STRAUSS GROUP LTD.

ANNUAL REPORT

AS AT DECEMBER 31, 2013

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 Galia Maor
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. Furthermore, the Group operates in the development, marketing, service and sale of products for water filtration and purification.

1.2 The Company was incorporated and registered in Israel in 1933, becoming a public company in 1973, whose shares are registered for trade on the Tel Aviv Securities Stock Exchange Ltd. (hereinafter: "**the Stock Exchange**").

1.3 The shareholders in control of the Company are Mr. Michael Strauss, through his holdings in Strauss Holdings Ltd. (hereinafter: "**Strauss Holdings**")[1] and Mrs. Ofra Strauss, which is viewed as a holder jointly with him in the shares of the Company.

1.4 The Group is a food and beverage company, operating 27 plants in 24 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.

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[1] Strauss Holdings is a private Company registered in Israel. According to the best knowledge of the Company, the ordinary shares of Strauss Holdings are held by: (1) The Michael Strauss Assets Company Ltd. [a corporation held by Mr. Michael Strauss (approx. 54.7%), Ofra Strauss (approx. 20.1%), Irit Strauss and Adi Strauss (approx. 12.6%, each)] (hereinafter: "**Michael's Assets**"); (2) The Assets of Raya Strauss Ben Dror Ltd. [a corporation held by the sons of Raya Strauss Ben Dror, Gil Midyan (approx. 50%) and Ran Midyan (approx. 50%)] (hereinafter: "**Raya's Assets**"); (3) Self holding by Strauss Holdings (approx. 29%). The effective holdings of Michael's Assets and Raya's Assets in Strauss Holdings, while neutralizing the self holding of the shares, is according to a rate of 73.4% by the 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%).
According to the best knowledge of the Company, the voting shares in Strauss Holdings confer upon their holders the right to be invited and participate and vote in general meetings; the holders of the majority of the voting shares are conferred the right to appoint the majority (half plus one) of the directors on the board of Strauss Holdings.
According to the best knowledge of the Company, the ordinary shares in Strauss Holdings confer upon their holders the full proprietary rights (dividend and receipt of the residuary value of the Company upon its winding-up); rights to be invited and participate without a voting right in the general meetings and to vote in general meeting, only in a resolution pertaining to a change of any provision in the Articles of Strauss Holdings; and also a right to appoint one director for each holding of 15% of ordinary shares of Strauss Holdings.

In 2013, The Company in Israel held 11.8% of the total food and beverage market (in financial terms[2]), not including the market share of Strauss Water Ltd. and it is the food group having the highest sale turnover from among the Israeli food companies (according to the managerial sale turnover of the Group). 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, Singapore, the Philippines, Japan and Israel, the Group operates branches of chocolate bars.

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 maintains five segments of operations: Health & Wellness, Fun & Indulgence, Israel Coffee, International Coffee, International Dips and Spreads, and others (as the "other" segment of operations also includes the operations of Strauss Water and Max Brenner). For additional details concerning the sectors, see Section 2 hereunder.

1.7 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 Enterprises Ltd. (hereinafter: "**Virgin**").

1.8 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.

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

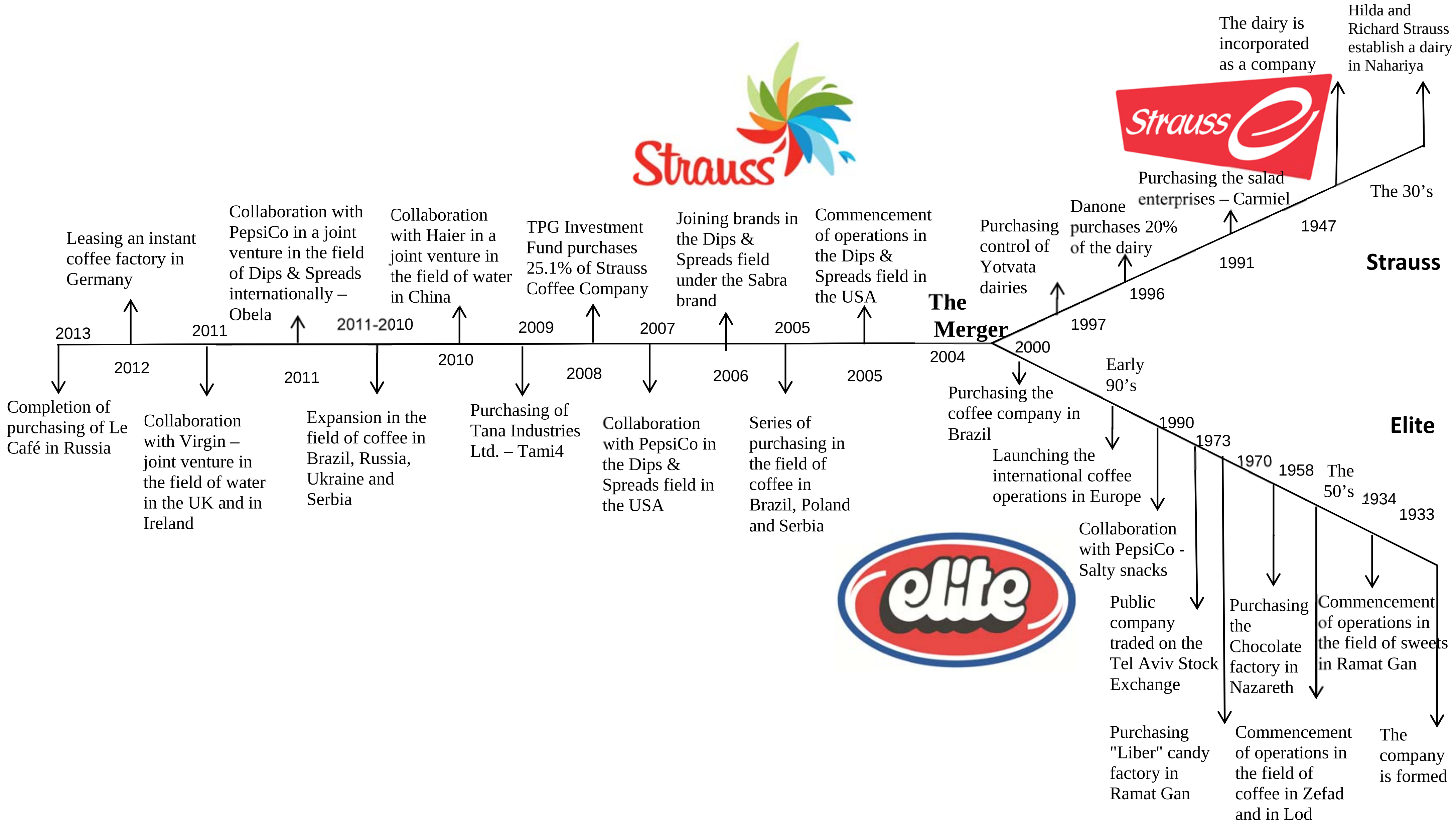
1.9 In early 1990's, the Group initiated its international coffee operations in Europe, principally in the roast and ground coffee market. The Group expanded its international activity to Central and Eastern Europe through the acquisition of companies, that are active in this field, as well as the establishment 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 Russia in 2010 and 2012, in Brazil in 2012, and in Germany in early 2013. 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.

1.10 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 1947. 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.

1.11 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 this field under the Obela brand, which operates in additional markets beyond North America.

