products                           | 271,143     | 229,786   | 218,625  | 76,399     |
| Income from services provided                    | -           | 62  | 52       | -          |
| Commissions                                      | -           | 16  | 143      | -          |
|  | 348,358     | 303,460   | 289,068  | 98,156     |
|  |             | B. Cost of sales                                    |          |            |
| Purchases  |             | 209,156   | 200,351  | 198,787    |
| Materials consumed                               |             | 10,179  | 10,076   | 9,123      |
| Salaries and related expenses                    |             | 6,638   | 6,205    | 5,673      |
| Loss on firmly committed orders                  |             | -   | (3,500 ) | 3,500      |
| Transportation                                   |             | 1,884   | 1,874    | 2,031      |
| Depreciation and amortization                    |             | 2,490   | 2,724    | 2,567      |
| Maintenance and rent                             |             | 6,037   | 7,805    | 7,911      |
| Other manufacturing costs and expenses           |             | 5,846   | 2,518    | 2,169      |
|  |             | 242,230   | 228,053  | 231,761    |
| Change in raw materials                          |             | (407 )  | 1,094    | (986 )     |
| Change in finished goods and in goods in process |             | 5,749   | (9,578 ) | (1,936 )   |
|  |             | 247,572   | 219,569  | 228,839    |
|  |             |   |          | 69,758     |
|  |             | C. Selling expenses                                 |          |            |
| Salaries and related expenses                    |             | 14,179  | 12,949   | 12,877     |
| Sales commissions                                |             | 5,942   | 5,606    | 4,623      |
| Maintenance and rent                             |             | 5,765   | 4,801    | 3,700      |
| Vehicles   |             | 5,634   | 4,544    | 5,144      |
| Advertising and promotion                        |             | 7,253   | 3,920    | 2,195      |
| Depreciation and amortization                    |             | 1,223   | 2,199    | 1,544      |
| Others   |             | 5,052   | 1,579    | 1,717      |
|  |             | 45,048  | 35,598   | 31,800     |
|  |             | D. General and administrative expenses              |          |            |
| Salaries and related expenses                    |             | 14,426  | 12,583   | 8,305      |
|  |             |   |          | 4,064      |

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|                               |        |        |        |       |
|-------------------------------|--------|--------|--------|-------|
| Office maintenance            | 1,224  | 1,351  | 1,279  | 345   |
| Professional fees             | 3,440  | 3,382  | 3,653  | 969   |
| Vehicles                      | 677    | 790    | 509    | 191   |
| Depreciation and amortization | 516    | 854    | 911    | 146   |
| Bad and doubtful debts        | 433    | 456    | 702    | 122   |
| Communication                 | 265    | 214    | 308    | 75    |
| Other                         | 1,236  | 821    | 1,196  | 348   |
|                               | 22,217 | 20,451 | 16,863 | 6,260 |

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

## NOTE 19 - SELECTED CONSOLIDATED STATEMENTS OF OPERATIONS DATA (Cont.)

|   | 2010   | Year ended December 31, |           | 2010<br>US Dollars |
|---|--------|-------------------------|-----------|--------------------|
|   |        | 2009                    | 2008      |                    |
| E. Employees benefit costs                    |        |                         |           |                    |
|   |        | NIS<br>(in thousands)   |           |                    |
| Payroll                                       | 34,479 | 31,406                  | 26,310    | 9,715              |
| Salary expenses relating Stock Incentive Plan |        |                         |           |                    |
| Employee Benefit Plan expenses                | 237    | 50                      | 545       | 67                 |
|   | 35,243 | 31,737                  | 26,855    | 9,930              |
| F. Depreciation and amortization              |        |                         |           |                    |
| Depreciation of fixed assets                  |        | 4,276                   | (*) 4,381 | (*) 4,349          |
| Amortization of Intangible assets             |        | 607                     | 421       | 278                |
| Amortization of prepaid rental expenses       |        | 932                     | (*) 975   | (*) 395            |
|   |        | 5,815                   | 5,777     | 5,022              |
|   |        |                         |           | 1,638              |

## NOTE 20 - OTHER INCOME AND EXPENSES

|   | 2010 | Year ended December 31, |      | 2010<br>US Dollars |
|---|------|-------------------------|------|--------------------|
|   |      | 2009                    | 2008 |                    |
| A. Other income   |      |                         |      |                    |
|   |      | NIS<br>(in thousands)   |      |                    |
| Capital gain on fixed assets realization                    | 47   | 85                      | 85   | 13                 |
| Capital Gain on purchase of additional shares in subsidiary | -    | 5,245                   | -    | -                  |
| Other   | -    | -                       | 50   | -                  |
|   | 47   | 5,330                   | 135  | 13                 |
| B. Other expenses   |      |                         |      |                    |
| Loss from statutory suit                                    |      | -                       | -    | 1,981              |
|   |      | -                       | -    | 1,981              |



