STRAUSS GROUP LTD.

ANNUAL REPORT

AS AT DECEMBER 31, 2012

Board of directors	Ofra Strauss, Chairperson Adi Strauss Dr. Michael Anghel Ronit Haimovitch Ran Madyan David Mosevics Dr. Arie Ovadia Meir Shanie Professor Dafna Schwartz Dalya Lev Akiva Moses
President & CEO	Gadi Lesin
EVP, CLO & Company Secretary	Michael Avner
Auditor	Somekh Chaikin KPMG
Registered office	Hasivim St. 49 P.O.B 194 Petach Tikva 49517, Israel

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Part I – Description of the General Development of the Corporation's Business

1. The Operations of the Corporation and Description of the Development of Its Business

1.1 Strauss Group Ltd. (formerly Strauss-Elite Ltd., hereinafter: the **"Company"**) and the companies controlled by it (for sake of convenience, the Company and the companies controlled by it shall be referred to hereinafter: the **"Group"**) are a group of industrial and commercial companies that operate both in Israel and abroad, engaging principally in the development, manufacture, marketing and sale of a variety of branded food and beverage products.

1.2 The Group is a food and beverage company, operating 29 plants in 19 countries worldwide, with a strong home base in Israel, focusing on high added value branded products. The Company is the second largest food group in Israel; it is the fourth largest coffee company in the world in the field of ground and roast coffee and the fifth in the field of instant coffee.

In 2012, The Company in Israel held 11.8% of the total food and beverage market (in financial terms[1]), not including the market share of Strauss Water Ltd. The Group is also active in Brazil, Russia and in Central and Eastern European countries in the coffee market, as in most of these countries it is among the leading firms on the market. The Group is also active in North America, Mexico and Australia in the development, manufacture, marketing and sale of refrigerated Mediterranean salads and dips. In China and the UK, the Group is active in the marketing, sale and servicing water filtration and purification products. In the USA, Australia and Singapore, the Group operates chocolate bars.

1.3 The Company was incorporated in Israel in 1933. in 1973, it turned into a public company, whose shares are listed for trading on the Tel Aviv Stock Exchange Ltd. (hereinafter: the **"Stock Exchange"**).

1.4 The controlling shareholders of the Company are Mr. Michael Strauss, through his holdings in Strauss Holdings Ltd. (hereinafter: **"Strauss Holdings"**)[2] and Ms. Ofra Strauss, who is deemed to hold the shares of the Company jointly with him.

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[1] According to StoreNext figures. StoreNext engages in the measurement of the everyday consumer goods market in the barcoded retail market (hereinafter: "StoreNext").

[2] Strauss Holdings Ltd. is a private company registered in Israel. According to the best knowledge of the Company , the ordinary shares of Strauss Holdings are held by Michael Strauss Assets Ltd. [a corporation held by Mr. Michael Strauss (approx. 56.7%), Ofra Strauss (approx. 18.1%), Irit Strauss and Adi Strauss (approx. 12.6% each) (**"Michael's Assets"**)]; by Raya Strauss Ben-Dror Assets Ltd. [a corporation held by the sons of Raya Strauss Ben

1.5 The Group manages and develops its business with the aim of providing the entire public with a broad variety of top-quality branded products for different consumption opportunities. The Group has diverse production technologies and it operates through large-scale marketing, sales and distribution systems, allowing high availability of its products to consumers. The products of the Group are generally sold through a variety of sales channels including large retail chain outlets, supermarkets, groceries, kiosks, hotels, workplaces, convenience stores, vending machines, etc.

1.6 The Group collaborates with four multinational corporations – the French concern Danone (Compagnie Gervais Danone S.A.) (hereinafter: **"Danone"**), the American corporation PepsiCo, Inc. (hereinafter: **"PepsiCo"**), Haier Group of China through its subsidiary Haier Whole Set Distribution Co. Ltd. (**"Haier"**), and Virgin Group through its subsidiary, Virgin Green Fund (hereinafter: "Virgin").

1.7 The Group commenced its operations in 1934 with the production of chocolate tablets and assorted sweet snack bars at its manufacturing site in Ramat Gan. In mid-1950's, the Group began to manufacture instant coffee in Israel. In subsequent years, the Group expanded its business to snacks and coffee through erection of plants and acquisition of firms in these areas. In 1990, the collaboration of the Group with PepsiCo in the field of salty snacks began.

1.8 In early 1990's, the Group initiated its international coffee operations in Europe, principally in the roast and ground coffee market. The Group expanded its international activity to Central and Eastern Europe through the acquisition of companies, that are active in this field, as well as the establishment of new operations. In late 2000, the Group also initiated activities in South America upon the acquisition of a coffee company in Brazil. In 2005, the Group expanded its international coffee operations significantly through a series of acquisitions in Brazil, Poland and Serbia. The international coffee operation continued to expand in subsequent years through additional acquisitions in

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Dror, Gil Midyan (approx. 50%) and Ran Midyan (approx. 50%) (**"Raya's Assets"**)]; as well as a self holding by Strauss Holdings Ltd. (approx. 29%). The effective holding of Michael's Assets and Raya's Assets in Strauss Holdings, excluding the self holding of shares, is 73.4% by Michael's Assets and 26.6% by Raya's Assets. The voting shares in Strauss Holdings are held by Mr. Michael Strauss (99%) and Raya Strauss Ben Dror (1%).

To the best of the Company's knowledge, the voting shares in Strauss Holdings confer upon the holders thereof the right to be invited, to participate and to vote in General Meetings; the holders of most of the voting shares have the right to appoint most (half plus one) of the directors on the Board of Directors of Strauss Holdings.

According to the best knowledge of the Company , the ordinary shares of Strauss Holdings confer upon the holders thereof all the proprietary rights (dividends and receipt of the residual value of the Company on winding-up); the right to be invited and to participate, without voting rights, in general meetings, and to vote in general meetings only on resolutions relating to the modification of any provision in the Articles of Incorporation of Strauss Holdings; and also the right to appoint one director in respect of each holding of 15% of the Ordinary Shares of Strauss Holdings.

Russia in 2010 and 2011, in Brazil in 2011, and in Germany in early 2012. In 2008, the private investment fund TGP (through Robusta Coöperatief U.A) invested in a subsidiary of the Company, Strauss Coffee B.V. (hereinafter: "**Strauss Coffee**") in consideration of the allotment of 25.1% of the shares of Strauss Coffee. Currently, Strauss Coffee concentrates the entire coffee operation of the Group.

1.9 In 2004, Strauss Health Ltd. (formerly Strauss Dairies Ltd.) and Strauss Fresh Foods Ltd. (formerly Strauss Salads Ltd.) were merged with the Company (hereinafter: the **"Merger Transaction with Strauss"**), and the Group commenced its operations in the field of dairy products and salads.

For additional information on the Merger Transaction, see section 26.1 of this chapter. It should be noted, that the dairy business was initiated in the 1930's of the preceding century as Hilda and Dr. Richard Strauss established a family dairy in Nahariya, which was later on incorporated as a private company in March 1974. In 1969, the dairy began its operations in the field of yogurts and dairy desserts. in 1996, the French concern Danone acquired 20% of the shares of the dairy.

1.10 In 2005, the Group also became active in the USA in the area of refrigerated spreads and dips. In late 2006, the Group expanded its activity in the USA, concentrating its products under the brand of Sabra. At the end of 2007 the Group engaged in a partnership agreement with PepsiCo, pursuant to its operations in the USA and Canada through Sabra Company. In October 2011, another partnership agreement was signed with PepsiCo (50%) toward the establishment of a global joint venture in the field of Obela, which will operate in additional markets beyond North America.

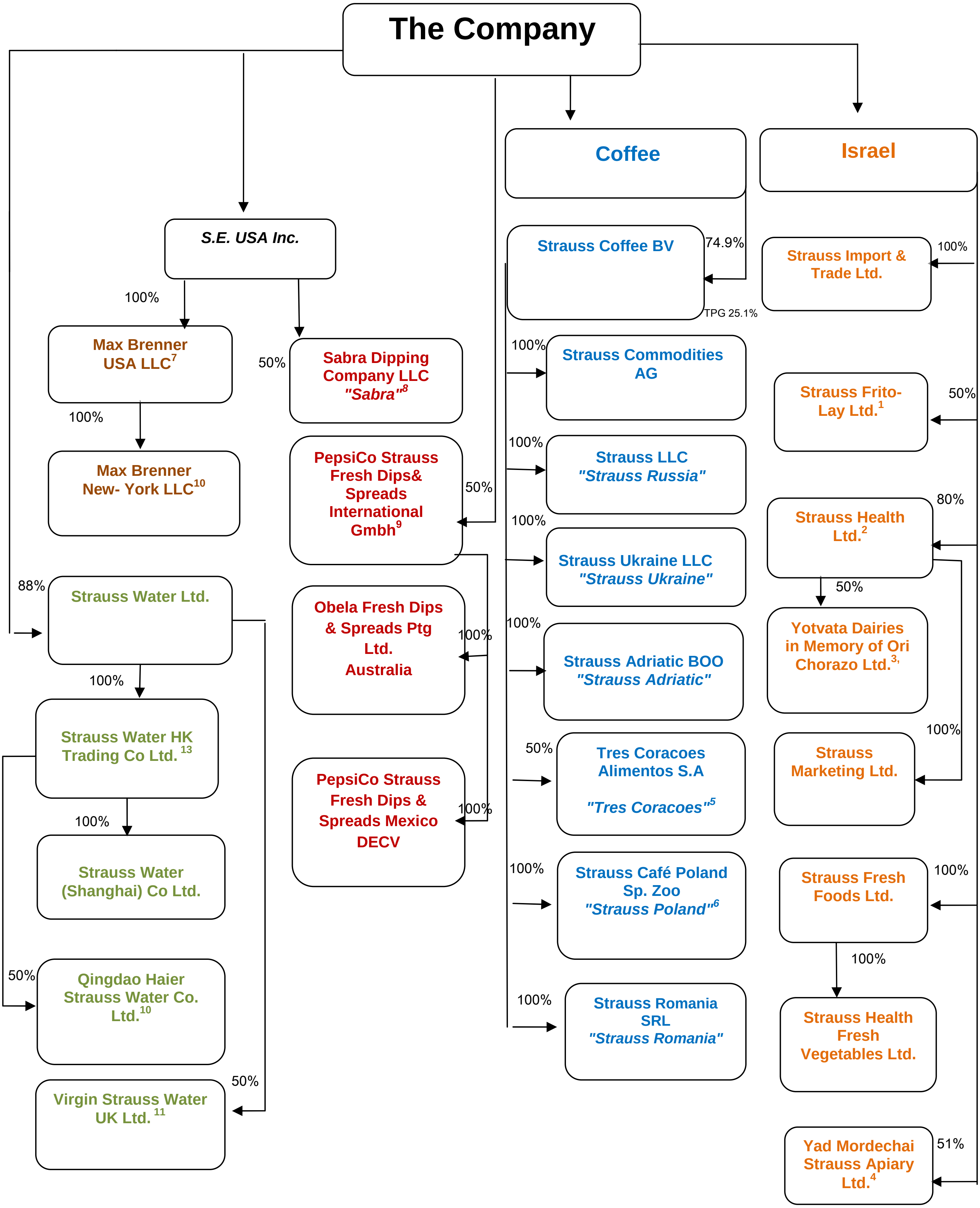
1.11 In 2006, the Group expanded the operation of Max Brenner internationally and entered the American market.

1.12 In 2009, the Company purchased Tana Industries Company Ltd. (hereinafter: "**Tami 4**"). In October 2010, an agreement was committed with Haier Group, pursuant to the establishment of a joint venture in China. In November 2011, an agreement was signed with Virgin, pursuant to the establishment of a joint venture in the UK and in Ireland.

1.13 The following is an extract of the business development of the Group:

	Strauss
The 30's	Hilda and Richard Strauss establish a dairy in Nahariya
1947	The dairy is incorporated as a company
1991	Purchasing the salad enterprises – Carmiel
1996	Danone purchases 20% of the dairy
1997	Purchasing of control over the dairies of Yotveta
	Elite
1933	The Company incorporates
1934	Commencement of operations in the field of sweets in Ramat Gan
1950	Commencement of operations in the field of coffee in Sefad and in Lod
1958	Purchasing Tz.d. Chocolate factory in Nazareth
1970	Purchasing "Liver" candy factory in Ramat Gan
1973	Public company traded on the Tel Aviv Stock Exchange
1990	Collaboration with PepsiCo - Salty snacks in Sderot
90's	Launching the international coffee operations in Europe
2000	Purchasing the coffee company in Brazil
2004	**The Merge**
2005	Commencement of operations in the field of spreads and dips in the USA
2005	Series of purchasing in the field of coffee in Brazil, Poland and Serbia
2006	Joining brands in the field spreads and dips under the brand of Sabra
2007	Collaboration with PepsiCo in the field of spreads and dips in the USA
2008	TPG Investment Fund purchases 25.% of Strauss Coffee Company
2009	Purchasing of Tana Industries Ltd. – Tami4
2010	Collaboration with Haier in a joint venture in the field of water in China
2010-2011	Expansion in the field of coffee in Brazil, Russia, Ukraine and Serbia
2011	Collaboration with PepsiCo in a joint venture in the field of spreads and dips internationally – Obela
2011	Collaboration with Virgin – joint venture in the field of water in the UK and in Ireland
2012	Leasing an instant coffee plant in Germany
2013	Completion of the purchasing of Le Café in Russia

1.14 The following chart presents the structure of the Company's holdings in major companies on or about the date of the Periodic Report.



Remarks Relating to the Structure of Holdings Diagram

Where a holding of 100% is noted, the holding is directly or indirectly through wholly-owned subsidiaries.

[1] 50% of the shares of Strauss Frito-Lay are held (indirectly) by the American corporation, PepsiCo. For description of the Agreements with PepsiCo, see Section 10.14 of this chapter.

[2] 20% of the shares of Strauss Health are held by the French corporation, Danone. For description of the Agreements with Danone, see Section 9.14a of this chapter.

[3] 50% of the shares of Yotveta are held by Kibbutz Yotveta. Strauss Health has a casting share in Yotveta. For information on the rights attaching to the casting share and on an option held by Kibbutz Yotveta and Strauss Health to execute a merger by way of an exchange of shares, see section 9.14b of this chapter.

[4] 49% of the shares of Strauss Yad Mordechai are held by Kibbutz Yad Mordechai.

[5] Strauss Coffee holds directly 50% of the shares of Tres Coracoes (the remaining 50% are held by a Brazilian corporation controlled by the Lima family). Tres Coracoes holds Café Tres Coracoes S.A (hereinafter: "3C") (100%), and 3C holds Principal Commercio e Industria de Café Ltda (100%) (hereinafter: **"Café Principal"**). Additionally, Strauss Coffee directly holds 50% of the shares of Tres Coracoes Imoveis Armazens Gerais e Servicos Ltda (hereinafter: **"3CI"**), whose main activity consists of leasing real estate assets and supplying shared administrative services to the Group's companies in Brazil.

[6] Strauss Poland was acquired over 15 years ago. After the acquisition date the Company discovered that it did not hold a state permit, formerly required for the transfer of the shares in the acquisition. This permit is no longer required in similar transactions. According to the opinion of Strauss Poland's legal counsel, although in this situation the Company is liable to be exposed to legal action regarding the legal non-validity of the ownership of the acquired shares, according to the legal opinion the risk that suits will be filed in this issue by state authorities in Poland or by third parties, including the historic shareholders, is remote, particularly considering the time that has elapsed since the shares were transferred, and the fact that no suits have been filed against the Company during this considerable period. Additionally, according to the abovementioned professional opinion, insofar as a suit should be filed, the Company has legal contentions in its defense such as abuse of right, and the basis for a monetary refund of the full market value of the shares of the held company, including the incremental value that has accrued since the historic acquisition date.

[7] In the framework of the restructuring of the holdings of the companies in the USA in 2011, S.E. USA, Inc. became the holder of 100% of Max Brenner USA, Inc. instead of the Strauss Group.

[8] 50% of the shares of Sabra are held by the American PepsiCo corporation. For a description of the joint transaction with PepsiCo, see Section 14.13a of this chapter.

[9] 50% of the shares of Obela are held by the American PepsiCo corporation. For a description of the joint transaction with PepsiCo, see Section 14.13b of this chapter.

[10] 50% of the shares of Qingdao Haier Strauss Water CO. Ltd are held by the Chinese Haier corporation. See Section 15.1.k of this chapter

[11] 50% of the shares of Virgin Strauss Water UK Ltd. are held by Virgin. See section 15.1.k of this chapter.

2. Areas of Operations

The Group engages in the five areas of operations, reported as sectors, as specified in Note 29 to the Financial Statement of the Company, as at December 31, 2012. Four out of the areas of operations are concentrated in two main operative frameworks: **Israel operations and the coffee operations**, as described below:

The Israel operations – in this framework the Group develops, manufactures, sells, markets and distributes in Israel a large variety of branded food and beverage products. In line with the Group's focus on consumer preferences, the Group's products in Israel are characterized by providing a response to two leading consumption trends, "Health & Wellness" and "Fun & Indulgence". Accordingly, the Company's operations in this framework are divided into the two following segments of operations:

a. **The Health & Wellness segment:** The Group's products in this segment are characterized by providing a response to the health and wellness trend; the main products are yogurts, dairy desserts, soft cheeses, flavored milk beverages, refrigerated salads (hummus, tahini, eggplant, etc.), cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil and jams, and natural juices manufactured by Ganir, Zhug Zehavi and long-life milk manufactured by Ramat Hagolan Dairies[3], which are sold and distributed by the Group. For more information, see Section 9 of this chapter.

b. **The Fun & Indulgence segment:** The Group's products in this segment are characterized by providing a response to the fun and indulgence trend; the main products are sweet snack bars, chocolate tablets, sweet spreads, candies, chewing gum, cakes and cookies, biscuits, wafers and salty snacks, and also yeast of Shimrit production, which are sold and distributed by the Company. For more information, see Section 10 of this chapter.

The coffee operations – in this framework the Group mainly develops, manufactures, sells, markets and distributes a variety of coffee products bearing its brands. The Group's activity in this framework is divided into the two following segments:

c. **The Israel Coffee segment:** In this segment, the Group develops, manufactures, sells, markets and distributes in Israel a variety of coffee products bearing its brands; it manufactures and sells in Israel chocolate powders and other drink powders.

Additionally, the Group engages in the retail sale of coffee products at points of sale in Israel. This segment includes **Strauss Coffee**'s corporate center (except for identified

[3] Strauss Holdings held (indirectly) part of the shares of Ramat Hagolan Dairies Ltd., until the shares were sold on November 23, 2009.

costs of various subsidiaries of Strauss Coffee, which are fully assigned as burden costs). For more information on this segment, see Section 12 of this chapter.

d. **The International Coffee segment:** In this segment the Group develops, manufactures, sells, markets and distributes a variety of coffee products bearing its brands in Central and Eastern European countries and in Brazil. In several countries outside of Israel the Group manufactures and sells chocolate powders and other drink powders. In a number of countries outside of Israel it sells and distributes espresso products; and in the framework of its operations in Brazil the Group buys, processes and sells green coffee to exporters in Brazil and to customers outside of Brazil (mainly in Europe and the USA). For more information on this segment, see section 13 of this chapter.

The Company also maintains an **International Dips and Spreads segment**, which is currently carried out through "Sabra" in North America, in collaboration with the international food concern PepsiCo. For more information on this segment, see section 14 of this chapter.

In addition to the segments described above, the Group maintains various additional operations that are immaterial to its business, which do not meet the quantitative threshold for disclosure in the Financial Statements as reportable segments or the criteria for accumulation and presentation separately as a reportable segment. These operations are included in the Financial Statements of the Company as at December 31, 2011 as the **"Other Operations"** segment. The main activities among these operations are:

(1) Strauss Water Operations – within the framework of this activity, the Group develops, manufactures, sells, markets and distributes in Israel, China and the UK drinking water filtration and purification facilities. For details, see Sections 1.12 and 15.1 of this chapter, as well as Notes 6.6 and 12.1 to the Financial Statement of the Company, as at December 31, 2012.

(2) Max Brenner Operations - The Group manufactures and sells chocolate products under the Max Brenner brand and operates a chain of Chocolate Bars in Israel and abroad. These are wholly-owned by the Company or operated through franchisers and partners, delivering a novel consumption experience in the chocolate and chocolate beverage category. For further information, see Section 15.2 of this chapter.

3. Investments in the Share Capital of the Corporation and Transactions in its Shares

In the course of 2011, 2012 up until the date of publication of this Report, no transactions outside of the Stock Exchange were executed in the Company's shares.

4. Dividend Distribution

Decisions with respect to the payment of dividends are made by the Board of Directors of the Company. The frequency and scale of the distributions are based on the Company's business results and on business considerations relating to the Company's interests.

For information on the distribution of cash dividends in 2011 and 2012, see Statements of Changes in Equity and Note 28.3 to the Financial Statements of the Company, as at December 31, 2012.

The balance of the available distributable profits, as at the date of the Statement of Financial Condition, is NIS 1,340 million.

For information concerning the external restriction, which is liable to effect the ability of the Company to distribute dividends in the future, see Sections 22.5 and 26.2 of this chapter. Within the framework of an amendment to the shelf prospectus, published on January 9, 2013, it was determined that in respect of the Debentures (Series D) for as long as they are not fully paid up, in the event that the Company will sell the majority of the assets of the Company to any third party, then during the three year period from the sale date, the Company will not distribute a dividend, to the extent that immediately after the distribution of the dividend the Company will fail to meet the financial stipulations, indicated above.

Part II – Other Information

5. Financial Information Relating to the Corporation's Areas of Operations

5.1 The following are financial data of the Company, divided into areas of operations, in millions of NIS (see also Note 29 to the Financial Statements of the Company, as at December 31, 2012).

It is hereby clarified that the amounts of income, expenses, assets (including inventory, fixed assets and other assets) as well as the liabilities of various operations that can be related directly to the areas of operations – were attributed accordingly. Mixed operations were related to a single area of operation according to the main operation executed therein. Expenses and assets (including customers) which can not be directly related – were allocated according to economic models, prevailing in the Group, as of the date of the periodic report

		Year 2012									
		Health & Wellness	**Fun & Indulgence**	**Total Israel**	**Israel Coffee**	**International Coffee**	**Total Coffee**	**International Dips & Spreads**	**Other**	**Adjustments for Consolidation (**)**	**Consolidated**
Income	**From external parties**	1,920	981	2,901	708	3,498	4,206	522	553	-	8,182
	From other activity segments	9	28	37	22	-	22	-	1	(60)	-
	Total	1,929	1,009	2,938	730	3,498	4,228	522	554	(60)	8,182
Total costs attributed	**Costs that do not constitute income in another segment:**										
	Fixed:	482	254	736	195	1,003	1,198	142	225	(20)	2,281
	Variable (*):	1,233	630	1,863	455	2,247	2,702	336	355	-	5,256
	Costs constituting income of other segments	27	15	42	3	13	16	-	2	(60)	-
	Total	1,742	899	2,641	653	3,263	3,916	478	582	(80)	7,537
Income from ordinary operations:											
Attributed to majority		133	110	243	58	176	234	44	(26)	28	523
Attributed to minority		54	-	54	19	59	78	-	(2)	(8)	122
Total assets		896	936	1,832	618	2,620	3,238	572	678	811	7,131
Total liabilities		330	325	655	176	788	964	220	380	2,160	4,379

(*) A variable cost is a cost that is directly and immediately influenced by the scope of the business activity, as opposed to a fixed cost, which does not change in the short term, and is therefore not directly and immediately influenced, by the scope of the business activity. For example, a variable cost includes the cost of materials and current operation of the plant, as opposed to the cost of buildings and machinery, which is a fixed cost. The Company's main variable costs are material consumption, most of the production and energy costs, and part of the cost of wages. The level of flexibility that the Company has in changing the scale of these costs is closely related to its ability to control its production operations. The Company can decide on the discontinuation of the operation of production lines and has a decisive impact on the scale of these variable costs.

(**) The adjustments of income, costs and assets (including cash and other unidentified joint investments and assets) to the consolidated statement arise from the sale of finished goods and goods in process between segments of activity, as well as one-time decreases, income and expenses.

For an explanation of developments that occurred in the preceding year, see the Board's Report on the Corporation's Business Condition for the year ended December 31, 2012.

Year 2011											
		Health & Wellness	**Fun & Indulgence**	**Total Israel**	**Israel Coffee**	**International Coffee**	**Total Coffee**	**International Dips & Spreads**	**Other**	**Adjustments for Consolidation (**)**	**Consolidated**
Income	**From external parties**	1,874	966	2,840	654	3,272	3,926	388	545	--	7,699
	From other activity segments	7	22	29	22	--	22	--	4	(55)	--
	Total	1,881	988	2,869	676	3,272	3,948	388	549	(55)	7,699
Total costs attributed	**Costs that do not constitute income in another segment: Fixed: Variable (*):**	430 1,222	258 630	688 1,852	169 426	939 2,133	1,108 2,559	115 253	197 355	109 --	2,217 5,019
	Costs constituting income of other segments	16	11	27	7	14	21	--	7	(55)	--
	Total	1,668	899	2,567	602	3,086	3,688	368	559	54	7,236
Income from ordinary operations: Attributed to majority Attributed to minority		155 58 856	89 -- 840	244 58 1,696	55 19 631	139 47 2,730	194 66 3,361	20 -- 492	(7) (3) 628	(83) (26) 579	368 95 6,756
Total assets		331	119	450	152	887	1,039	175	310	2,083	4,057
Total liabilities											

(*) and (**) For explanation, see the 2012 Table.

		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Other	Adjustments for Consolidation (**)	Consolidated
Year 2010											
Income	**From external parties**	1,811	872	2,683	592	2,794	3,386	297	489	-	6,855
	From other activity segments	7	28	35	22	-	22	-	1	(58)	-
	Total	1,818	900	2,718	614	2,794	3,408	297	490	(58)	6,855
Total costs attributed	**Costs that do not constitute income in another segment:**										
	Fixed:	461	282	743	171	890	1,061	90	170	60	2,124
	Variable (*):	1,107	533	1,640	362	1,709	2,071	181	298	-	4,190
	Costs constituting income of other segments	22	8	30	6	13	19	-	9	(58)	-
	Total	1,590	823	2,413	539	2,612	3,151	271	477	2	6,314
Income from ordinary operations:											
Attributed to majority		167	77	244	57	136	193	26	11	(52)	422
Attributed to minority		61	-	61	18	46	64	-	2	(8)	119

(*) and (**) For explanation, see the 2012 Table.

6. General Environment and Impact of External Factors on the Corporation's Activity

In addition to the trends and developments in the food and beverage industry and in the Group's areas of operation, there are factors in the Group's macroeconomic environment which had or are expected to have a material impact on the Group's operations and its business results.

6.1 Price Fluctuations in the Commodities Markets – commodities form a substantial component of the raw materials used in producing the Group's products. 2012 was characterized by high fluctuation and a mixed trend in prices of commodities, which are used by the Group. In addition to weather damages – a drought in the US, political and economic instability throughout the world, including the "Arab Spring", the debt crisis in Europe and the fiscal cliff in the US; concurrently, increasing demands mainly from Asia; increased living standards in developing countries and the operation of hedging funds in the commodities market were expressed in periods of "nervous" trade in commodities.

During the fourth quarter of 2012, there was a significant increase in the price of unprocessed milk.

Price of cocoa increased during the first three quarters and descended in the last quarter. The price of sugar increased in the first quarter, decreased in April and May, increased in June and July and since then decreased. The prices of grains (wheat and corn) increased significantly in June and July, remaining at a high level with slight drops. Arabica green coffee decreased throughout the year, while Robusta coffee was stable during the year. The price of oil barrel increased in the first quarter, decreased in the second quarter, increased again in the third and slightly decreased in the fourth quarter. Significant increases occurred in prices of energy in electricity, gas and diesel fuel.

During recent years, there is a trend of price rising in some of the commodities, as part of the problem of worldwide shortage of raw materials. The Group operates pursuing to narrowing down the aforementioned effects; inter alia, through hedging the risk of prices of some of the commodities and also through a change in the mix of materials and improving the operative efficiency. See Sections 8.8, 9.11, 10.11, 11.7 and 12.10 of this chapter.

6.2 Regulatory Developments in the Prices of Production Inputs – the Group is influenced by regulatory changes occurring from time to time in relation to labor costs and the price of unprocessed milk, which constitute a major part of its production inputs. In 2011, the Knesset approved the Milk Sector Planning Law, 2011. This law provides for the first time comprehensive foundation for the powers that are necessary, pursuant to the planning and regulating the dairy industry (see section 9.13.b of this chapter). Changes in the water quota policy impaired the scale of agricultural crops and consequently, the prices of some of the Group's inputs have risen. On January 2, 2012 a general collective agreement was signed for the revision of the minimum wage in Israel. According to the agreement, the minimum wage was considerably raised in 2012. The Company decided to precede the raising of the minimum wage to March 2012 instead of October 2012.

6.3 **Energy Prices** – in recent years, energy prices have been on a rising trend as a result of increasing world demand and due to changes in the geopolitical situation. A rising trend with great volatility continued in 2012 (for further information, see section 8.8.c of this chapter). Increasing energy prices have a negative impact on production and transportation costs and on raw material costs, particularly prices of packaging materials.

6.4 **Fluctuations in Foreign Currency Rates** – the Group's business is conducted in a number of currencies (expenses – mainly in US Dollars, Euros and various European currencies; and income – in the local operating currencies in the countries where the Group is active). Fluctuations in the exchange rates of foreign currencies (mainly the US Dollar, the Euro and the British Pound) in relation to the Shekel, or fluctuations in the exchange rates of the local operating currencies in relation to the Dollar, are liable to lead to an improvement or erosion of the Group's profitability. Moreover, the Group has loans, deposits and financial derivatives in foreign currency, whereby changes in the exchange rates of the foreign currencies consequently have a positive or negative impact on the Group's financing income/expenses. The dollar rate (dollar index) started 2012 with decreases in consequence of an expectation of a monetary broadening program of the American Fed. It was followed by stability, up to the point that the acute crisis in Europe, the fear for the collapse of Greece and disintegration of the European Union led in the second quarter of 2012 to a series of increases in the rate of the dollar. Execution of the broadening plan in July 2012 led to decreases in the rate of the dollar followed by stability, however, the fear of the "fiscal cliff" led to a renewed trend of decreases.

6.5 **Inflation** – in 2012 inflation in Israel was 1.4% (based upon the known Index), significantly under the inflation that prevailed in 2011 – 2.6%. The inflation rate in all countries where the Company is active is single-digit, with the exception of Serbia – 12.2%. The Company has a significant volume of index linked liabilities (Debentures of Series B, bank loans and loans from institutional corporations). Consequently, changes in inflation rates bear a significant impact on the Company's total financing expenses. The Company partially hedges its exposure to changes in inflation rates.

6.6 **Interest** – interest of the Bank of Israel decreased from a level of 2.75% in December 2011 to 2.00.% in December 2012. This decrease has a slight influence on the financing expenses of the Company, as it is mainly financed in the long term, principally through fixed interest in shekel and linked. In Brazil, the interest during the first quarter of 2012 was two-digit and later on in the year it decreased to a single- digit. In Serbia, the interest was two-digit from June 2012 henceforth. In the remaining countries in which the Group operates, the interest was single-digit. In Russia, the trend of increase continued in 2012. The Group has loans in variable interest in shekels and dollar. The decrease in the shekel interest and the stability of the dollar interest at a low level contributed to low financing expenses. The Company maintains short term material shekel deposits with banks, and the decrease of the shekel interest diminished the financing income.

It ought to be indicated that in the future the aforementioned factors are liable to influence the business operations and financial results of the Group, negatively or positively, according to their trend. The degree of the effect, if any, depends among others on the intensity of the events, their scope and duration, as well as the ability of the Group to handle them.

Part III – Description of the Corporation's Business According to Segments of Operations

7. General – the Food and Beverage Industry

The Group is active in the food and beverage industry, which is the major industry in the world of Fast Moving Consumer Goods (FMCG) and among the most competitive and mature in Israel and the world. The industry is dynamic and provides a response to the needs, demands and variety of changing tastes of a public consisting of tens of millions of consumers in Israel and worldwide.

2012 was characterized by a mix macro atmosphere, as the fear of the European debt crisis is faced with a more positive atmosphere in the US and continuance of quick growth in the emerging markets. In addition, fluctuations in prices of commodities continued this year, as well, effecting the operation of food companies and consumer prices. Finally, the involvement of governments in the food markets was intensified through regulations that were in favor of the consumers, while emphasizing the health of the public (fighting the trend of obesity, supervising environmental issues and the like).

According to the evaluation of the Company, in 2012 international food companies concentrated on the strengthening of their core business operations, on the background of economic instability in the USA and in Europe, fluctuations in prices of commodities and fear on the background of security tensions in various locations in the world, increasing the business uncertainty. Thus, e.g., Barry Callebaut (among the worldwide leading manufacturers of cocoa and chocolate products with 45 plants in 30 countries) purchased in December 2012 the cocoa division from Petra Foods after in September 2012 it sold one of its plants in France, specializing in the sale of liquid chocolate. These two transactions are liable to bring it to a status of the worldwide largest global cocoa laboratory. United Biscuits, an English company with worldwide business operations sold to German Intersnack its subsidiary KP Snacks, manufacturing salty snacks, in order to focus on its biscuit business. Procter & Gamble withdrew from the food business upon the sale of its Pringles business in February 2012 to Kellogg's.

The growth of the food industry in the emerging countries turned these countries into a strategic segment for the worldwide food companies: PepsiCo founded in 2012 a joint venture with the Chinese Tingyi Holding Corporation, pursuant to the manufacturing and marketing of juice products throughout China. In October 2012, PepsiCo and the Japanese Suntory established a joint venture for the manufacturing of bottles in Vietnam. Starbucks established in 2012 a joint venture with Tata, pursuant to the founding of a layout of coffee house chain in India. US Michigan Kellogg's, the international food company that produces in 18 countries a large variety of food brands, marketed in over 180 countries, established in September a joint venture with the Chinese Wilmar for the marketing of grain snacks throughout China.

Another trend observed this year is the establishment of strategic partnerships of the food leaders with the aim of combining global expertise and capabilities. Thus e.g. in January 2012, Kraft Foods and Soda Stream entered a strategic partnership agreement, whereby Soda Stream will sell its flavored products by means of Kraft Foods brands. PepsiCo and the Muller Dairy established a joint venture in February 2012 pursuant to entering the yogurt category in the US.

In recent years, a trend of increase in relatively large food chains that are declaring significant price reduction campaigns is prominent in Eastern Europe, at the expense of mini markets and neighborhood grocery stores. Furthermore, a trend of purchasing packages at the expense of single units and bags has developed, yielding financial saving, convenience in purchasing and not only in consumption.

Consumption trends – in the field of food and beverage, the development of three central trends, placing an emphasis on consumption of convenience, health and indulgence is most prominent. **Convenience products** meet the need for locating qualitative quick nutrition solutions, while cutting time and the possibility of consumption anywhere, any time.

Health and wellness products provide a solution to the requirement of improvement in the physical quality of life, emerging from increased awareness and importance of leading a healthy lifestyle; an increase in the demand for high sodium and omega products. **Fun & indulgence products** providing a solution for the improvement in living standard and a requirement for high quality and indulgence.

The food sector in Israel – according to the data of StoreNext, the food industry grew in 2012 in comparison with previous years. Nominally, the food sector grew in 2012 by 1.6%, as opposed to 5.1% in 2011; however, in real values (monetary) the growth in 2012 is 0.9% as opposed to 1.2% in 2011. The food and beverage sector in Israel is estimated by approx. NIS 32 billion, representing approx. 86% of the total sales on the consumption product market in Israel.

In 2012, Israeli food companies were compelled to increase prices for the first time since the outburst of the social protest in the summer of 2011. The increase in prices emerged from a combination of an increase in the prices of grains, corn that increased by 67% to an–all-time record and wheat taking an increase at a rate of 50% over the same period. A sharp increase in the prices of oil during the summer added to the increase in the prices of consumptions. In addition, electricity prices in Israel were raised and the raising of VAT reinforced a contention of a significant increase in the prices of inputs, leaving the marketing chains with no other option but to approve these price rises. In 2012, the slowdown in transactions of purchasing and mergers on the food market in Israel continued; Israeli companies, maintaining significant international operations, continued to purchase enterprises outside of Israel, in order to reinforce their core business operations, while locating growth channels. Beitan Wine Chain purchased Kimat Hinam and awaits the approval of the commissioner. Protarom Company executed in 2012 three acquisitions of enterprises outside of Israel.

In the operation of the Group on the food and beverage sector, it is possible to point out critical success factors that are shared by all its areas of operation, presenting a positive factor that influences the competitive status of the Group: dominance on markets; branded products providing the end consumer with an experience and an added value; a wide variety of products and a variety in each area of operation, appealing to the general population and various consumption opportunities; continuous innovations in products; locating solutions to variable consumption trends; particularizing on the quality of products and on competitive prices; a wide distribution layout, providing high availability of products in many points of sale, as well as collaborating with prominent international organizations.

The main entry barriers that are common to all of the Group's business areas emerge from the need to maintain a relevant brand, the need for technological know-how in the manufacturing of the products and extensive investments that are necessary in order to erect the manufacturing plants; as well as the need for a sale and distribution infrastructure to customers.

Following is a description of the Group's businesses in regard to each of its segments of operations, except for matters that relate to all its segments of operation, which are described in the fourth part of this chapter.

8. The Israel Operations

General Information on the Israeli Operations

Following is general information on the Israel operations, which comprises the Health & Wellness and the Fun & Indulgence segments

8.1 Structure of the Operations and Changes Occurring Therein

The Group develops, manufactures, sells, markets and distributes in Israel a large variety of branded food and beverage products. The main products and brands are specified hereunder.

In 2012, the Company focused its efforts in Israel to improve the products through valuable innovativeness. Thus, e.g., there was an improvement in the area of weight/price ratio and improvement in tastes and innovativeness, as it comes to variety and flavors. During the second half of 2011, the operations in Israel focused in relatively new big packages and in 2012 also in the categories of impulse, a transition to economical three-item and four-item packages and boxes.

As of the date of the report in Israel, there are five leading food and beverage groups in Israel, providing (according to data of StoreNext) a significant segment of the food and beverage consumption in Israel: Tnuva, the Company, Osem Nestle, The Central Light Beverage Company and Neto Trade. According to data of StoreNext, the Company is the second leading food and beverage concern in Israel.

In consequence of the social protest, taking place in the summer of 2011, and the placing of the issue of cost of living in Israel on the economic - social agenda, various governmental bodies and committees on their behalf begun examining this issue in depth, consolidating recommendations toward legislation and arrangements, inter alia, pertaining to the food industry. The inter-ministerial team for examination of the level of competitiveness and prices in the area of food and consumption products ("**Kedmi Committee**") filed in July 2012 its final recommendations to the Minister of Industry, Commerce and Tourism and to the Minister of Finance. The final recommendations of the Kedmi Committee include reference to several issues, inter alia, regulations and competition, the segment of supply and the retail segment, consumption, quotas, import barriers and the milk market. The principal recommendations of the Kedmi Committee include: removal of import barriers, various recommendations pertaining to the relationship between suppliers and marketing chains, various reporting duties pertaining to products, having high centralization and the like.

8.2 Changes in the Scale of Operations and Profitability

The past few years were characterized by increased competition in the food industry in Israel. The high density of retail stores contributed to the price-strategy based competition.

The aggressive competition between marketing chains led in recent years to erosion of profitability of the chains and pressures to increase prices and reduce the profitability of manufacturers.

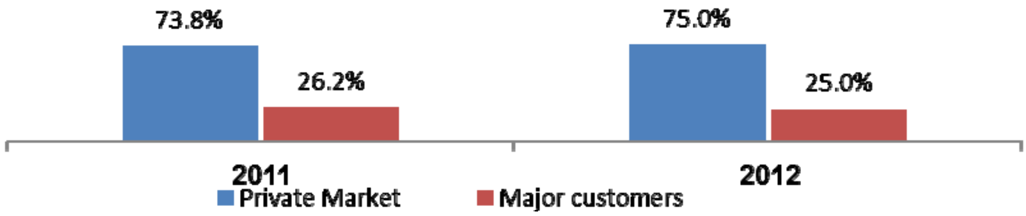
In 2012 as well, the Group executed various actions, in order to reduce consumer prices, inter alia, regular price decreases and wide sales campaigns of products, intended to maintain low level of prices, as well as actions effecting the profitability. The profitability was also effected by the great fluctuations in the prices of raw materials, which was typical in 2012. Further information on this matter is specified hereunder.

For details on the influences of the trends and traits described and for changes in revenues and profitability in the Health & Wellness and Fun & Indulgence segments, see the Board of Directors' Report as at December 31, 2012.

8.3 Developments in the Markets of Operations and Changes in the Characteristics of its Customers

For market developments and changes in the characteristics of customers in the food and beverage market in general, see the general description of the food and beverage branch in Section 7 of this chapter. In the past few years, a convenience store market has developed (mainly in gas stations), which is designed to deliver added retail value characterized by high accessibility for unplanned purchases while on the way home, supplementing purchases on the go and also as a place of relaxation on the road – OTG (On the Go) at the expense of grocery stores and neighborhood mini markets. According to the report of StoreNext, it seems that in 2012 this market has already consummated its potential.

The following Graph Describes the Market Segments between the Large Client Market and the Private Market During the Years 2011-2012[4]:

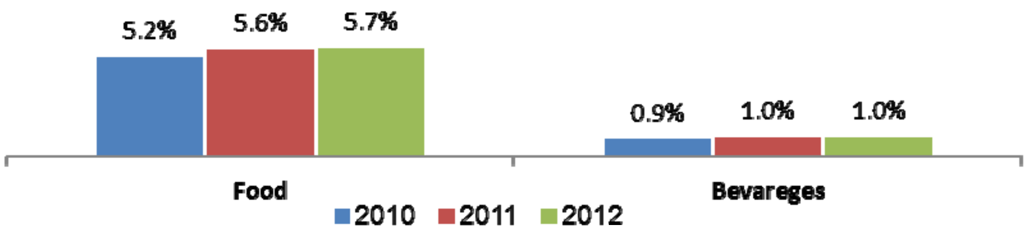


Small and large private chains expand and opened additional stores in Israel. During the last quarter of 2012, a new retail chain, Cost 365, was founded under title of the Ha'Mashbir Ha'Merkazi.

Digital purchasing websites of large chains were improved and became more consumer-friendly: they provide a quick and comfortable purchasing experience at any time convenient to the consumer, without having to depend upon branch opening hours.

During recent years, large marketing chains promoted the "private brand" products that compete against products of food manufacturers. This phenomenon brought about reinforcement of the base products portfolio (basic) and intensification of competition. According to the estimate of the Company, its robustness and high positioning assisted its continuous success and its ability to withstand the developing trends.

The following Graph Describes the Financial Market Segment of the Private Market During the Years 2010-2012[4]:



[4] Data of 2010 and 2011 were updated following a correction passed by StoreNext.

8.4 Critical Success Factors in the Operations and Changes Occurring Therein

In addition to the critical success factors that are common to all of the Group's segments of operations described in Section 7 of this chapter, there are success factors that are unique to the Israel operations or such that possess especially great importance, which include:

A strong and leading corporate brand, leading brands in the different products; high product credibility among consumers, with emphasis on product quality, freshness and healthiness; unique operational and logistic capabilities required in the production, distribution and storage of products requiring refrigerated conditions; quick launch of new, experience-intensive products; product development and innovation; financial robustness for a considerable investment in branding; the ability to adapt existing products to evolving consumption trends; the ability to develop unique products while adapting them to different population segments and their unique requirements; replacement and refreshment of the products on store shelves; an extensive distribution system enabling the quick and efficient distribution of products to points of sale with high frequency; product availability at the point of sale.

8.5 Major Entry Barriers to the Operations and Changes Occurring Therein

In addition to the major entry barriers that are common to all of the Group's segments of activity as described in Section 7 of this chapter, the limitations posed by kashrut occasionally form a barrier to entry by foreign manufacturers, who are required to adapt their products to kashrut requirements in Israel. Other major entry barriers with respect to the manufacture of dairy products are the need for large investments in the necessary production infrastructure; the need for relatively sophisticated production technology; the need to develop capabilities to handle the freshness issue in mass production and in distribution; and the short shelf life.

8.6 Competition and Substitutes to Products of the Activity Framework

Within the framework of the activity in Israel, there is an acute competition between food manufacturers, selling similar and substitute products. Each of the main product groups of the Group in Israel, in the areas of Health & Wellness and in the area of Fun & Indulgence there are competing products.

Further elaboration on the competition in each of the main areas is provided within the description of the area.

The Group continuously battles competition in the field of Fun & Indulgence through the development and launching of new products; entering new areas; investment in manufacturing facilities and the development of its technological capability; concentrating marketing and advertising efforts; building and maintenance of brands; a comprehensive distribution layout; collaborations with international concerns (Danone and PepsiCo) allowing the Group use of know-how and trademarks.

Among the negative factors, influencing or which are liable to influence the competitive condition of the Group in Israel, according to the estimate of the Company, include the steps taken during the recent years by some of the marketing chains, including: reinforcement of private brands and taking over orders and shelf stocking. Extension of the operations of international food companies in the Israeli local food market; intensified import into Israel of low cost branded products and also non-branded products according to one time import sale campaigns; the protest of the public against products of the Company; the development of brands and sale and marketing abilities of competitors will diminish the competitive advantage of the Group. For positive factors effecting the competitive condition of the Group, see Section 7 of this chapter. Products of the Group, within the framework of the operations in Israel, have substitute products or a competing produce, including products that are imported and including private brands of retail chains. During the recent years, the shekel was strengthened, in consequence thereof import to Israel of low cost competing products increased, most of them are not under customs or quotas.

8.7 Fixed Assets, Real Estate and Facilities - Logistic Center (Under Planning) in Shoham:

The Company has leases approximately 71 dunam in the business park complex in Shoham State of Israel’s Development Authority for a period of 49 years commencing on December 9, 2009, with an extension option for a further 49 years. As at the date of this Report, the complex is in the advanced stages of construction of a logistic center for use by the Group in Israel, including warehouses for refrigerated products, warehouses for dry products, and an office building. The estimated total cost is approx. NIS 400 million. Construction is planned to be completed and the center to become operational in the first half of 2014.

For further information on fixed assets, real estate and facilities in the Health & Wellness segment, see Section 9.7 of this chapter, and in the Fun & Indulgence segment, see Section 10.7 of this chapter.

8.8 Raw Materials and Suppliers

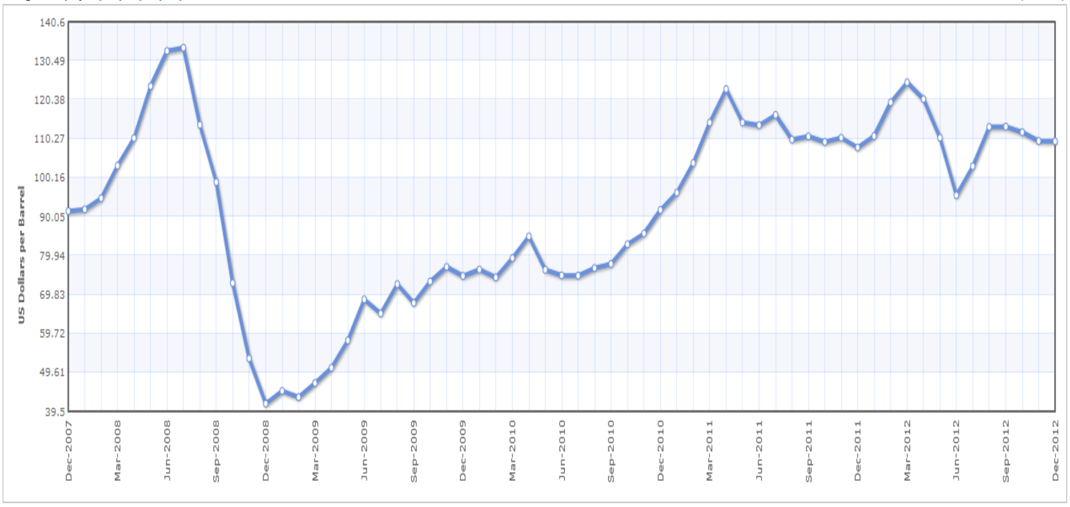
a. For description of fluctuations in the prices of raw materials utilized by the Company in Israel, see Section 6.1 of this chapter.

b. During the relevant reported period, there was no single supplier that the scope of purchasing of the Group from it exceeded 10% of the total scope of purchasing of raw materials and packages for products within the framework of its operations in Israel.

c. The main packaging materials used by the Group in its operations in Israel are laminates and plastic sheets, readymade cartons, cups and bottles (mainly in the Health & Wellness segment), which are purchased from various suppliers, mainly in Israel, and partly abroad (principally in Europe). In the packages market, there is a trend of increase in demands mainly in the area of paper and plastics on the part of eastern countries. Fluctuations in the market of oil prices cause concurrent fluctuations in the prices of packages. There is a noticeable trend of transition from rigid packages in favor flexible packages, for reasons of improving efficiency and due to environmental aspects. In addition, there is a increase trend during the recent years in the demand for recycled paper mainly in eastern countries.

   2012 is characterized by much fluctuations on the price of Brent oil barrels in Israel and in the world. In consequence of tensions in the middle East, prices of oil barrels increased during the first quarter. Heavy economic fears in Europe and signs of deceleration in China led to a plunge of prices in the second quarter. Expectation for a third broadening monetary plan in the USA and rescue plans for Greece urged recuperation and increases in prices of oils barrels in the third quarter. Misgivings toward the elections in the USA and the “fiscal cliff” led from September to a trend of moderate decreases. At the same time, there were significant prices rises in all the energy inputs: diesel oil, benzine, liquefied petroleum gas (LPG) and natural gas, which significantly influenced the production costs of the Company in Israel.

The following diagram shows the changes in the price per Brent barrel in 2008 - 2012 according to indexmundi:



The Group handles the volatility in the prices of raw materials used in its products by streamlining procurement, production, sales and marketing processes, the use of substitutes and changes in its product mix accordingly; and also by hedging the prices of some of the materials.

Availability of raw materials purchased outside of Israel depends, among other things, on the ability to import them to Israel, on sea or air shipping schedules and on the regular activity of the ports in Israel.

d. It is the Group's practice to purchase raw and packaging materials from a large number of vendors, and it chooses its suppliers on the basis of the quality of the goods they offer, their availability, the credibility and stability of the suppliers and the prices they offer.

As a rule, it is the Group's policy to have a number of suppliers for each of the raw materials (to the extent possible). Generally, most of the Group's agreements with its suppliers are framework agreements, usually for periods of up to 12 months (in a few exceptional cases, also for periods of more than 12 months), which include delivery dates, price, quality, supply quantities and credit terms. Purchases are usually made on the basis of continuous orders.

For further information on raw materials and suppliers in the Health & Wellness segment, see section 9.11 of this chapter, and in the Fun & Indulgence segment, see section 10.11 of this chapter.

9. The Health & Wellness Segment

9.1 General Information on the Health & Wellness Segment

The Health & Wellness segment is a highly competitive market, and one that is based on staples found in every home. Therefore, in this area the Company places emphasis on innovation and an understanding of the consumer.

Health & Wellness products are characterized by the emphasis of nutritional and functional aspects that are important to the consumer's healthy diet. Features emphasized in the development of healthy products include raw material composition, the inclusion of functional health values, replacement of ingredients with healthier ones, reduction of fat levels and calories, etc. A considerable part of Health & Wellness products are fresh products, characterized by a relatively short freshness period (usually between 5 to 45 days) and by the need for refrigerated storage, transportation and sale (4ºC).

9.2 Products

Health & Wellness products are consolidated under the Strauss corporate brand and the Danone brand.

As a rule, the Group's major Health & Wellness products are marketed in Israel under the **Strauss** corporate brand (Dany, Daniella, Maadan Hagolan, Gamadim, Ski, Symphony, cottage cheese, fresh pasta products and cut vegetables) and under the **Danone** brand (yogurts, Actimel and Activia). Other brands are **Milky, Achla** (prepared packaged salads, including hummus, eggplant and others), **Yotveta** (milk beverages) and **Yad Mordechai** (honey products, olive oil and jams). The Group also markets products manufactured by others, which are not marketed under the Group's brands, such as zhug (Yemenite hot sauce) manufactured by **Zehavi**, natural juices manufactured by **Ganir**, and long-life milk manufactured by **Ramat Hagolan Dairies**.

The trend of development of products in 2012 was characterized by relating an added value to the area of health to the consumer; launching yogurt Dunchol in the cholesterol aspect, increasing the variety of fat free yogurt and the like. In addition, compliance with the requirement for larger packages, such as six pack in Milky continued in 2012 as well.

9.3 Segmentation of Revenues and Product Profitability

Following is information on the segmentation of the Company's income from external parties (consolidated), arising from groups of similar products in the Health & Wellness segment: "milk products" (that includes mainly yogurt, dairy deserts, white cheeses, enriched milk and flavored milk beverages); "salads" (including mainly readymade packed salads and cut vegetables); and "other health and wellness products" (including mainly grain snacks, granola, products of honey, olive oil and jams).

Group of Similar Products	Income in NIS Millions			Percentage of Group's Total Income		
	2012	2011	2010	2012	2011	2010
Dairy products	1,413	1,366	1,323	17.3%	17.7%	19.3%
Salads	260	254	243	3.2%	3.3%	3.5%
Other Health & Wellness products	247	254	245	3.0%	3.3%	3.6%
Total Health & Wellness products	1,920	1,874	1,811	23.5%	24.3%	26.4%

9.4 <u>Competition</u>

The main competitors of the Group's Health & Wellness products are Tnuva, Tara (of the Central Bottling Company group) and Osem Nestle. Tnuva and Tara compete mainly in dairy products, and Osem in the salad arena. Moreover, in every product group there are also additional local competitors.

The following table presents information on the market shares of the Group and its major competitor in the years 2011 and 2012 in reference to the Group's main Health & Wellness products, according to weighted data based on StoreNext figures for the barcoded retail market (which includes the large food chains, barcoded private mini-markets and independent food chains):

Similar product groups	Weighted Market Share (in Percent – Value)			
	For 2012		For 2011(*)	
	The Group	Major Competitor	The Group	Major Competitor
Yogurts[5]	43%	37%	43%	36%
Cheeses[6]	24%	62%	23%	63%
Dairy desserts[7]	66%	24%	65%	24%
Flavored milk	65%	32%	63%	34%
Fresh milk for drinking[8]	13%	71%	15%	70%
Packaged salads[9]	28%	40%	27%	41%
Cut vegetables	50%	24%	55%	17%
Honey	59%	16%	61%	13%

* 2011 data were adjusted to the validation of StoreNext's calculations.

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[5] Including probiotic drinks

[6] Including cottage cheese, cream cheeses and soft cheeses

[7] Including cheese desserts for toddlers – Gamadim, Daniela, Yummy, etc.

[8] Including fresh and enriched milk

[9] Including the products under the Achla brand

9.5 Seasonality

The following data are for the years 2012 and 2011 relating to the Company's income in the Health & Wellness segment by quarter, in NIS millions:

	2012		2011	
	Income (NIS millions)	**% of total income of segment**	**Income (NIS millions)**	**% of total income of segment**
Q1	455	23.745	441	23.5
Q2	487	25.4%	474	25.3
Q3	511	26.6%	506	27.0
Q4	467	24.3%	453	24.2
Total	1,920	100%	1,874	100%

There is no distinct trend of seasonality in Health & Wellness products; however, the volume of income is generally (relatively) higher in the third quarter of the year, when the hot summer months fall – these are characterized by increased consumption of dairy products.

9.6 Production Capacity

The production capacity of the Group's sites in the Health & Wellness segment is measured in quantities of product per year. The production lines in the Group's sites in the Health & Wellness segment are automatic, and most of them are operated in three shifts a day.

The maximum potential yearly production capacity of the Group's manufacturing sites in the Health & Wellness segment, operating in three shifts, in tons product per year in the years 2012 and 2011 was 287 thousand tons and 281 thousand tons, respectively. The actual average production capacity utilization rate in the years 2012 and 2011 was 58% and 59%, respectively. There is a growth in the scope of potential production in Yotveta.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. The Company does not anticipate that it will be required to make any exceptional material investments in equipment and machinery in the Health & Wellness segment in 2013.

9.7 Fixed Assets, Real Estate and Facilities

Following is a description of the major real estate properties and other material fixed assets, which serve the Group in its activities in the Health & Wellness segment.

a **Plants**

Nature and Location	**Site Designation**	**Area of Real Estate**	**Built Area**	**Rights in the Site**	**Mortgages**
Dairy in the Bar-Lev industrial park	Production of dairy products	66,500 m²	21,000 m²	Lease from the Israel Land Administration under a capitalized lease agreement of 2003. The lease period is 49 years, from June 1997.	---
Dairy in Yotveta	Production of milk beverages and enriched milk	---	6,100 m²	Sublease of from Kibbutz Yotveta. Part of the area of the dairy was leased until 2026 and part until 2046. The sublease was not yet approved by the Israel Land Administration, however, the Company deems that there is no prevention to receipt of this approval, although receiving it will probably entail payment of capitalization fees to ILA.	Floating charge in favor of the State of Israel (see Note 37.1.3 to the Financial Statements of the Company as at December 31, 2012.) that also applies to the land of the dairy.
Aviv Dairy in the Netivot industrial zone	Production of dairy products under Kashrut Mehuderet.	5,000 m²	2,020 m²	Lease of a third party for a period ending on February 2022.	---
Carmiel	Production of salads	18,000 m²	9,000 m²	Ownership	---
Sde Nitzan	Cutting, mixing and packaging of fresh refrigerated vegetables.	2,800 m²	2,560 m²	Lease from Sde Nitzan – Workers' Moshav for Cooperative Agricultural Settlement Ltd. for a period of 23 years ending in January 2031	---
Yad Mordechai Apiary	Production of honey products, olive oil and jams.	10,400 m²	4,300 m²	Lease from Kibbutz Yad Mordechai for a 10 year period ending in December 2013 which will be renewed automatically for a further 10 years unless either of the party informs the other of the cancellation of the rental agreement.	---

b. **Distribution, logistics and cross-docking centers**

Nature and Location	Site Designation	Area of Real Estate	Built Area	Rights in the Site	Mortgages
Logistics Center in Haifa Bay	Refrigerated distribution in northern region	8,865 m² (the Company holds 55% of this area)	4,735 m² (the Company holds 55% of this area)	Lease together with Strauss Ice Cream Ltd. (hereinafter: "Strauss Ice Cream") from third parties for a 20 year period ending in October 2018. The Group holds in approx. 55% of Strauss Ice Cream – 45%. The rental costs and municipal rates and taxes are allocated according to the division of the area; electricity costs are allocated according to a fixed index jointly determined by the engineers of the parties; the remaining costs are allocated on the basis of actual use (according to separate suppliers' invoices).	---
Logistics Center in Petach Tikva	Refrigerated distribution in central and south region	15,000 m²	5,790 m²	Lease of Meirav Etgar Ltd. (the Company controlled by some of the controlling shareholders of the Company). The lease period ends on June 30, 2014.	---
Cross-Docking Site in Beit Shemesh	Refrigerated distribution in the Jerusalem area	390 m²		Lease of a third party up until July 2014 and an option to extend the lease period for two additional periods of 2.5 years, each.	---
Cross-Docking Site in Beersheba	refrigerated distribution northern Negev and Lachish region	4,920 m²		Leasing from the Israel Land Administration according to a capitalized lease contract for a period of 49 years ending on 2029.	---

For information on the Company's policy for depreciating the machinery and equipment in its various manufacturing plants, see Note 3.4 to the Financial Statements of the Company as at December 31, 2012.

9.8 Research and Development

For a description of research and development carried out in the Group, see Section 20 of this chapter. Dairy products are developed, inter alia, by using the comprehensive know-how in Danone's possession.

9.9 Intangible Assets

a. **Licenses and Franchises**

Strauss Health has a licensing agreement with Danone for the use of know-how and trademarks with respect to all of Danone's fresh dairy products and all refrigerated baby food products, at present and in the future. For information on the licensing agreement and the payments paid in its respect, see Section 9.14.a of this chapter.

b. **Trademarks and Samples**

In view of the Group's focus on branded products, the importance of registering trademarks on its brand names is great. Trademarks are registered in the Group's name in Israel on most of the brand names serving it in the Health & Wellness segment, except for the trademarks that are registered in Danone's name, which are used by the Group pursuant to the licensing agreement with Danone.

The Group also uses the trademark "Strauss", registered in the name of Strauss Holdings. For information on the right granted by Strauss Holdings to the Company to use the name Strauss, see the description of the merger agreement between the Company and Strauss Holdings in Section 26.1 of this chapter.

Registration of trademarks in Israel is valid for limited periods prescribed in the legislation and is renewable at the end of each such period. In view of the many years of use of these trademarks and their dominant status in the market, the Group estimates that the economic lifetime of its major trademarks is many years long.

For details of costs and financial movement relating to intangible assets in the years 2012 and 2011, see Note 15 to the Financial Statements of the Company as at December 31, 2012.

9.10 Human Capital

For a description of the Group's organizational structure and additional information on the nature of employment agreements, investments in training and qualifications, see Section 21 of this chapter.

Following is information on the number of employees in the Group (including all employees in companies that are not wholly owned) in the Health & Wellness segment (including 30 and 32 manpower agencies), as at December 31, 2012 and December 31, 2011, respectively:

	Number of Employees as at	
	December 31, 2012	**December 31, 2011(*)**
Administration	107	119
Sales and Distribution	15	19
Procurement and Logistics	229	230
Operations	663	714
Total	1,014	1,082

(*) The layout of common employees – sales, finance, procurement and planning, human resources of the cross-corporate divisions - were reclassified. The reduction in the number of employees in 2012 as opposed to 2011 emerges from efforts of improving efficiency, assumed by the management during the years.

9.11 <u>Raw Materials and Suppliers</u>

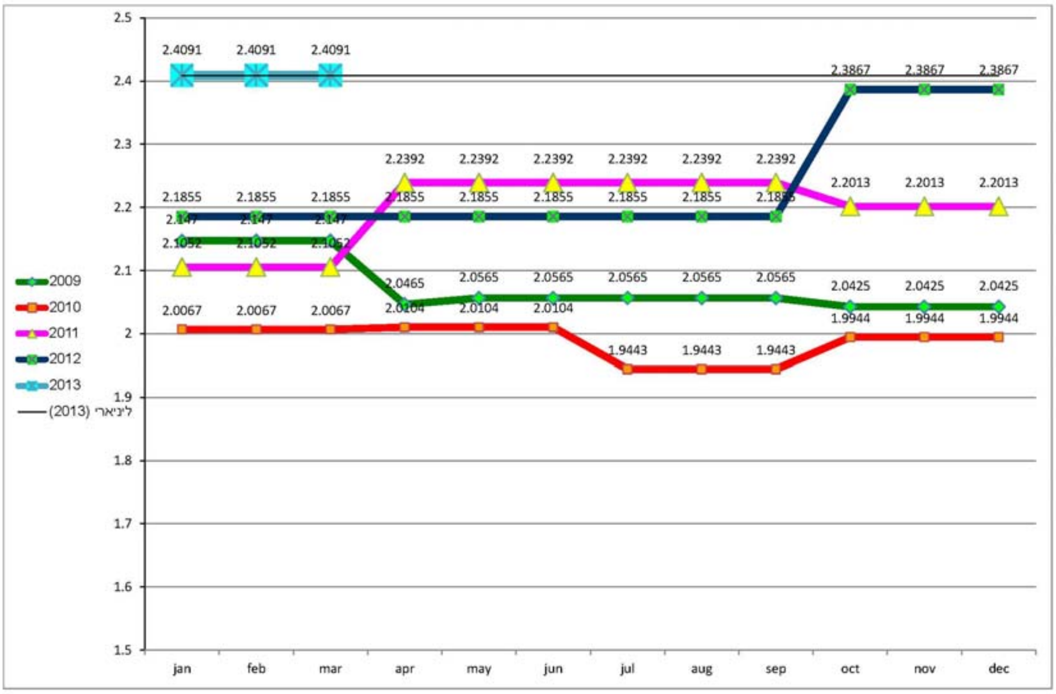
For information on raw materials and suppliers that are common to both the Health & Wellness and Fun & Indulgence segments, see Section 8.8 of this chapter.

The major raw material used by the Group in the manufacture of Health & Wellness products, the cost of which forms over 20% of total purchases of the raw materials used in these products, is unprocessed milk. The Group also uses mainly sugar, milk powders, cocoa powder, tahini, different vegetables and legumes, frozen and crushed fruit, olive oil, honey and packaging materials.

Liquid milk is purchased from various dairy farmers in the Western Galilee, Emek Yizrael, Zevulon Region, Arava plain, the northern Negev and Ramat Hanegev. The Group is obliged to accept the entire quota of milk produced by the manufacturer from which it purchases milk. Most of the quantity purchased is used to manufacture the products, and the surplus (particularly in the winter) is dried as milk powder and milk fat and used by the Company (especially in the summer) or sold to a third party at market prices.

For information on the arrangements with respect to the definition of unprocessed milk prices, see section 9.13.b of this chapter.

The following diagram presents the changes occurring in the price of unprocessed milk during the years 2009-2012 (the figures on the vertical axis represent the cost price (“target” price + annual average transportation price) in NIS of 1 liter, and the figures on the horizontal axis represent time:



In 2012 up until October, the price of unprocessed mile was absolutely stable, while in the fourth quarter of 2012 the price of unprocessed milk took a significant increase of approx. 9.5%. The great increase in the prices of milk – and an all time record, emerges mainly from an acute increase of prices on the commodity stock exchange of corn and various grains in the world, that are imported as food for cows. The serious draught in the US and the Ukraine, which are among the larger corn and grain granaries in the world, led to a worldwide increase in milk prices.

An additional increase occurred in the milk price during the first quarter of 2013 at a rate of 0.9%. Bearing in mind that in January 2013, the standard of fat and protein in milk that the dairy farmer ought to provide to the dairies increased, the price of unprocessed milk in real values was not increased.

Prices of milk powder and butter are derived from the price of unprocessed milk, and their prices increased in Israel during the fourth quarter of 2012 by 8% and 6.7%, respectively. The moderate increase, as opposed to the milk, emerges from the fact that manufacturing of milk powder and butter entail manufacturing costs that do not relate directly to milk. During the first quarter of 2013, prices of milk powder and butter decreased, almost according to the full increase that took place during the fourth quarter of 2012, due to a change, as stated, in the standards of fat and protein.

Vegetables are purchased from farmers in Israel. Legumes and frozen and crushed fruit are purchased both in and outside of Israel.

In regard to the price trends of sugar and cocoa, see information on the Fun & Indulgence segment in Section 10.11 of this chapter.

9.12 Working capital

The following is the composition of working capital in the Health & Wellness segment in 2012:

	The Amounts Included in the Financial Statement
Operative current assets (*)	310,918
Operative current liabilities (**)	251,201
Balance of current assets over current liabilities	59,717

(*) - Including: net customers, inventory, receivable income and prepaid expenses.
(**) - Including: net suppliers and payable expenses.

9.13 Restrictions and Control Over the Segment of Operations

a. **Declaration as a monopoly in dairy desserts** – on the strength of a declaration of 1998 under the Antitrust Law, Strauss Holdings (including any other corporation that manufactures or markets dairy desserts which is controlled by Strauss Holdings, controls Strauss Holdings or is controlled by its controlling shareholders) was declared a monopoly in dairy desserts. The statement defined "dairy desserts" as "an unfermented milk product, sweetened with sugar or alternative sweetening agents and containing, in addition to the dairy ingredients, typical flavoring ingredients (chocolate, vanilla, chocolate powder, etc.) and meant to be eaten with a spoon".

In April 1998 the Antitrust Commissioner issued directives valid for five years, and as at the date of the Periodic Report these have expired and no new instructions have been given. In practice, the Group acts in accordance with these directives and complies with them. According to the directives, inter alia, the monopoly holder shall not stipulate the supply or the terms and conditions of supply of dairy desserts marketed by it on an undertaking to purchase a certain type of products from it or from the Company; shall not engage with its customers in arrangements including exclusive agreements; shall not offer customers unreasonable discounts and benefits that are conditional on increasing purchase volumes of dairy desserts by that customer; shall not sell the dairy desserts for a price that is lower than the cost of the product; shall not reach agreements with its customers (as distinct from stating the recommended retail price) regarding the retail price of any product.

b. **Arrangements relating to unprocessed milk** – the dairy industry in Israel is highly structured in all aspects, including production according to prescribed quotas for milk producers (cowsheds), and government involvement in the regulation of quantities of raw materials and definition of the target price, which is the price paid by dairies to the dairy farmers for unprocessed milk.

The Milk Sector Planning Law, 2012 (hereinafter: the **"Milk Law"**) was promulgated in October 2012. This law comprehensively anchors, for the first time, the powers required for the purpose of planning and regulating the milk sector, after years in which the planning and regulation of the milk sector had been based mainly on partial legislation and many-year-long agreements between the various parties in the industry. As stated in Purposes section in the Milk Law, the purposes of the law are to develop, streamline and properly establish the milk sector in Israel in order to assure the quality and safety of the production and marketing of milk and guarantee the regular supply of milk and its products, while assuring suitable prices for manufacturers, the dairies and the public and adequate conditions for the activity of the farmers and dairies. According to the Milk Law, the Government is responsible for the definition of policy in the industry, including the total volume of unprocessed milk produced, definition of unprocessed milk quotas for farmers, regulation of the production and marketing of unprocessed milk and regulation of the quantities of unprocessed milk in the sector, through the Minister of Agriculture and/or Finance, as the case may be, by way of defining regulations; while the policy would be implemented and executed by the Milk Council – a company for public benefit, whose members include representatives of the parties in the milk sector – the Government, the farmers' organizations and the dairies.

In regard to the target price – which, prior to the enactment of the law, determination thereof and the dairies' obligation to purchase the unprocessed milk at a price that is no lower than it were not regulated in the legislation and were based on voluntary agreements between the parties in the industry – the Milk Law and the regulations enacted by virtue thereof determine that during an eight-year transition period commencing on the day the law becomes effective, the target price will be determined according to the last target price determined prior to the law becoming effective, revised from time to time according to the accepted revision procedure in place prior to the enactment of the law. At the end of the aforesaid eight years, the target price will be determined in an order issued by the Ministers of Finance and Agriculture in accordance with the Control of Prices of Consumer Goods and Services Law, 1996.

In consequence of legislation of the law, the Milk Sector Planning Regulations (Method for updating Minimum Prices of Liter of Milk) 2012, were installed in April 2012, within the framework of which the manner of calculation, advertising and updating of the target price were installed (hereinafter: "**the Target Price Regulation**"). The Target Price Regulations introduced certain changes in the manner of calculation of the target price, however, according to the evaluation of the Company they do not essentially effect the manner of calculation of the target price. So far, the Milk Law or the Milk Regulations do not bear an essential effect on the operations of the Company, however, it is impossible to evaluate what would be the degree of its effect (and the effect of the regulations and orders which will still be issued on its strength) on the activity of the Company in the future.

In July 2012, the team for the examination of competitiveness and prices on the market of food and consumption products, known as the Kedmi Committee, published its findings and recommendations, including recommendations toward improving competitiveness and reduction of prices on the milk market. In light of the recommendations of the Kedmi Committee, an agreement of principles was committed between the Prime Minister Office, the Ministry of Finance, the Ministry of Agriculture and Rural Development, the Association of Israeli Farmers, the Association of Cattle for Milk Growers and the Milk Council, pursuant to the determination of a multi annual layout, pursuant to improving the efficiency of the cattle for milk sector (hereinafter: "**the Locker Outline**"). Within the framework of the Locker Outline, which was adopted by way of a government decision, inter alia, it was decided on a regular annual decrease in the target price over the next four years; cancellation of two reviews for updating the target price (and accordingly – "a certain stabilization" of the target price); encouragement of the voluntary retirement of small dairy owners (and thereby increasing efficiency of production) etc. According to the estimate of the Company, the implementation of the Locker Outline (if any) is expected to bring about a certain price reduction of milk over a four year period.

c. For information on an agreed order relating to trade arrangements between suppliers and retail chains, see section 25.4.b of this chapter.

d. **Price control** – the prices of part of the dairy products in the Israeli market are controlled under orders, issued jointly by the Ministers of Agriculture and Finance, following consultation with the Price Committee, on the strength of the Control of Prices of Consumer Goods and Services Law, 1996. The orders determine maximum prices to the retailer and consumer for drinking milk and a series of dairy products classified according to their nature, their packaging (i.e. bag, carton or cup), and quantity. As at the date of this Periodic Report only three of the Group's dairy products remain subject to control, and they are "Fresh Milk 3% Fat (Regular) in a Bag", "Fresh Milk 3% Fat (Regular) in a Carton" and "Sour Cream (15% Fat) (Regular)".

The Ministry of Agriculture made it clear in 2012, that the price of the three products under control, having Mehadrin Kashrut, must be sold according to the same price as products according to normal Kashrut. Prices were adjusted accordingly.

In April 2012, an order was issued with respect to the duty to report the profitability and prices of certain dairy products. The order applies to Danny dairy desert, Milky, 5% cottage, 5% and 9% cheese of the production of dairies of the Group.

9.14 Material Agreements

a. Agreements with Danone

Agreement for the acquisition of 20% of the shares of Strauss Health by Danone – on December 13, 1996 Strauss Health (then called Strauss Dairies Ltd.) and Strauss Holdings (then called Nahariya Dairies Strauss Ltd.) engaged with the French concern Danone in an agreement for the allotment of 20% of Strauss Health's issued share capital in consideration for US$66.3 million.

Under the agreement, the parties were granted the right of first refusal for the acquisition of Strauss Health's shares in the case of an acquisition of shares by a third party (except for a party affiliated with the shareholders, as defined in the agreement, provided, however, that the assignee will agree to be restricted by the terms and conditions and undertakings of the assignor), under the terms and conditions set forth in the agreement. Additionally, a tagalong right was prescribed to the sale of shares by an offeree, as a result of which a third party would hold over 50% of the issued share capital of Strauss Health, under the terms and conditions set forth in the agreement.

Each shareholder holding 10% of the issued share capital of Strauss Health will be entitled to appoint a director of Strauss Health. For as long as Danone holds 20% of Strauss Health's issued share capital, it shall be entitled to appoint 20% of the directors, rounded off upward.

The agreement contains a list of actions that shall not be executed if all directors appointed by Danone (insofar as they still hold office on its behalf on Strauss Health's board of directors) oppose them, including transactions between Strauss Health and other companies controlled by the Strauss Group or with interested parties in the Strauss Group, unless they are executed under market conditions or were in effect at the time of the signing of the acquisition agreement, and except for the case where Danone is willing to receive compensation for the difference between the value according to market conditions and the actual value of the transaction; payment of a dividend in an amount that is lower than 25% of the net annual profit (after retaining the balances required by Strauss Health, as set forth in the agreement); a public offering or a change in share capital diluting Danone's holding; establishment of subsidiaries by Strauss Health that are not wholly-owned by Strauss Health, directly or indirectly, which are active in products that are not dairy products, and if a shareholder therein is a competitor of Danone; a material change in Strauss Health's business or investments in a field that is not dairy products, as a result of which the turnover in the field that is not dairy products shall exceed the percentage of Strauss Health's turnover stated in the agreement; and distribution by Strauss Health or its subsidiaries of products manufactured by Strauss Holdings or by any company controlled by it or by its shareholders (excluding Ramat Hagolan Dairies Ltd. and Strauss Ice Cream), if the total yearly sales of the abovementioned products shall exceed the percentage of Strauss Health's consolidated yearly turnover stated in the agreement.

It is further determined that the export of products by Strauss Health shall be limited to 7% of Strauss Health's turnover, that export activity must be coordinated with Danone, and in any event Strauss Health shall be prohibited from exporting products bearing Danone's trademarks without receiving Danone's prior approval.

Strauss Holdings has undertaken that it and any subsidiary of Strauss Holdings or shareholder thereof shall not sell, manufacture or import refrigerated baby food or refrigerated dairy products in Israel (including the Golan Heights, the Gaza Strip and the West Bank), other than through Strauss Health, except for products in which milk is not the main ingredient, such as salads with yogurt, pasta with cheese and cheese pastries; ice cream, frozen yogurt and other products sold at temperatures below $0^{o}C$; long-life milk and long-life milk products; and dairy confectionery and chocolate. Strauss Holdings (and in the framework of the merger transaction with Strauss, it was agreed that the Company will undertake Strauss Holdings' obligations pursuant to the agreement with Danone) and Danone have undertaken not to make use of any know-how purchased by them or obtained from Strauss Health, without Strauss Health's consent, in advance and in writing.

The agreement prescribes provisions relating to collaboration between Strauss Holdings and Danone with respect to activity in other countries adjacent to Israel.

Licensing agreement – On December 13, 1996 Strauss Health committed with Danone in a licensing agreement for the use of Danone's know-how and trademarks with respect to all Danone's fresh dairy products and refrigerated food products for infants, at present and in the future (hereinafter in this clause: the **"Products"**). The Agreement was amended on October 18, 2012.

The license granted to Strauss Health is an exclusive, non-transferable license that does not include the right to award sub-licenses, for the use of know-how in manufacturing the Products and for the sale of the Products under the trademarks set forth in the licensing agreement (e.g. Danone, Danette and Dany) in the territory of Israel, the Gaza Strip and the West Bank (hereinafter in this clause: the **"Territory"**). The licensing agreement is for a period of 20 years and will thereafter be renewed automatically for additional periods of ten years each.

According to an amendment of 2012, it was agreed to hold negotiations in 2016 with respect to a commitment in a new license agreement. The parties agreed, in the course of a period to be agreed between them in the future, to gradually remove from use trademarks of Strauss Health on the Products, except for the trademark "Strauss", and to replace them with Danone's global trademark. Use of trademarks other than Danone on the Products requires Danone's prior approval (except with respect to the trademark "Strauss"). Strauss Health has further undertaken to use the trademarks on every live thermophilic fermented milk product and on every new product globally marketed at the time of the licensing agreement or in the future by Danone under one trademark.

It should be noted that the licensing agreement does not prevent Danone from making use of the trademarks in the Territory for other products, except those under the licensing agreement and other refrigerated products.

Strauss Health has undertaken that the Products bearing the trademarks will comply with the quality requirements specified in the agreement.

Danone has undertaken to provide Strauss Health with any and all technical information that is required and with technical assistance, as set forth in the licensing agreement. It is further determined that Danone shall transfer to Strauss Health information regarding marketing strategy for the Products bearing the trademarks.

Additionally, it is determined that unless otherwise agreed by and between the parties, the licensing agreement shall not be cancelled other than pursuant to the provisions of the agreement: in cases of bankruptcy, the appointment of a liquidator, a trustee in a bankruptcy, a receiver, etc.; in the case where Strauss Holdings or any other company of the Strauss Group shall transfer shares in Strauss Health without Danone's consent, in advance and in writing, in such a manner that the Strauss Group's total holdings in Strauss Health shall be less than 51% of the share capital, and in a manner that a material part or all of the abovementioned shares have been sold to one or more of the ten large dairy product manufacturers in the world, Danone shall have the right to immediately cancel the agreement; and in the case where Strauss Health shall not act in accordance with the provisions of the licensing agreement in the matters set forth below, Danone shall be entitled to announce the annulment of the licensing agreement, such annulment becoming effective within a period of 3 or 12 months, according to the nature of the breach; breach of Strauss Health's undertaking not to assign its rights under the license or grant sub-licenses; breach of its undertakings relating to the territorial limitations in the license; breach of its undertaking to comply with Danone's instructions relating to the use of the trademarks set forth in the licensing agreement, in a manner that is liable to materially harm Danone's interests; and breach of its undertaking to discontinue sales of the Products under the aforesaid brand names if Danone has so requested, as provided above.