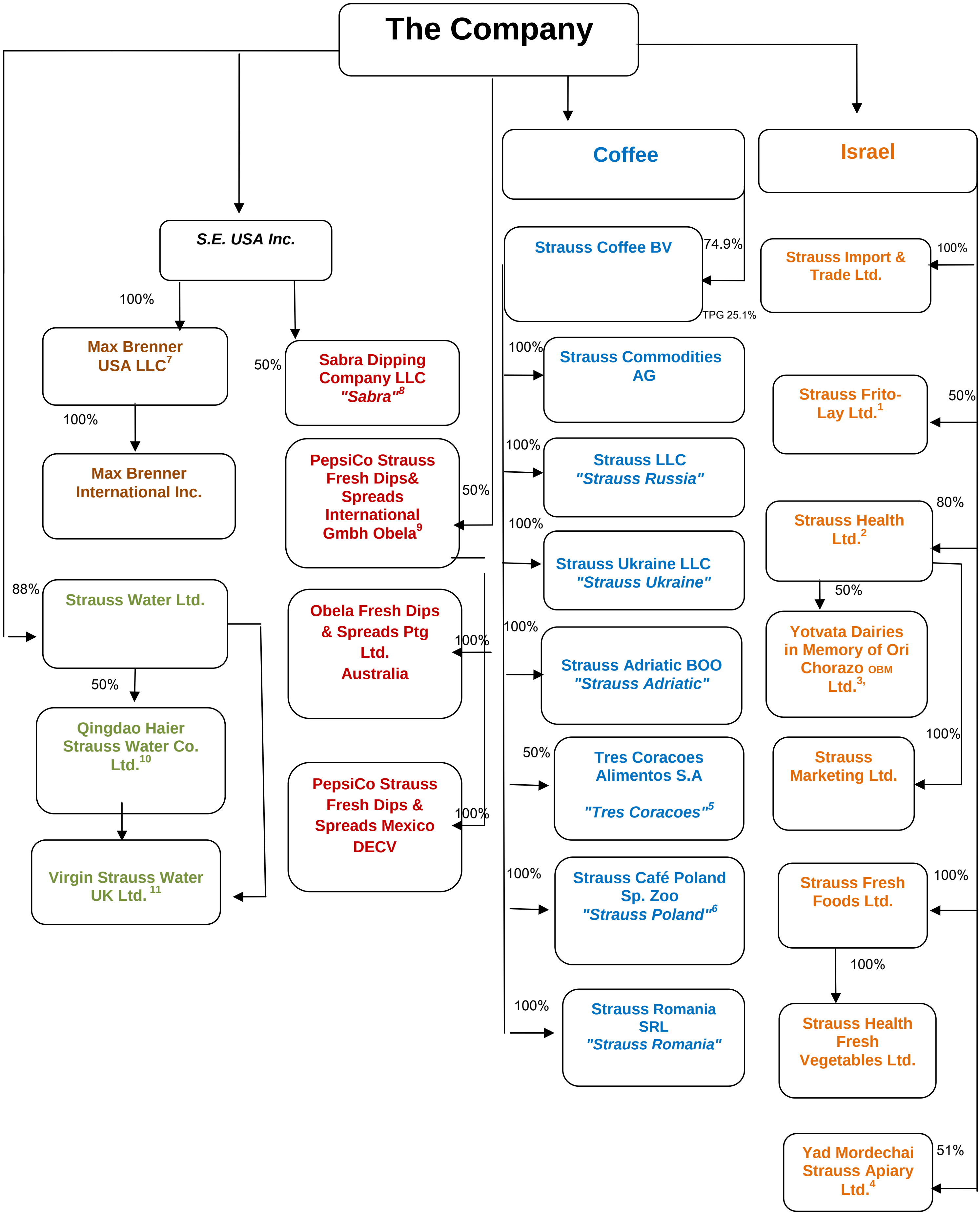
1.12 In 2006, the Group expanded the operation of Max Brenner internationally and entered the American market.

1.13 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.



Strauss
2013
Completion of purchasing of Le Café in Russia
2012
Leasing an instant coffee factory in Germany
2011
Collaboration with Virgin – joint venture in the field of water in the UK and in Ireland
2011
Collaboration with PepsiCo in a joint venture in the field of Dips & Spreads internationally – Obela
2011-2010
Expansion in the field of coffee in Brazil, Russia, Ukraine and Serbia
2010
Collaboration with Haier in a joint venture in the field of water in China
2009
Purchasing of Tana Industries Ltd. – Tami4
2008
TPG Investment Fund purchases 25.1% of Strauss Coffee Company
2007
Collaboration with PepsiCo in the Dips & Spreads field in the USA
2006
Joining brands in the Dips & Spreads field under the Sabra brand
2005
Series of purchasing in the field of coffee in Brazil, Poland and Serbia
2005
Commencement of operations in the Dips & Spreads field in the USA
The Merger
2004
2000
Purchasing the coffee company in Brazil
1997
Purchasing control of Yotvata dairies
1996
Danone purchases 20% of the dairy
1991
Purchasing the salad enterprises – Carmiel
Strauss
1947
The dairy is incorporated as a company
The 30's
Hilda and Richard Strauss establish a dairy in Nahariya
Strauss
Early 90's
Launching the international coffee operations in Europe
1990
Collaboration with PepsiCo - Salty snacks
1973
Public company traded on the Tel Aviv Stock Exchange
1970
Purchasing "Liber" candy factory in Ramat Gan
1958
Purchasing the Chocolate factory in Nazareth
The 50's
Commencement of operations in the field of coffee in Zefad and in Lod
1934
Commencement of operations in the field of sweets in Ramat Gan
1933
The company is formed
Elite
elite

1.15 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 Yotvata are held by Kibbutz Yotvata. For the description of the Agreements with Yotvata, see Section 9.14b of this chapter.

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

[5] 25.1% of the shares of Strauss Coffee are held by the TPG Private Investment Fund (by means of Robusta Coöperatief U.A). For a description of the Agreement with TPG, see Section 12.13 of this chapter. For additional details concerning the holdings of Strauss Coffee, see Sections 12 and 13 of this chapter.

[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] 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.

[8] 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.

[9] 50% of the shares of Qingdao Haier Strauss Water CO. Ltd are held by the Chinese Haier corporation. See Section 15.1.k.1 of this chapter

[10] 28% of the shares of Virgin Strauss Water UK Ltd. are held by Virgin. See section 15.1.k.2 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, 2013. 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, 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, 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 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 and manufactures a variety of coffee products and drink powders bearing its brands in Brazil, Russia and Central and Eastern European countries. The Group manufactures and sells a variety of products, as stated, in Brazil, USA and in Eastern and western European countries. For information on this segment, see Section 13 of this chapter.

International Dips and Spreads segment - Within this framework the Group develops, manufactures, markets and sells Group develops, manufactures, markets and sells chilled dips and salads by means of Sabra in North America, in the USA and Canada, and Obela in Mexico and Australia 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, 2012 as the **"Other Operations"** segment. The main activities among these operations are:

(1) <u>Strauss Water Operations</u> – 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 Section 15.1 of this chapter.

(2) <u>Max Brenner Operations</u> - 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. <u>Investments in the Share Capital of the Corporation and Transactions in its Shares</u>

In the course of 2012, 2013 up until the date of publication of this Report, according to the best knowledge of the Company, no transactions outside of the Stock Exchange were executed in the Company's shares.

4. <u>Dividend Distribution</u>

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 2012 and 2013, Note 28.3 to the Financial Statements of the Company, as at December 31, 2013.

The balance of the available distributable profits, as at the date of the Statement of Financial Condition, is NIS 1,369 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 Debentures (Series D), it was determined that 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 that were determined.