G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 21

## FINANCE INCOME AND EXPENSES

|  | 2010         | Year ended December 31, |                 | 2010<br>US Dollars |
|--|--------------|-------------------------|-----------------|--------------------|
|  |              | 2009                    | 2008            |                    |
|  |              | NIS<br>(in thousands)   |                 |                    |
| <b>A. Financing income:</b>                              |              |                         |                 |                    |
| <b>Interest income:</b>                                  |              |                         |                 |                    |
| Short-term bank deposits                                 | 1,367        | 597                     | 1,474           | 385                |
| Changes in value of debentures held for trading          | 402          | 76                      | 348             | 113                |
| Other  | 29           | 162                     | 198             | 8                  |
| <b>Total interest income</b>                             | <b>1,798</b> | <b>835</b>              | <b>2,020</b>    | <b>506</b>         |
| <b>Other:</b>  |              |                         |                 |                    |
| Changes in fair value of financial assets at fair values | 3,300        | 2,652                   | (4,836 )        | 931                |
| Realized gain on derivatives                             | -            | -                       | 243             | -                  |
| Foreign currency differences                             | 299          | (884 )                  | (1,602 )        | 84                 |
| Dividends  | 146          | 141                     | 8               | 41                 |
| <b>Total financing income</b>                            | <b>5,543</b> | <b>2,744</b>            | <b>(4,167 )</b> | <b>1,562</b>       |
| <b>B. Financing expenses:</b>                            |              |                         |                 |                    |
| <b>Interest expenses:</b>                                |              |                         |                 |                    |
| Bank credit  | 61           | 240                     | 343             | 17                 |
| Short-term loans   | 267          | 238                     | 226             | 75                 |
| long-term loans  | 112          | 126                     | 130             | 32                 |
| Lease obligations  | 9            | 34                      | 52              | 3                  |
| Other  | -            | 140                     | 82              | -                  |
| <b>Total interest expense</b>                            | <b>449</b>   | <b>778</b>              | <b>833</b>      | <b>127</b>         |
| <b>Other:</b>  |              |                         |                 |                    |
| Decrease in values of warrants to issue shares           | -            | (5 )                    | (1,035 )        | -                  |
| Realized loss on derivatives                             | 44           | 77                      | -               | 13                 |
| Foreign currency differences                             | 98           | (152 )                  | 286             | 28                 |
| Bank fees  | 698          | 564                     | 584             | 197                |
| Other  | 12           | 11                      | 5               | 3                  |
| <b>Total Other costs</b>                                 | <b>852</b>   | <b>495</b>              | <b>(160 )</b>   | <b>241</b>         |
| <b>Total financing costs</b>                             | <b>1,301</b> | <b>1,273</b>            | <b>673</b>      | <b>368</b>         |



G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 22

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## EARNING PER SHARE

|   | 2 0 1 0    | Year ended December 31,          |            | 2 0 1 0<br>US Dollars |
|---|------------|----------------------------------|------------|-----------------------|
|   |            | 2 0 0 9<br>NIS<br>(in thousands) | 2 0 0 8    |                       |
| <b>A. Basic earnings per share:</b>   |            |                                  |            |                       |
| Profit for the year from continuing operations attributable to equity holders of the parent               | 27,347     | 28,836                           | 3,156      | 7,705                 |
| Profit for the year from discontinued operations attributable to equity holders of the parent             | 830        | 1,600                            | (3,942 )   | 234                   |
| Earnings used in the calculation of basic earnings per share from continuing operations                   | 28,177     | 30,436                           | (786 )     | 7,939                 |
| <b>B. Diluted earnings per share:</b>   |            |                                  |            |                       |
| Profit used to compute basic earning per share from continuing operations                                 | 27,347     | 28,836                           | 3,156      | 7,705                 |
| Profit used to compute diluted earning per share from continuing operations                               | 27,347     | 28,836                           | 3,156      | 7,705                 |
| Profit used to compute basic earning per share from discontinued operations                               | 830        | 1,600                            | (3,942 )   | 234                   |
| Profit used to compute diluted earning per share from discontinued operations                             | 830        | 1,600                            | (3,942 )   | 234                   |
| Weighted average number of shares used in computing basic earnings per share from continuing operations   | 12,876,294 | 10,267,893                       | 10,267,893 | 12,876,294            |
| Weighted average number of shares used in computing diluted earnings per share from continuing operations | 12,876,294 | 10,267,893                       | 10,267,893 | 12,876,294            |
| Weighted average number of shares used in computing basic earnings per share from                         | 12,876,294 | 10,267,893                       | 10,267,893 | 12,876,294            |

## discontinued operations

Weighted average number of  
shares used in computing diluted  
earnings per share from  
discontinued operations

|            |            |            |            |
|------------|------------|------------|------------|
| 12,876,294 | 10,267,893 | 10,267,893 | 12,876,294 |
|------------|------------|------------|------------|