It is further determined that Strauss Health shall not be entitled to any compensation if the licensing agreement is cancelled by Danone pursuant to its provisions.

It is also determined that in the case of annulment of the agreement on certain grounds, Danone shall not initiate production and marketing activity of the Products in the Territory under the trademarks that were in use prior to the annulment, during 3 years from the date such notice of cancellation was sent.

In consideration for the license, Strauss Health makes various payments to Danone on a quarterly basis, in rates determined in the licensing agreement.

The rate of royalties in respect of the license was determined on the basis of a certain percentage of net sales for the products determined in the licensing agreement, plus a certain percentage of the growth in the annual sales turnover versus the previous year, as well as a fixed payment for know-how in an immaterial amount.

In the amendment of 2012, it was agreed on an extension of the variety of services and the use of the know-how, which will be conferred by Danone, in consideration of updating the amount of royalties with respect to the license.

The total expenses paid in respect of the license, know-how and royalties in the years 2012, 2011 and 2010 were approx. NIS 10,715 thousand, approx. NIS 5,166 thousand and approx. NIS 5,097 thousand, respectively. The main increase in 2012 emerges from amendment of the agreement, as stated above.

According to the evaluation of the Company’s Management the Company is not dependent on Danone; termination of the engagement between the Company and Danone shall bear a material impact on the results of Strauss Health's business operations in the short term only.

b. **Agreement with Yotveta**

On November 12, 1998 an agreement for the acquisition of shares in Yotveta was signed, the parties thereto being Kibbutz Yotveta (hereinafter: the "**Kibbutz**"), Yotveta Uri Horazo Dairies (Limited Partnership), Yotveta and Strauss Health (amended on August 20, 2003), whereunder Strauss Health acquired by way of an allotment of shares: (a) 50% of Yotveta's issued and paid-up ordinary share capital, conferring the rights generally conferred on shareholders in a limited liability company, excluding the right to appoint or dismiss directors. The rest of the ordinary shares remained in the Kibbutz's possession; (b) Two management shares, each conferring the right to appoint or dismiss a director in Yotveta. Three additional management shares are held by the Kibbutz; and (c) one casting share, conferring the right to appoint or dismiss one director in Yotveta who is also chairman of the board or chairman of the general meeting and has a casting vote in the board of directors and in the meeting of the shareholders in the case of a tie vote.

Generally, the agreement with Yotveta determines the agreements regarding the management of the company jointly held by Strauss Health and the Kibbutz, including that the CEO of Yotveta is appointed by the board of directors of Yotveta according to the recommendation of the Kibbutz. The directors representing Strauss Health have a veto right to prevent the appointment of a CEO. The chairman of the board is appointed by Strauss Health. The directors representing the Kibbutz have the right to oppose the appointment of a chairman who does not possess the appropriate qualifications for the position. Yotveta's CFO is appointed by Strauss Health. The directors representing the Kibbutz have a veto right over such appointment, but they are not entitled to exercise this right other than on reasonable grounds.

The agreement contains no provisions relating to the duration of the undertakings (except for the undertaking by Strauss Health to ensure alternative employment for the Kibbutz members, if it shall decide within 25 years from the qualifying date, without the Kibbutz's consent, to downsize the number of Kibbutz members stationed in the jointly held company to below the minimum quota, or to discontinue the activity of the dairy).

Additionally, Strauss Health was issued convertible capital notes in a nominal amount of NIS 79,108 thousand, unlinked to the Index and bearing no interest, redeemable only upon the winding-up of Yotveta, but not earlier than the year 2100. The capital notes may be converted into Yotveta shares so that each NIS 500 thousand of the capital notes may be converted into one share of NIS 1 par value. The agreement prescribes that whenever capital notes are converted into shares, additional shares shall be allotted to the Kibbutz in the same number and of the same par value, in consideration for their par value, so that the Kibbutz's relative holding of the shares of Yotveta will remain identical to its relative holding prior to the allotment.

The share allotment and issue of the capital notes were executed against the payment of a consideration prescribed in the agreement in the amount of US$32 million.

The agreement determines that Yotveta's areas of expertise are milk beverages and premium milk, and that other than exceptions set forth in the agreement, Strauss Health shall not market products in the milk beverage and premium drinking milk categories, unless they are produced in Yotveta and the transfer prices are determined by and between the parties. Strauss Health shall also refrain from manufacturing these products for as long as the merger process set forth in the agreement has not been executed (except for the production of long-life milk and long-life milk beverages in the framework of its holding in Ramat Hagolan Dairies), all unless the Kibbutz's approval of the manufacture and marketing of these products has been obtained. The abovementioned provisions shall not apply in regard to the marketing and manufacture of certain products enumerated in the agreement. The Kibbutz has undertaken that it shall not use the Yotveta brand or logo in the food industry other than with the advance approval of Yotveta's board of directors, which shall be entitled not to approve such use without being required to give grounds. The Kibbutz has further undertaken not to use the Yotveta brand or logo in other categories which are not in the food industry, other than with the advance approval of Yotveta's board of directors, which shall be entitled not to approve such use on reasonable grounds only.

The agreement determines that for as long as the Kibbutz holds at least 20% of Yotveta's ordinary share capital, a resolution of the board or general meeting of Yotveta relating to certain matters set forth in the agreement shall be carried by a majority of the votes of the directors or shareholders, as the case may be; however, this is conditional on the majority of votes including the vote of at least one director appointed by the Kibbutz or of the Kibbutz's representative in the meeting of the shareholders, as the case may be. Notwithstanding the foregoing, in the case of a tie vote between the directors appointed on behalf of the Kibbutz and those appointed on behalf of Strauss Health or between shareholders on the abovementioned matters, the case shall be referred, at the request of any of the directors, for decision by a determinant director, and his decision shall be binding upon Yotveta. This arrangement constitutes a special arrangement in the general deciding arrangement in the case of a tie vote, as described above.

The Kibbutz has the right to demand distribution of a dividend of at least 25% of Yotveta's distributable profits, and Strauss Health has undertaken that in such case, it will procure that a resolution is duly adopted for the distribution thereof or will extend to the Kibbutz a loan in the amount of the dividend whereto it is entitled, until the divided is actually distributed.

The agreement determines that Strauss Health will distribute Yotveta's products for a commission at rates set forth in the agreement. It further determines that Strauss Health will continue to provide Yotveta with various management services, and that the Kibbutz will provide Yotveta with management services commencing in 2003, and will also supply various services, such as guarding and accounting services.

The Kibbutz has undertaken to provide all of the unprocessed milk it produces to Yotveta, and the latter has undertaken to purchase the milk produced according to Yotveta's actual milk consumption. The percentage of the supply of milk by the Kibbutz to the Company is 5% smaller than the total purchases of milk in 2011, and in any case the Company is not dependent on this supply.

The agreement determines that the parties shall not be entitled to transfer their shares in Yotveta, in whole or in part, to a third party, other than subject to the parties' right of refusal, which is subject, inter alia, to an undertaking not to transfer the casting share other than to the Kibbutz. It further determines that where as a result of the transfer of shares in Strauss Health's possession its holding in Yotveta shall fall below 25% of Yotveta's ordinary share capital, it shall be obliged to transfer to Yotveta, free of charge, the casting share, and the Kibbutz shall transfer in the name of Strauss Health or in the name of the third party acquiring the shares from Strauss Health one management share, and shall be obliged, among other things, to grant the third party acquiring the shares and Strauss Health minority rights, as set forth in the agreement.

The agreement further determines that in a case where the Kibbutz transfers its shares to a third party, Strauss Health shall undertake to the third party acquiring the shares and to the Kibbutz to grant it minority rights, as set forth in the agreement.

Additionally, the agreement determines that any party selling all or most of its shares to a third party shall deposit with Yotveta, as a loan, an amount in NIS that is equal to $8 million against an unlinked capital note that does not bear interest, payable only after 49 years have elapsed from the date on which the loan was made to Yotveta. Where a party has sold less than 50.1% of its shares, it shall transfer to Yotveta a relative portion of the abovementioned amount under the aforesaid terms and conditions.

In the agreement the Kibbutz and Strauss Health are given an option to execute a "merger", under the terms and conditions and in the cases set forth in the agreement (which depend, inter alia, on Yotveta's average annual profit rate), in which framework an exchange of shares will be made between the Kibbutz and Strauss Health in a manner in which the latter shall own 100% of the control and share capital of Yotveta, by transferring all management shares, ordinary shares and all securities of Yotveta which are owned by the Kibbutz at such time, against which the Kibbutz shall receive a total of 6.4% of the share capital of Strauss Health at such time.

The Kibbutz is entitled to demand that Strauss Health procure the execution of the merger if Yotveta's average annual operating profit in any two successive years, beginning with the two years 2001-2002 and thereafter, is lower than the amount stated in the agreement; or alternatively, if Yotveta's average annual profit in any three successive years, the first of which is 2001, shall be 24% or more below the average annual profit in the three preceding years. Strauss Health is entitled to demand that the Kibbutz procure the execution of the merger if Yotveta's average annual profit in any two successive years, beginning with the two years 2001-2002, has increased by 20% or less in relation to Yotveta's average annual profit in the two preceding years. The agreement determines that exercise of the merger option by a party shall take place during 180 days from the day on which Yotveta's latest financial statements for the relevant tax year creating its right to exercise the merger option were approved. Where a party has not exercised the option during this period, its right with respect to the relevant tax year shall be annulled. The Company reviews the issue of the exercise of the merger option under the agreement from time to time and according to the circumstances. In the Company's estimate, until the date of this Report the terms and conditions for the exercise of the option have not been fulfilled; as at the date of the Report, the option has not been exercised by either of the parties.

The agreement includes, inter alia, provisions that shall apply after the aforesaid merger, such as an undertaking by Strauss Health to adopt a policy of paying an annual dividend at a minimum rate of 25% of its net profit, or to extend a loan to the Kibbutz in an identical amount to the dividend; an undertaking by Strauss Health that for as long as the Kibbutz holds at least 5% of the ordinary share capital of Strauss Health, Strauss Health covenants, at the Kibbutz's request, to appoint an observer on behalf of the Kibbutz on Strauss Health's board of directors.

The agreement determines that the merger option shall be available to Strauss Health for as long as the Strauss family and/or Danone control Strauss Health, directly or indirectly, and for as long as there is no substantial concern that Strauss Health is to become insolvent.

The agreement contains additional provisions that will apply if the merger is executed, to the relations between the shareholders in the case of a change in the holdings of the shareholders in Strauss Health, such as a tagalong right to the sale of shares of Strauss Health, a right of first refusal granted to the shareholders of Strauss Health with respect to any sale of shares held by the Kibbutz in Strauss Health, and others.

In October 2006 Kibbutz Yotveta and Strauss Health each issued a capital note to Yotveta in a nominal amount of NIS 20 million, which does not bear interest or linkage, the payment date whereof (after the payment date was postponed) is January 1, 2013 – see Note 13.2 to the Financial Statements of the Company as at December 31, 2012.

10. <u>The Fun & Indulgence Segment</u>

10.1 <u>General Information on the Fun & Indulgence segment</u>

For general information of the Israeli operations, which comprises the Health & Wellness and Fun & Indulgence segments, see Section 8 of this chapter.

10.2 <u>Products</u>

The Group's major Fun & Indulgence products are generally marketed in Israel under the **Elite** brand (bakery products, including biscuits, cakes, wafers and cookies, and sweet snack bars – Mekupelet, Kif Kef, Tortit, Taami, Egosi) as well as under additional brands: **Pesek Zman, Cow** (chocolate tablets, chocolate fingers and sweet spreads), **Must** (candy and chewing gum), Tapuchips, Shoosh, Doritos, Sababa and Cheetos (potato and corn-based salty snacks). The Group's Fun & Indulgence products are manufactured at its sites in Israel, except for a limited number of products purchased from third parties in Israel and abroad, such as artificial sweetener, seeds and nuts and microwave popcorn. The Group sells, markets and distributes the products in Israel alongside a marginal, immaterial export operation of products for the kosher market in Western European countries and the USA.

Fun & Indulgence products focus on providing a response to the consumption trends of "fun and enjoyment" and "indulgence". These products serve as an easy and immediate solution for between-meals snacks ("off the plate") which are generally consumed on impulse, not in an organized fashion, in many cases away from home and on the go. The general health trend in the food and beverage industry is also evident in Fun & Indulgence products and is expressed in the consumer's desire for indulgence, while taking care of his health at the same time. As part of enhancing the consumption experience and developing new solutions that are aligned with consumption trends, in 2012 the Group focused on manufacturing premium Fun & Indulgence products (high cocoa percent chocolate tablets, Splendid) and semi-premium (the series of mousses and the light series) with special flavors, which deliver special added value to the consumer, products that meet the need for a light indulgence and products of a measured quantity (such as chocolate fingers for adults too square chocolate tablets, low weight wafers, etc.), as well as variegated activities in packages and clusters.

The Group's Fun & Indulgence products are characterized by a relatively long shelf life from approx. 3 to approx. 18 months. Chocolate products are stored and transported in an "air-conditioned" environment (16-18ºC), whereas the rest of the products do not require special storage and transportation conditions. Fun & Indulgence products are import intensive and saturated with many competing international and domestic brands. Accordingly, the Group focuses on the branding and differentiation of its products, on the development and expansion of the existing product range, and on entry to new products.

10.3 Segmentation of Revenues and Product Profitability

Following is information on the segmentation of the Company's income from external parties (consolidated), arising from groups of similar products in the Fun & Indulgence segment:

In Fun & Indulgence products – "confectionery and bakery" (including chocolate tablet products, sweet snack bars, chewing gum, bubblegum, candy and sweet spreads, biscuits, wafers, cakes and cookies); and "salty snacks" (including potato-based snacks, peanut butter and corn-based snacks).

Group of Similar Products	Income in NIS Thousands			Percentage of Group's Total Income		
	2012	2011	2010	2012	2011	2010
Confectionery and bakery	811	810	729	9.9%	10.5%	10.6%
Salty snacks[10]	170	156	143	2.1%	2.0%	2.1%
Total Fun & Indulgence Products	981	966	872	12.0%	12.5%	12.7%

Level of prices of coca and sugar were lower in 2012 in comparison to prices in 2011, which bear an effect an the profitability of this segment.

10.4 Competition

The major competitors of the Group's products are Unilever, Osem Nestle, Diplomat and Leiman Schlussel. There is also a large number of additional smaller competitors that compete with the Group. As a result of the strengthening of the Shekel and the absence of customs duties and quotas on most Fun & Indulgence products, distribution companies importing a broad variety of well-known international brands in this product segment have multiplied and grown significantly and distribute the imported goods throughout Israel.

The competition on the part of private label products of retailers intensified and stabilizes with an expanded range of products competing against the Group's products in the Fun & Indulgence segment. See also the section on Risk Factors, section 30.1.16 of this chapter.

10 Income from the "salty snacks" product group is presented in accordance with the Company's holding in Strauss Frito-Lay (50%).

The competition between the retail chains lead the Group to marketing operations and significant sale campaigns during the year.

The following table presents information on the market shares of the Group and its major competitor in the years 2012 and 2011 in reference to the Group's main products in the Fun & Indulgence segment, according to weighted data based on StoreNext figures for the barcoded retail market (which includes the large food chains, barcoded private mini-markets and independent food chains):

Similar product groups	Weighted Market Share (in Percent – Value)			
	For 2012		For 2011*	
	The Group	Major Competitor	The Group	Major Competitor
Chocolate for children and adults category[11]	46%	18%	47%	19%
Chewing gum	29%	57%	31%	59%
Wafers	33%	21%	34%	18%
Salty snacks	34%	52%	33%	52%

(*) Data for 2011 were adjusted to the validation of StoreNext's calculations.

10.5 Seasonality

Following are data for the years 2012 and 2011 relating to the Company's income in the Fun & Indulgence segment by quarter, in NIS millions:

	2012		2011	
	Income (NIS millions)	% of total income of segment	Income (NIS millions)	% of total income of segment
Q1	317	32.3%	287	29.7%
Q2	196	20.0%	209	21.6%
Q3	232	23.6%	243	25.2%
Q4	236	24.1%	227	23.5%
Total	981	100%	966	100%

Income scopes from the sale of products in the Fun & Indulgence segment are generally (relatively) higher in the first quarter of the year and generally (relatively) lower in the second quarter of the year. Seasonality is mainly influenced by the winter months, which fall in the first quarter and are characterized by increased consumption of chocolate products as well as consumption of Fun & Indulgence products before Passover. In the second quarter the scale of purchases is relatively lower, mainly because the same Fun & Indulgence products purchased in the previous quarter are still being consumed.

[11] Including chocolate tablets, sweet snack bars (excluding Kinder Delice) and cereal bars.

10.6 Production capacity

a. The production capacity of the Group's sites in the Fun & Indulgence segment is measured in quantities of product per year. The production lines in the Group's sites in the Fun & Indulgence segment are automatic, and most of them are operated in three shifts a day.

b. The maximum potential yearly production capacity of the Group's manufacturing sites in the Fun & Indulgence segment, operating in three shifts, in tons product per year in the years 2012 and 2011 was approx. 69 thousand ton, each year. The actual average production capacity utilization rate in the years 2012 and 2011 was 55% and 54%, respectively.

c. It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of preserving and increasing production capacity according to the Group's work plans. On the basis of the information in the Company's possession as at the date of the Periodic Report, the Company does not anticipate that it will be required to make any exceptional material investments in equipment and machinery in the Fun & Indulgence segment in 2013.

10.7 Fixed Assets, Real Estate and Facilities

Following is a description of the major fixed assets of the Group, which serve in its activities in the Fun & Indulgence segment.

Nature and Location	Site Designation	Area of Real Estate	Built Area	Rights in the Site	Mortgages
Plants					
Plant in the Industrial Zone of Nazareth	Production of confectionery and bakery products.	approx. 47,500 m²	approx. 35,000 m²	The Company owns some 32,000 m² of the area. The Company has the right to be registered as owner of 10,500 m² (the rights were acquired from the Israel Land Administration, have not yet been registered in the Company's name and are in the process of being registered) and has the right to lease an additional 5,000 m² under three non-capitalized lease agreements ending in August 2012 (500 m²), in August 2013 (2,000 m²) and in July 2020 (2,500 m²). Each of the lease agreements includes an option granted to the lessee to extend the lease period for a further 49 years. The Company filed applications for extension of the lease validity with respect to the two first parcels (ending on 2012 and 2013) and according to the recommendation of ILA negotiations currently take place for the examination of the option of acquiring title.(*)	Floating charge on the property of the Company in favor of the State of Israel in connection with receipt of investment grants received in the framework of granting and approved enterprise status.

Nature and Location	Site Designation	Area of Real Estate	Built Area	Rights in the Site	Mortgages
Plant in the Sha'ar Hanegev industrial zone	production of salty snacks	approx. 26,400 m²	approx. 10,000 m²	Under lease according to a lease agreement ending in October 2058, including an option to extend the lease period for a further 49 years.	Floating charge on the property of the Company in favor of the State of Israel in connection with receipt of investment grants received in the framework of granting and approved enterprise status.

Nature and Location	Site Designation	Area of Real Estate	Built Area	Rights in the Site	Mortgages
Distribution, logistics and cross-docking centers					
Zrifin distribution and Logistics Center	For the distribution of products of the Company that do not require Refrigeration in central and south region	approx. 35,000 m²	approx. 19,000 m².	Lease from a third party for a period of 25 years ending in November 2021.	---
Acre distribution and Logistics Center	For the distribution of products of the Company that do not require Refrigeration in the north region	approx. 20,000 m²	approx. 8,695 m².	Lease from a third party (which itself has leased the land from the Israel Land Administration for a period ending in January 2052) for a period of 10 years ending in February 2021. The Group has an option for an additional 5-year extension.	---
Cross-docking sites	Most of the cross-docking sites serve the Health & Wellness segment, and a small part of them also serves the Fun & Indulgence segment. For information on the Group's main cross-docking sites in Israel, see Section 9.7.b of this chapter.				

(*) By the end of 2005, the Group entered a set of agreements for the purchasing of the lease of rights in additional approx. 28,000 m² in Nazareth, adjacent to the plant, as a land reserve for the plant. With respect to these land areas, presenting parts of a parcel, there is a participation agreement with a third party. As at the date of the period report, the holding of the land was transferred to the Company, however, procedures of registration of the lease in favor of the Group have not been completed, as yet.

For the policy of the Company on the issue of depreciation of machinery and equipment in its various plants, see Note 3.4 to the Financial Statements of the Company, as at December 31, 2012.

10.8 Research and development

For a description of research and development carried out in the Group, see Section 20 of this chapter. Salty snack products are developed, inter alia, by using the know-how in PepsiCo's possession.

10.9 Intangible assets

a. **Licenses and Franchises**

Strauss Frito-Lay has a licensing agreement with PepsiCo since 1990 for the use of PepsiCo's trademarks with respect to all of the salty snacks products marketed by Strauss Frito-Lay, which are based on PepsiCo's know-how. For information on the licensing agreement and the payments paid in its respect, see Section 10.14 of this chapter.

b. **Trademarks and Samples**

In view of the Group's focus on branded products, the importance of registering trademarks on its brand names is great. Trademarks are registered in the Group's name in Israel on most of the brand names serving it in the Fun & Indulgence segment, except for those that are registered in PepsiCo's name, in which respect the Group has a usage license.

Registration of trademarks in Israel is valid for limited periods prescribed in the legislation and is renewable at the end of each such period. In view of the many years of use of these trademarks and their dominant status in the market, the Group estimates that the economic lifetime of its major trademarks is many years long.

For details of costs and financial movement relating to intangible assets in the years 2012 and 2011, see Note 15 to the Financial Statements of the Company as at December 31, 2012.

10.10 Human Capital

For a description of the Group's organizational structure and additional information on the nature of employment agreements, investments in training, etc., see Section 21 of this chapter.

Following is information on the number of employees in the Group (including all employees in companies that are not wholly owned) in the Fun & Indulgence segment (including 221 and 230 employees of manpower agencies), as at December 31, 2012 and December 31, 2011, respectively:

	Number of Employees as at	
	December 31, 2012	**December 31, 2011 (*)**
Administration	92	99
Sales and Distribution	148	172
Procurement and Logistics	272	279
Operations	991	983
Total	1503	1533

(*) The layout of common employees – sales, finance, procurement and planning, human resources of the cross-corporate divisions - were reclassified. The reduction in the number of employees in 2012 as opposed to 2011 emerges from efforts of improving efficiency, assumed by the management during the years.

10.11 Raw Materials and Suppliers

For information on raw materials and suppliers that is common to both the Health & Wellness and Fun & Indulgence segments, see Section 8.8 of this chapter.

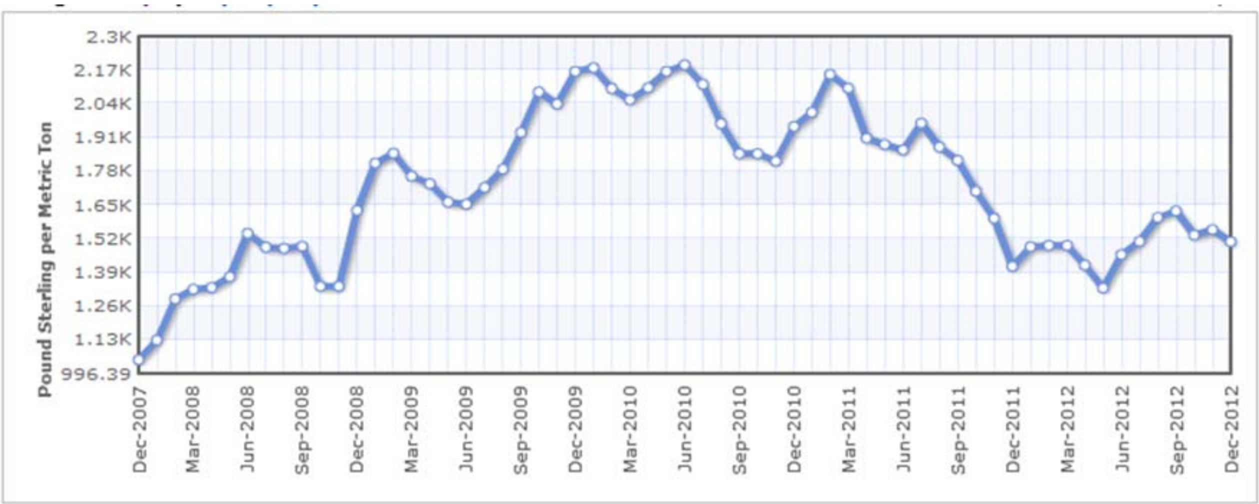
The major raw material used by the Group in the manufacture of Fun & Indulgence products, the cost of which forms 20% and more of total purchases of the raw materials used in these products, is cocoa products (cocoa butter and cocoa mass, also known as cocoa liquor). The Group also uses mainly milk powder, sugar, flour, oil, nuts, potatoes and packaging materials.

A considerable part of the abovementioned raw materials are commodities that are bought and traded on the commodities exchanges in London and New York in foreign currency (the Dollar, Euro and British Pound). Consequently, the cost of these raw materials is exposed to fluctuations in currency exchange rates and in prices on commodity markets. Moreover, the cost of raw materials produced from plants (such as sugar, cocoa, nuts) is exposed to fluctuations originating in the product markets, and particularly to fluctuations in supply due to changes in weather, the ripening period, etc.

Following the drop in prices of cocoa beans in 2011, the market changed to an increase trend in 2012. The three first quarters of 2012 were characterized by difficult whether conditions and dryness that damaged cocoa crops in Western Africa, problems of quality in crops and the development of violent events in the Ivory Cost (the manufacturer of 40% of the worldwide cocoa inventory) led to acute increases in the prices of cocoa. In the final quarter of 2012, the trend changed and prices of cocoa decreases significantly. A decrease in demands, the whether in Western Africa improves and a reform on the cocoa market, initiated by the government of Ivory Cost, securing minimum prices for farmers, compelled the government there to sell long term contracts on the stock exchange, which led to a decrease in prices.

The cost of processing cocoa butter decreased during the first half of 2012, in consequence of a high level of demand for the byproduct in the process of processing cocoa beans – cocoa powder. Later on, along the year there was a gradual increase in the prices of processing cocoa butter as opposed to a decrease in the price of cocoa powder.

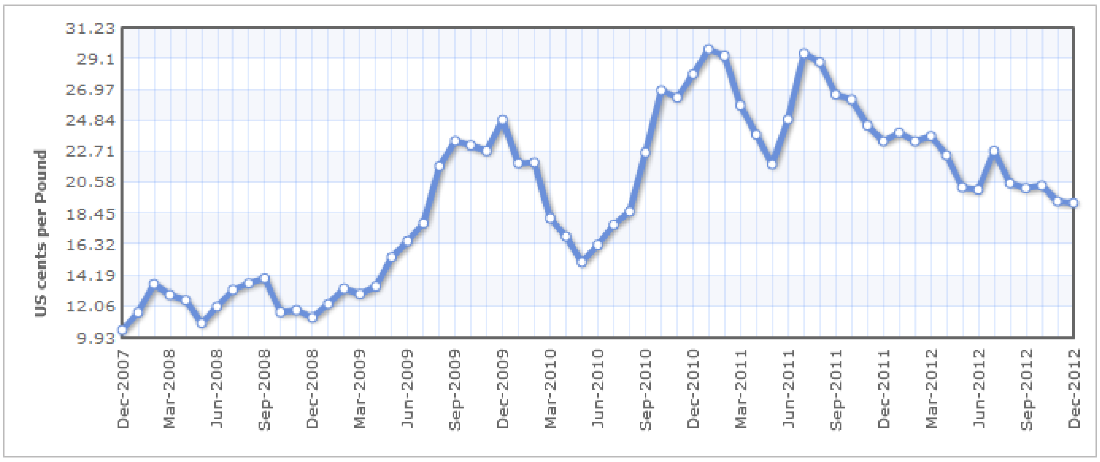
The following diagram shows the changes in prices of cocoa beans (pound sterling per ton) in the years 2008 – 2012, according to indexmundi.com website:



The price of sugar continued to rise considerably in the first half of 2012 following speculative activity and a reduction in production volumes. In the second half of 2012 the price of sugar dropped due to a reduction in speculative activity and the recession in Europe and the USA. The average price of sugar in 2012 is higher than the average price in 2011.

During the first quarter of 2012, there was an increase in the price of sugar, resulting from an increase in demands mainly from the east. During the second quarter, there was a significant decrease in the price of sugar, due to larger than expected crops in Brazil. Speculative activity in Brazil led in June-July to a renewed increase in the price of sugar; however, an improvement in weather, preparedness toward surpluses in the worldwide sugar balance and strengthening of the dollar opposite the real led to renewed decreases in the price of sugar during the second half of 2012.

The following diagram shows the changes in prices of sugar (cent per pound) in the years 2008 – 2012, according to indexmundi.com website:



10.12 Working capital

The following is the composition of working capital in the Fun & Indulgence segment in 2012:

	The Amounts Included in the Financial Statement
Operative current assets (*)	282,560
Operative current liabilities (**)	133,254
Balance of current assets over current liabilities	149,306

(*) - Including: net customers, inventory, receivable income and prepaid expenses.
(**) - Including: net suppliers and payable expenses.

10.13 Restrictions and Control of the Segment of Activity

a. **Declaration as a monopoly in the chocolate tablet market** – in 1988 the Company was declared a monopoly, inter alia, in the chocolate tablet market. Following the announcement, the Antitrust Commissioner issued directives to the monopoly holder. In directives dated 1998 (which were applied to the Company and to any company which is controlled by the Company, controls the Company or is controlled by its controlling shareholders, except for Strauss Holdings) it was determined, inter alia, that the Group shall not stipulate the supply or the terms and conditions of supply of chocolate tablets (and any other dominant product in which respect the Group shall be declared a monopoly) on an undertaking to purchase a certain type of products from it or from Strauss Holdings and corporations under its control; shall not engage with its customers in arrangements including exclusive agreements; the Group shall not reach agreements with its customers (as distinct from stating the recommended retail price) regarding the retail price of any product, subject to the law.

The validity of the directives was determined as five years. As at the date of the Periodic Report they have expired and no new directives have been issued. In actual fact, the Group continues to act in accordance with these directives and complies with them.

b. **Agreed injunction orders** – On January 10, 2007 the Antitrust Court approved an agreed injunction order between the Company and the Commissioner. According to the provisions of the injunction the Company and the executives undertook not to act toward wholesalers working with it in any manner in which the goal or reasonable outcome is forcing a competitor out of the market, blocking or undermining its progress, or in a manner that could prevent the entry of a new competitor to the market. The Company and the executives further undertook not to impose sanctions on or grant benefits to retailers in connection with their conduct as regards a product that competes with a product of the Company. The Company also undertook that it and its managers will assume all measures required so that all its employees and agents engaging in or connected to the matters of the injunction will comply with its provisions, and that the managers of the Company had personally committed to act in compliance with the provisions of the injunction. In practice, the Company has fulfilled its undertakings in the injunction. The injunction was made without this constituting any admission by the Company or any of its officers with respect to their liability under the provisions of the Antitrust Law or with respect to a breach by them of the provisions of the law. For further information, see Note 26.1.2.3 to the Financial Statements of the Company as at December 31, 2012.

In regard to an agreed injunction order relating to commercial arrangements between suppliers and retail chains, see Section 25.4.b of this chapter.

10.14 Material agreements

Agreements with PepsiCo

The manufacture, marketing and sales activities of salty snacks are carried out in the framework of Strauss Frito-Lay, in which the Company holds 50% of the shares, and the remaining shares are held by the American food concern PepsiCo though the subsidiary PepsiCo Investments Europe (I) B.V. (hereinafter: **"PepsiCo Europe"**). Strauss Frito-Lay and PepsiCo are parties to a licensing agreement for the use of certain PepsiCo trademarks; a shareholders' agreement that regulates the joint relationship in all aspects relating to Strauss Frito-Lay; and a number of agreements relating to services provided to Strauss Frito-Lay by the Company, the main ones being:

A licensing agreement for the use of know-how and trademarks – Strauss Frito-Lay has an agreement with PepsiCo Food & Beverages International (hereinafter: **"PepsiCo International"**) from 1990 and an amendment thereto from 1999 (the original agreement was signed with the Company; the rights and obligations thereunder were assigned to Strauss Frito-Lay), pursuant whereto Strauss Frito-Lay was granted an exclusive, non-transferable license for the production, distribution and sale in Israel of salty snacks, spicy snacks and extruded snacks, and also for the use of PepsiCo International's relevant trademarks. The agreement further determines that PepsiCo International has the right at any and all times to add to or alter the abovementioned trademarks at its exclusive discretion.

The licensing agreement was signed for a period of ten years and is automatically renewed for five years each time, subject to the agreement remaining valid for as long as the Company (or a wholly-owned subsidiary of the Company) is a shareholder of Strauss Frito-Lay. The validity of the licensing agreement in the case where one of the parties ceases to be a shareholder of Strauss Frito-Lay is as specified in the shareholders' agreement (see below). PepsiCo International has the right to annul the licensing agreement in various cases, including a fundamental breach of the agreement by Strauss Frito-Lay.

In consideration of the granting of the license, Strauss Frito-Lay shall pay PepsiCo International, each quarter, a certain percentage of net sales (as defined in the agreement) and at least a minimum amount, as set forth in the agreement. Strauss Frito-Lay shall also pay PepsiCo International a yearly payment in respect of technical support services.

In the years 2012, 2011 and 2010 the Group made payments to PepsiCo pursuant to the agreement in respect of royalties in the amounts of NIS 5,436 thousand, NIS 5,501 thousand and NIS 5,068 thousand, respectively.

Shareholders' agreement - according to the shareholders' agreement, in a case where the Company is controlled (directly or indirectly) by a party that is not the Strauss family, PepsiCo shall have the right, after 12 months have passed since the Company has been controlled as aforesaid, to acquire all of the Company's remaining shares in Strauss Frito-Lay at the market price that shall be determined in the manner set forth in the agreement, on condition that PepsiCo Europe shall itself reasonably determine that its attempt in good faith to cooperate during those 12 months did not succeed. The market value of the Company's remaining shares in Strauss Frito-Lay will be determined by one of the five largest international investment banks in the USA, which shall be chosen by PepsiCo Europe. The parties shall have the right to appear before the investment bank and to provide it with information relating to Strauss Frito-Lay's fair market value. Insofar as the market value determined by the investment bank is within the range of a multiplier of 5.4 to 6.6 by the EBITDAR [the average for the three prior years (excluding years in which an irregular event influencing the EBITDAR occurred) of yearly earnings before financing income/expenses, taxes on income, depreciation and amortization and royalties paid to any of the shareholders or to parties related to them], the market value will be determined by a multiplier of 6 by the EBITDAR, less the net debt (financing from banks or others, less cash). Ten years after the date of the transaction, the parties may, at the request of a party to the agreement, which shall not be made more often than once in five years, change the aforesaid multiplier of 6 in mutual agreement.

The term "control" in the shareholders' agreement shall mean the ability to direct, directly or indirectly, the activity of the relevant entity (except for an ability arising only from filling the position of a director or other position), and there is no doubt that a person controls a corporation if he holds, directly or indirectly, over 50% of the share capital or voting rights in the relevant entity; or if he holds, directly or indirectly, the right to appoint more than 50% of the directors of that relevant entity. The term "holding" in this Section shall have the meaning ascribed to it in Article 1 of the Securities Law – 1968.

For information on the risk factor in the case where the Strauss family shall cease to be the controlling shareholder of the Company, including an itemization of the sales turnovers of the activities that are likely, in such case, to be sold by the Company to its partners therein, see the Section on risk factors that are unique to the Company. For information on Strauss Frito-Lay's profit, before and after the provision for tax, see Article 13 in the chapter, "Additional Information on the Corporation".

PepsiCo Europe has the right to appoint the CEO and CFO of Strauss Frito-Lay with the Company's advance consent, which shall not be withheld other than on reasonable grounds. The Company and PepsiCo Europe each have the right to appoint 50% of the members of the board of directors of Strauss Frito-Lay. The chairman of the board shall be appointed by the Company from among the directors appointed by the Company (the chairman of the board does not have a casting right), on condition that he is not an officer of the Company. Resolutions of the board shall be carried with a majority of votes; excluding resolutions that shall be carried unanimously, inter alia, with respect to the discontinuation of Strauss Frito-Lay's activity in Israel or its winding-up for any reason other than insolvency, change of the name or logo of Strauss Frito-Lay, a merger, acquisition of companies or other businesses, modification of the Articles of Incorporation and modification of Strauss Frito-Lay's share capital (except for dilution as a result of financing by either of the shareholders).

The agreement prescribes provisions relating to the financing of Strauss Frito-Lay and to the dilution of a shareholder who shall refuse to extend its share of additional financing that is required by Strauss Frito-Lay's board of directors.

The shareholders' agreement determines that a shareholder shall be entitled to transfer its shares to a third party only and solely after having received the prior consent of the other shareholder. The agreement further determines a right of first refusal mechanism upon the transfer of shares by the parties thereto, and requires that each of the parties transfer all of its shares in Strauss Frito-Lay as a condition for the transfer (the abovementioned provisions do not apply to a "permitted transfer" to a wholly-owned subsidiary, directly or indirectly, of the transferor).

The agreement also prescribes a method for the resolution of disputes between the parties (by means of a representative of each of the shareholders, and in the absence of agreement – by an outside arbiter); in the absence of agreement of one of the parties with the arbiter's decision, the other party shall have the possibility of acquiring its shares. If both parties do not agree with the arbiter's decision or in a case of non-realization of a party's right to acquire the other's shares as aforesaid, the parties shall jointly act to locate a buyer for all of Strauss Frito-Lay's shares. If no such buyer is located within one year, Strauss Frito-Lay will be wound up.

The agreement defines a number of "triggering" events (including regulatory changes that have a material influence on the parties' ability to receive dividends from Strauss Frito-Lay or to perform the agreement; a government act that shall require that either party sell or assign its holdings in Strauss Frito-Lay, in whole or in part; a material breach of the agreement, a breach of the non-competition stipulation set forth in the agreement) upon which occurrence – either of the parties (but not both parties simultaneously) shall have the right to oblige the other to acquire its shares or to oblige it to sell it its shares, in the manner and at the price set forth in the agreement.

In the case of the sale of shares by one party to the other, the agreement determines the obligation of the party selling its shares to continue to comply with the agreements between it and Strauss Frito-Lay (if PepsiCo sells its shares – the licensing agreement; and if the Company sells its shares – the sales and distribution agreement, the major services agreement and the licensing agreement for the use of the Company's trademark) for periods ranging between 3 to 4 years, as set forth in the agreement (or shorter periods if the buyer party subsequently sells its shares, in whole or in part, in Strauss Frito-Lay, to a third party whose identity is not approved by the seller party).

If a sale of the shares of PepsiCo Europe is made as a result of regulatory changes or government acts that are material to the agreement, PepsiCo International shall continue to act in accordance with the licensing agreement for a period of 10 years, and PepsiCo Europe shall be entitled to buy back its shares in Strauss Frito-Lay within those 10 years under the terms and conditions set forth in the agreement. In this period PepsiCo Europe shall have the right of first refusal to acquire the Company's shares in Strauss Frito-Lay. In the case of the sale of the Company's shares to a third party and non-realization of the right of first refusal as aforesaid, the period of PepsiCo International's undertaking to act in accordance with the licensing agreement, as set forth in the agreement, shall be reduced.

The parties have agreed to the distribution of an annual dividend at a rate of 33% of the profits available for distribution in accordance with Israeli law and the Financial Statements of Strauss Frito-Lay.

The agreement further determines that annulment of the shareholders' agreement for any reason shall not affect the parties' commitments according to the licensing agreement set forth in Subsection a. above and according to the agreements set forth below.

In the licensing agreement for the use of the Company's trademark - between the Company and Strauss Frito-Lay, the Company granted Strauss Frito-Lay a non-exclusive license for the use of the trademark "Elite" and an exclusive license for the use of the trademarks "Tapuchips" and "Tapuchipsticks" in Israel in all aspects relating to the manufacture, sale, distribution, marketing of and trade in salty snacks. Additionally, Strauss Frito-Lay undertook to use the trademark "Elite" for the entire term of the agreement. The agreement became effective on January 1, 1999 for a period of 10 years and is renewed for 5-year periods thereafter, unless a party has given notice of its intention to terminate it, and for as long as the Company is a shareholder of Strauss Frito-Lay. Should the Company cease to be a shareholder of Strauss Frito-Lay, the agreement shall be valid in accordance with the periods set forth therein.

In the major services agreement between the Company and Strauss Frito-Lay, the Company undertook to provide Strauss Frito-Lay with management services and computerization services. The agreement is valid for as long as the Company (or a wholly-owned subsidiary) is a shareholder of Strauss Frito-Lay, subject to the provisions of the shareholders' agreement with respect to its validity.

According to the sales and distribution services agreement between the Company and Strauss Frito-Lay, the Company undertook to exclusively distribute and sell in Israel the salty snacks manufactured by Strauss Frito-Lay. The Company provides Strauss Frito-Lay with storage services, as well as distribution and sales services to customers. Strauss Frito-Lay undertook not to distribute its products to customers other than through the Company. The agreement is valid for 10 years commencing on March 2, 1999 and is automatically renewed for 5-year periods thereafter, unless a party has given notice of its intention to terminate it. Each of the parties is entitled to cancel all of the services or any one of them, on the dates and under the terms and conditions set forth in the agreement, and in accordance with the shareholders' agreement between the parties. In 2009 the sales and distribution services agreement was extended for an additional five-year period, until the end of 2013.

In the Company's opinion the Company is not dependent on PepsiCo, and termination of the engagement between them shall not have a material impact on the Company's business and on the results of its operations.

11. The Coffee Activity Framework

General Information on the Coffee Activity Framework

Following is general information on the Israel operations, which comprises the Israel Coffee and the International Coffee segments

11.1 Structure of the Activity Framework and Changes Occurring Therein

The Group is active in the coffee operations in and outside of Israel. The Group manufactures, markets and distributes a variety of coffee products (instant coffee, roast and ground coffee) in Israel, in Central and Eastern European countries and in Brazil, as well as hot drink powders (such as chocolate and cappuccino powders). Additionally, in the framework of the Israel Coffee segment, the Group is active (through "Elite Coffee") in the retail sale of coffee and bakery products and soft drinks at some 54 points of sale countrywide, serving customers in public places.

In the framework of its business in Brazil the Group also buys, processes and sells green coffee to exporters in Brazil and to customers outside of Brazil (mainly in Europe and the USA).

For the Group's products in the coffee operations in the Israel Coffee segment and the International Coffee segment, see Sections 12.2 and 13.2 hereunder, respectively.

The world coffee market

The following are data concerning the worldwide coffee market according to publication of Euromonitor –

	2012	2011 (*)	2012-2007	2012-2006
Worldwide Retail Coffee Market (Without Cafes):				
Scope in consumer prices (without cafes)	Approx. US$ 75.8 billion	Approx. US$ 69.0 billion	---	---
Quantitative scope of sales	Approx. 4.7 million ton	4.5 million ton		
Accumulative annual growth rate (CAGR) in terms of financial value.	---	---	Approx. 8.5%	Approx. 7.8%
CAGR in terms of quantity	---	---	Approx. 2.6%	Approx. 2.3%
Roasted & Ground Coffee Segment – Including Fresh Coffee Beans and Ground Coffee Beans:				
Rate out of the global coffee market in financial terms	Approx. 62.7%	Approx. 61.9%	---	---
Rate out of the global coffee market in quantitative terms	Approx. 76.3%	Approx. 76.6%	---	---
Financial scope of sales	Approx. US$ 47.5 billion	Approx. US$ 42.7 billion	---	---
Quantitative scope of sales	Approx. 3.6 million ton	Approx. 3.5 million ton	---	---
CAGR in financial terms	---	---	Approx. 8.8%	Approx. 7.9%
CAGR in quantitative terms	---	---	Approx. 1.8%	Approx. 1.5%

	2012	2011 (*)	2012-2007	2012-2006
Worldwide Retail Instant Coffee Market:				
Rate out of the global coffee market in financial terms	Approx. 37.3%	Approx. 38.1%	---	---
Rate out of the global coffee market in quantitative terms	Approx. 23.7%	Approx. 23.4%	---	---
Financial scope of sales	US$ 28.3 billion	US$ 26.3 billion	---	---
Quantitative scope of sales	1.1 million ton	1.1 million ton	---	---
CAGR in financial terms	---	---	Approx. 8.1%	Approx. 7.7%
CAGR in quantitative terms	---	----	Approx. 5.1%	Approx. 5.3%

(*) Data for 2011 was adjusted to the validation of Euromonitor calculations.

The following are data concerning the main players on the **retail global coffee market**, according to data of Euromonitor –

	Financial Market Segment	
	2012	**(*) 2011**
Nestle	Approx. 22.6%	Approx. 22.9%
Mondolez formerly Kraft	Approx. 11.0%	Approx. 12.8%
DEMB formerly Sara Lee	Approx. 5.7%	Approx. 5.5%
Strauss	Approx. 3.3%	Approx. 3.2%
Tchibo	Approx. 2.6%	Approx. 2.8%

(*) Data in 2011 was adjusted to the validity of calculations of Euromonitor.
The global roast and ground coffee market is a decentralized market, characterized by the presence of many companies with market segment, that are smaller than those characterizing the instant coffee market.

The following are data concerning the main players on the **retail global roast and ground coffee market**, according to data of Euromonitor.

	Financial Market Segment	
	2012	**2011 (*)**
Mondolez formerly Kraft	Approx. 8.3%	Approx. 10.6%
DEMB formerly Sara Lee	Approx. 7.8%	Approx. 7.6%
Nestle	Approx. 6.5%	Approx. 6.2%
Strauss	Approx. 4.1%	Approx. 4.0%
Tchibo	Approx. 2.8%	Approx. 3.1%

The following are data concerning the main players on the **global instant coffee market**, according to data of Euromonitor.

	Financial Market Segment	
	2012	**(*) 2011**
Nestle	Approx. 49.6%	Approx. 49.9%
Mondolez formerly Kraft	Approx. 15.4%	Approx. 16.3%
Tchibo	Approx. 2.2%	Approx. 2.2%
DEMB formerly Sara Lee	Approx. 2.1%	Approx. 2.1%
Strauss	Approx. 1.9%	Approx. 2.0%

(*) Data for 2011 was adjusted to the validation of Euromonitor calculations.

Global coffee sales according to a geographic division:

	Sales in Quantitative Terms	
	2012	**(*) 2011**
Western Europe	Approx. 27%	Approx. 28%
Latin America	Approx. 22%	Approx. 22%
North America	Approx. 18%	Approx. 17%
Australia and the Pacific Ocean	Approx. 16%	Approx. 15%
Eastern Europe	Approx. 10%	Approx. 10%

(*) Data for 2011 was adjusted to the validation of Euromonitor calculations.

According to the International Coffee Organization (ICO), the leading countries in the production of green coffee of the Arabica species are Brazil, Colombia and Ethiopia; the leading companies in the production of green coffee of the Robusta species are Vietnam, Brazil and Indonesia (source: ICO). Procurement of green coffee of the Arabica species is carried out on the commodities exchange in New York (New York Board of Trade) and procurement of green coffee of the Robusta species is carried out in London on the Euronext LIFFE.

Purchases and Mergers in the Global Coffee Sector:

In 2012, the Japanese **UCC Holdings Company** purchased the European **United Coffee** and entered a group of 12 coffee companies that lead the global coffee market**.**

Sara Lee strengthens its coffee businesses in Brazil, and purchased **Espresso Coffee** in April 2012 , a major player on the AFH market in Brazil.

In April 2012, **Tata Global Beverages** completed taking over the Russian coffee and tea company **Grand**.

Consumption trends in the Coffee Market

In recent years, there has been a consumer trend of switching to premium coffee products of higher quality. Additionally, coffee consumers all over the world have become increasingly sophisticated and seek convenience products; this has led to a significant rise in the consumption of products in single serve packs for preparation in home coffee machines. The world coffee industry is enjoying the growth in café chains against the backdrop of the AFH consumption trend. These cafés have exposed consumers to a broader variety of coffee tastes, to other hot beverages and to premium coffee products. The popularity of premium coffee products has also permeated the coffee products sold in the retail market. The success of the café chains and the development of the coffee consumption culture attracts a younger consumer base.

Alongside traditional consumption, there is a prominent trend of consumption of indulgence products, expressed in the consumption of gourmet, such as espresso coffee or capsules that are adjusted for prestigious machines and the like. The Group established capabilities of marketing, sales and distribution in this designated market of AFH consumption, inter alia, in the operation of hot beverage machines, including the sale of domestic coffee machines, the sale or lending of professional coffee machines (espresso) and the sale or lease of automatic coffee vending machines. The Group maintains designated units handling the AFH market, dealing with the development of marketing and consumption solutions that are unique to this channel.

In order to closely follow changes in consumption behaviors, the Group conducts researches, inter alia, in order to observe and respond in due time to such changes. Coffee consumption on the retail market is less effected relatively by economic crises.

11.2 Changes in the Scale of the Activity Framework and in its Profitability

Changes in the scope of activity

Activity in coffee has expanded and grown most significantly in recent years both in and outside of Israel, growth that is both organic and arising from the acquisition of various operations.

The Company deepened its activity in coffee in the in the AFH market, in the category of random consumption of quality coffee away from home.

As part of realizing the Group's strategy of global expansion in the coffee business and in light of requirements to finance this strategy, on June 30, 2008 the Company engaged in a series of agreements in which framework the private equity investment fund TPG invested in the Company's subsidiary, Strauss Coffee B.V., which concentrates all of the Group's activities in coffee and is incorporated in the Netherlands (hereinafter: **"Strauss Coffee"**). For further information, see sections of Material Agreements, Section 12.13 of this chapter.

In November 2010, Strauss Coffee acquired the Le Café brand (instant coffee), which is sold in Russia and the Central and East European countries, and also 51% of the shares of the Le Café and Instanta Companies.

In January 2013, Strauss Coffee completed the purchasing of 100% of the shares of the two aforementioned companies in consideration of payment in the amount of $13.4 million. Le Café owns real estates, including buildings and warehouses.

In January 2012, Strauss Coffee entered an agreement with the owner of Norddeutsche Kaffeewerke Company GmbH (formerly Viva Kaffee GmbH) (hereinafter: "**NDKW**") manufacturing frozen dried instant coffee by means of a plant in Germany under its title, pursuant to leasing said coffee plant for a five year period in consideration of €500 thousand per annum. Strauss Coffee intends to manufacture frozen dried coffee mainly for the subsidiaries of Strauss Coffee in Russia and in the Central and East European countries. During the period of the agreement, NDKW will act on behalf of Strauss Coffee and Strauss Coffee will be liable for all the rights and liabilities of NDKW. The agreements confer a general power of attorney upon Strauss Coffee to appoint senior officers and toward erection of an organ for the management of the business affairs of the Company, including entitlement to profits and dividends. As of the date of signature of the agreement, NDKW had a loan from banks in Germany in an amount of €28.6 million. On March 27, 2012, Strauss Coffee gave to MDKW a loan according to a similar amount, bearing interest at a rate of 8% against the early repayment of the loan opposite the banks. Out of the total amount of the loan, an amount of €10 million will be paid by NDKW during the period of the agreement. In addition, the shareholders of NDKW are obligated upon completion of the period of the agreement (five years) to transfer to NDKW an amount of approx. € 18.6 million for repayment of the balance of the loan to Strauss Coffee. As a security to this undertaking, all the assets of NDKW will be pledged in favor of Strauss Coffee. Strauss Coffee has an option to extend the lease period for additional three years in consideration of an amount of € 750 thousand per annum, during these three years. In the event that the option is exercised, throughout the period of the agreement NDKW will repay an amount of € 17.5 million out of the total loan given to it by Strauss Coffee, in lieu of € 10 million, and upon completion of the three additional years, the shareholders of NDKW will pass an amount of approx. €11.1 million for repayment of the loan to Strauss Coffee instead of €18.6 million. In addition, Strauss Coffee received an option to purchase NDKW at all times during the period of the agreement in consideration of an amount of €50 million. Furthermore, for purposes of reckoning as of the date of commitment in the agreement, Strauss Coffee paid in April 2012 approx. €3.2 million in consideration of the net current assets of NDKW. According to the agreement, upon completion of the period of the agreement, an additional reckoning will be held between Strauss Coffee and NDKW, according to the rate of current assets, net, at that time. Said lease is handled in the books of the Company as an operating lease.

Changes in profitability

For information on changes in income and profitability in the Israel Coffee segment and the International Coffee segment, see the Board of Directors' Report to the Shareholders as at December 31, 2012.

11.3 Developments in the markets of the operations or changes in the characteristics of its customers

In the Central and East European countries the trend of shifting from sales to end consumers in open-air markets and in small grocery stores to sales to retail customers (mini-markets, large grocery stores, food chains, etc.) continued, coupled with a trend of shifting from sales of products in bulk in favor of packaged, branded products such as those manufactured and sold by the Group.

11.4 Critical success factors in the operations and changes occurring therein

In addition to the critical success factors that are common to all of the Group's business areas as described in Section 7 of this chapter, there are success factors that are unique to or such whose importance in the coffee operations is especially high, which include: (1) in roast and ground coffee products, which possess local characteristics – the ability to adapt the product, its flavor, appearance and other consumption characteristics to the unique tastes of the consumer in each country where the Group operates; (2) systemic capabilities in the development, operation and maintenance of coffee vending machines; marketing and distribution capabilities in the AFH market; (3) knowledge and complex technological capabilities in the instant coffee category; (4) the existence of brands; (5) the existence of diverse touch points between the coffee products and consumers in varied consumption opportunities (such as in-home consumption, on-the-go, at the office and in hotels). The general slowdown (from mid-2008 and throughout 2009) exposed additional factors which transpired to be important to the Group's success, including consistency in product quality, efficiency of the Group's logistic system, and the Group's stability and financial robustness.

11.5 Major entry barriers to the operations and changes occurring therein

In addition to the major entry barriers that are common to all areas of the Group's activity as described in Section 7 of this chapter, the major entry barriers in the coffee operations arise from the need for knowledge in all aspects related to the procurement of green coffee; the existence of customs duties on the import of finished products in some of the countries where the Group is active, which, among other things, influences the need for self-production of the products in these countries; in instant coffee products technological know-how is required, as well as large-scale investments in order to establish a production site; and in the AFH channel there is the need for a unique sales support system able to provide a technical response to a large number of points that operate different coffee machines, including vending machines selling hot beverages and chilled products.

11.6 Substitutes for the products of the operations and changes occurring therein

The major substitutes for coffee products are tea, cocoa and energy drinks. Soft and carbonated beverages are secondary substitutes.

11.7 Raw materials and suppliers

Major Raw Materials

The major raw material used by the Group in the Israel Coffee segment, the cost whereof constitutes over 20% of total purchases of raw materials used in this segment, is green coffee (Arabica and Robusta). Additionally, the Group mainly uses cocoa powder and packaging materials, which are commodities. The Group engages from time to time in futures and options contracts for the purchase and sale of commodities, principally green coffee – see Note 30.3 to the Financial Statements of the Company as at December 31, 2012, as well as the Section "Exposure to Market Risks and the Means for Their Management" in the Board of Directors' Report to the Shareholders as at December 31, 2012. For the characteristics of the purchase of raw materials that are commodities, see the Section "Raw Materials and Suppliers", Section 6.1 of this chapter.

As a rule, green coffee procurement is carried out in a centralized fashion through Strauss Commodities (Switzerland), a company that is wholly-owned by Strauss Coffee, which buys the raw material for all companies in the Group, except for the jointly-held company in Brazil, which purchases green coffee itself. Green coffee is purchased according to agreements with third parties, and these agreements are subject to the terms and conditions and directives of the European Coffee Contract. The year 2012 was characterized by great volatility in coffee prices of both species – Arabica and Robusta.

The price of Arabica coffee, considered to be the more prestigious among them, significantly decreased during the year. The price of Robusta coffee has not changed significantly. In consequence of the high prices of Arabica during 2011 and in the beginning of 2012, on the background of the economic depression in many countries, a trend of increase in the consumption of Robusta coffee was noticeable (value for money). The decrease in demands, improvements of crops and withdrawal of the speculative investment funds led a decrease in the prices of Arabica.

The following diagrams present the changes in the prices of the different green coffee species in the period 2010-2012. Source: the Financial Times.

Arabica (the vertical axis represents cent/lbs) [traded on the commodities exchange in New York]:

Robusta (the vertical axis represents S/tones) [traded on the commodities exchange in London]:

Note: The difference in parameters (between the two diagrams) arises from the difference in language that is customary in these markets.

The Company has a quality test management system for green coffee, the aim of which is to achieve a uniform terminology and method for coffee quality control across the entire Group, the fast location of quality problems, transparency and operational efficiency. The system is in operation in most of the companies in the Group, including the Company's suppliers worldwide.

12. The Israel Coffee Segment

12.1 General Information on the Israel Coffee Segment

In this segment the Group develops, manufactures, sells, markets and distributes in Israel a variety of coffee products bearing its brands, and manufactures and sells chocolate powders and other drink powders. Additionally, the Group engages in the retail sale of coffee products at various points of sale in Israel.

For further general information on the coffee operations, which comprises the Israel Coffee segment and the International Coffee segment, see Section 11 of this chapter.

The Israel Coffee segment includes Strauss Coffee's corporate center (except for identified costs of various subsidiaries of Strauss Coffee, which are fully assigned as burden costs).

Within the framework of the coffee market in the *On the Go* stands, Burger Ranch chain and Osem declared in January 2012 of a partnership toward the spreading of coffee stands throughout Israel. Mei Eden expands its coffee business affairs in the purchasing of several enterprises in Europe.

12.2 Products

The Group's major products in the Israel Coffee segment are roast and ground coffee, instant coffee, chocolate powders and other drink powders.

In Israel, the Group manufactures, sells and distributes under the **"Elite"** house brand – roast and ground, instant coffee (the instant coffee products are sold under three sub-brands, **"Elite Instant Coffee"**, the **"Coffee Origins Series"** and **"Aroma"**), and **"elite coffee"** for sale in cafés and at coffee stands; and also chocolate drink powder under the **"Chocolate"** brand and hot drink powders.

In 2012, the roast and ground coffee markets ("Turkish Coffee") remained stable. The instant coffee market is characterized in 2012 by launches of a variety of indulgence products, such as cold coffee in the summer and by the end of the year – Mekupelet Instant.

In recent years a consumer trend of shifting from agglomerated instant coffee to freeze-dried instant coffee, which is considered more upscale, has developed.

In order to provide a solution to the global consumption trend of consuming qualitative espresso and coffee for domestic consumption, which is under significant growth in Israel as well, the Company has launched toward the end of 2012 roast and ground espresso capsules for domestic consumption. The coffee capsules are manufactured in the coffee plant in Israel.

12.3 Segmentation of revenues and profitability of products and services

In 2012, the income of the Israel Coffee segment accounted for under 10% of the Group's total income.

12.4 Competition

a. All of the Group's coffee products have competing products. The major competitors to the Group's instant coffee products are Osem-Nestle and Jacobs, which is marketed by Diplomat; and in the roast and ground coffee products - Landwer, the marketing chains, the Blue Square chain and Shufersal in the private label products. In 2012, the Turkish coffee of Jacobs was introduced on the market . in the espresso product market – Lavazza, which is collaborating with the Yellow convenience store chain. In the field of AFH, there is competition on the part of café chains.

b. **Market Shares** – the following table presents information on the market shares of the Group and its major competitor in reference to the Group's major products in the Israel Coffee segment. The data are based on StoreNext figures.

	Weighted Market Share (in Percent – Value)			
	For 2012		For 2011	
Similar product groups	The Group	Major Competitor	The Group	Major Competitor
Israel: Roasted coffee	78%	8%	78%	8%
Israel: Instant coffee	44%	42%	46%	42%

c. In the Group's opinion, among the negative factors influencing or likely to influence its competitive status in the Israel Coffee segment, in addition to the world economic crisis one may also include the possibility of expansion of international coffee companies to the local market in Israel, and the development of competing distribution capabilities, which will reduce the Group's competitive advantage.

Among the positive factors, which in the Group's opinion influence or are likely to influence its competitive position, in addition to the factors set forth in Section 7 of this chapter, one may include the Group's high capabilities in product development and its ability to adapt its products to the tastes of the local market.

The Group continuously handles the competition in the Israel Coffee segment through concentrating marketing efforts and advertising; building and maintaining its brands; a comprehensive distribution system; innovation – the development and launch of new products; entry to new business areas; investment in production sites and the development of technological capabilities; and adaptation of its products to the different emerging consumption trends.

12.5 Seasonality

Following are data for the years 2012 and 2011 on the Company's income in the Israel Coffee segment, by quarter, in NIS millions:

	2012		2011	
	Income (NIS millions)	% of total income of segment	Income (NIS millions)	% of total income of segment
Q1	220	31.1%	179	27.4%
Q2	146	20.6%	155	23.6%
Q3	172	24.3%	166	25.4%
Q4	170	24.0%	154	23.6%
Total	708	100%	654	100%

The income from the sale of products in the Israel Coffee segment is usually (relatively) higher in the first quarter of the year. This period, in which the winter months in Israel fall, is characterized by increased consumption of hot beverages.

12.6 Production Capacity

The production capacity of the Group's manufacturing plants in the Israel Coffee segment is measured by quantities of product per year. The maximum potential annual production capacity of the Group's plants in the Israel Coffee segment, operating in three shifts, in tons product per year for the years 2012 and 2011 was approximately 18 thousand tons. The average rate of actual utilization of production capacity in the years 2012 and 2011 was 71% and 68%, respectively.

The production lines in the Group's plants are automatic, and some are operated in three shifts daily.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its plants and to expand production lines with the aim of preserving and increasing production capacity according to the Group's work plans. On the basis of the information in the Company's possession as at the date of the Periodic Report, the Company does not anticipate that it will be required to make any material unusual investments in equipment and machinery in the Israel Coffee segment in 2013.

12.7 Fixed Assets, Real Estate and Facilities

Following is a description of the major real estate properties and other material fixed assets belonging to the Group, which serve in its activities in the Israel Coffee segment:

Nature and Location	Site Designation	Area of Real Estate	Built Area	Rights in the Site
Plant in the old industrial zone in Safed (*)	Production of instant coffee	Approx. 6,000 m^2	Approx. 5,300 m^2	Ownership
Plant in the new industrial zone in Safed **The assets are**	Packaging **not pledged.**	Approx. 17,000 m^2	Approx. 3,200 m^2.	Lease from the ILA under capitalized lease agreements, ending in March 2031 (approx. 10,500 m^2) and in January 2033 (approx. 6,400 m^2). Each of the lease agreements includes an option to the lessee to extend the lease period for a further 49 years
Plant in Lod	Production of roast and ground coffee	Approx. 5,600 m^2	Approx. 4,441 m^2	Ownership of 4,800 m^2 and a lease of approx. 800 m^2 under a non-capitalized lease agreement ending in December 2033. The lease agreement includes an option to the lessee to extend the rental period for a further 49 years.

(*) In addition, the Company is the owner of a land area nearby the instant coffee manufacturing plant, on an area of 2,814 Sq. meter, on which there are buildings leased to third parties for various leasing periods, the latter of which ends on May 31, 2013
The assets are not mortgaged.

For policy of the Company on the issue of depreciation of machinery and equipment in its various plants, see Note 3.4 to the Financial Statements of the Company, as at December 31, 2012.

12.8 Intangible Assets

Trademarks and Samples

In view of the Group's focus on branded products, the importance of the trademarks with respect to its brands is great. Trademarks are registered in the Group's name in Israel on most of the brand names set forth above, which serve it in the Israel Coffee segment (excluding products that are sold and distributed by the Group and are not manufactured by it).

The validity of the major trademarks in Israel is for a defined period and can be renewed at the end of that period. In view of the many years of use of these trademarks and their dominant status in the markets, the Group estimates that the economic lifetime of its major trademarks is many years long.

For an itemization of the costs and financial movement relating to intangible assets in the years 2012 and 2011, see Note 15 to the Financial Statements of the Company as at December 31, 2012.

12.9 Human capital

a. For a description of the Group's organizational structure and additional information on the nature of employment agreements, investments in training, etc., see Section 21 of this chapter.

Following is information on the number of employees in the Group in the Israel Coffee segment (including 13 and 17 employees of manpower agencies), as at December 31, 2012 and December 31, 2011, respectively:

	Number of Employees as at	
	December 31, 2012	**December 31, 2011**
Management	4	6
Administration	59	55
Sales and Distribution	352	399
Supply Chain (Procurement and Logistics)	30	32
Industry (Operations)	195	190
Total	640	682

(*) The layout of common employees – sales, finance, procurement and planning, human resources of the cross-corporate width divisions - were reclassified.

The reduction in the number of employees emerges from streamlining efforts, assumed by the management during the year.

The four management members mentioned above are members of the management of Strauss Coffee, which concentrates the Group's entire coffee operations. Strauss Coffee's corporate center is attributed to the Israel Coffee segment. For a description of the organizational structure of the Group's coffee operations, see Section 21.1 of this chapter.

b. **Option plan**

On February 2, 2011, the Board of the Company approved an international plan for the allotment of un-negotiable options for shares of Strauss Coffee to its senior executives. See Note 25.5.2 to the Financial Statements of the Company, as at December 31, 2012

12.10 Raw Materials and Suppliers

a. For a description concerning the purchasing of raw materials and suppliers within the framework of the coffee operations, see Section 11.7 of this chapter.

b. During the relevant reported periods, there was no supplier within the framework of the coffee segment in Israel that the purchasing of the Group from it exceeded 10% of the total scope of purchases of raw materials and packages, with the exception of inter-corporate purchases from Strauss Commodities Company.

12.11 Working Capital

The following is the composition of working capital in the coffee segment in 2012:

	The Amounts Included in the Financial Statement
Operative current assets (*)	**170,512**
Operative current liabilities (**)	**65,722**
Balance of current assets over current liabilities	**104,790**

(*) - Including: net customers, inventory, receivable income and prepaid expenses.
(**) - Including: net suppliers and payable expenses and prepaid income.

12.12 Restrictions and Control of the Business Segment

a. **Declaration as a Monopoly**

In 1988, the Company was declared a monopoly, inter alia, in the categories of instant coffee and cocoa powder for home use. For information on the directives of the Antitrust Commissioner of 1998, see Section 25.4.a of this chapter.

b. **Antitrust Approval**

In the framework of an agreement for the acquisition of the coffee machine business of the company "Douwe Egberts" of Holland, on October 6, 2005 approval was received from the Antitrust Commissioner in Israel for the merger under certain terms and conditions, in which framework it was stipulated, inter alia, that Strauss Elite Away From Home Ltd. (which was merged with Strauss Coffee) and any and all persons related to it shall not link (including by way of the grant of aggregate discounts) in any manner the supply of coffee machines and/or concentrate and/or powder for coffee machines to the supply of other of its products to hotels. Strauss Coffee is in compliance with the terms and conditions of this directive.

c. **Agreed Order**

Following notice of the merger given by the Company and Coffee To Go with respect to the acquisition of 26% of the shares of "elite coffee" (formerly Coffee To Go) by the Company (in 2008 the Company acquired the rest of the holdings) and the Commissioner's opposition to discussing this notice, in February 2006 the Antitrust Court approved an agreed order between the Company and the Commissioner, pursuant whereto the merger would be approved, while the Company will not be a party to a collaboration arrangement that influences the market in Israel and grants it a material ability to direct the actions of another person who manages a business, unless the collaboration arrangement is submitted for the Commissioner's approval in advance. Any doubt with respect to the fulfillment of this condition will be submitted for the Commissioner's decision. It was further agreed in the injunction that should there be an exclusivity arrangement in an agreement between the Company and Coffee To Go relating to the exclusive supply of coffee to Coffee To Go by the Company, the exclusivity period will not exceed 5 years. The Company and Coffee To Go further undertook to pay, jointly and severally, an amount of NIS 300 thousand. The order was executed without it containing an admission by either party of the violation of the provisions of the law. Coffee To Go was merged with Strauss Coffee, which is in compliance with the terms and conditions of the directives under the agreed injunction order.

12.13 Material Agreements

The Commitment with the Private Investment Fund, TPG Capital

. In the framework of realizing the Group's strategy for global expansion in the coffee business and in light of requirements to finance this strategy, on June 30, 2008 the Company committed in a series of agreements in which framework an investment was made, against an allotment of shares, by the private equity investment fund TPG (through Robusta Coöperatief U.A., a corporation registered in the Netherlands, hereinafter: the **"Investor"**) in Strauss Coffee B.V. In accordance with the transaction outline the Group's coffee business in Israel was transferred to Strauss Coffee, which today holds the Group's entire coffee business. The transaction was closed on September 10, 2008 (hereinafter: the **"Closing Date"**).

The Investment Agreement – according to the investment agreement between the Company (jointly with Strauss Confectionery, which was merged with the Strauss Group on May 14, 2009), Strauss Coffee and the Investor, on the Closing Date the Investor was allotted shares and redeemable capital notes in consideration for its investment in Strauss Coffee in an amount of approximately US$293 million. Following the closing, the Investor holds 25.1% of the shares of Strauss Coffee, and the Company holds 74.9% of the shares of Strauss Coffee. On October 2, 2008, Strauss Coffee announced the redemption of the abovementioned capital notes.

The investment agreement includes a list of representations made by the Company to the Investor. The Company's liability with respect to the breach of the representations is limited, in such manner that the Investor shall be entitled to contend to breach of representations only in the case of damages exceeding 5% of the initial consideration (approximately US$14 million), up to a maximum of 30% of the initial consideration (approximately US$84 million), not including certain representations in which respect liability is not limited as aforesaid; the liability is limited to the periods set forth in the agreement and in any case, to the amount of the investment.

The Shareholders Agreement – on the Closing Date, a shareholders agreement in Strauss Coffee was signed. According to the agreement, Strauss Coffee's board of directors will comprise up to seven members, of whom four will be appointed by the Company (one of them will serve as chairman) and two will be appointed by the Investor, plus an expert director who will be appointed by the parties and will serve on the board in the first year (as well as thereafter, for as long as his appointment is not revoked by one of the parties).

A list of cases was determined, in which respect the adoption of resolutions or their execution requires the approval of shareholders holding 90% of the shares of Strauss Coffee, as well as cases in which respect board approval is required, provided, however, that at least one director appointed by the Investor has voted in favor of the approval. In the Company's opinion, these provisions grant the minority the ability to influence transactions or events outside of the ordinary course of business, and therefore constitute protection of minority rights while not preventing the Company's continued control of Strauss Coffee. A dispute resolution method was determined with respect to these subjects, in the absence of approvals as aforesaid.

Furthermore, the agreement includes methods relating to the sale of shares by either of the parties, including right of first offer, tagalong right in the case of sale, and the right to force a sale on the Investor if the Investor receives a minimum return on its investments in the Company. Additionally, the text of the agreement contains an agreement to adopt a profit distribution policy at a yearly percentage that shall be no less than 30% of the profits of Strauss Coffee, subject to Strauss Coffee's cash flow requirements.

Service Agreements – according to the service agreements between the Company and Strauss Coffee, which became effective on the Closing Date, the Company will continue to provide Strauss Coffee with certain head office services and will also continue to provide distribution, sales and marketing services for the coffee business in Israel, on the basis of the existing economic calculations between the Company and Strauss Coffee prior to the Closing Date.

13. The International Coffee Segment

13.1 General Information on the International Coffee Segment

In this segment, the Group develops, manufactures, sells, markets and distributes a variety of coffee products bearing its brands in Central and Eastern European countries and in Brazil.

For further general information on the coffee operations, which is common to the Israel Coffee segment and the International Coffee segment, see Section 11 of this chapter.

In Eastern and Central European countries, there is a strengthened trend of modern commerce, characterized by large marketing centers. On the background of the serious economic situation, there was a decrease in demands and consumption habits in these countries changed. Consumers approach larger economical chains, seeking mainly basic products according to low cost prices. Furthermore, the demand for private brands of larger chains increased. In order to preserve and increase the market segment in each country, the Group concentrated on an aggressive sales promotion, inter alia, sales campaigns, discount and change of packages (a lower price for larger packages and change of the package from tin or glass to bags, in order to reduce costs).

Poland – there is an increase in the sale of coffee capsules and an increase in the sales to the business sector: restaurants, hotels and bars.

Romania – the economic condition relatively improved in comparison with 2011 but it is still difficult. The Group invests many efforts in advertising on all the media channels.

Serbia – in 2012, a two-digit inflation evolved and interest rates increased.

Russia and Ukraine – 2012 is characterized as an election year in both countries. The results of the election influenced the economic condition and the economic development. Lower income and higher rates of unemployment diminish economic expectations and reduce the purchasing power of the consumers.

Brazil – in 2012, the economic growth continues. The interest reduction policy, control over level of inflation and strengthening the local currency encourage growth, creates economic stability and increased consumption. The Group invests in marketing and advertising in all the major channels. There is an increase in the AFH coffee consumption and in the consumption of capsules (concurrently with an increase in the sale of coffee machines). An increase in the demand for premium products.

13.2 Products

The Group's major products in the International Coffee segment are roast and ground (roast and ground) coffee, instant coffee, espresso, chocolate powders and other drink powders, as well as coffee machines.

Strauss Coffee focused on strengthening and positioning its brands, providing a solution to customers with low cost products, while maintaining the quality of its products.

Poland – the Group sells roast and ground coffee manufactured in its local plant, instant coffee (imported from the plant in Israel and from others) and espresso coffee. The Group operates mainly under the brands of **MK** (a super brand that includes espresso and premium), **Fort** (roast and ground coffee) and **Pedro's** (instant coffee).

Rumania – the Group sells roast and ground coffee manufactured in its local plant, espresso coffee, instant coffee and additional drinking powders imported from its plants in Israel. The Group operates mainly under the brand names of **Don Café**, a super brand that includes **Don Café Elita, Don Café Selected** (instant coffee and roast and ground coffee), **Don Café Gold** (roast and ground coffee) and also the **Fort** (roast and ground coffee).

Serbia – the Group sells mainly roast and ground coffee manufactured in its local plant. The Group operates mainly under the brands of **Don Café** as a super brand that includes **Don Café**, **Moment**, **Don Café Minas**, **Don Café Strong** (roast and ground coffee) **Don Café Instant** (instant coffee) and also the brands **C-Kafa** and **Fort** (roast and ground coffee). During 2012, the Group launched two new products in the category of **Don Café**, a cappuccino vanilla instant coffee and chocolate cappuccino.

Russia and Ukraine- the companies in Ukraine and in Russia operate mainly under the brands of Chornaya Karta (as a central super brand: frozen dried instant coffee), Totti (as a premium brand), Le Café (frozen dried instant coffee) and Ambassador (frozen dried instant coffee and espresso). In Ukraine, roast and ground coffee products are sold mainly of the production of the Group in Poland; the instant coffee marketed is not of the production of the Group and also frozen dried instant coffee; in Russia, mainly instant coffee not of the production of the Group is marketed and sold, as well as roast and ground coffee, which is manufactures at the plant of the Group. During 2012, the companies in Ukraine and Russia launched a chicory beverage (within the framework of the health line of Elite) and a tea to the AFH sector under the brand name of Totti as a premium brand.

Brazil – the Group sells roast and ground coffee, cappuccino products, chocolate and other drink powders are sold, which are produced at the local manufacturing plants in Brazil, and instant coffee produced by an outside manufacturer.

The Group operates mainly under the brands: "Café Tres Coracoes", "Santa Clara", "Pimpinela" (instant coffee and roast and ground coffee) and "Fino Grão" (roast and ground coffee).

In the framework of its business operations in Brazil the Group buys, processes and sells green coffee to customers outside of Brazil (mainly in Europe and the USA). In processing the coffee beans the Company differentiates between the quality level destined for export and the level intended for local production.[12]

In 2012 the Company acquired the "Fino Grão" brand, which has a number of sub-brands ("Doutor", "Geronymo", "Fort" and "Divinópolis").

In instant coffee there has been a drop in sales in Brazil due to poor coffee harvests and as a result, an increase in raw material prices; at the same time, in 2012 the AFH channel grew. In the premium segment "growth" has occurred following the increase in purchasing power, as consumers seek products with greater added value.

[12] The Group also manufactures and sells in Brazil a number of corn-based products. This operation, which was acquired incidentally to the establishment of the jointly-held company with Lima Brothers in Brazil, is immaterial to the Group's business.

13.3 Segmentation of Revenues and Profitability of Products and Services

a. Following is information on the International Coffee Segment's income from external parties (consolidated), divided according to geographical regions where the Group is active, in NIS millions and as a percentage of the Group's total income, in the years 2012, 2011 and 2010:

Group of Similar Products	**Income in NIS Millions**			**Rate of Group's Total Income**		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
In Brazil[13]	1,778	1,708	1,389	21.7%	22.2%	20.3%
In former Yugoslavia countries	212	234	221	2.6%	3.1%	3.2%
In CIS countries	844	695	543	10.3%	9.0%	7.9%
In the Balkan States	257	249	247	3.1%	3.2%	3.6%
In Poland	407	386	394	5.0%	5.0%	5.8%
Total International Coffee segment	3,498	3,272	2,794	42.7%	42.5%	40.8%

For further information on the coffee products, see Financial Information on Geographical Regions – Section 31 of this chapter.

b. Following is the distribution of the International Coffee segment's income from external parties (consolidated) according to coffee types, in NIS millions and as a percentage of the Group's total income, in the years 2012, 2011 and 2010:

	Income in NIS Millions			**Percentage of Group's Total Income**		
	2012	**2011**(*)	**2010**	**2012**	**2011**(*)	**2010**
Roast & ground coffee	2,084	1,952	1,688	25.5%	25.4%	24.6%
Instant coffee	756	608	477	9.2%	7.9%	7.0%
Other	658	712	629	8.20%	9.2%	9.2%
Total International Coffee segment	3,498	3,272	2,794	42.7%	42.5%	40.8%

13.4 Competition

a. In most of the Central and Eastern European countries where the Group operates, it has succeeded in recent years in building a leading position in the roast and ground coffee category.

[13] Including the green coffee and corn operations in an amount of NIS 412 million in 2012.

In Poland, there are some five major competitors in the roast and ground category (including the Group), the three leaders are international corporations (Kraft, Tchibo and Sara Lee). In instant coffee there are three major international competitors (Nestle, Kraft and Tchibo), which lead the market.

In Romania, the major competitor in roast and ground coffee is the international concern Kraft, and "Amaroy" a private brand of the large marketing chain Aldi, as well as a number of small manufacturers. In the instant coffee market the main competitor is Cia Iguacu, as well as Nestle.

In Serbia, in roast and ground the main competitor is Atlantice Group. In instant coffee products there are three competitors, Nestle, KJS and Atlantice. In espresso products there are four competitors, Grand, Julius Meinal, Segafredo, and Lavazza.

In Ukraine, the major competitors are the international concern Kraft (in roast and ground and instant coffee) and Nestle (in instant coffee), as well as local manufacturers.

In Russia, the Group is the second largest in terms of market share in the roast and ground market. The Group's main competitors in Russia are Orimi Trade (in roast and ground), and Kraft and Nestle (in instant coffee).

In Brazil, the market is characterized by decentralization (a large number of coffee companies with relatively small market shares, with no single dominant player on the national level).