Part II – Other Information

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

From 2013, the Strauss Group implements retroactively the International Reporting Standard 11 – Mutual Arrangements (see also Note 2.8.1.2 to the financial statements of the Company as at December 31, 2013). The significance of the standard is that the profit and loss statement and the statements in reference of the financial conditions, the total profit, changes in capital and cash flows of enterprises under joint control of Strauss and another partner are no longer represented according to the partial share of Strauss in the joint holding, as it was presented until now, but on a single separate line ("profits of held companies treated according to the equity method" and in the other statements under the relevant item). The reporting method does not alter the profit of the Group. It should be indicated, that this is a change of form of reporting only, which may not testify as to any change in the scope of business and in the structure of proprietorship of the Group. From the managerial aspect, there is no change in the joint business affairs. In light of the fact, that the executive reports of the Group and the manner by which the management of the Group measures the results of the subsidiaries and the companies under joint control remain unchanged, the Group continues to present the operation segments in a manner identical to that in which they were presented during preceding periods.

The Chapter of Descriptions of the Corporation's Business affairs in the periodic report is presented according to the operative segments of the Company, and as such all the data presented in this chapter will be according to the managerial reports of the Company, unless it is indicated otherwise.

The Company maintains several companies under joint control: Três Corações (in Brazil), Sabra Dipping Company (in the USA), Strauss Frito-Lay Ltd. (operations of the salty snacks in Israel) Pepsico Strauss Fresh Dips & Spreads International (the international spreads operation – "Obela"), Virgin Strauss Water (a subsidiary of Strauss Water in the UK), Haier Strauss Water (a subsidiary of Strauss Water in China).

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 segments of operations – were attributed accordingly. Mixed operations were related to a single segment of operation, according to the main operation executed therein. Expenses and assets (including trade receivables) which cannot be directly related – were allocated according to economic models, prevailing in the Group, as of the date of the periodic report.

The following financial data of the Company, divided into segments of operations, in millions of NIS (see also Note 29 to the financial statements of the Company, as at December 31, 2013).

Year 2013 (according to executive reports)		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Other	Adjustments for Consolidation (**)	Consolidated
Income	From external parties	1,987	1,013	3,000	715	3,229	3,944	600	599	-	8,143
	From other activity segments	6	25	31	6	-	6	-	-	(37)	-
	Total	1,993	1,038	3,031	721	3,229	3,950	600	599	(37)	8,143
Total costs attributed	Costs that do not constitute income in another segment: Fixed:	476	260	736	173	802	975	153	214	92	2,170
	Variable (*):	1,292	659	1,951	465	2,100	2,565	390	390	-	5,296
	Costs constituting income of other segments	25	4	29	3	4	7	-	1	(37)	-
	Total	1,793	923	2,716	641	2,906	3,547	543	605	55	7,466
Profit from ordinary operations:											
Attributed to majority		144	115	259	60	242	302	57	(2)	(75)	541
Attributed to minority		56	-	56	20	81	101	-	(4)	(17)	136
Total assets		986	1,117	2,103	812	2,351	3,163	569	1,393	-	7,228
Total liabilities		536	195	731	265	643	908	223	2,815	-	4,677

(*) 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 is 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, 2013.

Year 2012 (according to executive reports)		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		931	972	1,903	618	2,620	3,238	572	1,485	-	7,198
Total liabilities		366	360	726	176	788	964	220	2,551	-	4,461

(*) and (**) For explanation, see the 2013 Table.

Year 2011 (according to executive reports)											
		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	89 -	244 58	55 19	139 47	194 66	20 -	(7) (3)	(83) (26)	368 95
Total assets		888	871	1,759	631	2,730	3,361	492	1,202	-	6,814
Total liabilities		377	136	513	152	887	1,039	175	2,400	-	4,127

(*) and (**) For explanation, see the 2013 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 Prices of Raw Materials and other Production Input – commodities form a substantial component of the raw materials used in producing the Group's products. 2013 was characterized increases in prices of commodities. Price rise was recorded in the prices of cocoa and a decrease in the prices of green coffee and sugar in relation to their prices in 2012, however, at the beginning of 2014 and as of the date of publication of this report, there were significant price rises in the prices of agricultural commodities (mainly green coffee) and its price exceeded the average levels of 2012.

The average price of unprocessed milk in 2013 was significantly higher in comparison with the average price in 2012. In the beginning of 2014, a decrease was recorded in the target price. For additional details, see Section 9.11 of this Chapter. The prices of grains (wheat and corn) decreased in 2013 compared to 2012. The Group acts pursuant to diminishing the aforementioned effects, emerging from fluctuation in prices of raw materials, inter alia, through hedging the risk in the prices of some of the commodities, and also by 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 Inputs – the Group is influenced by regulatory changes occurring from time to time in relation to labor costs, the price of unprocessed milk ands water quotas, 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). In addition, during the year 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. In 2011, a general collective agreement was signed for the revision of the minimum wages. According to the agreement, the Company executed two rises in the minimum wage (in October 2012 and in July 2013).

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. 2013 was characterized by fluctuation in energy prices and its derivatives and an increase in the prices of oil (for details 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 operates as an importer in part of its countries of operations, mainly with respect to the purchases of raw materials. The main cash flow exposure in these countries is toward the US dollar with respect to local currencies. The strengthening of the dollar increases the purchase of materials and vice versa. Financial assets and liabilities are mainly held in the operative currencies, therefore their effect on the profit and loss is low The strengthening (weakening) of the shekel opposite the operative currencies of the Group diminishes (increases) the reported profit, the assets and liabilities in shekels and the equity capital, in consequence of the conversion. For additional details, see the report of the financial condition based upon linkage bases – Note 30.4.3 to the financial statements as of December 31, 2013.

6.5 Inflation – in 2013 inflation in Israel was 1.9% (based upon the known Index), as compared to 1.4% and 2.6% in 2012 and 2011, respectively. The inflation rate in all countries where the Company is active is single-digit (in Brazil and in Russia – approx. 6%). The Company has a significant scope 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 over varying periods. For further information, see Note 30.5 to the financial statements as of December 31, 2013.

6.6 Interest – interest of the Bank of Israel decreased from a level of 2.0% in December 2012 to 1.00.% in December 2013 and 0.75% as of the date of publication of the periodic report. 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, there was an increase from 9.5% by the end of 2012 to 10% by the end of 2013. In Serbia, there was a double digit interest of approx. 10% in 2013. The Group has loans in variable interest in real and dollar. The Group maintains material amounts in short term shekel deposits with banks, and the decrease of the shekel interest diminished the financing income. For additional details, see also Section 22 of this chapter.

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.

According to the evaluation of the Company, in 2013 mixed trends continued to prevail in the market, lack of economic stability in the US and in Europe, relative stagnation in the US and Western Europe, fluctuation in the prices of commodities goods, relatively slow down in the rate of growth of developing countries and fears on the background of security tensions in various locations in the world. These trends increase the business uncertainty and the challenges with which the companies are faced. In 2013, companies concentrated on the search of opportunities and initiating business initiatives, such as entering new countries and searching for new categories.

A relative slowdown in the rate of growth of the developing countries led worldwide large companies, such as Unilever and Nestle, to decrease their growth forecast. In 2013, there were few mergers and acquisitions, Unilever continued with the trend of diminishing the food business and sold the Skippy peanut butter brand to Hormel Foods Company in consideration of $700 million. On the other hand, in March 2014, Unilever purchased the Chinese Qinyuan Company, which operates in the water purification. Mei Eden Company was sold to the Rhone Capital Investment Fund according to a value of €240 million. Heinz was purchased by two investment entities, Berkshire Hathaway and 3G in consideration of $28 billion, DE Master Blenders 1753 Company was purchased by Joh A. Benckiser in consideration of €7.5 billion. Nestle in a trend to diminish scopes of operations sold the Jenny Craig Company and Danone was strengthened in the US with two acquisitions: the YoCrunch Yoghurt Company and the Happy Family Infant Food Company.