C. As of December 31, 2010 and 2009 there are no potential ordinary shares. As of December 31, 2008, 561,982 potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 23

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NON-CASH TRANSACTION

A. During 2009 Goldfrost had signed an agreement to sell Goldfrost's 51% interest in the distributor for US\$ 400 thousand that were not paid in cash but as follows: according to the terms of the agreement, an amount equal to the balance of outstanding invoices owed by Goldfrost to the Distributor will be deducted as a down payment, and the rest will be paid by deduction in the purchase price by a pre-determined amount for each shipment of goods that Goldfrost will purchase from the Distributor or from the Buyer, and the balance of the consideration, if any, will be paid in April 2011. As of December 31 2010 the outstanding balance is NIS 410 thousands. After the balance sheet date the balance was paid in full.

B. During 2008 the group has made a commitment to pay royalties for a brand name in the amount of NIS 2,000 in thousands over a three years period. As of December 31, 2010 the amount not yet paid in cash is NIS 1,085 in thousands.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 24 - FINANCIAL INSTRUMENTS

A. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

B. Categories of financial instruments

|   | As of December 31, |                           | 2 0 1 0<br>US Dollars |
|---|--------------------|---------------------------|-----------------------|
|   | 2 0 1 0<br>NIS     | 2 0 0 9<br>(in thousands) |                       |
| Financial assets  |                    |                           |                       |
| Held for trading  | 67,890             | 11,356                    | 19,129                |
| Trade and other receivables (including cash and cash equivalents) | 200,210            | 166,130                   | 56,413                |
| Financial liabilities   |                    |                           |                       |
| Held for trading  | -                  | -                         | -                     |
| Amortized cost  | 57,928             | 74,299                    | 16,322                |

C. Objectives of managing financial risks

The finance departments of the Group provide services to the business activity, enable access to local and international financial markets, supervise and manage the financial risks relating to the Group's activities using internal report that analyze the extent of the risk exposure according to degree and intensity. These risks include market risks (including currency risk, fair value risk in respect of the interest rates, price risk and cash flow risk in respect of the interest rates), credit risk and liquidity risk.

The Group reduces the impact of the aforesaid risks from time to time by using derivative financial instruments in order to hedge the risk exposures, such derivatives are not designated as hedges for accounting purposes. Derivatives are used according to the Group's policy, which was approved by the boards of directors. The policy prescribes principles regarding: management of currency risk, interest rate risk, credit risk, the use of derivatives and of non-derivative financial instruments, and investment of liquidity surplus. The compliance with policy and the exposure levels are reviewed by the internal auditor on a continuing basis.

The financial management departments of the Group report to the investment committee of the Group and to the board of directors of the Company about the risks and about implementation of the assimilated policy in order to minimize the risk exposures.

D. Market risk

The Group's activity exposes it mainly to financial risks of fluctuations in the exchange rates of foreign currency and/or changes in the prices of the imported products and/or changes in the interest rates. The Group purchases forward foreign-currency swap contracts, as needed, opens documentary credit to suppliers, and carries out orders for imported goods.

During the report period, no change occurred in the exposure to market risks or in the way by which the Group manages or measures the risk.

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 24 - FINANCIAL INSTRUMENTS (Cont.)

E. Other price risks

The Group is exposed to price risks of - shares, certificate of participation in mutual fund and bonds, which are classified as financial assets carried at fair value through profit or loss.

The carrying amount of the investments exposed to price risks of shares, certificate of participation in mutual fund and bonds is NIS 67,890 thousands (USD 19,083 thousands).

Sensitive analysis in respect to exposure relating to price risks of shares, certificate of participation in mutual fund and bonds:

The sensitivity analysis includes only shares, certificate of participation in mutual fund and bonds at the period end for a 10% change in its prices. A positive number below indicates an increase in profit and other equity where the prices strengthen 10% against the actual prices. For a 10% weakening of the prices against the actual prices, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

|                    | 2 0 1 0<br>NIS | 2 0 0 9<br>NIS |
|--------------------|----------------|----------------|
| Profit or loss (1) | 6,789          | 1,136          |

F. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased. Once a month the Group performs credit evaluation of the finance condition of its receivables.

Aging of impaired trade receivables:

|              | 2 0 1 0<br>NIS | December 31,<br>2 0 0 9<br>NIS | 2 0 1 0<br>US Dollars |
|--------------|----------------|--------------------------------|-----------------------|
| 0-120 days   | -              | -                              | -                     |
| 120-150 days | -              | -                              | -                     |

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|                    |       |       |     |
|--------------------|-------|-------|-----|
| 150 days and above | 1,603 | 1,277 | 452 |
| Total              | 1,603 | 1,277 | 452 |

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 24 - FINANCIAL INSTRUMENTS (Cont.)