In any region, there is one or two competitors, which are central leading competitors, several medium size competitors and a large number of small local manufacturers. Tres Coracoes (3C) and Sara Lee are the two companies that lead the coffee market in Brazil, and another competitor is Melitta.

Tres Coracoes (Café Tres Coracoes S.A. – a wholly-owned subsidiary of Tres Coracoes Alimentos S.A.) is the leader in the roast and ground market in northern Brazil, and its major competitors in these regions are the international group of Sara Lee and Melitta (northern Brazil, Sau Paulo and Rio de Janeiro); Café Marata and Café Sao Braz (in northeastern Brazil and the state of Bahia). In the state of Minas Gerais, Tres Coracoes is the dominant player in the roast and ground market, with a number of other local companies also competing. In 2012, Sara Lee introduced a new line “Aroma”.

In instant coffee, the international competitors are Nestle, Melitta and Iguacu. Additionally, there are local competitors – Petinho, Café Marata and Café Sao Braz.

b. Market Shares – the following table presents information on the market shares of the Group and its major competitor in the International Coffee segment, in reference to the Group's major products in this segment. The figures are based on A.C. Nielsen data.

	Weighted Market Share (in Percent – Value)			
	For 2012		For 2011	
Similar product groups	The Group	Major Competitor	The Group	Major Competitor
Romania: Roasted coffee	27%	40%	29%	43%
Romania: Instant coffee	20%	28%	22%	30%
Poland: Roasted coffee	18%	25%	16%	25%
Serbia: Roasted coffee	34%	50%	35%	49%
Brazil: Roasted coffee	21%	21%	20%	20%

According to the evaluation of the Group, it is not possible to obtain reliable data with respect to market segments in Russia and Ukraine

c. Among the negative factors, which in the Group's opinion influence or are likely to influence its competitive position in the coffee segment, is the possibility of the expansion of activity by international coffee companies in the local markets and the development of competing distribution capabilities, which will reduce the Group's competitive advantage.

Among the positive factors, which in the Group's opinion influence or are likely to influence its competitive position in the Central and Eastern European countries, in addition to the factors set forth in Section 7 of this chapter, one may include the Group's high capabilities in product development; its ability to adapt its products to the tastes of the local market in each country; the countries' acceptance as EU member states and the continued lowering of customs duties is likely to lead to the consolidation of production sites and the possibility of export and distribution to a number of countries; the deepening of regulation and enforcement in these countries, which is likely to shrink the "black market" for cheap coffee products that compete with the Group's products and to lead to an increase in consumer purchasing power, which will lead to a rise in purchases of branded products.

Among the positive factors, additionally, the trend of consolidation among coffee manufacturers and the exit of small market players may reduce competition with the Group.

Among the positive factors, which in the Group's opinion influence or are likely to influence its competitive position in Brazil are the trend of consolidation in the market, which could lead to the disappearance of small local manufacturers.

The Group continuously handles the competition in the coffee segment by concentrating marketing efforts and advertising; building and maintaining its brands; a comprehensive distribution system; innovation – the development and launch of new products; entry to new business areas; investment in production sites and the development of technological capabilities; and adaptation of its products to the different emerging consumption trends. The Group also contends with the competition by acquiring competing businesses or establishing joint ventures with its competitors.

13.5 <u>Seasonality</u>

Following are data for the years 2012 and 2011 on the Company's income in the International Coffee segment, by quarter, in NIS millions:

	2012		2011	
	Income (NIS millions)	**% of total income of segment**	**Income (NIS millions)**	**% of total income of segment**
Q1	828	23.7%	652	19.9%
Q2	838	23.9%	770	23.5%
Q3	877	25.1%	856	26.2%
Q4	955	27.3%	994	30.4%
Total	3,498	100%	3,272	100%

The scope of income from the sale of products in the International Coffee segment is usually (relatively) higher in the fourth quarter of the year. Seasonality is affected mainly by the Christian holidays and the end of the Gregorian year in the fourth quarter, a period that is characterized by increased purchases of coffee products.

13.6 <u>Production Capacity</u>

The production capacity of the Group's manufacturing plants in the International Coffee segment is measured by quantities of product per year. The maximum potential annual production capacity of the Group's plants in the International Coffee segment, operating in three shifts, in tons product per year for the years 2012 and 2011 was approx. 280 thousand tons and 254 thousand tons, respectively. The average rate of actual utilization of production capacity in the years 2012 and 2011 was 70% and 74%, respectively. The increase in the manufacturing capability emerges from the purchasing of new machines in Brazil.

The production lines in the Group's plants are automatic, and some are operated in three shifts daily.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its plants and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. On the basis of the information in the Company's possession as at the date of the Periodic Report, the Company does not anticipate that it will be required to make any exceptional material investments in equipment and machinery in the International Coffee segment in 2013.

13.7 Fixed Assets, Real Estate and Facilities

Following is a description of the major real estate properties and other material fixed assets belonging to the Group, which serve in its activities in the International Coffee segment.

Nature and Location	Location of Site	Site Designation	Area of Real Estate	Built Area	Rights in the Site	Mortgages
Plant in Poland	In Swadzim n ear Poznan	Production of roast and ground coffee	252,689 m²	11,540 m²	Ownership of the land	---
Plant in Romania	Bucharest, 3rd District	Production of roast and ground coffee and instant coffee	6,535 m²	4,365m²	Lease of a third party, valid until November 2023, extended by way of an early notice of 6 months.	---
Plant in Brazil	near Belo Horizonte in the state of Minas Gerais	Production of roast and ground coffee and cappuccino	53,000 m²	12,800 m²	3C is the holder of the land ownership rights	See Note 26.2 to the financial statements of the Company
Plant in Brazil	In Eusébio, a town and municipality in the state of Ceará	Production of roast and ground coffee	10,000 m²	4,650 m²	3C is the holder of the land ownership rights	See Note 26.2 to the financial statements of the Company
Plant in Brazil	Natal RN	Production of roast and ground coffee, instant coffee, chocolate and cappuccino	38,000 m²	8,100 m²	SC Imoveis is the holder of the land ownership rights	See Note 26.2 to the financial statements of the Company
Plant in Brazil	In Nova Iguaçu Rio de Janeiro	Production of filter paper of fitter coffee	5,600 m²	3,150 m²	SC Imoveis is the holder of the land ownership rights	See Note 26.2 to the financial statements of the Company

Nature and Location	Location of Site	Site Designation	Area of Real Estate	Built Area	Rights in the Site	Mortgages
Plant in Brazil	In Mossoro RN	Production of corn products and drink powders	54,000 m²	13,200 m²	SC Imoveis is the holder of the land ownership rights	See Note 26.2 to the financial statements of the Company
Plant in Brazil	In Varginha MG	Serving for mapping and classifying green coffee	70,000 m²	7,300 m²	Tres Coracoes is the holder of the land ownership rights	See Note 26.2 to the financial statements of the Company
plant in Serbia	In Simanovci nearby Belgrad	production of roast and ground coffee	29,484 m²	8,500 m²	Strauss Adriati is the holder of the land ownership rights	---
Two plants in Russia	Strunino, Vladimir District	Two plants in the same site – for the manufacturing of roast and ground coffee and a packaging plant of frozen dried instant coffee.	17,190 m²	13,370 m²	Under title of Strauss Russia	---

For information on the Company's policy on depreciation of machinery and equipment in its various manufacturing plants, see Note 3.4.5 to the Financial Statements of the Company as at December 31, 2012.

13.8 <u>Intangible assets</u>

<u>Trademarks and samples</u>

In view of the Group's focus on branded products, the importance of the trademarks with respect to its brands is great. Trademarks are registered in the Group's name in the countries where it is active on most of the brand names set forth above, which serve it in the International Coffee segment (excluding products that are sold and distributed by the Group and are not manufactured by it).

The validity of the major trademarks is for a defined period, which can be renewed at the end of that period. In view of the years of use of these trademarks and their strength in the markets, Group Management estimates that the economic lifetime of the Group's major trademarks is many years long.

For an itemization of the costs and financial movement relating to intangible assets in the years 2012 and 2011, see Note 15 to the Financial Statements of the Company as at December 31, 2012.

13.9 Human capital

For a description of the Group's organizational structure and additional information on the nature of employment agreements, investments in training, etc., see Section 21 of this chapter.

Following is information on the number of employees in the Group in the International Coffee segment (including all employees in companies that are not wholly owned; and also including 829 and 761 employees of manpower agencies), as at December 31, 2012 and December 31, 2012, respectively:

	Number of Employees as at	
	December 31, 2012	**December 31, 2011**
Finance, Marketing, HR, IT and Administration	578	539
Sales and Distribution	3,142	3,242
Supply Chain (Procurement and Logistics)	327	317
Industry (Operations)	2,258	2,353
Total	6,305	6,451

The decrease in the number of employees in the international coffee segment in 2012 emerges mainly from streamlining actions in Russia (71 employees) and in Brazil (56 employees).

13.10 Raw Materials and Suppliers

a. For a description on the purchase of raw materials and suppliers in the coffee operations, see Section 11.7 of this chapter.

b. During the relevant reported periods there was no single external supplier from which the volume of the Group's purchases exceeded 10% of total raw and packaging material purchases in the International Coffee segment.

13.11 Working capital

The following is the composition of working capital in the international coffee segment in 2012:

	The Amounts Included in the Financial Statement
Operative current assets (*)	980,020
Operative current liabilities (**)	223,663
Balance of current assets over current liabilities	756,357

(*) - Including: net customers, inventory, receivable income and prepaid expenses.
(**) - Including: net suppliers and payable expenses and prepaid income.

13.12 Restrictions and Control of the Business Segment

Antitrust approval

In the framework of an exclusive agreement for the transfer of the entire sales and distribution operation of the Group's products in Serbia to the companies Doncafe Direct DOO. and Direct Group DOO, an application was submitted on February 6, 2010 for approval of the agreement to the Commission for the Protection of Competition in Serbia, and the approval was granted.

13.13 Material Agreements

Joint venture in Brazil

a. Establishment of the joint venture – On December 29, 2005 a series of agreements was signed between companies in the Group and the Lima family of Brazil and companies under its control, their goal being the consolidation of the parties' businesses in Brazil by establishing a joint corporation which they would hold in equal parts, and which would absorb and control the parties' businesses in Brazil. The goal of the joint venture is to gain additional market share, penetrate new geographical regions, exploit synergies between the companies and become a leading coffee group in Brazil, including the building of a platform for the manufacture, marketing, distribution and sale of additional food products.

After the abovementioned agreements had been performed, EDBP (which, as mentioned, was a company wholly-owned by the Strauss Group) and PRL Participacoes E Empreedimentos S/A (**"PRL"**) (a Brazilian corporation controlled by the Lima family, which since the establishment of the joint venture has been replaced by a different corporation, Sao Miguel Fundo De Investimento Em Participacoes, also controlled by the Lima family) held equal parts in the joint corporation – SCP.

Among other actions performed for the establishment of the jointly-held corporation, EDBP transferred to SCP all of its holdings in 3C, whose market price was approximately 76.5 million Brazilian Reals, and also injected approximately 139 million Brazilian Reals in cash (approximately US$60 million). The Lima family and PRL transferred to SCP all of their holdings in Santa Clara (including its subsidiaries), and PRL and the Lima family received from SCP and Santa Clara (as a dividend, paid in part out of the funds SCP had transferred to Santa Clara) a total amount of approximately 138.4 Brazilian Reals, less 10 million Brazilian Reals, which the parties had agreed would be left as a loan to SCP. EDBP simultaneously extended an identical amount as a loan to SCP. These loans have since been capitalized into capital and premium. After the completion of the performance of the agreements, SCP was held by EDBP and PRL in equal parts (50%-50%), and SCP directly held 3C and Santa Clara (including its subsidiaries).

The Company, Strauss Coffee and EDBP undertook to indemnify the Lima family and PRL, and the latter also undertook the same to the former, with respect to any and all costs that any of the parties may sustain insofar as they should arise from any misrepresentation, error, breach of a liability set forth in the agreement or from any exposure resulting from actions performed prior to the signing of the agreement. PRL and the Lima family undertook, jointly and severally, to be fully liable for any loss that would be caused due to the implementation of the abovementioned structure that would lead to demands for payment by the authorities in Brazil, including future losses, and undertook that no injury would be caused to Strauss Coffee, EDBP and SCP and their subsidiaries, including their representatives. The indemnity was limited to an obsolescence period and maximum amounts. Furthermore, to ensure the payment of the amount of indemnity, PRL undertook to attach its shares in SCP, as described in this Section 13.13 C below.

It was further determined that the joint venture agreement would be annulled when EDBP or PRL (or their "permitted transferees") would cease to be shareholders of SCP. Also determined were a dispute resolution method and that the governing law of the joint venture agreement is Brazilian law.

b. <u>SCP Shareholders Agreement</u> – On December 29, 2005, EDBP and PRL (jointly: the "**Shareholders**") and 3C, Strauss Coffee, the Company, Santa Clara and the Lima Brothers engaged in a Shareholders Agreement regulating the management of SCP and the relations between its Shareholders.

The parties agreed that when the conditions justifying that the companies EDBP, SCP, 3C and Santa Clara remain separate legal entities should cease to exist, they would be merged in a single legal entity, and in such case EDBP's rights as a Shareholder of SCP would be transferred to Strauss Coffee or to a related company of Strauss Coffee, at its discretion.

The Shareholders Agreement, as amended from time to time, determines that SCP's board of directors will comprise 8 members, and subject to the Shareholders holding SCP's shares in equal parts, each Shareholder has the right to appoint 4 directors. Board meetings will be held on condition that each Shareholder will be equally represented by directors. It was further agreed that a management would be appointed for SCP comprising 5 members who would be proposed by the Shareholders and would be appointed by SCP's board of directors for a period of 3 years, and should it be decided that a sixth member needs to be appointed – the additional member would be appointed by EDBP.

Within the framework of the Shareholders Agreement methods for financing SCP's activity were determined, and, in this context, the Shareholders undertook to extend guarantees for external loans to be granted to SCP (according to the ratio of their holdings in SCP), and to extend loans or execute a capital increase; there is also an agreement on dilution where a Shareholder should fail to contribute to the financing decided upon at a general meeting of the Shareholders, and the other Shareholder would extend the additional funding.

It was further determined that the transfer or sale of shares by a Shareholder in SCP to a third party unrelated to either of the Shareholders is subject to the right of first refusal to the sale, to the right of first offer, to a Shareholder's tagalong right to the sale of the other Shareholder's shares, and to the right of the Shareholder selling its shares to compel (as a rule, commencing on January 1, 2013) the other Shareholder holding 50% or less of the share capital of SPC who did not exercise the right of first refusal, to join the sale; the agreement also determines that the Shareholders will have precedence in regard to any future allotment of securities by SCP, enabling them to buy these new securities according to the ratio of their holdings. In a case where a Shareholder of SCP should enter insolvency proceedings, the other Shareholder shall be entitled to acquire all of the shares of the Shareholder of SCP on the basis of SCP's fair market value, subject to a prescribed valuation method. Additionally, commencing on January 1, 2016 each Shareholder of SCP holding shares at a rate of over 25% of SCP's share capital will be granted the right to demand of the other Shareholder that it acquire all of its shares in a mutual purchase method (BMBY), under the terms and conditions prescribed.

The parties undertook to limit their activity that is similar to SCP's business activity, and to limit SCP's activity that is similar to activities outside of Brazil, according to the terms and conditions of the agreement. Non-competition provisions against SCP by the Shareholders or any of their related companies were also determined. These non-competition limitations will also apply with respect to a Shareholder that has ceased to be a shareholder of SCP, for a period of 5 years from the date of the sale of its holdings in SCP.

The agreement further determines that should an arbiter appointed in the framework of a dispute between the Shareholders of SCP rule that a Shareholder is in breach of the Shareholders Agreement or the joint venture agreement, the other Shareholder that is not in breach is entitled to exercise its option to buy the shares of the Shareholder in breach for a price equal to 80% of the fair market value, or alternatively, to exercise its option to sell its shares to the Shareholder in breach for a price equal to 120% of the fair market value, according to a method defined in the Shareholders Agreement.

According to the Shareholders Agreement, in the case of a "change of control" (i.e. any change, directly or indirectly, that will terminate the Strauss family's / Lima family's control. "Control" means the direct or indirect ownership of voting rights in a manner that ensures control in a vote in all general meetings and allows for the power to appoint the majority of directors on the board of directors, or the majority of the statutory executive officers) in one of the companies that are a party to the agreement (or in their parent companies), the second party will have the right to sell all of its shares in ELSAC[14] to the other party (put option) or to acquire all of the shares held by the other party in ELSAC (call option) in consideration for ELSAC's fair market value, as shall be agreed by and between the parties. In the absence of agreement, the market price of the shares will be determined by an external valuator; however, should the parties not succeed in reaching an agreement on the identity of the valuator if one of the parties opposes the price determined by the valuator, each of the parties shall receive the right to appoint a different valuator. The final fair market value will be the arithmetic average of the valuations. For information on the scope of sales in Brazil, see the Board of Directors' Report as at December 31, 2012, in the Section "Analysis of the Business Results of the Group's Major Business Units" under the heading "The Coffee Business". For information on the risk factor in the case where the Strauss family shall cease to be the controlling shareholder of the Company, including an

[14] An investment company, 50% held by the Company and 50% held by Santa Clara.

itemization of the sales turnovers of the activities that are likely, in such case, to be sold by the Company to its partners therein, see the Section on risk factors that are unique to the Company.

On September 13, 2011 2010 the parties signed an amendment to the Shareholders Agreement, pursuant whereto the Shareholders and their related companies were released from the obligation to offer any new food business to the joint venture, except for businesses in those categories in which the joint venture is active. The BMBY method was annulled, as well as the right of a Shareholder selling its shares to oblige the other Shareholder to joint the sale, and a restriction was added prohibiting a Shareholder to sell its shares to a competitor of the jointly-held company until January 1, 2020.

c. Agreements with respect to the subordination of SCP's shares – on December 29, 2005 the Shareholders and SCP engaged in mutual share subordination agreements, in such manner that EDBP pledged its shares in SCP in favor of PRL under a first lien, and undertook to so pledge all SCP shares that would be bought by it, allotted or assigned to it, or option warrants that would be granted to it during the period of lien, and also undertook to so attach, in the case of breach of representations in the agreements, any and all income, profit, receipts and rights, as well as any and all amounts reaching it which would arise from the sale of shares of SCP (the **"Funds"**) (in this paragraph, the shares and the Funds shall be called the **"Subordinated Assets"**). Accordingly, PRL pledged its shares in SCP in favor of EBDP under a first lien, and undertook to so pledge all Subordinated Assets that would reach its possession. The purpose of these mutual subordinations is to ensure that each of the parties to the agreements will comply with its undertakings, its payments and representations made by it, relating to or arising from the joint venture agreement, the Shareholders Agreement and from documents arising from them. The lien period is from the date of signing of the agreements until the end of the obsolescence period in respect of the various undertakings and representations under the joint venture agreement. In this respect it was determined that insofar as a certain Shareholder is in breach of its undertakings pursuant to the provisions of the agreements, the Shareholder in breach shall assign and transfer its subordinated shares to the other Shareholder, in the amount required to cover the cure of the breach. Additionally, in a case of breach, all rights relating to the Subordinated Assets (such as profit distribution) shall be transferred to the other Shareholder, to enable the latter to correct the breach with the funds transferred to it as aforesaid. In this respect it was agreed that prior to any breach of a condition of the joint venture agreement, the Shareholders shall be entitled to benefit from the rights attaching to their subordinated shares. It was further determined that a Shareholder shall not be entitled to pledge its shares or the Subordinated Assets, or to sell, assign or transfer the Subordinated Assets, without the other Shareholder's consent.

With respect to the shares of SCP owned by EDBP, it was agreed that in the case of breach of the provisions of the joint venture agreement by EDBP and during the period of the breach, it shall be entitled to make use of the voting rights attaching to SCP's shares held by it in accordance with express instructions in writing by PRL. It was further agreed that after the date of the breach, provided, however, that the breach did not endure, EDBP would be able to make use of the voting rights attaching to SCP's shares held by it (excluding in relation to the modification of the rights attaching to SCP's shares and the increase of SCP's issued share capital, where in PRL's opinion this would cause an impairment of the value of the collateral).

In 2007 a change was made in the structure of the holdings of the companies in Brazil. Against the backdrop of this change the Shareholders Agreement was amended such that all of its provisions, without any modification thereto, would apply with respect to Tres Coracoes (instead of SCP) and with respect to 3SCI Imoveis (in its previous name SC Imoveis), and all rights and obligations hereunder which had been granted to EDBP as a Shareholder of SCP were assigned to Strauss Coffee as a shareholder of Tres Coracoes. It was further determined that all other documents and agreements relating to Tres Coracoes and SC 3C Imoveis would be amended so as not to contradict the amended Shareholders Agreement. In this framework, the abovementioned share subordination agreements will also be amended so that the mutual subordinations shall apply to the shares of Tres Coracoes.

14. The International Dips and Spreads Segment

14.1 General information on the International Dips and Spreads Segment

a. Structure of the Operations and Changes Occurring Therein

In this activity the Group manufactures, sells, markets and distributes a variety of refrigerated dips and spreads mainly in the USA and also in Canada, Mexico and Australia..

The Group commenced its operations in this segment in August 2005. From March 2008 the activity has been carried out together with the international food concern PepsiCo, through the jointly-held (50%-50%) company, Sabra.

In 2012 2011 the collaboration between the Company and PepsiCo was expanded with the signing of another agreement with PepsiCo for the establishment of a global joint venture - **PepsiCo Strauss Fresh Dips & Spreads International Gmbh**, operating in other markets besides North America in Mexico and Australia.

In Mexico **PepsiCo Strauss fresh dips & spreads Mexico S DE RL DE CV** commenced operating in June 2012. In Australia, **Obela Fresh Dips & Spreads Pty Ltd.** commenced operating in March 2012. In October 2012, the business affairs of **Copperpot Dips** Company, the owner of a well known manufacturing plant of brands in the field of refrigerated dips on the Australian market were purchased. For a description of the set of agreements in PepsiCo, see Section 14.13 hereunder.

In 2012, the consumption products market in the US began growing after several years of stagnation. At the same time, in 2012 the American market continued to suffer from high rates of unemployment and a large number of bankruptcies. These phenomena have a negative affect on the behavior of consumers and their level of expenditure. Fears of consumers and restricted demands created a problematic operative environment.

The increase in the prices of commodities, mainly energy products, led to increases in the prices of transportation, packaging and cost of operation of manufacturing facilities. Food manufacturers increased the prices of their products in 2012 by approx. 2% in average, in order to cover these price rises. In addition, companies diminished the packages of their products without a change in the price level.

Certain niches on the American consumption products market experienced growth, thanks to consumers who seek "consideration for value" (price, quality, brand). Consumers who look after their health and wellness will continue to search for healthy products, gluten free, natural and organic from local crops. Notwithstanding that the market segment of these products is under 7% of the consumption product market, Sabra with its health reputation of its products enjoys this trend.

b. Changes in the scale of the operations and in its profitability

Changes in the Scope of Operations

While a large part of the food categories in the US found it difficult to reach positive results in 2012, the category of hummus is one of the categories that continue to demonstrate financial and quantitative growth in 2012. Sabra continues to be the leader in the hummus category.

In 2012, Sabra continued to expand its lines of product that are not hummus, further to the strategic framework of the transition from a hummus company to a fresh dips company. In the salsa products of Sabra, packages were improved, variety was increased and the distribution on larger marketing chains was doubled. The guacamole salad products significantly extended their geographic spreading throughout the US.

Changes in Profitability

For information on the changes in the income and profitability in the International Dips and Spreads segment, see the Board of Directors' Report to the Shareholders as at December 31, 2012.

c. Developments in the Markets of the Operations or Changes in the Characteristics of its Customers

See Section 14.4 of this chapter.

d. Critical Success Factors and Changes Therein

See Section 7 of this chapter.

e. Major entry barriers to the operations and changes occurring therein

See Section 7 of this chapter.

f. Substitutes for the products of the operations and changes occurring therein

The Group's products in the dips and spreads segment in the USA have substitute products manufactured by competing companies, including the private brands of the retail chains.

A large number of competing companies are active in this market, most of them small and regional.

14.2 Products

Sabra manufactures and sells a variety of refrigerated dips and spreads, particularly hummus in a variety of flavors under the brand of **Sabra**, which is regarded a leading brand in this category in the USA.. Additionally, Sabra also manufactures and sells CCF's fresh salsa products under two brands, **"Santa Barbara"** and **"Chachies"**.

In 2011 the Group launched two new brands **"Fresh refrigerated salsa guacamole"** and **"Greek yogurt-based vegetable dip"**.

In 2012, the production line of **Garden Hummus** was successfully launched in three flavors.

In Australia, Obela operates under two main brands **Red Rock Deli** and the **CP – Copperpot**, including a variety of premium dips based on vegetables with cashew nuts and cheese. The RRD includes popular flavors such as **Red Capsicum**, **Pecorino Cheese & Cashew and Thai Chili**,.**Lemon grass**, **Coriander & Cashew**. The CP includes a wide variety of dips, such as **Hummus** & **Tzatziki** with dips in layers, e.g. avocado, cream cheese and hummus in the same package.

In Mexico, Obela manufactures sells and distributes hummus in three flavors.

The products are fresh products, characterized by a freshness period ranging between 30 and 70 days.

14.3 Segmentation of Revenues and Product and Service Profitability

In 2012, the income of the International Dips and Spreads segment accounted for less than 10% of the Group's total income.

14.4 Competition

The main brands competing with the Group's dips and spreads products in the USA are: in hummus – Kraft's **Athenos** and **Cedar's** and **Tribe**, which are also the names of the rival companies; in guacamole, the major rival is **Wholly**, which is the name of the rival brand and company; in dips – **Tribe** and **Marzetti**. The operations in the USA are characterized by local competition against large companies possessing extensive distribution capabilities in the American market, and against a large number of small local manufacturers, which are active in the areas where they manufacture their products.

The hummus category of Sabra reached close to consummation of its spreading capability on marketing chains. Another possible expansion is through a more efficient exploitation of current operative areas at the expense of competitors and at the expense of other categories. Alternative channels, such as catering services and convenience stores present alternative distribution opportunities.

2012 was characterized by strengthening of the private brands, mainly expanding at the expense of the larger competitors of Sabra on the hummus category, reaching the status of the second competitor in the hummus market with a market segment of 9%. The aggressive penetration of the private brands reduced the market segments of the competing brands, but has not impaired Sabra. The competing companies responded with sale promotion campaigns, price reductions and changes in packages, but Sabra retained its prices.

The Group's market share (in value terms) in the packaged salad market in the USA (based on the data of the Symphony IRI Group[15]) was approx. 56.2% in 2012 (compared to approx. 52% in 2011); the second-largest competitor in this market held a market share of 9%.

14.5 Seasonality

Following are data for the years 2012 and 2011 relating to the Company's income in the International Dips and Spreads segment by quarter, in NIS millions:

	2012		**2011**	
	Income (NIS millions)	**% of total income of segment**	**Income (NIS millions)**	**% of total income of segment**
Q1	112	21.5%	86	22.1%
Q2	131	25.1%	100	25.8%
Q3	140	26.8%	102	26.3%
Q4	139	26.6%	100	25.8%
Total	522	100%	388	100%

According to the above figures, there is no distinct trend of seasonality in Dips and Spreads segment; generally, in the summer months consumption of Sabra products is slightly higher compared to consumption during the winter. Additionally, at holiday times or on special events such as the end of the (Gregorian) year, Independence Day, National Memorial Day, Labor Day and the Super Bowl, consumption increases.

[15] According to data of Symphony IRI Group, which is active in the measurement of the everyday consumer goods market in the retail market worldwide.

14.6 Production Capacity

a. The production capacity of Sabra's plants is measured in quantities of product per year. The production lines are automatic, and most of them are operated in three shifts a day.

b. The maximum potential yearly production capacity of Sabra's manufacturing plants, operating in three shifts, in tons product per year in the years 2012 and 2011 was approx. 85 thousand tons and approx. 82 thousand tons, respectively. The actual average production capacity utilization rate in the years 2012 and 2011 was approx. 61% and approx. 55%, respectively.

14.7 Fixed Assets and Real Estate

Following is a description of the major real estate and other material fixed assets in this field, which serve the International Dips and Spreads segment.

Nature and Location	Location of Site	Site Designation	Area of Real Estate	Built Area	Rights in the Site
Plant	In Colonial Heights, Virginia	Production of dips	Approx. 193,400 m²	Approx. 10,630 m²	Under title of Sabra
Plant	in Farmingdale, New York	Production of salads	Approx.87,600 m²	Approx.3,900 m²	Lease from a third until December 2035
Plant	in Oceanside, California	production of salsa	8,600 m²	3,700 m²	Under title of Sabra
Plant	In Cavan, South Australia	Production of dipsDips	Approx.7,930 m²	Approx.2,000 m²	Lease from a third for 5 years from august 2012, inc. 2 option of 5 years, each.
Plant	In Mexico City, Azcapotzalco Industiral Zone, Mexico	Production of dips	Approx.1,639 m²	Approx.1,639 m²	Lease from a third for 10 years until 2021.

The assets are not pledged.

14.8 Research and Development

For a description of research and development carried out in the Group, see Section 20 of this chapter. Refrigerated dips and spreads are developed, inter alia, by using the comprehensive know-how in PepsiCo's possession.

14.9 Intangible Assets

In view of the Group's focus on branded products, the importance of registering trademarks on its brand names is great. Trademarks are registered in the Group's name in the USA on most of the brand names serving it in the International Dips and Spreads segment.

14.10 Human capital

a. Following is information on the number of employees employed by Sabra and Obela (including 9 and 2 employees of manpower agencies), as at December 31, 2012 and December 31, 2011, respectively:

	Number of Employees as at	
	December 31, 2012	December 31, 2011
Management	15	8
Finance, Marketing, HR, IT and Administration	82	43
Sales and Distribution	32	45
Procurement and Logistics	73	58
Operations	414	378
Total	616	532

The increase in the number of employees emerges from the addition of the employees of Obela, which commenced its business affairs in 2012.

b. The employees are employed under offer letters. There is no general collective agreement applying to the employees of the company, and the company has no internal collective agreement. Employees from PepsiCo and relocated employees are employed under personal employment contracts.

14.11 Raw Materials and Suppliers

The major raw materials used by Sabra and Obela n the manufacture of their products are raw tahini, chickpeas and bran oil. The products are packaged in plastic products (containers and lids).

Sesame prices increased in 2012 in consequence of poor crops in India and in China. Calculated management of inventory at the beginning of the year prevented a detrimental effect on costs.

The prices of chickpeas increased in the first half of 2012 in consequence of a poor crop resulting from whether damages and competition from other field crops. The shortage encouraged farmers to increase the scope of planting and toward the end of 2012 the trend has changed and prices reduced.

Prices of soybean oil (SBO) stabilized at the beginning of 2012 at the high level of 2011, however, later on in 2012 prices of soybean oil eroded.

The main packing materials in use are plastic containers and lids, whose prices continue to increase due to increasing energy prices in the world. An appropriate agreement with the suppliers prevented a detrimental effect on costs.

In the field of international spreads and dips there is no dependence on any supplier. Agreements with suppliers are signed for various periods, normally up to one year, with a certain package supplier (without any dependence thereupon) the agreement is for a period of up to four years.

14.12 <u>Working Capital</u>

The following is the composition of working capital in the Health & Wellness segment in 2012:

	The Amounts Included in the Financial Statement
Operative current assets (*)	85,055
Operative current liabilities (**)	40,669
Balance of current assets over current liabilities	44,386

(*) - Including: net customers, inventory, receivable income and prepaid expenses.
(**) - Including: net suppliers and payable expenses.

14.13 <u>Material Agreements</u>

a. **Joint Transaction with PepsiCo – Sabra**

According to a set of agreements of December 2007, the assets and rights which had served B&W LLC (the company in which framework the Group operated in the salad business in North America) in the development, manufacture, distribution, marketing or sale of most of its products (excluding those relating to dairy desserts, kosher salads and products imported by it) were concentrated in Sabra Dipping Company, LLC (**"Sabra"**), and the owners of the participation rights in Sabra sold 50% of their rights to a subsidiary of the American food concern PepsiCo (Frito-Lay Dip Company, Inc.) (the **"Buyer"**), so that after the transaction was closed on March 28, 2008 the Company (through S.E. USA, Inc.) (hereinafter: **"Strauss USA"**) and PepsiCo (through the Buyer) each hold 50% of the "participation rights" in Sabra.

The rights were sold in consideration for $44.1 million paid to the Group's former partner in B&W Products and $0.9 million paid to Strauss USA.

The parties undertook toward each other mutual indemnifications in respect of damages they would sustain as a result of the breach of the representations and undertakings set forth in the acquisition agreement. Additionally, the sellers, their controlling shareholders and B&W LLC undertook to indemnify the Buyer in respect of damages it would sustain as a result of Sabra's operation prior to the closing date. The indemnification was limited to the periods specified in the agreement, according to the type of claim, and limited such that except for certain cases set forth in the agreement, it would apply above a minimum amount prescribed and in any case would not exceed the amount of the consideration in the agreement. Additionally, it was determined that commencing on the closing date the sellers, jointly and severally, would indemnify the Buyer and Sabra in respect of any tax obligation of Sabra created prior to the closing date. An agreement was simultaneously signed between the sellers (and their controlling shareholders), regulating the division of liability between them for their indemnification obligations under the agreement with the Buyer and under the agreement pursuant whereto the salad business was transferred from B&W LLC to Sabra, according to the ratio of their holdings in B&W LLC (i.e. 51% the Group, and 49% its partner), and their indemnification obligation to a party that would bear a liability exceeding the abovementioned rate of its holdings.

The relations between the owners of the "participation rights" in Sabra were regulated in an agreement (the **"Articles"**), in which it was determined that Sabra's management powers are delegated in full to the board of directors, which would comprise four directors, two on behalf of each of the parties, provided, however, that if the holding of either of the owners of the "participation rights" should fall below 50% down to a percentage of 25%, that party shall be entitled to one representative on the board of directors, and if it should fall below 25%, that party shall not be entitled to representation on the board of directors. It was further determined that a director representing the Buyer and a director representing Strauss USA would serve as chairman of the board alternately, for two-year periods.

Board resolutions will be adopted by a majority of votes; provided, however, that for as long as the Buyer and Strauss USA each hold 50% of the "participation rights" in Sabra, the support of the proposed resolution by at least one director representing each of them is required.

In the case of a deadlock, the Articles determine a decision method to be applied by the parties, and in the case of disagreement between the parties, the issue will be referred to an agreed arbiter. The Articles determine a method for the acquisition of the "participation rights" of a party that does not agree to the results of the arbitration on the basis of Sabra's market value (as set forth in the Articles), and in the case where all owners of "participation rights" do not agree to the results of the arbitration (or where no acquisition is made of the "participation rights" of the non-agreeing party as aforesaid), provisions were determined pursuant whereto the owners of the "participation rights" shall take joint action to locate a third party which will acquire all "participation rights" in Sabra, and if no such party is located within one year, Sabra will be wound up.

The board of directors will appoint a general manager and a financial manager for the company. For as long as each of the Buyer and Strauss USA holds 50% of the "participation rights" in Sabra, in the case where either of the aforesaid officers is related to either the Buyer or Strauss USA, the other owner of the "participation rights" shall be entitled to appoint the next other officer (subject to the approval of the other owner of the "participation rights", which shall not be withheld other than on reasonable grounds). Each of the holders of the "participation rights" is entitled to request the replacement of the general manager in respect of the causes set forth in the Articles. Where an owner of "participation rights" to which the general manager is related refuses this request, the abovementioned dispute resolution method will be activated.

The owners of the "participation rights" have undertaken, in accordance with the terms and conditions set forth in the Articles, that neither they nor their related company (as defined in the Articles) shall compete, directly or indirectly, with Sabra in its business areas in the USA or Canada.

Should Strauss USA cease to be a wholly-owned subsidiary of the Company, or should a corporation in the list of corporations set forth in the Articles acquire over 20% of the holdings in the Company, the Buyer shall be entitled to purchase, pro rata, all "participation rights" in Sabra held by Strauss USA on the basis of Sabra's market value. This clause will apply, mutatis mutandis, should the Buyer cease to be a wholly-owned subsidiary of PepsiCo, or should one of the corporations included in another list set forth in the Articles acquire over 20% of the holdings in PepsiCo.

After five years have elapsed from the date whereon the Articles became effective, each of the holders of the "participation rights" in Sabra shall have a put option to sell its "participation rights" to the other holders of "participation rights" in Sabra at such time, on the basis of Sabra's market value less 25%. The party against which this option has been exercised shall have the right to acquire the "participation rights" of the party exercising the option or alternatively, to sell to the party exercising the option its "participation rights" on the basis of Sabra's market value plus 25%.

The Articles further determine provisions with respect to the manner of Sabra's financing, including provisions relating to the dilution of a party that does not contribute to its financing.

The Articles determine that transfer of the "participation rights" in Sabra shall require prior approval by the board of directors, except for a transfer to a related company (as defined in the Articles) controlled by the transferor holder of "participation rights" and except for a transfer made subject to the right of first refusal of the other holders of "participation rights" (which is permissible only if the offeror offers for sale all of his rights in Sabra, and in consideration for cash). Additionally, sale of "participation rights" to a third party is subject to the tagalong right of the remaining owners of "participation rights", and insofar as this right is not exercised, the seller shall have the right to enforce a drag-along right on the remaining owners of "participation rights". This right shall be available to the seller after five years have elapsed from the date whereon the Articles became effective. Additionally, the Articles contain an itemization of certain corporations, in which respect any transfer of "participation rights" in Sabra to them shall require the consent of the Buyer or Strauss USA, according to the provisions of the Articles.

The Articles enumerate cases on which occurrence Sabra shall be wound up, including if a holder of "participation rights" has committed a material breach of a provision of the Articles or of a provision of the agreements relating to the supplementation of the acquisition agreement, and has not corrected such breach in accordance with the provisions of the Articles. Notwithstanding the foregoing, insofar as the owners of the "participation rights" shall so choose and subject to the provisions of the Articles, they may acquire, pro rata, the "participation rights" of the owner of "participation rights" in breach, on the basis of Sabra's market value, in lieu of Sabra's winding-up.

The Articles determine that a related company (as defined in the Articles) to the Buyer shall be granted an option to distribute Sabra's products under market conditions, provided, however, that the terms and conditions of its offer shall be no inferior to similar offers.

Distribution agreement – a distribution agreement was signed between Sabra and B&W LLC, pursuant whereto B&W LLC shall serve as an independent distributor for part of Sabra's products (according to a list attached to the agreement) in consideration for a distribution commission, for a period of 24 months. In January 2012 the agreement was extended for a further two years. The distribution agreement contains non-competition provisions for a period of three years after the expiry of the agreement. Also determined are terms and conditions for mutual indemnification in the case of breach of the agreement or negligence, and for B&W LLC's indemnification in the case of the supply of defective products by Sabra.

b. **Joint Transaction with PepsiCo – Global Joint Venture**

On July 4, 2011 an agreement was signed between the Company and PRB Luxembourg (a wholly-owned subsidiary of PepsiCo, hereinafter: **"PRB"**) for the establishment of a joint venture in which the two companies will be the shareholders of a new company – PepsiCo Strauss Fresh Dips & Spreads International GmbH (hereinafter: the **"Venture"**), registered in Switzerland. The Venture is jointly owned by the Company and PRB, with each party holding 50%. In 2012 the foundations for the Venture's operation were laid, and in 2012 sales will begin in Mexico and in Australia.

The management powers are fully delegated to the Board of Directors of the Venture, which will comprise six directors, three on behalf of each party, provided, however, that if the rate of the holdings of either of the parties should fall below 50% down to 25%, that party shall be entitled to two representatives on the board of directors, and if the rate of the holdings should fall below 25% down to 10%, that party shall be entitled to one representative. If the rate of the holdings should fall below 10%, that party shall not be entitled to representation on the Board of Directors.

It is further determined that the Chairman of the Board will be appointed by the directors representing the shareholder that is not authorized to appoint the Chief Executive Officer of the Venture. The Chairman of the Board will be elected for a term of two years (and may be elected to this office for a further two years). The office will be alternately filled by a director representing the Company and a director representing PRB. In the first period, the Chairman of the Board of Directors will be the representative of PRB.

Resolutions of the Board will be adopted by a majority of votes, provided, however, that for as long as the Company and PRB each hold 50% of the shares of the Venture, the support of at least one director on behalf of each of them for the proposed resolution shall be required. Should the holding of a party fall below 50%, Board resolutions will be carried by a majority of votes.

In the case of a deadlock as a result of the Board's inability to approve resolutions, each director may, within 5 business days, demand another vote at a special meeting to be convened 15 days after the date of the notice. If at the special meeting the Board of Directors shall not reach a decision regarding the issue in dispute, the issue shall be raised before the Chairman of the Board of Directors of the Company and the Chairman of the Board of Directors of PepsiCo (who also serves as PepsiCo's CEO). Should the parties fail to reach an agreement within a further 30 days, the matter will be referred to a non-binding conciliation proceeding, subject to the terms and conditions of this agreement.

After three years since the date this agreement became effective have passed, if the dispute has not been resolved in the conciliation proceeding, either party may offer its shares to the other, or offer to acquire the shares of the other party, on the basis of the market value of the Venture. If the offeree shareholder does not wish to buy or sell the shares of the Venture, the parties will be required to act jointly for the location of a third party which will purchase all shares of the Venture. If a buyer is not found within one year, the Venture will be wound up.

Appointment of a Chief Executive Officer and Chief Financial Officer: The CEO and CFO will be appointed by the Board of Directors. The CEO will be appointed by the directors representing the shareholder that did not participate in electing the Chairman of the Board of Directors of the Venture. The CEO of the Venture shall appoint officers insofar as he deems appropriate.

For as long as one of the parties holds 50% of the shares of the Venture, then in the case where one of the two abovementioned officers is related to either of the parties to the Venture, the other party (which is not related to one of the officers) shall be entitled to appoint the other officer (subject to the other party's approval, which shall not be unreasonably withheld).

In no case will the Board of Directors' refusal to approve the appointment of the CEO of the Venture or the CFO cause a deadlock as defined in this agreement until the three candidates proposed by the proposing party have been rejected. Each of the parties may request of the Board of Directors that the CEO be replaced. Where a party to which the CEO is related shall refuse this request, the dispute resolution method described in the agreement will be activated.

Product distribution: A related company (as defined in the agreement) of PRB will be granted an option to distribute the Venture's products under market conditions, provided, however, that the terms and conditions of its offer will not be inferior to those of similar offers. In any case, the Board of Directors may offer to distribute the products of the Venture through third parties, and PRB will be permitted to amend its offer such that it is comparable to the third party's offer.

Non-competition: In accordance with the terms and conditions set forth in the agreement, the parties have undertaken that neither they nor their related company (as defined in the agreement) will compete, directly or indirectly, with the Venture within the territory of the USA (including Puerto Rico), Canada and Israel (as set forth in the agreement).

The parties and their related companies shall not hold shares of another business that directly or indirectly competes with the products of the Venture within the territories of the abovementioned countries.

The Company recognizes the fact that prior to the engagement with PepsiCo, the latter engaged in a joint venture with a third party in all aspects relating to an additional product category in certain countries (as set forth in the agreement).

In the case where one of the parties acquires ownership of another business which directly or indirectly competes with the products of the Venture within the territory of the USA (including Puerto Rico), Canada and Israel (as set forth in the agreement), and the rival products account for less than 20% of the revenue of the venture, this shall not constitute a breach of this agreement. If the revenue of the other business from the rival products is higher than 20% and is over $10 million, that party shall be required to sell its holdings in the business or to merge it with the Venture.

The parties warrant and acknowledge to each other their undertakings and compliance with the terms and conditions of this agreement. The parties warrant that no legal proceeding that is likely to impair their undertakings by virtue of this agreement is being conducted against either of the parties.

A change in the holdings of a party: Should a corporation in the list of corporations set forth in the agreement acquire over 20% of the holdings in the Company, the other party shall be entitled to purchase, pro rata, all of the Company's shares in the Venture according to market value. This clause will apply, mutatis mutandis, should one of the corporations in the list of corporations set forth in the agreement acquire over 20% of the holdings in PepsiCo, or if PRB shall cease to be a subsidiary of PepsiCo.

Put option: After five years have elapsed from the date whereon this agreement became effective, each of the parties to the Venture shall have a put option to sell its shares to the other party in the Venture on the basis of the Venture's market value less 25%. The party against which the aforesaid option has been exercised shall have the right to purchase the shares of the party exercising the option at the aforesaid price and alternatively, to sell its shares to the party exercising the option according to the Venture's market value plus 25%.

The party against which the right has been exercised shall inform the party exercising the right of its choice within 30 days. The transaction – whether purchase or sale – shall be executed within 120 days.

Share transfer: Neither of the parties shall transfer the shares of the Venture to any of the corporations set forth in the agreement or to companies related to those corporations, without first receiving the other party's consent in writing.

Transfer of the shares of the Venture by either of the parties to a related company under its control shall not require the other party's consent, subject to the Board of Directors' approval, provided, however, that the Board of Directors is convinced that the share transfer does not involve an anomalous tax event.

The transferee (the party receiving the shares of the Venture) shall inform the other party that it agrees to and acknowledges the terms and conditions of this agreement.

After the transfer has been approved by the meeting of shareholders and the transferee has become the holder of voting rights, the party that has transferred all of its shares in the Venture shall no longer be a party to this agreement, but shall guarantee the undertakings of its related companies.

Where the transferee related company ceases to be a related company of the transferor shareholder, the transferor shall be obliged to buy back the shares of the Venture.

Any transfer or attempted transfer other than in accordance with this agreement shall be null and void.

A party shall not be entitled to mortgage its shares to any party whatsoever without receiving the other party's consent.

Profit distribution: Dividends will be distributed with the approval of the meeting of shareholders after a board proposal of the distribution has been adopted.

Any dispute relating to the interpretation or implementation of this agreement shall be brought to arbitration in Bern, Switzerland (and shall be decided by three arbiters, one for each party and one, an agreed arbiter), after the parties have attempted to resolve the dispute through a non-binding conciliation proceeding.

Dissolution of the Venture: The agreement enumerates cases, upon the occurrence of which the Venture will be dissolved at the decision of the meeting of shareholders: a winding up order has been issued to the Venture; bankruptcy of one of the parties to the Venture; a material breach of a condition of this agreement has been committed by one of the parties, and the breach has not been cured to the satisfaction of the Board of Directors.

In the case of bankruptcy or breach by one of the parties to the Venture, the other party shall be entitled to file a legal action against the party in breach in respect of damages sustained or to decide on the dissolution of the Venture. Notwithstanding the foregoing, insofar as the shareholders shall so choose and subject to the provisions of the agreement, they shall be entitled to buy the shares of the party in breach, pro rata, on the basis of market value less 25%.

On the dissolution of the Venture, the Board of Directors shall serve as liquidator or shall appoint one of the shareholders or other party to act as liquidator.

15. Other Operations

The Group has various Operations that are not included in the areas of activity described above, where the income and investments involved are immaterial, and are included in the Financial Statements of the Company as at December 31, 2012 in "Other" segment. These Operations include:

15.1 Strauss Water

a. General information

The Group is active in the worldwide water market, mainly in Israel, UK and China.

The drinking water market consists of mineral water (in jars and in bottles), filtrated water in bottles, electrical filtration and purification appliances and filtering by a filter (such as Brita).

In 2012, we witnessed the continuance of a phenomenon of impaired water quality in various locations worldwide. Trends such as urbanization, aging of water infrastructures and extreme changes of weather aggravated damage to the drinking water sources. Both in developed countries and in developing countries, consumption of water in bottles continued to grow slightly at the global level thanks to the continuance of the concept of health, reduction of prices and the use of more environmental friendly packages.

Strauss Water in Israel focused on continuing its leadership in the water market from the aspect of brand awareness, quality concept and scope for sales.

In the UK – in light of the economic condition, companies of water in bottles reduced prices and consumption has not diminished significantly. The field of bar category (POU) is not developed. Virgin Strauss Water UK focused on launching the new joint company with Virgin and the new branding, establishing awareness and basing the operative model.

In China – Haier Strauss Water focused on the establishment of relations with the retail system, creating awareness to the advantages of the product, based upon the advanced purification technology (MAZE) safety and maximum comfort, among focused publics and the sale of products of the Water Market Premium.

In October 2010, Strauss Water committed in an agreement with Haier Group from China, pursuant to the establishment of a joint venture in China. See Section in Material Agreements 15.1.j(1) of this chapter.

In November 2011, Strauss Water entered a set of agreements with Virgin Group pursuant to the establishment of a joint venture in the UK and Ireland, with an option to expand the operations to additional countries. See Section in Material Agreements 15.1.j(2) of this chapter; and also Note 6.6 to the Financial Statements of the Company, as at December 31, 2012.

Within the process of 2012, Strauss Water entered a set of agreements for the giving of a loan that can be converted into shares of the company in the US ("**the Borrower**"), which is the holder of rights of intellectual property, serving as a security to the loan that was given. Furthermore, the agreements include a license for use of the technology of the Borrower

b. **Products**

The company engages in the development, assembly, marketing and servicing of filtration and purification systems for drinking water.

The brand in Israel is Strauss Water, as the names of the appliances are based upon the brand of Tammy4, e.g. Tammy4 Family and Tammy4 Primo.

In the UK – the leading brand is Virgin Pure, which is always accompanied by the supplementary branding slogan of *Improving Life with Strauss Water*.

In China, the products that are sold are marked with the logo of Strauss and Haier, joint branding – Haier Strauss Water. The line of products is referred to as WaterMakers and the initial product launched is Watermaker Premium.

In Costa Rica, Singapore, Portugal, Canada and Cyprus the brand is Strauss Water or in combination with the brand of the local company. Service in these countries is executed by means of the local sales agent.

c. **Competition**

The main competitors are companies selling water in bottles and tanks, and companies offering water filtration devices: Mey Eden, Neviot, Aquanova and Brita, Electra, Whirlpool and Maayanot.

The aggressive competition in 2012 in Israel in the market of filtrated water solutions for the domestic sector (the POU category) increased the category at the expense of mineral water. Competitors reduced prices and the consumer showed how sensitivity to the price of the appliance and service. Strauss Water Israel focused in the trends of comfort, water quality and price desirability opposite brands of mineral water.

In the UK – competitors are actually companies of water in bottles and filters in jars, such as Brita. In addition, there are several small companies such as Bibo and ZipTap. Virgin Strauss Water UK focused on the message of maximum convenience opposite water in bottles.

In China – the main competitors are Qinyuan ,Midea and Angel. The market of water solutions was somewhat diminished during 2012, but the number of new competing products launched continue to reach to dozens each month. Haier Strauss Water competes with the competition through creation of segmentation and preference for the purification technology and advanced functions.

In 2012, there was no significant change in the market segments of the Strauss Water brands.

d. **Seasonality**

Following are data for the years 2012 and 2011 relating to Strauss Water's income by quarter, in NIS millions:

	2012		2011	
	Income (NIS millions)	**% of total income of segment**	**Income (NIS millions)**	**% of total income of segment**
Q1	99	23.7%	99	24.4%
Q2	103	24.6%	100	24.7%
Q3	112	26.8%	106	26.2%
Q4	104	24.9%	100	24.7%
Total	418	100%	405	100%

In the third quarter, the summer months, the demand for cold water increases compared to other quarters.

e. **Customers**

Generally, Strauss Water's customers are households and the small business sector such as offices, and big customers, mainly in the institutional sector. Strauss Water is committed in long term service agreements with its customers, pursuant to the sale of spare parts. The agreements are not binding upon the customer, who may terminate the commitment at all times.

f. **Marketing and Distribution**

The marketing and distribution of Strauss Water products to the private sector and small businesses in the business sector are carried out by direct marketing in Israel and in the UK, through a call center or directly via the company's websites. Marketing in the business sector is in most cases performed through sales agents, who accompany potential customers and are in constant touch with them, and in the minority of cases, through tenders in which Strauss Water competes. Sales to customers are characterized by great variance and dispersion.

In China, sale of products is mainly executed through large retail chains.

Strauss Water's major advertising channels in Israel are the mass media, radio, television and print, and advertising on the Internet. In England, Strauss Water concentrates advertising efforts on billboards, in dedicated advertising areas in train and underground stations in the London area, in the printed press and on the Internet. In China, most of the advertising is in magazines, on local billboards and on the Internet.

g. **Fixed Assets and Real Estate**

The following is a description of the main real estate and remaining essential fixed assets of the Group serving Strauss Water:

Nature of the Site	Location of the Site	Designation of the Site	Real Estate on an Area	Built Area of	Rights in the Site
Israel					
Plant	Industrial zone nearby Kibbutz Native Ha LH	Manufacturing, assembly and packaging	10,889 880 m^2	6,099 092 m^2	Lease from a third party for a period up until January 2018
Offices (in two adjacent buildings)	Or Yehuda Industrial Zone	Management offices, telephone, service and sale center	-	6'760 m^2	Lease from a third party for a period up until December 2013 in one building and until August 2014 in the other building
UK					
Offices and warehouse	Hanley Industrial Park, Pibright road, Gilford	Offices of the Company, telephone center and warehouse for the appliances imported from Israel	---	1,412 m^2	Lease from a third party for a period up until December 2014 , including a 5 year option
China					
Offices	Shanghai	Offices of the Company, customer management, bookkeeping and HR	---	210 m^2	Renewable lease from a third party
Offices	Changzhen	Offices of the operating unit	---	200 m^2	Renewable lease from a third party

The assets are not pledged

h. **Research and Development:**

Strauss Water developed an innovative technology for water purification, consisting of a combination between innovative developments in the field of engineering, chemistry and microbiology. The technology enables a wide variety of applications in the domestic drinking water sector. In addition, Strauss Water continues to develop technologies in the field of consumption products of drinking solutions, inter alia, including cooling, heating and boiling. All the innovative developments are supported by means of 17 patents and patent applications filed in a large number of countries. The products of Strauss Water underwent procedures of standardization by the standardization organization in the USA opposite NSF Standards, which are considered the most aggravating in the world in the field of water standardization.

i. **Human Capital**

For a description of Strauss Water's organizational structure and details with respect to employment agreements, investments in training, etc., see Section 21 of this chapter.

Following is information on the number of employees of Strauss Water companies as at December 31, 2012 and December 31, 2011, respectively:

	Number of Employees as at	
	December 31, 2012	**December 31, 2011**
Management	5	5
Finance, Marketing, HR, IT, R&D and Administration	191	257
Sales and Distribution	410	396
Procurement and Logistics	6	5
Operations	334	399
Total	946	1,062

In Israel – 744 employees together with 56 workers of manpower agencies (in 2011 – 840 employees together with 50 manpower employees), in the UK – 54 employees (in 2011 – 43 employees), in China – 92 employees (in 2011 – 129 employees) (including in the joint venture).

In 2012, the number of employees decreased through efforts of improving the efficiency assumed by the management.

Raw Materials and Suppliers:

The main raw materials utilized by Strauss Water in the production of its products, whose cost constitute 20% and above of the total purchasing of raw materials, are kits used in assembling the appliances and filters. In addition, Strauss Water mainly uses compressors and ultraviolet bulbs.

Strauss Water has no dependence on suppliers. In order to terminate the business connections with the main supplier, a notice in advance of at least 6 months is necessary.

j. **Material agreements**

1) **Joint Venture – Haier**

On October 16, 20112010, Strauss Water, through a subsidiary established in Hong Kong, Strauss Water HK Trading Company Ltd. (hereinafter: "Strauss Water Hong Kong"), signed an agreed with the Haier Group of China, through its subsidiary Haier Whole Set Distribution Co. Ltd. ("Haier Consumer Goods") for the establishment of a joint venture in China. The joint venture is active in marketing, sales and service in China based on Strauss Water's products. The venture is jointly owned by Strauss Water Hong Kong (50%) and Haier Consumer Goods (50%). The joint venture initiated its operations in May 2011, purchases the products from Strauss Water and receives distribution, sales and servicing services from subsidiaries of the Haier Group.

2) **Joint Venture – Virgin**

In November 2011 Strauss Water signed a series of agreements with the Virgin Group, through Virgin's management company VEL and the investment fund Virgin Green Fund (VGF), for the establishment of a joint venture which will engage in the marketing, sale and servicing of Strauss Water products in Great Britain and Ireland, with an option to expand the joint activity to additional countries. The products will be sold under the joint branding of Virgin and Strauss Water. Strauss Water UK Company was transferred to joint holding with VGF and its name was changed to Virgin Strauss Water UK Ltd. (hereinafter: "**VSW UK**"). According to the agreement, VAS UK will pay in consideration of the use of the brand of Virgin 3% of its sales, and not less than a total of ₤ 2.5 million, over the next five years in unequal amounts. $10 million was invested in the venture, $5 million by each of the partners to the venture, according to a value of VSW UK before the money of $8 million. Following the aforementioned investments, rates of ownership are approx. 72% to Strauss Water and approx. 28% to VGF. VSW UK is managed under joint control of Strauss Water and VGF from the date of the commitment in the set of agreements, as stated, regardless of the rate of holdings of the partners. VGF has a right of veto over the distribution of dividends with respect to each class of shares beyond 50% of the net profit of VSW UK. Furthermore, for as long as Strauss Water has paid 15% or more of the share of VSW UK, it will appoint three directors; in the event that VGF will hold between 15% to 30% of the shares, Strauss Water will be allowed to appoint four directors. However, according to the Shareholder Agreement, upon completion of the year subsequent to the year in which VSW UK transferred to a positive EBITDA, Strauss Water will receive a casting right to regain control over VSW UK. In the event that the casting right will be exercised, VGF will have an option to sell its share in the venture to Strauss Water according to its fair value. It was further agreed that to the extent that the venture will meet certain business targets by the end of 2012, VGF and Strauss Water will invest an additional amount of approx. $5 million, each, in the venture; whereby the rates of holding in the shares of VSW UK will be 64% to Strauss Water and 36% to VGF. In the event that VGF will decide to invest an additional amount, even in the event that the venture fails to meet the business targets, as stated, Strauss Water will also be obligated to execute the additional investment. Three directors serve on the board of VSW UK, who were appointed by Strauss Water, and three on behalf of Virgin Group. VSW UK will continue to be managed under joint control, as stated, however, in the event that the rate of holding of VGF in the shares of VSW UK will remain under 30%, in consequence of avoiding the second investment or that it will descend below 30% in the future, while the directors appointed by VGF will resign, and Strauss Water will gain control over the Company. As of the date of publication of this report, VSW UK failed to meet the business target stated for 2012, and the additional investment have not been made, as yet. Contracts are handled between the partners to the venture in order to extend the test period, pursuant to meeting certain business targets for 2013, including the investment of the additional amount, while preserving the current management and control agreements during the extension period. The partners to the venture examined the possibility to extend the test period, pursuant to meeting the business targets for 2013. Upon completion of three years from the commitment in the agreement between Strauss Water and VGF, the partners are entitled to bring to the board of VSW UK a resolution to issue a public offering. In the event of a notice, as stated, on behalf of VGF, Strauss Water will have an option to purchase the share of VGF in the shares of VSW UK in consideration of their fair value, in lieu of the issuing. In the event of a public offering of Strauss Water, VGF will have an option to replace its shares in VSW UK with the shares of Strauss Water, according to their fair value and Strauss Water will have an option to compel VGF to replace the shares of VSW UK held by it with shares of Strauss Water, according to their fair value. In the event that an offering is not executed by completion of the eighth year of the agreement or if a change of control will occur Strauss Water, VGF will be entitled to replace the shares of VSW UK with the shares of Strauss Water or to compel Strauss Water to purchase the share of VGF in the shares of VSW UK according to their fair value, as the choice between the two options will be available to Strauss Water

15.2 Max Brenner

Additionally, the Group manufactures premium chocolate products under the Max Brenner brand which are sold in Israel, as well as in "Chocolate Bars" in Israel and abroad. The operations of the Max Brenner brand creates a unique, novel cultural experience of premium chocolate and chocolate beverage consumption. As at the date of the Report, the chain of "Chocolate Bars" comprises 44 branches in Israel and worldwide, 4 of them owned by the Group and 40 operated under franchise. In Israel, six "Chocolate Bars" are operating under franchise. In the USA four are under ownership: in New York16, Philadelphia, Las Vegas and Boston; thirty branches in Australia (in 2012 four new branches were opened); and four in the Far East – in Singapore and the Philippines.

In 2012, the operations in Israel were transferred from ownership over the five branches of the Chocolate Bars to their operation by means of franchisers.

Premium chocolate products under the Max Brenner brand which are sold in Israel and abroad.. These products are manufactured at the plant in Bet Shemesh. The site is located on a 5,500 m² plot and has a built-up area of 2,300 m². The Company leases the land rights from the Israel Land Administration (which itself has leased the rights from the Greek Patriarch until the year 2053) under a capitalized lease agreement ending in April 2043.

As at December 31, 2011 2012 the Group employs 486 employees in the "Chocolate Bar" operations (compared to 745 in 2011). The decrease in the number of employees is due to transferring the operation of the Chocolate Bars in Israel to franchisers. Outside of Israel, the number of employees increased from 417 to 442 in consequence of expansion in the scope of business.

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[16] . In New York, together with a partner, Samba Chocolate LLC, which holds 10% of the holdings.

Part IV – Matters Relating to the Operations of the Group as a Whole

16. Customers

16.1 Breakdown of Sales to Customers

a. The Group's customers in its areas of operations, both in Israel and in countries where it is active outside of Israel (except with respect to the customers of Strauss Water – see Section 16.1.c of this chapter), are divided into two main types: retail market customers and customers in the Away-From-Home (AFH) market.

Retail customers (such as food chains, grocery stores, mini-markets, supermarkets, snack bars, kiosks) supply consumers with food and beverage products mainly for home consumption.

Customers in the AFH market (such as workplaces, hospitals, cafés, hotels, coffee machines and vending machines) provide the consumer with consumption opportunities for food and beverage products while being away from home. The AFH market is characterized by the end consumer, who actually consumes the product, having little influence on the choice of products purchased; the choice is usually made by the purchasing director or central buyer. As a result, branding is of less importance, as opposed to price, availability and service, which are of greater importance to these customers. In part of the AFH market sales are carried out on the basis of tenders published by various entities, with the quantity and price being defined in advance.

Generally, sales to the customers of the Group in and outside of Israel are made on the basis of periodic orders received from time to time as needed, with no backlog orders in advance.

b. Following is the breakdown of the Group's total sales (in NIS millions) and their rate out of the Group's total revenues, divided by customer type, in the years 2012 and 2011:

Customer type	Sales Channels – 2012							
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads[17]	Other	Total Group	% of total
Large customer market	1,116	431	350	1,195	415	--	3,507	42.9%
Private market	556	351	95	1,738	89	--	2,829	34.6%
AFH	225	151	148	159	18	135	836	10.2%
Other	23	48	115	406	--	418	1,010	12.3%
Total	1,920	981	708	3,498	522	553	8,182	100%

Customer type	Sales Channels – 2011 (*)							
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads	Other	Total Group	% of total
Large customer market	1,107	419	316	1,035	313	--	3,190	41.5%
Private market	539	336	93	1,647	61	--	2,676	34.7%
AFH	204	150	139	156	14	140 [18]	803	10.4%
Other	24	61	106	434	--	405[19]	1030	13.4%
Total	1,874	966	654	3,272	388	545	7,699	100%

(*) Classification of customers updated: "organized market" and "large private market" are now defined as "large customer market", while "small private market" (mini markets, grocery stores and convenience stores) is currently defined as "private market".

c. It is the Group's practice to divide retail customers between the "large customer market" and the "private market". In **Israel**, customers in the large customer market include that previously defined as the “organized market” and "large private market". The organized market includes the three large food chains - (Shufersal, Blue Square and Co-Op Shop (in its previous name Co-Op Israel), while the large private market includes Hatzi Hinam, Tiv Taam, Rami Levi, Beitan Wines, Osher Ad, Victory, Freshmarket, Yohananoff, Lahav Warehouses, Hashuk Warehouses and Cost 365. The large customer market customers in and outside of Israel are characterized by a large number of branches and centralized

17 Including sales of Sabra at a rate of 50% only.
18 Including sales of Max Brenner in Israel and abroad.
19 Including sales of Strauss Water

procurement on a large scale. The Group's products are distributed directly to the various stores or to logistic centers. The Group has commercial agreements with each of the large retail chains, which are usually renewed yearly for the entire chain. The agreements refer to fixed discounts and to regular ongoing selling activities in the branches of the chains (such as displays, introduction of new products, shelf space) and are determined in negotiations between the chains and the Group. Variable discounts and payment for joint sales promotion and advertising activity are determined from time to time at the Group's discretion. Additionally, there are different credit terms in effect between the Group and the retail chains.

For a description of the position of the Antitrust Commissioner in Israel regarding "trade arrangements between suppliers and retail chains" and the agreed injunction order formulated between the Commissioner and the dominant food suppliers, which was approved by the Antitrust Court, see Section 25.4.b of this chapter.

Outside Israel – In Central and Eastern European countries the Group's customers are divided into two kinds – retail market customers and AFH customers. In the retail market there is a growing development trend of modern commerce, which is characterized by large marketing centers and national retail chains, as opposed to traditional commerce, which is characterized by neighborhood stores. In Ukraine, Russia and Serbia the traditional market is still dominant, while in Poland and Romania modern commerce has already reached half of the retail market. In Central and Eastern Europe the large customer market consists of national key accounts and cash & carry wholesale chains, characterized by discount prices.

Sabra – the refrigerated salad products in the USA are sold and distributed to Club Chains (giant warehouses, specializing in sales of a diminished selection of brands in large packages according to economic prices) – approx. 25% of the sales; Mass Merchandises (giant chains of department stores such as Walmart) – approx. 9%; retail chain (stores on nationwide and regional chains) – approx. 61%; and convenient stores – approx. 5% of the sales. The largest customer, covering 17% of the total sales is Costco of the Club Chain.

The private market in and outside of Israel includes the mini-markets and grocery stores. The private market is characterized by a large number of customers, a great variety of customer types as well as in the commercial terms and credit terms granted to them. The difference between the private and large customer markets from the Group's aspect is mainly in the different selling arrangements, customer credit volumes, collection processes and different compensation arrangements with distributors (in this context, see Section 17.1 of this chapter). In recent years the Group has been pressured by the large customer market (and to the best of the Company's knowledge, this applies to the other suppliers in the food and beverage industry as well) to increase its profit margins.

d. Geographical segmentation of customers – for the revenue turnover breakdown according to geographical regions see Note 29.4 to the Financial Statements of the Company as at December 31, 2012.

16.2 <u>Dependence on customers</u>

In 2012 in Israel and in the Group companies outside of Israel there were no customers in which respect the Group's revenues from sales to these customers exceeded 10% of the Company's total revenues in its Financial Statements, and where the loss of one of the customers mentioned below will have a material impact on the results of the Group's business operations.

The Company's revenues from sales to each of its customers (in NIS millions) in the relevant periods did not constitute more than 10% of the Company's total revenues in its Financial Statements. Each customer has different commercial terms and credit terms, as described in Section 16.1.c above.

17. Sales and Distribution

17.1 In Israel (not including Strauss Water)

a. The sales and distribution system for all of the Group's products in Israel (Health & Wellness products, Fun & Indulgence products and Coffee products) serves some 13 thousand points of sale, including supermarkets, grocery stores, mini-markets, kiosks, hotels, restaurants, cafés, workplaces, etc.

b. Finished products are transported from the goods warehouses at the Group's production sites to four distribution centers located in Zrifin, Petach Tikva, Haifa and Acre. Additionally, there are cross-docking centers in Yotveta, Beersheba, Bet Shemesh, Tiberias and Kiryat Shemona, to which the products are transported from the distribution centers.

c. At the distribution centers, orders are picked and issued to drivers who are Company employees and to independent distributors. Sales and distribution are effected in one of the following methods: "pre-sale", used mainly in the food chains and large stores; in this method orders are collected from customers by a Group sales representative, and are supplied within 48 hours to the stores or to logistic centers operated by some of the major chains; "van-sale", used mainly for points of sale in the small mini-market, grocery store and kiosk channel, where sales are made directly from the distribution vehicle that serves as a mobile warehouse. In this method, the distributor is the one who executes the order from the distribution center according to his visiting plan at points of sale. Additionally, the Group is active in the AFH channel in a third sales and distribution method – telesales, where orders are collected from customers by telephone and delivered within 48 hours.

d. The Company's distribution system is essentially based on a network of independent distributors (external system) and an internal network of distributors (Company employees).

e. The independent distributors system mainly distributes the refrigerated Health & Wellness products (dairy products, milk beverages and fresh juices), while the internal distribution system (Company employees) mainly distributes Fun & Indulgence products, salty snacks and coffee.

The independent distributors distribute only products that are manufactured or distributed by the Group, and the points of sale are determined by the Group by allocating the distribution lines between the various distributors. For distributor lawsuits, see Note 26.1.2.4 to the Financial Statements of the Company as at December 31, 2012. The Group is liable for collecting the consideration from customers. The distributors undertake to maintain, at their own expense, a suitable vehicle for refrigerated transport according to technical specifications defined by the Group. In the case of sales to customers in the large customer market, large customers in the private market (the "big private market") and large customers in the AFH channel, the Group (and not the distributor) is the one that makes the sale directly to the customer.

In consideration of the distribution, the Group pays the distributors commissions that are defined as a percentage of the sales turnover, which varies according to customer type (new distribution channels are characterized by high commissions), customer size (the commission percentage decreases pro rata to the increase in the size of the sale), the type of activity required (sale, order, picking or collection) and various performance measures.

With most distributors the Group is engaged in an agreement, pursuant whereto it is entitled to terminate the engagement with the distributor following advance notice. The distribution right is granted to the distributor by the Group for no consideration. The distribution right is non-transferable by the distributor other than with the Group's consent.

f. The Group installs coffee machines bearing the Group's brands directly and through independent operators, who are responsible for the installation and maintenance of the machines and for the supply and distribution of coffee products to various centers.

g. The Group has exclusive distribution agreements in Israel with an external distributor to the Israel Prison Service and Israel Police, and with a company established by the Association for the Wellbeing of Israel's Soldiers to army canteens, for the distribution of the Group's food products (except for dairy products, milk beverages and salads). The Group also has a number of exclusive external distributors who buy the Group's products and sell them in the territories of the Palestinian Authority.

h. The Group operates a team of shelf-stocking teams ers in large stores, which handling es the renewal of orders and arranging es the Group's products on the shelves. In accordance with agreements on thise subject between the Company and the chains of Shufersal and Mega, these chains began to operate operate their own shelf-stocking systems from 2012, at this stage in the dry food sector. In 2013, they began self stocking of productsThe switch to the operation of the shelf-stocking system by these chains in the refrigerated food sector. is gradual, commencing from December 2012. Co-Op ShopIsrael, Beitan Wines and Hatzi Hinam operate fully independent shelf-stocking systems.

In ther matter of For the position of the Antitrust Commissioner's position of January 2005 regarding shelf-stocking and the agreed injunction order formulated between the Antitrust Commissioner and the dominant food suppliers, among others, in this matter, see Section 25.4.b of this chapter.

i. The Company takes care to maintain freshness of its products on the shelf, and collection of returns from most of the points of sale and their destruction. Where the chain's own shelf-stocking system is in place (see Section 17.1.h above), returns are handled as agreed.

j. Additionally, the Company is party to a distribution agreement with Shufersal for dry food products, pursuant whereto the Group supplies all of the orders placed by the branches of the chain to a logistic center and Shufersal see tgo the takes care of distribution to the different branches in consideration for payment of a distribution commission.

17.2 <u>In Countries Outside of Israel</u>

Generally, in countries where the Group operates outside of Israel, there are distribution centers in each country from which finished products are distributed, as well as warehouses and cross-docking sites.

Poland – the retail market and AFH sales system serves some 10 thousand points of sale in the pre-sale and tele-sale methods through independent distributors, and in the retail market, also through external distributors who deliver the goods to the logistic centers and central warehouses of the chains. The Group uses employees or independent stockers according to the chain's requirements. Defective or obsolete products may be returned. The sale of capsules and installation of coffee machines are executed by the Company's employees and through independent distributors.

Romania – the sales and distribution system in the retail and AFH markets serves some 28 thousand points of sale through 48 independent distributors in the pre-sale and tele-sale methods. The Group does not operate a shelf-stocking system. Products may be returned only if they are damaged during delivery. The distributors are responsible for the installation and maintenance of the coffee machines.

Serbia – sales and distribution in the retail and AFH markets serve approx. 18 points of sale. Distribution is executed in the pre-sale method, through the Company's employees and independent distributors and a third party that provides logistics services.

In the branches of the major chains in the retail market, there is a shelf-stocking system. Product returns are regulated according to ISO and HACCP (Hazard Analysis & Critical Control Points) according to which defective or obsolete products may be returned (it is noted that in Serbia, store owners are required to give notice 45 days before the expiry date). The sale of capsules is executed by the Group and through external distributors. Installation and maintenance of coffee machines are performed by the Group's employees.

Russia – the sales and distribution system serves some 100 thousand points of sale in the tele-sales and pre-sale methods. Sales to the retail and AFH markets are made by independent distributors who are responsible for the collection system, and the Company works on the basis of direct agreements with the national chains. The Group, in collaboration with a third party, operates a shelf-stocking system in stores of large customers (key accounts), which handles the renewal of orders and the arrangement of the products. Products may be returned if defective or of poor quality; additionally, in the large customer market unsold products, even after promotional campaigns, may be returned. The sale of capsules is executed by the Group and through external distributors. Installation and maintenance of coffee machines are under responsibility of the Group' and independent distributors.

Ukraine – the sales and distribution system serves some 3 thousand points of sale and is operated by independent distributors, who are responsible for the collection system, in the pre-sale and tele-sales methods. The shelf-stocking system is operated by the Group together with a third party and handles the renewal of orders and the arrangement of the products. Returns are possible in cases where products are defective or of poor quality. The installation and maintenance of coffee machines are the responsibility of the local team.

Brazil – the sales and distribution system serves some 59 thousand points of sale in the presale method and is operated by distributors who are Company employees (around 570) and independent distributors (around 129120) who are engaged by the Company as needed. The products are transported by 210 trucks owned by the Group. Delivery times range from 24 hours to 7 days, depending on the location of the point of sale (the long delivery times are relevant for points of sale located in remote rural regions). Strauss operates a shelf-stocking system which handles the renewal of orders and the arrangement of the products. The subject of product returns is regulated in the legislation, which determines the manner and terms and conditions of return. The law limits the quantity that may be returned. The main reason for approving returns is incompatibility between the order and the goods delivered. Installation and maintenance of coffee machines are the responsibility of the local team.

Sabra – The sales and distribution system serves some 50 thousand points of sale in the USA and Canada. In 2012, Sabra shifted to the distribution of its products through independent logistics centers, owned by a third party (3PL). Most of the products are sold according to the pre-sale method, distributed directly to the logistics centers. There is no shelf-stocking practice among customers. Deliveries are made within up to 10 days from the day the order was received; in the DSD channel delivery times are even shorter. Products returns are customary for defective products only in the DSD channel.

18. Advertising and Marketing Communications

The Group supports its leading brands in Israel by extensive marketing communications. In general, marketing communications are conducted via three main channels – the advertising, public relations and experiential channels. (1) **The advertising channel** mainly consists of the mass advertising media such as television, Internet, billboards, cinema, printed press and radio. In 2012 the Group continued to lead as the Number 1 advertiser in Israel in terms of the total volume of investment in all advertising channels[20]. Most of the Group's advertising is directed to television. The Company increases the presence of its brands in the digital arena and executed substantial moves in the worlds of social networks, Internet video, etc.; (2) **The public relations channel**, which enables messages about the Group's brands to be communicated indirectly through the media; and (3) **The experiential activity channel** (such as product samplings at points of sale, sample giveaways etc.) consists of events and sales promotion campaigns, their goal being to enhance the brand experience, create awareness of campaigns being held at the various stores and food chains, and drive consumer preference for the Group's brands.

The age of one-sided communication has ended, and the age of the digital world allows for a genuine, honest and extended conversation and the study of the local and international markets (which are becoming increasingly uniform from the consumers' aspect). Marketing communications expenses include, among others, the costs of producing the advertising materials (such as the cost of producing television commercials, ads for the printed press, signs for points of sale, etc.), as well as the cost of using the media themselves, i.e. payment to the franchisees of the television channels for commercial airtime, and payment to the other media.

In determining the communications language of the Group's brands, the Group is assisted by advertising agencies, which are partners in building advertising strategy. Media planning (distribution among the media channels, spread of the budget across the various channels and

[20] According to the data of "Yifat Advertising Control", which, among other services, provides information on the volume of investments in advertising.

media buying) is performed by an external media company on the basis of targets defined by the Company.

The Group supports its leading brands in the countries where it is active outside of Israel, with activities being conducted separately in each country.

The Group continued to manage its product portfolio competitively and effectively in all countries where it is active.

The Group's advertising expenses (including accessories, market surveys and packaging design) in NIS millions in the years 2012, 2011, and 2010 are as follows:

	2012	2011	2009
Israel operations	155	170	181
Coffee operations	194	168	156
Other	108	98	59
Total	457	436	396

The cut down of costs in Israel emmerges mainly from an organization change in the corporate's marketing center. Enhanced of advertising on the television medium in Russia led to an increase in the Russian costs of coffee.

19. Fixed Assets, Real Estate and Facilities

Following is a description of the Group's material real estate assets, which are not attributed to a particular area of operations.

19.1 Head Offices in Petach Tikva

The Company owns the rights to be registered as owner of an office building that is part of a project known as "Yanai Park" at 49 Hasivim Street in Petach Tikva, which since December 2007 has served as the offices of the Head Management of the Company. The office building comprises a ground floor, 9 additional floors and basement areas. A caution notice has been registered with respect to the property in the Company's favor.

The sale agreement determined that tax certificates would be delivered to the Company by no later than 12 months from the date possession of the premises was delivered. The sale agreement further determined that out of the consideration, an amount equal to 15% would be deposited in trust until the tax certificates had been submitted by the sellers. The tax certificates have not yet been received in view of objections filed with the tax authorities with respect to purchase tax and betterment tax charges. As at December 31, 2012 the trustee holds an amount of NIS 8.9 million, following the release of NIS 2.9

million out of the amount held by the trustee during 2008 upon submittal of certification that tax with respect to the transaction had been paid by one of the sellers. As mentioned, the Company filed an opposition with respect to a supplement it was required to pay to purchase tax, in an amount of NIS 2.6 million.

The sellers undertook that within 18 months from the date of signing of the agreement the rights in the sold asset would be registered in their name; however, registration will be possible only after the construction of the last two buildings in the "Yanai Park" Project has been completed and the tax approvals received; and that within seven years from the date of completion of the project, the project, including the office building, would be registered as a condominium. The agreement prescribes provisions that will ensure the registration of the condominium and the Company's rights, and among other things the Company was given by the sellers' individuals an irrevocable personal guarantee to ensure the sellers' undertaking to register the condominium. As at December 31, 2012, the rights to the asset have not yet been registered in the sellers' name.

On January 24, 2012 2011 the Company signed an agreement for the purchase of vacant spaces in Park Yanai (3,000 m²), adjacent to the Group's office building at 49 Hasivim Street in Petach Tikva, and construction of a building envelope for an office block. In consideration for the land rights and construction of the envelope, the Company will pay the seller an amount of NIS 101 million. The construction rights in respect of the planned building include approximately 2,500 m² of commercial space and 10,000 m² office space. The office space and part of the commercial space are intended, among other things, for use by the Group. For further information, see the Company's Immediate Report of January 24, 2012 2011 (Reference 2012-01-026859).