The trends of establishing strategic partnerships between food conglomerates were reinforced in 20013, pursuant to combining specializations and global abilities. The following are several examples: (1) Danone and Starbucks notified of a strategic partnership in the US Yoghurt category. Within the framework of the partnership, the companies will launch in 2014 a yoghurt under the branding of *Evolution Fresh, Inspired by Danone*; (2) Danone and the

Chinese Mengniu Company notified of the establishment of a strategic partnership in the yoghurt category in China; (3) Kraft Foods Company and McDonalds notified of a new partnership, within the framework of which Kraft will distribute and market in 2014 the McCafe Premium Coffee to retailers in the US; (4) Soda Stream Company committed with additional companies, such as Ocean Spray, Campbell's and Samsung, in order to improve the supply of machinery and consumables; (5) Campbell's Soup Company developed a soup capsule, adjusted to the Keurig machine of Green Mountain Coffee Roasters; (6) Coca Cola Company committed with Green Mountain Company in a Partnership Agreement, pursuant to the development of beverage machines and capsules for light drink /soda-water.

Consumption Trends – in 2013, three central consumption trends continued to develop: **Convenience Products**, locating quick and qualitative nutrition solutions, while saving time with an ability to consume wherever. **Health & Wellness Products**, as the emphasis in 2013 is improvement of the flavor of products in addition to being healthy and an increase in the demand for protein rich products; and **Fun & Indulgence Products**, providing solutions to the increase in the standard of living and the requirement for higher quality and indulgence.

Regulation – the involvement of governments in the food market throughout the world continued, aimed at maintaining public health (fighting obesity trend, environmental supervision etc.), creating transparency and encouraging competition.

In 2013, 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. Main events in this trend included Beitan Wine Chain which was purchased Kimat Hinam. Apax Fund (the holder of the majority of the shares of Tnuva) promotes an offering of Tnuva Company and concurrently handles discussions toward a potential sale of Tnuva to Bright Foods.

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 to 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.

As of the date of the report in Israel, there are six 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, Neto Trade and Uniliver Israel. 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. For further information, see Section 25.2 of this chapter.

In 2013, the Company in Israel concentrated its efforts in order to improve the products through valuable innovations, improvement of the ratio between weight and price, innovation with respect to variety and tastes, improvement of the nutritious value, improved comfort of consumption and improvement in the ration of cost and consideration to the customer.

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 two years to erosion of profitability of the chains and pressures margins of manufacturers.

In 2013, the Company avoided increasing prices in Israel and continued executing various actions, in order to reduce consumer prices, inter alia, regular price decreases and wide sales campaigns of products, permanent price reductions of dairy products, as well as sales campaigns in numerous products, intended maintain a low price level. These actions effect the profitability and are executed alongside efficient improving steps. The profitability was also effected by the fluctuations in the prices of raw materials in 2013. For details concerning 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, 2013.

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.

According to data of StoreNext, In 2013, the food sector grew nominally by 3.2% as opposed to 3.1% in 2012; in real values (monetary) the growth in 2013 is 2.1% as opposed to 0.9% in 2012. The food and beverage sector in Israel is estimated in nominal terms by approx. NIS33.8 billion, representing approx. 89% of the total sale of consumption products market in Israel. Most of the growing categories are characterized as categories having a health orientation and/or categories in which there was innovations during the preceding year.

Small and large private chains continued to expand and are opening additional stores in Israel, while the market share of retail networks continues to diminish. In 2013, there was a merger between Beitan Wine Chain and Kimat Hinam Chain. Digital purchasing websites of large chains were improved and provide a quick and comfortable purchasing experience. 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. In 2013, there was a change of trend in the sales of private brand in contrast with previous years, the share of the private brand decreased in all segments. According to the estimate of the Company, its robustness and high positioning assisted its continuous success and its ability to withstand the developing trends.

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 and freshness; 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.

Products of the Company within the framework of the Israeli operations have substitute products of a competing produce, including imported products and private brands of retail networks. During the recent years, the shekel currency strengthened, in consequence thereof import to Israel of low cost competing products, most of which are not under quotas or customs, increased.

The Group continuously battles competition 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.

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 following: steps of marketing chains, such as 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 enhanced regulation aimed at larger food companies; the development of brands and sale and marketing abilities of competitors.

For positive factors effecting the competitive condition of the Group, see Section 7 of this chapter.

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 450 million; by the end of 2013, approx. NIS 300 million was expended within the framework of the project. Construction is planned to be completed and the center to become operational in the first half of 2014. Shutting down of current sites, including the logistics centers in Petach Tikva and Tzrifin is expected to take place up until the end of 2015. Information concerning the estimated total cost, expectation for the completion of the erection and shutting down of current sites is a future anticipating information, which may not realize, to the extent that essential deviations would be discovered or that additional essential investments will be required or in the event that the requirements will change.

8.8 Raw Materials and Suppliers

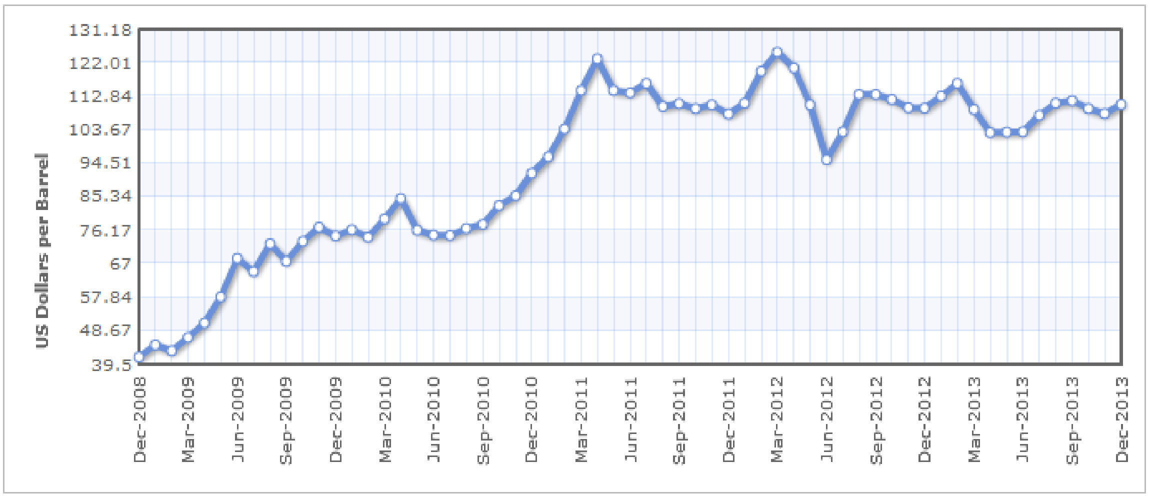
a. For description of fluctuations in the prices of raw materials utilized by the Company in Israel, see Section 6.1 of this chapter.

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 in eastern countries. There is a noticeable trend of transition from rigid packages in favor flexible packages, and there is an increase in the demand for recycled paper.