G. Liquidity risk management

The following table presents the Group's outstanding contractual maturity profile for its non-derivative financial liabilities. The analysis presented is based on the undiscounted contractual maturities of the Group's financial liabilities, including any interest that will accrue. Non-interest bearing financial liabilities which are due to be settled in less than 12 months from maturity equal their carrying values, since the impact of the time value of money is immaterial over such a short duration.

(1) Maturity profile of outstanding financial liabilities'

|                                       | 1 year        | 1-5 years    | Total         |
|---------------------------------------|---------------|--------------|---------------|
| <b>2010</b>                           |               |              |               |
| Interest free                         | 42,057        | 1,282        | 43,339        |
| Lease agreement liability             | 548           | 436          | 984           |
| Instruments bearing variable interest | -             | -            | -             |
| <b>Total</b>                          | <b>42,605</b> | <b>1,718</b> | <b>44,323</b> |
| <b>2009</b>                           |               |              |               |
| Interest free                         | 63,830        | -            | 63,830        |
| Lease agreement liability             | 277           | -            | 277           |
| Instruments bearing variable interest | 10,105        | 97           | 10,202        |
| <b>Total</b>                          | <b>74,212</b> | <b>97</b>    | <b>74,309</b> |

(2) Non derivatives financial instruments

The following table presents the Group's maturity profile for its non-derivatives financial instruments based on their contractual maturity. These financial instruments include interest relating to these assets, except for cases when the Group anticipates that the cash flow will occur on a different period.

|  | 1 month<br>NIS | 1-3 Months<br>NIS | 1-12 Months<br>NIS | 1-5 Years<br>NIS | Total<br>NIS |
|--|----------------|-------------------|--------------------|------------------|--------------|
| <b>2010</b>                                      |                |                   |                    |                  |              |
| Financial instruments which bear interest        | 97,074         | 49,727            | -                  | -                | 146,801      |
| Financial instruments which do not bear interest | 45,258         | 75,862            | 179                | -                | 121,299      |
| Financial instruments which do not bear interest | 142,332        | 125,589           | 179                | -                | 268,100      |
| <b>2009</b>                                      |                |                   |                    |                  |              |
| Financial instruments which do not bear interest | 114,083        | 51,835            | 7,922              | 3,646            | 177,486      |



The total amount of the unused credit as for the date of the balance sheet is NIS 60 million. The Group anticipates that it will be able to repay its other liabilities using its operating cash flows and by redemption of its financial instruments.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 24 - FINANCIAL INSTRUMENTS (Cont.)

H. Exchange rate risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at reporting date are as follows:

|       | Liabilities |             | Assets      |             |
|-------|-------------|-------------|-------------|-------------|
|       | 2010<br>NIS | 2009<br>NIS | 2010<br>NIS | 2009<br>NIS |
| USD   | 6,341       | 20,257      | 11,501      | 5,811       |
| EUR   | 2,185       | 5,676       | 6,433       | 73          |
| DKK   | -           | -           | -           | -           |
| Other | -           | 58          | -           | -           |

The Group is mainly exposed to USD and EUR.

The following table details the Group's sensitivity to a 10% increase and decrease in the NIS against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the NIS strengthens 10% against the relevant currency. For a 10% weakening of the NIS against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

|                    | USD Impact<br>2010<br>NIS | EUR Impact<br>2010<br>NIS |
|--------------------|---------------------------|---------------------------|
| Profit or loss (1) | 516                       | 425                       |
|                    | USD Impact<br>2009<br>NIS | EUR Impact<br>2009<br>NIS |
| Profit or loss (1) | 1,445                     | 560                       |

(1) The increase in the Group's sensitivity to a 10% increase and decrease in the NIS against the relevant foreign currencies is mainly attributable to the decrease in balances with foreign customers relating to the disposal of the

export operation, and to decrease in forward foreign exchange contracts.

#### Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions, which are treated as non hedging instruments. The resulting gain or loss is recognized in profit or loss immediately.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

## NOTE 24 - FINANCIAL INSTRUMENTS (Cont.)

## H. Exchange rate risk (Cont.)

## Forward foreign exchange contracts (Cont.)

The following table details the forward foreign currency (FC) contracts outstanding as at reporting date:

|                          | Average exchange rate |      | Foreign Currency   |      | Contract value |      | Fair value |      |
|--------------------------|-----------------------|------|--------------------|------|----------------|------|------------|------|
|                          | 2010                  | 2009 | 2010               | 2009 | 2010           | 2009 | 2010       | 2009 |
|                          | NIS                   |      | Currency thousands |      | NIS thousands  |      |            |      |
| <b>Cash Flows hedges</b> |                       |      |                    |      |                |      |            |      |
| Purchase of EUR          |                       |      |                    |      |                |      |            |      |
| sell NIS                 | 4.734                 | -    | 1,000              | -    | 18             | -    | 18         | -    |
| Purchase of EUR          |                       |      |                    |      |                |      |            |      |
| sell NIS                 | 4.755                 | -    | 1,000              | -    | (14 )          | -    | (14 )      | -    |
| Purchase of EUR          |                       |      |                    |      |                |      |            |      |
| sell NIS                 | 4.787                 | -    | 600                | -    | (29 )          | -    | (29 )      | -    |
| Purchase of EUR          |                       |      |                    |      |                |      |            |      |
| sell NIS                 | 4.787                 | -    | 400                | -    | (19 )          | -    | (19 )      | -    |
|                          |                       |      |                    |      |                |      | 44         | -    |