In the third quarter of 2012, the management of the Company decided to designate the additional areas to real estate for investment. For details, see Note 16.3 to the Financial Statements of the Company, as at December 31, 2012.

19.2 Real Estate in Givatayim

Two subsidiaries of the Company (Pri-Elite Ltd. and Givat Rivka Ltd.) held 66% of the land rights in an 8,346 m² plot in the "city" quarter of Givatayim, comprising of ownership rights in approx. 20% of the land and lease rights from the Israel Land Administration in approx. 46% (partly under a capitalized lease agreement ending on October 31, 2048, and partly under a non-capitalized lease agreement ending on December 2016, with an option to extend the agreement for 49 more years).

The two subsidiaries, as stated, sold to a purchasing group and to Clal Insurance, in March and in September 2012, 80% of their rights in the plot and in January and February 2013 also approx. 18% of their rights in consideration of a total amount of approx. NIS 190 million, including linkage.

See Note 16.4 to the Financial Statements of the Company as at December 31, 2012.

20. Research and Development

In line with its business strategy, the Group engages continuously in the development of new products and their introduction to the market, as well as in refreshing existing products, inter alia, through packaging renewal and innovation in response to the demands and tastes of the target audience. Salty snacks and yogurt products are developed partly through using the comprehensive knowledge in the possession of the Company's strategic partners, PepsiCo and Danone, respectively.

In 2012, the Group engaged in a search for solutions to improve the health of its consumers, improving and promoting the efficiency of the manufacturing processes, development of alternative energy consumption, environmental matters, including the development of new packages, which will improve the maintenance of quality and freshness of the products. The development work over products is executed under initiative of the marketing department of the various business units, by means of development teams that are operating laboratories in the plant, according to market researches or consultation on issues of marketing and public opinion, and also according to tests executed by means of internal and external teams. Thus, e.g., in 2012 espresso capsules were developed for coffee machines, that are adjusted to the taste of the Israeli consumer. In response to the ever growing challenges of the business environment throughout the chain of value, the Company decided about two years ago to establish a process, which will assist it in allocating, developing and assimilating innovative technologies. For this purpose, we have created the Food Tech Alpha Strauss Community in Israel, that actively connects Strauss to researchers, inventors, initiators, academic institutes, capital risk funds and governmental organizations. The community was established with the understanding that connecting between the vast collection of minds in Israel and the know-how and assets (brands, manufacturing sites and the like) of Strauss, and its capability to turn technologies into products is of a great value to all the parties. These days, initial technologies of the products of the venture, work within the organization.

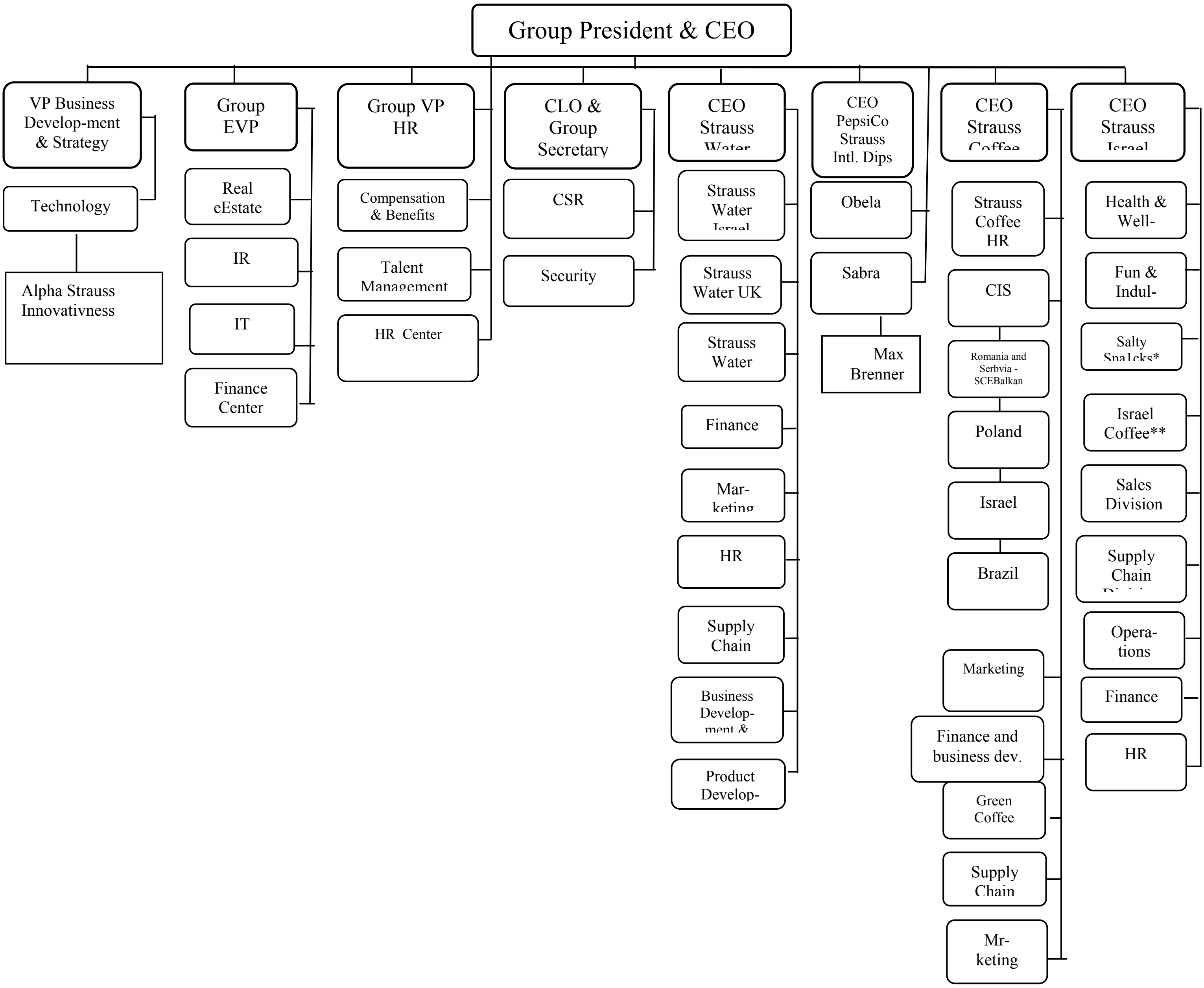
The research and development costs of the Group are not essential. In the matter of the development of a water purification for the operations of Strauss Water, see Section 15.1 of this chapter.

21. Human Capital

21.1 Organizational Structure

a. The Group operates according to an operating model which is based on a matrix structure that integrates business units responsible for profitable growth with central units in Group Corporate Center and the Israeli operations, which manage core processes and supporting processes across the organization.

b. Following is the diagram of the Group's organizational structure on or about the time the Periodic Report was published:



* The operations of salty snacks constitute part of the segment of Fun & Indulgence, which is managed in partnership with PepsiCo.

** The coffee operations in Israel are managed jointly by Strauss Israel and Strauss Coffee

c. **Senior Management** – the Group is led and managed by the group management. The group management members manage the overall strategy of the Group and the companies and follow up the accomplishment of business results. They also serve as members of the Boards of Directors/Executive Committees of the companies and the Group's major units of activity, entities that chart the strategic directions in the Group.

Group Management includes the Group President & CEO, CEO of Strauss Israel, CEO of PepsiCo Strauss International Dips and Spreads, CEO of Strauss Water, CLO and Group Secretary, Group VP Human Resources, Group CFO, and VP Strategy and Business Development; the CEO of Strauss Coffee is invited to group management meetings but is not a member of the group management.

d. **Group Headquarter** – assists Group Management in the management of the Group, with emphasis being placed on the management of strategic aspects and reduced operational involvement in the companies. The Corporate Center serves as a professional, strategic and guiding entity that provides professional support to Group Management, controls the performance of the companies in relevant areas, and adds value by leading core aspects that support "one company".

The functions included in Group Corporate Center are: Financials (Accounting, Economics & Control, Investor Relations, Treasury, Insurance and Risk Management); IT; Human Resources; Legal Department (including Company Secretariat and CSR); Communications and Spokesmanship; Strategy and Business Development; Security; and the Chairperson's and CEO's Offices. Corporate Center Management includes the heads of the functions mentioned.

For information on the number of employees in the group headquarter in the years 2012 and 2011, see Section 21.2.b of this chapter.

e. **The Israel operations** – the Group's activity in Israel has a separate management. Management is responsible for the end-to-end management of activities in Israel, for building strategy and for its approval vis-à-vis the group management. Israel Management is responsible for the realization of strategy, the accomplishment of goals derived from it, and for the development of people and brands. Strauss Israel Management comprises the CEO of Strauss Israel, Manager of the Dairies Division, Manager of the Fresh Foods Division (divisions that belong to the Health & Wellness segment), Manager of the Fun & Indulgence Division, Manager of the Salty Snacks Division, Manager of the Israel Coffee Division, Supply Chain Manager, Operations Manager, Sales Manager, Human Resources Manager and the CFO.

The business divisions ("Health & Wellness" and "Fun & Indulgence") are responsible for growth and profitability in their areas of responsibility, and the central units (Sales, Supply Chain, Operations, Marketing, Finance and Human Resources) provide professional services to the business divisions. Each business division has its own separate management, which includes the Division Manager and Financial, Operations, Development, Marketing and Human Resources Managers (part of whom are also subordinate to the professional central units).

The Sales Division is responsible for the sales and distribution system of all of the Group's products in Israel to all of the Group's retail customers in Israel.

The Supply Chain Division handles the centralized procurement of raw materials for the various divisions, and is also responsible for the handling and transportation of raw materials to the production sites and of finished products from the sites to the Group's distribution and cross-docking centers and its warehouses in Israel. The Supply Chain Division also serves as the professional entity in charge of all demand and supply planning, which includes the definition of policy and strategy on issues in the fields of the Group's production planning, procurement and logistics in Israel.

The Operations Division manages all of the Company's production sites in alignment with a comprehensive operational strategy, is responsible for the execution of production plans according to the frameworks defined by the planning system in the Supply Chain Division, and centrally and supportively manages the Group's production sites in the areas of quality and safety, engineering and infrastructure, maintenance, technology and environmental quality processes.

Human Resources serves as a business partner in the accompaniment of organizational processes, change processes, etc. Human Resources also manages a shared resources unit for recruitment, salary and benefits, training, welfare and work relations, which serves the entire activity in Israel.

Finance HQ in Israel focuses on the supply of services to the business sectors and the central units in Israel in the areas of performance management, financial and management reporting, salary, strategic budget planning, forecasts, etc.

f. **The coffee operations** – the Group's coffee activity has its own separate management. The mManagement is responsible for the full end-to-end management of the business, for building strategy and for its approval opposite vis-à-vis the Group management and the board of directors. The coffee management is responsible for the realization of the strategy, the accomplishment of the goals derived from it, and for the development of people and brands. According to service agreements between the Company and Strauss Coffee, the Company continues to provide Strauss Coffee in Israel with certain head office services, such as human capital, operations and logistics, sales and distribution, which are directed by the mManagement of Strauss Israel. Strauss coffee management comprises the CEO, Human Resources Manager, Marketing Manager, CFO, Manager of Strauss Commodities and Manager of the Central and Eastern European Cluster. See Section 13.9.1 above. Strauss Coffee Management is subordinated to the Board of Directors of Strauss Coffee, which comprises six directors – four representing the Company and two representing TPG. Strauss Coffee's head office is located in Holland and in Israel. The international coffee business is managed through three regional clusters: the Central and Eastern European Cluster, the Brazil Cluster and the Israel Cluster. The Central and Eastern European Cluster includes four sub-clusters: the Balkan States (Romania, Bulgaria and Moldavia) sub-cluster; the Poland sub-cluster; the ex-Yugoslavia and Albania sub-cluster; and the CIS sub-cluster (Ukraine, Russia, Belarus and Kazakhstan). The CEO Cluster is headed by a CEO, and each regional cluster and sub-cluster is headed by a separate management which includes a Cluster Manager and Marketing, Finance, Supply Chain, Sales, AFH and Human Resources Managers.

g. The Sabra and Max Brenner operations in the USA are managed by local managements.

h. Strauss Water has a separate management headed by the CEO of Strauss Water. See Section 15.1 of this chapter.

21.2 <u>Employee Layout</u>

a. Workers of the Group are employed in 14 countries worldwide. The total workers employed by the Group amount to approx. 13,570 and approx. 14,122 employees, as at December 31, 2012 and December 31, 2011 respectively (including approx. 1,388 and approx. 1,248 workers of manpower agencies, as of December 31, 2012 and December 31, 2011 respectively. The layout of employees includes all employees of the Group, even in cases where the activity is jointly controlled and proportionately consolidated. Most of the narrowing down in 2012 emerges from a transition to the franchising model instead of ownership over the Chocolate Bar chain in Israel and efficiency improvement cut downs in all the organizational units of the Group.

b. Following is a breakdown of the number of employees in the Group Corporate Center in Petach Tikva, including 2 and 9 workers of manpower agencies, as at December 31, 2012 and December 31, 2011as at December 31, 2012 and December 31, 2011.

	Number of employees as at December 31, 2012	**Number of employees as at December 31, 2011**
Headquarters employees	169	160

c. Following is a breakdown of the number of employees in the Group who are included in Israel HQ, the Sales Division HQ and the Supply Chain Division HQ, who serve the Group's entire activity in Israel, including 219 and 114 temporary workers of manpower agencies, as at December 31, 2012 and December 31, 2011

	Number of employees as at December 31, 2012	**Number of employees as at December 31, 2011 (*)**
Employees of Israel HQs, Sales Division HQ and Supply Chain Division HQ	1,904	1,875

(*) The layout of common employees – sales, finance, procurement and planning, human resources of the cross-corporate divisions - were reclassified

21.3 <u>Benefits and the Nature of the Employment Agreements</u>

Israel:

Most of the Group's employees in Israel are employed under collective agreements. There are general collective agreements which apply to all employees of the Group by virtue of the Company being a member of Manufacturers Association of Israel, which relate to wage conditions, provisions for pension insurance, payment of a convalescence allowance, reimbursement for travel to and from work, and payment of a cost of living increment. Additionally, there are collective agreements, part of which are revised from time to time, which apply to part of the Group's employees in Israel due to their professional affiliation with the instant coffee industry or the chocolate and sweet industry.

Furthermore, there are terms and conditions of special collective agreements signed in the Group's various production sites, which apply to the employees who belong to that plant only, in whole or in part, and which are revised from time to time in negotiations between the workers' committee in the site and site management. In 2012 agreements were signed in two plants of the Group in Israel. The agreements include wage increases and seniority additions.

Except for unionized employees, the terms and conditions of employment of the rest of the employees are determined in personal employment contracts.

Being sensitive to the social reality and to ease the burden on employees, Strauss Israel chose to address a number of issues on the intra-organizational level. Since the beginning of 2012 executive salaries have been frozen for at least one year, a one-time compensation increment is being paid to employees who are low earners, the welfare basket has been enlarged and aligned with employees' needs, 70 scholarships for academic studies were awarded to employees' children, and more.

All employees of the Sales Division are employed under personal employment contracts. Salesmen receive, from time to time or on a regular basis, incentives that vary according to sales in addition to their base salary. The incentives are included in the framework of pension provisions.

Corporate Center employees and employees of the head offices in all divisions in Israel are employed under personal employment contracts.

In Israel, the Group's obligations relating to provisions for employees' pension rights are founded in the general collective agreements with respect to the enactment of a comprehensive pension in industry, which apply to the Company by virtue of its being a member of the Manufacturers Association of Israel and by virtue of the Pension Agreement of January 2008 between the New Histadrut Labor Federation and the Coordinating Bureau of Economic Organizations regarding the employers' obligation to provide pension insurance. Employees who are employed under personal employment contracts may choose between depositing the amounts in respect of their pension rights in a pension fund or "manager's insurance" policy. Moreover, the Company has signed agreements with various pension funds, providing the foundation for the relations between them in all aspects relating to the insurance of employees in these funds. It is noted that according to Israeli law, notwithstanding the provisions of any agreement, every employee has the complete right of choice both with respect to the form of pension insurance (pension fund or executive insurance) and the insuring entity. In the past few years, the Company increased the employees' choice options regarding pension funds and advanced study funds, and also signed agreements with some of the funds for the reduction of management fees.

The Company provides its employees and their families with obligatory basic health insurance. Employees have the possibility of expanding the health basket for themselves and their families at a subsidized price to cover surgery, rehabilitation nursing insurance and severe illness.

Toward the end of 2010, the Company signed an agreement with an outside party specializing in emotional assistance. This service provides a professional, available response 24 hours a day, for employees and their families in all aspects relating to emotional assistance when needed.

Outside Israel:

All employees of the companies of the Group outside of Israel are employed under personal employment contracts.

The Group's obligations as regards the employees' social rights are defined in the appropriate legislation in each country, and the Group makes payments as required.

In Brazil, the Company is subject to the collective agreements in effect in each state where it operates in Brazil. There is no general collective agreement applying to all of the Group's employees. However, each state has regional trade unions organized on the basis of occupation (drivers, production workers, etc.).

In Ukraine, the Company's employees are subject to personal employment agreements only. The labor and employment law covers all aspects of work relations and in practice precludes negotiations and special provisions in employment contracts between the employer and employee.

In Romania, there are no general or industry-specific collective agreements.

In Serbia Company employees are not subject to any general or industry-specific collective agreement. In May 2012 2011 a general collective agreement that was binding upon all employers in the country expired. To the best of the Group's knowledge, as at the date of publication of this Report, a new general collective agreement with the government of Serbia has not yet been signed.

In Russia and Poland there is no general collective agreement that applies to the Company's employees and there are no trade unions.

The countries differ in regard to the nature and conditions of employment agreements, which are influenced, among other things, by the provisions of the local law and accepted work culture in that country. At the same time, Group Management's approach in the human resources field is to apply a uniform policy insofar as possible, in all countries where it is active.

21.4 **Investments in Training, Qualification and the Development of Human Capital** – the Group provides internal and external training for its employees on a regular basis, according to their jobs and the needs of the Group; personal and team development under the professional supervision of external consultants, workshops and dedicated professional courses across the entire organization. Among others, the Group sends its professional employees to trade fairs, study days and seminars on diverse subjects. The Group also encourages employees to attend academic studies in fields that interface with their areas of work in the Group and contributes to financing these studies. Furthermore, the Group has developed a model that defines the core competencies required of managers (leadership development program) in order to achieve the Group's business objectives. The management levels in the Group are trained according to the model and the managers are subsequently evaluated on its basis each year. New employees inducted in the companies of the Group attend orientation sessions designed to connect them to the Company's tradition and history, its values and vision, code of ethics, products and brands. New managers also learn about the organizational processes (performance management, core competencies evaluation, etc.).

A training portal is available to Company employees, providing access to information on the various training options, their contents, training aids, dates and locations of training sessions, etc.

21.5 **Compensation Plans for Employees in the Entire Group** – the Group motivates its employees through incentives on the basis of the accomplishment of personal objectives and objectives for the unit, according to the employee's title and rank. The objectives are drawn from the Group's work plans. As a rule, objectives set for the more senior employees are longer term.

21.6 **Employee Loans** – the Group enables employees (in some of its companies) to receive loans according to its procedures, which includes taking the employee's salary and tenure into account. Loans to the Group's employees in Israel are linked to the Consumer Price Index and bear interest according to the rates prescribed in the Income Tax Ordinance. In certain countries it is prohibited to charge interest from employees.

The repayment period of loans in the Group is up to five years. Loans of a certain amount and above are secured by promissory notes, signed by guarantors. The outstanding balance of employee loans as at December 31, 2012 is NIS 8.2 million. In Brazil, there is an arrangement with the banks, pursuant to the giving of loans to employees through the banks.

21.7 **Contractor's Employees** – in Israel, the Group is engaged in agreements with a number of manpower agencies for the supply of personnel services as required by the Group. These agreements determine, inter alia, that no employer-employee relations shall exist between the employees of the manpower agencies and the Group, and that the agencies shall bear the payment of wages and other social benefits to which these employees are entitled by law. In accordance with these agreements, the Group will be indemnified and compensated by the manpower agencies in respect of damages or amounts which the Group will be required to pay in any case where the agreement is construed in a manner pursuant where to employer-employee relations exist. The agreements with the manpower agencies were prepared in accordance with the provisions of the extension order in the manpower sector, with the goal of ensuring that the agencies will comply with the provisions of the extension order. The Group has formulated tools and control methods for the enforcement of the performance of the provisions of the extension order by the manpower agencies. In 2012, manpower agencies were compelled to sign again a uniform agreement. The Group consolidated tools and control methods to enforce the provisions of the extension orders by the manpower agencies, including current sample testing of salary slips of such employees.

In Russia, Ukraine, Poland and Romania there are no regulatory limitations applying to the employment of personnel agency employees. In Brazil, Romania and Serbia there are regulatory limitations over the duration of employment of personnel agency employees. In Brazil, this period is three months, which can be extended by permit for a further identical period; in Romania up to 36 months and in Serbia, the period of employment shall not exceed 12 months.

21.8 **The Group of Senior Officers and Members of Senior Management in the Group**

a. Following is a breakdown of the number of employees in the group of senior officers and members of senior management in the Group:

	Number of employees as at	
	December 31, 2012	December 31, 2011
Group President & CEO	1	1
Members of Group Management (not including the CEO)	8	8
Members of the Management of the Group's activity in Israel (not including the CEO, who is included in Group Management)	10	10
Members of the Management of the Group's coffee activity (not including the CEO, who is not included in Group Management) (*)	3	5

(*) In January 2013, the composition of the management of the coffee was changed; the datum is adjusted to the change.

b. **Option Plan** – with respect to updates in March and July 2012 and in the option plan for senior officers from May 2003, see Article 29.a in the chapter of Additional Details of the Corporation, as of December 31, 2012. In the matter of conditions of the option plan for senior workers from May 2003, and also with respect to the grants during the period of the statement, see Notes 3.12.4, 5.9 and 25 to the Financial Statements of the Company, as at December 31, 2012.

c. **For information on the international plan for the allotment of non-negotiable options** to senior executives of Strauss Coffee, exercisable into shares of Strauss Coffee, which in certain cases enables the offeree to receive, in respect of options that have not yet matured, options of the Company of equal value, see Note 25.5.2 to the Financial Statements of the Company as at December 31, 2012.

d. **Management Incentive** – the Group has an incentive (bonus) plan in place for managers, on the basis of financial and qualitative objectives. For a description of the yearly bonus plan for Group Management, see Article 21 in the Chapter "Additional Information on the Corporation".

e. **Benefits and Nature of Employment Agreements** – officers and employees of Senior Management of the Group are employed under personal employment contracts, which include pension coverage in various schemes. Some of the officers and Senior Management employees are entitled to an adjustment period, compensation arrangements, and other special personal arrangements, as set forth in Article 21 in the Chapter, "Additional Information on the Corporation". For information on insurance and indemnification arrangements for officers of the Company, see Article 29A in the Chapter, Additional Information on the Corporation.

In 2012, the management of the Company decided that the basic salary of senior employees in Israel (ranks 8 and above) will not be updated within the framework of the annual remuneration process. Furthermore, senior employees in these ranks were requested to forego in 2012 the quarterly linkage of their salary to the consumer price index, a benefit conferred upon them on the strength of the employment contract. Most of the senior employees signed a letter of waiver concerning the linkage of their basic salaries to the index.

22. Financing

22.1 Following are the average interest rates on bank and non-bank loans, which are not designated for a special purpose by the Group, valid in 2012:

	Average interest rates* on loans not designated for specific use for the year 2012		
	Short-term loans	**Long-term loans**	**Average rate**
Group Corporate Center			
Bank loans	3.60%	4.53%	4.52%
Non-bank loans (*)	--	4.18%	4.18%
Average rate	3.60%	4.23%	4.23%
International Coffee			
Bank loans	3.81%	7.29%	4.73%
Other			
Bank loans	--	4.38%	4.38%
Non-bank loans (**)	--	0.84%	0.84%
Average rate		4.29%	4.29%

(*) Including Debentures of Series B and C and loans from financial organizations.

(**) A loan from the chief scientist.

22.2 Details concerning debentures, issued by the Company, see in Notes 20.2 and 40.1 to the Financial Statements of the Company as at December 31, 2012.

22.3 Details concerning principal loans taken by the Company see in Note 22.2 to the Financial Statements of the Company as at December 31, 2012.

22.4 On February 27, 2013, the Company published a shelf prospectus, after receiving an approval in principle from the stock exchange, a permit from the securities authorities and approval from the board of the Company. As of the date of publication of this report, the Company has not published an offer toward issuing.

22.5 **<u>Credit Restrictions</u>**

In May 2012 the Company undertook to Bank Leumi of Israel Ltd. and Bank Hapoalim Ltd., Mizrahi Bank Ltd., Bank Leumi New York, Discount Bank Ltd. and also to Harel Group and to a group of non-banking corporations, which placed loans in favor of the Company, not to create any liens on its assets in favor of any third party without receiving the bank's consent according to the terms and conditions of the deeds of undertaking (except for the possibility of providing specific securities to guarantee certain loans). In this framework, the Company undertook to comply with two financial stipulations: the ratio of the shareholders' equity (not including the minority interest) out of the total balance sheet value shall be no less than 20%, and the net financial debt to EBITDA ratio shall be no more than 4. As at December 31, 2012 the ratio of the shareholders equity (not including the minority interest) to the total balance sheet value was 26.7%, and the net financial debt to EBITDA ratio was 1.7. On or about the time of publication of this Report, there have been no material changes in the financial criteria; the Company is in compliance with these criteria as at the date of publication of the Periodic Report. In January 2013, the Company issued 248.9 million n.v. of Denture (Series D). For details concerning the obligation of the Company toward holders of debentures to meet the financial criteria, see Note 22.3 to the Financial Statements of the Company as at December 31, 2012.

22.6 The subsidiary in Brazil has received short and long-term bank credit, which, as at the date of this Report, amounts to approximately NIS 310 million (50%). According to the undertakings to the banks, changes in the ownership of the company in Brazil without the accompanying bank's prior approval will cause the credit to be repayable immediately.

22.7 **<u>Credit received between the date of the Financial Statements until on or about the date of the Periodic Report</u>**

In the period between December 31, 2012 until on or about the date of the Periodic Report, credit in an amount of NIS 271 million was received.

22.8 **<u>Credit Framework:</u>** out of the unsecured credit frameworks, amounting shortly before the date of the report to approx. NIS 2,343 million, the Group as of said date utilized an amount of approx. NIS 1,057 million. Most of the credit frameworks that were rendered in favor of the operations of the Company and of Strauss Coffee.

22.9 Credit According to Variable Interest Rates – following is an itemization of credit at varying interest rates received by the Group in 2012:

	Change mechanism	Interest range	Amount of credit as at December 31, 2012 (NIS millions)	Interest rate on or about date of Report
Group Corporate Center	**Dollar – LIBOR**	2.6% 2.3%	56	2.29%
Group Corporate Center	**NIS – government bonds**	2.71%– 3.43%	166	2.34%
Group Corporate Center	**Prime**	3.00%	4	3.00%
International Coffee	**Real – TJLP/TR/CDI**	5.5%– 11.20%	31	5.00%– 10.70%
International Coffee	**Dollar – LIBOR**	2.45%– 3.50%	154	2.45%– 3.5%
International Dips and Spreads	**Dollar – LIBOR**	2.00%– 2.30%	62	1.99%
Other	**Dollar – LIBOR**	2.00%– 2.30%	15	1.99%
Other	**NIS – prime / on call**	3.50%– 5.60%	8	3.25%– 4.85%

22.10 Credit Rating

On July 17, 2012 Maalot published affirmation of the ilAA+ rating of Debentures Series B and C in circulation. See the Company's Immediate Report of July 17, 2012, Reference 2012-01-187284.

On December 11, 2012 Maalot published affirmation of the ilAA+ rating for the issuing of debentures in scope of up to NIS 300 million. See the Company's Immediate Report of December 11, 2012 , Reference 2012-01-307431.

On December 20, 2012 Midroog published affirmation of the Aa+ 1 with stable horizon with respect to Debentures Series B and C in circulation. See the Company's Immediate Report of December 20, 2012 (Reference 2012-01-316266).

As at the date of the Periodic Report there have been no changes in the abovementioned ratings.

23. Taxation

23.1 Tax Laws Applying to the Companies in the Group

For details, see Notes 37.1 and 37.2 to the Financial Statements of the Company as at December 31, 2012.

23.2 **<u>Tax Assessments Issued to Companies of the Group in Israel and outside Israel</u>**

For details, see Note 37.5 to the Financial Statements of the Company as at December 31, 2012.

23.3 **<u>The main benefits under the Encouragements of Capital Investments Laws and under the relevant laws in the countries where the Group is active</u>**

For details, see Notes 37.1 and 37.2 to the Financial Statements of the Company as at December 31, 2012.

23.4 **The main tax rate compared to the Company's effective tax rate** – for information on the tax rate, see Note 37.10 to the Financial Statements of the Company as at December 31, 2012.

23.5 **Approval by the Tax Authority – merger of Strauss Water** – see Note 37.3 to the Financial Statements of the Company as at December 31, 2012.

23.6 **Losses for tax purposes not yet utilized and tax credits not yet utilized** – for deferred taxes in respect of losses, see Note 37.11 to the Financial Statements of the Company as at December 31, 2012. For losses in which respect no deferred taxes were credited, see Note 37.6 to the Financial Statements as at December 31, 2012.

24. <u>Environmental Quality</u>

24.1 **<u>General Environmental Risks Involved in the Operations of the Group</u>**

a. **Wastewater treatment** – considerable amounts of water and detergents are used in the Group's production sites, which create wastewater that requires treatment. This wastewater contains organic substances and oils and is liable to increase the pollutant concentration, cause smell nuisances and sanitary nuisances. The problem of sodium in wastewater has grown worse in Israel in recent years due to the irrigation of fields with treated wastewater, as has the risk of land salinity and groundwater salinity; in the Group's production facilities abroad this problem does not exist, as no use is made of treated wastewater for irrigation in those countries.

b. **Air pollution** – energy consumption in the Group's sites and fuel consumption for the distribution of the Group's products cause the emission of greenhouse gases. Use of steam boilers and ovens as part of production activities is liable to cause air pollution in some units in the organization. Use of old Freon cooling fluids is liable to damage the ozone layer. In the coffee sites there is a phenomenon of nonpoint fugitive dust, dust which is released into the air as a result of unloading green coffee and roast coffee production.

c. **Soil pollution and contamination of water sources** – leakage of hazardous materials (such as acids, alkalis, oils, fuels and raw materials) as a result of defective storage is liable to pollute the land and water sources. Further potential for the pollution of rivers and streams exists in some of the units abroad, in production sites located on river banks where wastewater is liable to penetrate a nearby river or stream.

d. **Waste of natural resources (energy and water resources)** – uncontrolled industrial activity causes excess use of energy and water resources which leads to damage to the ecological balance, the waste of natural resources and the emission of greenhouse gases. Failure to save water is liable to intensify the situation of Israel's water economy and to cause salinity and pollution of Israel's sparse sources of water. In the Group's plants abroad water consumption is not a critical aspect, as these countries are water rich (in Brazil there is a well in each production site).

e. **Waste treatment** – industrial activity generates large amounts of waste. Defective treatment of waste such as improper burial or transferring waste for burial rather than reusing it is liable to cause land and water pollution, use up land reserves and impair potential recycling efforts.

24.2 Legal Provisions Relating to Environmental Quality Which Apply to the Group

In the Company's activity in Israel it is subject to environmental legal provisions, the main ones being:

a. **Wastewater treatment** – the Public Health Regulations (Effluent Quality Standards and Wastewater Treatment Rules), 2010 determine standards for the quality of treated wastewater and supervisory mechanisms to enable the reuse of treated effluent as a water source, to prevent the pollution of water sources by wastewater and to protect the environment; the Licensing of Businesses Regulations (Salt Concentration in Industrial Waste), 2003 determine permissible values for the concentration of polluting salts in wastewater transferred from a production site to a purification plant; the Water Regulations (Prevention of Water Pollution) (ph Values of Industrial Sewage), 2003 prescribe the maximum permissible values that may be transferred to the sewage system in order to prevent system corrosion; The Water and Sewage Corporations Rules (Plant

Wastewater Discharged into the Sewage System), 2011, define "wastewater prohibited from discharge into the sewage system" and "exceptional wastewater", including mechanisms for the approval of discharges of "exceptional wastewater". The Rules also require renewed approval by the Water Authority of agreements signed in the past. Additionally, the business licenses and poison permits awarded to each manufacturing site may contain instructions on wastewater treatment.

b. **Air pollution and damage to the ozone layer** – the Clean Air Law, 2008 is designed to procure the improvement of air quality to protect human life, health and quality of life and to protect the environment. The Sections of the law are to become effective gradually, commencing in 2009 until 2015. The Hazardous Substances Regulations (Application of the Montreal Protocol on Substances that Damage the Ozone Layer), 2004 determine limitations on the manufacture, consumption, import and export of controlled substances due to the damage they cause to the ozone layer.

c. **Soil and water pollution** – the Hazardous Substances Law, 1993 regulates the manner of handling poisons and harmful chemicals, and by virtue of this law production sites are awarded poison licenses. The Safety at Work Regulations (Safety Data Sheet, Classification, Packing, Labeling and Marking), 1998, dictate the method of working with hazardous materials and the manner of their storage.

d. **Waste of natural resources (energy and water)** – the Energy Resources Regulations (Supervision of the Efficiency of Energy Consumption), 1993 define the appointment of a supervisor to advance the efficient consumption of energy and describe the supervisor's duties.

e. **Waste treatment** – the Maintenance of Cleanliness Law, 1984 defines the removal of waste to sites that are authorized according to the type of waste. The Regulation of Processing of Packaging Law, 2011, defines the manufacturers' responsibility for handling waste created by packaging, defines recycling targets for various packaging materials, and defines the reporting mechanisms regarding quantities and types of packaging waste.

f. **Registration and reporting duty** – The Environmental Protection Law (Emissions and Transfer of Contaminants – Duty of Reporting and Registration) 2012, defines methods of public reporting of emissions to the environment of ground, air and water contaminants, and also wastewater treatment.

The Group's production sites abroad are subject to local environmental legal provisions, according to the rules and laws of each country. The production sites in countries that are EU members are subject to European environmental directives. In Brazil, national regulation is determined by two bodies, CONAMA and IBAMA, which both have the authority to determine and enforce regulation; CONAMA defines professional requirements and IBAMA enforces them (and determines requirements relating to the manner of implementation and control). Similar to the situation in Israel, the plants are required to be in possession of an operating license, approval from the Ministry of the Environment, and in a large part of the sites – a permit to hold hazardous materials and a license to use well water.

24.3 Major Environmental Incidents

a. **The instant coffee production site in Safed** – The plans completed the erection of the layout, filtering the coffee solids, returning them as a raw material to the process. This project allows to decrease the level of contaminants in the sewages, alongside return of raw materials to the process and improving utilization. With the aim of battling the emission of smells, these days (the beginning of 2013), a system utilizing an innovative technology, intended to reduce smells from the coffee production process is installed in the plant.

b. **Coffee Plant in Lod** – the plant was fined for dumping water in public. The source of water is in condensation around the refrigerating system; the malfunction was repaired.

c. **The Strauss Frito-Lay Plant** – in 2012, the plant invested in an innovative facility to improve the quality of wastewater treatment.

d. **Aviv Dairy Plant in Netivot** – deviations were recorded in reaction values of wastewater in the plant, as well as deviations in concentration of organic material in wastewater. A control, correction and registration of the correction value system was completed. A plan for improvement and reduction of concentration of organic materials in wastewater treatment is managed.

e. **Max Brenner Plant in Beit Shemesh** – the plant received a notice from the Water and Sewage Corporation of Beit Shemesh concerning a charge due to dumping irregular wastewater. The plant filed an appeal to the appellant authority with the Environmental Ministry, requesting to disqualify the sampling (due to a faulty sampling procedure) and its results (due to lack of reasonability). The response to the appeal from the Environmental Ministry was not received as yet.

f. **Strauss Water Plant in Netiv LH**– the plant is repairing faults in the treatment of hazardous materials and is in the process of receiving a permit from the firefighting authorities, which it still lacks. Strauss Water commenced a process of erection of an environmental quality management system in its various sites, through process of qualification according to Standard ISO 14001.

g. **Brazil** – in 2012 many activities were performed to remedy the gaps identified in 20112010, part of them in the framework of the ISO 14001 certification process. Despite the progress made, not all the gaps identified in 2010 have been bridged.

h. **Romania** – the plant does not have a permit from the firefighting authorities, but there is a permit for the raw materials and finished goods warehouse.

i. **Serbia** – a biomass boiler has been introduced for the generation of steam, which burns the coffee bean waste and thus contributes to a reduction in fossil fuel consumption, which has led to the almost complete discontinuation of the use of natural gas for heating the site in the winter and diminished emissions of greenhouse gases from the activity at the site.

In 2012 there were no violations and environmental incidents likely to create any material exposure for the Company (such as irreversible damage to its image, the risk of shutdown of one of its plants, boycott of the Company by green organizations, material costs incurred by the Company in curing the violations, etc.); possible implications the Company may be caused in respect of these incidents are the temporary loss of the business license of one plant or another until the faults mentioned have been remedied; as well as exposure to legal action by the environmental authorities in that country.

24.4 <u>The Group Policy in the Management of Environmental Risks</u>

The Group's environmental management system defines the Group's commitment to improving its environmental performance, reduction of negative effects on the environment, the inclusion of environmental considerations in decision-making processes, and increasing awareness of the subject among employees, suppliers and interested parties.

a. **Environmental management system** – the Group's Quality System in Israel coordinates the activity of the units in Israel in areas of integrated quality (food quality and safety, employee safety and quality of the environment). At the Corporate Center and in the Company's sites work processes are in place for the identification of environmental legal requirements, review of the extent of compatibility and correction of faults, identification of material environmental impacts, definition of environmental objectives and creation of a yearly and multiyear work plan for the reduction of environmental impacts. The six main production sites of Strauss Israel have received ISO 14001 (EMS) certification from the Standards Institution. The production volumes in these units account for 86% of all production in Strauss Israel.

The coffee company determined in the beginning of 2012 multi annual targets in the environmental field for consumption of energy, emission of greenhouse gases, the use of water and depositing waste, all of that per kilogram of product. In 2012, the environmental data collecting layout from all the sites of the coffee company was improved, quarterly follow up was made after targets and aims within the framework of the environmental management system of the coffee company. Most of the coffee plants of the Group underwent qualification according to Standard ISO 14001.

b. **Compliance with environmental legal requirements** – the Group applies a methodology for keeping abreast of environmental legal requirements, for conducting comprehensive tests of compliance and for remedying faults. The methodology is applied in the Group's production sites in Israel.

c. **Monitoring and measurement** – the Group has a central reporting tool for monitoring water consumption, the carbon footprint, wastewater quality, air quality and other environmental aspects. The environmental quality supervisors in the Group's sites report on environmental aspects every month, using this tool.

d. **Wastewater Treatment** – the Group's sites in Israel where activity involves a significant environmental risk from this aspect are applying increased wastewater treatment, both in an attempt to reduce pollutants at source and in building wastewater treatment facilities.

e. **Prevention of Soil and Water Pollution** – the Group's production sites in Israel operate in compliance with the poison licenses in their possession, which define the method of storing and handling hazardous substances and limitation of the quantity of each substance that may be kept on hand. In 2012 the process of testing and improving the hazardous materials management system in the plants and in the distribution system continued, and containment pallets were installed and upgraded. The Group’s plants abroad operate according to local regulation requirements.

f. **Prevention of Air Pollution and Depletion of the Ozone Layer** – in Israel, the Group has defined a strategic goal for a 15% reduction in the emission of greenhouse gases by the year 2015, on the basis of the figures for 2008. By the end of 2012, 12% of the greenhouse gases were reduced, however, in 2012 the Group failed to meet this goal in consequence of an increase in the prices of electricity. At sites where complaints of smell nuisances have been received, the Group is working to reduce them by including the site's neighbors. Use of Freon still exists, but there is a plan to reduce this and to switch to coolants that are more environmentally friendly. The coffee plants outside of Israel have a target of decreasing 15% up until 2016 (based on data of 2011). In 2012, 5% was decreased.

g. **Waste separation and recycling** – at the Group's production and logistic sites action is being taken to separate and recycle waste. The Group is acting to increase the employees' awareness of the importance of waste separation and recycling. Dedicated bins have been placed in the Group's sites for different kinds of waste. Plastic, paper, glass and metals are collected and sent for recycling; organic waste is sent to be used as animal feed.

The coffee plants outside of Israel have a target of decreasing 15% of waste for depositing (per product unit) between 2013 – 2016 (based on data of 2010-2012)

h. **Handling Waste Packages** – the Company in Israel has erected a layout of measuring, reporting and control over packaging of products that are dispatched to the market, all of that according to the duty of reporting of package waste applying to the Group, as per the Arrangement of Handling of Packages Law, 2011. In the coffee plants outside of Israel there is a system of collection of packages according to the local regulations requirements.

i. **Saving Electricity and Energy** – the Group is taking acting in order on to increaseenhance savings of electricity at its production plants sites through different operational projects, such as programs for saving electricity, use of economic light bulbs, use of sunlight for illumination, switching to the use of gas in various production processes, utilization of energy produced in one process for the heating of other and operating a different processes, increasing the efficiency of cooling systems, insulation of piping, etc. The coffee plants outside of Israel have a target of decreasing 10% up until 2016 (based on data of 2011). In 2012, 38% was reduced.

j. **Saving water** – the Group in Israel defined a strategic goal to reduce 20% of its water consumption per ton of product by the year 2015, on the basis of the figures for 2008. The coffee plants outside of Israel set a decrease target of 5% by 2016 (based on data of 2011). In 2012 3% was reduced. The Group is taking action to save on water consumption in its production sites by reclaiming water, improving machine performance and increasing the efficiency of cleaning processes, and addressing the identification and repair of leaks.

The Group is taking action to save on water consumption in its production sites by reclaiming water, improving machine performance and increasing the efficiency of cleaning processes, and addressing the identification and repair of leaks.

24.5 The Group invests resources in the management of its environmental aspects. This investment is expressed in investments in equipment, such as the construction of a wastewater treatment plant at the Achihud Dairy; investments in overhead such as the appointment of environmental quality supervisors in the various units; and in current costs, including materials for the maintenance of wastewater treatment plants and prevention of emissions into the air, training employees, and others.

In 2012 the Group invested approximately NIS 22 million in Israel and abroad in infrastructure to improve the environmental performance of its production sites and to minimize the risks arising from its activity, and an additional NIS 16 million are being invested in regular ongoing management, in overhead and current expenses, and payment to the recycling corporation for packages of products, dispatched to the market. It is not the Group's practice to separate the costs invested by the companies in the Group with respect to environmental issues, and these costs are immaterial. On the basis of information in the Company's possession as at the date of this Periodic Report relating to its sites and to environmental requirements, the Group does not plans any irregular investments in 2013. This information is forward-looking in nature, as it might not be realized in the event that material deviations are discovered in the Group's production sites which require additional substantive investments, or in the event that the requirements should change.

In 2012 there were no costs in respect of legal actions relating to environmental issues.

25. Restrictions and Supervision of the Group's Activity

25.1 Legislation in the Food and Beverage Industry and Consumer Legislation

In Israel – the Group's food and beverage products are subject to laws, regulations and orders relating, among other things, to the definition of quality standards; cleanliness and health in production processes; processing, trade and storage of food and beverages; the definition of standards and directives relating to the packaging, marking and identification of the products and their ingredients, including their nutritional value and expiry dates; the definition of quality and health standards for food additives, etc. (such as the Public Health Ordinance (Food) [New Version], 1983; the Supervision of Goods and Services Law, 1957 and the Standards Law, 1953). The Group has developed and acts in accordance with a manual for the uniform marking of its products. Moreover, the Group's activities are subject to various consumer provisions, which deal, inter alia, with prohibitions regarding the misleading of consumers and the obligation to present them with complete information, and with the compensation of consumers in respect of bodily harm caused as a result of a product defect (such as the Consumer Protection Law, 1981 and the Defective Products Liability Law, 1980). The Group is insured for third-party liability and product liability insurance.

For legal provisions relating to environmental quality which apply to the Group, see Section 24.2 of this chapter.

Outside of Israel – the Group's activities outside of Israel are subject to regulatory directives in the different countries, which generally regulate subjects similar to those regulated in Israel and prescribe rules and instructions, among others, relating to the production, distribution, storage and transportation, and import of food and beverage products; and also prescribe standards, among others, relating to the quality, cleanliness, packaging and marking of the products. As countries where the Group is active join the European Union, they may also be subject to relevant regulatory directives which apply in EU member states.

25.2 Control Over Prices of Products

The Regulation of Prices of Goods and Services Law, 1996 enables the minister in charge, inter alia, to apply the provisions of this law by imposing an order on a certain product or service, for which justification of price control exists in the law (inter alia, a product or service that is essential and its price must be controlled for considerations of the public good, or in which respect a monopoly has been declared). In cases where the law has been applied in an order to a particular product or service, the law allows for a supervisor to be appointed over the prices of that product or service and also to determine in an order, after consultation with the Price Committee as defined in the law, the price, the maximum price or minimum price for the product or service. For the Group's products that are subject to price control, see Section 10.13 of this chapter. On March 28, 2012 the Knesset approved the Milk Sector Planning Law, 2012. The purposes of the law are, inter alia, to guarantee appropriate prices for the farmers, the dairies and the public; see Section 9.13 of this chapter.

In November 2012, a draft law was published on the issue of promotion of competition in the food industry, based upon recommendations of the inter-ministerial team headed by the director general of the Industry and Commerce Ministry, Mr. Sharon Kedmi (the Kedmi Report). The purpose of the law is to increase competitiveness in the sector of food and consumption products, pursuant to reducing product prices to the consumer, through prohibitions and restrictions concerning actions and arrangements between various organizations operating in the market, through the granting of enforcement authorities upon the antitrust commissioner and also by imposing a duty of publication of prices. The draft law includes a proposal to determine prohibitions and restrictions as to the making of actions and arrangements according to the principles, founded upon the order between the antitrust commissioner and the food supplier, see Section 25.4.b hereunder. It is proposed, that it would be prohibited to a retailer to intervene opposite a supplier as to the price to the consumer charged by another retailer, and that it would be prohibited to a supplier or to anyone on its behalf to stock the product on the stores of a large retailer and to intervene opposite the retailer in the matter of the consumer price charged by the retailer over a product provided by another supplier. Furthermore, it is proposed to install in the law arrangements intended to promote and assure competition on the retail market at the regional level. It is proposed for this purpose to define demand areas based upon statistic areas around each store of a large retailer, as well as a group of competition for each store, as stated. It is not possible at this stage to evaluate the extent of anticipated effect of the recommendations on the results of the Company.

25.3 Operating Licenses

In Israel – the Group's production sites and distribution centers operate under business licenses, which are awarded under the Licensing of Businesses Law, 1968, and as at the date of the Periodic Report they are valid, except for part of the points of sale of "elite coffee", in which respect the Group is handling the receipt of business licenses. The validity of the business licenses is permanent or for defined periods, in which case they must be renewed on expiry.

Additionally, the Group companies operate under manufacturer's licenses awarded by the Ministry of Health pursuant to the Regulation of Prices of Goods and Services Order (Trading, Production and Storage of Food), 1960, which are awarded for a period of one year. As at the date of the Periodic Report these licenses are valid.

Furthermore, some of the Group's sites are required to hold poison permits awarded by the Ministry of the Environment under the Hazardous Substances Law, 1993. The Group is in possession of valid poison licenses.

Plants outside of Israel – generally, in the countries where the Group operates licenses and permits are required according to the legislation in each country, and as at the date of the Periodic Report they are valid, or the Group is taking action for their renewal.

25.4 <u>Antitrust</u>

a. **Monopoly Declarations**

The Company has been declared a monopoly in Israel with respect to a number of products. The Antitrust Law determines that a monopoly holder will not abuse its position in the market in a manner that is liable to reduce business competition or harm the public. The Antitrust Law further determines that if the Antitrust Commissioner has noted that as a result of the existence of a monopoly or of the conduct of the monopoly holder, business competition is impaired or the public is harmed, the Commissioner is entitled to issue instructions regarding steps that the monopoly holder must take to prevent this damage; and also that if the Commissioner has noted that as a result of the conduct of the monopoly holder there is concern of significant damage to the competition or of significant harm to the public, he is entitled to instruct the monopoly holder to take steps to prevent the damage.

For monopoly declarations relating to the Company and for the Antitrust Commissioner's instructions in this regard with respect to dairy desserts (see Section 9.13.a), chocolate tablets (see Section 10.13.a), and instant coffee and cocoa powder for domestic consumption (see Section 12.12.a).

b. **Order in Agreement According to the Antitrust Law**

<u>Order in Agreement Regarding Commercial Arrangements Between Suppliers and Retail Chains</u> – on January 5, 2005 the Antitrust Commissioner (the "Commissioner") published a position paper (further to an initial document dated

May 29, 2003) enumerating the rules of conduct directed to dominant food suppliers, which include the Company. The position paper presents the Commissioner's position whereby most of the arrangements that exist between dominant suppliers and retail chains are restrictive trade practices, and customs that have evolved (particularly in the area of bonuses and benefits) are likely to amount to abuse of monopoly power. Following the publication of the Commissioner's position and after negotiations between the Commissioner and the representatives of the Food Industries Association in the Manufacturers Association of Israel, a consent order was formulated between the Commissioner and the dominant food suppliers, including the Company. The order was approved by the Antitrust Court on August 2, 2006. In the order it is determined that it replaces the enforcement proceedings with respect to actions performed by any of the parties that had signed it prior to the date of the order. The order systemizes various aspects of the trade arrangements between the food suppliers and the large retail chains, mainly the supplier's prohibition from being a party to arrangements whose concern, purpose or known outcome are the limitation of the number or identity of suppliers whose products will be offered for sale in the chain; the quantity of their products, their location or the type of products to be bought from them by the chain; the supplier's involvement in the category management process; definition of the supplier's market share (or limitation of the share of competing suppliers) of sales by the chain; limitation of the ability of competing suppliers to respond to a campaign by the supplier by lowering the prices of their products, or limitation of the ability of competing chains to respond to a campaign to be held in a different marketing chain; the supplier's prohibition from determining the retail price of its products sold in the chain (other than a recommendation, which is permissible); and prohibition from intervening in the chain's decisions regarding the definition of the retail price of a product of the supplier's or a competitor. A dominant supplier (which dominates a highly significant part of the market in which it is active – i.e. over fifty percent or similar) is prohibited from being a party to arrangements whose concern, purpose or known outcome are the allocation of shelf space in excess of half of all shelf space allocated in the chain to products of the type in which the supplier is dominant, or granting exclusivity to one or more of its products in off-the-shelf displays other than for the purpose of a campaign that is limited in time, and under the terms and conditions set forth in the order; granting a bonus to the chain that is linked to the accomplishment of sales targets in the supplier's products in categories in which the supplier is dominant, unless the benefit is awarded as a discount off the purchase price granted to the chain and under the terms and conditions set forth in the order; prohibition of a dominant supplier from imposing sanctions against a retail chain for non-accomplishment of a monopolistic sales target referring to products in which the supplier holds a monopoly.

Additionally, and following a disagreement as to whether the shelf-stocking agreements are restrictive trade practices as the Commissioner holds, or not, as the suppliers claim, it was agreed in the order that the Commissioner will not take any enforcement steps in regard to the shelf-stocking arrangements for a defined period of 30 months (the **"Interim Period"**), provided, however, that they will be performed under the limitations set forth in the order. At the end of the Interim Period the Antitrust Commissioner may apply any power in his possession in this matter, and the suppliers' arguments shall remain valid. The Commissioner has the authority to fine a supplier in breach of the abovementioned limitations in the amount set forth in the consent order. It is made clear in the order that the suppliers' signatures on the order do not constitute any acknowledgement by the suppliers of any liability under the Antitrust Law, or any agreement by them to the Commissioner's position, as defined above. The Antitrust CommissionerCourt authority has extended the Interim Period for a further 36 months, until February December 312, 20122013.

The Company applied to the Antitrust Authority for exemption from confirmation of a restrictive trade practice (without this constituting an admission that the shelf-stocking arrangements are a restrictive trade practice). On February 29, 2012 the Authority informed the Company that the Commissioner would not apply enforcement measures with respect to the Company's shelf-stocking arrangements until the Commissioner's decision regarding the application for exemption has been made public.

As necessitated by the provisions of the order, the dominant suppliers, including the Company, in 2007 signed an agreement in which they undertook to each other that the limitations determined in the consent order would apply to the shelf-stocking arrangements in the retail chains, including that stocking by dominant suppliers would be done according to the planogram published by the retail chain and in its absence, according to the allocation of display space as determined by the chain; a dominant supplier shall not compensate a stocker in a manner that is liable to materially impair the provisions of the order or the agreement; a supplier who has received information from a stocker shall not exploit it in order to attempt to influence the chain in raising the prices of its products or the prices of products of other suppliers, in detracting from the shelf space or off-the-shelf displays of other suppliers, or in coercing the chain in connection with discounts granted by the chain on the supplier's products. The agreement prescribes arrangements for the payment of compensation by a dominant supplier who had breached any of the provisions of the agreement to the supplier injured by such breach, in varying amounts according to the duration and frequency of the breach. The agreement determines an arbitration mechanism for deciding disputes between the suppliers relating to the agreement. The term of the agreement is until February 2, 2009 or its cancellation in writing by all suppliers who had signed it, whichever is the earlier, unless the Interim Period, as defined above, is extended. As mentioned, the Interim Period was extended, in which case the term of the agreement will be extended until the end of that period (or earlier, as agreed by and between the suppliers). The Company is in compliance with the provisions of the consent order.

<u>In the matter of orders in agreements with respect to Cadbury's products and with respect to the announcement of the merger with "elite coffee"</u>, see Note 26.1.2.3 to the Financial Statements of the Company as at December 31, 2012 and also Section 12.12.c of this chapter, respectively.

25.5 **<u>Kashrut</u>** – the Group's products that are manufactured or marketed in Israel are under the supervision of the relevant local rabbinate, and if necessary, also under the supervision or approval of the Chief Rabbinate of Israel. The salty snacks, a considerable part of the confectionery and bakery products ("Megadim"), most of the ready salads and part of the dairy products ("Strauss Mehadrin") are Kosher LeMehadrin and also marketed to the ultra-Orthodox market. The certificates of Kashrut are given for defined periods, and at the end of each period the Group handles their renewal.

25.6 **<u>Approved Supplier to the Ministry of Defense</u>** – the Company and part of its subsidiaries in Israel are an Approved Supplier to the Ministry of Defense.

25.7 **Standardization** – the Group manufactures its products in accordance with various regulations, orders and standards that are relevant to its areas of business, both in Israel and in countries where it is active, where relevant standards exist. In Israel, standards are issued from time to time by virtue of the Standards Law, 1953. The standards enumerate technical requirements applying to different products manufactured by the Group as well as various properties of these products with respect to the production process, operations, marking, packaging, etc.

Additionally, the Group's manufacturing sites in Israel and part of its sites abroad are ISO 9001 certified, as well as certified under the food safety control standard, HACCP (Hazard Analysis & Critical Control Points) and other elective standards such as ISO 14001. The Group has internal enforcement processes in place to ensure compliance with the standards and regulations with respect to food, quality of the environment and safety.

25.8 **Quality Management** – the Group performs routine quality control tests in its plants. Quality processes are based on planning and risk analysis in the phases of the value chain for the early detection of failures, in order to achieve a product that is high-quality and safe for consumers. Quality control is in place in the production sites, generally based on control applied by the production workers themselves. Some plants have an experienced team of tasters. The Group measures on a monthly frequency the quantity of complaints of consumers as well as the satisfaction of consumers approaching the customer service, and it acts successfully in order to diminish complaints and raise satisfaction of consumers from the product and service.

25.9 **Insurance** – in the estimate of the management of the Company, on the basis of consultation received from its insurance consultants, the Group's property and its activity are insured against loss, damage or liability, which are customarily insured in Israel and in the countries where the Group operates. The management of the Company estimates that its insurance coverage is reasonable and proper considering its scope and various terms and conditions.

26. Material Agreements

In addition to the material agreements described in each segment of activity, following are material agreements outside the ordinary course of business:

26.1 <u>Provisions regarding the use of the name and brand of "Strauss", non-competition and indemnification according to the merger agreement between the Company and Strauss Holdings</u> – in the Merger Agreement of 2004 between the Company and Strauss Holdings (pursuant where to Strauss Holdings sold and transferred to the Company all of its shares in Strauss Health and in Strauss Fresh Foods, jointly: the **"Transferee Companies"**) provisions were determined with respect to the use of the name and brand "Strauss", non-competition and an undertaking to indemnity, as described below.

The agreement determines, inter alia, that commencing on the closing date (March 22, 2004), the **"Strauss Family Members"** (Messrs Michael Strauss, Raya Ben Dror, Ofra Strauss, Adi Strauss, Irit Strauss, Nava Michael, Gil Midyan and Ran Midyan), Strauss Holdings and the companies under its control (excluding the Company and its subsidiaries and the Transferee Companies and their subsidiaries, as defined in the agreement) shall not be entitled, directly or indirectly, to make use of the name "Strauss", including its various inflections (the **"Name Strauss"**), as well as of all intellectual property (including trademarks and including the trademark under Strauss Holdings' ownership) (the **"Strauss Brand"**) in any respect relating to import, production, marketing, sale, services or distribution in the food or beverage industries (including the dairy product category or assorted salads) (the **"Food Category"**). The undertaking of any of the Strauss Family Members shall expire in his/her respect after three years have elapsed from the date whereon he/she ceased to hold, directly or indirectly, shares of the Company, or from the date whereon he/she shall cease to serve as an officer of the Company or its subsidiaries (if he/she serves in such office), whichever is the later (**"Termination Date"**), exclusively with respect to spheres in the Food Category in which the Company (or any of its subsidiaries) did not engage on the Termination Date, whereas with respect to areas in the Food Category in which the Company (or any of its subsidiaries) engaged on the Termination Date, the abovementioned undertaking will expire only after fifty years have passed since the closing date. After three years have elapsed from the closing date or after the end of the fifty-year period, as the case may be, the Strauss Family Members shall be entitled to make use of the Name Strauss themselves and also to grant the right to use the Name

Strauss to corporations under their control on the date the right of use is granted. Strauss Holdings, as the owner of the Strauss Brand, from the closing date granted the Company and its subsidiaries, at no further consideration, an irrevocable and exclusive right to make use of the Name Strauss and the Strauss Brand in all respects relating to import, manufacture, marketing, sale, services or distribution in the Food Category. It is noted that in 2007 the Company received Strauss Holdings' consent to register the Company's new logo as its trademark. Strauss Holdings and the companies it controls and the Strauss Family Members are not prevented from making any use of the Name Strauss, including its various inflections, in all respects relating to any category that is not included in the Food Category. However, it was agreed that in any such use, Strauss Holdings and/or any of the Strauss Family Members shall not create a logo of the Name Strauss that resembles, to the point of misleading, the Strauss Brand, in a manner that an error may be caused in which a person may think that an asset or service of Strauss Holdings and/or related to any of the Strauss Family Members is an asset or service of the Company. The Company declared in the Agreement that it is aware that notwithstanding the foregoing, in the framework of the Unilever agreement (of 1995 between the international Unilever corporation, Strauss Ice Cream and others), Strauss Holdings had granted certain rights in the Strauss Brand to Strauss Ice Cream (including in the registered trademarks, the numbers whereof are enumerated in the Agreement) with respect to the manufacture, marketing and sale of ice cream, popsicles, frozen yogurt, "Krembo" and frozen desserts, containing one or more of the above. The agreement clarifies that in any case of contradiction between the provisions of the agreement and those provisions of the Unilever agreement relating to the license granted to Strauss Ice Cream to use the Strauss Brand, the provisions of the Unilever agreement shall prevail and the Company shall be subject to their contents, including – whenever the provisions of the Unilever agreement contain a prohibition or limitation imposed on Strauss Holdings in the grant of a license for any use of the name and registered trademarks of Strauss Holdings, the permission granted to the Company and its subsidiaries shall be deemed to be subject to such prohibition or limitation and qualified in accordance therewith.

In the framework of the agreement, Strauss Holdings undertook, without a limitation restriction, to indemnify the Company in respect a claim or demand for indemnification arising from suits filed against the Company or the Transferee Companies and their subsidiaries by a third party, the cause whereof preceded the closing date; a claim or demand for indemnification arising from demands/claims received by any of the Transferee Companies and their subsidiaries from the various authorities (including the various tax authorities), the cause whereof preceded the closing date; a claim or cause relating to the breach of any of Strauss Holdings' enduring undertakings pursuant to the agreement, i.e. Strauss Holdings' undertaking to grant the Company an exclusive right to use the Name Strauss and/or the Strauss Brand; Strauss Holdings' undertaking to transfer information to the Company relating to the Transferee Companies and their subsidiaries; Strauss Holdings' undertaking with respect to taxes and expenses; Strauss Holdings' undertaking to confidentiality and non-use of information; and Strauss Holdings' undertaking to non-competition (all as provided in the Agreement). Strauss Holdings' right to compensation pursuant to the agreement (if and insofar as any such right is created) may be used only and solely to set off payments of compensation / indemnification that shall be owed to the Company under the agreement, and in any case (beyond the abovementioned right of setoff), the Company shall not be required to pay any amounts to Strauss Holdings in respect of discrepancies in its representations.

The agreement further determines that for as long as any of the Strauss Family Members holds, directly or indirectly, shares of the Company or serves as an officer in the Company or in its subsidiaries, that same Strauss Family Member shall refrain from competing with the Company.

26.2 **<u>Liabilities to banks and other financing institutions (negative lien)</u>** – There are undertakings of the Company to banks not to pledge or mortgage assets without receiving the banks' consent in advance and in writing (except for the possibility of providing specific securities to guarantee certain loans), and that the Company will comply with two financial stipulations: the ratio of the shareholders' equity (not including the minority interest) to the total Statement of Financial Condition shall be no less than 20%, and the net financial debt to EBITDA ratio shall be no more than 3 (at Bank Leumi of Israel Ltd. and Bank Hapoalim Ltd. – more than 4). As at the date of the Report the Company is in compliance with these undertakings. For further information, see Section 22.5 of this chapter and Note 22.2 to the Financial Statements of the Company as at December 31, 2012.

In January 2012, the Company signed a loan agreement with several companies of the Harel Insurance Group for the receipt of a loan of NIS 300 million. In March 2012, the Company signed loan agreements with several non-banking institutional corporate group, pursuant to receipt of loans amounting to NIS 222 million and NIS 150 million.

In the framework of the loan agreements, there is an undertaking to a negative lien as well as an undertaking to comply with financial ratios, similar to the undertaking to comply with financial stipulations toward the banks, see Note 22.2 to the Financial Statements of the Company as at December 31, 2012.

26.2 Trust deed and Debentures (Series B), trust deed and Debentures (Series C) and trust deed and Debentures (Series D) – see Note 40.1 to the Financial Statements of the Company as at December 31, 2012.

27. Legal Proceedings

For information on class actions and other legal actions against the Company, see Notes 26.1.1 and 26.1.2 to the Financial Statements of the Company as at December 31, 2012.

28. Objectives and Business Strategy

It is the Group's practice to review its strategic plans from time to time and to revise its objectives according to developments occurring among its consumers, changes in the competition map and in the retail environment, and macroeconomic influences. In recent years the Group's strategy has been influenced by its international business expansion.

In 2010, the Group refreshed its visionary goals. In 2011 the Group executed a process of formulating a portfolio strategy, in which framework Group Management defined the directions of business development for the next few years, as well as key strategic directions for the continued business development of its business units.

In the context of the strategic review it was decided that the Company would in the next few years develop its international growth drivers, particularly Strauss Water with its partners, Haier in China and Virgin in the UK, and the partnership with PepsiCo in fresh foods, while improving its competitive position in the Israeli food market. The Company will focus on businesses with high added value, in which it believes that it will be able to establish a leadership position.

The Group believes that its entrepreneurial culture, multi-dimensional growth model (diverse business categories, mergers and acquisitions and organic growth), as well as its ability to adjust and develop its business activity in different parts of the world where it operates in alignment with local needs, will serve as important levers for the realization of its strategy.

In the next few years Group Management will continue to execute moves aimed at improving managerial and business capabilities in various spheres and will improve sustainability in its business units.

28.1 <u>Strauss Israel</u>

Among the major goals the Group has set for coming years are leadership of the Israeli food market in existing business areas and improvement of the consumer's quality of life, while achieving growth and improving profitability and at the same time, making the business and managerial adjustments required by the economic-social environment in Israel.

In the next few years the Group intends to improve its competitive position in Israel through product innovation – the development of products and solutions with unique added value for the consumer alongside the development of high-quality, affordable products, the development of operational excellence in the various systems in the Company and improved productivity, empowerment of its brands, placing focus on sales, and by contending with the growing strength of local and international competitors, in alignment with changes in the retail market.

In addition to the growth targets and the improvement of its competitive position, the Company in Israel has a number of additional strategic objectives in the crystallization of the Group's business and cultural character for coming years.

The business in Israel serves as the Group's home base and as such, the Company in Israel is responsible for preserving the unique business culture, developing generations of managers for the Group, advancing and developing corporate governance and social responsibility, and serving as a major source of groundbreaking innovation with clear competitive advantages, which the Group will be able to implement in international markets.

28.2 <u>Strauss Coffee</u>

In the global coffee business the Group focuses on the development, manufacture, marketing and sale of branded coffee products in Israel and in various international markets – Central and Eastern European, Russia and Brazil. The world coffee market is especially large, with yearly sales totaling tens of billions of dollars, and the roast and ground (roast and ground) coffee market accounts for most of it. See also Section 11.1 of this chapter.

The roast and ground market is particularly decentralized. The two leading global players in this market are the American corporations Sara Lee and Kraft, which account for some 19% of the entire world roast and ground market. The roast and ground market is characterized by its localized nature and in most countries there are unique flavors, local brands and different traditions of coffee consumption.

In recent years there has been a clear, prominent trend of creating a coffee culture and premiumization of the category following the expansion of branded cafés in Israel and worldwide, a significant increase in the consumption of premium coffee, the accelerated development of "single portion" consumption (coffee capsules for use in home machines), a substantial rise in sales of coffee machines for home use, rapid development of the "maximization market" ("3 in 1" – combination of a number of components in a single pack) in the Far East, development of the freeze-dried market, etc.

The growth of the world coffee market has undergone changes in recent years. Emerging markets, including Brazil, Russia (where the Company is active) and others have become the fastest growing markets in coffee in the past few years, while in the developed markets growth in the traditional retail market has been moderate. In developed markets rapid growth was prominent in the away-from-home (AFH) coffee consumption market.

The Group specializes in the development and acquisition of local brands in the countries where it operates.

The Company focuses on locating expansion opportunities in three main directions:

1. Continued deepening of consolidation processes in different markets and regions in the world where the Company is presently active, in Russia and Brazil.
2. Focus on developing the equity of the Company's brands.
3. A review of other attractive regions for possible penetration in the future.

The Company invests efforts in all of the above spheres with a clear preference for emerging markets, which enjoy higher growth rates, and with focus on the development and acquisition of competencies in the coffee world.

The Company is strengthening its activity in freeze-dried instant coffee, a category which possesses high added value, mainly in the former CIS countries. As part of this strategy the Coffee Company engaged in an agreement with the owners of Viva Coffee GmbH for the acquisition and operation of a production site in Germany that is active in this category.

Concurrently with the realization of the mergers and acquisition strategy, the Company considers the acceleration of the organic growth of its coffee business in countries where it is active important. The Company plans to invest resources to accelerate organic growth through the development of channels, products and categories in which the Company is partially active, by transferring knowledge and experience among the various countries and developing new products.

28.3 <u>Refrigerated Dips and Spreads – Sabra, USA</u>

In August 2005 the Group completed the acquisition of the Sabra Mediterranean salads business in the USA. This acquisition is the result of the Group having identified an additional business area in which it has a clear relative advantage in terms of technology, manufacturing and marketing, which also has significant growth potential in international markets, the USA market in particular.

The Mediterranean salads market, particularly hummus, is characterized by accelerated growth in the USA and has interesting market potential. The Group's activity in North America is one of its major growth drivers, and in this market Sabra is a major business channel in the refrigerated dips and spreads category. Until the Group's entry, this market was characterized mainly as a canned products market.

Through Sabra, the Group has led the freshness revolution in this market thanks to its know-how and experience in fresh foods, which are compatible with key consumption trends today in the food world in general and in the USA in particular.

In early 2008 the Company signed a partnership agreement (50%) with the international PepsiCo corporation, pursuant to the development, production and sale of refrigerated dips and spreads in the USA and Canada, through Sabra in the USA. The partnership with PepsiCo in Sabra in North America and is a highly important strategic step in the development of the Group's business outside of Israel in general and in the USA in particular. The connection between the Group's capabilities in innovation and product development and its expertise in fresh foods; coupled with PepsiCo's capabilities, infrastructure and excellence in general and in the North American market in particular, have enabled the partnership to continue to develop and lead the market and category, and to realize the great potential inherent in this activity. Additionally, possibilities for expanding the refrigerated dips and spreads business through acquisitions are being explored. Thus, in 2010, a salsa and fresh and refrigerated dips company was acquired in consideration for $33 million.

Against the backdrop of Sabra's rapid growth in the past few years and the need to increase production capacity to meet demand, the Group built a state-of-the-art salad production facility with an investment of $68 million. The plant (in the state of Virginia, which became operational in the first half of 2010) is among the most advanced of its kind in the world and is based on the most innovative production technologies.

In light of the success of the operations in North America, in 2011 the Company signed an additional partnership agreement with the PepsiCo Group (50%) for the establishment of a global business in the refrigerated spreads and dips category in other countries besides North America. In 2012, the partnership commenced its operation in Mexico and in Australia.

28.4 Other Operations

a. **Strauss Water Operations**

In the framework of realizing the Group's vision to improve its consumers' quality of life, in 2007 the Company decided to enter a venture in the drinking water business, which had been identified as significant business opportunity with the potential for creating another international foothold for the Group.

Strauss Water developed an innovative water purification technology integrating breakthrough developments in the fields of engineering and physics with innovative developments in chemistry and microbiology, some of which have been registered as patents.

Strauss Water Israel (Tami4) leads the Israeli market and is one of the world's leading companies in the development, manufacture and marketing of systems for the filtration, heating and cooling of drinking water for the home and institutional markets.

The combination of the capabilities of Strauss Water Israel (Tami4) in the development of home water purification systems and the Strauss Group's experience in the management of international businesses and penetration of developing markets, coupled with Strauss Water's technology, enable the Company to offer an integrated solution to markets in and outside of Israel.

Strauss Water views the development of a suitable technology for the creation of quality drinking water solutions in and away from home as a way to improve the quality of life of hundreds of millions of people, all over the world.

In 2010, Strauss Water and the international Haier Group established a joint venture in China (Strauss Haier Water), the goal of which is to manufacture and market the Watermaker product, developed by Strauss Water, in the Chinese market, through marketing chains of local electric and electronic appliances.

In 2011 Strauss Water together with the international Virgin Group established a joint venture with the goal of developing home water systems in the UK.

b. **Max Brenner**

In the framework of exploring possibilities for leveraging its capabilities in additional business areas, the Group decided to use the prestige chocolate brand Max Brenner as a vehicle for the creation of a novel consumption experience in the chocolate and chocolate beverage category and to establish, independently and through franchises, a chain of "Chocolate Bars" in Israel and abroad.

As at the date of the Report 40 Max Brenner Chocolate Bars are in operation around the world. In 2012 the Company plans to continue to identify new locations for the opening of additional Max Brenner branches.

28.5 In the next few years the Group plans to focus on the development of its activities in Israel and globally, while placing special emphasis on continued international development in coffee, water, refrigerated dips and spreads and the international Max Brenner business.

28.6 The successful implementation of the Company's strategy depends on an experienced and skilled management team and employees on all levels. The Group will continue to encourage excellence among its employees and will seek to assimilate among them the values it champions: responsibility, daring, caring, motivation and team work. The Group will continue to invest in the development of its human capital and will persevere in improving its managerial qualities.

28.7 The Group's strategic plans, as described above, reflect its policy as at the date of the Periodic Report and are based on current evaluations of its areas of activity. The Group's plans may change, in whole or in part, from time to time. There is no certainty as regards the realization of the Group's intentions or of this strategy. It is possible that the objectives described above will not be accomplished in the future, or that the Group will decide not to implement the abovementioned strategy, in whole or in part, for the following reasons among others: changes in the macroeconomic trends that affect the economic situation; the situation in the food and beverage industry in Israel and worldwide; capital market conditions in Israel and worldwide; changes in economic feasibility; changes in competitive conditions in the market and changes in the markets themselves; regulatory changes; as well as due to other risk factors affecting the Group's activity, as set forth in Section 32 31 of this chapter.

29. Information on Geographical Regions

29.1 For information on the geographical regions where the Group is active, see Note 29.4 to the Financial Statements of the Company as at December 31, 2012.

29.2 For explanations on developments, see the Company's explanations in the Board's Report as at December 31, 2012.

29.3 Exposure to Risks due to the Activity Outside of Israel

Activity in the emerging markets in Central and Eastern European and in Brazil is exposed to risks that are typical of these countries, including: sensitivity of the regimes to political changes, which may affect the economic situation in these countries; fluctuations in the exchange rates of local currencies in relation to the US Dollar or the Euro; fiscal economic instability and frequent changes in economic legislation; relatively high inflation and interest rates in some of the countries; exposure to large international competitors who are present or likely to enter the competition in these countries; customer debts are denominated in the local currency, which is subject to risks in terms of fluctuations in exchange rates.

At the same time, the Group's activity outside of Israel contributes to dispersal of its risk and creates diminished dependence on Israel.

30. Discussion of Risk Factors

30.1 The Group operates in business areas that are essentially basic and stable; however, there are several risk factors arising from its general environment, from the industry and from the unique characteristics of its activity, as described below:

Macroeconomic Risk Factors

1. Financial crisis and/or economic slowdown in the global and Israeli markets – should an economic crisis affect the world economy, it is liable to seriously damage financial institutions, cause a reduction in the world's available sources of capital and credit, and liquidity problems leading to national upheavals. Economic slowdown and uncertainty lead to a decrease in private consumption and to a growing tendency on the part of consumers to consume private label products and other inexpensive brands instead of branded products. Generally, economic slowdown is liable to be damaging to the growth of the Group, which focuses on branded products, to impede the realization of its strategy and to impair its profitability.

2. Absence of customs duties in Israel – generally, imports of food and beverages that compete with the Group's products are subject to negligible customs duties. In the absence of entry barriers the Group is exposed to increasing competition by international firms, which in recent years have expanded their activities in Israel.
3. Customs duties in countries outside of Israel – in most countries outside of Israel where the Group is active, imported food and beverages are subject to customs duties that are higher on finished goods than on imports of raw materials. A decrease in customs duties on finished goods is likely to facilitate the entry of additional competitors to these countries and thus damage the Group's competitive position. Furthermore, a change in customs rates in countries where the Group imports the products it sells is likely to affect its competitive position. As customs rates are high or rise in these countries the Company's import costs rise, thus adversely affecting its possibility of competing with local or foreign manufacturers which are not subject to the same customs rates. By contrast, the Group's export sales from Israel to the EU encounter entry barriers arising from customs duties at significant rates. Some of the Group's products that are exported to Europe are subject to customs arising from minimum prices determined to protect European agricultural produce. Any increase in these customs duties is likely have a negative impact on exports of the Group's products.
4. Political risk – the Group is exposed to the risk of boycott of Israeli produce in foreign countries for political reasons, and to the risk of anti-Israel policy or policy against business with Israeli firms.
5. Exposure to changes in exchange rates – the Group is exposed to risks arising from fluctuations in exchange rates since most purchases of raw materials, including commodities, are made in foreign currencies or are affected by them. Changes in the various currency rates in relation to the Shekel are liable to erode the Group’s profitability and its cash flow. A devaluation of the Shekel in relation to the foreign currencies that are relevant to the Group is liable to lead to erosion of the Company’s profitability in Israel.

   The Company's operating currency in which the Financial Statements are presented is the New Israeli Shekel (see Note 2.3 to the Financial Statements of the Company as at December 31, 2012). The operating currency of Strauss Coffee consolidated is the Euro, whereas the operating currencies of Strauss Coffee’s subsidiaries are the local currencies or the US Dollar. The operating currency in the USA of Sabra and Max Brenner is the Dollar. Any change in the real exchange rates of the Shekel against the Euro, and of the Euro against the local currencies and the US dollar, poses a risk to the Company's reported results and to its shareholders' equity.

6. Economic and political instability in the emerging markets of Central and Eastern Europe and in Brazil – activity in developing countries in Central and Eastern European and in Brazil is exposed to risks arising from the sensitivity of the regimes to political changes, which are liable to influence the economic situation in these countries, including changes in the exchange rates of the local currencies in relation to the Dollar or the Euro; customer debts are denominated in local currency, which is subject to the risk of fluctuations in exchange rates; fiscal and monetary economic instability and frequent changes in economic legislation; imposition of limitations on foreign currency movements or other limitations on foreign companies, which are liable to prevent or limit the Group's ability to withdraw profits from the local company to the Company; expropriation or nationalization of assets; and relatively high inflation and interest rates in some of the countries.
7. Market emergence – the emergence of the markets in Central and Eastern European and Brazil increases the potential for entry by international competitors to these markets and the acceleration of consolidation processes by large competitors, and consequently is likely to increase the competition in the countries where the Group is active.
8. Security risk – many of the Group's production sites and its senior management and employees operate in Israel, which exposes the Group to a security risk in Israel in the case of a military conflict between Israel and its neighbors and/or acts of hostility. This is likely to have a general adverse impact on the scope of the Company's sales, to damage the ability to collect debts from customers encountering financial difficulty, to impair the ability to deliver raw materials, to cause the absence of essential employees, and to lead to a possible economic slowdown in the Israeli economy.
9. Exposure to interest and inflation – the Company is liable to sustain economic damage as a result of an increase in the interest rate and the inflation rate. Most of the Company's liabilities are index-linked, and some are exposed to changes in the interest rate. An increase in the Index will cause the Company's financing

expenses to rise, while an increase in the interest rate has a smaller impact on financing expenses (mainly in Israel) due to the current liability mix and hedging activities performed by the Company.

Sectorial Risk Factors:

10. Exposure to changes in countries of origin of raw materials – cocoa, the raw material that serves in two of the Company's main ingredients, cocoa liquor and cocoa butter, grows mainly in West Africa. The Group is exposed to political and economic changes and to economic uncertainty in these regions, which are liable to limit or disrupt the supply of cocoa or raise the prices of cocoa product inputs.
11. Exposure to fluctuations in raw material prices on the commodities markets – raw materials form a substantial component in the production inputs of the Group's products. A large part of these raw materials are highly traded commodities and are consequently subject to (occasionally volatile) market price fluctuations. Acute price fluctuations in the commodities markets may have a fundamental impact on the prices of the commodities and erode the profitability of the Group's products and its competitive capabilities. Additionally, the Group's subsidiaries in Brazil and in Switzerland are commercially active in green coffee trading, in which framework they buy financial derivatives on green coffee. Price fluctuations in the green coffee markets are liable to generate unexpected profits or losses on these transactions.
12. Customer credit – the Group's sales to its customers (including distributors) in Israel and abroad are usually made on credit, as is the customary practice in the market. Part of the credit to retail customers in the private market in Israel (that are not part of the organized retail market) is guaranteed by credit insurance (including a deductible) and various securities, whereas the balance of the credit to the private market that is not covered by guarantees is at risk, particularly in recession periods. However, the broad dispersal of the Group's customers in the private market mitigates this risk. Credit to customers in the large retail market is not secured and focuses on a small number of customers that account for a large part of the Group's sales, and therefore the non-payment of this credit by any of the large customer market customers may have a material impact on the Group's cash flow and its business results in the short term. In most of the countries where the Group is active abroad customer credit is not secured.