The field of packaging materials is highly affected by oil prices, bearing in mind that all is a central component in the manufacturing of packaging materials. The geopolitical events continue to affect the fluctuations in the price of Brent oil barrels in 2013, as well. Concurrently, there were price rises in all the energy inputs: diesel oil, benzine, liquefied petroleum gas (LPG) and natural gas, which recording the highest increase in 2013. Increases in the prices of energy inputs significantly influenced the production costs of the Company in Israel.

The following diagram shows the changes in the price per Brent barrel in 2009 - 2013 according to indexmundi.com:



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 wide variety of suppliers, and it chooses its suppliers on the basis of the quality of the goods they offer, their availability, the credibility and stability 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

Health & Wellness products are characterized by the emphasis of nutritional and functional aspects that are important to the consumer's 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 brands, as specified hereunder: (1) **"Strauss"** brand - "Milky", "Dany", "Daniella", "Joy" (which includes "Maadan Hagolan" and "Taanug"), "Gamadim", "Ski", "Symphony", cottage cheese, fresh pasta products and cut vegetables; (2) under **"Achla"** brand - prepared packaged salads, including hummus, eggplants, tehina, piquant salads and the like; (3) the **"Danone"** brand - yogurts, "Actimel", "Activi"a and "Danchol"); (4) **Yotvata** brand and enriched milk, fermented milk (Eshel, Leben, sour cream and sweet cream); (5) **Yad Mordechai** - honey products, olive oil and jams; (6) in addition, 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 2013 was characterized by variegation and innovation in most areas. The launching of the **Joy** Brand, includes innovations in the world of dairy deserts – dairy deserts with addition and the development of new products in the world of indulgence, such as cream Milky with a chocolate spoons and a Milky shake beverage. The Achla Brand continues a trend of trading up and development of products, characterized by providing an added value through the development of new and sophisticated recipes, based upon unique agricultural raw materials (e.g. cauliflower, parsley, zucchini, beetroot etc.) In 2013 the trend of development of health & indulgence products continued. Processes of decreasing sugar in dairy deserts and in dairy products continued. Variegating kinds of free fat yoghurts, launching products with measured contents of calories and variegation in the field of salads (hummus salads with additions, tahina enriched hummus, complex vegetable salads such as peppers and the like).

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		
	2013	2012	2011	2013	2012	2011
Dairy products	1,448	1,413	1,366	17.8%	17.3%	17.7%
Salads	278	260	254	3.4%	3.2%	3.3%
Other Health & Wellness products	261	247	254	3.2%	3.0%	3.3%
Total Health & Wellness products	1,987	1,920	1,874	24.4%	23.5%	24.3%

9.4 Competition

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 2012 and 2013 in reference to the Group's main Health & Wellness products, according to weighted data based on StoreNext figures for the bar-coded retail market (which includes the large food chains, bar-coded private mini-markets and independent food chains):

Similar product groups	Weighted Market Share (in Percent – Value)			
	For 2013		For 2012(*)	
	The Group	Major Competitor	The Group	Major Competitor
Yogurts[3]	45%	37%	43%	37%
Cheeses[4]	24%	64%	24%	62%
Dairy desserts[5]	68%	24%	66%	24%
Flavored milk	62%	36%	65%	33%
Fresh milk for drinking[6]	12%	73%	13%	71%
Packaged salads[7]	32%	39%	28%	39%
Cut vegetables	44%	28%	50%	24%
Honey	60%	17%	58%	15%

* 2012 data were adjusted to the validation of StoreNext's calculations.

9.5 Seasonality

The following data are for the years 2013 and 2012 relating to the Company's income in the Health & Wellness segment by quarter, in NIS millions:

	2013		2012	
	Income (NIS millions)	% of total income of segment	Income (NIS millions)	% of total income of segment
Q1	456	22.9%	455	23.7%
Q2	503	25.3%	487	25.4%
Q3	530	26.7%	511	26.6%
Q4	498	25.1%	467	24.3%
Total	1,987	100%	1,920	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.

3 Including probiotic drinks
4 Including cottage cheese, cream cheeses and soft cheeses
5 Including cheese desserts for toddlers – Gamadim, Daniela, Yummy, etc.
6 Including fresh and enriched milk
7 Including the products under the Achla brand

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 2013 and 2012 was 290 thousand tons and 287 thousand tons, respectively. The actual average production capacity utilization rate in the years 2013 and 2012 was 57% and 58%, respectively.

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 manufacturing machinery in the Health & Wellness segment in 2014.

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 Authority under a capitalized lease agreement of 2003. The lease period is 49 years, from June 1997.	---
Dairy in Kibbutz Yotvata	Production of milk beverages and enriched milk	---	6,100 m²	Sublease of from Kibbutz Yotvata. 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 Authority, 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, 2013.) that also applies to the land of the dairy. Floating charge on the property of the Company (applying also to real estate) in favor of the state of Israel

					in connection with the investment grounds received within the framework of granting a status of Approved Enterprise.
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 – . 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, renewed automatically for a further 10 years period unless either of the party informs the other of the cancellation of the agreement.	---

* During 2013, the operations of the Company in Aviv Dairies in the Netivot Industrial Zone were completed. The Company committed in a lease agreement with a third party that comes in the stead of the Company with respect to the current lease 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	Refrigerated distribution in			Lease of Meirav Etgar Ltd. (the Company controlled by some of	---

Petach Tikva	central and south region			the controlling shareholders of the Company). The lease period ends on June 30, 2014. The Company has an option to extend the lease period by two additional periods of 3 months each.	
Cross-Docking Site in Beit Shemesh	Refrigerated distribution in the Jerusalem area	390 m²		Lease of a third party up until July 2014. The parties signed a supplement to the Agreement, extending the lease period for 5 additional years.	---
Cross-Docking Site in Beersheba	refrigerated distribution northern Negev and Lachish region	4,920 m²		Leasing from the Israel Land Authority 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, 2013.

9.8 <u>Research and Development</u>

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 <u>Intangible Assets</u>

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 2013 and 2012, see Note 15 to the Financial Statements of the Company as at December 31, 2013.

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 113 and 30 manpower agencies), as at December 31, 2013 and December 31, 2012, respectively:

	Number of Employees as at	
	December 31, 2013	**December 31, 2012**
Administration	109	107
Sales and Distribution	14	15
Procurement and Logistics	263	229
Operations	641	663
Total	1,027	1,014

9.11 Raw Materials and Suppliers

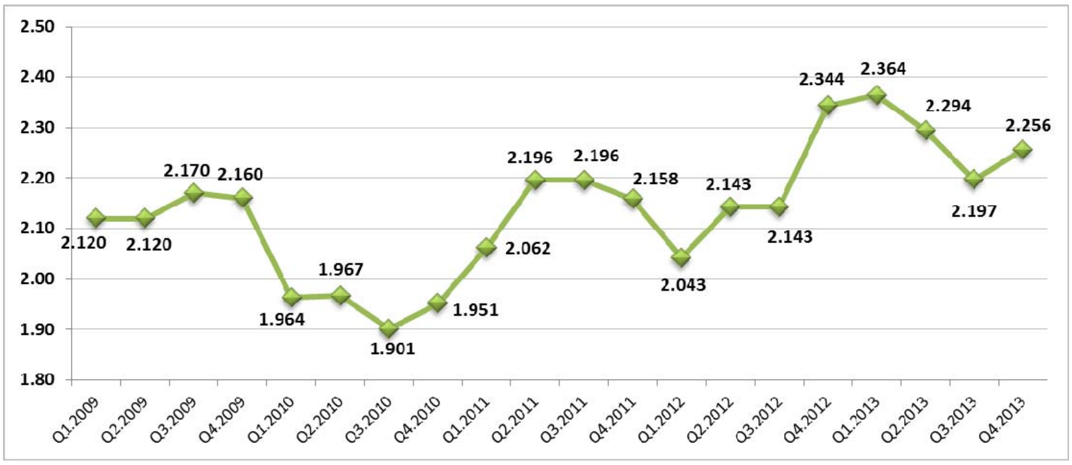
For information on raw materials and suppliers that are common to both the Health & Wellness and Fun & Indulgence segments, see Section 8.8 of this chapter.