## I. Fair value of financial instruments

The financial instruments of the Group consist of derivative and non derivative assets and liabilities. Non-derivative assets include cash and cash equivalents, receivables and other current assets. Non-derivative liabilities include short-term bank credit, trade payables, other current liabilities and long-term loans from banks and others. Derivative assets and liabilities include mainly foreign exchange forward contracts. Due to the nature of these financial instruments, their fair value, generally, is identical or close to the value at which they are presented in the financial statements, unless stated otherwise.

The fair value of the long-term loans approximates their carrying value, since they bear interest at rates close to the prevailing market rates.

## Quoted market prices

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

## Derivatives

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

NOTE 24 - FINANCIAL INSTRUMENTS (Cont.)

I. Fair value of financial instruments (Cont.)

Fair value of financial instruments carried at amortized cost

The management of the group considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the financial statements approximate their fair values.

Financial assets at fair value

Fair value measurements recognized in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

|   | December 31, 2010 |                |                | Total<br>NIS  |
|---|-------------------|----------------|----------------|---------------|
|   | Level 1<br>NIS    | Level 2<br>NIS | Level 3<br>NIS |               |
| financial assets 'at fair value through profit or loss' (FVTPL) |                   |                |                |               |
| Marketable securities   | 67,890            | -              | -              | 67,890        |
| <b>Total</b>  | <b>67,890</b>     | <b>-</b>       | <b>-</b>       | <b>67,890</b> |

|   | December 31, 2009 |                |                | Total<br>NIS  |
|---|-------------------|----------------|----------------|---------------|
|   | Level 1<br>NIS    | Level 2<br>NIS | Level 3<br>NIS |               |
| financial assets 'at fair value through profit or loss' (FVTPL) |                   |                |                |               |
| Marketable securities   | 11,356            | -              | -              | 11,356        |
| <b>Total</b>  | <b>11,356</b>     | <b>-</b>       | <b>-</b>       | <b>11,356</b> |

G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 25 - DISCONTINUED OPERATIONS

A. Disposal of export operation

During 2009, Goldfrost signed an agreement to sell Goldfrost's 51% interest in a Danish dairy distributor ("Distributor") to the Distributor and/or to the Distributor other shareholder ("Other Shareholder") for US\$ 400 thousand. Goldfrost acquired its 51% interest from the Other Shareholder in February 2008. According to the terms of the agreement, an amount equal to the balance of outstanding invoices owed by Goldfrost to the Distributor will be deducted as a down payment, and the rest will be paid by deduction in the purchase price by a pre-determined amount for each shipment of goods that Goldfrost will purchase from the Distributor or from the Other Shareholder. As of April 2011, all the US\$ 400 thousand mentioned above was paid to Goldfrost.

Goldfrost was granted the exclusive right to distribute all of the products of the Distributor and the Other Shareholder in Israel until April 2012, as long as Goldfrost purchases a minimum quantity of products from the Distributor or from the Other Shareholder at fair market prices and that meet specified quality standards.

On September 2, 2009 the Company had signed an agreement ("Agreement") to sell all of its holdings in Y.L.W Baron International Trading Ltd. ("Baron"), kosher food exporters located in Israel, and to assign all of its rights and obligations under the founders agreement from February 2007 to a private company owned by the Baron Family, who hold, as of the date of the Agreement the remaining shares in Baron.

In exchange for the sale of shares and the assignment of rights and obligations, the Baron Family agreed to pay US\$ 937,500, which was paid to the Company on the date of execution of the Agreement.

The disposals of Baron and the Danish dairy distributor carried out all of the Group's export operation.

B. Net assets of the sold subsidiaries at the date of the disposal

|   | Danish<br>Distributor | Baron<br>NIS | Total    |
|---|-----------------------|--------------|----------|
| Assets sold, Net  | 747                   | 4,481        | 5,228    |
| Goodwill  | -                     | 1,893        | 1,893    |
|   | 747                   | 6,374        | 7,121    |
| Non-controlling interest                                  | (369 )                | (2,816 )     | (3,185 ) |
| Realization of Foreign currency translation reserve       | 9                     | 154          | 163      |
| Profit (loss) from disposal of subsidiary                 | 1,226                 | (1,520 )     | (294 )   |
| Total proceeds  | 1,613                 | 2,192        | 3,805    |
| Exchange of debt in return for goods                      | (757 )                | -            | (757 )   |
| Proceeds received by credit                               | (863 )                | -            | (863 )   |
| Net cash flow from disposal of investment in subsidiaries | (7 )                  | 2,192        | 2,185    |





G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 25 - DISCONTINUED OPERATIONS (Cont.)