13. Defective product quality – the Group's business is exposed to damage in the case of a defect in the quality of the raw materials used in the manufacture of its products or in the quality of the products manufactured by (or for) the Group, including coffee machines and water filters and purifiers, also as a result of concerns of illness or other injuries to health that are liable to be caused in the event of a defect of this kind. Following such defects the Group may be forced to recall defective products (removal from the shelf or collection from consumers' homes) and will be exposed to legal action by consumers harmed by them (if and insofar as there are any). Defects in the Group's products are also liable to be damaging to its reputation and adversely impact its business results. Additionally, publications regarding impaired quality of products similar to those of the Group, produced by other manufacturers, are likely to be damaging to sales of the Group's products.
14. Agricultural raw materials – part of the Group's raw materials are agricultural products whose price and availability are impacted by a great many factors such as weather conditions. Fluctuations in the prices of the raw materials or problems in their availability are liable to be damaging to the Group's profitability or to its sales.
15. Kashrut – the Group is required (mainly in Israel) to comply with kashrut requirements. Any doubt as to the kashrut of a product, a product ingredient or a change in a condition for kashrut is liable to be damaging to the Group's sales.
16. The price of unprocessed milk and control of product prices – the price of unprocessed milk, a major raw material in the manufacture of dairy products and milk drinks, and business in the dairy market, are determined according to various arrangements. Any change in the price of unprocessed milk without adjusting the prices of controlled dairy products and milk beverages may impair the Group's profitability. Liquid milk is purchased from various dairy farmers, and the Group is obliged to accept the full milk quota produced by the manufacturer from which it purchases the milk.
17. Private brands – the growing strength of retail chains in Israel and globally has led to the development of private brands aimed at replacing the product brands manufactured and marketed by various vendors such as the Group. The continued penetration of private labels to the retail food chains is liable to pose a threat to the Group's market shares in its product categories.

18. Regulatory developments – changes in legislation or standardization in Israel and other countries with respect to food and beverage products or other products sold by the Group (e.g. coffee machines and water filtration and purification devices) are liable to influence the Group's production costs and profitability. Reference is to changes relating to the market in general, to food engineering, to compliance with food standards, to environmental quality and other spheres. Changes of this kind, if indeed founded in the legislation, are liable to affect both the product offering and the costs involved in production. Assigning these burden costs to the consumers is liable to reduce the Company's income as a result of price increases.
19. Lawsuits in respect of "unhealthy" food – various publications relating to suits filed abroad in respect of the production and marketing of various products that are harmful to health are liable to lead to the filing of similar suits against various manufacturers, including the Group.
20. Changes in consumption habits and the ability to anticipate changes – the Group's success is conditional on forecasting new tastes, new consumption habits and changes in consumption preferences, and the success of new product development. Thus, for example, in recent years there has been a trend of change in consumption habits, expressed in the shift to consumption of natural, health and indulgence products. This trend has an effect on the consumption of existing products of the Group, which do not necessary comply with these tendencies. On the strategic level, the Group takes action to adapt its product range in order to respond to changing consumption trends. Failure in this regard means the insufficient growth of trade volumes and income in order to accomplish objectives. The Group's success also depends on its ability to foresee the tastes and consumption habits of its consumer public, and to provide its target public with products that are aligned with its preferences and develop new products accordingly. By nature, consumption trends are subject to changes, and the inability to foresee, identify or respond to these changes accurately is liable to lead to a drop in demand for the Group's products and consequently, to cause a negative effect on sales turnovers, receiving and revenues.
21. Dependence on population growth – the growth capacity of the food and beverage industry is limited, among others, by the growth rate of the population. In this context, the Group's success depends on its ability to grow its business faster than the rate of growth of the population in the markets where it operates. Failure in

this context means a slowdown in trade volumes, which is liable to have a negative effect on profitability.

22. Exposure to class actions – in view of the large number of consumers of the Group's products, the Group is exposed to class actions. For motions to approve claims against the companies in the Group as class actions, see Note 26.1.1 to the Financial Statements of the Company as at December 31, 2012.

23. Operating in a competitive market – the food and beverage industry is highly competitive. Some of the Group's competitors in the markets where it is active are large multinational corporations that possess greater financial resources than the Group. The Group's ability to compete efficiently requires ongoing efforts in the marketing and sales of existing products and in the development of new products.

24. Applying Pressures on Profit Margins in the Food Sector - prices of some of the Group's products are subject to pressure to reduce them. The Group's ability to adjust the prices of its products to an increase in raw material and input prices may be limited. During the recent years, we witnessed events in Israel and abroad, where much pressure is applied, including active protest on the part of consumers against food manufacturers and retailers. As pressures are also referred to retailers, in many cases they bring about the pressure on the part of the retailers against the manufacturers. The consumer protest could in addition be an accelerator for regulatory actions and reforms, intended to bring a change into the economic environment, which are liable to cause an erosion of the profitability of the Company and damage to its financial results.

25. The Group's products may contain ingredients that are liable to cause pecuniary and non-pecuniary damage to certain consumers – for example, some of the Group's products are liable to contain ingredients (such as nuts or gluten) that cause certain people allergic reactions and damage to their health. Pecuniary and non-pecuniary damage are liable to lead to legal actions, damage to income, expenses due to recalling products, and damage to the Group's reputation. Additionally, it is possible that ingredients and products that are presently compliant with legal requirements will in the future be found to possess the potential for harm.

Unique Risk Factors

26. Dependence on branding – the Group has a broad range of branded food and beverage products that enjoy a longstanding reputation. Damage to this reputation

by various publications or other means (such as the social media) is liable to have a material impact on the Group's profitability, regardless of the accuracy of these publications. Additionally, a defect in a particular product is liable to cause damage to the master brand under which it is marketed, as well as to the entire product family marketed under that brand. The Group takes care to protect its brands and reputation, among others by being especially meticulous about the quality of the raw materials used in manufacturing the products, production processes, finished goods and advertising messages.

27. Dependence on customers – the loss of a substantial customer is liable to reduce the Group's income and damage its profitability. Furthermore, due to the fact that the number of large customers is small, the Company is subject to possible pressure and bargaining by these customers with respect to the prices of its products. These risks are liable to be intensified to the extent that the organized chains continue to grow stronger.

28. Licenses and franchises – The Group is engaged in licensing agreements with the owners of main brands, including the Danone brands, the PepsiCo brands, the Virgin brands and the Haier brands, of which, as a rule, use is conditional on certain terms and conditions whose breach is liable to damage the rights of usage (with the exception of Haier). Additionally, the continued success of the brands depends on the business results and the brand reputation of the strategic partners, and on their ability to preserve their brands' reputation. Damage to the reputation of one of the brands is liable to lead to damage to the Group's brands.

29. Declaration as a monopoly – the Company has been declared a monopoly in chocolate tablets, instant coffee and chocolate powders for domestic consumption. Strauss Holdings and all the companies it controls have been declared a monopoly in dairy desserts. Declaration as a monopoly is liable to lead to control of the prices of the products to which the declaration refers, or to the imposition of other business limitations. The companies of the Group are exposed to their declaration as a monopoly in every product category where their market share exceeds 50%.

30. Concentration of production in a number of plants – a considerable part of the Group's activity is concentrated at a limited number of sites. Damage by natural hazards or any other damage that is caused to these sites is liable to have a material impact on the Group's activity. Thus, for example, most of the Company's production sites in Israel are located in areas that are exposed to damage by

missiles. In the past few years the salty snack plant in Sderot, the cut vegetables site in Sde Nitzan, the site at the Strauss Yad Mordechai Apiary in Kibbutz Yad Mordechai and the Aviv Dairy in Netivot have been exposed to the continuous firing of missiles from the Gaza Strip.

31. Change of control of the Company – in the event of a change of control of the Company in such manner that the Strauss family ceases to be the controlling shareholder, the Company may be required to sell its holdings to the partners in the jointly-held company in Brazil and in Strauss Frito-Lay, pursuant to the provisions and mechanisms set forth in the shareholders' agreements with these partners. The combined sales turnover of these companies in the years 2012 and 2011 was NIS 1,947 million and NIS 1,864 million. In addition, regarding some of the liabilities to financial institutions, there is an early redemption cause due to change of control in the Group. The Company evaluates that the extent of the impact of this risk factor on the activity of the Company as a whole is minor.

32. Control of product prices – the prices of part of the Group's products are controlled under the Regulation of Prices of Goods and Services Law. Changes in these prices in a manner in which the maximum price is reduced or the possibility of raising the price of the product is limited will impair the possibility of the Group revising prices in accordance with increasing input prices and is liable to be damaging to the Group's competitive capability with respect to those products. Moreover, the possibility of imposing control on the prices on additional products is liable to damage the Group's profitability as well.

33. Successful assimilation of acquired businesses – the Group's expansion strategy through mergers and acquisition requires the successful assimilation of the businesses that are acquired and their merger in the Group, including the realization of growth and profitability forecasts and certain market and competitive conditions. An unsuccessful assimilation of acquired businesses and non-realization of the abovementioned forecasts are liable to lead to failure to achieve the added value anticipated from these acquisitions and even to the impairment of intangible and tangible assets included in these acquisitions.

34. Drop in share price – the price of the Company's shares is liable to fall as a result of crises in financial markets, the fluctuations that are typical of stock markets in Israel and worldwide, and as a result of economic conditions, market conditions or political conditions, notwithstanding the Company's actual performance.

Additionally, the results of the Company's business operations may not meet the expectations of analysts and investors, and for this reason as well the share price may drop. A drop in the Company's share price may impair its ability to raise capital.

35. Environmental issues – the activity of the Group's production sites may lead to its exposure to environmental legal action and the risk of a polluting plant being shut down.

36. Computer and communication systems crash – computer and communication systems crash is liable to cause crucial difficulties to the Company. An incident of this kind that continues for a significant time will damage the Company's ability to supply its products to customers and consumers.

37. ERP system – in the past few years the Group implemented a number of new systems in and outside of Israel based on the ERP system. The ERP system is a central system, consisting of numerous sub-systems that are inter-dependant. Failure in the function of the system is liable to expose the Company's proper orderly activity to various risks.

38. Protection of information – part of the recipes for the Group's products, their manufacture and various processes relating to production such as business projects are trade secrets. The Group relies on customer confidentiality, non-competition and confidentiality clauses in the employment contracts of managers in the Group and other employees who take part in R&D. However, under Israeli law, the Group is liable to be in a situation in which it is unable to enforce the non-competition stipulations, in whole or in part, which will make it difficult for the Group to prevent competitors from benefiting from the expertise of former employees. Moreover, a third party is liable to argue that certain information is not defined as a trade secret under Israeli law. Additionally, the Group cannot assure that these security measures will be effective against unauthorized copying of product recipes, their production or any other use. Any infringement of the protection of title to trademarks and breach of confidential information is liable to be damaging to the business of the Group.

39. Subordination to restrictions in agreements signed with strategic partners – in the framework of the Company's agreements with strategic partners, the Company agreed to restrictions relating to its businesses. For example, Strauss Health agreed with Danone not to export over 7% of Strauss Health's turnover and to

coordinate its export activity with Danone; the Company has a non-competition stipulation in its agreements with PepsiCo; the Company is prevented from competing with the jointly-held company in Brazil for a five-year period after it ceases to be a shareholder. The Company undertook to the TPG private investment fund not to invest in a competitor that deals mainly in coffee other than cafés, for as long as TPG holds over 10% of Strauss Coffee's share capital. These restrictions are liable to prevent the Company from developing its business in the desired directions.

40. Deterioration in the Group's relations with one of its partners – differences in strategic vision between the shareholders and major partners, as well as differences in tactical approach, are liable to lead to delays and complex decision-making processes to the point of paralyzing the business and a partnership being dissolved in an unplanned manner.

41. Subordination to restrictions on the transfer or sale of the Company's holding in joint ventures and subsidiaries – a number of agreements signed by the Company with partners in joint ventures and subsidiaries (e.g. Santa Clara, Strauss Health, Strauss Frito-Lay, Yotveta, Sabra, Strauss Coffee) contain provisions regarding the transfer or sale of the Company's holding. These provisions include, inter alia, a tag-along right and right of first refusal. These provisions are liable to prevent the Company from realizing its investment, to postpone its realization or cause its realization at a low price. Additionally, in a number of joint ventures and subsidiaries in which the Company has partners, the partners have a *put* option which, if exercised by them, will oblige the Company to buy the partners' holding in the joint venture or subsidiary.

42. Disaster befalling a group of managers – the simultaneous loss of a group of senior managers as a result of an aviation disaster, accident, terrorist attack, etc.

43. Damage to the preservation of the cultural DNA – the Company is of the opinion that one of its strengths is its cultural and moral DNA. Activity in regions distant from Israel through local managers is liable to weaken the ability to preserve the required elements in the corporate culture and values.

44. Raising and Maintaining Key Personnel:

    The success of the Company depends on its ability to hire and maintain quality manpower in a variety of professional and managerial fields. Failure of the

Company may impair its business results and the ability of the Company to meet its targets.

30.2 The following table presents the risk factors described above according to their nature (macro risks, industrial risks and risks unique to the Group). These factors have been graded according to the estimates of the Group management, on the basis of their potential impact (irrespective of the probability of their occurrence) on the business of the Group as a whole – major impact, medium impact, and minor impact.

	Extent of the risk factor's impact on the activity of the Group as a whole		
	Major impact	**Medium impact**	**Minor impact**
Macro risks			
1. Financial crisis and/or economic slowdown in the world market	+		
2. Absence of customs duties in Israel			+
3. Customs duties in countries outside of Israel			+
4. Political risks		+	
5. Exposure to fluctuations in currency exchange rates	+		
6. Lack of economic and political stability	+		
7. Market emergence			+
8. Security risk		+	
9. Exposure to interest rates and the CPI		+	
Industry risks			
10. Exposure to changes in the countries of origin of raw materials		+	
11. Fluctuations in raw material prices	+		
12. Customer credit		+	
13. Defective product quality	+		
14. Agricultural raw materials		+	
15. Kashrut		+	+
16. Price of unprocessed milk		+	+
17. Private brands		+	
18. Regulatory developments		+	
19. Claims of unhealthy foods		+	
20. Changes in consumption habits		+	
21. Dependence on population growth			+
22. Exposure to class actions	+		
23. Activity in a competitive market		+	
24. Applying pressures on profit margins in the food sector		+	
25. Exposure to legal action due to the presence of substances in products likely to cause pecuniary or non-pecuniary damage to certain consumers	+		

	Extent of the risk factor's impact on the activity of the Group as a whole		
	Major impact	**Medium impact**	**Minor impact**
Risks unique to the Group			
26. Brand dependence	+		
27. Dependence on customers		+	
28. Licenses and franchises	+		
29. Declaration as a monopoly		+	
30. Concentration of production in a number of sites	+		
31. Change of control of the Company			+
32. Control of product prices		+	
33. Successful assimilation of acquired businesses		+	
34. Drop in the share price			+
35. Quality of the environment		+	
36. Computer and communication systems crash	+		
37. ERP system	+		
38. Protection of information		+	
39. Subordination to restrictions in agreements signed with strategic partners			+
40. Deterioration of relations with one of the partners		+	
41. Subordination to restrictions on the transfer or sale of the Company's holding in joint ventures and subsidiaries			+
42. Loss of a group of senior managers due to an aviation disaster, accident, etc.	+		
43. Damage to the preservation of the cultural DNA			+
44. Pressure on profit margins in the food industry		+	

STRAUSS-GROUP LTD.

BOARD OF DIRECTORS' REPORT

TO THE SHAREHOLDERS AS AT

DECEMBER 31, 2012.

Convenience Translation from Hebrew

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2012

EXPLANATIONS BY THE BOARD OF DIRECTORS REGARDING THE COMPANY'S BUSINESS CONDITION, THE RESULTS OF ITS OPERATIONS, ITS SHAREHOLDERS' EQUITY AND CASH FLOWS

PRINCIPAL INFORMATION FROM THE DESCRIPTION OF THE COMPANY'S BUSINESS

Strauss Group Ltd. and the companies it controls (hereinafter: the **"Company"** or the **"Group"**) are a group of industrial and commercial companies that engage mainly in the development, manufacture, sale and marketing of a variety of branded food and beverage products. The Group is also active in the development, marketing, sale and servicing of water filtration and purification products.

The center of the Group's activity is in Israel, where it is the second-largest company in the food and beverage market. In 2012 the Group held an 11.8% share of the domestic food and beverage market (in value terms[1]). The Group is also active mainly in Brazil, in Central and Eastern Europe countries, in the former USSR countries and in North America.

The Group manages and develops its business with the aim of providing the entire public with a broad variety of top-quality branded products for different consumption opportunities. The Group is dominant in most of the markets in which it operates. The products of the Group are generally sold through a variety of sales channels including large retail chains, private stores and supermarkets, kiosks, workplaces, hotels, vending machines, etc.

The controlling shareholders of the Company are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: the **"Parent Company"** or **"Strauss Holdings"**) and Ms. Ofra Strauss, who is deemed to hold the shares of the Company together with him.

The Group has six segments of activity. For information on the activity segments, see Note 29 to the Annual Consolidated Financial Statements of the Company for the year 2012 (hereinafter: the **"Annual Financial Statements"**):

The Strauss Israel area of activity, which includes a major part of the Group's activities in Israel and comprises two segments of activity:

Health & Wellness – these products include yogurts, dairy desserts, soft cheeses, fresh milk products, milk beverages, refrigerated Mediterranean salads (hummus, tahini, eggplant, etc.), cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil and jams, as well as other products (mainly natural fruit juices and long-life milk) which are exclusively sold and distributed by the Company.

Fun & Indulgence – these products include sweet snack bars, chocolate tablets, sweet spreads, confectionery, chewing gum, cakes and cookies, biscuits, wafers and salty snacks.

Strauss Israel is active in two main business segments that were established according to the product groups described above and are based on developing consumption trends worldwide and in Israel in

[1] According to StoreNext figures. StoreNext engages in the measurement of the regular everyday consumer goods market in the barcoded retail market (hereinafter: **"StoreNext"**).

particular, with the aim of developing leading products and solutions that provide a successful response to these trends.

The coffee business – Strauss Coffee: In this sphere the Group develops, manufactures, sells, markets and distributes a variety of branded coffee products, chocolate and other drink powders. Additionally, in the framework of its activity in Brazil the Group buys, processes and sells green coffee mainly to exporters in Brazil and to customers outside of Brazil (primarily in Europe and the USA), and also manufactures and sells corn products. Activities in coffee are conducted in Brazil, in the former USSR countries, in Eastern and Central European countries, and in Israel. The Company's products are sold through various channels including retail channels for home consumption and different channels catering to away-from-home consumption (cafés, restaurants, institutions, workplaces, etc.). This business area comprises two segments of activity: Israel Coffee (which includes the Coffee Company's corporate center), and the international coffee business.

The International Dips and Spreads Activity: The Group develops, manufactures, sells, markets and distributes dips and spreads through Sabra throughout North America (the USA and Canada), and through Obela outside North America (to date, in Mexico and Australia). The activities of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (each party holds 50%).

In addition to the areas of activity described above, the Group has other activities that are included in the financial statements as the “Other Operations" segment. The main activities among these operations are:

Strauss Water: The Group is active in the development, marketing, sale and servicing of water filtration and purification products. The activity is carried out in three major markets: Israel, China, and England. In 2011 the Company established operations in China in partnership with the Haier Group, and in 2012 relaunched its activity in Britain in partnership with the Virgin Group.

Max Brenner: The Group develops, manufactures and sells premium chocolate products under the Max Brenner brand and operates a chain of "Chocolate Bars", which, at the date of publication of this report, includes forty-four branches in Israel and abroad: forty branches are operated under franchise and four (in the USA: New York, Philadelphia, Las Vegas and Boston) are owned by the Company. The Max Brenner branches are spread throughout Australia (30), Israel (6), the USA (4), Singapore (3) and the Philippines (1).

The Group has approximately 10,500 employees, not including half of the employees of the proportionately consolidated companies (about 13,500 employees are employed in all of the companies in the Group, about half of them in Israel).

The Group's business is conducted in four major geographical regions: **Israel**, where operations include the activity of Strauss Israel (the sale of a broad variety of fresh and dry food products) Israel Coffee, Strauss Water's activity in Israel and Max Brenner in Israel; **Brazil**, where the activity is managed through a 50% proportionately consolidated company (a joint venture), which is active primarily in roasted and ground coffee in the domestic market, the manufacture of corn products and the export of green coffee; **Europe**, where activity mainly includes the coffee business in Russia and in Central and Eastern Europe; and **North America**, where activity includes Sabra (a 50% proportionately consolidated company – joint venture), and part of the Max Brenner business (excluding Max Brenner in Israel).

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The Company applied IFRS for the first time in 2005, with the changeover date to IFRS being January 1, 2003.

SEASONAL EFFECTS ON THE RESULTS OF THE COMPANY'S BUSINESS OPERATIONS

Sales of Fun & Indulgence and coffee products in Israel are characterized by seasonality, and are generally higher in the first quarter of the year. Seasonality is affected mainly by the winter months, when greater consumption of chocolate products and hot beverages is typical, and by increased consumption of Fun & Indulgence products before Passover.

In Health & Wellness products there is no distinct trend of seasonality, but income is generally relatively higher in the third quarter of the year – the hot summer months, which are characterized by greater consumption of dairy products.

International coffee sales are usually higher in the fourth quarter of the year. Seasonality is influenced mainly by the timing of the Christian holidays and the end of the (Gregorian) year in the fourth quarter, a period that is characterized by increased purchases of coffee products.

Income in the water business is also influenced by seasonality, as the demand for cold water solutions increases in the summer. Accordingly, the third quarter each year is characterized by greater activity volumes than the other quarters.

CHANGES IN THE ECONOMIC ENVIRONMENT

The Group continues to contend with a number of challenges arising from the macroeconomic environment. 2012 was characterized by volatility in the prices of the Company's raw materials, coupled with significant increases in energy prices (e.g. electricity, diesel fuel and gas), in the minimum wage in Israel and in other production inputs such as water and municipal rates and taxes. In early October the target price of raw cow's milk (the "target price")[2] rose by approximately 20 agorot per liter (an increase of some 9.4%).

Additionally, exchange rates between the Shekel and the currencies in the different countries where the Group operates have been volatile. In 2012 the Company was impacted by a weakening of part of the exchange rates in countries where the Company is active in relation to the Shekel (particularly the Brazilian Real).

The changes in the exchange rates of the various currencies led to changes in the cost of the products in some of the Group's activities, and to changes in the Shekel value arising from the translation into Shekels of the Company's business results in some markets. The Group is taking the necessary steps to be prepared for the different scenarios and to deal with them in the best manner possible.

<u>The social protest in Israel and its effects</u>:

In mid-2011 a public protest began in Israel, which focused on the general increase in the cost of living in this country, and rising food prices in particular. Following the social protest and placing the cost of living in Israel on the economic-social agenda, various government bodies and committees on their behalf began to examine the subject in depth and to formulate recommendations for legislation and arrangements relating, *inter alia*, to the food industry.

On July 18, 2012 the inter-ministry team charged with examining the level of competition and prices in Israel's food and consumer goods market (the "Kedmi Committee") presented its final recommendations to the Minister of Industry, Trade and Labor and the Minister of Finance. The Kedmi Committee's final recommendations include reference to a number of subjects, including, among others, regulation and competition, the supply segment and the retail segment, consumerism, customs, import barriers and the

[2] The ex-works target price, not including transportation costs.

dairy market. Among the Committee's major recommendations are the removal of import barriers, various recommendations relating to relationships between suppliers and the retail chains, various reporting obligations relating to products in which centralization is high, etc.

On October 21, 2012 the government discussed the recommendations of the Kedmi Committee and decided on the definition of various arrangements designed to implement the recommendations, which will be anchored in legislation. These arrangements include, among others:

- Prohibitions against acts and arrangements on the basis of the principles of the agreed injunction order between the Anti-Trust Commissioner and the food suppliers, which took effect in August 2006, following adjustments and revisions.
- Arrangements designed to promote and assure competition in retail food marketing on the regional level.
- Arrangements to assure the proper exposure of food products subject to price control.
- Arrangements to increase price transparency in food and consumer goods.

These arrangements were anchored in a memorandum for the proposed Promotion of Competition in the Food Industry Law, 2012, published on November 29, 2012.

Additionally, on October 21, 2012 the government adopted a resolution with respect to streamlining the dairy sector. The resolution espouses a multi-year plan designed to streamline the dairy cattle industry by lowering the target price by approximately 25 agorot within four years, and by gradually opening the dairy sector to imports with the goal of lowering the price of dairy products to the end consumer (the "Agreement in Principle"). Streamlining the industry is planned to be achieved in the years 2013-2016. In the streamlining period the government will support the transfer of production quotas from dairy farmers interested in this. Additionally, the Agreement in Principle includes the gradual opening of the dairy market to imports by lowering customs and raising import quotas for dairy products.

At the date of this report there is no certainty as to the final details of the arrangements that are to be anchored in the law, and it is therefore not possible at this stage to assess the extent of the anticipated impact on the Company's business results.

QUALITATIVE REPORT ON EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT

Other than as described below (in the section "Exposure to Market Risks and the Means for Their Management"), as at the end of the fourth quarter and compared to the end of 2011, there has been no material change in the market risk factors to which the Company is exposed, in the policy for managing these risks, in the persons responsible for their management and in the means for supervising and realizing the policy, as described in the Board of Directors' Report as at December 31, 2011.

For additional information, see also Note 30 to the financial statements.

Convenience Translation from Hebrew

ANALYSIS OF FINANCIAL RESULTS *

Following are the condensed financial accounting statements of income (GAAP) for the years and quarters ended December 31, 2012 and 2011 (in NIS millions):

	For the Years			For the Fourth Quarter		
	2012	**2011**	**% Chg**	**2012**	**2011**	**% Chg**
Sales	**8,182**	**7,699**	***6.3***	**2,103**	**2,070**	***1.6***
Cost of sales excluding impact of hedging transactions	5,311	4,994	*6.4*	1,365	1,382	*(1.2)*
Valuation of balance of commodities hedging transactions as at end of period	5	28		27	2	
Cost of sales	5,316	5,022	*5.9*	1,392	1,384	*0.7*
Gross profit	**2,866**	**2,677**	***7.0***	**711**	**686**	***3.5***
% of sales	35.0%	34.8%		33.8%	33.2%	
Selling and marketing expenses	1,808	1,727	*4.7*	462	432	*6.7*
General and administrative expenses	457	427	*6.9*	125	100	*24.3*
Operating profit before other income (expenses)	**601**	**523**	***15.0***	**124**	**154**	***(18.7)***
% of sales	7.4%	6.8%		6.0%	7.5%	
Other income (expenses), net	44	(60)	*(173.4)*	(7)	(53)	*(85.9)*
Operating profit	**645**	**463**	***39.2***	**117**	**101**	***15.9***
Financing expenses, net	(135)	(103)	*30.4*	(33)	(16)	*101.0*
Income before taxes on income	**510**	**360**	***41.7***	**84**	**85**	***(0.6)***
Taxes on income	(185)	(127)	*46.4*	(28)	(39)	*(26.1)*
Effective tax rate	36.3%	35.1%		33.7%	45.4%	
Income for the period	**325**	**233**	***39.2***	***56***	***46***	***20.7***
Attributable to: **The Company's shareholders**	**244**	**161**	***51.3***	***41***	***33***	***20.6***
Non-controlling interests	81	72	*12.2*	15	13	*21.0*

**** Financial data were rounded off to NIS millions. The percentages change were calculated on the basis of the exact figures in NIS thousands***

Following are the adjustments to the Company's non-GAAP management reports (NIS millions):

	For the Years			For the Fourth Quarter		
	2012	**2011**	**% Chg**	**2012**	**2011**	**% Chg**
Operating profit – GAAP – after other income (expenses)	**645**	**463**	***39.2***	**117**	**101**	***15.9***
Share-based payment	19	21		6	(2)	
Valuation of balance of commodities hedging transactions as at end of period	5	28		27	2	
Other expenses (income), net	(44)	60		7	53	
Operating profit – non-GAAP	**625**	**572**	***9.2***	**157**	**154**	***1.8***
Financing expenses, net	(135)	(103)		(33)	(16)	
Taxes on income	(185)	(127)		(28)	(39)	
Taxes in respect of adjustments to the above non-GAAP operating profit	22	(8)		(6)	(2)	
Income for the period – non-GAAP management reports	**327**	**334**	***(2.2)***	**90**	**97**	***(7.9)***
Attributable to: **The Company's shareholders**	**238**	**237**	***0.5***	**68**	**67**	***2.0***
Non-controlling interests	89	97	*(8.8)*	22	30	*(29.3)*

Following are the condensed results of business operations (based on non-GAAP management reports) for the years and quarters ended December 31, 2012 and 2011 (in NIS millions):

	For the Years			For the Fourth Quarter		
	2012	2011	% Chg	2012	2011	% Chg
Sales	**8,182**	**7,699**	***6.3***	**2,103**	**2,070**	***1.6***
Cost of sales	5,311	4,994	*6.4*	1,365	1,382	*(1.2)*
Gross profit – non-GAAP	**2,871**	**2,705**	***6.1***	**738**	**688**	***7.1***
% of sales	35.1%	35.1%		35.1%	33.3%	
Selling and marketing expenses	1,808	1,727	*4.7*	462	432	*6.7*
General and administrative expenses	438	406	*7.9*	119	102	*17.3*
Operating profit – non-GAAP management reports	**625**	**572**	***9.2***	**157**	**154**	***1.8***
% of sales	7.6%	7.4%		7.5%	7.5%	
Financing expenses, net	(135)	(103)	*30.4*	(33)	(16)	*101.0*
Income before taxes on income	**490**	**469**	***4.5***	**124**	**138**	***(10.0)***
Taxes on income	(163)	(135)	*21.2*	(34)	(41)	*(14.8)*
Income for the period – non-GAAP management reports	**327**	**334**	***(2.2)***	**90**	**97**	***(7.9)***
Attributable to: The Company's shareholders	**238**	**237**	***0.5***	**68**	**67**	***2.0***
Non-controlling interests	89	97	*(8.8)*	22	30	*(29.3)*

Following are the condensed results of business operations (based on non-GAAP management reports) of the major business sectors for the years and quarters ended December 31, 2012 and 2011 (in NIS millions):

	For the Years			For the Fourth Quarter		
	2012	2011	% Chg	2012	2011	% Chg
Israel						
Net sales	2,901	2,840	*2.1*	703	679	*3.5*
Operating profit	297	302	*(1.5)*	66	63	*3.6*
EBITDA	372	374	*(0.4)*	79	79	*(0.5)*
Coffee						
Net sales	4,206	3,926	*7.1*	1,125	1,150	*(2.2)*
Operating profit	312	260	*20.2*	91	82	*11.2*
EBITDA	389	334	*16.6*	110	101	*9.7*
International Dips and Spreads						
Net sales	522	388	*34.6*	139	100	*39.2*
Operating profit	44	20	*123.6*	9	5	*64.8*
EBITDA	64	37	*76.7*	14	11	*47.8*
Other						
Net sales	553	545	*1.4*	136	141	*(4.1)*
Operating profit (loss)	(28)	(10)		(9)	4	
EBITDA	28	46	*(40.0)*	13	17	*(24.5)*
Total						
Net sales	**8,182**	**7,699**	***6.3***	**2,103**	**2,070**	***1.6***
Operating profit	**625**	**572**	***9.2***	**157**	**154**	***1.8***
EBITDA	**853**	**791**	***8.0***	**216**	**208**	***4.6***

For information on the adjustments to the Company's non-GAAP reports, see Note 29 to the financial statements.
For information on the consolidated results of business operations of the geographical regions, see Note 29.4 to the financial statements.

ANALYSIS OF THE BUSINESSS RESULTS OF THE GROUP

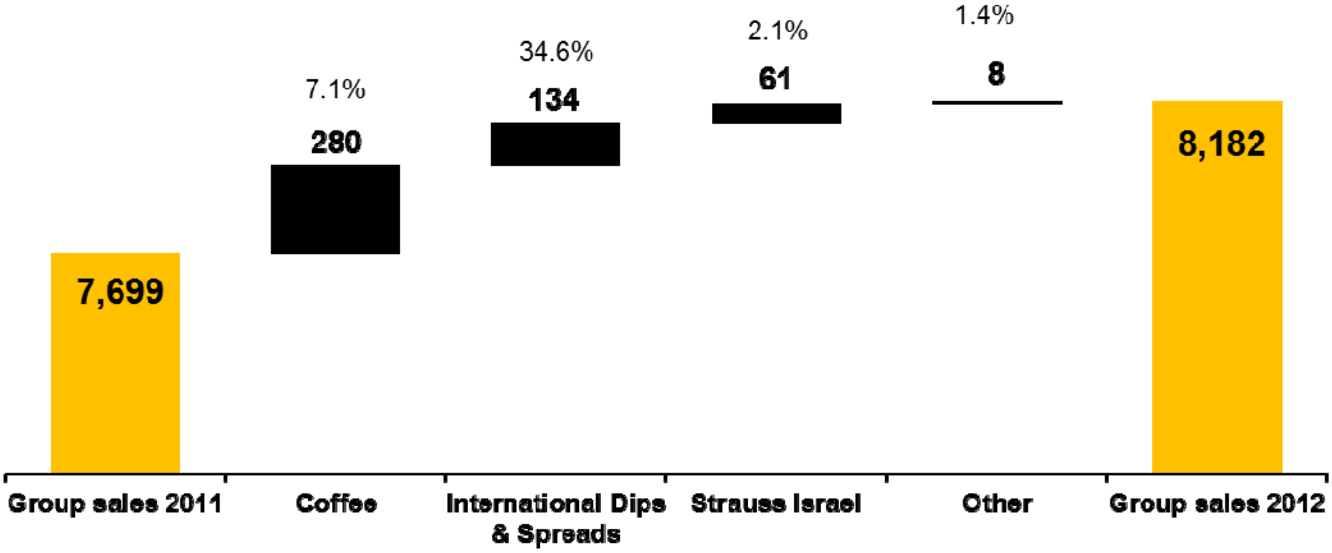
General

The Strauss Group has concluded a record year in sales in all activity segments, as well as in the Group's non-GAAP operating profit. The strong results were achieved mainly thanks to the international coffee business and to Sabra's activity in North America. In 2012 the Group continued to expand globally with the development of the international spreads and dips segment outside North America (in Mexico and Australia). Additionally, the production infrastructure and supply chain in Russia were expanded, and construction of the distribution and logistics center in the Group's home base in Israel, one of the most advanced of its kind in the world, continued.

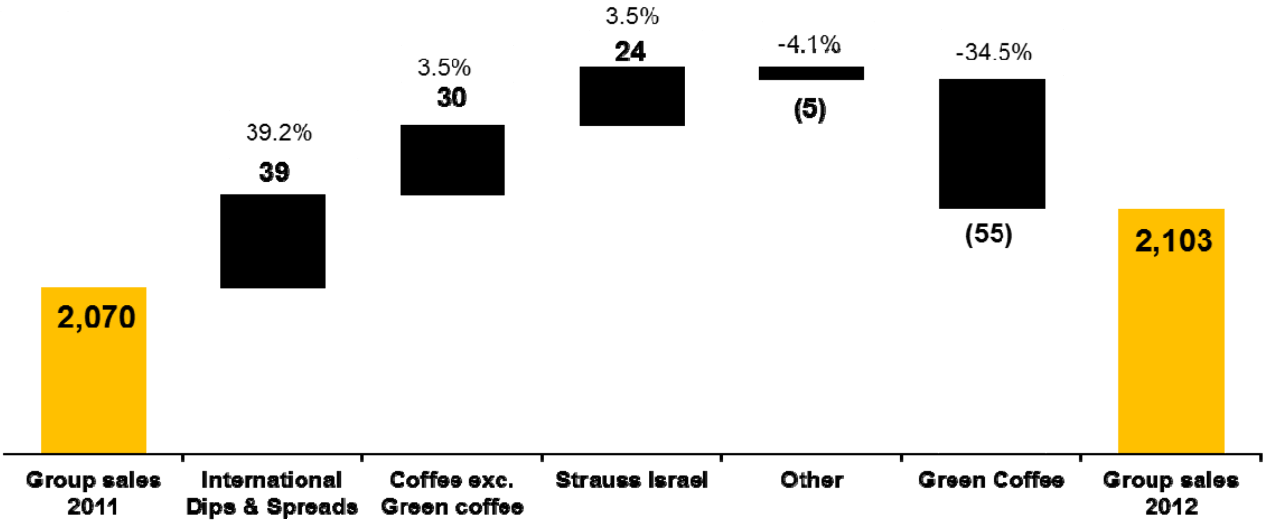
Sales

	For the Years		For the Fourth Quarter	
	2012	**2011**	**2012**	**2011**
Sales	8,182	7,699	2,103	2,070
Growth	6.3%	12.3%	1.6%	14.5%
Organic growth excluding currency impact	7.1%	11.1%	3.6%	13.7%

In 2012 the Group's sales grew by NIS 483 million. Growth was evident in all of the Group's activities, mainly the activity of the Coffee Company and the International Dips and Spreads sector. Following are the components of the change in annual sales and the growth rates, according to the Company's major activity sectors:



In the fourth quarter of 2012 the Group's sales grew by NIS 33 million compared to the corresponding quarter last year. Following are the components of the change in sales in the fourth quarter of 2012 compared to the corresponding period last year, and the growth rates, according to the Company's major activity sectors:



The growth in the Group's sales in the fourth quarter is the result of the growth in the activity of the International Dips and Spreads sector and Strauss Israel. The decline in sales in the coffee sector is explained mainly by a decrease in green (raw) coffee sales in Brazil. (NIS 55 million), as a result of management's decision to focus on the company's core business and reduce green coffee sales to customers outside Brazil. This decrease was partly offset by a growth in the coffee business in other markets, including the CIS countries and Israel.

The decrease in sales by the "Other" segment is explained mainly by a drop in Max Brenner sales (NIS 10 million), due, among other things, to the sale of the five Max Brenner branches in Israel to a franchisee in the third quarter of the year. This decrease was partly offset by growth in sales by Strauss Water (NIS 5 million).

Further explanations on the Group's sales in 2012 and in the fourth quarter are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

Gross Profit

	For the Years			For the Fourth Quarter		
	2012	**2011**	**% Chg**	**2012**	**2011**	**% Chg**
GAAP gross profit	**2,866**	**2,677**	***7.0***	**711**	**686**	***3.5***
GAAP gross profitability	35.0%	34.8%		33.8%	33.2%	
Non-GAAP gross profit	**2,871**	**2,705**	***6.1***	**738**	**688**	***7.1***
Non-GAAP gross profitability	35.1%	35.1%		35.1%	33.3%	

The non-GAAP gross profit <u>in 2012</u> grew by approximately NIS 166 million, mainly as a result of the growth in the gross profit of the coffee business (an increase of approximately NIS 91 million). The gross profit of the Israel sector increased by approximately NIS 10 million, and the rest of the growth (approximately NIS 65 million) is explained by the increase in the gross profit of the International Dips and Spreads activity and the "Other" segment.

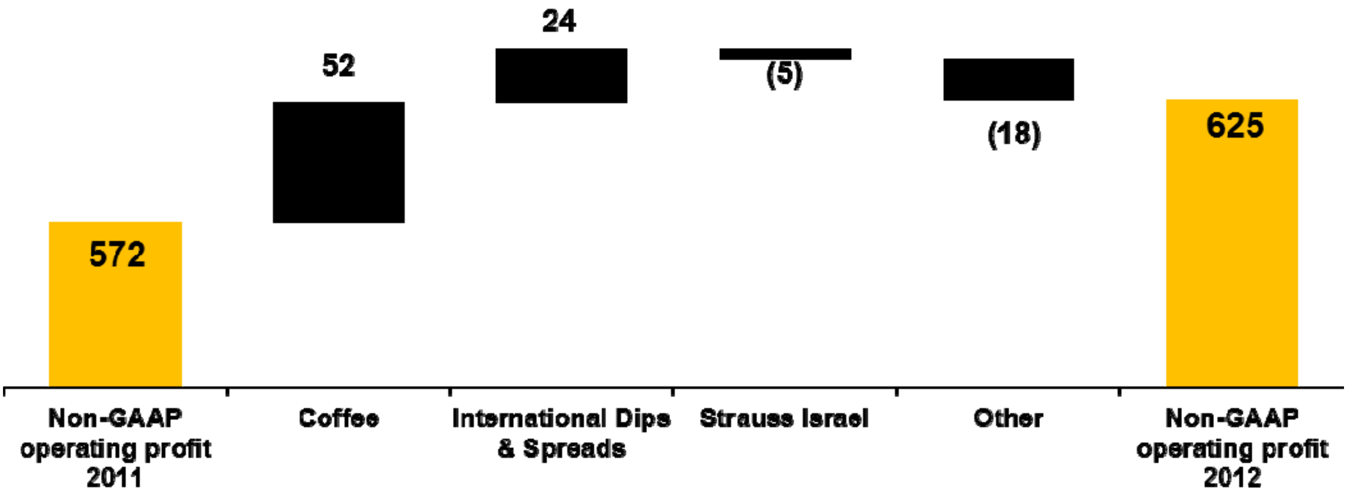
The non-GAAP gross profit <u>in the fourth quarter</u> of 2012 grew by approximately NIS 50 million compared to the corresponding quarter last year, mainly as a result of the growth in the gross profit of the coffee business (an increase of approximately NIS 34 million) compared to the corresponding period in 2011. The gross profit of the Israel sector increased by approximately NIS 9 million, and the rest of the growth (approximately NIS 7 million) is explained by the increase in the gross profit of the International Dips and Spreads activity and the "Other" segment.

Further explanations on the Group's gross profit in 2012 and in the fourth quarter are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

Operating Profit before Other Income (Expenses)

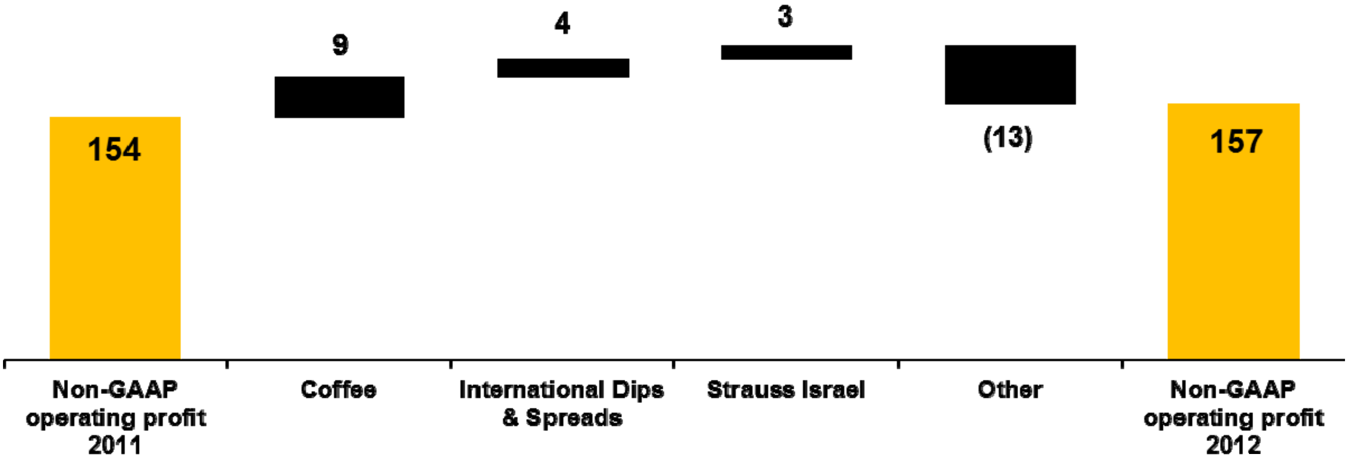
	For the Years			For the Fourth Quarter		
	2012	2011	% Chg	2012	2011	% Chg
GAAP operating profit	**601**	**523**	***15.0***	**124**	**154**	***(18.7)***
GAAP operating profitability	7.4%	6.8%		6.0%	7.5%	
Non-GAAP operating profit	**625**	**572**	***9.2***	**157**	**154**	***1.8***
Non-GAAP operating profitability	7.6%	7.4%		7.5%	7.5%	

The non-GAAP operating profit in 2012 grew by approximately NIS 53 million. Following are the components of the change in the non-GAAP operating profit in 2012 compared to the prior year, according to the Company's major activity sectors:



The increase in the operating loss of the "Other" segment is mainly due to the increase in the operating expenses of Strauss Water's new operations in China and in England. The decrease in the operating profit of Strauss Israel is mainly the result of the modification of the royalty agreement with Danone.

The non-GAAP operating profit in the fourth quarter increased by approximately NIS 3 million compared to the corresponding quarter last year. Following are the components of the change in the non-GAAP operating profit in the fourth quarter compared to the corresponding period last year, according to the Company's major activity sectors:



The increase in the operating loss of the "Other" segment is mainly the result of the operating expenses of Strauss Water's new operations in China and in England.

Further explanations on the Group's operating profit in 2012 and in the fourth quarter are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

Other Income (Expenses), Net

Other income, net totaled NIS approximately 44 million in 2012 compared to other expenses, net of NIS 60 million last year.

The principal sums constituting the other income, net in 2012 are a capital gain from the sale of land in Givatayim in an amount of NIS approximately 115 million (NIS 91 million net of tax); and by contrast, primarily amortization in respect of goodwill impairment and impairment of investment real estate.

Most of the expenses in 2011 are attributed to goodwill impairment.

In the fourth quarter this year other expenses, net, amounted to NIS 7 million, as opposed to other expenses, net, of NIS 53 million in the corresponding period last year (most of them due to goodwill impairment).

Financing Expenses, Net

Net financing expenses in 2012 totaled NIS 135 million compared to expenses of NIS 103 million last year.

The reasons for the increase in financing expenses compared to the corresponding period last year were an increase in interest expenses due to the growth of the gross debt and average life of the debt, and expenses from the revaluation of foreign currency derivatives as a result of the strengthening of most of the Group's operating currencies versus the Dollar, as opposed to income received last year due to a significant weakening of these currencies versus the Dollar.

The Consumer Price Index (on the basis of the known Index) to which the Debentures Series B and other loans are linked rose by 1.4% in 2012 compared to an increase of 2.6% last year; however, the increase in the linked debt volume and the revaluation of Index transactions had an offsetting effect.

In the fourth quarter of the year financing expenses totaled NIS 33 million compared to NIS 16 million in the corresponding period last year.

The main factors that contributed to the increase in financing expenses were expenses entered in the quarter in respect of the revaluation of foreign currency positions due to the strengthening of the Group's operating currencies versus the Dollar, as opposed to income from the revaluation of foreign currency transactions due to the weakening of most of the currencies versus the Dollar in the corresponding quarter last year, the expenses of the revaluation of Index transactions and the revaluation of other assets and liabilities in the fourth quarter this year, and an increase in interest expenses as a result of an increase in the gross debt and in the average debt life.

By contrast, the Consumer Price Index (on the basis of the known Index) to which the Debentures Series B and other loans are linked dropped by 0.7% compared to a decrease of 0.2% in the corresponding period last year, which had an offsetting effect.

Net credit as at December 31, 2012 totaled NIS 1,422 million compared to NIS 1,476 million on December 31, 2011.

Taxes on Income

In the 2012 taxes on income amounted to NIS 185 million, reflecting an effective tax rate of 36.3%, whereas last year taxes on income amounted to NIS 127 million and the effective tax rate was 35.1%. The effective tax rate in 2012 rose as a result of an increase in losses in which respect no deferred taxes are recognized, an increase in the corporate tax rate in Israel compared to 2011 (up by 1%), and an increase in the pre-tax profit in companies with a high corporate tax rate. Additionally, tax expenses in 2011 include one-time expenses of NIS 15 million due to the revision of deferred taxes in respect of a future change in tax rates.

In the fourth quarter tax expenses amounted to NIS 28 million, reflecting an effective tax rate of 33.7%, compared to NIS 39 million in taxes last year and an effective tax rate of 45.4%. The decrease in the effective tax rate in the quarter compared to the corresponding quarter last year is mainly the result of one-time expenses arising from the revision of deferred taxes in respect of a future change in the tax rates entered in the fourth quarter of 2011.

Net income for the Period Attributed to the Company's Shareholders

	For the Years			**For the Fourth Quarter**		
	2012	**2011**	**% Chg**	**2012**	**2011**	**% Chg**
Income attributed to the Company's shareholders (GAAP)	**244**	**161**	***51.3***	**41**	**33**	***20.6***
% of sales	3.0%	2.1%		1.9%	1.6%	
Income attributed to the Company's shareholders (non-GAAP)	**238**	**237**	***0.5***	**68**	**67**	***2.0***
% of sales	2.9%	3.1%		3.2%	3.2%	

<u>Non-GAAP income attributed to the Company's shareholders</u> in 2012 increased by approximately NIS 1 million. The non-GAAP income attributed to the Company's shareholders was positively influenced by the increase in the non-GAAP operating profit (NIS 53 million) and by the decrease in income attributed to the non-controlling interest (NIS 8 million). By contrast, this improvement was almost completely offset by the increase in the Group's net financing expenses (approximately NIS 32 million) and by the increase in tax expenses (NIS 28 million).

Non-GAAP income attributed to the Company's shareholders in the fourth quarter of 2012 increased by approximately NIS 1 million compared to the corresponding period last year. The non-GAAP income attributed to the Company's shareholders was positively influenced by the decrease in income attributed to the non-controlling interest (NIS 8 million), by a decrease in tax expenses (NIS 7 million) arising mainly from one-time expenses in respect of the revision of deferred taxes following a future change in the tax rates entered in the fourth quarter of 2011, and by the growth in the non-GAAP operating profit (NIS 3 million). By contrast, this improvement was almost completely offset by the increase in the Group's net financing expenses (approximately NIS 17 million).

Comprehensive Income for the Period

The other comprehensive income includes profit or loss items carried directly to equity, particularly the revaluation of securities available for sale and differentials arising from the translation of foreign currency in respect of investment in overseas subsidiaries. The other comprehensive income for 2012 amounted to approximately NIS 269 million, compared to other comprehensive income of NIS 227 million in the corresponding period last year. In the reported period losses in respect of translation differentials, which are the main component of the other comprehensive income, amounted to NIS 60 million compared to losses of NIS 1 million in respect of translation differentials in the corresponding period last year. The translation differentials this year are the result of the weakening of part of the Group's operating currencies abroad in relation to the Shekel (particularly the Brazilian Real), which was expressed in the movement in the foreign currency translation reserve.

LIQUIDITY, SOURCES OF FINANCE AND FINANCIAL CONDITION

Cash flows from operating activities in 2012 amounted to NIS 663 million, compared to cash flows from operating activities of NIS 298 million last year. The increase in cash flows from operating activities in 2012 is mainly due to an increase in profit this year versus the prior year and to a significant increase in the change in inventory balances last year in relation to 2012.

Cash flows used in investing activities in 2012 totaled NIS 472 million compared to NIS 445 million last year. Total investments in securities, net, in fixed assets and in other assets during the year amounted to NIS 476 million compared to NIS 415 million last year. In 2012, a significant growth was recorded in the proceeds of the sale of fixed assets (an increase of approximately NIS 112 million compared to 2011), while on the other hand a significant increase was recorded in the grant of long-term loans (an increase of NIS 112 million versus 2011).

Cash flows used financing activities in 2012 amounted to NIS 62 million (negative) compared to NIS 147 million in cash flows from financing activities last year. In 2012 a decrease of NIS 116 was recorded versus the prior year in respect of the receipt of long-term loans, most of which was offset by a decrease in the repayment of loans and long-term bonds, and a decrease of approximately NIS 95 million in short-term bank credit, net, in 2012 compared to an increase of NIS 137 million in the corresponding period.

The Company's cash and cash equivalents as at December 31, 2012 totaled NIS 865 million, compared to NIS 743 million on December 31, 2011. In accordance with Company policy, these assets are invested mainly in deposits (most of them in Shekels and Dollars). Additionally, the Company has short-term investments in securities (mainly in financial funds).

The Company's liquidity ratio as at December 31, 2012 is 1.63 compared to 1.52 on December 31, 2011. On December 31, 2012 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,302 million compared to NIS 2,057 million on December 31, 2011. On December 31, 2012 short-term credit (excluding current maturities) amounted to NIS 215 million compared to NIS 323 million on December 31, 2011. On December 31, 2012 supplier credit totaled NIS 850 million, compared to NIS 821 million on December 31, 2011.

Total assets in the Company's Consolidated Statement of Financial Condition as at December 31, 2012 amounted to NIS 7,131 million, compared to NIS 6,756 million on December 31, 2011.

The Company's activities outside Israel are conducted in various foreign currencies and through autonomous foreign subsidiaries. Any weakening in relation to the Shekel of the Company's operating currencies abroad reduces the shareholders' equity of the Company, and vice versa.

Reportable credit – further to Note 22.3 to the Annual Financial Statements and to section 22 in the report on the Description of the Company's Business – Financial Criteria – the ratio of equity attributed to the Company's shareholders to the total assets in the Company's Consolidated Statement of Financial Condition as at December 31, 2012 is 26.7%, compared to 27.1% on December 31, 2011. The net financial debt-to-EBITDA ratio as at December 31, 2012 is 1.7, compared to 2.0 on December 31, 2011. The Company is in compliance with the required financial criteria. For further information, see also Notes 22.2 and 40.1 to the financial statements.

ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP'S MAJOR BUSINESS UNITS

The Coffee Business

In the global coffee operation the Group focuses on the development, manufacture, marketing and sale, mainly of branded coffee products, in Israel and in various emerging markets – Brazil and CEE. This area of activity is divided into two activity segments: Israel Coffee and International Coffee.

In 2012 the Strauss Group was the fourth largest company in the world retail coffee market (excluding cafés), with a market share of 3.3% in terms of financial value (3.2% in 2011) (Euromonitor).

Following are the condensed results of business operations <u>based on non-GAAP management reports</u> of the Coffee Company by reported segments for the years and quarters ended December 31, 2012 and 2011 (in NIS millions):

	Years			Fourth Quarter		
	2012	**2011**	**% Chg**	**2012**	**2011**	**% Chg**
Israel Coffee						
Net sales	708	654	*8.3*	170	154	*10.4*
Operating profit	77	73	*5.5*	13	15	*(16.8)*
% profit	10.9%	11.2%		7.8%	9.7%	
EBITDA	89	88	*1.2*	15	18	*(16.6)*
% EBITDA	12.6%	13.5%		8.9%	11.8%	
International Coffee						
Net sales	3,498	3,272	*6.9*	955	996	*(4.1)*
Operating profit	235	187	*26.1*	78	67	*18.1*
% profit	6.7%	5.7%		8.1%	6.7%	
EBITDA	300	246	*22.2*	95	83	*15.5*
% EBITDA	8.6%	7.5%		10.0%	8.3%	
Total Coffee						
Net sales	**4,206**	**3,926**	***7.1***	**1,125**	**1,150**	***(2.2)***
Organic growth excluding impact of exchange rate differentials	**10.0%**	**14.2%**		**2.1%**	**23.6%**	
Gross profit	**1,218**	**1,127**	***8.1***	**338**	**304**	***11.5***
% profit	**29.0%**	**28.7%**		**30.1%**	**26.4%**	
Operating profit	**312**	**260**	***20.2***	**91**	**82**	***11.2***
% profit	**7.4%**	**6.6%**		**8.1%**	**7.1%**	
EBITDA	**389**	**334**	***16.6***	**110**	**101**	***9.7***
% EBITDA	**9.3%**	**8.5%**		**9.8%**	**8.8%**	

<u>Sales</u>

<u>In 2012</u>, Sales by Strauss's coffee business increased by approximately NIS 280 million. The growth in sales was mainly due to the growth in activity in the former-USSR countries (approximately NIS 149 million), in Brazil (NIS 70 million) and in Israel (NIS 54 million).

In the <u>fourth quarter</u> Strauss Coffee's sales decreased by approximately NIS 25 million. The drop in sales was mainly due to the decrease in coffee sales in Brazil (NIS 74 million), which was primarily the result of the Company's decision to focus on core activities and reduce sales of green (raw) coffee to customers outside Brazil. Accordingly, green coffee sales in Brazil decreased by NIS 55 million in the fourth quarter of 2012. Brazil sales were also impacted by the erosion of the average exchange rate of the Brazilian Real in the fourth quarter versus the Shekel (approximately 9.8% erosion compared to the average exchange rate in the corresponding quarter last year). Sales growth in Brazil excluding green coffee sales and the currency impact amounted to 5.7% in the fourth quarter and 17.1% in 2012.

<u>Gross profit</u>

<u>In 2012 gross profit</u> in the coffee business grew by NIS 91 million, mainly as a result of the growth in sales. Gross profitability improved by 0.3%.

<u>In the fourth quarter gross profit</u> increased by NIS 34 million compared to the corresponding quarter last year. The increase in gross profit is due to the growth in profit margins in part of the international activity in the fourth quarter, and to significant growth in instant coffee sales in Russia, which had a positive impact on the sales mix. In raw materials, the cost of green coffee of the Arabica species decreased, while the cost of Robusta green coffee, which forms the main raw material of coffee, remained without significant change. Additionally, raw material and production costs decreased as a result of the operation

for the first time of the freeze-dried instant coffee plant in East Germany, which began to supply its product, mainly to Russia, in the first quarter of 2012. Conversely, other production inputs (energy, wages and taxes, such as municipal rates and taxes in Israel) increased. These influences amounted to a 3.3% improvement in gross profitability.

<u>Operating profit</u>

<u>In 2012 the operating profit</u> in the coffee business increased by NIS 52 million. <u>In the fourth quarter the operating profit</u> increased by NIS 9 million compared to the corresponding period last year. The growth in operating profit was due to the growth in gross profit, which was partly offset mainly by an increase in advertising expenses in Israel and Russia. The increase in advertising expenses was particularly significant in the fourth quarter of 2012 compared to the corresponding quarter in 2011.

Following is the scope of sales of the coffee business in the major geographical regions, and growth rates for the years and quarters ended December 31, 2012 and 2011 (in NIS millions):

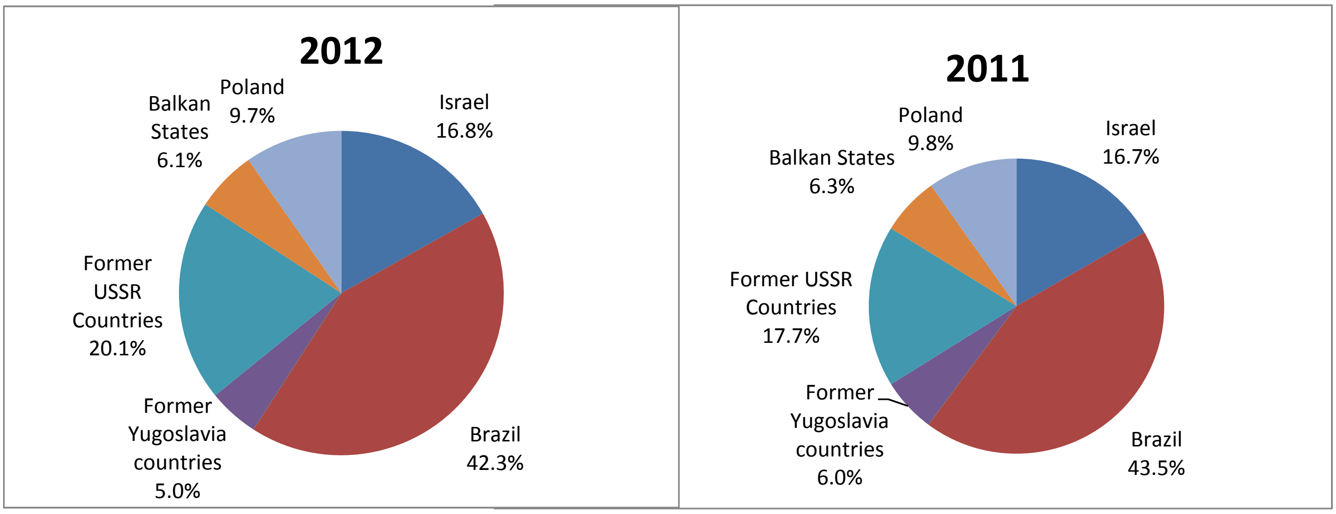
	Years				**Fourth Quarter**			
Geographical region	**2012**	**2011**	**% chg**	**% change in local currency***	**2012**	**2011**	**% chg**	**% change in local currency***
Israel Coffee	**708**	**654**	***8.3***	***8.3***	**170**	**154**	***10.4***	***10.4***
International Coffee								
Brazil (1) (2)	1,778	1,708	*4.1*	*12.5*	482	556	*(13.2)*	*(3.9)*
Former USSR countries	844	695	*21.4*	*17.1*	236	203	*16.4*	*11.9*
Poland	407	386	*5.7*	*7.6*	107	102	*5.1*	*(1.4)*
Balkan States	257	249	*3.0*	*8.6*	68	73	*(7.3)*	*(3.4)*
Former Yugoslavia countries	212	234	*(9.5)*	*0.1*	62	62	*(0.8)*	*9.9*
Total International Coffee	**3,498**	**3,272**	***6.9***	***11.8***	**955**	**996**	***(4.1)***	***0.8***
Total Coffee	**4,206**	**3,926**	***7.1***	***11.2***	**1,125**	**1,150**	***(2.2)***	***2.1***

* The growth rate in the local currency neutralizes the impact of changes in exchange rates in the different countries in relation to the Shekel on the growth in the countries' sales.

(1) Brazil sales in the fourth quarter of 2012 include sales amounting to NIS 105 million of green coffee and NIS 18 million of corn. In the fourth quarter of 2011 sales of green coffee amounting to NIS 160 million and corn amounting to NIS 18 million were included.

(2) Brazil sales in 2012 include sales amounting to NIS 342 million of green coffee and NIS 70 million of corn. In 2011 sales of green coffee amounting to NIS 380 million and corn amounting to NIS 70 million were included.

Distribution of coffee sales by geographical region in 2012 and 2011:



<u>Brazil</u>

The Company's average market share in Brazil in 2012 remained on the level of around 20%, similar to 2011 (market share in value terms according to A.C. Nielsen).

<u>Coffee sales in Brazil in 2012</u> grew by approximately NIS 70 million. Excluding the coffee export business, coffee sales in Brazil in 2012 grew by NIS 108 million. Sales growth in Brazil excluding green coffee sales and the currency impact amounted to 17.1% in 2012.

<u>Coffee sales in Brazil in the fourth quarter of the year</u> decreased by approximately NIS 74 million compared to the corresponding period last year. The decrease in the Company's sales in Brazil is explained mainly by a decrease of NIS 55 million in sales of green coffee following the Company's decision to reduce the green (raw) coffee business, which is generally characterized by low profitability. Sales in Brazil were also influenced by the erosion of the average exchange rate of the Brazilian Real versus the Shekel in the fourth quarter of 2012 (9.8% erosion compared to the average exchange rate in the corresponding quarter last year). Sales growth in Brazil in the fourth quarter excluding green coffee sales and the currency impact amounted to 5.7% compared to the corresponding period in 2011.

<u>The former USSR countries</u>

The Company's sales in the region grew by NIS 149 million and NIS 33 million in 2012 and in the fourth quarter of 2012, respectively. The growth in sales was positively influenced by the quantitative increase in instant coffee sales in Russia and by the strengthening of the Ruble versus the Shekel.

The Group has continued to invest in the development of its capabilities in the areas of production and the supply chain, coupled with an improvement in the cost structure and in operational efficiency in Russia. In December 2012 construction of the roasted and ground coffee plant in Strunino, Russia was completed on a plot acquired as part of the Le Café transaction in November 2010. After the date of the report, the Group announced that Strauss Coffee had acquired a further 49% of Le Café and Instanta, thus completing the acquisition of 100% of the shares of the companies. Strauss Coffee is to pay an amount of US$13.4 million for the shares. The transaction will be financed by Strauss Coffee's own resources and is subject to approval by the anti-trust authority in Russia.

The new roasted and ground coffee plant, together with the instant coffee packaging plant owned by Le Café, are in the process of becoming Strauss Russia principle infrastructure for production, packaging and logistics. Their activity is accompanied by the continued operation of the freeze-dried instant coffee plant in Germany, the produce of which is sold mainly in Russia.

Poland

The Company's sales in the region increased by approximately NIS 22 million and NIS 5 million in 2012 and in the fourth quarter, respectively. In early 2012 the Company began selling its products in the Biedronka chain, the largest supermarket chain Poland, which has some 2,100 branches countrywide. The growth in sales was expressed mainly in sales of the MK Premium brand.

The Balkan States

The Company's sales in the Balkan region were adversely impacted by the erosion of the Romanian Lei versus the Shekel (5.6% and 4.6% erosion in 2012 and in the fourth quarter of the year, respectively). Sales in the Balkan States in 2012 grew by approximately NIS 8 million. In the fourth quarter sales decreased by NIS 5 million compared to the corresponding quarter last year. The decrease was due mainly to the toughening competitive environment in Romania.

The former Yugoslavia countries

In 2012 the Company's sales in the region decreased by NIS 22 million. The decrease is explained mainly by the material erosion of the Serbian Dinar in relation to the Shekel (10.1%). In the fourth quarter sales remained unchanged; excluding the impact of the erosion of the local currency versus the Shekel (9.8% in the quarter), sales grew by 9.9%. In the second quarter of 2012 the Company implemented an operational streamlining program by changing part of the distribution procedures in Serbia, leading to a decrease in distribution costs.

Israel

In 2012 sales by the coffee segment in Israel grew by approximately NIS 54 million. In the fourth quarter, sales grew by NIS 16 million.

In late 2012 Strauss Coffee Israel announced the launch of espresso (roasted and ground) capsules for home consumption. The espresso capsules are manufactured in the Company's plant in Lod and will be sold in food chains in Israel. Strauss Coffee's R&D Department placed emphasis on adapting the taste profile of the product to the Israeli consumer's preferences.

The Group's Activity in Israel

The Strauss Group is the second-largest company in the Israeli food industry, and in 2012 held an 11.8% share of the total domestic food and beverage market (on a yearly average, in financial value terms) according to StoreNext figures. The Israeli market is the Group's home market, where it is active in various categories.

Sales by the entire activity of the Strauss Group in Israel include sales by the Health & Wellness and Fun & Indulgence segments, the coffee activity in Israel, Strauss Water Israel (Tami4) and Max Brenner in Israel. In 2012, the Strauss Group's sales in Israel totaled approximately NIS 4,039 million compared to NIS 3,939 million in 2011, an increase of 2.5%.

In the fourth quarter sales by the Strauss Group's entire activity in Israel totaled NIS 973 million compared to NIS 943 million last year, an increase of 3.2%.

Operations in Israel

The Group develops, manufactures, sells, markets and distributes a broad variety of branded food and beverage products in Israel. In line with the Group's focus on the development of products and solutions preferred by the consumer, the Group's products in Israel center on providing a response to two leading consumption trends, **"Health & Wellness"** and **"Fun & Indulgence"**. This structure supports the Company in contending with the challenges in the business environment.

Following are the condensed results of business operations based on non-GAAP management reports of Strauss Israel by activity segments, for the years and quarters ended December 31, 2012 and 2011 (in NIS millions):

	Years			**Fourth Quarter**		
	2012	**2011(*)**	**% Chg**	**2012**	**2011(*)**	**% Chg**
Health & Wellness segment						
Net sales	1,920	1,874	*2.5*	467	452	*3.3*
Operating profit	187	203	*(7.9)*	37	45	*(16.9)*
% operating profit	9.7%	10.8%		8.0%	10.0%	
EBITDA	235	246	*(4.5)*	43	51	*(16.3)*
% EBITDA	12.2%	13.1%		9.2%	11.4%	
Fun & Indulgence segment						
Net sales	981	966	*1.5*	236	227	*4.1*
Operating profit	110	99	*11.5*	29	18	*61.1*
% operating profit	11.2%	10.2%		12.1%	7.9%	
EBITDA	137	128	*7.4*	36	28	*29.2*
% EBITDA	14.0%	13.2%		15.0%	12.1%	
Total Israel						
Net sales	**2,901**	**2,840**	***2.1***	**703**	**679**	***3.5***
Gross profit	**1,135**	**1,125**	***0.9***	**271**	**262**	***3.5***
% gross profit	**39.1%**	**39.6%**		**38.6%**	**38.6%**	
Operating profit	**297**	**302**	***(1.5)***	**66**	**63**	***3.6***
% operating profit	**10.2%**	**10.6%**		**9.4%**	**9.3%**	
EBITDA	**372**	**374**	***(0.4)***	**79**	**79**	***(0.5)***
% EBITDA	**12.8%**	**13.2%**		**11.2%**	**11.6%**	

(*) Comparative figures have been reclassified. See also Note 29 to the financial statements.

<u>Sales</u>

According to StoreNext figures, in 2012 the Israeli food and beverage market grew by 1.7% in financial value, compared to 5.0% in 2011.

<u>In 2012</u> Israel sales increased by approximately NIS 61 million. Growth was the result of growth in sales by the Health & Wellness segment (NIS 46 million) and the Fun & Indulgence segment (NIS 15 million).

For information on the Group's market shares in major products in the Health & Wellness and Fun & Indulgence segments, see sections 9.4 and 10.4, respectively, in the Description of the Company's Business.

<u>In the fourth quarter of 2012</u> Israel sales increased by approximately NIS 24 million compared to the corresponding quarter last year. Growth was the result of growth in sales by the Health & Wellness segment (NIS 15 million) and the Fun & Indulgence segment (NIS 9 million).

<u>Gross profit</u>

<u>In 2012</u> gross profit in the business in Israel increased by approximately NIS 10 million, with a 0.5% erosion of gross profitability. The increase in gross profit is the result of the growth in sales and was

partly offset by an increase in manufacturing costs (mainly energy and the cost of wages, including minimum wage).

In the fourth quarter of 2012 gross profit grew by approximately NIS 9 million, with gross profitability remaining unchanged. The increase in gross profit is the result of the growth in sales in the quarter.

Operating profit

In 2012 Strauss Israel's operating profit decreased by approximately NIS 5 million, with a 0.4% erosion of gross profitability. The decrease in operating profit is mainly explained by an increase of some NIS 5 million in royalty expenses following an amendment to the licensing agreement between the subsidiary, Strauss Health Ltd. (80%), and Groupe Danone. The amendment was signed in October 2012 (retroactively covering all of 2012) and includes the expansion of the range of services and use of knowhow to be provided by Danone in consideration for the adjustment of the royalties payable for the license. Additionally, Strauss Israel's selling and marketing expenses increased following the increase in energy and wage costs, including minimum wage.

In the fourth quarter of 2012 Strauss Israel's operating profit increased by NIS 3 million and operating profitability was retained. The increase in operating profit is mainly the result of the growth in sales in the quarter.

In the fourth quarter the operating profit of the Health & Wellness segment decreased by approximately NIS 8 million compared to the corresponding quarter last year, and was influenced by the following factors:

- An increase of approximately NIS 5 million in yearly royalty expenses, which was included in the fourth quarter of 2012 in full.
- An increase of approximately 9.4% in the cost of raw milk at the beginning of the fourth quarter, following which the Company adjusted its prices in a number of dairy product categories by 0%-5%, at an average of 2.5%. The new prices became effective only in the second half of the quarter.
- Operation "Pillar of Defense", which mainly affected the Company's production sites in southern Israel (the fresh vegetable plant in Sde Nitzan, the plant at Kibbutz Yad Mordechai, and the salty snack production site in the Sha'ar Hanegev industrial park).

In the fourth quarter of 2012 the operating profit of the Fun & Indulgence segment increased by approximately NIS 11 million compared to the corresponding period last year. Growth was mainly influenced by the growth in sales and by timing differences relating to marketing expenses.

The comparative figures of the operating profit (and EBITDA) were reclassified to allow for their presentation in parallel to the 2012 figures following the classification of corporate center costs between the activity segments in Israel.

The International Dips and Spreads Activity

The Group develops, manufactures, sells, markets and distributes dips and spreads through Sabra throughout North America (the USA and Canada), and through Obela outside North America (to date, in Mexico and Australia). The activities of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (each party holds 50%). Sabra and Obela are proportionately consolidated.

Sabra

Following are selected financial data on Sabra's activity (reflecting 100%):

	For the Years		For the Fourth Quarter	
	2012	2011	2012	2011

Sales	1,007	776	256	200
Growth	29.8%	30.8%	27.7%	21.5%
Organic growth excluding currency impact	20.1%	20.4%	23.8%	18.0%
Operating profit	129	72	31	24
% operating profit	12.8%	9.3%	12.0%	11.9%

According to IRI, Sabra's market share in the 52 weeks ended on December 30, 2012 was 25% of the total refrigerated flavored spreads category (Number 1 in the market), compared to 23% last year. Sabra's share of the hummus category in the 52 weeks ended on December 30, 2012 was 56%, compared to 54% last year.

In the same period, according to IRI, Sabra led approximately 61% of the growth of the refrigerated flavored spreads category and 86% of the growth of the hummus category.

Sales

Sabra's sales grew by approximately NIS 231 million and NIS 56 million in 2012 and the fourth quarter, respectively. Most of the growth in sales was due to volume growth in hummus sales. Strong growth was also posted in salsa and guacamole sales.

Operating profit

In 2012 operating profit grew by approximately NIS 57 million, with a 3.5% improvement in operating profitability. Growth in the operating profit was the result of the strong sales growth and production streamlining processes, among other things thanks to continued growth in the production capacity utilization rate in Sabra's plants (mainly the plant in Virginia) and to waste reduction in production.

In the fourth quarter operating profit increased by NIS 7 million, with a 0.1% improvement in operating profitability. Growth in the operating profit was mainly due to the growth in sales.

Obela

Obela is active in Mexico and Australia and is expected to expand to additional countries in the future. Obela's sales were initiated in the second quarter of 2012. The company's operations were launched in 2012 with the opening of the new production facility in Mexico, to which the production lines from the previous salad factory in Astoria, New York, were transferred. In the second quarter of 2012 Obela acquired an existing refrigerated salads business in Australia from PepsiCo. In the third quarter expansion in Australia continued through the acquisition of the company Copperpot, which specializes in refrigerated spreads.

Following are selected financial data on Obela's activity (reflecting 100%):

Obela's sales in 2012 (which began in the second quarter) amounted to approximately NIS 38 million. Sales in the fourth quarter amounted to NIS 23 million. The non-GAAP operating loss totaled NIS 41 million in 2012, compared to a non-GAAP operating loss of NIS 26 million in 2011. The non-GAAP operating loss in the fourth quarter of 2012 totaled NIS 13 million, compared to NIS 11 million in the corresponding quarter in 2011.

In 2011 Obela's non-GAAP operating loss mainly consisted of the expenses of Obela's head office.

Other Operations

The Group has activities which are included in the financial statements as the "Other Operations" segment. The main activities in this segment are Strauss Water and Max Brenner.

Strauss Water

Strauss Water engages in the development, manufacture, marketing and sale of systems for the purification, filtration, heating and cooling of drinking water for the home market and away-from-home consumption, on the basis of a long-term commitment to its customers. Strauss Water developed the Maze technology, a breakthrough in the purification and treatment of water. Strauss Water is active in Israel (through the Tami4 brand); in the UK through a joint venture with the Virgin Group, under the Virgin Pure brand; and in China through a joint venture between Strauss Water and the Haier Group, under the brand Haier Strauss Water. The company is in the initial phase of the process of selling Strauss Water products in China. At present, the products have been launched in four cities – Beijing, Shanghai, Qingdao and Shenzhen.

In 2012 Strauss Water's sales amounted to NIS 418 million compared to NIS 405 million last year, an increase of 3.3%.

In the fourth quarter Strauss Water's sales amounted to NIS 104 million compared to NIS 99 million last year, an increase of 5.1%.

Max Brenner

Max Brenner applies an operating model that combines branches operated under franchise with branches owned by the Company. At the date of publication of the report, forty-four Max Brenner Chocolate Bars are in operation in Israel and around the world: forty under franchise and four owned by the Company (in the USA: New York, Philadelphia, Las Vegas and Boston). The Max Brenner branches are spread throughout Australia (30), Israel (6), the USA (4), Singapore (3) and the Philippines (1).

In 2012 Max Brenner's sales totaled NIS 135 million compared to NIS 140 million last year, a decrease of 3.5%. Excluding the impact of the erosion of the Dollar in relation to the Shekel and the sale of the five branches in Israel to a franchisee, growth in 2012 amounted to 2.7%.

In the fourth quarter of the year Max Brenner's sales totaled NIS 31 million compared to NIS 41 million last year, a decrease of 24.1%. Excluding the impact of the erosion of the Dollar in relation to the Shekel and the sale of the five branches in Israel to a franchisee, sales in the fourth quarter of 2012 decreased by 6.6%.

EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT

Description of the market risks to which the Company is exposed

The Company operates in areas that are by nature basic and stable; however, there are several factors and trends that are liable to influence both the scope and profitability of the Company's business. For a description of the market risks to which the Group is exposed, see section 31 in the Description of the Company's Business (Macroeconomic Risk Factors and Industry Risk Factors), and the section "Changes in the Economic Environment" in this chapter.

The Company's policy for managing market risks, those responsible for their management, supervision and realization of policy

Green coffee procurement (commodities)

The Company's green coffee procurement center in Switzerland provides for all companies in the Group except for the company in Brazil. In order to manage exposure to market risks, the Company uses transactions in derivatives and in securities traded on the financial markets in New York and London. The use of these instruments is the responsibility of the manager of the procurement office in Switzerland in the framework of guidelines defined from time to time by the corporate green coffee procurement committee, which is managed by the CFO of Strauss Coffee and convenes from time to time according to established procedures.

The procurement of green coffee in Brazil is carried out by the local management according to internal procedures determined by the board of directors of the Brazilian subsidiary, and is the responsibility of the procurement, export and financial managers in Brazil.

Procurement of sugar and cocoa

The Group also has a committee for the management of exposure to sugar and cocoa for its operation in Israel. The committee is managed by the EVP Finance, Israel.

Financial liabilities, financial investments, currency, Index and interest exposure

As mentioned, the Company has long-term liabilities, primarily in Shekels, partly Index-linked and partly at varying interest rates, and is exposed to future cash flows in currencies that differ from the operating currencies of the subsidiaries. To protect the Company from exposure to fluctuations in foreign currency exchange rates, the Index and interest rates, the Company occasionally executes hedging transactions for partial coverage using forward contracts, futures contracts on the Index rates, and futures contracts and option contracts on interest rates and the various currency exchange rates.

The Company's policy is to match, to the greatest extent possible, assets and liabilities in the same currency, using financial derivatives when they are available and advantageous.

In its international activity the Company does not regularly hedge the measurement basis of the results of its operations or its Statement of Financial Condition against changes arising from the various currency exchange rates in relation to the Shekel.

The Company has committees that manage the risks relating to interest rates, currency exposures, financial investments etc., in which all the relevant professional people in the Company participate.

The hedging and investment activities are conducted by the Group's Financial Department in Group Corporate Center and are the responsibility of Strauss Coffee's CFO in all aspects relating to the coffee business, and of the Group EVP Finance in regard to the business of the Group as a whole.