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 and proteins, cocoa powder, tahini, different vegetables and legumes, frozen and crushed fruit, olive oil, honey and packaging materials.

Unprocessed 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 2009-2013 (the figures on the vertical axis represent the cost price ("target" price) in NIS of 1 liter, and the figures on the horizontal axis represent time:



The average price of milk in 2013 was significantly higher in comparison with the average price in 2012. During the first three quarters of 2013, there was an decrease in the prices of unprocessed milk, emerging mainly from decreases in prices on the commodity stock exchange of corn and various grains in the world, that are imported as food for cows, an high crops in the US. During the last quarter of 2013, there was an increase in the prices of unprocessed milk, followed by a additional decrease in the prices of dairy products during the first quarter of 2014.

Prices of milk powder and butter are derived from the price of unprocessed milk, and their prices decreased in 2013, similarly to the price of unprocessed milk.

The moderate decrease, 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. 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 2013:

The Amounts Included in the Financial Statement	
Operative current assets (*)	**359,760**
Operative current liabilities (**)	**283,187**
Balance of current assets over current liabilities	**76,573**

(*) - Including: net trade receivables, inventory, receivable income and prepaid expenses.

(**) - Including: net trade accounts payable 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".

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, 2011 (hereinafter: the **"Milk Law"**) was promulgated in October 20131. 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.

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, the Group's dairy products that remain subject to control are: Fresh Milk 3% Fat (Regular) in a Bag, Fresh Milk 3% Fat (Regular) in a Carton, Fresh milk 1% fat (regular) in a bag, Fresh Milk 1% Fat (Regular) in a Carton, Sour Cream (15% Fat), Sweet Cream (38% Fat) and 5% White Cheese. In addition, there are additional products, which are under control. On the strength of which are required to report their profitability and prices.

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

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.

<u>Licensing agreement</u> – 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, 2013.

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 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, whereby the rate of royalties will be determined according to a certain rate of the net sales of products, stated in the licensing agreement, without additions.

The total expenses paid in respect of the license, know-how and royalties in the years 2013, 2012 and 2011 were approx. NIS 13,729 thousand, approx. .NIS 10,718 thousand and approx. NIS 5,166 thousand, respectively. The main increase in 2012 and 2013 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 not bear material impact business operations in the short and medium term.

b. **Agreement with Yotvata**

On November 12, 1998 an agreement for the acquisition of shares in Yotvata was signed, the parties thereto being Kibbutz Yotvata (hereinafter: the **"Kibbutz"**), Yotvata Late Uri Horazo Dairies (Limited Partnership), Yotvata and Strauss Health (amended on August 20, 2003), whereunder Strauss Health acquired by way of an allotment of shares: (a) 50% of Yotvata'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 Yotvata. Three additional management shares are held by the Kibbutz; and (c) one casting share, conferring the right to appoint or dismiss one director in Yotvata 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 Yotvata determines the agreements regarding the management of the company jointly held by Strauss Health and the Kibbutz, including that the CEO of Yotvata is appointed by the board of directors of Yotvata 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. Yotvata'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 Yotvata, but not earlier than the year 2100. The capital notes may be converted into Yotvata 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 Yotvata 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 Yotvata'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 Yotvata 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 Yotvata brand or logo in the food industry other than with the advance approval of Yotvata'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 Yotvata brand or logo in other categories which are not in the food industry, other than with the advance approval of Yotvata'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 Yotvata's ordinary share capital, a resolution of the board or general meeting of Yotvata 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 Yotvata. 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 Yotvata'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 Yotvata's products for a commission at rates set forth in the agreement. It further determines that Strauss Health will continue to provide Yotvata with various management services, and that the Kibbutz will provide Yotvata 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 Yotvata, and the latter has undertaken to purchase the milk produced according to Yotvata'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 Yotvata, 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 Yotvata shall fall below 25% of Yotvata's ordinary share capital, it shall be obliged to transfer to Yotvata, 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 Yotvata, 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 Yotvata. Where a party has sold less than 50.1% of its shares, it shall transfer to Yotvata 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 Yotvata'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 Yotvata, by transferring all management shares, ordinary shares and all securities of Yotvata 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 Yotvata'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 Yotvata'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 Yotvata'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 Yotvata'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 Yotvata'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. Strauss Health reviews the issue of the exercise of the merger option under the agreement from time to time and according to the circumstances. 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 Yotvata and Strauss Health each issued a capital note to Yotvata 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, 2014. Partial payment of the capital notes was executed in January 2014 according to a total of approx. NIS7.5 million per each capital note, and the payment date of the balance of the capital notes was extended until January 1, 2017. For additional details, see Note 13.2 to the Financial Statements of the Company as at December 31, 2013.

10. The Fun & Indulgence Segment

10.1 General Information on the Fun & Indulgence segment

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

10.2 Products

The Group's major products in this segment are generally marketed in Israel under their brands: (1) **"Elite"** - bakery products, including biscuits, cakes, personal cakes, wafers, energy snack bars, Granula Energy, cookies and crackers (Pita Crunch) and sweet snack bars – "Mekupelet", "Kif Kef", "Tortit", "Taami", "Egosi", "Pesek Zman" and "Para" - chocolate tablets, chocolate fingers and sweet spreads; (2) **"Must"** - candies and chewing gum; (3) Salty snacks – "Tapuchips", "Shoosh"," Doritos", "Sababa"**,** "Popcorn" and "Cheetos" (potato and corn-based salty snacks) and various kinds of flour.

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 2013 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, the new Chocolate Para in flavors of Elite brands, a series of cookies intended to be served together with hot beverages for adults (Quarter to Seven series) 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 <u>Segmentation of Revenues and Product Profitability (According to Executive Reports of the Company)</u>

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, cookies and crackers); and "salty snacks" (including potato and corn -based snacks, peanut butter and corn-based snacks). And other flours.

Group of Similar Products	Income in NIS Thousands			Percentage of Group's Total Income		
	2013	2012	2010	2013	2012	2010
Confectionery and bakery	828	811	810	10.2%	9.9%	10.5%
Salty snacks[8]	185	170	156	2.3%	2.1%	2.0%
Total Fun & Indulgence Products	1,013	981	966	12.5%	12.0%	12.5%

10.4 Competition

The major competitors of the Group's products are Unilever, Osem Nestle, Diplomat, Leiman Schlussel and Sides. 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. In addition, private label products of marketing chains were added and expanded. In 2013, the Company expanded the activities of marketing and special sales campaigns.

The following table presents information on the market shares of the Group and its major competitor in the years 2013 and 2012 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 2013		For 2012*	
	The Group	Major Competitor	The Group	Major Competitor
Chocolate for children and adults category9	49%	19%	46%	20%
Chewing gum	30%	55%	28%	58%
Wafers	30%	24%	31%	22%
Salty snacks	35%	50%	34%	51%

(*) Data for 2012 were adjusted to the validation of StoreNext's calculations.