C. Analysis of profit for the year from discontinued operations

The profits and cash flows from discontinued operation have been re-presented to include this operation classified as discontinued in the presented years ended December 31, 2008 and 2007.

The results of the discontinued operation (i.e. export operation) included in the income statement are set out below.

|  | 2 0 1 0 | Year ended December 31, |          | 2 0 1 0    |
|--|---------|-------------------------|----------|------------|
|  |         | 2 0 0 9                 | 2 0 0 8  | 2 0 1 0    |
|  |         | NIS                     |          | US Dollars |
| Profit for the year from discontinued operations:  |         |                         |          |            |
| Revenue  | -       | 30,533                  | 63,442   | -          |
| Expenses   | (830 )  | 28,197                  | 66,601   | (234 )     |
| Loss before tax  | 830     | 2,336                   | (3,159 ) | 234        |
| Attributable income tax expense  | -       | 114                     | 337      | -          |
|  | 830     | 2,222                   | (3,496 ) | 234        |
| Loss related to discontinued operations (including disposal of foreign currency translation reserve in the amount of NIS 231 thousand) | -       | (294 )                  | -        | -          |
| Profit (Loss) for the year from discontinued operations  | 830     | 1,928                   | (3,496 ) | 234        |
| Profit (Loss) for the year from discontinued operations attributable to owners of the Company  | 830     | 1,600                   | (3,942 ) | 234        |

The disposal of Baron and Danish dairy together with previously abandoned operations of WF construed the exit of the export operations. As such, the results of Baron, Danish dairy and WF has been presented as discontinued operations. These financial statements have been recasted to show these operations as discontinued in all periods presented.

NOTE 26 - SEGMENT INFORMATION

A. Adoption of IFRS 8 Operating Segments

The Group has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments

(business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed.

In prior years, segment information reported externally was analyzed on the basis of the types of goods supplied and services provided by the Group's operating divisions (i.e. types of products the Group sells which are Preserved and Non-preserved products). However, information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more specifically focused on the types of operations.

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 26 - SEGMENT INFORMATION (Cont.)

A. Adoption of IFRS 8 Operating Segments (Cont.)

The principal of operations are import, manufacturing and export. The Group's reportable segments under IFRS 8 are therefore as follows:

Import segments - derive its revenues from importing and marketing food products to grocery stores, supermarkets and grocery retail chains.

Manufacturing segment - derive its revenues from manufacturing and marketing food products to grocery stores, supermarkets and grocery retail chains.

Until the sales of the Company's subsidiaries during 2009 (as mentioned in note 5c and d), the Company's segment information included the export segment which derived its revenues from exporting and marketing food products to grocery stores, supermarkets and grocery retail chains. As a result the export segment was sold and the Group's chief operating decision maker doesn't receive information regarding the export segment.

The segment information reported on the next pages does not include any amounts related to the revenues and expenses for the discontinued export operation, which is described in more detail in note 25.

Information regarding the Group's reportable segments for years ended December 31, 2008 and 2007, which is presented below, has been restated to conform to the requirements of IFRS 8.

B. Data regarding business segments

Year ended December 31, 2010

|                                      | Import  | Manufacturing | Adjustments            | Total       |         |
|--------------------------------------|---------|---------------|------------------------|-------------|---------|
| <b>Year ended December 31, 2010:</b> |         |               |                        |             |         |
| Revenues from external customers     | 271,143 | 77,215        | -                      | 348,358     |         |
| Revenues from subsidiaries           | -       | -             | -                      | -           |         |
| Total revenues                       | 271,143 | 77,215        | -                      | 348,358     |         |
| Profit before income taxes           | 31,957  | 5,853         |                        | 37,810      |         |
| Income taxes                         | 6,991   | 1,492         |                        | 8,483       |         |
| Profit from continuing operations    | 24,966  | 4,361         | -                      | 29,327      |         |
|                                      |         |               | Discontinued<br>Export |             |         |
|                                      | Import  | Manufacturing | Operations             | Adjustments | Total   |
| <b>December 31, 2010:</b>            |         |               |                        |             |         |
| Total segment assets                 | 327,724 | 39,560        | -                      | -           | 367,284 |

|                     |        |        |   |   |        |
|---------------------|--------|--------|---|---|--------|
| Segment liabilities | 34,025 | 26,387 | - | - | 60,412 |
|---------------------|--------|--------|---|---|--------|

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS in thousands)