Customer credit

With respect to its activity in Israel, the Company has credit committees that convene periodically to determine the amount of credit recommended for its various customers and the required level of their collateral, including the necessity of purchasing external credit insurance. The Company also monitors the implementation of these recommendations. These credit committees are managed by the CFO of Strauss Israel and the Group's Credit Risk Manager. In the coffee business credit committees convene periodically, and credit control is carried out by the CFOs and CEOs in the various countries and is their responsibility, under the master control of Strauss Coffee's CFO and the Group's Credit Risk Manager, who sits on the credit committees of the coffee companies from time to time.

For information on the Company's positions in derivatives as at December 31, 2012, see Note 30 to the financial statements.

For information on the sensitivity analysis of the fair value of financial instruments in relation to the various market factors, see below and also Note 30 to the financial statements. All sensitivity analyses were performed in relation to the fair value of the financial instruments as at December 31, 2012. A sensitivity analysis was performed with respect to financial instruments whose sensitivity to changes in the various market factors is material.

Sensitivity to changes in exchange prices of green coffee inventory in the Company's warehouses

The fair value of green coffee inventory includes only the exchange trading price component and not the species and quality components (differentials).

	December 31, 2012						
	Profit from Changes				Loss from Changes		
	(1)	10%	5%	Fair Value	-5%	-10%	(2)
	NIS millions						
Arabica inventory, New York	6	3	1	29	(1)	(3)	(4)
Arabica inventory, Brazil	9	4	2	40	(2)	(4)	(5)
Robusta inventory, London	4	3	1	27	(1)	(3)	(4)
Robusta inventory, Brazil	1	-*	-*	4	-*	-*	(1)

	December 31, 2011						
	Profit from Changes				Loss from Changes		
	(1)	10%	5%	Fair Value	-5%	-10%	(2)
	NIS millions						
Arabica inventory, New York	6	3	1	28	(1)	(3)	(4)
Arabica inventory, Brazil	28	13	6	128	(6)	(13)	(17)
Robusta inventory, London	2	1	1	11	(1)	(1)	(1)
Robusta inventory, Brazil	1	1	-*	8	-*	(1)	(1)

* Less than NIS 1 million

(1) In the past ten years the maximum daily increase on the basis of closing prices was 22% in Arabica prices and 15% in Robusta prices.

(2) In the past ten years the maximum daily decrease on the basis of closing prices was 13% in Arabica prices and 13.5% in Robusta prices.

Sensitivity to changes in exchange prices of green coffee with respect to procurement engagements with suppliers, net

	Profit from Changes			Loss from Changes	
	10%	5%	Fair Value	-5%	-10%

	NIS millions				
As at December 31, 2012	10	5	(21)	(5)	(10)
As at December 31, 2011	15	8	18	(8)	(15)

The sensitivity to changes in exchange prices of cocoa with respect to procurement engagements with suppliers, the sensitivity to changes in exchange prices of cocoa of the value of cocoa inventory in the Company's warehouses, the sensitivity to changes in exchange prices of sugar with respect to procurement engagements with suppliers and the sensitivity to changes in exchange prices of sugar of the value of sugar inventory in the Company's warehouses are not material to the Group.

Sensitivity of the book value of liabilities relating to Debentures Series B to changes in the Consumer Price Index

The Debentures are linked to the Consumer Price Index (CPI) known on the date of the Statement of Financial Condition. In 2012 the known Index rose by 1.4%.

Sensitivity of the book value of liabilities relating to Debentures Series C to changes in the interest rate

The Debentures pay varying interest linked to the interest paid on Government Bonds 817 plus an interval of 0.7%. The average interest paid in respect of Debentures Series C in 2012 decreased by 0.57% in relation to 2011.

For information on the sensitivity analysis of the book value of liabilities relating to the Debentures and the sensitivity analysis to interest risks, see Note 30 to the financial statements.

Reporting according to linkage bases

For information on reporting according to linkage bases, see Note 30 to the financial statements.

Valuations

In the reported period the Company performed valuations to determine the recoverable amount of cash-generating units to which residual goodwill and indefinite-life intangibles are attributed. Following are the necessary data relating to these valuations according to Section 8B(i) of the Securities Regulations (Periodic and Immediate Reports), 1970 (financial data are in NIS millions as at the valuation date) for the reported period:

Valuation subject	Timing of valuation	Value of valuation subject prior to valuation date	Value of valuation subject determined according to valuation	Identity of valuator	Valuation model used by valuator	Assumptions used in performing valuation				
						Discount rate	Permanent growth rate	Terminal value as % of value defined	Prices used as basis for compa-rison	No. of bases of com-parison
Goodwill and indefinite-life intangibles attributed to subsidiary in Serbia	09/2012	144	128	External (1) (2)	DCF	13.0%	0.0%	74%	N/A	N/A
Investment real estate in Park Yanai (in accordance with Note 16 to the financial statements)	09/2012	110	88	External (1) (3)	Compa-rison to similar assets	N/A	N/A	N/A	NIS 6-9K per sq.m.	2
Goodwill and indefinite-life intangibles attributed to subsidiary in Russia	12/2012	637	1,014	External (1) (2)	DCF	9.0%	0.0%	74%	N/A	N/A
Goodwill and indefinite-life intangibles attributed to subsidiary in Brazil (50%)	12/2012	783	1,538	Internal (1)	DCF	9.0%	2.0%	81%	N/A	N/A

(1) Assumptions regarding standard deviation are irrelevant to these valuations.

(2) The valuation was performed by Einat Shperling, CPA, a partner in the Valuation Department of Ernst & Young Israel, who possesses a BA in Economics and Management from the Technion, Haifa and an MBA from Tel Aviv University, and thirteen years' experience in performing valuations. The Company undertook to indemnify the valuator with respect to any and all compensation the valuator may be charged to pay to a third party in connection with the opinion, including losses and expenses in respect of legal representation, other than if the valuator acted fraudulently. The valuator's total liability is limited to the amount of the fee paid to her.

(3) The valuation was performed by Meir Tzur, an independent real estate appraiser who is a graduate of Tel Aviv University and holds a postgraduate diploma in Urban and Regional Studies. Mr. Tzur is a certified real estate appraiser since 1982 and possesses 34 years' experience in real estate appraisal. The valuation took diverse parameters into consideration as well as future investments in the asset and various opportunities for sale. The valuator possesses many years' experience in real estate appraisal. The Company undertook to indemnify the valuator with respect to any and all compensation the valuator may be charged to pay to a third party in connection with the opinion, including expenses in respect of legal representation, consultations and expert opinions, other than if the valuator acted negligently or maliciously.

ASPECTS OF CORPORATE GOVERNANCE

The Board of Directors and its Standing Committees

The Group's strategy and its business activity are subject to the supervision of the Board of Directors of the Group. Since June 2008 the Board of Directors has comprised 11 members who possess different backgrounds and areas of expertise, including four directors who fulfill the conditions for qualifying as independent directors, two of whom are outside directors. The directors do not fill other positions in the Company. The directors are not employed by the Company with the exception of Ms. Ofra Strauss, who actively serves as Chairperson of the Board. The Board has four standing committees which are active on a regular basis: the Audit Committee; the Financial Statements Review Committee; the Finance Committee; and the Compensation Committee. Additionally, there is a Strategy Committee which is not a standing committee and convenes as necessary, mainly for the purpose of reviewing and following up the execution of M&A transactions.

Compensation of Senior Managers

In the framework of preparations for the Periodic Report for 2012, the Board of Directors of the Company determined the nature of the information it wished to receive in a timely manner with respect to each of the officers and interested parties in the Company specified in Regulation 21 of the Securities Regulations (Periodic and Immediate Reports) – 1970 (hereinafter: the "Officers"), and the criteria in light of which the relationship between compensation and the Officer's contribution would be considered, and in light of which it would be determined whether the consideration to the Officer is reasonable and fair. The examination was also made in light of relevant criteria determined in accordance with the provisions of Amendment 20 to the Companies Law.

The information requested in the Board resolution was forwarded to the members of the Board in a timely manner. The information included, among other things, the complete relevant data as required in the provisions of Regulations 21 and 22 of the Securities Regulations (Periodic and Immediate Reports) – 1970 and the Sixth Addendum to these Regulations, comparative data relating to managers on a similar level in the Company, and comparative data on compensation conditions in practice in other, similar companies, according to a survey performed by an outside consultant to the Company. Information was also included on the education, competencies, expertise and professional experience of the Officers, their contribution to the Company's business in the accomplishment of its goals in the reported year, data on the ratio between the terms and conditions of office and employment of the Officers and the salaries of the Company's employees (in Israel) and the salaries of employees in management echelons in the Company (in Israel), as well as on the ratio between the permanent components and varying components of the consideration.

The Company's Compensation Committee held a preliminary discussion on the subject of the Officers' compensation for the year 2012, reviewing the information it had received regarding each of the Officers. The Committee's recommendations were forwarded to the members of the Board before the Board meeting. In the meeting of the Compensation Committee and in the meeting of the Board of Directors the Committee and the Board held a detailed, comprehensive discussion on the compensation conditions of each of the Officers, with respect to each Officer individually.

It was emphasized in the discussions that the compensation of senior officers is based on the Officer's position and his/her personal contribution to the management of the Company, its activity and advancement. The yearly compensation of senior executives in the Company is determined according to a mechanism that ties compensation to the Group's financial performance as well as to measurable qualitative-business objectives in the senior manager's specific area of occupation and responsibility, all of them based on the Company's work plans, vision and strategy and on defined objectives and measures (in regard to the yearly bonus, see details with respect of Regulation 21 in the chapter "Additional Information on the Company"); and comprises three major parameters that are weighed and taken into account when determining compensation: (a) Position – an external comparison to parallel positions in the labor market in terms of size and complexity, and creation of a suitable salary range for the position in the Company; (b) Performance – the business performance of the Company and the personal performance of the manager based on defined, quantifiable goals and measures; (c) Person – the manager's personal competencies, experience and potential. These parameters influence the location of the manager's base salary in relation to the pay scale defined for the position, as well as the yearly incentive and the value of equity-based compensation.

In the opinion of the Board of Directors of the Company, after having reviewed in regard to each Officer individually the information presented to it with respect to that Officer's compensation, the compensation of each of the senior Officers in 2012 is fair and reasonable and reflects the Officer's contribution to the Company, compared to companies of similar size and complexity in Israel (and compared to similar positions to those of the Officers in the subsidiaries outside Israel) and noting the size of the Company, the scale and complexity of its activity, its goals and strategy, as well as taking into account the parameters described above.

For information on the compensation of Officers, see the details on the Periodic Report pursuant to Regulation 21 of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Risk Management

Risk management in all areas of the Group's activity is addressed in a number of different frameworks, including the Internal Auditor, the Finance Committee and the Group's Risk Management Manager. The Internal Auditor performs risk surveys of activities in the Group from time to time. Additionally, teams are in place in all relevant business units, which analyze and assess the risks and propose appropriate cautionary measures. These issues are handled by the managements of the business units. In 2011 the Company ratified the map of major risks to the Group. The Company is building a risk mitigation plan for the new risks identified and continues to address the risks identified in prior years according to multiyear work plans. The Audit Committee (which also serves as a Risk Management Committee) receives reports for the purpose of regular supervision and assessment of issues relating to risk management.

CORPORATE RESPONSIBILITY, COMMUNITY ACTIVITY AND DONATIONS

In 2012 the Group's corporate social responsibility (CSR) activities focused on five major spheres:

A. **Product responsibility:** Continued review of the expansion of Strauss's response in terms of products for populations with unique nutritional requirements and the identification of suitable solutions, and continued expansion of consumer service channels.

B. **Work environment:** Continued assimilation of the intra-organizational social program coupled with an extended supportive welfare policy, creating synergies between nonprofits supported by Strauss and services supplied to its employees by these nonprofits.

C. **Social and environmental reporting:** Continued assimilation of a social and environmental reporting methodology in all companies in the Group and expansion of accessibility to contents on CSR issues by all stakeholders via a variety of digital platforms.

D. **Social investment and community relations:** Deepening Strauss's social activity, focusing on the flagship issue – the promotion of employment among diverse populations in general and women's empowerment in particular.

E. **Implementation of corporate social responsibility vis-à-vis the Group's various stakeholders** on supply chain issues – activity in the framework of the 4C Association (the Common Code for the

Coffee Community) advocating fair trade coffee, and a review of cocoa suppliers, environmental quality, workplace safety, promotion of good nutrition and a healthy lifestyle.

Description

A. Product responsibility

In 2012 the Group continued to review the expansion of its product response for unique populations with special nutritional needs. As a leading food company whose goal is to provide top-quality, safe products, the Company is also responsible for making sure that it provides a satisfactory product response to the broadest variety possible of groups with unique needs. As part of this process, Strauss's existing products that provide a response to the needs of unique groups such as diabetics, celiac sufferers, etc. were examined, and the possibility of expanding this product basket was reviewed. The feasibility study that began in Strauss Israel in 2012 has continued into 2013 and is still to be completed. Strauss's consumer service channels were simultaneously expanded considerably in order to provide a comprehensive, quick and reliable response to all Strauss's consumers through the variety of existing communication channels.

B. Work environment – intra-organizational social program

In 2012 the assimilation of the intra-organizational social program continued. The program focuses on the employees of Strauss Israel and includes a pay-freeze for senior executives, supplemental compensation for low-earning employees, enlargement of the welfare basket and its adaptation to employee needs, award of academic scholarships to children of employees and a change in the policy for the employment of employees belonging to employment agencies. In 2012 an additional element was added – the creation of synergy between nonprofits supported by Strauss in its social investment program, and the services provided by these nonprofits to Strauss employees in need of their assistance. This collaboration has become increasingly close to the benefit of Strauss employees, and their access to supportive welfare services, advice on the exercise of social rights and counseling on employment issues for spouses are far more significant than in the past.

C. Social and environmental reporting

In June 2012 the Group's fifth CSR Report was published. The report encompasses 95% of the Group's activity and includes a great deal of information on its social-environmental activities and corporate governance. Strauss attributes great importance to measurement, reporting and control over its performance in these spheres and believes they should be conducted according to the same criteria that govern all other business conduct. In 2012, assimilation of a social and environmental reporting methodology continued in all companies in the Group, with the continued building of long-term infrastructure to support the issue and while establishing internal and external channels designed to increase access to CSR content by all Strauss's stakeholders via a variety of digital channels. The digital reporting platform that was developed and built is another means for holding an ongoing dialogue with all of the Group's stakeholders – an important and substantial element for Strauss in the age of transparency.

D. Social investment and community relations

As a leading food company in Israel, Strauss considers it its duty to donate quality food products and provide nutritional security to the needy in Israel on a regular basis all year round. Strauss donates the products to the two largest food banks in Israel that provide food to dozens of nonprofits and to the needy throughout the country.

In 2012 Strauss continued to deepen its investment in social issues, in volunteer activities by employees and in the donation of products and funds to benefit the communities in which it operates all over the world. The Strauss Group continued to concentrate on the key area of social investment which has been its focus in the past few years: the advancement of employment among diverse populations in general and women's empowerment in particular. The Company's community relations and volunteering activities, which are driven by social leaders spread throughout all units in Israel and globally, continued to grow as new social partnerships were forged with local organizations and projects, successful social models were replicated among productions sites, and volunteer hours on the Group's annual CSR day in November were increased. The social investment model, which was replicated in two plants in 2012, is the "Window to the Future" model, in which framework at-risk youth are employed in Strauss's various production sites as regular employees, while completing their studies in the educational frameworks of the "Youth Advancement" system under the auspices of local authorities and receiving professional training at Strauss.

Besides Strauss's primary social investment activity, the Group continues to support a broad variety of causes in and outside Israel on cultural, health, educational, welfare and other subjects.

In 2012 the Strauss Group invested an amount of NIS 10.3 million in community investment, donations in cash and in kind and volunteer hours, of which NIS 2.7 million were in the form of financial support, NIS 5.8 million were donated in the form of food products (at cost prices to the Group), NIS 0.5 million were spent on the development of CSR, NIS 0.5 million on community activities, and NIS 0.8 million on employees' volunteer hours.

E. <u>Implementation of corporate social responsibility vis-à-vis the Group's various stakeholders</u>

1. **The supply chain – activity in the framework of the Common Code for the Coffee Community (4C) and review of cocoa suppliers**
   The Group is committed to inspecting its suppliers' social-environmental performance in the various stages of its value chain and to influencing the improvement of this performance as much as possible. Accordingly, as a manufacturer and marketer of coffee products, Strauss persevered in global efforts for "Fair Trade Coffee" in 2012, expressed in the improvement of commercial and employment conditions among coffee producers throughout the world. In 2012 the Company increased its purchases from this organization, and coffee purchased from fair trade sources amounted to 7% of all coffee procurement on the basis of the objective for coming years – to increase purchases through the organization by 20% each year.

   Additionally, the Group's major cocoa suppliers were examined and mapped to test their compliance with international standards for the purchasing of fair trade cocoa. The gaps discovered in the mapping process continue to be addressed in 2013.

2. **Environmental quality**
   In 2012 Strauss persevered in assimilating its environmental management policy in the Company, mapping and identifying the negative and positive influences of the Group's plants on the environment, mapping and evaluating the environmental requirements of the law applying to units in the Company, and providing tools for integrated work by the Group's units in the field of environmental management. Additionally, a unique project, "Saving the Environment", designed for Strauss employees was launched, its goal being to raise awareness of environmental issues while providing tools for financial savings in employees' homes by adopting a more environmentally conscious lifestyle. For more information on environmental quality, see section 24 in the Description of the Corporation's Business.

3. **Workplace safety**
   The Strauss Group has made it its goal to improve safety performance and address issues relating to health and safety in the workplace, with a trend of continuing improvement in all aspects relating to the reduction of work accidents and injuries, raising employee awareness of health and safety procedures and their implementation, drawing conclusions and accomplishing continuous learning for the purpose of improvement.

4. **Promotion of good nutrition and a healthy lifestyle**

The Group acts continuously to expand the variety of products and activities that support a healthy lifestyle. As part of its commitment to improving the consumer's quality of life and based on its perceived responsibility, Strauss acts to provide a response to consumer needs by using the healthiest and best quality alternatives as product ingredients in line with its worldview, which places the consumer in center stage and aspires to provide him with product alternatives that allow him to choose to maintain a healthier lifestyle. Strauss has invested in the development of unique tools and methodologies that will help the Group to develop products that are aligned with the policy of improving the consumer's health and wellness.

Corporate Governance Questionnaire

Further to the Draft Disclosure Guideline – Corporate Governance Questionnaire (draft directive pursuant to Section 36A of the Securities Law, 1968), in accordance with the decision of the Securities Authority plenum of February 22, 2012, the Company attached a Corporate Governance Questionnaire as part of the Periodic Report for 2012. See the chapter "Additional Information on the Company".

INFORMATION ON THE INTERNAL AUDITOR OF THE COMPANY

Internal Auditor of the Company: Shlomo Ben Shimol, CPA, CIA (Certified Internal Auditor) (hereinafter: the "Auditor"), has served as the Company's internal auditor since 1999. The Auditor does not hold securities of the Company. Furthermore, the Auditor or the entity on behalf of which the Auditor acts has no business relations with the Company that may create a conflict of interest. The Auditor provides internal auditing services as an outsourcer on behalf of Deloitte Brightman Almagor Zohar. The Auditor is a partner in the aforementioned firm.

Manner of appointment: The Board of Directors and its Audit Committee approved the Auditor's appointment, noting his professional qualifications, auditing experience, and his knowledge of the Strauss Group's business. Additionally, the Chairman of the Audit Committee and the Audit Committee receive reports on the members of the Auditor's team and their professional qualifications.

The Auditor's supervisor in the Company: The Chairperson of the Board.

The work plan: The internal audit's yearly and multiyear (generally, four years) work plans are based on the risk surveys and their revisions, performed in the Group. Additionally, the framework of the work plan includes the activity of the Group Corporate Center and subsidiaries operating in Israel and abroad. The internal audit plans are based on these risk surveys in order to build a risk-based plan.

The internal audit in the Strauss Group acts on a regular basis to revise the yearly and multiyear work plans. The internal audit's work plan is risk-focused and adapted to changes in the Group's business activity.

The goal of the process of revising the risk-focused work plan is to examine, on a continuous and dynamic basis, the structural changes in the Strauss Group and to monitor the level of control and risk in the various units under audit, and in this manner, to examine, on a continuous basis, the alignment of the internal audit's work plan with the Group's needs.

Considerations in determining the subjects in the audit plan:
- The results of risk surveys performed in the Strauss Group;
- Interviews held with different managers in the Group;
- Analysis and mapping of the Group's organizational structure, attribution of the residual risk relating to each activity and determining the frequency of the internal audit according to the risk;
- Regulatory requirements arising from the provisions of the Securities Law and Regulations;

- Current audit findings;
- Resolutions of the Audit Committee and requests by the Group CEO.

The subjects under examination are tested in sub-processes from operational and financial reporting aspects and from aspects of compliance with the provisions of the law and Company procedure.

The multiyear and yearly work plans are prepared by the Internal Auditor and forwarded to the CEO, and are also submitted for approval by the Audit Committee. After receiving the recommendations of the Audit Committee, the work plan is submitted to the Board of Directors of the Company for approval.

Audits abroad or audits of investee companies: The audit plan encompasses the corporations that constitute material holdings of the Company.

Scope of engagement: Following is an itemization of the hours spent on the internal audit of the Group:
- In the Company itself and in investee companies in Israel – 4,248
- In investee companies abroad – 3,063

Total: 7,311 (compared to 7,439 hours in 2011)

Performing the audit: The internal audit work is performed according to the accepted professional standards in Israel for internal audits, and professional guidelines and briefings as approved and published by the international Institute of Internal Auditors (IIA). According to these guidelines, the Auditor performs quality control in order to review the audit work processes applied by the team of Internal Audit employees, and also executes a quality assurance plan by the Internal Audit unit in the Strauss Group.

In the Board of Directors' view, based on the Auditor's report, the internal audit work was performed in accordance with accepted professional standards for internal audits.

Access to information: The internal auditor has free, continuous and direct access to the information systems of the Company, including financial and other data, in Israel and abroad. The internal auditing work applying to the business units abroad is performed by the Auditor and his team of employees overseas.

Auditor's report: The Auditor's reports are submitted in writing on a regular basis throughout the year. In 2012 thirty reports were submitted. The reports are submitted to the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, the CEO of the Israeli or international business according to the circumstances, Management of the Group Corporate Center, and to the units being audited.

In 2012 eight meetings of the Audit Committee were held (including the Strauss Coffee Audit Committees). The meetings take place on a regular basis throughout the year. Furthermore, the Auditor holds regular and periodic meetings with the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, and with senior Group Management.

The Board's evaluation of the Internal Auditor's activity: In the opinion of the Board of Directors, the scope of the internal auditing work, its continuous performance and the Auditor's work plan are satisfactory and sufficient in order to accomplish the purposes of internal audits in the Group. The Audit Committee, in conjunction with Group Management and the Auditor, examines the proper scope of the Group’s internal audit on an annual basis.

Compensation: The total financial compensation paid for the work of the Auditor and his staff is based on an agreed tariff per work hour. In 2012 the Auditor was paid an amount of NIS 1,642 thousand. In the opinion of the Board of Directors, the compensation paid to the Auditor is reasonable and has no influence on the application of his professional judgment.

DIRECTORS WITH ACCOUNTING AND FINANCIAL SKILLS

In the opinion of Board of Directors, the directors Dr. Michael Anghel, Professor Dafna Schwartz, Dalya Lev, Akiva Moses, Professor Arie Ovadia, Ronit Haimovitch, Meir Shanie and Adi Strauss possess the required skills.

In the Company's opinion, the minimum number of directors with accounting and financial skills required is three. This assertion was made taking into consideration, among other things, the size of the Company, the scale of its activity, the number of members on its Board of Directors, and the complexity of financial reporting in the Company. In the Company's opinion, the appropriate minimum number determined as aforesaid will enable the Board of Directors to perform its duties according to the law and the Company's incorporation documents, particularly with respect to its responsibility for examining the financial condition of the Company, and for the preparation and approval of the financial statements. The names of the directors and the particulars for which they are considered directors possessing accounting and financial skills are set forth in the Periodic Report in the chapter "Additional Information on the Company" in the section pursuant to Regulation 26.

INDEPENDENT DIRECTORS

The Company has not adopted the provision regarding the percentage of independent directors in its Articles of Association.

In practice, an independent director serves on the Board of Directors as well as three directors who fulfill the conditions for qualifying as independent directors (two of them are outside directors), who together form over one-third of the members of the Board. For further information on the directors, see the chapter "Additional Information on the Company".

MASTER CONTROL IN THE PROCESS OF PREPARING AND APPROVING THE FINANCIAL STATEMENTS

The Company organ responsible for master control is the Financial Statements Review Committee established by the Board of Directors of the Company, which comprises four members. The members of the Financial Statements Review Committee (which does not serve as an audit committee) are Professor Dafna Schwartz (Chairperson) (external director), Dalya Lev, CPA (independent director), Meir Shanie and Dr. Michael Anghel (external directors). All possess accounting and financial qualifications and the ability to read and understand financial statements in view of their many years' experience and academic education in the financial field. For additional information on the qualifications, experience and education of the Committee members, see Regulation 26 in the chapter "Additional Information on the Company".

The Board of Directors of the Company and its Financial Statements Review Committee have a series of control processes in place for the financial statements before they are approved. These controls include, among others:

- In March 2013, during the preparation of the financial statements, discussions were held in regard to the financial statements for the Year 2012.

- On March 13, 2013 the Financial Statements Review Committee discussed the following matters: (a) the estimates and evaluations made in connection with the financial statements; (b) the internal controls relating to financial reporting; (c) the completeness and propriety of the disclosure in the financial statements; (d) the accounting policy adopted and accounting treatment applied in the Company's material affairs; (e) valuations, including their underlying assumptions and estimates, which support data in the financial statements; (f) the Group's tax status for the year 2012; (g) internal enforcement program in the securities field; (h) review of the audit processes applied by the auditors. At this meeting, a discussion was also held on the effectiveness of internal control over financial reporting and disclosure in the Company. These discussions were attended by Professor Dafna Schwartz (Committee Chairperson), CPA Dalya Lev, Meir Shanie and Micha Anghel, and Arie Ovadia as observers, the Group EVP Finance, the CLO & Company Secretary, the Group Corporate Center CFO, the Group Controller and the Company Auditor.

- On March 13, 2013 the Financial Statements Review Committee held a discussion on the Group's financial statements, which included reference to accounting issues that arose incidentally to the Company's financial statements. Additionally, the Committee examined the effectiveness of internal control in the Company, and among other things examined the process of the Company's preparations on this subject, discussed the identification of material processes in the financial statements, and followed up the findings of the process. After completing the discussion the Committee forwarded its recommendation to the Board of Directors to approve the financial statements for 2012. The meeting was attended by all members of the Financial Statements Review Committee, the CEO, the Group EVP Finance, the CLO & Company Secretary, the Group Controller and the Company Auditor.

- The Committee's discussions were based on material presented to members by Company Management on subjects that were discussed by the Committee, and questions and answers that arose were discussed, including reference by the External Auditor to these issues. The Financial Statements Review Committee requested comprehensive reviews on matters of material influence as required.

- The EVP Finance and the Company Controller hold meetings from time to time with the Chairperson of the Financial Statements Review Committee on subjects related to the financial statements of the Company. Before the financial statements as at December 31, 2012 were approved, such a meeting was held to discuss material issues that arose during the preparation of the Annual Financial Statements.

- The Company Auditor also holds conversations with the Balance Sheet Committee on subjects that arose during the audit of the financial statements. Before the financial statements were approved a conversation was held between the Company Auditor and the Balance Sheet Committee to discuss material issues that arose during the audit of the financial statements as at December 31, 2012.

- Before the financial statements are approved the draft Annual Financial Statements are forwarded to the Committee members and the rest of the members of the Board for their review. The draft financial statements of the Company were forwarded to the members of the Board approximately eight business days before the date of approval of the financial statements, and the recommendations of the Financial Statements Review Committee were forwarded to the members of the Board approximately four business days before the date of approval of the Annual Financial Statements of the Company. The Periodic Report and the financial statements were revised, insofar as necessary, in accordance with the remarks of the members of the Committee and the Board of Directors.

- On March 19, 2013 the Board of Directors discussed the recommendation of the Financial Statements Review Committee to approve the financial statements of the Company as at December 31, 2012. In the opinion of the Board of Directors, in light of the scope and complexity of the recommendations, the Committee's recommendations were forwarded to the members of the Board a reasonable time before the abovementioned meeting. The meeting of the Board of Directors was attended by all members of the Board except for Ran Midyan. Also present were the CEO, the EVP Finance, the CLO & Company Secretary, the Corporate Center CFO, the Company Controller and the Company Auditor.

- At the meeting the Board of Directors discussed the recommendations of the Financial Statements Review Committee and heard a detailed review and analysis of the financial statements by the CEO and EVP Finance, as well as of the Company's financial results and material financial reporting issues relating to the financial statements.

- After the Board of Directors was satisfied that the financial statements accurately reflect the Company's condition and the results of its operations, the Board of Directors passed a resolution to approve the financial statements of the Company for 2012.

UPDATE ON THE ASSIMILATION OF AN INTERNAL ENFORCEMENT PROGRAM RELATING TO SECURITIES

Following the enactment of the new law for streamlining the Israeli Securities Authority enforcement procedures and further to the publication by the Securities Authority of its Criteria for the Recognition of an Internal Enforcement Program in the Securities Field on August 11, 2011, by the date of the Periodic Report the Company had completed the assimilation of the enforcement program.

NEGLIGIBLE TRANSACTIONS

The Board of Directors of the Company has prescribed guidelines and rules for the classification of a transaction between the Company or a consolidated company or a proportionately consolidated company and an interested party in the Company as a negligible transaction, as set forth in Regulation 41(A)(6)(a) of the Securities Regulations (Annual Financial Statements) – 2010. For further information, see Regulation 22 in the chapter "Additional Information on the Company".

REGULATIONS WITH RESPECT TO FINANCIAL REPORTING BY THE CORPORATION

Critical Accounting Estimates

For information on critical accounting policy and Management considerations, see Note 4 to the financial statements.

Auditors' Fees

Following is information on the fees paid to the auditors of the material companies in the Group:

		For the year ended December 31, 2012					
		Audit services, audit-related services and tax services		Other services		Total	
Company	Auditor	NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies (1)	KPMG (Israel)	2,648	11,341	492	1,660	3,140	13,001
Max Brenner NY	Eshel & Partners LLP	193	1,012	-	-	193	1,012
SE USA Inc.	Eshel & Partners LLP	127	452	-	-	127	452
Sabra Dipping Company LLC (100%)	KPMG & JH Cohn	844	1,500	-	-	844	1,500
PepsiCo Strauss Fresh Dips & Spreads	KPMG Switzerland, Mexico, Australia	348	536	68	70	416	606
Strauss Romania SRL	KPMG Romania	342	1,560	-	-	342	1,560
Strauss Adriatic Group Cluster	KPMG Albania, Serbia	123	669	-	-	123	669
Strauss Ukraine LLC	KPMG Ukraine	133	539	20	8	153	547
Strauss Café Poland Sp.z.o.o	KPMG Poland	268	912	-	-	268	912
Três Corações Alimentos S.A (100%)	KPMG Brazil	679	2,900	-	-	679	2,900
Strauss Coffee B.V.	Mazars & KPMG (Israel)	1,801	5,548	727	979	2,528	6,527
Strauss Commodities AG	KPMG Switzerland	273	213	45	35	318	248
Strauss Russia LLC	KPMG Russia	668	1,415	-	-	668	1,415

Company	Auditor	For the year ended December 31, 2011					
		Audit services, audit-related services and tax services		Other services		Total	
		NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies (1)	KPMG (Israel)	2,948	12,038	635	2,366	3,583	14,404
Max Brenner NY	Arik Eshel, CPA & Assoc., pc	173	767	2	17	175	784
SE USA Inc.	Arik Eshel, CPA & Assoc., pc	118	526	20	20	138	546
Sabra Dipping Company LLC (100%)	KPMG & JH Cohn	667	1,350	-	-	667	1,350
Strauss Romania SRL	KPMG Romania	433	1,588	-	-	433	1,588
Strauss Adriatic Group Cluster	KPMG Bosnia, Albania, Serbia	319	812	-	-	319	812
Strauss Ukraine LLC	KPMG Ukraine	124	595	-	-	124	595
Strauss Café Poland Sp.z.o.o	KPMG Poland	245	920	158	176	403	1,096
Três Corações Alimentos S.A (100%)	KPMG Brazil	749	2,750	-	-	749	2,750
Strauss Coffee B.V.	Mazars & KPMG (Israel)	1,543	5,724	1,044	1,397	2,587	7,121
Strauss Commodities AG	KPMG Switzerland	239	282	-	-	239	282
Strauss Russia LLC	KPMG Russia	777	1,817	-	-	777	1,817

(1) The Company receives audit services together with other investee companies, the main ones being Yad Mordechai Strauss Apiary Ltd., Strauss Fritolay Ltd. (100%), Chocolate Bar Ltd., Strauss Water Israel Ltd., and also includes the Strauss Health & Wellness group, including Yotvata Dairies.

The mechanism for determining the Company Auditor's fees is defined according to the nature of the services rendered: fees for auditing and review services are determined as a global amount. Fees for services accompanying the audit (special approvals, prospectuses, discussions, etc.) are determined according to the number of hours invested.

The mechanism for determining the Company Auditor's fees was approved by Company Management. In regard to the investee companies, the mechanism for determining the Auditor's fees was approved by the local managements of these companies.

LIABILITY REPORT ACCORDING TO PAYMENT DATES

See Form T-126, published simultaneously with the financial statements.

POST STATEMENT OF FINANCIAL CONDITION DATE EVENTS

For a review of events occurring after the date of the Statement of Financial Condition, see Note 40.1 to the consolidated financial statements as at December 31, 2012.

SELF-ACQUISITION

For information on treasury shares and a resolution of October 2002 regarding a framework for the acquisition of Company shares by the Company, see Note 28.2 to the consolidated financial statements as at December 31, 2012.

DEDICATED DISCLOSURE TO DEBENTURE HOLDERS

For information on the Company's debentures, see Notes 20.2 and 40.1 to the Annual Financial Statements.

The Board of Directors and Management express their gratitude and appreciation to the employees and managers of the Strauss Group.

Ofra Strauss	Gadi Lesin
Chairperson of the Board	Chief Executive Officer

March 19, 2013

STRAUSS-GROUP LTD.

FINANCIAL STATEMENTS AS AT

DECEMBER 31, 2012

Strauss Group Ltd.

Financial Statements
As at December 31, 2012

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Auditors' Report to the Shareholders of
Strauss Group Ltd.

We have audited the accompanying consolidated statements of financial position of Strauss Group Ltd. (hereinafter – the Company) as at December 31, 2012 and 2011 and the consolidated statements of income, of comprehensive income, of changes in equity, and of cash flows, for each of the three years, ended on December 31, 2012. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries and companies consolidated by the proportionate consolidation method whose assets constitute 9.4% and 11.5% of the total consolidated assets as at December 31, 2012 and 2011, respectively and whose revenues constitute 1.8%, 2.4% and 2.3% of the total consolidated revenues for the years ended December 31, 2012, 2011 and 2010, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the said reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of the abovementioned other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as at December 31, 2012 and 2011 and the consolidated results of operations, changes in equity, and the consolidated cash flows for each of the three years, ended on December 31, 2012, in conformity with International Financial Reporting Standards and in accordance with the Securities Regulations (Preparation of Annual Financial Statements) - 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel “Audit of Internal Control Components over Financial Reporting”, the components of the Company’s internal control over financial reporting as of December 31, 2012, and our report dated March 19, 2013 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 19, 2013

Consolidated Statements of Financial Position

	Note	December 31 2012	December 31 2011
		NIS millions	
Current assets			
Cash and cash equivalents	7	865	743
Securities and deposits	8	230	161*
Trade receivables	9	1,130	1,115
Income tax receivables		69	62
Receivables and debit balances	10	238	186*
Inventory	11	808	873
Assets held for sale	16.4	10	-
Total current assets		3,350	3,140
Investments and non-current assets			
Other investments and long-term debt balances	13	237	150
Assets designated for the payment of employee benefits, net	24	4	5
Fixed assets	14	1,745	1,649
Intangible assets	15	1,684	1,724
Deferred expenses	3.6	61	22
Investment property	16	21	42
Deferred tax assets	37	29	24
Total investments and non-current assets		3,781	3,616
Total assets		7,131	6,756

Ofra Strauss	Gadi Lesin	Shahar Florence
Chairwoman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Date of approval of the financial statements: March 19, 2013

*Reclassified, see Note 2.8.1.
The accompanying Notes are an integral part of the consolidated financial statements.

Consolidated Statements of Financial Position (cont'd)

	Note	December 31 2012	December 31 2011
		NIS millions	
Current liabilities			
Current maturities of debentures	20	166	166
Short-term credit and current maturities of long term credit and loans	20,21	306	451
Trade payables	17	850	821
Income tax payables		22	24
Other payables and credit balances	18	671	562
Provisions	19	43	45
Total current liabilities		2,058	2,069
Non-current liabilities			
Debenture	20	881	1,033
Long-term loans and credit	20,22	1,164	730
Long-term payables and credit balances	23	48	47
Employee benefits, net	24	41	34
Deferred tax liabilities	37	187	144
Total non-current liabilities		2,321	1,988
Equity and reserves	28		
Share capital		243	243
Share premium		622	622
Translation reserve		(287)	(240)
Treasury shares		(20)	(20)
Reserve in respect of available for sale financial assets		4	2
Retained earnings		1,340	1,226
Total equity attributable to the Company's shareholders		1,902	1,833
Non-controlling interests		850	866
Total equity		2,752	2,699
Total liabilities and equity		7,131	6,756

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

Consolidated Statements of Income

	Note	2012	2011	2010
		For the year ended December 31		
		NIS millions		
Sales	31	8,182	7,699	6,855
Cost of sales	32	5,316	5,022	4,262
Gross profit		2,866	2,677	2,593
Selling and marketing expenses	33	1,808	1,727	1,597
General and administrative expenses	34	457	427	410
		2,265	2,154	2,007
Operating profit before other income (expenses)		601	523	586
Other income		124	34	3
Other expenses		(80)	(94)	(48)
Other income (expenses), net	35	44	(60)	(45)
Operating profit		645	463	541
Financing income		25	42	30
Financing expenses		(160)	(145)	(122)
Financing expenses, net	36	(135)	(103)	(92)
Income before taxes on income		510	360	449
Taxes on income	37	(185)	(127)	(147)
Income for the year		325	233	302
Attributable to:				
The Company's shareholders		244	161	211
Non-controlling interests		81	72	91
Income for the year		325	233	302
Earnings per share	38			
Basic earnings per share (in NIS)		2.3	1.52	1.99
Diluted earnings per share (in NIS)		2.3	1.52	1.98

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

Consolidated Statements of Comprehensive Income

	Note	2012	2011	2010
		For the year ended December 31		
		NIS millions		
Profit for the year		325	233	302
Other comprehensive income (loss):				
Foreign currency translation differences	28.5	(61)	(1)	(227)
Changes in fair value of available for sale financial assets, net of tax		5	(5)	6
Other comprehensive loss, net of tax		(56)	(6)	(221)
Comprehensive income for the year		269	227	81
Attributable to:				
The Company's shareholders		199	158	46
Non-controlling interests		70	69	35
Comprehensive income for the year		269	227	81

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury shares	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2012									
Changes in 2012 :	243	622	(240)	(20)	2	1,226	1,833	866	2,699
Total Comprehensive Income (loss) for the year									
Income for the year	-	-	-	-	-	244	244	81	325
Components of other comprehensive loss:									
Differences related to translation of foreign exchange, net of tax	-	-	(47)	-	-	-	(47)	(14)	(61)
Changes in fair value of available for sale assets, net of tax	-	-	-	-	2	-	2	3	5
Other comprehensive loss for the year, net of tax	-	-	(47)	-	2	-	(45)	(11)	(56)
Total Comprehensive Income (loss) for the year	-	-	(47)	-	2	244	199	70	269
Exercise of options granted to employees	-*	-	-	-	-	-	-*	-	-*
Share-based payment	-	-	-	-	-	10	10	-	10
Share-based payment in a subsidiary	-	-	-	-	-	-	-	9	9
Dividend paid	-	-	-	-	-	(140)	(140)	-	(140)
Dividend to the non-controlling interests in subsidiary	-	-	-	-	-	-	-	(95)	(95)
Balance as at December 31, 2012	243	622	(287)	(20)	4	1,340	1,902	850	2,752

* Less than NIS 1 million.

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury shares	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
					NIS millions				
Balance as at January 1, 2011	243	622	(239)	(20)	4	1,231	1,841	878	2,719
Changes in 2011 :									
Total Comprehensive Income (loss) for the year									
Income for the year	-	-	-	-	-	161	161	72	233
Components of other comprehensive loss:									
Differences related to translation of foreign exchange, net of tax	-	-	(1)	-	-	-	(1)	-	(1)
Changes in fair value of available for sale assets, net of tax	-	-	-	-	(2)	-	(2)	(3)	(5)
Other comprehensive loss for the year, net of tax	-	-	(1)	-	(2)	-	(3)	(3)	(6)
Total Comprehensive Income (loss) for the year	-	-	(1)	-	(2)	161	158	69	227
Exercise of options granted to employees	-*	-	-	-	-	-	-*	-	-*
Share-based payment	-	-	-	-	-	11	11	-	11
Share-based payment in a subsidiary	-	-	-	-	-	-	-	11	11
Dividend paid	-	-	-	-	-	(200)	(200)	-	(200)
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	-	(65)	(65)
Non-controlling interests result from business combination	-	-	-	-	-	-	-	1	1
Expiration of option to non-controlling interests in a subsidiary	-	-	-	-	-	28	28	(28)	-
Purchase of non-controlling interests in a subsidiary	-	-	-	-	-	(5)	(5)	-	(5)
Balance as at December 31, 2011	243	622	(240)	(20)	2	1,226	1,833	866	2,699

* Less than NIS 1 million.

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury shares	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2010	243	622	(71)	(20)	1	1,210	1,985	901	2,886
Changes in 2010:									
Total Comprehensive Income for the year									
Income for the year	-	-	-	-	-	211	211	91	302
Components of other comprehensive income (loss):									
Differences related to translation of foreign exchange, net of tax	-	-	(168)	-	-	-	(168)	(59)	(227)
Changes in fair value of available for sale assets, net of tax	-	-	-	-	3	-	3	3	6
Other comprehensive Income (loss) for the year, net of tax	-	-	(168)	-	3	-	(165)	(56)	(221)
Total Comprehensive Income (loss) for the year	-	-	(168)	-	3	211	46	35	81
Share-based payment	-	-	-	-	-	10	10	-	10
Share based payment in a subsidiary	-	-	-	-	-	-	-	9	9
Exercise of options granted to employees	-*	-	-	-	-	-	-*	-	-*
Dividend paid	-	-	-	-	-	(200)	(200)	-	(200)
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	-	(80)	(80)
Non-controlling interests in a business combination	-	-	-	-	-	-	-	13	13
Balance as at December 31, 2010	243	622	(239)	(20)	4	1,231	1,841	878	2,719

* Less than NIS 1 million.

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

Consolidated Statements of Cash Flows

	Note	2012	2011	2010
		For the year ended December 31		
		NIS millions		
Cash flows from operating activities				
Income for the year		**325**	**233**	**302**
Adjustments:				
Depreciation		170	166	164
Amortization of intangible assets and deferred expenses		58	53	52
Impairment loss of fixed assets, intangible assets and investment property	14.1, 15.1, 16.1	44	60	10
Other expenses (income), net		(115)	(2)	5
Expenses in respect of share-based payment	25.6	19	22	20
Gain from loss of control in a subsidiaries	6.6	-	(22)	-
Financing expenses, net		135	103	92
Income tax expense		185	127	147
Change in inventory		33	(187)	(57)
Change in trade and other receivables		(81)	(51)	(95)
Change in long-term receivables		8	5	17
Change in trade and other payables		97	(35)*	79*
Change in employee benefits		9	7	(1)
Interest paid		(102)	(90)	(70)
Interest received		15	29	19
Income tax paid, net		(137)	(120)	(187)
Net cash flows from operating activities		**663**	**298**	**497**
Cash flows from investing activities				
Sale (purchase) of marketable securities, net		(68)	(104)	19
Proceeds from sale of fixed and intangible assets and investment property		141	29	14
Acquisition of subsidiaries and operations, net of cash acquired	6.5	(18)	(61)	(215)
Acquisition of fixed assets		(298)	(274)	(310)
Investment grants received		-	-	2
Investment in intangible assets and deferred expenses		(110)	(37)	(37)
Repayment of deposits and long-term loans granted		27	14	15
Long-term loans granted		(124)	(12)	(46)
Short-term loans granted, net		(4)	-	-
Taxes paid due to the sale of investment property		(27)	-	-
Proceeds from realizing holdings in investee companies		9	-	-
Net cash flows used in investing activities		**(472)**	**(445)**	**(558)**

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

Consolidated Statements of Cash Flows (cont'd)

	Note	For the year ended December 31		
		2012	2011	2010
		NIS millions		
Cash flows from financing activities				
Short-term bank credit, net		(95)	137	48
Receipt of long-term loans	22.2	495	611	259
Repayment of long-term loans and debentures		(252)	(341)	(129)
Issuance of redeemable preferred shares to non-controlling interests in subsidiary		-	(5)	-
Change in jointly controlled entity payables		20	10*	14*
Dividends paid	28.3	(140)	(200)	(200)
Dividend paid to non-controlling interests holders in subsidiary		(90)	(65)	(80)
Net cash flows from (used in) financing activities		**(62)**	**147**	**(88)**
Net increase (decrease) in cash and cash equivalents		**129**	**-**	**(149)**
Cash and cash equivalents as at January 1		743	729	957
Effect of exchange rate fluctuations on cash balances		(7)	14	(79)
Cash and cash equivalents as at December 31		**865**	**743**	**729**

*Reclassified, see Note 2.8.2.

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

Note 1 - General

The reporting entity, Strauss Group Ltd (hereinafter: "the Company" or "Strauss Group") is an Israeli resident company. The address of the Company's registered office is 49 Hasivim St. Petach Tikva.

The Company and its subsidiaries are a group of industrial and commercial companies, which operates in Israel and abroad, mainly in developing, manufacturing, marketing and selling a broad variety of branded food products and beverages.

The Company's controlling shareholders are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter – "the parent company" or "Strauss Holdings") and Ms. Ofra Strauss who is considered a joint-holder of the Company's shares together with him.

The consolidated financial statements of the Company as at and for the year ended December 31, 2012 comprise the Company, its subsidiaries and jointly controlled companies. The financial statements have been approved by the Company's board of directors on March 19, 2013.

Definitions

1.1 The financial statements – The consolidated financial statements for December 31, 2012.

1.2 The Group – The Company and its investee companies.

1.3 Investee companies – Subsidiaries and jointly controlled companies.

1.4 Other companies – Companies that are not investee companies.

1.5 Interested parties – Within their meaning in paragraph (1) of the definition of an "Interested Party" in a corporation in Section 1 of the Securities Law - 1968.

1.6 Related parties – As defined in International Accounting Standard (IAS) No. 24 (2009).

1.7 Controlling parties – As defined in International Accounting Standard (IAS) No. 27.

Note 2 - Basis of Preparation

2.1 Statement of compliance with International Financial Reporting Standards

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The Company adopted IFRS for the first time in 2005 with the transition date to IFRS being January 1, 2003 (hereinafter: "the transition date").
The financial statements have been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements) - 2010.

Note 2 - Basis of Preparation (cont'd)

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

- Derivative financial instruments and financial instruments at fair value through profit or loss
- Inventory, measured at the lower of cost or net realizable value
- Available-for-sale financial assets
- Liabilities for cash-settled share-based payment arrangements
- Provisions
- Assets and liabilities in respect with benefits to employees
- Deferred tax assets and liabilities

The methods by which fair value is measured are described in Note 3, Significant Accounting Policies.

2.3 Functional and presentation currency

The consolidated financial statements are presented in NIS, which is the functional currency of the Company. The financial information is presented in NIS millions and has been rounded to the nearest million. The NIS is the currency that represents the principal economic environment in which the Group operates.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. The estimates and their relevant assumptions are based on past experience and on other factors management considers reasonable under the circumstances. Actual results may differ from the estimates that were made.

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 and in any future period affected. The judgments made by management when implementing IFRS and determining the estimates are discussed in Note 4.

2.5 Operating Cycle

The operating cycle of the Group’s is one year. As a result, current assets and current liabilities include items the realization of which is intended and anticipated to take place within one year.

2.6 Classification of expenses recognized in the statement of income

The classification of expenses recognized in the statement of income is based on the function of the expense. Additional information regarding the nature of the expense is included, as much as relevant, in the Notes to the financial statements.

2.7 Capital management – objectives, procedures and processes

Management’s policy is to maintain a strong capital base in order to preserve the ability of the Company to continue operating so that it may provide a return on capital to its shareholders, benefits to other holders of interests in the Company such as credit providers and employees of the Company, and sustain future development of the business. Management of the Company monitors return on capital, defined as the total amount of equity attributable to the shareholders of the Company other than the non-controlling interests, and also the amount of dividends distributed to the ordinary shareholders. For further details see Note 22.3.

Note 2 - Basis of Preparation (cont'd)

2.8 Reclassified

2.8.1 Reclassified as at December 31, 2011 an amount of NIS 13 million, which reduced securities and deposits balance and increased the receivables and debit balances. This reclassification did not have an effect on income and equity.

2.8.2 Reclassified in the statement of cash flows an amount of NIS 10 and 14 million to the year ended December 31, 2011 and 2010, respectively, which reduced the change in other payables in operating activities, and increased the change in in payables- jointly controlled company in finance activities.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements. Regarding reclassification, see Note 2.8. The accounting policies have been applied consistently by all Group companies. Policies that represent a choice of an accounting treatment are presented in this Note in Bold letters.

3.1 Basis of consolidation

3.1.1 Business Combination

The Group implements the acquisition method to all business combinations.

The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of rights that do not confer control in the acquire less the net amount of the identifiable assets acquired and the liabilities assumed.

On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

Goodwill is not adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree and equity instruments that were issued by the Group. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in fair value of the contingent consideration classified as a financial liability in profit or loss. Changes in liabilities for contingent consideration in business combinations that occurred before January 1, 2010 will continue to be recognized in goodwill and will not be recognized in profit or loss.

The acquisition date is the date on which the acquirer obtains control over the acquiree. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company exercises discretion in determining the acquisition date and whether control has been obtained.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as valuation and professional or consulting fees, other than those associated with an issue of debt or equity instruments connected to the business combination, are expensed in the period the services are received. **The Group recognizes costs related to business combinations to other income or expenses.**

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.1 Business Combination (cont'd)

3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3.1.3 Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company and they include additional components such as: the equity component of convertible debentures of subsidiaries, share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

Measurement of non-controlling interests on the date of the business combination

Non-controlling interests that are instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Allocation of comprehensive income to the shareholders

Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests, even when the result is a negative balance of the non-controlling interests.

Transactions with non-controlling interests while retaining control

Transactions with non-controlling interests while retaining control are accounted for as capital transactions. **The variance between the consideration paid or received to the change in non-controlling interests is classified as the Company's shareholders share directly to retained earnings.**

The amount of the adjustment to non-controlling interests is calculated as follows:

For a rise in the holding rate, according to the proportionate share acquired from the balance of non-controlling interests in the consolidated financial statements prior to the transaction.

For a decrease in the holding rate, according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.

Furthermore, when the holding rate of the subsidiary changes, while retaining control, the Company re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

3.1.4 Loss of Control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Subsequently the retained interest is accounted for according to the level of influence retained by the Group in the relevant company.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.5 Jointly controlled companies

Jointly controlled companies are entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. **Jointly controlled companies are accounted for using the proportionate consolidation method. Accordingly, the consolidated financial statements include the proportionate part of the asset, liability, income and expenses items of jointly controlled companies according to the rates of holding therein.** The accounting policies of jointly controlled entities have been changed when necessary to align them with the policies adopted by the Group.

In the event of a decrease in the holding rate of a jointly-controlled company, while retaining joint control, the Group detracts a relative portion from the asset and liability items of the company in question, and recognizes a profit or loss from the sale, under the other income or expenses item in the Statement of Operations.

See Note 3.20.2.2 for the impact of a new accounting standard, to be applied retrospectively from January 1, 2013.

3.1.6 Transactions eliminated on consolidation

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in the framework of preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

3.2.1 Foreign currency transactions

Transactions in foreign currency are translated into the functional currency of the Company according to the exchange rate in effect on the date of the transaction. **Exchange rate differences arising upon the settlement of monetary items or upon reporting monetary items at exchange rates different from that by which they were initially recorded during the period, or reported in previous financial statements, are charged to specific income or expense items according to the nature of the monetary item (exchange rate differences in respect of trade receivables are recognized in revenues, exchange rate differences in respect of trade payables are recognized in the cost of sales, exchange rate differences in respect of foreign currency loans are recognized in financing costs, etc.).**

Monetary assets and liabilities are translated using the exchange rate at the date of statement of financial position.

3.2.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into NIS according to exchange rates in effect as at the reporting date. The income and expenses of foreign operations are translated into NIS according to the exchange rate in effect on the date of the transaction.

Exchange rate differences in respect of the translation were recognized directly in other comprehensive income as a separate item of equity. When the foreign operation is a non-wholly-owned subsidiary of the Company, then the relevant proportionate share of the foreign operation translation difference is allocated to the non-controlling interests.

Note 3 - Significant Accounting Policies (cont'd)

3.2 Foreign currency (cont'd)

3.2.2 Foreign operations (cont'd)

When a foreign operation is disposed of such that control, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal. In addition, when the Group's interest in a subsidiary that includes a foreign operation changes, while retaining control in the subsidiary, a proportionate part of the cumulative amount of the translation difference that was recognized in other comprehensive income is reattributed to non-controlling interests.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and are presented within equity in the translation reserve.

3.3 Financial instruments

3.3.1 Non-derivative financial instruments

Non-derivative financial instruments include investments in shares and debentures, deposits, short and long term trade and other receivables, cash and cash equivalents, loans and credit received, debentures issued, and trade and other payables.
Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. A financial instrument is recognized when the Group assumes upon itself the contractual conditions of the instrument. Financial instruments are derecognized when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers to others the financial assets without retaining control over the asset or actually transfers all the risks and rewards deriving from the asset. Regular way purchase or sale of financial assets are recognized on the trade date, meaning on the date the Group undertook to purchase or sell the asset. Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is settled or cancelled.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and deposits that can be withdrawn immediately. Furthermore, cash equivalents comprise short-term highly liquid investments having an original maturity of up to three months.

Available-for-sale financial assets
Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3.10.3), are recognized directly in other comprehensive income and presented in equity. When an investment is sold, the cumulative gain or loss in equity is recognized in the statement of income as other income or expenses.

Financial assets at fair value through profit or loss
Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognized in the statement of income when incurred. Financial assets classified as held-for-trading comprise securities that are held to support the Group's short-term liquidity needs.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.1 Non-derivative financial instruments (cont'd)

Non-derivative financial liabilities
Non-derivative financial liabilities include trade and other payables, debentures and loans received, with fixed or determinable payments. Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method.
Transaction costs directly attributed to the expected issue of an instrument that will be classified as a financial liability are recognized as deferred expenses in the balance sheet. These transaction costs are deducted from the financial liability upon first recognition, or are deducted as financing expenses in the Statement of Operations when the issue is no longer expected to take place.

Offset of financial instruments
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.3.2 Derivative financial instruments

Derivatives

The Group holds derivative financial instruments to economically hedge against risks relating to prices of commodities and against interest, CPI and foreign currency risks arising from its operating, financing and investing activities. The derivative financial instruments are comprised mainly of Forward transactions and options on currencies, CPI and interest and of forward transactions and options on commodities. Derivatives not considered accounting hedges are recognized initially and accounted for as financial assets and are presented at fair value through profit or loss. Attributable transaction costs are recognized in the statement of income when incurred. **Gains and losses on commodity forward transactions are presented under cost of sales whereas other gains and losses are presented under financing costs.**

Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not closely related, (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (c) the combined instrument is not measured at fair value through profit or loss.

Embedded derivatives that can be separated are recognized initially at fair value. Changes in the fair value of these derivatives are immediately recognized in the statement of income.

3.3.3 CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase or decrease in the CPI.

3.3.4 Share capital

Ordinary shares
Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity.

Treasury shares
When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.5 Redeemable preferred shares held by non-controlling interests holders

Preferred shares which are redeemable at the holders' option are classified as liabilities. Dividends on such shares are presented as a deduction of liabilities and the relative interest is recorded as finance expenses when declared.

3.4 Fixed assets

3.4.1 Recognition and measurement

Fixed asset items are measured at cost (including advance payments) less investment grants, accumulated depreciation and accumulated impairment losses (see Note 3.10.1). The cost of self-constructed assets includes the costs of materials and direct labor, and any other costs directly attributable to bringing the assets to a working condition for their intended use. The Group capitalizes borrowing costs to specific and non-specific credit to fixed assets that require a considerable period of time to prepare for their intended use, during the period the assets are prepared for their intended use.

Gains and losses on disposal of a fixed asset item are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are recognized net within “other income” or “other expenses”, as relevant, in profit or loss.

3.4.2 Spare parts and tools

Spare parts and tools are presented as fixed assets as they are mostly not intended for current consumption during the forthcoming year. The cost of spare parts and tools is determined according to the moving average method.

3.4.3 Subsequent costs

Improvements and enhancements are added to the cost of the assets if it is probable that the future economic benefits embodied in the improvement will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing are recognized in the statement of income as incurred.

3.4.4 Leasehold improvements

The costs of leasehold improvements, including the construction costs of the Company’s central distribution warehouse on leased property, which will be returned to the lessor’s ownership at the end of the rental period, are presented as fixed assets and amortized over the rental period on a straight-line basis.

3.4.5 Depreciation

Depreciation is recognized as an expense on a straight-line basis over the estimated useful lives of each part of a fixed asset item, as detailed below, other than land that is not depreciated, and other than that specified hereunder.

The principal depreciation rates for the years 2010-2012 are as follows:

	%	
Buildings and leased lands	2-5	
Machinery, equipment	5-20	
Motor vehicles	15-20	
Airplane	10	(Only the body of the airplane. The engine is depreciated according to the actual number of flight hours compared to the expected number of hours)
Furniture and other equipment	6.67-33	
Leasehold improvements	5-20	(Over the shorter of the lease period or the estimated useful life of the asset)

Depreciation methods, useful lives and residual values are reviewed on every reporting date.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets

3.5.1 Goodwill

Goodwill arises on the acquisition of subsidiaries and jointly controlled companies, is presented in intangible assets.
At Subsequent periods, Goodwill is measured at cost less accumulated impairment losses. For details regarding goodwill which is measured at initial recognition, see Note 3.1.1.

3.5.2 Development of Software for self-use

The development costs of software for self-use are capitalized only if the development costs can be reliably measured, the product is technically feasible, future economic benefits from the product are probable and the Group intends to and has sufficient resources to complete development and to use the asset.

Capitalized costs include the costs of direct labor and other direct expenses that were accumulated until the date the software is available for use.

3.5.3 Research and development

Expenditure on research activities is recognized in the statement of income when incurred. Development expenditure is capitalized only if it is possible to demonstrate the technological feasibility of completing the intangible asset so that it will be available for use or sale; the intention of the Group to complete the intangible asset and to use or sell the asset; the ability to use the intangible asset or sell it; the manner in which the intangible asset will create future economic benefits; the existence of sufficient resources, technical and other, to complete the intangible asset and the ability to reliably measure the expense required for its development.

The asset is tested for impairment once a year during the development period, and also during the period in which the asset is not available for use. Subsequent to initial recognition the asset is measured at cost less accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development has been completed and the asset is available for use.

3.5.4 Other intangible assets

Other intangible assets include brands, customer contacts and non-competition agreements that were acquired. See Note 5.3.

3.5.5 Subsequent expenses

Subsequent expenses are costs that were incurred after the recognition of the intangible asset for the purpose of adding to the asset, replacing a part of it or for its maintenance. Subsequent expenses are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenses, including expenses on internally generated goodwill and brands, are recognized in the statement of income when incurred.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

3.5.6 Amortization

Intangible assets having a finite useful life are measured at cost net of accumulated amortization and impairment losses.
Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use. Capitalized development asset is amortized over the period of expected future sales from the asset developed.
The annual rates of amortization for the years 2010-2012 are as follows:

	%	
Brands	10-20	
Computer software	10-33	(mainly 25)
Other*	10-20	

* Customers' relations are amortized using the undiscounted cash flows method.

Goodwill and assets having an indefinite useful life are not amortized. Intangible assets that are not amortized include certain brands and trademarks.

The Group examines the useful life of an intangible asset that is not periodically amortized at least at the end of each reporting period and are adjusted as needed..

3.5.7 See Note 3.10.1 hereunder regarding impairment.

3.6 Deferred expenses

In 2012 mainly includes prepaid expenses in respect of long-term leases, which are amortized over the lease period on a straight-line basis. See also Note 27.1.2.

3.7 Investment property

Investment property is property (land or building – or part of a building – or both) held (as the owner or under a finance lease) either to earn rental income or for capital appreciation or for both, but not for:
1. Use in the production or supply of goods or services or for administrative purposes; or
2. Sale in the ordinary course of business.

Investment property is initially measured at cost including capitalized borrowing costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

The cost of self-constructed investment real estate includes the cost of materials and direct costs as well as additional costs that may be directly attributed to bringing the property to the state required for it to operate in the manner intended by management.
The principal depreciation rates are as follows:

	%	
Buildings	2.5	(Most of the buildings included in the investment property assets have been fully depreciated)
Leased Lands	2	
Land	-	

Fixed assets that, as decided by the Company, are not yet intended for use at the Group but rather will be held for the purpose of producing rental revenues or for the purpose of increasing its capital value, will be classified as investment property from this date onward and will be treated as noted above.
Profit or loss from the subtraction of an investment property are set by comparing the yield from the asset's subtraction to its book value, and are recognized under other revenues or expenses, as the case may be, in the Statement of Operations.

Note 3 - Significant Accounting Policies (cont'd)

3.8 Leased assets

Leases, including land leases from the Israel Lands Administration or other third parties, in which the Group assumed substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset and the recognized liability is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Future payments for exercising an option to extend the lease from the Israel Lands Administration are not recognized as part of an asset and corresponding liability since they constitute contingent lease payments that are derived from the fair value of the land on the future dates of renewing the lease agreement.

Other leases are classified as operating leases and the leased assets are not recognized on the Group's statement of financial position.

When a lease includes both a land component and a buildings component, each component is considered separately for the purpose of classifying the lease, with the principal consideration regarding the classification of land being the fact that land normally has an indefinite useful life.

Operating lease payments

Minimum lease payments made under operating leases, excluding conditional lease payments, are recognized in the statement of income on a straight-line basis over the term of the lease. Prepayments to the Israel lands Administration in respect of leased lands are presented as deferred expenses (see Note 3.6).

Finance lease payments

Minimum lease payments made under finance leases are apportioned between the financing expense and the reduction of the outstanding liability. The financing expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.9 Inventory

Inventory is measured at the lower of cost and net realizable value. 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.

Cost is determined as follows:

Raw materials and packaging materials	–	At cost on the basis of the moving average method.
Work in process	–	At calculated cost.
Finished goods	–	At calculated cost.
Merchandise	–	By the "first-in, first-out" method.

Note 3 - Significant Accounting Policies (cont'd)

3.10 Impairment

3.10.1 Non-financial assets

The carrying amounts of the Group's non-financial assets (other than inventory, employee benefits assets and deferred tax assets – see accounting policy 3.9, 3.17 and 3.12, respectively) are examined on each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, the Group estimates the recoverable amount of a cash-generating unit at least once a year. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The goodwill acquired in a business combination and goodwill exists prior to the business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in the statement of income in accordance with the nature of the item that has been impaired. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. Goodwill impairment losses are classified as other expenses in the statement of income.

(1) Calculation of the recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value, which reflects current market assessments of the time value of money and the risks specific to the asset, for which the future cash flows have not been adjusted.

For the purpose of examining if impairment exists, when non-controlling interests were initially measured according to their proportion in the net assets of the investee, the book value of the goodwill is considered based on the holding percentage of the Company in the related cash generating unit.

(2) Reversal of impairment

Impairment losses in respect of goodwill in subsidiaries and jointly controlled companies are not reversed. As regards other assets, impairment losses recognized in previous periods are reexamined every reporting period in order to determine whether there are any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only if the asset's carrying amount after the reversal of the impairment loss does not exceed the carrying amount net of depreciation or amortization, that would have been determined if no impairment loss had been recognized. Reversals of impairment losses are included in the statement of income.

3.10.2 Trade and other receivables

Trade and other receivables measured at amortized cost are tested for impairment when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The provisions for doubtful debts adequately reflect in the opinion of Management the loss included in those debts the collection of which is doubtful. Management's determination of the adequacy of the provision is based, inter alia, on an evaluation of the risk, by considering the available information on the financial position of the debtors, the volume of their business and an evaluation of the security received from them. Doubtful debts, which according to Company management opinion are unlikely to be collected, are written-off the Company's books.

Note 3 - Significant Accounting Policies (cont'd)

3.10 Impairment (cont'd)

3.10.3 Trade and other receivables (cont'd)

Individually significant trade receivable balances are tested for impairment on an individual basis. The remaining trade receivables are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of the trade and other receivables' balance is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate, and is recognized as selling and marketing expenses in the statement of income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized and is recognized in the statement of income.

3.10.4 Available for sale financial assets

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. **In accordance with Group policy, an impairment of over 20% under the original cost of the asset, or an impairment under the original cost lasting over nine months, is considered a material or continuous impairment, respectively.**
An impairment loss of available-for-sale financial assets is recognized as other expense in accordance with the Group's accounting policy (see Note 3.3.1).

3.11 Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as assets held for sale under current assets. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less cost to sell. Assets held for sale are not systematically depreciated.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in the statement of income. Gains are recognized up to the amount of any cumulative impairment loss that was previously recorded.

3.12 Employee benefits

3.12.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.
The Group's obligations for contributions to defined contribution post retirement plans are recognized as an expense in the statement of income for the periods in which the employees provided related services.

Note 3 - Significant Accounting Policies (cont'd)

3.12 Employee benefits (cont'd)

3.12.2 Defined benefit plans

The Group's net obligation in respect of defined benefit post retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yields at the reporting date on Government debentures denominated, that have maturity dates and currencies approximating the terms of the Group's obligations. The net obligations of the Group also include unrecognized actuarial gains and losses (see hereunder). The calculation is performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses created in amounts exceeding the higher of 10% of the value of the plan's assets and 10% of the defined benefit obligation are included in the statement of income over the average remaining period of employment of the employees. The rest of the actuarial gains and losses are deferred.

When the calculation results in a benefit to the Group, the recognized asset is limited to the net total of any unrecognized actuarial losses and past service costs and the present value of any future economic benefits from the plan or reductions in future contributions to the plan.

The Group offsets the assets of one benefit plan from the liability of another benefit plan only when there is a legally enforceable right to use the surplus of one plan to settle the obligation in respect of the other plan, and there is intent to settle the obligation on a net basis or to simultaneously realize the surplus of one plan and settle the obligation in the other plan.

Interest costs and expected return on plan assets that were recognized in profit or loss are presented under wages expenses.

See Note 3.20.5 for the impact of a new accounting standard, to be applied commencing January 1, 2013.

3.12.3 Paid vacation and employee convalescence allowance

The Group recognizes the liability and the expense for the payment of vacation and employee convalescence allowance according to the eligibility of each employee on an un-discounted basis.
Classification of employee benefits is made according to the date the liability is due to payment.

3.12.4 Share-based payment transactions

The Company recognizes as a salary expense, with a corresponding increase in retained earnings, the benefit created upon granting share options to employees, in accordance with the grant date fair value of the options on the basis of the Black & Scholes model.

The benefit is recognized over the vesting period of the share options based on the Company's estimates regarding the number of options that are expected to vest.

A share-based payment that can be settled in cash at the choice of the holder is initially measured on the grant date and on every reporting date until its settlement, according to the fair value of the benefit, parallel to recording a liability. The fair value of the benefit is calculated according to the Company's forecasts regarding the redemption value of the liability. Changes in this fair value are included in the statement of income.

3.12.5 Termination benefits

Termination expenses are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

Note 3 - Significant Accounting Policies (cont'd)

3.13 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The carrying amount of the provision is adjusted each period to reflect the time that has passed and is recognized as a financing expense.

The Group recognizes a reimbursement asset if, and only if, it is virtually certain that the reimbursement will be received if the Company settles the obligation. The amount recognized in respect of the reimbursement does not exceed the amount of the provision.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, or when there is doubt regarding continuation of the Group's operations, disclosure is provided of a contingent liability, except when the probability of an outflow of economic benefits is remote.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. The provision includes direct expenditures caused by the restructuring and necessary for the restructuring, and which are not associated with the continuing activities of the Group.

Provisions for legal suits were created as a result of legal processes occurring over the regular course of the Group's business. A provision for lawsuits is recognized when the Group has a current legal obligation or an implied obligation due to an event that has occurred in the past, when the Group's use of is financial resources in order to discharge the obligation is more likely than not, and the obligation may be reliably estimated. Cancellation of these provisions refers to a situation in which proceedings have been concluded in the Group's favor. The timing of the expected cash flow due to these legal proceedings is uncertain, as it depends on their results. Therefore, the provisions are not presented at their current value. Provisions for legal suits were created as a result of legal processes occurring over the regular course of the Group's business. Cancellation of these provisions refers to a situation in which proceedings have been concluded in the Group's favor. The timing of the expected cash flow due to these legal proceedings is uncertain, as it depends on their results. Therefore, the provisions are not presented at their current value. The impact of the discount is not material.

3.14 Revenue

3.14.1 Products sold

3.14.1.1 <u>Goods sold</u>
Revenue from the sales of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

3.14.1.2 Sales on long-term credit are recorded according to the present value of the consideration. Interest income derive from these transactions are recorded as financing income over the related period. See Note 3.3.1 with respect to the interest rate used to calculate the present value of loans and receivables.

3.14.1.3 When it is possible to identify the separate components of a transaction such as: the sale of a product and service, the revenue is measured in respect of each separate component. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

Note 3 - Significant Accounting Policies (cont'd)

3.14 Revenue (cont'd)

3.14.1 Products sold (cont'd)

3.14.1.4 Installment sales of water machines

Revenue from installment sales of water machines, in which the Company supplies additional goods and services over the period of the contract, is divided between components of the transaction, so that the income from the machines' sales is recognized at the date of transaction, and the income from the additional goods and services is deferred and recognized over the period of the contract. Interest income/expenses from these transactions are recognized in financing income/expenses.

3.14.2 Leasing of coffee machines

Revenue from leasing of coffee machines, for a period over one year, is deferred and recognized over the period of the contract.

3.14.3 Revenue from services

Revenue from services provided is credited to profit and loss relative to the stage of completion of the transaction as of the date of the report. The estimate of the stage of completion is calculated based on the amount of service already performed.

3.14.4 Customer discounts

Customer discounts are deducted from revenue on a cumulative basis when the terms and conditions entitling the customer to a discount are created, on the basis of a total annual volume of orders or sales campaigns that are held by the Group.

3.14.5 Participation in the jointly controlled companies expenses

Revenues from the participation in expenses of related and other companies are recorded on an accrual basis according to specific agreements with the companies, and are included in the relevant expense items.

3.15 Government grants

Unconditional government grants are recognized initially at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant.

Government grants that compensate the Group for expenses incurred are recognized in the statement of income on a systematic basis in the same periods in which the expenses are recognized. Government grants that received from the government for the purpose of acquisition of assets are presented as a deduction from the relevant assets, and are charged to the statement of income over the useful life of the asset, as mentioned in Note 3.4.1 above.

Grants from the Chief Scientist in respect of research and development projects are accounted for as forgivable loans according to IAS 20. Grants received from the Chief Scientist are recognized as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The difference between the amount received and the fair value on the date of receiving the grant is recognized as a deduction of research and development expenses.
The amount of the liability is reexamined each period, and any changes are recognized in profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

3.16 Financing income and expenses

Financing income and expenses comprise interest income on funds invested, interest expenses on loans received ,net gains (including dividend) on changes in the fair value of financial assets at fair value through profit or loss, net foreign exchanges gains, and gains/losses on derivative instruments that are recognized in the statement of income, excluding derivatives for commodities. Interest income and expenses are recognized as they accrues, using the effective interest method, except for borrowing costs that were capitalized to fixed assets (see Notes 3.4.1). Interest income of sales in long term credit, which are measured at present value of the relative consideration, are recorded as financing income.

In the cash flow reports, interests received and interests paid are presented as part of cash flows from current activity. Accordingly, credit costs discounted to fit assets and paid in cash are presented along with the interest paid under cash flows from current activity. Dividends paid are presented under financing expenses.

3.17 Income tax expense

Income tax comprises current and deferred tax. Current and deferred taxes are recognized in the statement of income unless it relates to business combination or items recognized directly in equity or in other comprehensive income, in which case it is recognized in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

<u>Deferred Tax</u>

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of goodwill, and differences relating to investments in subsidiaries and jointly controlled companies if the Group controls the reversal timing of the differences and if it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The Group offsets deferred tax assets and deferred tax liabilities if it has a legally enforceable right to offset current tax assets against current tax liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

3.18 Supplier discounts

Discounts received from suppliers, in respect of which the Group is not obligated to meet certain targets, are included in the financial statements upon making the proportionate part of the purchases entitling the Group to the said discounts.

3.19 Advertising expenses

Advertising expenses are expensed as incurred.

Note 3 - Significant Accounting Policies (cont'd)

3.20.1 IFRS 9 (2010), Financial Instruments

IFRS 9 (2010) replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities.
In accordance with IFRS 9 (2010), there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, IFRS 9 (2010) allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. changes in the credit risk of the liability, be presented in other comprehensive income, with the remaining amount being included in profit or loss.
IFRS 9 (2010) generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to IFRS 9 (2010) is effective for annual periods beginning on or after January 1, 2015 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the standard. IFRS 9 (2010) is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in IFRS 9 (2010).

The Group is examining the effects of IFRS 9 (2010) on the financial statements with no plans for early adoption.

3.20.2 A new suite of accounting standards on consolidation of financial statements, joint arrangements and disclosure of involvement with other entities

The suite of standards is applicable retrospectively for annual periods beginning on or after January 1, 2013 (other than certain relief in the transitional provisions).

3.20.2.1 IFRS 10, Consolidated Financial Statements

IFRS 10 introduces a new single control model for determining whether an investee should be consolidated, which is to be implemented with respect to all investees. According to IFRS 10 de facto power is to be considered when assessing control, which means that the existence of effective control of an investee will require consolidation. In addition, when assessing the existence of control, all substantive potential voting rights will be taken into account, and not only potential voting rights that are currently exercisable.
The requirements of IAS 27 will continue to be valid only for separate financial statements.

Implementation of the suite of standards will not have a material effect on the financial statements.

3.20.2.2 IFRS 11, Joint Arrangements

IFRS 11 classifies joint arrangements as joint operations or as joint ventures on the basis of the rights and obligations of the parties to the arrangement. Joint ventures, which are all the joint arrangements structured in a separate vehicle in which the parties with joint control have rights to the net assets of the joint arrangement, shall only be accounted for using the equity method (the option to apply the proportionate consolidation method has been eliminated).
In addition, IFRS 11 amends IAS 28 Investments in Associates. The amendment eliminates the existing requirement to remeasure the existing or retained interest in the investment to fair value at a transition from significant influence to joint control and vice versa, and provides that IFRS 5 applies to an investment, or a portion of an investment, that meets the criteria to be classified as held for sale.

The Group has examined the effects of applying the standard. Following the change in the accounting treatment of joint arrangements, the Group will not proportionately consolidate jointly held companies commencing January 1, 2013, rather will treat them according to the equity method.

Presented hereinafter are the effects of transition to the equity method on the financial statements:

Note 3 - Significant Accounting Policies (cont'd)

3.20 New standards and interpretations not yet adopted (cont'd)

3.20.2 (Cont'd)

3.20.2.2 IFRS 11, Joint Arrangements (Cont'd)

	December 31, 2012		
	Audited	Effect of transition to equity method	Adjusted using equity method
		NIS millions	
Total current assets	3,350	(712)	2,638
Total non-current assets	3,781	43	3,824
Including- Investment in equity accounted investees	-	918	918
Total assets	7,131	(669)	6,462
Total current liabilities	2,058	(496)	1,562
Total non-current liabilities	2,321	(173)	2,148
Total liabilities	4,379	(669)	3,710
Total Equity	2,752	-	2,752

	For the year ended December 31, 2012		
	Audited	Effect of transition to equity method	Adjusted using equity method
		NIS millions	
Sales	8,182	(2,483)	5,699
Gross profit	2,866	(713)	2,153
Operating profit	645	(107)	538
Share of profit of equity accounted investees	-	63	63
Profit before taxes on income	510	(23)	487
Profit (loss) for the year	325	-	325
Other comprehensive income for the year, net of tax	(56)	-	(56)
Total comprehensive income for the year	269	-	269

	For the year ended December 31, 2012		
	Audited	Effect of transition to equity method	Adjusted using equity method
		NIS millions	
Cash flows from operating activities	663	(194)	469
Cash flows from investing activities	(472)	56	(416)
Cash flows from financing activities	(62)	98	36

The transition to adoption of the equity method will not effect on compliance with covenants for which the Company is obligated, the equity and the profit for the period (see also Notes 22.3 and 40.1).

For further information on the Group's jointly controlled companies, see Note 12.

Note 3 - Significant Accounting Policies (cont'd)

3.20 New standards and interpretations not yet adopted (cont'd)

3.20.2 (Cont'd)

3.20.2.3 IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 contains extensive disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

3.20.3 IFRS 13 Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance that currently appears in various IFRSs. For this purpose, it defines fair value and provides measurement and disclosure guidance. Nevertheless, IFRS 13 does not introduce new fair value measurement requirements, but explains how to measure fair value when such measurement is required by other IFRSs. IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs.

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

In the opinion of the Group, implementation of the suite of standards will not have a material effect on the financial statements.

30.2.4 Amendment to IAS 1, Presentation of Financial Statements

The amendment to IAS 1 changes the presentation of items of other comprehensive income (hereinafter – "OCI") in the financial statements, so that items of OCI that may be reclassified to profit or loss in the future, would be presented separately from those that would never be reclassified to profit or loss.

The amendment to IAS 1 is applicable retrospectively for annual periods beginning on or after July 1, 2012.

3.20.5 Amendment to IAS 19, Employee Benefits

The amendment to IAS 19 introduces a number of changes to the accounting treatment of employee benefits, including the recognition of all actuarial gains and losses immediately through other comprehensive income, and it eliminates the corridor method and the method of immediately recognizing actuarial gains and losses in profit or loss. Furthermore, the interest that is recognized in profit or loss will be calculated on the balance of the net defined benefit liability (asset), according to the discount rate that is used to measure the liability.

The amendment to IAS 19 is applicable retrospectively for annual periods beginning on or after January 1, 2013 (excluding certain exceptions stated in the amendment).

The main expected effect is an increase in defined benefit liability at December 31, 2012 in the amount of about NIS 15 million, against a decrease in capital, due to cancelation of the "corridor method" for recognition of actuarial gains and losses.