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

9 Including chocolate tablets, sweet snack bars (excluding Kinder Delice) and cereal bars.

10.5 Seasonality

Following are data for the years 2013 and 2012 relating to the Company's income in the Fun & Indulgence segment by quarter, in NIS millions:

	2013		2012	
	Income (NIS millions)	% of total income of segment	Income (NIS millions)	% of total income of segment
Q1	302	29.8%	317	32.3%
Q2	223	22.0%	196	20.0%
Q3	241	23.8%	232	23.6%
Q4	247	24.4%	236	24.1%
Total	1,013	100%	981	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.

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 2013 and 2012 was approx. 69.7 thousand ton and 68.7 thousand ton, each year respectively. The actual average production capacity utilization rate in the years 2013 and 2012 was 58% and 55%, 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 2014.

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 Authority, 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	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.

				currently take place for the examination of the option of acquiring title.(*)	

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 Authority 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.	---
Shaar Hanegev	For the distribution of		approx. 3,400 m²	Lease from a 3rd Party. Lease Agreement for 5	---

Industrial Zone	products of the Company that do not require Refrigeration in the south region			years and an additional option for 48 months.	
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, 2013.

10.8 <u>Research and development</u>

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 <u>Intangible assets</u>

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 2013 and 2012, see Note 15 to the Financial Statements of the Company as at December 31, 2013.

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 229 221 employees of manpower agencies), as at December 31, 2013 and December 31, 2012, respectively:

	Number of Employees as at	
	December 31, 2013	**December 31, 2012**
Administration	94	92
Sales and Distribution	148	148
Procurement and Logistics	286	272
Operations	998	991
Total	1,526	1,503

10.11 Raw Materials and Suppliers

For a description of the Group's Raw Materials and Suppliers, 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, cocoa mass and cocoa powder). The Group also uses mainly milk powder, sugar, flour, oil, nuts, potatoes and packaging materials.

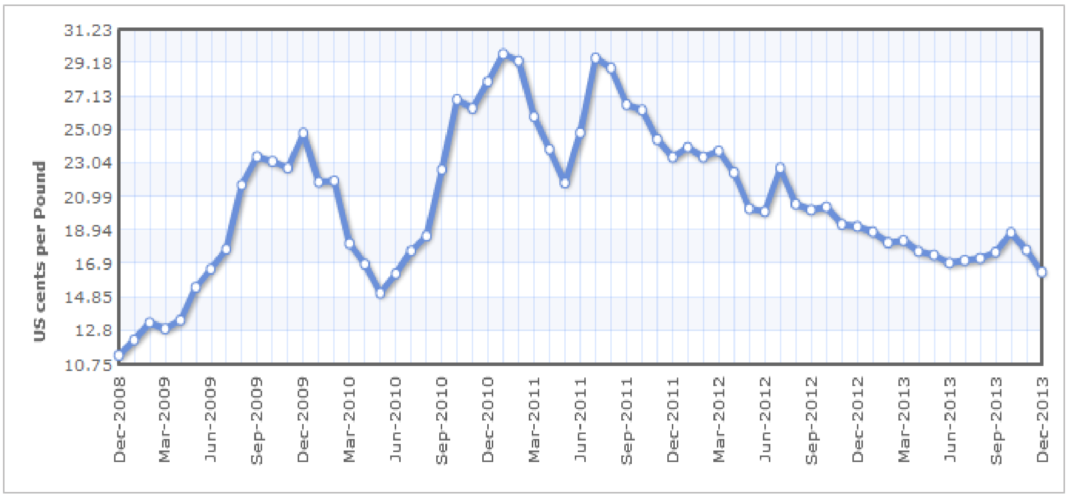
A considerable part of the abovementioned raw materials are commodities that are bought and traded on the commodities exchanges in London and New York in foreign currency (the Dollar, Euro and British Pound). Consequently, the cost of these raw materials is exposed to fluctuations in currency exchange 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, which continued in 2013. Cocoa prices increased in 2013 by approx. 21%. Price rises emerge mainly from an increase in the global demand for chocolate, a trend of decrease in global supply, low quality of cocoa beans and the involvement of speculators in market prices. Prices of processing cocoa butter increased during the year reaching high peaks resulting from high demands, increases of prices of processing led to a decrease in the prices of cocoa powder - the byproduct in the process of processing cocoa beans.

The following diagram shows the changes in prices of cocoa beans (pound sterling per ton) in the years 2008 – 2013, according to indexmundi.com website:

The trend of decrease in the prices of sugar continued also in 2013, in the process of which sugar decreased in value by approx. 16%. The price of sugar increased during the first quarter of 2013, emerging from a high scope of acquisitions among manufacturers in light of the low price in 2012. Further on in 2013 in light of an expectation of high crops in Brazil, sugar regains a significant trend of decrease, stabilizing on low prices along the second and third quarters of the year, after an insignificant increase in prices on the end of the third quarter, in consequence of development of a fear of low crops according to forecasts in Brazil and in light of increase in demands during the Ramadan period, thereafter the market regained a trend of acute decreases in light of peak crops.

The following diagram shows the changes in prices of sugar (cent per pound) in the years 2008 – 2013, according to indexmundi.com website:



10.12 Working capital

The following is the composition of working capital in the Fun & Indulgence segment in 2013:

The Amounts Included in the Financial Statement	
Operative current assets (*)	**349,741**
Operative current liabilities (**)	**160,985**
Balance of current assets over current liabilities	**188,756**

(*) - Including: net trade receivables, inventory, receivable income and prepaid expenses.

(**) - Including: net trade accounts payable 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, 2013.

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 2013, 2012 and 2011 the Group made payments to PepsiCo pursuant to the agreement in respect of royalties in the amounts of approx. NIS 5,773 thousand, approx NIS 5,436 thousand and approx NIS 5,501 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 specified licensing agreement and according to the agreements set forth below.

<u>In the licensing agreement for the use of the Company's trademark</u> - 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. From 2013, the Agreement is valid for a year period, renewed each year.

According to the opinion of the Company's management, the Group is not dependent on PepsiCo, and termination of the engagement between them shall not have a material impact on the Group.

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 manufactures, markets and distributes a variety of coffee products (instant coffee, roast and ground coffee, and espresso capsules) in Brazil, Russia, Central and Eastern European countries and in Israel, as well as hot drink powders (such as chocolate and cappuccino powders). Additionally, the Group markets and distributes espresso machines. Furthermore, 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 throughout Israel, serving customers in public places. In addition, the Group buys, processes and sells green coffee.

<u>The world coffee market</u>

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

	2013	2012 (*)	2013-2008	2012-2007
Worldwide Retail Coffee Market (Without Cafes):				
Scope in consumer prices (without cafes)	Approx. US$ 80.9 billion	Approx. US$ 75.6 billion	---	---
Quantitative scope of sales	Approx. 4.8 million ton	4.7 million ton		
Accumulative annual growth rate (CAGR) in terms of financial value.	---	---	Approx. 8.2%	Approx. 8.5%
CAGR in terms of quantity	---	---	Approx. 2.6%	Approx. 2.6%
Roasted & Ground Coffee Segment – Including Fresh Coffee Beans and Ground Coffee Beans:				
Rate out of the global coffee market in financial terms	Approx. 62.3%	Approx. 62.5%	---	---
Rate out of the global coffee market in quantitative terms	Approx. 75.5%	Approx. 75.7%	---	---
Financial scope of sales	Approx. US$ 50.4 billion	Approx. US$ 47.3 billion	---	---
Quantitative scope of sales	Approx. 3.7 million ton	Approx. 3.6 million ton	---	---
CAGR in financial terms	---	---	Approx. 8.4%	Approx. 8.8%
CAGR in quantitative terms	---	---	Approx. 1.9%	Approx. 1.5%