## NOTE 26 - SEGMENT INFORMATION (Cont.)

## B. Data regarding business segments (Cont.)

Year ended December 31, 2009

|                                      | Import    | Manufacturing          | Adjustments | Total       |           |
|--------------------------------------|-----------|------------------------|-------------|-------------|-----------|
| <b>Year ended December 31, 2009:</b> |           |                        |             |             |           |
| Revenues from external customers     | 229,848   | 73,612                 | -           | 303,460     |           |
| Revenues from subsidiaries           | 104       | -                      | (104 )      | -           |           |
| Total revenues                       | 229,952   | 73,612                 | (104 )      | 303,460     |           |
| Profit before income taxes           | 34,185    | 458                    | -           | 34,643      |           |
| Income taxes                         | 4,869     | 174                    | -           | 5,043       |           |
| Profit from continuing operations    | 29,316    | 284                    | -           | 29,600      |           |
|                                      |           | Discontinued<br>Export |             |             |           |
|                                      | Import    | Manufacturing          | Operations  | Adjustments | Total     |
| <b>December 31, 2009:</b>            |           |                        |             |             |           |
| Total segment assets                 | 243,974   | 38,769                 | 45          | (69 )       | 282,719   |
| Segment liabilities                  | (43,635 ) | (29,639 )              | (3,034 )    | 69          | (76,239 ) |

Year ended December 31, 2008

|                                      | Import    | Manufacturing          | Adjustments | Total       |           |
|--------------------------------------|-----------|------------------------|-------------|-------------|-----------|
| <b>Year ended December 31, 2009:</b> |           |                        |             |             |           |
| Revenues from external customers     | 218,820   | 70,248                 | -           | 289,068     |           |
| Revenues from subsidiaries           | 379       | 143                    | (522 )      | -           |           |
| Total revenues                       | 219,199   | 70,391                 | (522 )      | 289,068     |           |
| Profit before income taxes           | 3,645     | 1,235                  | -           | 4,880       |           |
| Income taxes                         | 750       | 367                    | -           | 1,117       |           |
| Profit from continuing operations    | 2,895     | 868                    | -           | 3,763       |           |
|                                      |           | Discontinued<br>Export |             |             |           |
|                                      | Import    | Manufacturing          | Operations  | Adjustments | Total     |
| <b>December 31, 2009:</b>            |           |                        |             |             |           |
| Total segment assets                 | 216,205   | 39,948                 | 18,237      | (1,048 )    | 273,342   |
| Segment liabilities                  | (42,914 ) | (31,102 )              | (14,792 )   | 1,048       | (87,760 ) |

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 27 - RELATED PARTIES

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below:

| A.                        | Transactions with Related Parties |   |       |            |
|---------------------------|-----------------------------------|---|-------|------------|
|                           | 2010                              | Year ended December 31,<br>2009      2008 |       | 2010       |
|                           |                                   | NIS<br>(in thousands)                     |       | US Dollars |
| Purchases of goods        | 731                               | 1,174                                     | 586   | 206        |
| Participation in expenses | 146                               | 76  | 70    | 41         |
| Management fees           | 2,699                             | 2,813                                     | 2,650 | 760        |
| Bonus                     | 4,211                             | 4,078                                     | 75    | 1,187      |

  

| B.              | Balances with Related Parties |   |  |            |
|-----------------|-------------------------------|---|--|------------|
|                 | 2010                          | Year ended December 31,<br>2009      2010 |  | 2010       |
|                 |                               | NIS<br>(in thousands)                     |  | US Dollars |
| Due to officers | 4,491                         | 4,179                                     |  | 1,265      |
| Parent company  | 889                           | 1,595                                     |  | 250        |

NOTE 28 - GUARANTEES AND PLEDGES

The Company has pledged all of its assets (including its outstanding share capital and goodwill of the Company) in favor of 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. The outstanding amount of such letters of credit as of December 31, 2010 was approximately NIS 8,361 thousand (US\$ 2,356 thousand).

Shamir Salads obligations in favor of banks (bank credit and bank loans) as of December 31, 2010 on the amount of NIS 5,203 thousands (US\$ 1,466 thousands) are secured with fixed liens on its share capital and goodwill, and floating liens on its factory, assets, rights and other assets and a fixed lien, unlimited in amount, on its share capital and goodwill. In addition Shamir Salads registered a fixed lien and first pledge on part of its equipment and pledge on its insurance rights. Shamir Salads also has financial lease obligation which is secured by the vehicles relating to the lease.

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS in thousands)

NOTE 28 - GUARANTEES AND PLEDGES (Cont.)

Secured liabilities of the Group:

|                                       | 2 0 1 0 | As of December 31,<br>2 0 0 9<br>NIS<br>(in thousands) | 2 0 1 0<br>US Dollars |
|---------------------------------------|---------|--|-----------------------|
| Bank credit                           | 1,274   | 1,241  | 359                   |
| Bank loans                            | 4,815   | 8,096  | 1,357                 |
| Liability relating to Lease agreement | -       | 277  | -                     |
|                                       | 6,089   | 9,614  | 1,716                 |

NOTE 29 - SUBSEQUENT EVENTS

(1) During January – March 2011, 15,000 employee stock options (from the August 2009 Option Plan) were exercised to 15,000 ordinary shares of the Parent company.