3.20.6 Amendment to IFRS 7 Financial Instruments: Disclosures

The amendment to IFRS 7 contains new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position; or are subject to master netting agreements or similar agreements.

The amendment to IFRS 7 is applicable retrospectively for annual periods beginning on or after January 1, 2013.

Note 3 - Significant Accounting Policies (cont'd)

3.20 New standards and interpretations not yet adopted (cont'd)

3.20.7 Amendment to IAS 32 Financial Instruments: Presentation

The amendment to IAS 32 clarifies that an entity currently has a legally enforceable right to set-off amounts that were recognized if that right is not contingent on a future event; and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all its counterparties.

The amendment to IAS 32 is applicable retrospectively for annual periods beginning on or after January 1, 2014. Early application of the amendment to IAS 32 is permitted.

The Group examines the effect of the amendment on the Financial Statements.

Note 4 - Critical Accounting Policies and Management's Judgments

The judgments of management and its estimates are reviewed on an ongoing basis and are based on past experience and various matters, including anticipations regarding future events.

The Group makes estimates and assumptions regarding the future. The accounting estimates deriving from these assumptions are by nature different from actual results. The estimates and assumptions that in the next fiscal year may result in significant adjustment to the carrying amount of assets and liabilities are described hereunder.

<u>Asset impairment</u>

In accordance with IAS 36 the Group examines on every reporting date the existence of any events or circumstances that may indicate an impairment in the value of non-financial assets included in its scope. When there are signs indicating impairment in value, the Group examines whether the carrying amount of the asset exceeds its recoverable amount. If necessary, the Company writes down the asset to its recoverable amount and recognizes an impairment loss. The assumptions regarding future cash flows are based on past experience with the specific asset or similar assets, and on the anticipations of the Group regarding the economic conditions that will exist over the remaining useful life of the asset. The Group uses estimates of appraisers when determining the net sale price of assets. With respect to real estate, the estimates take into account the market situation of real estate at a similar location. The competition in the retail market and in the real estate market may have a significant effect on the Group's forecasts regarding future cash flows, the estimated remaining useful life and the net sale price of the asset. See also Note 15.3 regarding the assumptions and the risk factors related to goodwill impairment.

<u>Valuation of intangible assets and goodwill</u>

The Group is required to allocate the acquisition cost of investee companies to assets that were acquired and to liabilities that were assumed on the basis of their estimated fair value. In large acquisitions, the Group engages independent appraisers who assist it in determining the fair value of these assets and liabilities. These valuations require management to apply significant estimates and assumptions. The principal intangible assets recognized in recent years, include customer relations, trademarks and brands. Critical estimates used in estimating the useful life of these intangible assets include, inter alia, an estimate of the period of customer relations and anticipated market developments. Critical estimates used in order to estimate certain assets include, inter alia, anticipated cash flows from contracts with customers, replacement costs of brands and of fixed assets. The estimates of management regarding the fair value and useful life are based on assumptions considered reasonable by management but are uncertain, so that actual results may be different.

Note 4 - Critical Accounting Policies and Management's Judgments (cont'd)

Contingent liabilities

The Company has a procedure for examining and determining the amounts of the provisions that are recorded in respect of legal claims pending against the Company and its investee companies. Legal opinions are received every quarter from legal counsel handling the claims on the behalf of the Company, who in their opinion assess the chances of success of the claims, and indicate whether it is probable (more than 50%) or improbable (50% or less) that the claim will be accepted. When it is improbable no provision is recorded on the Company's books, but disclosure is provided in the framework of Note 26 of the financial statements if the claim is significant. When acceptance of the claim is probable, the Company estimates the amount of the exposure on the basis of the assessment of its legal counsel, the experience accumulated by the Company and the specific circumstances of the matter, and it recognizes a provision in the financial statements on the basis of this assessment. The legal proceedings will ultimately be decided by the courts and therefore their results may be different from these estimates. In the course of the process of approving the Company's annual financial statements, the Board of Directors' Balance Sheet Committee performs control processes also with respect to the claims pending against the Company, including the amounts of the claims, the Company's legal counsel's assessment of the extent of the exposure and their chances of success, and the amount of the provisions made in their respect in the financial statements.

Provision for doubtful debts

The Company applies the guidance provided in IAS 39 when determining whether there has been impairment in the value of the trade payables' balance. This decision requires exercising significant discretion. When exercising this discretion the Group takes into account, inter alia, the aging analysis of the trade payables, the doubtful debts history, debt collection patterns, financial strength and a short-term analysis of the trade payables' business and industry trends. See also Note 9 and Note 30.1, regarding exposure to credit risk related to customers.

Note 5 - Determination of Fair Value

A number of the Group's recognition and measurement accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that assets or liabilities.

5.1 Fixed assets

The fair value of fixed assets recognized as a result of a business combination is based on market values. The market value of fixed assets is the estimated amount for which an asset could be exchanged on the date of valuation in an arm's length transaction. The market value of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items, if available and on replacement cost if quoted prices are not available. The estimation of replacement costs includes adjustments related to physical and functional deterioration of the fixed asset.

5.2 Investment property

The fair value of investment property, which is determined for disclosure purposes, is based on market value. The market value of investment property is based on the discounted rent payments that could be received on the date of the valuation in consideration for rental of the asset, or the estimated sale price of the asset in its present condition in an arm's length transaction. The fair value of investment property under construction is estimated based on the fair value after completion of construction, less the present value of the cost of materials and direct labor, and any other costs directly attributable to bringing the investment property to completion of construction, using the specific discount rate which reflects the relevant risks and characteristics.

Note 5 - Determination of Fair Value (Cont'd)

5.3 Intangible assets

The fair value of intangible assets acquired in a business combination is based on the following methods:

- Brands and trademarks – based on the discounted estimated royalty payments that have been avoided as a result of the brand or trademark being owned.
- Customer relationships – In accordance with the present value of excess profits (the multi-period excess earning method), which reflects the pre-tax flow expected to be derived from the asset, after deducting from it charges in respect of other assets that contribute to the activity.
The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

5.4 Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale and a reasonable profit allowance for the selling effort.

5.5 Investments in shares and debentures

The fair value of financial assets measured at fair value through profit or loss and the fair value of financial assets classified as available-for-sale is determined by reference to their quoted market sale price as at the reporting date. For further details regarding fair value hierarchy, see Note 30, financial instruments.

5.6 Trade and other receivables

The fair value of trade and other receivables is determined on the basis of the present value of future cash flows discounted at the market rate of interest for the date of the transaction, when the effect of the discount is material. In subsequent periods after the initial recognition, the fair value of trade and other receivables is calculated for disclosures purposes and for measurement in a business combination.

5.7 Derivatives

The fair value of forward exchange contracts is based on their quoted price.

If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using interest curves appropriate for measuring derivatives that are based on short-term Libor interest rates and long-term interest rate swaps, whereas the fair value of options is estimated according to the Black-Scholes formula.

For further information regarding the fair value hierarchy, see Note 30.7.2.

5.8 Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is based on quoted purchase price at the closing of trading as of the reporting date.

5.9 Share-based payment transactions

The fair value of employee share options is measured using the Black & Scholes model. The assumptions of the model include the share price on the date of measurement, the exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government debentures). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. The fair value of liabilities deriving from share-based payment transactions is determined according to the discounted redemption value of the liability (based on forecasts of the Company).

Note 6 - Subsidiaries

6.1 Information on principal subsidiaries

	Percentage of equity and control (%)			
	December 31 2012	December 31 2011	December 31 2010	Country of association
Strauss Health Ltd.	80	80	80	Israel
Strauss Fresh Foods Ltd.	100	100	100	Israel
Strauss Salads Trade Ltd. (1)	100	100	100	Israel
Strauss Import & Trade E.C Ltd.	100	100	100	Israel
Yad Mordechai – Strauss Apiary Ltd.	51	51	51	Israel
Strauss Health Fresh Vegetables Ltd. (2)	100	100	100	Israel
Uri Horazo Yotvata Dairies Ltd. (3)	50	50	50	Israel
Chocolate Bar (M.B.) Herzliya Ltd. (13)	-	100	100	Israel
Strauss Water	88	88	87	Israel
Strauss Aviv Ltd. (4)	100	100	100	Israel
SE USA Inc.	100	100	100	USA
Max Brenner Int'l Inc. (6)	100	100	100	USA
Strauss Coffee B.V.	74.9	74.9	74.9	Holland
Strauss Café Poland Sp.z.o.o. (5)	100	100	100	Poland
Strauss Commodities AG (5)	100	100	100	Switzerland
Strauss Romania SRL (5)	100	100	100	Rumania
Strauss Ukraine LLC (5)	100	100	100	Ukrain
Elite CIS B.V. (5)	100	100	100	Holland
Strauss Bulgaria EOOD (12)	-	-	100	Bulgaria
Strauss Adriatic Group (5)	100	100	100	Serbia
Doncafe International Doo (5)	100	100	100	Bosnia
Strauss LLC (5)	100	100	100	Russia
Doncafe Albania Shpk (5)	100	100	100	Albania
Max Brenner NY, LLC (6)	100	100	100	USA
Max Brenner USA LLC.	100	100	100	USA
Max Brenner Samba Holdings, LLC (7)	90	90	90	USA
Max Brenner Union Square, LLC (8)	100	100	100	USA
Max Brenner Walnut, LLC (9)	100	100	100	USA
Max Brenner Boylston, LLC (6)	100	100	100	USA
Max Brenner Las Vegas, LLC (9)	100	100	100	USA
Max Brenner Holding 17, LLC (9)	100	100	100	USA
Le café Soluvel Rus ,LLc (10)	51	51	51	Russia
Strauss Water HK Trading Co Ltd (11)	100	100	-	Hong Kong
Strauss Water (Shanghai) Co Ltd (11)	100	100	-	China

Note 6- Subsidiaries (cont'd)

6.1 Information on principal subsidiaries (cont'd)

(1) Held by Strauss Fresh Foods Ltd.
(2) Held by Strauss Salads Trade Ltd.
(3) Held by Strauss Health Ltd. Strauss Health Ltd. has a controlling share.
(4) Held by Strauss Health Ltd.
(5) Held by Strauss Coffee B.V.
(6) Held by Max Brenner USA, LLC.
(7) Held 90% by Max Brenner NY, LLC and 10% by Samba chocolate LLC.
(8) Held by Max Brenner Samba Holdings, LLC.
(9) Held by Max Brenner NY, LLC.
(10) Held by Strauss Coffee B.V. See Note 40.2 about the increase in holding share subsequent to the Balance Sheet Date.
(11) Held by Strauss Water Ltd.
(12) Was held by Strauss Coffee B.V.
(13) Sold during the reporting period. See Note 6.4.

6.2 Information on investment in directly held subsidiaries

Information on the amount of the Company's investment in subsidiaries is provided with respect to directly held companies. The Company's investment is calculated as the share of the Group in the equity of the investee companies base on their consolidated financial statements, with the addition of adjustments for fair value on acquisition (goodwill in particular).

	Investments		Loans		Guarantees	
	2012	2011	2012	2011	2012	2011
	NIS millions					
Strauss Health Ltd.	361	376	-	-	-	-
Strauss Fresh Foods Ltd.	101	102	-	-	-	-
Yad Mordechai – Strauss Apiary Ltd.	15	15	-	-	3	3
Chocolate Bar (M.B.) Herzliya Ltd. (1)	-	5	-	-	-	-
Strauss Water	(42)	8	276	276	-	-
SE USA Inc.	103	86	181	161	62	63
Strauss Coffee B.V.	1,785	1,823	-	-	-	-

(1) See Note 6.4.

6.3 Dividend distributed by subsidiaries

During the course of 2012 the Company and subsidiary companies received a sum of approximately NIS 279 million that was distributed by the subsidiary companies. Likewise, additional dividends from a subsidiary company that was declared during the report period, of a sum of approximately NIS 6 million (the Company's share), was received after the date of the statement of financial position.

Regarding the declaration of dividend from a joint venture of a subsidiary, subsequent to the date of the statement of financial position, see Note 40.6.

6.4 In September 2012 the Company signed an agreement to sell 100% of its shares in the Chocolate Bar (M.B.) Herzalia Ltd. subsidiary company in consideration for NIS 0.5 million. As a result of the sale the Group recognized a capital loss of a sum of approximately NIS 14 million that was classified as other expenses in the statement of income.

Note 6- Subsidiaries (cont'd)

6.5 In 2011 Três Corações Alimentos S.A (hereinafter – "Três Corações"), joint venture (50%) Strauss Coffee and Sau Migel in Brazil, signed a letter of intent to purchase the "Fino Grau" Coffee Company business in Brazil in consideration of a sum of approximately NIS 78 million (Strauss Coffee's part is approximately NIS 39 million). From the consideration, in 2011-2012 approximately NIS 29 million (Strauss Coffee's share) was paid. The deal closed during the course of 2012 upon receiving the approvals from the authorities in Brazil.
Strauss Coffee completed during the report period attributing the fair value to the identified properties and the identified undertakings relating to the Fino Grau Company, as required under IFRS 3 Standard, adjoining businesses without any material change in relation to allotment on the transaction date.

6.6 In November 2011 Strauss Water signed a number of agreements with the Virgin Group through the VGF (Virgin Green Fund) Investment Fund, to establish a joint venture to deal with marketing, sale and service of Strauss Water products in England and Ireland, with an option to expand the joint activity to additional countries. The products will be sold under the joint label of Virgin and Strauss Water. The Strauss Water England company was transferred to the joint holding with VGF and its name was changed to Virgin Strauss Water UK (hereinafter: "VSW UK").

During the report period a sum of 10 million Dollars was invested in the venture, 5 million Dollars by each one of the partners in the venture based on VSW UK value before money of 8 million Dollars. After the foregoing investments the holdings are approximately 72% to Strauss Water and approximately 28% to VGF. As a result of the decrease in the holdings as stated above, Strauss Water recorded in 2012 capital gain of an immaterial amount. Strauss Water also completed, during the report period, allocation of the fair value to VSW UK's identified assets and liabilities without any material changes to the value allocated on the transaction date.

VSW UK operates under the joint control of Strauss Water and VGF since the date the aforementioned agreements were signed.

It was agreed between the partners to the venture that in the event the venture achieves certain business targets by the end of 2012, VGF and Strauss Water would invest an additional amount in the venture of approximately 5 million Dollars each one; thus the holdings in the VSW UK shares would be 64% Strauss Water and 36% VGF. In the event VGF decides to invest an additional amount, even if the venture does not meet its business targets as stated above, Strauss Water will also be required to make an additional investment.

As of the date this report is issued, the business conditions that were agreed between the parties were not realized, if the conditions would have been realized then an additional investment would have been made by the parties jointly of approximately US $ 10 million in the Company's capital in UK. Likewise, no additional investments in capital have been made. Negotiations are undertaking with the venture partners in order to extend the trial period to achieve the certain business targets during the course of 2013, including also an investment of the additional amount while maintaining a status quo in respect of the management agreements and the control during the extended period.

For further details see Note 26.4.10.

Note 7 - Cash and Cash Equivalents

	December 31	
	2012	2011
	NIS millions	
Cash and balances in banks	190	223
Deposits	675	520
	865	743

Note 8 - Securities and Deposits

	December 31 2012	Interest rate As at December 31,2012	December 31 2011	Interest rate As at December 31,2011
	NIS millions		NIS millions	
Deposits and non-traded securities				
Corporate debentures	2	4.5%	7	4.5%-6.5%
Deposit in Dollars	9	0.0%-0.5%	14*	0.0%-0.25%
Deposit in NIS (1)	61	1.58%-2.75%	105	2.9%-3.08%
Deposit in other currency	5	0.0%-3.0%	-*	0.00%
	77		126	
Marketable securities				
Government debentures	25		23	
Corporate debentures	128		12	
	153		35	
	230		161	

(1) An amount of NIS 10 million bear interest at the prime rate and are deposited with purchasing organizations of Negev farms (2011 - NIS 4 million).

*Reclassified, see Note 2.8.1.

Note 9 - Trade Receivables

9.1 Composition

	December 31 2012	December 31 2011
	NIS millions	
Open debts	1,009	993
Checks receivable	152	144
Interested and related parties	6	7
Credit cards companies with respect to trade receivables	17	26
Less provision for doubtful debts	(54)	(55)
	1,130	1,115

9.2 Analysis of customer aging:

	December 31, 2012		December 31, 2011	
	Gross	Provision for doubtful debts	Gross	Provision for doubtful debts
	NIS millions			
Not past due	1,028	(1)	1,016	(2)
Past due 1-30 days	80	-*	63	-*
Past due 31-60 days	8	-*	12	-*
Past due 61-90 days	4	-*	3	-*
Past due 91-120 days	2	-*	5	-*
Past due more than 120 days	62	(53)	71	(53)
	1,184	(54)	1,170	(55)

* Less than NIS 1 million.

Note 9 - Trade Receivables (cont'd)

9.3 Changes in the provision for doubtful debts during the period:

	For the year ended December 31	
	2012	2011
	NIS millions	
Balance as at January 1	55	55
Impairment loss recognized during the period	6	7
Doubtful debts that became bad debts	(5)	(7)
Effect of foreign currency changes	(2)	-*
Balance as at December 31	54	55

* Less than NIS 1 million.

9.4 The maximum credit exposure in respect of customers as at the date of the report by type of customer:

	December 31	
	2012	2011
	NIS millions	
Large customers market	712	634*
Private market	159	180*
Away from home	167	155
Other	92	146
Total	1,130	1,115

* Reclassified in order to correspond with the current year presentation.

The Group has two principal types of customers: retail market customers and "away from home" (AFH) customers. The retail customers (such as retail chains, private stores, supermarkets, kiosks) provide to the consumers food and beverages mainly for consumption at home. The AFH customers (such as workplaces, hospitals, coffee shops, hotels, kibbutzim, coffee machines and automatic vending machines) provide the consumer opportunities for the consumption of food and beverages when away from home. The retail market includes a "Large customers market", which comprises the big retail chains, and a "private market", which comprises all the other customers of the retail segment. In addition, Strauss Water's customers are divided to customers from sales in direct marketing and customers from sales in the business segment, which are mainly performed by Customer portfolio managers.

Note 10 - Receivables and Debit Balances

	December 31	
	2012	2011
	NIS millions	
Advances to trade payables	19	12
Government institutions	24	40
Employees	1	2
Sundry debtors	30	15
Loans granted, including current maturities of long term liabilities	15	14
Accrued income	23	9
Derivatives (1)	48	56*
Jointly controlled companies	29	6
Prepaid expenses	49	32
	238	186

(1) The balance includes deposits in favor of derivatives which is not measured at fair value, at the amount of NIS 39 and 22 million, as at December 31, 2012 and 2011 respectively.

*Reclassified, see Note 2.8.1.

Note 11 - Inventory

	December 31	
	2012	2011
	NIS millions	
Raw materials	360	413
Packaging materials	95	82
Unfinished goods	26	26
Finished goods (including purchased products)	317	341
Spare parts	10	11
	808	873
Carrying amount of inventory under floating lien	15	37

Note 12 - Proportionate Consolidation of Jointly Controlled

12.1 Principal jointly controlled companies

	Percentage of total equity and control as at December 31			Country
	2012	2011	2010	of association
Strauss Frito-Lay Ltd.	50%	50%	50%	Israel
Tres Coracoes Alimentos S.A (1)	50%	50%	50%	Brazil
Três Corações Imóveis Armazéns Gerais e Serviços (1)	50%	50%	50%	Brazil
Sabra Dipping Company (2)	50%	50%	50%	USA
Sabra Dipping Canada LLC (3)	50%	50%	-	Canada
Qinodao Haier Strauss Water Co. Ltd (4)	50%	50%	-	China
Pepsico Strauss Fresh Dips & Spreads International GMBH (5)	50%	50%	-	Switzerland
Pepsico Strauss Fresh Dips & Spreads Mexico S.de R.L df C.V (6)	50%	-	-	Mexico
Obela Fresh Dips & Spreads PTY Ltd (6)	50%	-	-	Australia
Virgin Strauss Water UK Ltd (formerly: Strauss Water UK Ltd) (7)	72% (control 50%)	100%	100%	UK
Virgin Strauss Water Ltd (7)	72% (control 50%)	-	-	Ireland

(1) Held by Strauss Coffee B.V.
(2) Held by SE USA.
(3) Held by Sabra Dipping Company.
(4) Held by Strauss Water HK Trading Co Ltd. During the reporting period Strauss Water invested in joint venture additional $5 million (the total investment of Strauss Water is $10 million)
(5) A joint venture with a subsidiary of PepsiCo for manufacturing and marketing of salads, fresh dips and spreads in central international markets.
(6) Held by Pepsico Strauss Fresh Dips & Spreads International GMBH.
(7) Held by Strauss Water. See Note 6.6.

Note 12 - Proportionate Consolidation of Jointly Controlled (cont'd)

12.2 The Group's share in financial statement items of jointly controlled companies

	December 31	
	2012	2011
	NIS millions	
Current assets	749	777
Long-term assets	557	527
Current liabilities	(528)	(593)
Long-term liabilities	(219)	(200)
The Group's share in equity as at the end of the year	559	511

	For the year ended December 31		
	2012	2011	2010
	NIS millions		
Revenues	2,509	2,276	1,872
Costs and expenses	2,445	2,221	1,793
Income for the period	64	55	79

12.3 Information on investment in directly held jointly controlled companies

Information on the amount of the Company's investment in jointly controlled companies is provided with respect to directly held companies. The Company's investment is calculated as the share of the Group in the equity of the investee companies, with the addition of adjustments for fair value on acquisition.

	Investments		Loans		Guarantees	
	2012	2011	2012	2011	2012	2011
	NIS millions					
Strauss Frito-Lay Ltd.	93	81	-	-	-	-
Pepsico Strauss Fresh Dips & Spreads International GMBH	21	10	-	-	-	-

Note 13 - Other Investments and Long-Term Debit Balances

13.1 Classification according to classification of investment

	December 31	
	2012	2011
	NIS millions	
Non-current receivables	1	2
Government institutions	1	2
Credit card companies with respect to long term trade receivables	-	1
Long term deposit	17	16
Investment in shares of other company (1)	19	14
Non-current trade receivables (2)	20	32
Less current maturities	(9)	(12)
Less provision for doubtful debts	(4)	(4)
	7	16
Non-current loans to others (see 13.2 and 13.3 hereunder)	213	112
Less current maturities	(21)	(13)
	192	99
	237	150

(1) This investment is accounted for as an available-for-sale financial asset.
(2) Net of long-term prepaid expenses for services not yet provided.

13.2 Details of long-term loans and their terms:

	December 31 2012 NIS millions	Loan Terms
Capital note issued to Kibbutz Yotvata	19	Unlinked and non-interest bearing
Loans to employees	8	Linked to CPI and bearing interest of 6.24%
Loans to dairy farmers	11	Unlinked to CPI and bearing interest of 2.5%- 7.25%
Loans to dairy farmers	1	Linked to CPI and bearing interest of 3.9%-5.45%
Loan to non-controlling interests holders in a subsidiary	2	Linked to CPI and bearing interest of 7.37%
Loan to jointly controlled company	59	Linked to Dollar and bearing interest of 5.16% -6.5%
Loan to shareholders of jointly controlled company	3	Linked to Real and bearing interest of 4.88%
Loan under operating leases (see Note 27.1.2)	91	Linked to Euro and bearing interest of 8%
Other	16	Linked to Dollar and bearing interest of 7%
Other	3	Unlinked to CPI and bearing interest of 5%-7.2%
	213	

Note 13 - Other Investments and Long-Term Debit Balances (cont'd)

13.2 Details of long-term loans and their terms (cont'd):

	December 31 2011 NIS millions	Loan Terms
Capital note issued to Kibbutz Yotvata	19	Unlinked and non-interest bearing
Loans to employees	9	Linked to CPI and bearing interest of 4%
Loans to employees	1	Linked to Dollar and bearing interest of 2%
Loans to dairy farmers	10	Unlinked to CPI and bearing interest of 3.5%- 7.25%
Loans to dairy farmers	1	Linked to CPI and bearing interest of 3.9%-5.86%
Loan to non-controlling interests holders in a subsidiary	2	Linked to CPI and bearing interest of 7.37%
Loan to jointly controlled company	62	Linked to Dollar and bearing interest of 5.16% -6.5%
Loan to shareholders of jointly controlled company	4	Linked to Real and bearing interest of 5.18%
Other	2	Unlinked to CPI and bearing interest of 5%-7.2%
Other	2	Linked to Dollar and bearing interest of 5%
	112	

13.3 Repayment schedule of long-term loans:

	December 31	
	2012	2011
	NIS millions	
First year	21	13
Second year	55	39
Third year	18	17
Forth year	17	16
Fifth year and thereafter	102	27
	213	112

13.4 Long-term trade receivables

The long-term trade receivables balance reflects the long-term balance of customers in respect of the lease of coffee machines in installments and in respect of checks receivables in Strauss Water. The balance is discounted according to an interest rate of 4.6%-8.0% (2011: 4.6%-8.0%). The repayment schedule of long-term receivables is as follows:

	December 31					
	2012			2011		
	Long term trade receivables	Interest component	Principal component	Long term trade receivables	Interest component	Principal component
	NIS millions					
First year (current maturity)	9	-	9	12	-	12
One to five years	15	1	14	21	1	20
	24	1	23	33	1	32

Note 14 - Fixed Assets

14.1 Changes in fixed assets

	Land and buildings	Machinery and equipment	Motor vehicles	Airplane	Furniture and other equipment	Leasehold improvements	Total
	NIS millions						
Cost							
Balance as at January 1, 2012	952	2,122	69	10	297	241	3,691
Deconsolidation	-	(7)	-	-	(3)	(14)	(24)
Additions	115	170	6	-	17	14	322
Disposals	(1)	(35)	(4)	-	(5)	-	(45)
Classification from inventory	-	13	-	-	-	-	13
Designation as investment property	(42)	-	-	-	-	-	(42)
Effect of changes in exchange rates	(4)	(11)	(1)		(3)	(4)	(23)
Balance as at December 31, 2012	1,020	2,252	70	10	303	237	3,892
Accumulated depreciation							
Balance as at January 1, 2012	312	1,364	48	1	223	141	2,089
Deconsolidation	-	(4)	-	-	(1)	(9)	(14)
Depreciation for the year	25	101	6	1	20	17	170
Disposals	-	(34)	(3)	-	(4)	-	(41)
Effect of changes in exchange rates	-	-	(2)	-	(3)	(1)	(6)
Balance as at December 31, 2012	337	1,427	49	2	235	148	2,198
Spare parts							51
Balance as at December 31, 2012	683	825	21	8	68	89	1,745

Note 14 - Fixed Assets

14.1 Changes in fixed assets (cont'd)

	Land and buildings	Machinery and equipment	Motor vehicles	Airplane*	Furniture and other equipment	Leasehold improvements	Total
				NIS millions			
Cost							
Balance as at January 1, 2011	861	2,013	71	9	279	224	3,457
Acquisition in a business combination	1	4	1	-	-	-	6
Additions	88	143	6	-	21	17	275
Disposals	-	(46)	(7)	-	(3)	(3)	(59)
Classification from inventory	-	10	-	-	-	-	10
Effect of changes in exchange rates	2	(2)	(2)	1	-	3	2
Balance as at December 31, 2011	952	2,122	69	10	297	241	3,691
Accumulated depreciation	290	1,309	47	-	206	120	1,972
Balance as at January 1, 2011	-	1	-	-	-	-	1
Acquisition in a business combination	-	1	-	-	-	-	1
Depreciation for the year	23	94	7	1	20	23	168
Disposals	-	(36)	(5)	-	(3)	(3)	(47)
Effect of changes in exchange rates	(1)	(4)	(1)	-	-	1	(5)
Balance as at December 31, 2011	312	1,364	48	1	223	141	2,089
Spare parts							47
Balance as at December 31, 2011	640	758	21	9	74	100	1,649

14.2 Fixed assets under finance lease

The Group leases machines under finance lease agreements. The net carrying amount of machines as at December 31, 2012 is NIS 8 million (2011: NIS 10 million).

14.3 Capitalized borrowing costs

In August 2010 the Company began the construction of a new logistics center in Israel that is expected to begin operating in 2014. The Group's consolidated financial statements for 2012 include capitalized borrowing costs in the amount of NIS 5.1 million that were capitalized using a rate of 5.1% (2011: NIS 3.9 million using a rate of 5.7%). See also Note 14.6.

For additional information regarding capitalized borrowing costs in respect of an asset classified as investment property during the reporting period, see Note 16.3.

Note 14 - Fixed Assets (cont'd)

14.4 Fixed assets purchased on credit

Fixed assets in the amount of NIS 93 million were purchased on credit as at December 31, 2012 (2011: NIS 69 million).

14.5 Real estate rights presented in the consolidated statement of financial position as at December 31, 2012

	Years to end of lease period	December 31 2012	2011
		NIS millions	
Freeholds rights (1)	-	437	434
Rights leased under finance lease:			
Non-capitalized	2013-2020	-*	-*
Capitalized	2026-2059	247	206
Balance as at December 31		684	640

* Less than NIS 1 million.

(1) Including Real estate rights in the amount of NIS 206 million, that have not yet been registered in the name of the Company or the subsidiaries (since land cancellation has not yet been executed under the Planning & Construction Law). For details regarding further rights in real estate, see Note 16- investment property.

14.6 As at March 1, 2010 the Company engaged with the Israel Land Administration in a real estate lease agreement valid for 49 years, for the purpose of construction of a new logistic center in Shoham. Lease payments in the amount of NIS 33 million have been prepaid.
Total investment in the project as at December 31, 2012 amounts to NIS 164 million. The foundation constructions began in the first quarter of 2012.

14.7 For details regarding liens – see Note 26.2.

Note 15 - Intangible Assets

15.1 Changes in intangible assets

	Brands	Computer software	Goodwill	Research and development	Other	Total
			NIS millions			
Cost						
Balance as at January 1, 2012	629	245	1,144	34	125	2,177
Sale of holdings in subsidiaries	-	-	(5)	-	(1)	(6)
Acquisition	1	23	4	-	14	42
Additions- Self development	-	11	-	13	-	24
Disposals	-	(2)	(8)	-	(1)	(11)
Effect of changes in exchange rates	(14)	(1)	(17)	-	(1)	(33)
Balance as a December 31, 2012	616	276	1,118	47	136	2,193
Accumulated amortization						
Balance as at January 1, 2012	44	165	177*	6	61	453
Amortization for the year	5	26	-	4	10	45
Impairment	-	-	22	-	-	22
Disposals	-	(2)	(2)	-	(1)	(5)
Effect of changes in exchange rates	(1)	-	(5)	-	-	(6)
Balance as at December 31, 2012	48	189	192	10	70	509
Balance as at December 31, 2012	568	87	926	37	66	1,684
Cost						
Balance as at January 1, 2011	626	231	1,057	19	121	2,054
Valuation due to loss of control	-	-	19	-	3	22
Acquisition through business combination	10	-	64	-	-	74
Additions	-	14	-	1	-	15
Additions- Self development	-	4	-	14	-	18
Disposals	-	(4)	-	-	-	(4)
Effect of changes in exchange rates	(7)	-	4	-	1	(2)
Balance as a December 31, 2011	629	245	1,144	34	125	2,177
Accumulated amortization						
Balance as at January 1, 2011	40	142	118	4	50	354
Amortization for the year	3	26	-	2	12	43
Impairment	-	-	59	-	-	59
Disposals	-	(3)	-	-	-	(3)
Effect of changes in exchange rates	1	-	-	-	(1)	-
Balance as at December 31, 2011	44	165	177	6	61	453
Balance as at December 31, 2011	585	80	967	28	64	1,724

* Includes NIS 145 million of impairment recognized in previous periods.

Note 15 - Intangible Assets (cont'd)

15.2 Intangible assets with indefinite useful lives

As at December 31, 2012 intangible assets include an amount of NIS 564 million that is attributable to brands and trademarks having an indefinite useful life (December 31, 2011 – NIS 572 million). These assets were assessed as having indefinite useful lives since according to an analysis of the relevant factors, there is no foreseeable limit on the period they are predicted to generate positive cash flows for the Group.

The relevant factors that were analyzed included, inter alia, the length of time the brand or trademark is anticipated to be used; the existence of legal or contractual restrictions on their use; a review of the typical life cycle of similar branded products; the existence of indicators of changes in life style, competitive environment, market requirements and industry trends; the sales history of products from that brand, the length of time the brand exists on the market, and the awareness of the market to the brand name or trademark. Also taken into consideration is the length of time similar brands are used in the industry in which the Company operates.

15.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives

The following units have significant carrying amounts of goodwill and intangible assets having an indefinite useful life:

	Goodwill		**Intangible assets having an indefinite useful life**	
	December 31		**December 31**	
	2012	**2011**	**2012**	**2011**
	NIS millions		**NIS millions**	
Israel	77	83	-	-
Water	169	173	102	102
USA (Sabra)	127	130	13	13
Brazil	179	201	168	188
Serbia	-	16	37	37
Poland	77	71	75	68
Russia	270	262	169	164
Romania	26	27	-	-
	925	963	564	572

The recoverable amount of the cash-generating units is based on its value in use. The value in use is calculated using the most updated projected future cash flows for periods up to 5 years, based on the strategic operations (SOP) of the relevant unit. The projected cash flows for additional periods are calculated using a relevant growth rate, which takes into consideration the expected growth rate of the unit, the discipline, the country and the population. The cash flows are discounted to their present value using a rate that reflects the risks specific to the cash-generating units in each year.

Note 15 - Intangible Assets (cont'd)

15.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives (cont'd)

The main assumptions according to operating segments are:

	December 31, 2012		December 31, 2011	
	Long-term growth rate	Discount rate	Long-term growth rate	Discount rate
Israel				
Fun & Indulgence	2.5%	7.5%	2.5%	9.2%
Health & Wellness	2.0%-3.0%	8.5%-11.9%	2.5%	9.2%-11.1%
Coffee				
Coffee - Israel	-	-	2.0%	15.6%
Coffee - Abroad	(0.15%)-2.0%	9.0%-13.0%	(0.15%)-3.5%	8.5%-13.4%
International Dips and Spreads	0.0%-2.5%	6.5%	0.0%-2.5%	6.5%
Other	2.0%	12.0%	0.5%-1.0%	9.6%-13.0%

Within the framework of examining the drop in the value of the goodwill attributed to Strauss Coffee's subsidiary company in Serbia, constituting a cash generating unit, as on September 20, 2012, the Group recognized a loss due to the decline to the balance of the goodwill of a sum of approximately NIS 16 million. During the course of 2011 depreciation in goodwill was recorded of a sum of approximately NIS 46 million. The recoverable amount of the unit was calculated by capitalizing the future cash flow expected from the unit, using capitalization rate of approximately 13% in 2012 and approximately 11% in 2011. A long term growth was not assumed in these estimations.

15.4 Purchase of intangible assets on credit

Intangible assets in the amount of NIS 14 million were purchased on credit as at December 31, 2012 (December 31, 2011: NIS 31 million).

Note 16 - Investment Property

16.1 Changes in investment property

	December 31	
	2012	2011
	NIS millions	
Balance as at January 1	42	24
Additions	-	19
Change in designation from fixed assets to investment property (1)	42	-
Impairment loss (1)	(23)	-*
Sales during the period (1)	-	(1)
Classification of investment property as an asset held for sale (2)	(40)	-
Balance as at December 31	21	42

Note 16 - Investment Property (cont'd)

16.2 Composition of investment property balance

Total cost	21	44
Total depreciation	-*	(2)
Balance as at December 31	21	42

* Less than NIS 1 million.
(1) See Note 16.3.
(2) See Note 16.4.

16.3 Rights in real estate

As at December 31, 2012, the investment property includes 5 real estate assets owned by the Group.

The investment real estate properties include primarily land owned by the subsidiary company overseas of a sum of NIS 2 million as on December 31, 2012 (December 31, 2011: NIS 2 million) and real estate property owned by the company in Israel of a sum of approximately NIS 19 million as on December 31, 2012 that was designated during the report period as investment property (see below).

During the report period the Group's executive decided to designate areas purchased in the Yanai Park in Petach Tikva from the fixed investment real estate properties (See Note 26.4.8). Following the change in designation the company examined the drop in value of the property that was estimated by an external appraiser using the comparative approach, comparing similar properties. The examination revealed that the recoverable amount is lower than the value of the property in the books, considering the expected costs to complete construction. As a result thereof the Group, during the report period, recognized a loss from impairment relating to these real estate properties of a sum of approximately NIS 23 million that was classified as other expenses in the statement of income. Likewise, in the financial reports for 2012 the credit costs for the property were capitalized of a sum of approximately NIS 2 million, using a capitalization rate of 5.5% (in 2011: approximately NIS 1.6 million).

16.4 Sales Transactions Concerning the Land

In the first quarter of 2012 the company classified investment real estate property in Givatayim (a lot with an area of 8,346 square meters) as held for sale.

On March 18, 2012 the two subsidiary companies fully owned by the company signed an agreement to sell approximately one half of their rights to the aforementioned lot in consideration for a sum of approximately NIS 85 million to a Purchase Group and Clal Insurance. Closing the deal pursuant to the foregoing agreement was contingent upon the satisfaction of a number of suspending conditions. During the course of the month of September 2012 the two subsidiary companies closed the sale of approximately 80% of their rights to the lot to the Purchase Group and to Clal Insurance, in consideration for a sum of approximately NIS 154 million and also in consideration for an put option to sell the balance of their rights to the lot to the Purchase Group for approximately an additional NIS 39 million, by January 15, 2013. As a result of the transaction the Group, during the report period recognized a net capital gain of approximately NIS 91 million. As on the date of the report, a sum of approximately NIS 140 million was received subsequent to the date of statement of financial position, from the consideration amount. The balance of the amount is held in trust and classified as debtors and a debit balance in the report concerning the financial situation and during the course of the coming months is expected to be received in the course of the next months. The balance of the rights not yet sold as on December 31, 2012 are classified as held for sale in the statement of financial position.

On January 30, 2013 one half of the option granted was exercised and a sale of approximately an additional 10% of the rights to the lot was closed in consideration for a sum of approximately NIS 20 million. In addition, on February 11, 2013 approximately an additional 8% was exercised, in consideration for a sum of an additional NIS 16 million. The net capital gain to be entered in the first quarter of 2013 by the company in respect of the additional sales is approximately NIS 18 million. In respect of additional sales, as on the approval date of the report, an amount of about NIS 27 million was received. The remaining proceeds from the sales are held in trust.

Note 16 - Investment Property (cont'd)

16.5 Fair value

The fair value of the investment property is not significantly different from its carrying amount.

Note 17 - Trade Payables

	December 31	
	2012	2011
	NIS millions	
Open debts	828	809
Interested and related parties	17	7
Notes payable	5	5
	850	821

Note 18 - Other Payables and Credit Balances

	December 31	
	2012	2011
	NIS millions	
Employees and other payroll related liabilities	207	182
Institutions	29	33
Jointly controlled companies	73	36
Derivatives	32	34
Accrued expenses	224	174
Redeemable preferred shares	13	13
Deferred income	41	43
Advances from customers	4	5
Payables in respect of acquisition of operation	-	18
Other payables	48	24
	671	562

Note 19 - Provisions

19.1 Changes during the period

	Restructuring	Legal claims	Warranty	Total
Balance as at January 1, 2012	10	25	10	45
Provisions made during the period	4	6	2*	12
Provisions used during the period	(5)	(3)	-	(8)
Provisions reversed during the period	(1)	(4)	-	(5)
Effect of changes in exchange rates	-	(1)	-	(1)
Balance as at December 31, 2012	8	23	12	43

* Presented in net

19.2 Provisions in respect of legal claims- See Notes 3.13 and 26.1.

19.3 Provisions in respect of restructuring- See Note 35.

Note 20 - Loans and Credit

20.1 The terms of the loans, debentures and their repayment dates are as follows:

	Currency	Nominal interest %	Repayment	December 31, 2012 Face value	December 31, 2012 Carrying amount
				NIS millions	
Debentures Series B (see 20.2)	NIS	4.1	2014-2018	744	881
Debentures Series C (see 20.2)	NIS	variable	2013	167	166
Bank loans	NIS	Prime	2013	4	4
Bank loans	USD	Libor+2	2013-2016	56	56
Bank loans	REAL	3-14.46	2013-2022	137	139
Bank loans	USD	2.45-3.5	2013-2015	170	171
Bank loans	NIS	3.95	2019-2022	100	101
Bank loans	NIS	6.3	2019-2022	100	100
Others loans (see 22.2)	NIS	5.82	2013-2022	283	283
Others loans (see 22.2)	NIS	3.55	2013-2022	372	374
Others loans	REAL	-	2017	-*	-*
Others loans	NIS	-	2013-2020	-*	-*
Others loans	USD	6.5	2013-2016	27	27
Others loans	USD	5.16	2013-2017	31	31
Bank loans	USD	Libor+1.7	2013-2017	77	77
Bank loans	NIS	4.3-4.95	2013-2015	20	20
Bank loans	NIS	4.32-5.35	2013-2015	79	79
Bank loans	NIS	Prime+0.0-1.6	2013-2015	8	8
					2,517

* Less than NIS 1 million.

20.1 The terms of the loans, debentures and their repayment dates are as follows: (cont'd)

	Currency	Nominal interest %	Repayment	December 31, 2011 Face value	December 31, 2011 Carrying amount
				NIS millions	
Debentures Series B (see 20.3)	NIS	4.1	2014-2018	744	867
Debentures Series C (see 20.4)	NIS	variable	2012-2013	333	332
Bank loans	USD	Libor+2	2012-2016	64	64
Bank loans	REAL	3-14.91	2012-2021	136	137
Bank loans	USD	2.18-3.7	2012-2014	259	261
Bank loans	NIS	3.95	2019-2022	100	100
Bank loans	NIS	6.3	2019-2022	100	100
Others loans (see 22.2)	NIS	5.82	2012-2022	294	294
Others loans	REAL	-	2016	1	1
Others loans	NIS	-	2012-2020	1	1
Bank loans	USD	Libor+1.7	2012-2014	23	23
Others loans	USD	6.5	2012-2016	31	31
Others loans	USD	5.16	2013-2017	32	32
Bank loans	USD	Libor+1.7	2013-2017	63	63
Bank loans	NIS	4.3-4.95	2012-2013	2	2
Others loans	USD	Libor	2012-2015	2	2
Bank loans	NIS	4.32-5.35	2012-2014	50	50
Bank loans	NIS	Prime+0.2-1.6	2012-2015	14	14
Others loans	USD	UK Prime+0.5	2012	6	6
					2,380

Note 20 - Loans and Credit (cont'd)

20.2 Information regarding bonds issued by the Company

	Series B	**Series C**
Date issued	February 25, 2007	May 7, 2009
Listed for trading	May 21, 2007	May 10, 2009
Type of interest	Fixed	Variable
Yearly interest rate	4.1% (until the listing for trading, the interest rate was 4.7%)	The interest rate borne by "Government Bonds 817" plus an interval of 0.7%
The effective interest rate on the date registered to trade taking into account the offering costs	4.2%	2.15%
Par value on issue date	NIS 770 million	NIS 500 million
Nominal par value as at December 31, 2012	NIS 744 million	NIS 167 million
Index-linked par value as at December 31, 2012	NIS 884 million	NIS 167 million
Book value of Debentures as at December 31, 2012	NIS 881 million	NIS 166 million
Book value of interest payable as at December 31, 2012	NIS 15 million	-*
Fair value as at December 31, 2012	NIS 990 million	NIS 167 million
Linkage conditions	Principal and interest are linked to the Consumer Price Index in respect of January 2007	Principal and interest are not linked to any Index
Payment dates of principal	5 equal yearly payments on February 1 of each of the years from 2014 to 2018	3 equal yearly payments on June 1 of each of the years from 2011 to 2013
Interest payment dates	Half-yearly interest on February 1 and August 1, from 2007 to 2018	Quarterly interest on June 1, September 1, December 1 and March 1, commencing on September 1, 2009 until June 1, 2013
Securities or liens	None	None
Name of rating company	Midroog, Maalot	Midroog, Maalot
Rating at issue date and reporting date	Aa1; AA+	Aa1; AA+

For details regarding the bond issue Series D, subsequent to the date of statement of position, see Note 40.1.

* Less than NIS 1 million.

20.3 See Notes 26.2 and 26.3 regarding liens and guarantees.

Note 21 - Short-Term Credit and current maturities of long term loans

Composition of current liabilities

	December 31	
	2012	2011
	NIS millions	
Short term bank loans	212	317
Loans from shareholders in a jointly controlled company	-	6
Current maturities	94	128
	306	451

Note 22 - Long-Term Loans and Credit

22.1 Composition of non – current liabilities

	December 31	
	2012	2011
	NIS millions	
Liability in respect of finance lease	-*	1
Loans from shareholders of jointly controlled companies	58	63
Loans from others	657	297
Bank loans	543	497
	1,258	858
Less current maturities	(94)	(128)
	1,164	730

* Less than NIS 1 million.

Note 22 - Long-Term Loans and Credit

22.2 Details of loans received

	Loan Received On		
	January 30 2011	**April 1 2012**	**April 2 2012**
Sum of loan (in NIS millions)	300	222	150
Loan given by	A number of companies from the Har'el Insurance Group	A group of non-banking institutional bodies	
Linkage	None	The loan shall bear Consumer Price Index linkage differences	
Interest	5.821% fixed yearly interest.	3.55% linked yearly interest. An interest adaptation mechanism exists in the event of changes in the Company's ratings or in the ratings of its debentures, with the added interest being up to 0.25%.	
Effective Interest	5.9107%	3.6827%	3.6815%
Average life span	6.5 years	7.5 years	7.5 years
Loan repayment	The loan principal and interest will be repaid in 22 consecutive semiannual payments starting July 1 2011.	The loan principal will be repaid in 7 continuous annual payments of 1 million NIS each, starting August 2012 and four continuous yearly payments of 53.75 million NIS each starting August 2019 and ending August 2022.	The loan principal will be repaid in 6 continuous yearly payments of 2.5 million NIS each, starting November 2013 and four continuous yearly payments of 33.75 million NIS each starting November 2019 and ending November 2022.
Early redemption	The Company shall be entitled to perform an early redemption 5 years from taking the loan, subject to certain terms, including providing advance notice and payment of an early redemption fee calculated according to the fixed calculation formula set in the agreement.		
Interest repayment	Along with the interest repayment	Semiannual payments from August 1, 2012	Semiannual payments from May 30, 2013
Stipulations	Grounds for immediate redemption are in the event of change in control of the Company, as well as in the event of failure to repay payments to other financial institutions (at a sum set in the agreement and in accordance with its terms), in such a manner that may have a material impact on the Company's ability to repay the loan. In addition, financial criteria were set as detailed in Note 22.3.	The Company undertook, subject to the exceptions set in the agreement, not to create any liens on its assets in favor of any third party, to guarantee any debt or liability, except in accordance with the terms of the agreement. Grounds for immediate redemption are in the event of change of control in the Company (as defined in the agreement) and in the event of the immediate redemption of any of the Company's debts to financial institutions (at a sum set in the agreement and in accordance with its terms) under the condition that this has a materially negative impact on its ability to repay the debt. In addition, financial criteria were set as detailed in Note 22.3. In addition, in the event of changes to IRS accounting standards following which the Company fails to uphold the financial ratios set in the agreement, the ratios will be adjusted with the parties' consent. In the event that no such agreement is reached, the Company shall be entitled to prepare a pro forma report on the basis of existing accounting standards as of the signing of the agreement, for the purpose of calculating its compliance with the ratios.	

Note 22 - Long-Term Loans and Credit (cont'd)

22.3 Covenants

The Company is required to meet two covenants in favor of banks in Israel, few companies from Harel Insurance Group and other non-banking institutional bodies: A ratio of equity (without non-controlling interests) to total balance sheet of no less than 20%, and a ratio of net financial debt to EBITDA that is no higher than 4 (this ratio was updated during the reporting period, was 3 before the update). The Company is not required to comply with external capital requirements. The loan agreement with companies of the Harel Insurance Company Group determines a progressive incremental interest mechanism in the case that the financial ratio increases to above 3 and below 4 (provided that the incremental interest does not exceed 0.25%).

As at the reporting date, the Company is in compliance with these conditions.

Note 23 - Long-Term Payables and Credit Balances

	December 31	
	2012	2011
	NIS millions	
Accrued expenses	8	7
Institutions	4	5
Deferred income	28	21
Derivatives	3	2
Payables due to a business combination	-	9
Other payables	5	3
	48	47

Note 24 - Employee Benefits

24.1 The labor laws in Israel require the Company to pay severance pay to employees that were dismissed or have retired (including those who left for other specific reasons). The liability for the payment of severance pay is calculated according to the labor agreements in effect, on the basis of salary components that in the opinion of management of the Company create a liability to pay severance pay.

The Company has two severance pay plans: one plan according to the instruction in Section 14 of the Severance Pay Law, which is accounted for as a defined contribution plan; and another plan for employees to whom Section 14 does not apply, which is accounted for as a defined benefit plan. The Group's liability in Israel for the payment of severance pay to it employees is mostly covered by current deposits in the names of the employees in recognized pension and severance pay plans, and by the acquisition of insurance policies, which are accounted for as plan assets.

In addition to these plans, the Company has an obligation to pay an adaptation bonus to senior employees. The Group's obligation for the payment of adaptation bonuses is not covered by the current deposits in the names of the employees.

24.2 As regards its international operations, employee benefits are accounted for in accordance with the requirements of the law in each country in which the Group operates. These requirements usually comprise of monthly deposits in government plans.

The Company has an obligation to pay benefits to certain employees in accordance with personal employment contracts. In addition, the Company has an obligation to pay benefits to employees who have retired in accordance with the labor laws in Germany. These benefits were accounted for as a defined benefit plan.

Note 24 - Employee Benefits (cont'd)

24.3 Composition

	December 31	
	2012	2011
	NIS millions	
Defined benefit plan		
Present value of funded obligation	86	80
Present value of the un-funded obligation	45	36
	131	116
Fair value of the plan assets	(79)	(76)
Total present value of the obligation, net	52	40
Actuarial losses not yet recognized	(15)	(12)
Total liability in respect of defined benefit plans	37	28
Long-term share-based payment liability to be settled in cash	-	1
Total employee benefits liability	37	29

24.4 Defined benefit plans

The Group separates defined benefit plans in accordance with the offsetting terms of the plans, as follows:

	December 31	
	2012	2011
	NIS millions	
Presented as liabilities for the payment of employee benefits, net	41	33
Presented as assets designated for the payment of employee benefits, net	(4)	(5)
Total liability in respect of defined benefit plans, net	37	28
Long-term share-based payment liability to be settled in cash	-	1
Total employee benefits, net	37	29

Note 24 – Employee Benefits (cont'd)

24.4.1 Changes in the liability for defined benefit plans

	For the year ended December 31		
	2012	2011	2010
	NIS millions		
Liability in respect of defined benefit plans as at January 1	116	107	107
Benefits paid by the plans	(10)	(8)	(11)
Current service costs and interest	21	16	10
Actuarial losses	4	-	3
Other adjustments	-	1	(2)
Liability in respect of defined benefit plans as at December 31	131	116	107

24.4.2 Changes in defined benefit plan assets

	For the year ended December 31		
	2012	2011	2010
	NIS millions		
Fair value of plan assets as at January 1	76	75	73
Contributions paid into the plan	6	7	6
Benefits paid by the plan	(8)	(8)	(9)
Expected return on plan assets	4	3	3
Actuarial (losses) gains	1	(1)	2
Fair value of plan assets as at December 31	79	76	75

24.4.3 Expense recognized in the statement of income in respect of defined benefit plans

	For the year ended December 31		
	2012	2011	2010
	NIS millions		
Current services costs	16	11	5
Interest on obligation	5	5	5
Expected return on plan assets	(4)	(3)	(3)
Actuarial losses	1	1	-
	18	14	7

The expense was included in the following statement of income items:

	For the year ended December 31		
	2012	2011	2010
	NIS millions		
Cost of sales	1	1	-
Selling and Marketing expenses	1	1	2
General and administrative expenses	16	12	5
	18	14	7

Note 24 – Employee Benefits (cont'd)

24.4.4 Actuarial assumptions

Principal actuarial assumptions as at the reporting date (weighted average) in nominal terms:

	2012	2011	2010
Discount rate as at December 31 (1)	2.83%-4.66%	4.9%-5.6%	5.4%-5.6%
Expected return on plan assets as at January 1 (2)	3.21%-8.16%	4.6%-8.1%	5.0%-8.5%
Future salary increases	3.0%-6.0%	3.0%-6.0%	5.7%-6.0%
Demographic assumptions (3)			

(1) The discount rate is based on debentures of the Government of Israel that bear a fixed rate of interest.

(2) In 2012 the weighted rate of return was 3.5% (2011: 5.0%-5.6%, 2010: 5.4%). The rate of return was calculated as follows: a 3.21% rate of return on insurance companies (2011: 4.9%-5.3%, 2010: 5.4%); a 4.48% rate of return on new pension funds (2011: 5.7%-6.0%, 2010: 6.1%); a 5.8%-8.16% rate of return on balanced old pension funds (2011: 7.3%-8.1%, 2010: 8.5%); a 4.6% on unbalanced pension funds (2011: 4.6%-4.8%, 2010: 5.0%); and a rate of return of 3.21% on provident funds (2011: 4.9%-5.3% 2010: 5.4%).

(3) The calculations are based on demographic assumptions as follows:

a) Mortality rates and rates of loss of ability to work are based on the accepted mortality table of pension funds.

b) Employee turnover rates are based on an analysis of historic data. According to this analysis, the main turnover rate of employees is 10.31%, for each year of seniority. For senior employees, the turnover rate is 16.6%, for each year of seniority.

24.4.5 Historical information

	December 31		
	2010	2009	2008
	NIS millions		
Present value of the liability	107	107	91
Fair value of the plan assets	(75)	(73)	(66)
Total present value of the liability, net	32	34	25
Actuarial losses not yet recognized	(11)	(10)	(10)
Total liability in respect of defined benefit plans	21	24	15

24.5 Defined Contribution Plans

In the year ended December 31, 2012, the Group recorded an expense of NIS 37 million (2011: NIS 34 million, 2010: NIS 31 million) with respect to defined contribution plans.

Note 25 - Share-Based Payments

25.1 In accordance with the plans from May 2003 for the remuneration of senior executives, which was updated in June 2004, August 2006 (see hereinafter), April 2010 and April 2011, upon approval of Audit Committee and the Board of Directors of the Company, the Company granted share options (warrants) to senior executives of the Group at no cost. Each share option is exercisable into one ordinary share of a par value of NIS 1 on a “net in shares” basis as described hereunder.

The shares will be granted to the employee, in consideration for their par value, in an amount equal to the difference between the share price at the last trading day before the exercise date ("fair value"), and the exercise price, multiplied by the amount of the share options and divided by the market value of the share (with the addition of an amount of shares equal to the total par value of the issued shares). The exercise price reflects the average share price on the stock exchange soon before approval of each option grant. The exercise price or conversion ratio of each share option will be adjusted proportionately in respect of an allotment of bonus shares, a split and consolidation of the Company’s shares, an issuance of rights to the Company’s shareholders or divided distribution.

According to the terms of the plans, the share options are exercisable in three equal portions commencing at the end of three, four and five years from the vesting date of the options. As regards share options granted from March 2008, the share options are exercisable in three equal portions commencing at the end of two, three and four years from the vesting date of the option, and in respect to grants subsequent to April 2011, two and three years from the vesting date. An employee entitled to exercise his options may do so during a further period of 3 years since the right to exercise such quantity of options was first created, and in respect to grants subsequent to April 2011, an employee entitled to exercise his options may do so during a further period of 4 years. Options that are not exercised by that date shall expire. In the case of termination of employer-employee relations, the employee will be entitled to exercise options the exercise date of which is 180 days from the date of termination of relations. After 180 days have elapsed from the date of termination of relations, any options not exercised shall expire.

According to the plan, options granted executives shall be approved by the Remuneration and Human Resources Committee of the Company Board of Directors, and options granted senior executives shall be approved by the Company Board of Directors, in accordance with the recommendations of the Board of Directors’ Remuneration and Human Resources Committee.

With respect to employees in Israel, the above plans were approved under Section 102 of the Income Tax Ordinance (in "capital gain path"), and accordingly, the options were deposited with a trustee. Under the plan, the employees will bear any tax that applies to the plan.

In addition, on August 28, 2006 the Company’s Board of Directors approved an update to the option plan for senior employees. The update included adjustment of the exercise price indicated on the various options, so that upon each distribution of a dividend the exercise price of the options shall be reduced by an amount equal to 100% of the declared dividend per share.

Note 25 - Share-Based Payments (cont'd)

25.2 Grants in the reported period

Details of the fair value of these warrants and the data used for this assessment grant date:

Grant date	Number of options	Number of entitles employees	Fair value NIS millions	Share price NIS	Nominal exercise price NIS	Expected life Years	Expected annual volatility %	Discount rate %	Vesting date
July 8, 2012	244,000	9 managers	2.3	38.7	38.98	4.2-5.2	26.59%-26.87%	0.73%-1.04%	July 8 2014-2015
July 15, 2012	310,000	3 officers	2.8	38.25	39.20	4.2-5.2	26.52%-26.84%	0.66%-0.96%	July 15 2014-2015
Sep' 13, 2012	392,000	12 managers	4.5	39.95	35.75	4.2-5.2	27.20%-27.73%	0.31%-0.78%	Sep' 13 2014-2015
Sep' 25, 2012	300,000	3 officers	3.3	39.27	35.86	4.2-5.2	27.20%-27.69%	0.32%-0.79%	Sep' 16 2014-2015
Sep' 25, 2012	1,062,411	CEO (1)	15.9	39.27	35.86	8	27.08%	1.70%	50% Sep' 2014 and about 16.67% Sep' 2015-2017

(1) For cancellation of stock options as part of this grant, see Note 25.3. The fair value of the benefit which is charged as expense in the Financial Statements over the vesting period, in respect of this grant is NIS 13.9 million, after deducting the value of the canceled options.

Note 25 - Share-Based Payments (cont'd)

25.3 Changes in the number of share options:

	Number of share options (thousands)	
	2012	**2011**
Balance as at January 1	3,247	2,961
Additional allotment	2,308	506
Exercise of options (1)	(465)	(164)
Forfeiture of options (2)	(365)	(56)
Balance as at December 31 (3)	4,725	3,247

(1) The weighted average share price on the exercise date of the options exercised in 2012 is NIS 47.76 (2011: NIS 52.39).

(2) On September 25 2012, alongside the issue of options to the CEO (see Note 25.2), 355,050 options issued him in the past, which have yet to vest as of the date in question, were canceled. The fair value of these options as of September 25 2012 is 2 million NIS. The key assumption used in establishing the fair value of the options canceled as of the date in question are as follows: stock price – 39.27 NIS; yearly standard deviation – 25.38%; risk-free interest rate – 0.19%; linked realization price – 45.357 NIS; remaining option life span – 3.8 years.

(3) On December 31 2012,1,557 thousand options have vested, of the remaining options (2011: 1,125 thousand).

25.4 Information on the share options outstanding as at December 31, 2012:

Number of options	Nominal exercise price (NIS)	Linked to CPI of	First third exercisable from
23,034	36.58	November 2006	2.1.2011
167,967	46.93	October 2007	1.9.2010
621,199	51.88	February 2008	30.3.2010
109,355	37.83	October 2008	1.11.2011
355,050	41.26	May 2009	1.7.2011
237,840	42.92	June 2009	21.7.2011
110,000	54.07	January 2010	7.3.2012
22,000	54.52	April 2010	14.6.2012
110,000	53.55	April 2010	14.6.2012
66,000	54.10	July 2010	31.8.2012
22,000	53.82	July 2010	31.8.2012
66,000	56.91	October 2010	21.11.2012
44,000	55.86	December 2010	2.2.2013
66,000	52.85	January 2011	13.3.2013
330,000	54.52	February 2011	11.4.2013
44,000	55.78	April 2011	17.5.2013
22,000	45.56	July 2011	11.9.2013
244,000	38.98	May 2011	8.7.2014
310,000	39.20	June 2012	15.7.2014
392,000	35.75	July 2012	13.9.2014
1,362,411	35.86	August 2012	16.9.2014
4,724,856			

Note 25 - Share-Based Payments (cont'd)

25.5 Share-based payments in subsidiaries

25.5.1 In accordance with the Company's agreements with executives of the Max Brenner activity, the Company will act to concentrate Max Brenner activity under a company designated for this activity. If the new company is listed for trade on the stock exchange, and an employee option plan is adopted, the General Manager of Max Brenner will be granted options worth 4% of equity. So long as the Company has not been established and an option plan has not been adopted, the General Manager shall be entitled to a bonus paid in cash or in Strauss Group shares, as decided by the Company. The bonus right shall be formulated in three equal batches, on 2014-2016. The sum of the bonus shall be calculated according to a formula set in the agreement. This compensation plan is accounted for as equity plan in the Financial Statements. The fair value of the benefit is NIS 4 million. The benefit that derived from the plan is recognized as an expense in the financial statements over the vesting period.

25.5.2 On February 2, 2011 the Board of Directors of Strauss Coffee and of the Company approved an international plan for the grant of non-marketable options for Strauss Coffee shares to senior managers of Strauss Coffee, which reflect (in full dilution) grant of 3.5% of the share capital of Strauss Coffee (including 1% to the CEO of Strauss Coffee). In case of a sale of 65% or more of the investments fund TPG shares (which holds 25.1% of Strauss Coffee's shares) to the Company, the plan enables the offered to receive, in place of unvested options, options of the Company in equal value. The entitlement to the exercise of the options depends on exit events as defined in the plan, including changes in the Company's ownership.

The entitlement of the managers to the exercise of the options warrants vest in five equal tranches. Approximately 20% of the options were vested as of the grant day and the remaining options will vest in four equal tranches between December 2010 and December 2016. For part of the offered, immediate vesting of 40% of the options granted to them has been approved. The total fair value of the granted options is about NIS 34 million (the Company share is about NIS 25.5 million). The benefit that derived from the plan is recognized as an expense in the financial statements over the vesting period. At December 31, 2012, the number of stock options is 5,989.

25.6 Salary expenses in respect of share-based payments

	For the year ended December 31		
	2012	2011	2010
		NIS millions	
Expenses in respect of equity-settled grant	19	22	19
Expenses (Income) in respect of liability grant	-	(1)	1
Total expense included in salary expenses	19	21	20

Note 26 -Contingent Liabilities, Charges, Guarantees And Engagements

26.1 Contingent Liabilities

26.1.1 Below are details pertaining to claims filed with the court against the Company and its Subsidiary companies to certify them as class actions. The Company's executive, based on its legal advisors assessment, estimates at this stage, **it is not expected that the claims will be affirmed as class actions**:

The Date Claim Filed	Court In Which The Claim Is Being Litigated	The Defendant	Claim Issue	Claim Amount (Millions of NIS)
December 2007	District Court in Haifa	The Company and the Subsidiary Company, Strauss Health Ltd. (80%).	A prima facie violation of the Consumer Protection Law in connection with marking the Danone yoghurt products of the various types in units of weight and not based on volume units *****	34
October 2011	District Court in Tel-Aviv Yaffo	The Company	Misleading consumers in respect of marking the list of ingredients for chocolate bars	200
April 2012	District Court in Central District	The Company	A breach of the Consumer Protection Law in connection with the "Dancol" product	36
May 2012	District Court in Haifa	The Company, Tnuva-Cooperative Center To Market Agricultural Produce In Israel Ltd. and the Tara Dairies Ltd.	A breach of the Consumer Protection Law in connection with yoghurt products marked as natural	144 to each one of the Defendants
May 2012	District Court in Tel-Aviv Yaffo	The Company	Misleading advertising in connection with the "Dancol" product	17
July 2012	District Court in Haifa	The Company	Marking on packaging of chocolate deserts	228
August 2012	District Court in Central District	The Company	Marking on packaging of yogurt product with granola and nuts	72
October 2012	District Court in Tel-Aviv Yaffo	The Company	Recalling products of the "Rich Chocolate Brownies" type due to mold found in some of the products.	11
October 2012	District Court in Tel-Aviv Yaffo	Yotvata Dairies In The Name Of The Late Uri Horzo Ltd. (50%)	Recalling products of the "Yotvata Chocolate Milk 225 ml bag" type	10
December 2012	District Court in Central District	The Company	Prima facie misleading marking of yogurt with chocolate pecan products	85
January 2013	District Court in Tel-Aviv Yaffo	The Company	Prima facie misleading marking of pasta products	7
February 2013	District Court in Tel-Aviv Yaffo	The Company	Prima facie misleading marking of dairy desert	24

* In accordance with the merger agreement between the Company and Strauss Holdings from January 2003 the Company has an indemnification right from Strauss Holdings, subject to the terms determined in the merger agreement, in respect of some of the claim amount, insofar as the cause of action preceded the date the merger transaction closed (March 22, 2004).

Note 26 -Contingent Liabilities, Charges, Guarantees And Engagements

26.1 Contingent Liabilities

26.1.1 (cont'd)

Below are details pertaining to claims filed with the court against the Company to certify them as class actions, whereby the legal proceedings in respect thereof ended in the court of first instance, however an appeal was filed with the Supreme Court in respect thereof. The Company's executive, based on its legal advisors assessment, **estimates at this stage that the appeal will be dismissed:**

The Date Claim Filed	Court In Which The Claim Is Being Litigated	The Defendant	Claim Issue	Claim Amount (Millions of NIS)
April 2008	District Court in Central District	The Company and additional Defendants (including Hed Artzi, Classikaletet and Osem)	Concealed advertising contrary to the Consumer Protection Law, Communication Rules (Telecommunications and Broadcasts). In November 2011 the court ruled that the motion to certify the action as a class action be dismissed without an order for costs.In December 2011, the Consumer Council filed an appeal with the Supreme Court regarding the judgment.	100
September 2011	District Court in Central District	The Company and the Tnuva-Cooperative Center To Market Agricultural Produce In Israel Ltd.	The prima facie existence of a restrictive trade practice. In March 2012 the court ruled that the motion to certify the action as a class action be dismissed. In May 2012 an appeal was filed with the Supreme Court.	1,429 of which the Company's portion is NIS 571 million

Below are details of a claim that was filed with the court against the Company to certify it as a class action. Although the claim was affirmed, of late, **the Company is unable, at this preliminary stage, to assess the chances of the claim being affirmed and the influence the claim will have, to the extent affirmed, upon the Company's financial reports:**

The Date Claim Filed	Court In Which The Claim Is Being Litigated	The Defendant	Claim Issue	Claim Amount (Millions of NIS)
January 2013	District Court in Tel-Aviv Yaffo	The Company	Prima facie misleading markings on a product as a Kosher dairy product	270

Note 26 -Contingent Liabilities, Charges, Guarantees And Engagements (cont'd)

26.1 Contingent Liabilities (cont'd)

26.1.1 (cont'd)

Below are details pertaining to claims filed with the court against the Company and its Subsidiary companies to certify them as class actions, whereby the **legal proceedings ended** in respect thereof on the date the report was published:

The Date Claim Filed	Court In Which The Claim Is Being Litigated	The Defendant	Claim Issue And Case Law	Claim Amount (Millions Of NIS)
July 2009	District Court in Central District	Yotvata Dairies Company in the name of the late Uri Horzo Ltd. (50%)	Prima facie reducing the size of the "Yotvata Chocolate Milkshake" product packaging without changing the product price and without changing the volume of the package. In July 2010 the court ruled that the claim be dismissed and held that the Plaintiff would bear the costs of reimbursing expenses of a sum of NIS 35 thousand in addition to VAT. The Plaintiff filed an appeal against the decision with the Supreme Court. In July 2012 the Supreme Court dismissed the appeal and lowered the costs the Plaintiff must pay to a sum of NIS 20 thousand.	11
July 2010	District Court in Jerusalem	The Company	Marking on packaging of "Danone Pecan Bar" product In January 2013 the court affirmed a settlement pursuant to which the Company undertook to provide consumer benefits to the public estimated by it to amount to a total sum of NIS 150 thousand, to donate products to a benevolent charity of a variety of its dairy products of a total sum of NIS 550 thousand, and to pay the Plaintiffs and their counsel compensation and fees of a sum of NIS 150 thousand.	22
July 2010	District Court in Central District	The Company	Marking on packaging of chocolate products with no added sugar In September 2012 the court affirmed a settlement pursuant to which the Company undertook to provide consumer benefits to the public estimated by it to amount to a total sum of NIS 200 thousand and to pay the Plaintiffs and their counsel compensation and fees of a sum of NIS 90 thousand in addition to VAT.	621
July 2012	District Court in Tel-Aviv Yaffo	The Company	Marking on packaging of a number of chewing gum products and a number of Danone yogurt products. In December 2012 the court ruled to approve the Plaintiff's claim abandonment notice.	30
July 2012	District Court in Tel-Aviv Yaffo	Strauss Import and Trade M.K. Company Ltd.,	Marking on packaging of chewing gum products In December 2012 the court ruled to approve the Plaintiff's claim abandonment notice.	13

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.1 (cont'd)

The Date Claim Filed	Court In Which The Claim Is Being Litigated	The Defendant	Claim Issue And Case Law	Claim Amount (Millions Of NIS)
		Subsidiary Company owned, liquidated due to a merger with the Company		
August 2012	District Court in Haifa	The Subsidiary Company, Strauss Water Ltd. (88%).	Misleading advertising of product features In January 2013 the District Court in Haifa, ruled to approve the Plaintiff's abandonment notice relating to the motion to certify the action as a class action. Furthermore, compelled the Subsidiary Company to pay compensation and attorneys fees of a sum of NIS 45 thousand (in addition to VAT) to the Plaintiff and his counsel.	2,691
September 2011	District Court in Tel-Aviv Yaffo	The Company	Marking on packaging of "Danny" product In March 2013 the court approved the Plaintiff's abandonment notice.	25
September 2011	District Court in Tel-Aviv Yaffo	The Company	Mold on the "Danone" product. In March 2013 the court approved the Plaintiff's abandonment notice.	30

26.1.2 Other claims and contingent liabilities

26.1.2.1 According to a letter of indemnity for officers of the Company, the Company has undertaken, without recourse, to indemnify officers of the Company with respect to any liability or expense (as defined in the letter of indemnity) that is imposed on the officer due to actions of the officer after the date of the letter of indemnity, which are directly or indirectly related to one or more of the events described in the letter of indemnity, or any part of them or anything related to them, either directly or indirectly. The amount איק Company will pay, in addition to amounts that are received from insurance companies, if any, regarding all of the officers and in respect of one or more of the events described in the letter of indemnity, was limited to 25% of the shareholders' equity of the Company according to the most recent financial statements published before the actual date of payment of the indemnity. See also Note 26.4.3.

26.1.2.2 In 1998 Strauss Holdings (including any other corporation under its control that manufactures or markets dairy puddings) was declared a monopoly in dairy puddings. "Dairy puddings" were defined in the notice as a "non-fermented dairy product, sweetened with sugar or alternative sweetening agents, which contains, in addition to the dairy ingredients, typical flavoring ingredients (chocolate, vanilla, etc.), that is designed to be eaten with a spoon". The Company (including companies under its control) was declared to be a monopoly in the chocolate bar market, in the area of instant coffee and in the home cocoa powder area. Following the aforementioned declarations, the Commissioner of Restrictive Trade Practices issued instructions to the monopoly owners. Some of the Group's products are controlled by the virtue of the Commodities and Services Law – 1996.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.2 Other claims and contingent liabilities

26.1.2.3 On December 2004 the Company received a draft of a criminal indictment, regarding violations of the Restrictive Trade Practices Law, claiming that the Company used its status as a monopoly in the area of chocolate bars in order to place difficulties and barriers to the entrance of a competitor (Cadbury) on the markets. The Company reached an agreement with the Commissioner that an indictment would not be filed and instead, the Restrictive Trade Practices Court approved in January 2007 an agreed order between the Company and the Commissioner. In accordance with the provisions of the order, the Company and its managers undertook to honor certain undertakings, as detailed in the order, which mainly address sales by the Company to wholesalers and retailers in respect of competitive products. In addition, the Company undertook to pay the State NIS 5 million. The order did not involve an admission by the Company or any of its officers to their responsibility by law or to any breach by them of any provisions of the law. On February 2008 the Commissioner of Restrictive Trade Practices announced that she intends to allow Carmit Candy Industries Ltd., the Company that distributed Cadbury products in Israel, to read the material of the investigation that is in her possession regarding the “Elite – Cadbury” case. The Company objected to the disclosure of such documents to Carmit and on April 2008 a temporary injunction preventing the transfer of the documents was issued. The District and Supreme Court dismissed Carmit request to appeal and the temporary injunction remained in force.

26.1.2.4 There are several civil claims and several claims pending in the Labor Court against Strauss Marketing. The civil claims are mainly in respect of demands of former distributors to receive the value of the distribution line or compensation because of not being provided with advance notice prior to termination of the distribution relations or compensation for the decline in value of the distribution line or compensation in respect of the lowering of commissions during the term of the distribution relations or compensation in respect of the expropriation of distribution points or compensation in respect of lost earnings as a result of opening distribution points in the distribution area or compensation in respect of the selling of distribution points at a low price or compensation in respect of the collection of high interest or general compensation in respect of mental anguish.
In the labor claims, former distributors demand recognition of employer-employee relations and to receive the social benefits they claim are due to them because of such relations, including severance pay, compensation for delay in the payment of salaries, payment for vacation and payment for employee vacation allowance. Based upon the opinion of its legal counsel, the Company believes the chances of the claims in the Labor Court to prevail are low.

26.1.2.5 On January 31, 2010, Carmit Candy Industries Ltd. filed a claim with the District Court in the Central Region against the Company and three of its managers in the amount of NIS 22 million. The plaintiff alleges that in the early 2000's, it was appointed as an exclusive representative-distributor of Cadbury, an international candy company, and the Company, allegedly, prevented the entry of competitive products to the Israeli market, as a result, the penetration of Cadbury products failed and in 2005, Cadbury discontinued its contacts with the plaintiff. The Company, based on its legal advisors, estimates that the chances of this claim to be accepted is low.

26.1.2.6 Legal and monetary claims that were not mentioned in the previous notes were filed against Group companies. Claims in the civil courts and other claims (including claims of distributors mentioned in Note 26.1.2.4) total NIS 178.3 million, including total of NIS 125 million (out of which, an amount of NIS 61 million related to the tax authorities, see Note 37.8) in respect to claims against a jointly controlled entity in Brazil (the Group's share). In the opinion of Company's Management, based on the opinion of its legal counsel, the Company and its subsidiaries will not incur losses in excess of NIS 23 million as a result of the above-mentioned claims, in respect of which a provision has been made in the financial statements.

26.1.2.7 See Note 37.1.3 regarding benefits received by Group companies under laws for the encouragement of capital investments.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.2 Liens

26.2.1 The following liens have been provided as security for the liabilities of the Group companies:

	December 31	
	2012	2011
	NIS millions	
On current assets abroad in favor of foreign banks	39	18
On real estate assets in favor of foreign bank	31	34

26.2.2 Current liens on machinery, equipment, tools, instruments, facilities and real estate as well as the fruits and rights of the pledged assets, of several Group companies operating in Israel have been registered in favor of the State of Israel to secure the repayment of grants in the event of non-compliance with the terms and conditions stipulated.

26.2.3 The Company has undertaken in favor of banks and other financing parties in Israel not to mortgage or to otherwise encumber assets without receiving the prior written consent of the banks.

26.2.4 As security for a liability relating to a real estate venture in the amount of NIS 8.7 million that was purchased from a third party, a subsidiary pledged a certain part of the real estate until such date as the real estate rights are finally and separately registered.

26.2.5 The Company, PRL (a company wholly owned by the Lima family, the other shareholders of Santa Clara Participaceos S.A, hereinafter – SCP) and SCP signed mutual liens on shares, so that Elite Do Brazil Participaceos Ltd (hereinafter – Elite Brazil) pledged its shares in SCP in favor of PRL under a first degree lien, and undertook to pledge all the shares or options of SCP that it receives during the period of the lien, and to pledge all income, profits, proceeds and rights as well as any amount that it receives due to the sale of SCP shares in the case of a breach of representations included in the agreements.

Respectively, PRL pledged its shares in SCP in favor of Elite-Brazil under a first degree lien and undertook to pledge all the assets it receives. This was done in order to guarantee that each party complies with its liabilities, its payments and the representations provided by it. Until such time as any of the terms of the joint venture agreement are breached, the shareholders are entitled to enjoy the rights attached to their pledged shares. As a result of the restructuring of the Group companies in Brazil, according to which SCP was merged into Tres Coracoes Alimentos S.A (Formerly Santa Clara Indústria e Comércio de Alimentos S.A, hereinafter: Tres Coracoes), the aforementioned lien agreement on the shares will be amended so that the mutual lien apply to the shares of Tres Coracoes.

26.3 Guarantees

26.3.1 Guarantees and comfort letters were given to banks and others with respect to the business activity of the Group as follows:

	December 31	
	2012	2011
	NIS millions	
In favor of subsidiaries in Israel and abroad	368	407
In favor of jointly controlled companies in Israel and abroad	-	37
In favor of others in Israel and abroad	405	480

26.3.2 Mutual guarantees limited (see aforementioned) and unlimited in amount exist between the Company and its subsidiaries as security for all liabilities towards banks and others.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.4 Material commitments

26.4.1 As at December 31, 2012, a Group subsidiary is a party with a strategic partner to an agreement for the payment of royalties in a minimum annual amount of no less than USD 1 million.

26.4.2 In the framework of an engagement regarding the investment of Pepsico Foods International (hereinafter: "Pepsico") in Strauss Frito-Lay Ltd, the shareholders agreed that if the Company should become controlled (directly or indirectly) by someone not belonging to the Strauss family, Pepsico will have the right 12 months from the Company becoming thus controlled to purchase all the remaining shares of the Company in Strauss Frito-Lay Ltd at the market price that will be determined as specified in the agreement, on the condition that Pepsico had tried in good faith to cooperate in those 12 months and it can be reasonably said that its attempts were unsuccessful.

26.4.3 The Company is engaged in an insurance policy for officers and directors of the Company and its subsidiaries with liability limits of USD 75 million and the payment of an annual premium of USD 96 thousand. The shareholders general meeting authorized the Company's CEO to renew the insurance policy from time to time, at his discretion and according to the terms of the present policy and/or similar terms, for insurance periods until September 30, 2017, providing that the insurance coverage limit does not exceed USD 200 million and the annual premium does not exceed USD 250 thousands.

26.4.4 An agreement between Strauss Health and its shareholders provides, inter alia, that for as long as there are directors representing Danone (a 20% shareholder of Strauss Health) on the board of directors of Strauss Health, Danone will have the right to veto certain board resolutions, including inter-company transactions and a resolution to distribute a dividend lower than 25% of the annual net income, an offer to the public or a change in share capital diluting Danone's holding. It was also provided that Strauss Health is to coordinate its export activity with Danone.

26.4.5 According to the agreement between Uri Horazo Yotvata Dairies (Limited Partnership), Kibbutz Yotvata (a 50% shareholder of Yotvata)(hereinafter: The Kibbutz) and Strauss Health, as long as the Kibbutz holds at least 20% of the ordinary share capital of Yotvata, a resolution by Yotvata's board of directors or general meeting relating to certain matters enumerated in the agreement will require the approval of the Kibbutz's representatives on the board of directors.
A mutual option is granted in the agreement to the Kibbutz and to Strauss Health to make an exchange of shares, if certain conditions are fulfilled, in such a manner that Strauss Health will hold 100% of the control and equity in Yotvata, and the Kibbutz will own 6.4% of the share capital of Strauss Health as it is at such time.

