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– Press Release –

The Antitrust Authority has announced its intention to impose financial sanctions of NIS 62 million on the Central Bottling Company

The Antitrust Authority today (Wednesday) announced its intention to impose financial sanctions of NIS 62 million on the Central Bottling Company for abuse of its monopoly status, violation of provisions, breach of an agreed order and breach of merger terms.

In addition, the Commissioner announced its intention to impose a financial sanction of NIS 340,000 on a senior officer of the Company.

The Antitrust Commissioner today (Wednesday) notified the Central Bottling Company that it is considering determining that the Central Bottling Company has abused its status as a monopoly in the Cola soft drink market. In addition, the Commissioner announced that it has found that the Central Bottling Company has allegedly violated directives given thereto as a monopoly, merger conditions imposed thereupon as part of the merger of the Central Bottling Company and Neviot as well as the provisions of an agreed order signed therewith. In respect of all of the foregoing, the Commissioner is considering the imposition of financial sanctions on the Central Bottling Company in the cumulative amount of NIS 62 million.

The Central Bottling Company is a dominant factor in the field of soft drinks in Israel. Its main brand, Coca - Cola, is a strong brand with indisputable market strength. Together with this brand, the Central Bottling Company also holds other brands in the field of carbonated beverages, which also hold a high share of sales. An additional brand in which the Central Bottling Company is dominant is “Fuze Tea” iced tea, which also holds a significant share of sales. In addition to these, the Central Bottling Company maintains a basket of soft drinks made up of juices, soda and mineral water. The market strength of the Central Bottling Company in these products is weaker and faces more exposure to competition from other players in the field - such as Jafora and Tempo. The Central Bottling Company’s total basket of soft drinks holds a sales share of approximately two - thirds of the market.

In February 2014, the Israel Antitrust Authority opened an investigation against the Central Bottling Company. The Israel Antitrust Authority’s investigation focused on



retail sale outlets belonging to the "cold market," including snack bars and "fast food" restaurants which sell refrigerated soft drinks for immediate consumption.

The Israel Antitrust Authority's investigation raised concerns that the Central Bottling Company has allegedly exploited its monopolistic power and used its market strength, mainly through the Coca - Cola brand, to promote the sale of soft drinks in which it is exposed to more intense competition.

The Central Bottling Company allegedly utilized its strength vis-à-vis its customers - the retail points of sale - in order to eliminate the products of the competitors from the points of sale. The Central Bottling Company implemented this by connecting discounts and benefits to the exclusive purchase of soft drinks from the Central Bottling Company. The benefits granted by the Central Bottling Company to its customers varied from customer to customer, and included the provision of a refrigerator or the threat of removing an existing refrigerator, advancing discounts, providing a branded sign or branded equipment and the threat of cancelling discounts. The Central Bottling Company knowingly camouflaged its exclusivity agreements with its customers; for example, its employees were requested not to use the term "**exclusivity**" but instead to use the words "**full cooperation**".

The Central Bottling Company also awarded its customers discounts based on the total basket of soft drinks purchased from the Company, so that the discount level for Coca - Cola was conditional on the volume of the total purchase together with the other products, including products for which the market strength of the Central Bottling Company has lower sales. By so doing, it allegedly violated the explicit instructions it had been given to create a separation of discounts – instructions that were given in order to prevent the creation of an unfair incentive for customers, which in any case purchase Cola from the Central Bottling Company, to purchase the entire basket of beverages from the Central Bottling Company.

As part of the alleged elimination of the competition, the Central Bottling Company acted specifically against the Nestea brand. During 2012, the partnership between Coca - Cola International and Nestle International was discontinued. As part of the discontinuation of the partnership it was determined that Coca - Cola International would continue to hold the rights to the flavor formula of the beverage, whereas Nestle would continue to hold the Nestea brand. In accordance therewith, in August 2012, the Central Bottling Company launched a line of iced tea drinks under the "Fuze" brand. In October 2012, Osem (a subsidiary of Nestle International) began marketing iced tea products under the Nestea brand.



Following these steps, the Central Bottling Company set itself the goal of causing the Nestea pouring machines installed by Osem to be removed. The company closely pursued the placement of the pouring machines in the businesses; as part of their report, employees of the Central Bottling Company were also required to report whether and when the machine was to be dismantled. The Central Bottling Company employees acted in order to remove the pouring machine from the businesses, inter alia, in exchange for providing various benefits to those businesses which agreed to remove the machines.

In addition, the Central Bottling Company formulated a policy of suspending the supply of carbonated beverages to customers which sold parallel import products of Coca - Cola. In 2009, the Central Bottling Company composed a document entitled "Parallel Import Procedure" in which was specified the policy with respect to customers which sold parallel import product of Coca - Cola. The Central Bottling Company used the policy as a threat to its customers which purchased parallel import products of Coca - Cola and even implemented this threat.

The various actions of the Central Bottling Company, as specified above, together with the policy adopted by the Central Bottling Company and its conduct in accordance with the policy, allegedly constitute an abuse of the monopolistic status, an unreasonable refusal to supply a monopoly product, breach of directives to the owner of the monopoly, breach of an agreed order and breach of conditions imposed on the Central Bottling Company at the time of the merger with Neviot.

The extent of the alleged violations attributed to the Central Bottling Company is large and material and the sanctions are imposed with respect to a number of separate violations of the law.

Accordingly, the Commissioner is considering imposing sanctions on the Central Bottling Company in the cumulative amount of NIS 62,710,070.

In addition, the Commissioner is considering imposing a fine of NIS 340,000 on a senior officer of the Company, who was found to have been involved or at least to have been updated regarding the policy of the Company and performance of the reviewed violations.

The Central Bottling Company has the right to voice its claims before the Commissioner prior to the Commissioner formulating its final position.