(2) On January 2011, the Company was served with a purported class action lawsuit alleging that it misled its customers by misleadingly labeling a product that the Company imports. The groups which the lawsuit desires to represent include any Israeli resident who bought this product due to such person's preference. The plaintiff appraises the group's damage at NIS 3 million (approximately US\$ 845 thousand).

An application was filled to approve a class action in accordance with the Class Action according the Israeli Class Action Law (2006). At the current preliminary stage of the dispute, the Company's management and legal counsel cannot assess the chances of the parties.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

G. WILLI-FOOD INTERNATIONAL LTD.

By:                   /s/ Joseph Williger  
                          Joseph Williger  
                          Chief Executive Officer

Date: June 30, 2011

EXHIBITS

| Exhibit Number | Description  |
|----------------|--|
| †1.1           | Memorandum of Association of the Company, as amended (1)   |
| 1.2            | Articles of Association of the Company, as amended (4)   |
| 2.1            | Specimen of Certificate for ordinary shares (2)  |
| 4.1            | Share Option Plan (2)  |
| †4.2           | Management Agreement between the Company and Yossi Willi Management Investments Ltd., dated June 1, 1998 (3)   |
| †4.3           | Amendment to the Management Agreement between the Company and Yossi Willi Management Investments Ltd., dated August 1, 2005 (4)  |
| †4.4           | Management Agreement between the Company and Zwi W. & Co. Ltd., dated June 1, 1998 (3)   |
| †4.5           | Amendment to the Management Agreement between the Company and Zwi W. & Co., Ltd., dated August 1, 2005 (4)   |
| †4.6           | Lease of Company's premises with Titanic Food Ltd., dated November 23, 1998 (3)  |
| †4.7           | Services Agreement between the Company and Willi Food, dated April 1, 1997 (3)   |
| †4.8           | Transfer Agreement between the Company and Gold Frost dated February 16, 2006 (4)  |
| †4.9           | Lease agreement for Logistics Center between the Company and Gold Frost dated February 16, 2006 (4)  |
| 4.10           | Relationship Agreement between the Company, Gold Frost, Willi Food, Zwi Williger and Joseph Williger dated February 28, 2006 (4)   |
| 4.11           | Placing Agreement between the Company, Gold Frost, certain officers of Gold Frost and Corporate Synergy dated March 2, 2006 (4)  |
| 4.12           | Lock In Agreement, between the Company, Gold Frost, Corporate Synergy and certain officers of Gold Frost, dated March 2, 2006 (4)  |
| 4.13           | Securities Purchase Agreement, dated as of October 25, 2006, among the Company and the investors identified on the signature pages thereto. (5)                            |
| 4.14           | Registration Rights Agreement, dated as of October 25, 2006, among the Company and the investors signatory thereto. (5)  |
| 4.15           | Asset Purchase Agreement, dated as of January 19, 2007, by and among the Company, WF Kosher Food Distributors, Ltd., Laish Israeli Food Products Ltd. and Arie Steiner.(6) |
| †4.16          | Agreement, dated February 11, 2007, between the Company and Mr. Ya'acov Baron, Ms. Hedva Baron, Mr. Li'or Baron, Ms. Gozlan Or'na and Ms. Michal Baron Sha'hak. (6)        |
| †4.17          | Agreement, dated January 2, 2008, between the Company and Mr. Jacob Ginsberg, Mr. Amiram Guy and Shamir Salads 2006 Ltd. (7)   |
| 4.18           | Share Purchase Agreement, dated February 13, 2008, between Gold Frost and Kirkeby Cheese Export A/S. (7)   |
| 4.19           |  |

Shareholders Agreement, dated February 13, 2008, between Gold Frost and Kirkeby Cheese Export A/S. (7)

4.20 Co-operation Agreement, dated January 1, 2008, between Kirkeby Cheese Export A/S, Haarby Mejeri/Kirkeby Dairy ApS and Kirkeby International Foods A/S. (7)

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- 8.1 Subsidiaries of the Company\*
- 12.1 Certification of CEO of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 12.2 Certification of CFO of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 13.1 Certification of CEO of the Company pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 13.2 Certification of CFO of the Company pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 15.(a).1 Consent of Independent Registered Public Accounting Firm\*

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† English translations from Hebrew original.

- (1) Incorporated by Reference to the Registrant's Annual Report on Form 20-F for the Fiscal year ended December 31, 1997.
- (2) Incorporated by reference to the Company's Registration Statement on Form F-1, File No. 333-6314.
- (3) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2001.
- (4) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2005.
- (5) Incorporated by reference to the Company's Registration Statement on Form F-3, File No. 333-138200.
- (6) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2006.
- (7) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2007.

\* Filed Herewith