26.4.6 Strauss Health, Yotvata and Strauss Aviv have agreements with dairy farmers to purchase the full milk produce quotas of the dairy farmers.

26.4.7 On December 29, 2005, the group companies and the Lima family from Brazil and companies it controls signed series of agreements with the objective of consolidating the activities of the parties in Brazil. It was determined that transfer or sale of shares by a shareholder in the joint company to a third party who is not related to any of the shareholders, is subject to first refusal right for the sale, first proposal right, and shareholder's right to join the sale of the other shareholder's shares. The agreement further determines that the shareholders will have preemptive rights as to any issuance of securities to be effectuated by the joint company in the future, so they can purchase these new securities according to their holding ratio. In the event a shareholder in the joint company will be involved in insolvency proceeding, the other shareholder will be entitled to purchase all of the shares of the shareholder in the joint company at fair market value of the joint company, subject valuation mechanism that was determined.

It was further agreed that if an arbitrator, that will be appointed in the event of dispute among the shareholders of the joint company, rules that a shareholder is in violation in respect of the shareholders' agreement or the joint venture, the other shareholder, who is not in violation, may exercise the option to purchase the shares of the violating party at 80% of the fair market value or alternatively, exercise the option to sell his shares to the violating party at 120% of the fair market value, according to a mechanism set forth in the shareholders' agreement. On September 13, 2010 the parties signed an amendment to the shareholders agreement, according to which, among others, the amendment includes an additional limitation, which prohibits a shareholder to sell its shares to a competitive party until January 1, 2020.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.4 Material commitments (cont'd)

26.4.8 In December 2007, a joint venture transaction was entered into with the subsidiary of Pepsico, American food concern (Frito Lay Dip Company) (the purchaser) such that effective March 28, 2008, the Company (via S.E USA Inc) and Pepsico (via the purchaser) each holds 50% of the participation rights in Sabra Dipping Company LLC (sabra).

At the end of five years from the date of the agreement, each of the owners of "participation rights" in Sabra will have PUT option to sell his "participation rights" to other owners of "participation rights" in Sabra at that date, based on the market value of Sabra less 25%. The party against whom said option was exercised will have the right to purchase the "participation rights" of the party exercising the option at said price and alternatively, to sell the party exercising the option the "participation rights", based on market value of Sabra plus 25%. The articles set forth, inter alia, that the sale of "participation rights" to a third party is subject to the right of the other owners of the "participation rights" to join the sale (TAG ALONG) and as far as this right was not exercised, the seller will have the right to compel the other owners of the "participation rights" to join the sale (DRAG ALONG). This right will be available to the seller from the end of five years from the date the articles came into effect. Furthermore, in the articles of certain corporations it was stated that any transfer of participation rights from Sabra to such corporations, is subject to the consent of the purchaser or S.E USA Inc, as determined in the articles.

26.4.9 On January 24, 2011 the Company signed an agreement with third parties for the purchase of available lands having an area of 3,000 square meters in Yanai Park, Hasivim st. Petah-Tikva, next to the Group's managmenet office building, in consideration of NIS 101 million including the construction of the building surround. The building's construction rights include 2,500 square meters of public areas and 10,000 square meters of offices. The office areas and part of the commercial areas were intended on the purchase date for the use of the Group. During the reporting period the group management decided to designate the additional lands as an investment property.

26.4.10 In November 2011 Strauss Water signed a number of agreements with the Virgin Group through the VGF (Virgin Green Fund) Investment Fund, to establish a joint venture – Virgin Strauss Water UK (hereinafter: "VSW UK"), to deal in marketing, sales and services relating to Strauss Water products in England and Ireland with an option of expanding the joint activity to additional countries. As on the date of this report, the holdings percentages were 72% by Strauss Water and 28% VGF. On the VSW UK Board of Directors there are three directors serving in office who were appointed by Strauss Water and three on behalf of the Virgin Group. VSW UK will continue to be managed under the joint control as stated above, however in the event that VGF's holdings in the VSW UK shares continues to be lower than 30%, as a result of not making an additional investment or falls below 30% in the future, one of the directors appointed by VGF will resign and Strauss Water will again take control of the company.

Notwithstanding the above, pursuant to the shareholders agreement, at the end of the year following the year in which VSW UK has a positive EBITDA, Strauss Water will be given the decisive right to take back control of VSW UK. In the event it exercises its decisive right, VGF will have an option to sell its part in the venture to Strauss Water pursuant to a fair value.

At the end of 3 years following the date the agreement is signed between Strauss Water and VGF, the partners have the right to table before the VSW UK Board of Directors a resolution to execute a public offering. In the event of such a notice by VGF, Strauss Water will have an option to purchase VGF's shares in VSW UK in consideration for a fair value instead of a public offering.

In the event of a public offering by Strauss Water, VGF will have an option to replace its shares in VSW UK with Strauss Water's shares, based on fair value, and Strauss Water will have the option of forcing VGF to replace the shares in VSW UK it holds with shares in Strauss Water based on a fair value.

In the event an offering is not executed by the end of the eight year to the agreement or if a change of control transpires in Strauss Water, VGF will have the right to replace the VSW UK shares with Strauss Water shares, or force Strauss Water to purchase VGF's part in VSW UK shares based on fair value, whereby the choice between the two options will be made by Strauss Water.

For additional details see Note 6.6.

26.4.11 See Note 27 regarding lease contracts.

26.4.12 See Note 30 regarding commitments in derivatives.

26.4.13 See Note 39 regarding transactions with interested and related parties.

Note 27 - Operating Leases

27.1 Leases in which the Group is the lessee

The Group companies are party to non-cancelable long-term property and other assets leasing agreements, pursuant whereto the following minimum rental fees shall be paid:

	December 31	
	2012	2011
	NIS millions	
In the first year	76	75
Between one and five years	161	135
In the fifth year and thereafter	143	164
	380	374

27.1.1 Details of material lease contracts

Lessee	Lessor	The Leased Property	The Balance of the Lease Period
The Company	Third party	Tzriffin distribution and logistical center	To November 2021
The Company	Third party	Akko distribution and logistical center	To February 2021, with an option to extend by an additional five years.
The Company	Third party	Haifa distribution and logistical center	To October 2018
The Company	Related company	Petach Tikva distribution and logistical center	To June 2014
Subsidiary	Third party	Shops in New York, Philadelphia, Boston and Las Vegas to operate a chocolate bar	To 2021
Subsidiary	Third party	Two production sites in New York	To 2035
Subsidiary	Third party	Offices in New York	To 2017
Subsidiary	Third party	Two production sites, storage, distribution center and offices in Romania	To 2026
Subsidiary	Third party	Factory by Kibbutz Netiv Halamed Heh, factory offices and other services	To January 2018
Subsidiary	Third party	Management offices and incoming call center at Or Yehuda	To December 2013
Subsidiary	Third party	Areas in Or Yehuda and Lod	Periods ending 2014-2015
Subsidiary	hird party	Structure in Petach Tikva used for R&D labs.	To May 31 2014, with an option to extend additional two years.
Subsidiary	Third party	Offices and warehouse building in the UK	To March 2014, with an option to extend by an additional five years.
Subsidiary	Third party	Offices in Shanghai and Shenzhen, China	To August 2013 with an option to extend by another year.

Note 27 - Operating Leases (cont'd)

27.1 Leases in which the Group is the lessee (cont'd)

27.1.2 Details of lease contract signed during the reporting period

On January 21, 2012, Strauss Coffee signed an agreement with the owners of Norddeutsche Kaffeewerke GmbH, formerly named Viva Coffee GmbH (hereinafter: "NDKW"), that includes operation of freeze-dried instant coffee production plant in Upahl, Germany to lease the aforementioned plant for a period of five years in consideration of Euro 500 thousands per year. Strauss Coffee intends to manufacture freeze-dried coffee primarily for Strauss Coffee's subsidiaries in Russia and CIS.
During the term of the agreement NDKW will operate for Strauss Coffee, and Strauss Coffee will be responsible for all of the rights and obligations of NDKW. The agreement grants a general power of attorney to Strauss Coffee to nominate executive functionaries and to establish a managing board for the company, including the right for profits and dividends.

As at the date of signing the agreement, NDKW had a loan from banks in Germany in the amount of € 28.6 million. On March 27, 2012 Strauss Coffee granted NDKW a loan in a similar amount, which bears an 8% interest, in order to repay the loans to the banks. Out of the loan amount, an amount of € 10 million will be repaid by NDKW during the term of the agreement. In addition, the owners of NDKW are obligated to transfer to NDKW an amount of € 18.6 million at the end of the term of the agreement (five years) for the purpose of repaying the loan to Strauss Coffee. As guarantee for the obligation of the owners of NDKW to Strauss Coffee, the assets of NDKW will be mortgaged in favor of Strauss Coffee.
Strauss Coffee has an option to extend the lease period for three additional years in consideration of Euro 750 thousands per year. If this option will be exercised, during the term of the agreement NDKW will repay an amount of € 17.5 million out of the total loan granted by Strauss Coffee, instead of € 10 million, and at the end of three additional years, the owners of NDKW will transfer NDKW an amount of approximately € 11.1 million instead of € 18.6 million.
Moreover, Strauss Coffee has received a call option to purchase NDKW, exercisable at any given time during the term of the agreement, for an amount of € 50 million.

In addition, for settlement purposes as at the date this agreement was signed, Strauss Coffee paid in April 2012 approximately € 3.2 million for the net current assets of NDKW. According to the agreement, at the end of the term of the agreement Strauss Coffee and NDKW will settle again according to the amount of the net current assets of NDKW at that date.
The aforementioned lease is accounted for as an operating lease.

27.1.3 In the year ended December 31, 2012 an amount of NIS 98 million was recorded as an expense in the statement of income in respect of operating leases (2011 and 2010 NIS 87 million and NIS 78 million, respectively).

27.2 Leases in which the Group is the lessor

The Group leases out part of its investment property held under operating leases.
The future minimum lease payments in respect of non-cancelable lease contracts are as follows:

	December 31	
	2012	2011
	NIS millions	
Up to one year	5	3
Between one and five years	8	4
In the fifth year and thereafter	1	1
	14	8

In the year ended December 31, 2012 an amount of NIS 3 million was recognized as rental revenue in the statement of income (2011 and 2010: NIS 2 million each year).

Note 28 - Capital and Reserves

28.1 Share capital

28.1.1 Composition

	December 31	
	2012	2011
	Number of shares (in thousands)- NIS 1 face value per share	
Authorized	150,000	150,000
Issued and paid-in	107,195	107,109

28.1.2 The holders of the ordinary shares are entitled to receive dividends as declared from time to time and to one vote per share at shareholders' meetings of the Company. In respect of the treasury shares (see below), all rights are suspended until those shares are reissued.

28.2 Treasury shares

As at the reporting date the Company holds its own NIS 1 shares at a total par value of NIS 868 thousand, which constitute approximately 0.81% of its shares. The investment in these shares is presented according to the "treasury shares" method as a part of shareholders' equity.

28.3 Dividend distribution

Declaration date	Distribution date	Total dividend distributed NIS millions	Dividend per share NIS
October 3, 2012 (ex date: November 15, 2012)	November 28, 2012	140	1.318
January 6, 2011 (ex date: January 20, 2011)	February 6, 2011	200	1.883
January 19, 2010 (ex date: February 3, 2010)	February 17, 2010	200	1.889

As a result of the dividend distribution, the exercise price of the options that were granted to employees, as described in Note 25.1, was adjusted.

28.4 Capital reserve in respect of available-for-sale financial assets

The capital reserve in respect of available-for-sale financial assets comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired. See also Note 3.3.1.

Note 28 - Capital and Reserves (cont'd)

28.5 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of monetary items that actually increase or decrease the net investment of the Group in foreign operations.

The effect of changes in foreign exchange rates that was recognized as other comprehensive income (including non-controlling interests holders' share) based on the relevant operating segments was:

	December 31		
	2012	2011	2010
	NIS millions		
International Coffee	(53)	(17)	(209)
International dips and spreads	(6)	14	(16)
Other	(2)	2	(2)
Total	(61)	(1)	(227)

Note 29 - Segment Reporting

29.1 General

Segment information is presented in respect of the operating segments of the Group on the basis of the Group's management and internal reports (hereinafter – management reports). The Group is divided into reportable operating segments on the basis of the management reports, which are based on the geographical location and the types of products and services, as follows:

- Operations in Israel that include two operating segments –
  - Fun & Indulgence – Includes manufacturing, marketing and selling candy, baked products and snacks.
  - Health & Wellness – Includes manufacturing, marketing and selling dairy products and milk beverages, fresh salads and foods, honey products, olive oil and confitures.
- Coffee operations that include two operating segments –
  - Coffee Israel – Includes manufacturing, marketing and selling coffee products in Israel and considerable amounts of the coffee company's corporate expenses.
  - Coffee Abroad – Includes manufacturing, marketing and selling coffee products abroad.
- International dips and spreads – Includes manufacturing, marketing and selling dips and chilled salads outside of Israel.

Other operations include the activity of the Max Brenner chain, as well as the Company's water activity that is incorporated within Strauss Water.

The results of the operating segments as detailed below are based on the assessment of the Company's performance in the framework of the management reports. This assessment is based on operating profit, which includes the allocation of selling expenses and general and administrative expenses, less certain items, as follows:

- One-time impairment of assets.
- Other expenses (income).
- Valuation results of commodities hedging transactions as at the end of the year that are reported in cost of sales.
- Expenses in respect of share-based payment and non-recurring grants.

Inter-segment pricing is determined on an arms' length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly financing income and expenses.

Note 29 - Segment Reporting (cont'd)

29.2 Details according to operating segments and reconciliation between the operating data of the segments and the consolidated report

	Year ended December 31		
	2012	2011	2010
	NIS millions		
Revenues			
Sales to external customers:			
Health & Wellness	1,920	1,874	1,811
Fun & Indulgence	981	966	872
Total Israel	2,901	2,840	2,683
Coffee Israel	708	654	592
Coffee Abroad	3,498	3,272	2,794
Total Coffee	4,206	3,926	3,386
International dips and spreads	522	388	297
Other	553	545	489
Sales to other segments:			
Health & Wellness	9	7	7
Fun & Indulgence	28	22	28
Total Israel	37	29	35
Coffee Israel	22	22	22
Coffee Abroad	-	-	-
Total Coffee	22	22	22
International dips and spreads	-	-	-
Other	1	4	1
Total revenues of the segments	8,242	7,754	6,913
Cancellation of inter-segment sales	(60)	(55)	(58)
Total consolidated revenues	8,182	7,699	6,855

Note 29 - Segment Reporting (cont'd)

29.2 Details according to operating segments and reconciliation between the operating data of the segments and the consolidated report (cont'd)

	Year ended December 31		
	2012	2011	2010
		NIS millions	
Profit			
Health & Wellness	187	203*	218*
Fun & Indulgence	110	99*	87*
Total Israel	297	302	305
Coffee Israel	77	73	75
Coffee Abroad	235	187	182
Total Coffee	312	260	257
International dips and spreads	44	20	26
Other	(28)	(10)	13
Total profit of the segments	625	572	601
Unallocated income (expenses):			
Valuation of commodities hedging transactions as at the end of the year	(5)	(28)	5
Other income (expenses)	44	(60)	(45)
Share based payment and non-recurring grant	(19)	(21)	(20)
Total operating profit	645	463	541
Financing expenses, net	(135)	(103)	(92)
Income before taxes on income	510	360	449

* Comparative figures have been reclassified in order to perform the corresponding data in 2012, following the allocation of headquarters costs amongst the segments of Israel.

Note 29 - Segment Reporting (cont'd)

29.3 Additional information on operating segments

	Year ended December 31		
	2012	**2011**	**2010**
		NIS millions	
Depreciation and amortization			
Health & Wellness	54	43	49
Fun & Indulgence	27	29	24
Total Israel	81	72	73
Coffee Israel	17	29	17
Coffee Abroad (1)	76	105	67
Total Coffee	93	134	84
International dips and spreads	20	17	14
Other	30	28	26
Total depreciation and amortization attributed to segments	224	251	197
Adjustments: Depreciation of Unallocated non-financial assets (2)	48	28	29
Total depreciation and amortization	272	279	226

(1) For details regarding impairment of goodwill, see Note 15.3.
(2) For details regarding impairment of investment property, see Note 16.3.

Note 29 - Segment Reporting (cont'd)

29.4 Information regarding geographical segments

Presented hereunder are the revenues of the Group from sales to external customers on the basis of the geographical location of the assets:

	Year ended December 31		
	2012	2011	2010
		NIS millions	
Israel	4,039	3,939	3,701
North America	594	467	348
Brazil	1,777	1,708	1,388
Europe and rest of the world	1,772	1,585	1,418
Total revenues	8,182	7,699	6,855

Presented hereunder are the non-current assets of the Group according to their geographical location:

	As at December 31	
	2012	2011
	NIS millions	
Israel	1,666	1,630
North America	330	338
Brazil	517	553
Europe and rest of the world	998	916
Total assets	3,511	3,437

These assets include mainly fixed assets and intangible assets, and do not include financial assets, deferred tax assets and assets designated for the payment of employee benefits.

29.5 Information regarding products and services

Presented hereunder are the revenues of the Group from sales to external customers according to groups of similar products and services:

	Year ended December 31		
	2012	2011	2010
		NIS millions	
Revenues			
Dairy products	1,412	1,366	1,323
Salads	783	642	539
Other health and wellness	247	254	245
Sweets and baked products	811	810	729
Salted products	170	156	143
Coffee	4,206	3,926	3,386
Water refinery products and related services	418	405	381
Other	135	140	109
	8,182	7,699	6,855

Note 30 - Financial Instruments

The Group is exposed to the following risks as a result of using financial instruments:

- Credit risk.
- Interest risk.
- Market risks that include: commodity price risks, foreign currency risks and CPI risks.
- Liquidity risk.

This note provides information regarding the exposure of the Group to these risks and regarding the policy of the Group for the management of such risks.

In the sensitivity analyses the Company used the following calculations:

1. Options – Black & Scholes model, standard deviation and quotations of relevant underlying assets.
2. Forward transactions – According to the change in the price of the relevant underlying asset and interest differences deriving from interest rates and/or storage costs (for green coffee).
3. Debentures – According to the known interest curve and average duration of the debentures.

30.1 Credit risks

Credit risk is the risk of the Group incurring a monetary loss if a customer or counterparty does not meet its contractual obligations, and it derives mainly from debit balances of customers.

On the retail market the Group sells to one principal customer (7.5% of sales). The balance of the Company's customers, other than the aforementioned principal customer in Israel, is spread out and the risk deriving from the concentration of credit with a single customer or group of customers is immaterial.

The sales of the Group to its customers (in and outside of Israel) are mainly made on accepted market credit terms. The credit to retail customers of the private market in Israel is guaranteed by credit insurance (that includes a deductible) and by various collateral, and the rest of the credit to the private market that is not covered by any security is at risk. Nevertheless, the wide spread of the Group's customers in the private market reduces this risk. Part of the credit to large customers on the retail market is not guaranteed and is concentrated with a small number of customers, to whom the extent of the Group's sales is large, and therefore the non-repayment of credit by any of the large customers whom credit is not guaranteed may significantly impair the Group' cash flows and business results. Most of the credit to foreign customers is not guaranteed.

The Company's management constantly monitors customer debts, and the financial statements include specific provisions for doubtful debts which properly reflect, according to the management's assessment, the loss inherent in debts the collection of which is doubtful.

Note 30 - Financial Instruments (cont'd)

30.1 Credit risks (cont'd)

30.1.1 Exposure to credit risks

The carrying amount of financial assets reflects maximum credit exposure.

For details regarding exposure to credit risks in respect to customers, see Note 9. Additionally, for details regarding financial assets with different credit risks see Note 13 regarding loans granted and Note 8 regarding investment in deposits and marketable securities.

30.1.2 Security and other credit enhancements

As at December 31, 2012 credit to retail customers in the amount of NIS 374 million (2011: 324 million) is guaranteed by credit insurance. In the Group's opinion, if it did not have the credit insurance, the Group would have not recognized an additional impairment above the amount presented in Note 9.

30.2 Interest risks

The Company has floating interest loans and debentures (series c) and consequently its financial results (financing expenses) are exposed to risk due to interest changes.

30.2.1 Interest rate profile

The interest rate profile of the Group's interest bearing financial instruments as at the date of the report are as follows:

	As at December 31	
	2012	**2011**
	NIS millions	
Fixed interest financial instruments		
Financial assets	344	265
Financial liabilities	(2,023)	(1,593)
	(1,679)	(1,328)
Floating interest financial instruments		
Financial assets	632	518
Financial liabilities (1)	(497)	(787)
	135	(269)

(1) The Company's variable rate liabilities derive from debentures (Series C) in the amount of NIS 167 million (2011: NIS 332 million); and from other liabilities that are linked to the Real and USD interest rates. See Note 20.

Note 30 - Financial Instruments (cont'd)

30.2 Interest risks (cont'd)

30.2.2 Fair value sensitivity analysis regarding fixed interest instruments

The fixed interest assets and liabilities of the Group (such as deposits, loans granted and issued debentures) are not measured at fair value through profit or loss. Therefore, any change in the interest rate as at the reported date would not have a material effect on the statement of income.

30.2.3 The Company uses options on the Telbor interest rate (CAP) and IRS transactions in order to fully hedge the variable interest risk. As at December 31, 2012 the carrying and the fair value of the transactions were immaterial.

30.2.4 Cash flow sensitivity analysis regarding floating interest instruments

In respect of all the assets and liabilities other than the finance derivative (Note 30.2.3), changes in the absolute interest rates as at the reported date would have increased (decreased) equity (the equity attributable to all the Group's shareholders) and the income for the period by the amounts presented below. This analysis was performed assuming that all the other variables remain the same and disregards tax effects.

	December 31, 2012				
	Increase of 2%	Increase of 1%	Income (expense)	Decrease of 1%	Decrease of 2%
			NIS millions		
Total income (expense)	3	1	-*	(1)	(3)

	December 31, 2011				
	Increase of 2%	Increase of 1%	Income (expense)	Decrease of 1%	Decrease of 2%
			NIS millions		
Total income (expense)	(5)	(3)	(15)	3	5

* Less than NIS 1 million.

<u>Additional details:</u>
Most of the Company's variable rate revenues are linked to the euro, dollar and NIS interest rate. Most of the Company's variable rate liabilities are linked to NIS interest rate (government debentures 817) the Real and the USD interest rates.

Note 30 - Financial Instruments (cont'd)

30.3 Commodity risks

The Group companies use derivative financial instruments in order to reduce the exposure to risks arising from unusual changes in the prices of raw materials required for production purposes (green coffee, cocoa and sugar).

30.3.1 As at December 31, 2012 the derivative financial instruments of the Group (stock exchange derivatives) are as follows:

	Exercise/expiry date	face value*	Carrying amount and fair value
		NIS millions	
Green Coffee			
Forward contracts purchased, net	January 2013- December 2013	180	(12)
Buy Call	March 2013- July 2013	133	1
Buy Put	March 2013 – July 2013	46	2
Sell call	March 2013 – December 2013	130	(2)
Sell Put	March 2013 – December 2013	150	(5)
			(16)
Cocoa			
Forward contracts purchased	May 2013 – December 2013	26	(1)
Sugar			
Forward contracts purchased	March 2013- October 2013	26	(1)
			(18)

As at December 31, 2011 the derivative financial instruments of the Group (stock exchange derivatives) are as follows:

	Exercise/expiry date	face value*	Carrying amount and fair value
		NIS thousands**	
Green Coffee			
Forward contracts purchased, net	March 2012- March 2013	86	(1)
Buy Call	February 2012- September 2012	164	1
Buy Put	March 2012 – December 2012	63	4
Sell Call	March 2012 – December 2012	184	(4)
Sell Put	March 2012 – December 2012	76	(3)
			(3)
Cocoa			
Forward contracts purchased	March 2012 – December 2012	34	(7)
Sugar			
Forward contracts purchased	March 2012- December 2012	22	(1)

* The face value is referring to the exercise price of the instrument.

Note 30 - Financial Instruments (cont'd)133

30.3 Commodity risks (cont'd)

30.3.2 Sensitivity analysis

An increase (decrease) in the prices of the following commodities will increase (decrease) shareholders' equity (the equity attributable to all the Company's shareholders) and income for the period, in respect of forward transactions and options, by the amounts presented below. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	December 31, 2012						
	Increase (1)(5)	Increase of 10%	Increase of 5%	Fair value and carrying amount	Decrease of 5%	Decrease of 10%	Decrease (2)(3)(4)
	NIS millions						
Arabica	6	3	2		(2)	(4)	(6)
Robusta	23	16	8		(8)	(17)	(23)
Total	29	19	10	(16)	(10)	(21)	(29)
Cocoa	-*	2	1	(1)	(1)	(2)	(3)
Sugar	-*	3	1	(1)	(1)	(3)	(3)

	December 31, 2011						
	Increase (1)	Increase of 10%	Increase of 5%	Fair value and carrying amount	Decrease of 5%	Decrease of 10%	Decrease (2)(3)(4)
	NIS millions						
Arabica	3	2	1		(2)	(4)	(5)
Robusta	7	5	2		(2)	(5)	(6)
Total	10	7	3	(3)	(4)	(9)	(11)
Cocoa	-*	3	2	(7)	(2)	(3)	(5)
Sugar	-*	2	1	(1)	(1)	(2)	(3)

* Less than NIS 1 million.

(1) During a period of c. ten years, on the basis of closing rates, there was a maximum daily increase of 22% in the price of Arabica and of 15% in the price of Robusta. The maximum daily increase of Cocoa and Sugar prices was less than 10%.

(2) During a period of c. ten years, on the basis of closing rates, there was a maximum daily decrease of 13% in the price of Arabica and of 13.5% in the price of Robusta.

(3) During a period of c. ten years, on the basis of closing rates, there was a maximum daily decrease of 15.7% in the price of Cocoa.

(4) During a period of c. ten years, on the basis of closing rates, there was a maximum daily decrease of 13% in the price of Sugar.

(5) During a period of approximately ten years there was no increase over 10% of Sugar and Cocoa.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks

The Group is primarily exposed to foreign currency risks from purchase of raw materials, in the currencies that are different from the functional currency of the Group in Israel. The primary risk refers to the USD and the Euro.

Balances in foreign currency or linked thereto are stated in the financial statements according to the exchange rates in effect at the date of the financial statements. Presented hereunder are data on the representative exchange rates of the main currencies in the financial statements:

	December 31			December 31		
	2012	2011	2010	2012	2011	2010
		NIS			%	
Polish Zloty	1.2078	1.1077	1.1919	9.0	(7.1)	(10.1)
Euro	4.9206	4.9381	4.7379	(0.35)	4.2	(12.93)
US dollar	3.7330	3.821	3.5490	(2.3)	7.7	(5.99)
Pound Sterling	6.0365	5.8918	5.4928	2.46	7.3	(10.13)
Brazilian Real	1.82	2.044	2.1364	(10.96)	(4.3)	(1.41)
Russian Ruble	0.122	0.1182	0.1161	3.2	1.8	(7.96)

30.4.1 The Group uses derivatives (OTC) in order to hedge part of its foreign currency risk. As at December 31, 2012 the carrying and the fair value of derivative financial instruments of the Group (foreign currency) amount to NIS 4 million (net liability) (as at December 31, 2011: net asset of NIS 12 million).

30.4.2 Sensitivity analysis

Presented hereunder is a sensitivity analysis of the Group's derivative instruments (foreign currency) as at December 31, 2012 and December 31, 2011 (presented in NIS thousands for convenience). Any change in the exchange rates of the principal currencies as at December 31 would have increased (decreased) equity (the equity attributable to all the Company's shareholders) and income for the period by the amounts presented below. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	December 31, 2012 (NIS million)				
	10% increase	5% Increase	Carrying amount and fair value	5% decrease	10% decrease
NIS/Dollar exchange rate	4.1063	3.9197	3.733	3.5464	3.3597
Total NIS/Dollar derivatives	4	2	(2)	(2)	(3)
Zloty/Dollar exchange rate	3.3998	3.2452	3.0907	2.9362	2.7816
Total Zloty/Dollar derivatives	1	1	-*	(1)	(1)
Rouble/Dollar exchange rate	33.656	32.126	30.596	29.066	27.536
Total Rouble/Dollar derivatives	6	3	(2)	(2)	(4)
Real/Dollar exchange rate	2.2562	2.1536	2.0511	1.9485	1.8460
Total Real/Dollar derivatives	7	3	-*	(3)	(7)

* Less than NIS 1 million.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.2 Sensitivity analysis (cont'd)

	December 31, 2011 (NIS millions)				
	10% increase	5% increase	Carrying amount and fair value	5% decrease	10% decrease
Euro/Dollar exchange rate	1.4216	1.357	1.2924	1.2278	1.1632
Total Euro/Dollar derivatives	(6)	(3)	2	3	6
NIS/Dollar exchange rate	4.2031	4.0121	3.821	3.63	3.4389
Total NIS/Dollar derivatives	8	4	5	(4)	(8)
Rouble/Dollar exchange rate	35.549	33.933	32.317	30.701	29.085
Total Rouble/Dollar derivatives	7	3	4	(3)	(6)
Real/Dollar exchange rate	2.056	1.963	1.869	1.776	1.682
Total Real/Dollar derivatives	4	2	-*	(2)	(4)

* Less than NIS 1 million.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.3 Linkage balance

The currency risk of the Group, based on carrying amounts, is as follows:

	December 31, 2012							
	NIS linked	**NIS unlinked**	**Dollar**	**Euro**	**Brazilian Real**	**Other**	**Non-financial (1)**	**Total**
	NIS thousands							
Cash and cash equivalents	-	511	184	52	13	105	-	**865**
Securities and deposits	83	133	9	-	-	5	-	**230**
Trade receivables	-	480	98	11	201	340	-	**1,130**
Income tax receivables	-	-	-	-	-	-	69	**69**
Other receivables and debit balances	5	8	82	15	20	29	79	**238**
Inventory	-	-	-	-	-	-	808	**808**
Assets held for sale	-	-	-	-	-	-	10	**10**
Other investments and long-term debit balances	3	50	70	96	17	-	1	**237**
Assets designated for the payment of employee benefits	-	-	-	-	-	-	4	**4**
Fixed assets	-	-	-	-	-	-	1,745	**1,745**
Intangible assets	-	-	-	-	-	-	1,684	**1,684**
Deferred expenses	-	-	-	-	-	-	61	**61**
Investment property	-	-	-	-	-	-	21	**21**
Deferred tax assets	-	-	-	-	-	-	29	**29**

(1) Including financial assets that were excluded from the scope of IFRS 7. For details regarding linkage basis of non-financial liabilities, see Note 30.4.4.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.3 Linkage balance (cont'd)

	December 31, 2012							
	NIS linked	NIS unlinked	Dollar	Euro	Brazilian Real	Other	Non-financial (1)	Total
	NIS million							
Current maturities of debentures	-	(166)	-	-	-	-	-	**(166)**
Short term Credit and loans from banks	(4)	(40)	(189)	-	(73)	-	-	**(306)**
Trade payables	-	(539)	(176)	(6)	(49)	(80)	-	**(850)**
Income tax payables	-	-	-	-	-	-	(22)	**(22)**
Other payables and credit balances	(32)	(322)	(73)	(13)	(49)	(108)	(74)	**(671)**
Provisions	-	-	-	-	-	-	(43)	**(43)**
Debentures	(881)	-	-	-	-	-	-	**(881)**
Long term -Loans and credit	(492)	(434)	(173)	-	(65)	-	-	**(1,164)**
Long-term payables and credit balances	-	(3)	(4)	-	-	(1)	(40)	**(48)**
Employee benefits	-	-	-	-	-	-	(41)	**(41)**
Deferred taxes	-	-	-	-	-	-	(187)	**(187)**
Total	(1,318)	(322)	(172)	155	15	290	4,104	**2,752**

(1) Including financial assets that were excluded from the scope of IFRS 7. For details regarding linkage basis of non-financial liabilities, see Note 30.4.4.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.3 Linkage balance (cont'd)

	December 31, 2011							
	NIS linked	NIS unlinked	Dollar	Euro	Brazilian Real	Other	Non-financial (1)	Total
	NIS thousands							
Cash and cash equivalents	-	233	179	218*	22	91	-	**743**
Securities and deposits	25	122	18	-	-	9	-	**174**
Trade receivables	-	487	118	14	207	289	-	**1,115**
Income tax receivables	-	-	-	-	-	-	62	**62**
Other receivables and debit balances	5	20	53	3	4	4	84	**173**
Inventory	-	-	-	-	-	-	873	**873**
Other investments and long-term debit balances	7	49	61	15	16	-	2	**150**
Assets designated for the payment of employee benefits	-	-	-	-	-	-	5	**5**
Fixed assets	-	-	-	-	-	-	1,649	**1,649**
Intangible assets	-	-	-	-	-	-	1,724	**1,724**
Deferred expenses	-	-	-	-	-	-	22	**22**
Investment property	-	-	-	-	-	-	42	**42**
Deferred tax assets	-	-	-	-	-	-	24	**24**

(1) Including financial assets that were excluded from the scope of IFRS 7. For details regarding linkage basis of non-financial liabilities, see Note 30.4.4.

Note 30 - Financial Instruments (cont’d)

30.4 Foreign currency risks (cont'd)

30.4.3 Linkage balance (cont’d)

	December 31, 2011							
	NIS linked	NIS unlinked	Dollar	Euro	Brazilian Real	Other	Non-financial (1)	Total
	NIS million							
Current maturities of debentures	-	(166)	-	-	-	-	-	**(166)**
Short term Credit and loans from banks	(2)	(77)	(273)	-	(99)	-	-	**(451)**
Trade payables	-	(529)	(150)	(6)	(66)	(70)	-	**(821)**
Income tax payables	-	-	-	-	-	-	(24)	**(24)**
Other payables and credit balances	(16)	(262)	(63)	(9)	(43)	(89)	(80)	**(562)**
Provisions	-	-	-	-	-	-	(45)	**(45)**
Debentures	(867)	(166)	-	-	-	-	-	**(1,033)**
Long term -Loans and credit	(100)	(382)	(209)	-	(39)	-	-	**(730)**
Long-term payables and credit balances	(1)	-	(2)	-	(11)	(1)	(32)	**(47)**
Employee benefits	-	-	-	-	-	-	(34)	**(34)**
Deferred taxes	-	-	-	-	-	-	(144)	**(144)**
Total	(949)	(671)	(268)	235	(9)	233	4,128	**2,699**

(1) Including financial assets that were excluded from the scope of IFRS 7. For details regarding linkage basis of non-financial liabilities, see Note 30.4.4.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.4 Linkage balance (cont'd)

The currency risk of the Group related to non-financial liabilities, based on carrying amounts, is as follows:

	December 31, 2012						
	NIS linked	**NIS unlinked**	**Dollar**	**Euro**	**Brazilian Real**	**Other**	**Total**
				NIS million			
Income tax payables	(19)	-	-	-	(3)	-	**(22)**
Provisions	-	(31)	(1)	-	(10)	(1)	**(43)**
Employee benefits	-	(14)	(7)	(20)	-	-	**(41)**
Deferred taxes	-	(89)	(27)	(4)	(32)	(35)	**(187)**
Total	(19)	(134)	(35)	(24)	(45)	(36)	**(293)**

	December 31, 2011						
	NIS linked	**NIS unlinked**	**Dollar**	**Euro**	**Brazilian Real**	**Other**	**Total**
				NIS million			
Income tax payables	(16)	(3)	(4)	-	-	(1)	**(24)**
Provisions	-	(33)	(1)		(10)	(1)	**(45)**
Employee benefits	-	(15)	(5)	(14)	-	-	**(34)**
Deferred taxes	-	(77)	-	(4)	(31)	(32)	**(144)**
Total	(16)	(128)	(10)	(18)	(41)	(34)	**(247)**

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.5 Sensitivity analysis regarding financial assets (liabilities)

Any change in the exchange rates of the principal currencies as at December 31 would have increased (decreased) equity (the equity attributable to all the Company's shareholders) and income for the period by the amounts presented below. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.
The sensitivity analysis relates to foreign currency risk arising from financial items denominated in foreign currency that is not the functional currency of the Company and its investee companies. Therefore, the foreign currency risk arising from the translation of financial statements of foreign operations, which is reflected in a translation reserve, is not included in this sensitivity analysis.

	December 31, 2012				
	NIS million				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/Dollar exchange rate	4.11	3.92	3.73	3.55	3.36
Effect in NIS thousands*	3	2	35	(2)	(3)
Real/Dollar exchange rate	2.26	2.15	2.05	1.95	1.85
Effect in NIS thousands*	(2)	(1)	(22)	1	2
Euro/Dollar exchange rate	0.83	0.80	0.76	0.72	0.68
Effect in NIS thousands*	1	1	11	(1)	(1)
Dollar/Real exchange rate	0.54	0.51	0.49	0.46	0.44
Effect in NIS Thousands*	5	2	49	(2)	(5)
NIS/Yuan exchange rate	0.65	0.62	0.59	0.56	0.53
Effect in NIS Thousands*	1	1	12	(1)	(1)

	December 31, 2011				
	NIS million				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/Dollar exchange rate	4.203	4.012	3.821	3.630	3.439
Effect in NIS thousands*	5	2	51	(2)	(5)
Grivne/Dollar exchange rate	8.789	8.389	7.990	7.590	7.191
Effect in NIS thousands*	(3)	(1)	(25)	1	3
Rouble/Dollar exchange rate	35.549	33.933	32.317	30.701	29.085
Effect in NIS thousands*	(7)	(4)	(72)	4	7
Euro/Dollar exchange rate	0.851	0.813	0.774	0.735	0.696
Effect in NIS Thousands*	4	2	38	(2)	(4)
Ron/Euro exchange rate	4.756	4.539	4.323	4.107	3.891
Effect in NIS Thousands*	2	1	18	(1)	(2)
Real/Dollar exchange rate	0.589	0.562	0.535	0.508	0.481
Effect in NIS Thousands*	(9)	(5)	95	5	10

Note 30 - Financial Instruments (cont'd)

30.5 CPI risks

The Company has an excess of CPI-linked liabilities over CPI-linked assets (mainly in respect of the issuance of debentures series B). Balances linked to the Consumer Price Index are stated according to the latest CPI known at the date of the financial statements.
Presented hereunder are data on the Consumer Price Index (2006 average basis):

	December 31			Annual rate of change		
	2012	2010	2010	2012	2011	2010
	Points			%		
Last published CPI	117.6	116.0	113.1	1.44	2.55	2.26

30.5.1 The Company uses futures contracts for one year in order to hedge part of the CPI risk arising from the excess of liabilities. As at December 31, 2012 and 2011 the carrying and the fair value of the financial instruments were immaterial.

30.5.2 Sensitivity analysis

An increase (decrease) in the CPI compared to the index inherent in the liability value of the debentures and linked loans would have increased (decreased) the equity (the equity attributable to all the Company's shareholders) and income for the by the amounts presented below. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	December 31, 2012				
	5% increase	2.5% increase	Carrying amount	2.5% decrease	5% decrease
	NIS million				
Series B*	(45)	(22)	896	22	45
Linked loans*	(24)	(12)	486	12	24
Total	(69)	(34)	1,382	34	69

	December 31, 2011				
	5% increase	2.5% increase	Carrying amount	2.5% decrease	5% decrease
	NIS million				
Series B*	(44)	(22)	882	22	44
Linked loan*	(5)	(2.5)	101	2.5	5
Total	(49)	(24.5)	983	24.5	49

* Including interest payable.

Note 30 - Financial Instruments (cont'd)

30.5.2 Sensitivity analysis (cont'd)

An increase (decrease) in the anticipated CPI compared to the anticipated index inherent in the fair value of the futures CPI contracts would have increased (decreased) the equity (the equity attributable to all the Company's shareholders) and income for the period in respect of these contracts by the amounts presented below. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	December 31, 2012*				
	1% increase	0.5% increase*	Fair value and carrying amount	0.5% decrease	1% decrease
	NIS million				
Futures CPI contracts	13.6	7.0	(3.6)	(7.0)	(13.6)

	December 31, 2011*				
	1% increase	0.5% increase	Fair value and carrying amount	0.5% decrease	1% decrease
	NIS million				
Futures CPI contracts	6.5	3.2	(0.5)	(3.2)	(6.5)

* An increase or decrease along the curve expectations index.

Note 30 - Financial Instruments (cont'd)

30.6 Liquidity risk

Liquidity risk is the risk that the Group will not be able to honor its financial liabilities when they come due. The Company anticipates that it will be able to honor its financial liabilities and also to continue the expansion of its business activity. The Company's liabilities mainly derive from credit that was raised by issuing debentures (Series B and Series C). In addition to these liabilities, the Company has credit lines from banks that are not guaranteed. Over the years the Company's business operations have generated positive cash flows that enable it to meet the financial obligations it assumed upon itself. Nevertheless, if the Company should require any sources of financing, in addition to those generated by its business operations, the Company will be able to use the additional credit lines at its disposal.

Presented hereunder are the contractual repayment dates of financial liabilities, including interest payments, without the effect of setoff agreements. This analysis is based on indices known as at the reporting date, such as: the CPI, foreign currency exchange rates and interest rates.

	December 31, 2012								
	Note	Carrying amount	Contractual cash flow	2013	2014	2015	2016	2017	2018 and thereafter
		NIS million							
Trade payables	17	850	850	850					
Derivatives	18	39	39	39					
Redeemable preferred shares (1)	18	13	13	13					
Other payables	18	537	537	537					
Debentures Series B	20.1	881	1,010	36	209	202	195	184	184
Debentures Series C	20.1	166	169	169	-	-	-	-	-
Bank credit	20.1	4	4	4					
Dollar loan from banks	20.1	56	58	10	11	16	21	-	-
NIS loan from banks	20.1	100	132	4	4	4	4	4	112
NIS linked loan from banks	20.1	101	147	6	6	6	6	6	117
NIS loan from others	20.1	151	201	12	8	8	8	8	157
NIS loan from others	20.1	223	291	9	9	9	9	9	246
NIS loan from others	20.1	283	405	27	27	26	26	25	274
Bank loans	20.1	62	64	13	13	13	13	12	
Bank loans	20.1	15	16	-	-	16			
Others loans	20.1	27	31	7	6	9	9	-	-
Others loans	20.1	31	35	8	7	7	7	6	-
Banks and others loans	20.1	107	115	30	48	37	-	-	-
Banks and others loans	20.1	66	74	3	23	30	6	6	5
Bank credit	20.1	73	76	74	-	-	-	-	-
Bank loans	20.1	16	16	0	3	13	-	-	-
Bank credit	20.1	156	158	156	-	-	-	-	-
		3,957	4,441	2,008	374	396	304	260	1,095

(1) The preferred shares are redeemable immediately; however, the Company does not expect a redemption in the short term.

Note 30 - Financial Instruments (cont’d)

30.6 Liquidity risk (cont'd)

	December 31, 2011									
	Note	Carrying amount	Contractual cash flow	2012	2013	2014	2015	2016	2017 and thereafter
		NIS million								
Trade payables	17	821	821	821	-	-	-	-	-
Derivatives	18	34	34	34	-	-	-	-	-
Redeemable preferred shares (1)	18	13	13	13	-	-	-	-	-
Other payables	18	437	437	437	-	-	-	-	-
Debentures Series B	20.1	867	1,032	36	36	206	199	192	363
Debentures Series C	20.1	332	346	176	170	-	-	-	-
Bank loans	20.1	64	68	8	11	11	16	22	-
Bank loans	20.1	100	152	5	6	6	6	6	123
Bank loans	20.1	100	133	3	4	4	4	4	114
Bank loans	20.1	294	433	28	27	27	26	26	299
Bank loans	20.1	63	68	1	14	14	13	13	13
Bank loans	20.1	23	24	8	11	5	-	-	-
Others loans	20.1	1	1	1	-	-	-	-	-
Others loans	20.1	31	37	5	7	6	10	9	-
Others loans	20.1	32	38	2	8	7	7	7	7
Banks and others loans	20.1	73	76	74	-	1	1	-	-
Banks and others loans	20.1	39	42	1	11	7	7	16	-
Bank credit	20.1	101	104	104	-	-	-	-	-
Bank loans	20.1	11	12	-	11	1	-	-	-
Bank credit	20.1	250	250	250	-	-	-	-	-
		3,686	4,121	2,007	316	295	289	295	919

(1) The preferred shares are redeemable immediately; however, the Company does not expect a redemption in the short term.

Note 30 - Financial Instruments (cont'd)

30.7 Fair value of financial instruments

30.7.1 Fair value

The carrying amount of the cash and cash equivalents, short and long term investments, trade receivables, other receivables and debit balances, credit from banks and others, trade payables and other payables and credit balances is the same or proximate to their fair value.

Presented below are the carrying amounts and fair values of financial liabilities that are not presented in the financial statements at fair value or close to it:

	December 31, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS million			
Series B Debentures (1)	896	990	882	962
Series C Debentures (1)	167	167	335	335

(1) The fair value is based on the prices of the Tel Aviv Stock Exchange (the carrying amount includes interest accrued on Series B debentures as at December 31, 2012 and December 31, 2011 – NIS 15 million (each), and on Series C debentures NIS 0.4 million and and NIS 1 million to the same dates, accordingly.

See Note 5 regarding determination of the fair value of financial instruments.

30.7.2 Fair value hierarchy

The table below illustrates an analysis of financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active market for similar instruments.
- Level 2: Inputs other than quoted prices within level 1.
- Level 3: inputs that are not based on observable market data (unobservable inputs).

		December 31, 2012	
		Level 1	Level 2
	Note	NIS million	
Financial assets			
Marketable securities	8	153	-
Derivatives, net	10,18	(18)	(8)
Available for sale financial asset	13	19	-
		154	(8)

		December 31, 2011	
		Level 1	Level 2
	Note	NIS million	
Financial assets			
Marketable securities	8	35	-
Derivatives, net	10,18	(11)	11
Available for sale financial asset	13	14	-
		38	11

As at December 31, 2012 and 2011, the Company does not have financial instruments classified as level 3.

Note 31 - Sales

	For the year ended December 31		
	2012	2011	2010
		NIS million	
Sales of manufactured products	6,886	6,535	5,838
Sales of other products	1,054	954	848
Other income (1)	242	210	169
	8,182	7,699	6,855

(1) Other income includes mainly income from providing services for water purification devices, royalties and income from coffee machines rental.

Note 32 - Cost of Sales

32.1 By components

	For the year ended December 31		
	2012	2011	2010
		NIS million	
Materials consumed	4,364	4,205	3,458
Wages, salaries and related expenses	509	480	440
Depreciation and amortization	142	124	128
Other manufacturing expenses	271	253	228
Change in provision for warranty	2	1	2
Decrease (increase) in inventories of unfinished and finished goods (1)	23	(69)	11
	5,311	4,994	4,267
Valuation of balance of commodities hedging transactions as at the end of the year	5	28	(5)
	5,316	5,022	4,262

(1) Including net loss of NIS 39 million (2011 and 2010: NIS 33 million and NIS 29 million, respectively) in respect of inventory impairment losses.

32.2 By source of income

	For the year ended December 31		
	2012	2011	2010
		NIS million	
Manufactured products	4,559	4,247	3,514
Other products	663	669	670
Other income (1)	89	78	83
	5,311	4,994	4,267
Valuation of balance of commodities hedging transactions as at the end of the year	5	28	(5)
	5,316	5,022	4,262

(1) Costs in respect of other income include mainly maintenance expenses in respect of coffee machines and cost for services to water purifiers.

Note 33 - Selling and Marketing Expenses

	For the year ended December 31		
	2012	2011	2010
	NIS million		
Salaries and related expenses	719	681	628
Advertising	414	396	369
Doubtful and bad debts	7	7	7
Other	122	106	101
Transport expenses	338	320	298
Maintenance expenses	166	170	142
Depreciation and amortization	58	63	68
Reimbursement of expenses by jointly controlled companies	(16)	(16)	(16)
	1,808	1,727	1,597

Note 34 - General and Administrative Expenses

	For the year ended December 31		
	2012	2011	2010
	NIS million		
Salaries and related expenses (1)	276	245	231
Depreciation and amortization	21	20	20
Donations	8	11	8
Consulting fees	77	74	78
Research and development	13	9	6
Maintenance expenses	30	70	69
Other	34	36	47
Reimbursement of expenses by jointly controlled companies	(2)	(2)	(2)
	457	427	410
(1) Less:			
Salaries and related expenses capitalized to software for self-use	5	3	2
Salaries and related expenses included in research and development expenses.	7	5	4

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Note 35 - Other Income (Expenses), Net

	For the year ended December 31		
	2012	2011	2010
	NIS million		
Other income			
Gain on sale of fixed assets and investment property, net (1)	115	2	-
Gain on loss of control in a subsidiary, net (2)	-	22	-
Gain on decrease in holding rate of jointly controlled entity (2)	7		
Dividend income on available-for-sale financial assets	1	2	1
Other income	1	8	2
Total other income	124	34	3
Other expenses			
Loss on sale of fixed assets, net	-	-	(3)
Loss on sale of subsidiary (3)	(14)	-	-
Impairment loss on investment property (4)	(23)	-	-
Restructuring expenses(5)	(14)	(20)	(31)
Expenses of establishment and purchase of operations	(5)	(14)	(9)
Impairment loss on intangible assets (6)	(22)	(59)	-
Cost of purchase transactions that were not realized	-	-	(1)
Other expenses	(2)	(1)	(4)
Total other expenses	(80)	(94)	(48)
Other income (expenses), net	44	(60)	(45)

(1) See Note 16.4.
(2) See Note 6.6.
(3) See Note 6.4.
(4) See Note 16.3.
(5) Including expenses in respect of restructurings in the Group operation in Israel in 2012 and in Strauss Coffee operation in 2010-2011.
(6) Includes mainly impairment in subsidiary. See Note 15.3.

Note 36 - Financing Expenses, net

	For the year ended December 31		
	2012	2011	2010
	NIS million		
Financing income:			
Interest income	25	31	25
Net gain on financial assets measured at fair value through profit and loss	-	7	-
Net gain from changes in exchange rates	-	4	5
Total financing income	25	42	30
Financing expenses:			
Net loss on financial assets measured at fair value through profit or loss	(12)	-	(11)
Interest expenses	(126)	(121)	(88)
Net gain from changes in exchange rates	(3)	-	-
Differences from linkage to the Israeli CPI, net	(19)	(24)	(23)
Total financing expenses	(160)	(145)	(122)
Financing expenses, net	(135)	(103)	(92)

Note 37 - Taxes on Income

37.1 Information regarding the tax environment of the Group's companies in Israel

The income of the Company, the subsidiaries and the jointly controlled companies which operate in Israel (other than the income of an approved enterprise, see Notes 37.1.3, 37.1.4) are subject to the corporate tax rate.

37.1.1 Amendments to the Income Tax Ordinance

- On July 14, 2009, the Law for Economic Efficiency (Legislative Amendments for Implementation of the Economic Plan for the years 2009 and 2010)-2009, was passed by the Israel Knesset, which provided, among other things, a gradual reduction in the Companies Tax rate to 18% in 2016 and thereafter. Pursuant to the said Amendments, the Companies Tax rate in 2010 and 2011 were 25% and 24% respectively.

  On December 5, 2011 the Knesset approved the Law to Change the Tax Burden (Legislative Amendments) – 2011. According to the law the tax reduction that was provided in the Economic Efficiency Law, as aforementioned, cancelled and the company tax rate is 25% as from 2012 and forward. Current taxes to the reported periods are calculated in accordance with the Law.

- On January 12, 2012, the Law for Amendment of Income Tax Ordinance No.188 – Temporary Order, was officially published, according to which, Israeli Accounting Standard Number 29, regarding adoption of international financial reporting standards (IFRS), will not apply for the purpose of determining taxable income in the for Tax Years 2007-2011, even if it is applied for the purpose of financial statements. As for the tax year 2012, an extension of the temporary order has not yet published, however, the Tax Authority issued a statement that it intends to extend the instruction on the year 2012. The amendment to the ordinance had no impact on the financial statements.

37.1.2 Adjustments for inflation

The Company and its Israeli subsidiaries are using higher depreciation rates based on Income Tax Regulations, Adjustments for Inflation (Depreciation Rates) – 1996.

37.1.3 Benefits under laws for the encouragement of capital investments

In accordance with the Law for the Encouragement of Capital Investments – 1959 and the Law for the Encouragement of Agricultural Capital Investments – 1980 (hereinafter – the Capital Investments Encouragement Laws) some of the Group’s enterprises were granted the status of an “approved enterprise” which entitles them to investment grants or tax benefits (“alternative benefits route”). The benefits are contingent upon fulfillment of the terms provided in the Capital Investments Encouragement Laws and their related regulations, and in the letters of approval by which the investments in the approved enterprises were executed. The main acceptable terms in the certificates of approval are: the minimal percentage out of the investments in the fixed assets by paid share capital; proper management of the proper accounting books by the double bookkeeping method; performing the plan at the time stipulated in the certificate of approval; operating the assets of the approved enterprise for a period which shall not be less than 7 years after they were purchased by the Company; increasing the staff of employees or increasing exporting. The non-fulfillment of such terms could lead to the benefits being revoked and a refunding of the benefits with additional delay interest or with additional linkage differences, whichever sum is higher. As of the reported date, the relevant companies are in compliance with the conditions.

Note 37 - Taxes on Income

37.1 Information regarding the tax environment of the Group's companies in Israel (cont'd)

37.1.3 Benefits under laws for the encouragement of capital investments (cont'd)

A. Grant route

In accordance with the Law for the Encouragement of Capital Investments, income from the “approved enterprise” under the grant route is subject to tax benefits for a period of 7 years from the beginning of benefits period, and also is subject to a reduced company tax rate of 25% for the remaining period commencing the year in which the Company first had taxable income from the plan. A dividend, if it shall be distributed from the income which is exempt from tax as mentioned, this shall cause, in accordance with the Encouragement Law, a corporate tax liability of 25% of the amount of dividends distributed. In order to guarantee its obligations with regard to receipt of the grants, each one of the companies registered a floating charge in favor of the State of Israel over all their assets and insurance rights.

Details of the Group’s plans as at the reporting date –

company	Benefit period
Strauss Group (the confectionary factory)	Has not yet commenced since the Company has not fully met yet the relevant conditions (1)
Strauss Frito-Lay	Until the end of 2017. (2)
Yotvata Dairies in memory of Uri Horazo	Has not yet commenced (3)

(1) The grant-based expansion plan was approved at the beginning of 2004.

(2) During 2003, a new grant-based expansion plan was approved for the company, within the framework of which the company undertook to meet various conditions and targets. The company has not yet asked to utilize the tax benefits to which it is entitled under the program. The company received final implementation approval.

(3) The company has completed the entire investments plan and received a final implementation approval.

As of the reported date the companies that used the tax benefits as aforementioned are in compliance with the terms of the approvals.

B. Amendment to the Law for Encouragement of Capital Investments, 1959

On December 29, 2010, the Knesset approved the economic policy law for the years 2011-2012, in which was amended the Law for Encouragement of Capital Investments, 1959 (below: “The amendment”). The amendment was published in the Book of Laws on January 6, 2011. The amendment is valid from January 1, 2011 and its directives apply in relation to preferred income that was produced or was raised by a preferred company, according to the definitions in the amendment, in the year 2011 or later. A company is permitted not to transfer to the application of the amendment to the Law for Encouragement, and to remain under the law before its amendment, until the period of benefits ends. The final year of choice which the company can choose is the 2012 tax year, on condition that the minimum eligible investment took place in 2010.

In the framework of the amendment, it was established that only companies in Development Area A only would be eligible for the grant track, and that they would be eligible to simultaneously benefit both from this track and from the tax benefits track. Also, the existing tax benefit tracks were cancelled (the tax-exempt track, the “Ireland” track, and the “Strategic” track), and in their place were established two new tax tracks, preferred enterprise and special preferred enterprise. The essence of these tracks was a reduced, uniform tax rate on all company revenues eligible for benefits, as follows: regarding a preferred enterprise – 10% in tax years 2011-2012 in Development Area A, and 15% in the rest of Israel; in tax years 2013-2014 – 7% in Development Area A and 12.5% in the rest of Israel; and in tax year 2015 and on – 6% in Development Area A and 12% in the rest of Israel. Additionally, an enterprise meeting the definition of special preferred enterprise is eligible for a benefit period of 10 consecutive years for a reduced tax rate of 5%, if it is located in Development Area A, or a reduced tax rate of 8% if it is not in Development Area A. In accordance with paragraph 18A of the Law, an industrial plant will consider an industrial plant worthy of competition that entitled to tax benefits, if 25% or more of its total income from the production plant sales, are sales in a particular market of 12 million people at least.

Note 37 - Taxes on Income (cont'd)

37.1 Information regarding the tax environment of the Group's companies in Israel (cont'd)

37.1.3 Benefits under laws for the encouragement of capital investments (cont'd)

B. Amendment to the Law for Encouragement of Capital Investments, 1959

It was further established in the amendment that taxes would not be applicable on a dividend distributed from preferred income to a shareholder that is a company, whether on the level of the distributing company, or on the level of the receiving company. A tax rate of 15% will still apply on a dividend distributed from preferred income to an individual stockholder or a foreign resident, subject to treaties for prevention of double taxation, in other words, there is no change in relation to the existing law. Also, in the amendment an attenuation was established regarding the no charge of tax paid on a dividend received by an Israeli company from profits of an approved/alternative/beneficiary enterprise, that accrued in the benefit period according to the pre-amendment law, if the company distributing the dividend notifies the tax authorities by June 30, 2015 regarding the application of the amendment directives, and the dividend shall be distributed after the date of notification (below: “the attenuation”) likewise, a distribution from the beneficial plant will be charged in the distributor company.

In accordance with the legal opinion that was provided to the Company, some of the companies enterprises in the group are defined as “Competitive Industrial Enterprises” as these phrases are defined in the Law and therefore those companies are eligible to tax relief by virtue of the provisions in the Law applicable since 2011 onwards. Accordingly, the tax rate applicable to taxable income for those companies from a preferred enterprise is 10%. It is noted that the Tax Authority declared that it would try to amend the Law by a retroactive amendment in relation to the 2012 fiscal year, and even tabled a Bill in this respect, however at this stage it is not possible to know whether the amendment will in fact be passed or what the content thereof will be. Nonetheless, since at this stage it is not possible to estimate the results of the discussions and/or proceedings to be conducted in the future with the Tax Authorities regarding the issue and paying attention to the fact that the Tax Authority holds a different opinion, the relevant Subsidiary companies, pursuant to the conservative principle, entered their tax expenses in their financial reports for the 2011 fiscal year based on 24%, and for the 2012 fiscal year, based on 25%, and paid the taxable advances based on this calculation. The reports to the income tax for the 2011 fiscal year were submitted based on the tax rates defined in the Law.

On November 5, 2012, Amendment No. 69 was enacted as well as a Temporary Order to the Encouragement Law, the Encouragement of Capital Investments Law, 5719 - 1959 (hereinafter: “The Temporary Order”), proposing an arrangement for payment of lower tax for companies who received an exemption from companies tax by virtue of the aforementioned law. In the Temporary Order it was determined that companies that choose to apply the Temporary Order (in effect for one year) will be eligible to benefit from a tax reduction due to “defreezing” the exempted profits (hereinafter: “The Benefitting Companies Tax”). Defreezing the exempted profits will allow for the distribution thereof without paying additional tax at the Company level and will also allow use of the profits without the restrictions applicable to the use of exempted profits. The benefitting companies tax will be determined in accordance with the ratio of the exempted profits that the Company seeks to release from its total exempted profits and will range between 40% and 60% of the companies tax rate that would have applied to that income in the year in which it was generated but for the exemption, however under no circumstances will not fall below 6%. Likewise, a Company that chose to pay the benefitting companies tax must invest in an industrial enterprise up to 50% of the tax savings it derived, during the course of a period of 5 years to start in the notice year. Not satisfying this condition will compel the Company to pay additional companies tax. Some of the companies in the group chose to apply the temporary order relating to immaterial extents and the financial reports reflect the tax expenses in respect of distribution of the profits. The rest of the companies in the group are examining whether to apply the Temporary Order and have yet to reach a decision regarding the issue as on the date the financial reports were approved.

Note 37 - Taxes on Income (cont'd)

37.1 Information regarding the tax environment of the Group's companies in Israel (cont'd)

37.1.4 The Law for the Encouragement of Industry (Taxes) – 1969 and other laws

The Company and part of the Group's companies (including Strauss Health Ltd., Strauss Frito-Lay Ltd., Yotvata Dairies, Strauss Fresh Foods Ltd) are “industrial companies” as defined in the Law for the Encouragement of Industry (Taxes) – 1969. In accordance with this status they are entitled to benefits, the principal ones being as follows:

a. Higher rates of depreciation.

b. Amortization of issuance expenses in three equal annual portions when registering the shares for trading commencing the year the shares were registered for trading.

c. Amortization of patents and knowledge used for the plant development for a period of 8 years.

d. The possibility of submitting consolidated tax returns by companies in the same line of business.

The Company and certain subsidiaries are submitting a consolidated statement to the tax authorities according to the Encouragement of Industries (Taxes) Law – 1969.

37.1.5 Real Estate Company

The Company and one of the subsidiary companies, being a Real Estate Company within the meaning thereof in Section 64 to the Income Tax Ordinance, file consolidated reports for tax purposes in the report period.

37.2 Details regarding tax environment of Group's companies outside of Israel

The companies incorporated outside of Israel are subject to tax according to the tax laws in their countries of domicile.

The principal tax rates applicable to the business operations of these companies are as follows:

Romania – a tax rate of 16%; Poland – a tax rate of 19%; Brazil – a tax rate of 34%; Serbia – a tax rate of 10%; The Netherlands – a tax rate of 25% (until December 31, 2010 the tax rate was to 25.5%); Switzerland – a tax rate of around 11%; Ukraine – a tax rate of 21% (until December 31, 2011 the tax rate was 25%); Russia – a tax rate of 20%, Bulgaria – a tax rate of 10%; UK- a tax rate of 24% (till March 31, 2012 the tax rate was 26%); USA – a total tax rate of around 42%; China- a progressive tax rate of 25%.

The group companies that operate in the field of coffee are held by Strauss Coffee (incorporated in The Netherlands). There is a double taxation treaty between Israel and The Netherlands. Furthermore, there are double taxation treaties between the other countries in which the group is active and The Netherlands. A credit from tax applicable in Israel was given for withholding tax in The Netherlands. In addition it is possible to credit the corporate tax that was paid in the foreign countries against the Israeli tax in the framework of the "indirect credit" mechanism in accordance with the rules and restrictions stipulated in the provisions of the Israeli law.

37.2.1 Tax benefits in the Group's companies outside of Israel

37.2.1.1 In respect of its operations in northeast Brazil, the Company is eligible for the following tax benefits:

(1) A reduced corporate tax rate for a portion of taxable income, up to a maximum amount.

(2) A tax refund at a rate of 56%-74% of the collected tax (commencing 1.1.2012 the effective rate of refund will be 37%-49%).

Company's tax reports for years in which it claimed the tax benefits have not yet been checked by the tax authorities. In the opinion of the subsidiary, based on the opinion of its consultants, it fully meets the conditions for receiving the benefits.

37.2.1.2 In respect of its operations in Serbia, the Company is eligible for a reduced corporate tax rate of 2% (instead of a rate of 10%) due to its investments in productive assets at the plant, and for employment of workers at the required levels, until 2017.

Note 37 - Taxes on Income (cont'd)

37.3 Approval of the Tax Authority – Merger of Strauss Water and Tana Industries Company Ltd.

In December 2009 Strauss Water requested an approval from the Tax Authorities to merge with Tana Industries Company Ltd., a wholly 100% owned subsidiary and Tami 4 and Leases Ltd. a grandchild company 100% wholly owned. According to the taxation decision in respect to the agreement which was received from the Tax Authorities on the 19th of September 2010, the date of restructuring was December 31, 2009. In respect to the change of structure as mentioned, the company and its shareholders have different restrictions until the end of the required period (two years from the end of the tax year in which the change of structure was performed –December 31, 2011). The Company, and for the best of their knowledge the controlling shareholders, complied with the exempt terms.

37.4 Restructuring in North America

In December 2011 the Company made a change in its holdings in North America. As part of the structural change control was transferred in the shares of the Company Max Brenner Inc. to the Company SE USA Inc. a subsidiary wholly controlled by the Company. In the books of SE USA Inc. income of deferred taxes were registered in respect to losses for tax purposes by December 31, 2011, due to utilization forecasts.

37.5 Tax assessments

The Company and some of its subsidiaries have final tax assessments up to and including the tax year 2007. For the rest of the main subsidiaries operating in Israel final tax assessments were issued or self-assessments that are considered as final were issued (subject to the dates of submitting the statements and extending the limitation period according to law) up to and including the tax year 2008.

Final tax assessments were issued for the group companies outside of Israel as follows: For Strauss Poland up to and including the tax year 2005; for Santa Clara and Café Principal in Brazil up to and including the tax year 2010 and for 3C in Brazil up to and including the tax year 2010; for Strauss Coffee in Holland up to and including the tax year 2008; for Strauss Romania up to and including the tax year 2004; for Strauss the Ukraine up to and including the tax year 2009; for Strauss Switzerland up to and including the tax year 2008; for SE USA for the years 2007, 2009; for the Adriatic Strauss Group Companies and for Max Brenner USA Inc. final tax assessments have not yet been issued.

37.6 Carried-forward tax losses

The Group has tax losses and an inflationary deduction carry-forward in the amount of NIS 481 million (2011: NIS 514 million). Deferred taxes were not recorded in respect of losses in the amount of NIS 396 million (2011: NIS 367 million).

37.7 Transfer prices

In November 2006 a general directive and regulation were published that allows interference in the price and terms of international transactions between related parties. The regulations provide principles for examining the market value of international transactions between related parties, and prescribe the reporting requirements regarding such transactions. The Company examines these transfer prices from time to time, and performs studies as required.

37.8 Disputed Assessments

The Subsidiary Company in Brazil received assessments for the fiscal years that are not yet barred due to the prescription period pursuant to which it is required to pay a sum of approximately NIS 61 million (the Company's portion) exceeding the amount included within the framework of the current tax payments for these years. The Subsidiary Company rejects the tax authorities' demand. According to the Company, in reliance upon its advisors position, the defreezing that exist in the Subsidiary Company's books are sufficient.

Note 37 - Taxes on Income (cont'd)

37.9 Income tax expense in the statement of income

	For the year ended December 31		
	2012	**2011**	**2010**
		NIS million	
Current taxes	148	129	157
Deferred taxes	37	(12)	(5)
Previous years taxes	-	(5)	(5)
The effect of changes in tax rates	-	15	-
	185	127	147

37.10 Reconciliation between the theoretical tax on the pre-tax income and the tax expenses recorded in the Company's books:

		2012	
	2012	**2011**	**2010**
		NIS million	
Income before taxes on income	510	360	449
Principal tax rate	25%	24%	25%
Taxes on income at the principal tax rate	127	86	112
Effect of change in tax rates	-	15	-
Tax expenses on foreign dividend	5	8	3
Permanent differences, net	21	15	25
Temporary differences (losses utilized) where deferred taxes were not recorded in the past	25	(3)	5
Losses due to impairment- where deferred taxes were not recorded	12	14	-
Net differences resulting from the differences in tax rates abroad	9	8	10
Previous years taxes	-	(5)	(5)
Differences resulting from benefits and reduced tax Rates	(12)	(6)	(3)
Gain on partial disposal of subsidiaries	(2)	(5)	-
Taxes on income in the statement of income	185	127	147
Effective tax rate	36.3%	35.3%	32.7%

Note 37 - Taxes on Income (cont'd)

37.11 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2011	Decrease (Increase) in deferred tax in the statement of income	Changes in deferred tax recognized directly in equity	Effect of change in tax rate recognized directly to profit and loss	Balance as at December 31,2011	Decrease (increase) in deferred tax the statement of income	Changes in deferred taxes recognized directly in equity	Balance as at December 31,2012
Deferred taxes in respect of:								
Provision for doubtful debts	8	1	-	-	9	-	-	9
Provision for vacation and convalescence	10	-	-	1	11	(2)	-	9
Tax losses and deductions	27	26	1	3	57	(31)	(1)	25
Other temporary differences	4	(4)	-	-	-	(3)	-	(3)
Fixed assets, other assets and deferred expenses	(176)	(12)	5	(20)	(203)	(8)	1	(210)
Hedging transactions	(3)	5	-	-	2	3	-	5
Provision of employees	7	(4)	-	1	4	3	-	7
	(123)	12	6	(15)	(120)	(38)	-	(158)
	10%-42%				10%-42%			10%-42%

Note 38 - Basic and Diluted Earnings per Share

The basic earnings per share as at December 31, 2012 is calculated by dividing the income attributable to the ordinary shareholders in the amount of NIS 244 million (2011 and 2010: NIS 161 million thousand and NIS 211 million, respectively) by the weighted average number of ordinary shares, as follows:

Weighted average of ordinary shares:

	For the year ended December 31		
	2012	2011	2010
	NIS million		
Balance as at January 1	107.1	107.1	106.7
With the addition of weighted average of options exercised for shares during the period	-*	-*	0.2
Less treasury shares	(0.9)	(0.9)	(0.9)
Weighted average number of ordinary shares used in the calculation of basic earnings per share as of December 31	106.2	106.2	106.0

The diluted earnings per share as at December 31, 2012, 2011 and 2010 is calculated by dividing the income attributable to the ordinary shareholders in the calculation of the basic earnings per share by the weighted average number of ordinary shares outstanding, after adjustment in respect of all the dilutive potential ordinary shares, as follows:

Weighted average of ordinary shares (diluted):

	For the year ended December 31		
	2012	2011	2010
	NIS million		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	106.2	106.2	106.0
Effect of share options	-*	0.3	0.5
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	106.2	106.5	106.5

* Less than NIS 1 million.

For purposes of calculating the dilutive effect of share options, the average market value of the Company's shares was based on market price quotations during the period in which the options were outstanding.

At December 31, 2012, 4,068 thousand options (2011 and 2010: thousand 1,091 and 585 thousand, respectively) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

Note 39 - Balances and Transactions with Interested and Related Parties

39.1 Identity of interested and related parties

The Company's interested and related parties are the parent company, related parties of the parent company, jointly controlled companies (see Note 12), and members of the Board and senior management, who are the Company's key management personnel.

39.2 Transactions with members of senior management

39.2.1 On July 6, 2009, after the approval of the Audit Committee on June 29, 2009, the Board of Directors approved an employment agreement with the Company's incoming CEO effective as from July 1, 2009. The CEO will be entitled to a gross monthly salary of NIS 125,000, linked to the CPI, related social benefits, a car and the reimbursement of various expenses. Due to the change of method of determining the annual bonuses, as approved by the Board of Directors in April 11, 2011, he is entitled to an annual bonus of up to 14 gross salaries (excluding social benefits), which will be determined on the basis of compliance with financial targets and qualitative objectives based on the annual bonus plan for the Group's management. Likewise, The CEO is entitled to options without cost, in accordance with the stock options plan for senior employees group, by decision of the Board.

39.2.2 For details regarding an indemnification right from Strauss Holdings, subject to the terms determined in the merger agreement, see Note 26.1.1.

39.2.3 In addition to salaries, the members of senior management participate in the options plan of the Company, see Note 25. With respect to share options granted to the CEO and senior managers in 2012, see Note 25.2.

The benefits to members of senior management are as follows:

	For the year ended December 31					
	2012		2011		2010	
	Number of people	NIS million	Number of people	NIS million	Number of people	NIS million
Short-term employee benefits	9	25	9	25	9	20
Post-employment benefits	9	1	9	-*	9	2
Share-based payment	9	10	9	15	9	10
		36		40		32

* Less than NIS 1 million.

39.2.4 The benefits to members of the board are as follows:

	For the year ended December 31					
	2012		2011		2010	
	Number of people	NIS million	Number of people	NIS million	Number of people	NIS million
Directors not employed	10	3	10	3	10	3
Employed Directors	1	4	1	3	1	3
	11	7	11	6	11	6

Note 39 - Balances and Transactions with Interested and Related Parties (cont'd)

39.2 Transactions with members of senior management (cont'd)

39.2.5 See Notes 26.1.2.1 and 26.4.3, regarding a commitment to indemnify officers and a directors and officers insurance policy.

39.3 Transactions with the parent company and its investees

39.3.1 On November 23, 2009, an agreement was entered into for the sale of the shares of Ramat Hagolan Dairies Ltd., which were held by a subsidiary of the parent company to a group of Kibutzim. In light of the existence of the multi annual agreement that was signed before the share sale agreement for the purchase of the products of the diary products production plant, the balances for the production plants of the Ramat HaGolan are classified as a related party.

39.3.2 As of the date of the report of the financial situation Strauss holds 10% of the share capital of Strauss Ice Cream. The balances of the company vis-à-vis Strauss Ice – Cream were classified in the financial statements of the company as a related party. Strauss Ice Cream purchases from the Company raw chocolate, without a commitment to purchase framework. The purchase price to Strauss Ice cream is defined according to cost plus profit rate (cost+). In addition the company rent parking area to Strauss Ice cream distributers trucks in some sites around Israel. Strauss Ice Cream purchase from the company, excess milk powder and milk butter. The company purchase from Strauss Ice Cream finished goods for the employees store and for sales points of Elite coffee. The computer services rendered by the company were finished according to the agreement, which was expired on May 1, 2012.

39.4 The prices and credit terms in respect of the transactions with related parties are determined in normal commercial terms.

Note 39 - Balances and Transactions with Interested and Related Parties (cont'd)

39.5 Balances and transactions with interested and related parties

	The parent company and its related parties (1)	Jointly controlled companies	Directors and members of senior management (2)	Total
	NIS million			
As at December 31, 2012:				
Current assets from interested parties that are presented under trade and other Receivables	6	16	-	22
Long-term assets from interested parties that are presented under investments and debit balances	-	46	-	46
Current liabilities to interested parties that are presented under trade and other payables	(8)	(58)	-	(66)
The highest balance of loans and debts of interested parties in the year	12	62	-	74
For the year ended December 31, 2012:				
Sales	33	10	-	43
Purchases	(20)	(15)	-	(35)
Selling, general and administrative income (expenses)	(14)	19	(3)	2
Financing income, net	-	4	-	4
As at December 31, 2011:				
Current assets from interested parties that are presented under trade and other Receivables	7	9	-	16
Long-term assets from interested parties that are presented under investments and debit balances	-	59	-	59
Current liabilities to interested parties that are presented under trade and other payables	(7)	(36)	-	(43)
The highest balance of loans and debts of interested parties in the year	11	68	-	79
For the year ended December 31, 2011:				
Sales	27	3	-	30
Purchases	(15)	(23)	-	(38)
Selling, general and administrative income (expenses)	(12)	17	(3)	2
Financing income, net	-	4	-	4

Note 39 - Balances and Transactions with Interested and Related Parties (cont'd)

39.5 Balances and transactions with interested and related parties (cont'd)

	The parent company and its related parties (1)	Jointly controlled companies	Directors and members of senior management (2)	Total
	NIS thousands			
For the year ended December 31, 2010:				
Sales	25	-	-	25
Purchases	(13)	(44)	-	(57)
Selling, general and administrative income (expenses)	(12)	18	(3)	3
Financing income, net	-	3	-	3

(1) Including particulary purchases from Ramat Hagolan Dairies in the amount of NIS 17.6 million (2011: NIS 13.6 million, 2010: NIS 9.7 million), the payment of rent to Rav Etgar Ltd. in the amount of NIS 4.8 million (2011: NIS 4.7 million, 2010: NIS 4.6 million), sales of raw materials to Strauss Ice-cream Ltd in the amount of NIS 28.3 million (2011: NIS 25.3 million, 2010: NIS 24.5 million) and costs of advertising services from Reshet Noga Ltd of NIS 14.1 million (2011: NIS 12.2 million, 2010: NIS 12.8 million).

(2) Excluding fee and compensation to senior management – see Note 39.2.

Note 40 - Subsequent Events

40.1 On January 17 2013 the Company published a shelf proposal report for issuing debentures (Series D) and listing them for trade. On January 23 the Company issued the debentures and on January 27 2013 it listed them for trade on the Tel Aviv Securities Exchange. The proceeds of the issue (gross) amounted to 248,858,000 NIS. The total issuing expenses amounted to 4.2 million NIS. The following are the terms of the debentures issued:

	Series D
Interest type	Fixed
Yearly interest rate	4.5%
The effective interest rate upon listing for trade taking issuing costs into account.	4.7%
Notational value upon issue	248.9 Million NIS
Linkage terms	Principal and interest are not linked to any index
Principal payment dates	7 yearly payments on March 31 of each year from 2017 to 2023. First payment 4%, second and third 6% each, fourth 13%, fifth and sixth 15% each and seventh 41%.
Interest payment dates	Semi-yearly interest on March 31 and September 30. Starting September 30 2013 to March 31 2023.
Liens or guarantees	None
Name of rating company	Midroog; Ma'alot
Rating on issue date	Aa1; AA+

So long as the Series D debentures have not been repaid in full, the Company undertakes to meet the financial stipulations as detailed in Note 22.3.

The Company's compliance with any of the fixed financial ratios shall be calculated according to the accounting standards applicable to the Company. In the event of changes to the accounting regulations applicable to the Company, following which the Company will not meet any of the financial ratios for a period exceeding two consecutive quarters, or for a period of at least two consecutive yearly financial statements (for a calendar year), as the case may be, the Company shall be entitled to prepare, for the purpose of calculating its compliance with any of the financial ratios the Company fails to meet, as above, a pro forma concise Balance Sheet and Statement of Operations featuring material and relevant notes only, reviewed (but not audited) in accordance with the accounting regulations according to which the Company's September 30 25012 Financial Statements were prepared (hereinafter: "Pro Forma Report on Financial Ratio").

Failure to uphold any of the financial ratios in question for a period exceeding two consecutive quarters (also on the basis of the relevant Pro Forma Report on Financial Ratio) shall award the holders of debentures from the series with added interest, as denoted in the indenture. In the event that the rating between the net financial debt in the Company's Consolidated Financial Statements and the yearly EBITDA exceeds 7, in at least two consecutive yearly financial statements, the violation shall be grounds for immediate redemption for the holders of the debentures at the time. In addition, if Series D debentures rating decreases under BB-, after 45 days from the date of the rating update as mentioned, the Series D debentures holders are entitled to immediate redemption, provided that the rating has not increased.

Note 40 - Subsequent Events (Cont'd)

40.2 In January 2013 Strauss Coffee purchased the balance of the shares (49%) in the Le Café and Instantte companies operating in Russia, in consideration for approximately US $ 13.4 million. As a result of the transaction Strauss Coffee will hold 100% of the shares in these companies. The transaction is subject to the Anti-Trust Authority's approval in Russia.

40.3 In the months of January and February 2013 the Company, through Subsidiaries, closed the sale of rights of a lot in Givatayim. See Note 16.4.

40.4 For details relating to pecuniary claims and mandatory orders and a motion to certify them as class actions, that were filed against the Company after the date of the report pertaining to the financial situation, as well as a settlement that was approved and the Plaintiff's abandonment in connection with the class actions after the date of the report pertaining to the financial situation, see Note 26.1.1

40.5 On February 25, 2013 the Company published a shelf prospectus, after receiving a principle approval from the Stock Exchange, permit from the Securities Authority and the Company's Board of Directors approval.

40.6 On February 17, 2013 the BOD of Três Corações, a joint venture between Strauss Coffee and Sau Migel in Brazil approved a distribution of dividends to its shareholders, of a total amount of approximately NIS 62 million (Strauss Coffee's portion - approximately NIS 31 million). The dividends will be distributed during the course of 2013.