	2013	2012 (*)	2013-2007	2013-2006
Worldwide Retail Instant Coffee Market:				
Rate out of the global coffee market in financial terms	Approx. 37.7%	Approx. 37.5%	---	---
Rate out of the global coffee market in quantitative terms	Approx. 24.5%	Approx. 24.3%	---	---
Financial scope of sales	US$ 30.5 billion	US$ 28.4 billion	---	---
Quantitative scope of sales	1.2 million ton	1.1 million ton	---	---
CAGR in financial terms	---	---	Approx. 7.8%	Approx. 8.1%
CAGR in quantitative terms	---	----	Approx. 4.8%	Approx. 5.1%

(*) Data for 2012 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	
	2013	**(*) 2012**
Nestle	Approx. 22.7%	Approx. 22.4%
Mondolez formerly Kraft	Approx. 12.3%	Approx. 12.4%
DEMB formerly Sara Lee	Approx. 5.4%	Approx. 5.5%
Strauss	Approx. 3.0%	Approx. 3.0%
Tchibo	Approx. 2.5%	Approx. 2.5%

(*) Data in 2012 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	
	2013	2012 (*)
Mondolez formerly Kraft	Approx. 10.4%	Approx. 10.4%
DEMB formerly Sara Lee	Approx. 7.5%	Approx. 7.6%
Nestle	Approx. 7.5%	Approx. 6.8%
Strauss	Approx. 3.8%	Approx. 3.9%
Tchibo	Approx. 2.9%	Approx. 2.9%

(*) Data for 2012 was adjusted to the validation of Euromonitor calculations.

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

	Financial Market Segment	
	2013	(*) 2012
Nestle	Approx. 47.7%	Approx. 48.0%
Mondolez formerly Kraft	Approx. 15.5%	Approx. 15.4%
Tchibo	Approx. 2.0%	Approx. 2.0%
DEMB formerly Sara Lee	Approx. 1.9%	Approx. 1.8%
Strauss	Approx. 1.8%	Approx. 1.8%

(*) Data for 2012 was adjusted to the validation of Euromonitor calculations.

Global coffee sales according to a geographic division:

	Sales in Quantitative Terms	
	2013	(*) 2012
Western Europe	Approx. 27%	Approx. 28%
Latin America	Approx. 22%	Approx. 22%
North America	Approx. 18%	Approx. 18%
Australia and the Pacific Ocean	Approx. 16%	Approx. 15%
Eastern Europe	Approx. 10%	Approx. 10%

(*) Data for 2012 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.

<u>Purchases and Mergers in the Global Coffee Sector:</u>

For information with respect to purchases and mergers, see Section 7 above.

Consumption trends in the Coffee Market

In recent years, there has been a consumer trend of switching to qualitative, convenience and branded premium coffee products. The trend of consumption of products in single serve packs for preparation in home coffee machines is strengthened. The trend of espresso coffee consumption and espresso capsules for home espresso machines is also strengthened. The world coffee industry is enjoying the growth in café chains. The coffee consumption culture and cafés have exposed consumers to a broader variety of coffee tastes and to premium coffee products.

The Group established capabilities of marketing, sales and distribution in the market of AFH consumption, inter alia, in the operation of hot beverage machines, including the sale of home coffee machines, the sale or leasing 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.

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 in recent years both in and outside of Israel, growth that is both organic and arising from the acquisition of various operations.

As part of realizing the Group's strategy of global expansion in the coffee business and in light of requirements to finance this strategy, the Company committed in several agreements, as specified hereunder:

a. On June 30, 2008 the Company engaged in a set 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 (hereinafter: **"Strauss Coffee"**). On July 4, 2013, the Company notified that it holds an examination together with TPG for the examination of alternatives toward withdrawal of TPG from Strauss Coffee. For additional details see Section 12.13 of this chapter.

b. In November 2010, Strauss Coffee acquired the Le Café brand (instant coffee), which is sold in Russia and in the CIS countries and also 51% of the shares of Le Café and Instanta Companies. In January 2013, Strauss Coffee signed an Agreement for the purchasing of the balance of shares (49%) of Le Café and

Instanta Companies in consideration of payment of approx. \$13.4 million. In September 2013, the transaction was completed with certain changes, as compared to the original Agreement that was committed, whereby Strauss Coffee acquired the balance of shares (49%) in Le Café Company only, merging the operations of Instanta Company into the subsidiary in Russia and sold its holdings in Instanta (51%) to holders of rights, which are nor conferring control.

c. In January 2013, 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, in order to manufacture frozen dried coffee mainly for the subsidiaries of Strauss Coffee in Russia and in the CIS countries. 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 2013 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.

d. In February, Strauss Coffee committed in an agreement with the coffee company CIA Iguacu De Café Soluvel (hereinafter: "**Iguacu**") for the purchasing of the Amigo coffee brand. The brand is sold mainly in Romania, and its sale turnover for 2012 is evaluated by approx. \$12.5 million. In consideration of the purchasing of the brand, Strauss Coffee will pay (up until the date of completion of the sale and receipt of the necessary approvals) a total of approx. \$20 million. The acquisition will be financed by means of independent sources of Strauss Coffee. Completion of the transaction is stipulated in receipt of the approval of the antitrust commissioner in Romania.

<u>Changes in profitability</u>

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, 2013.

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.) continues, 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

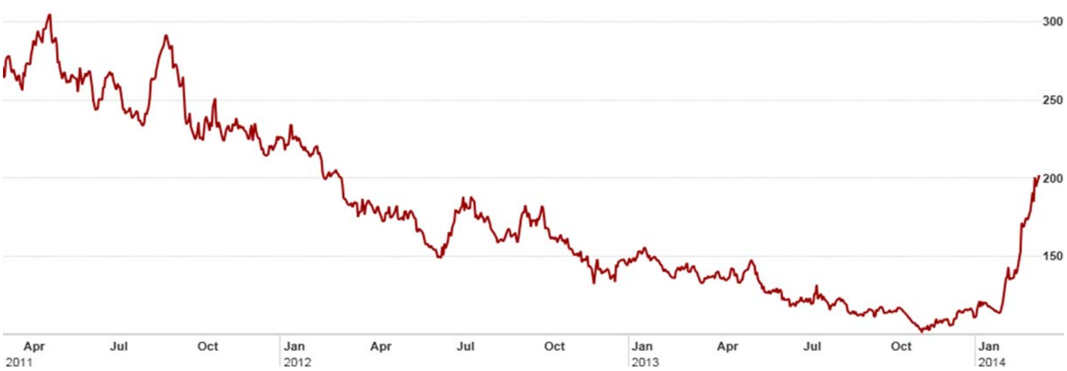
The major substitutes for coffee products are tea, cocoa and energy drinks. Soft and carbonated beverages are secondary substitutes.

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 50% 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 to the Financial Statements of the Company as at December 31, 2013. 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. In 2013, Arabica and Robusta coffee prices decreased in consequence of surpluses of stocks and speculators on the market. A significant increase of prices occurred in the first quarter of 2014. The following diagrams present the changes in the prices of different green coffee species in the period 2011-2013. 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]:

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. Additionally, the Group (through Elite Coffee Chain) engages in retail sale of coffee products, pastries and light beverages. During the final quarter of 2013, Elite Coffee Chain was awarded a tender for the operation of points of sale in stations of the Israel Railway.

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) which concentrates all its operations.

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 and capsules for espresso machines (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 recent years a consumer trend of shifting from agglomerated instant coffee to freeze-dried instant coffee, which is considered more upscale, has developed.

As a solution to the global consumption trend of consuming qualitative espresso and coffee for domestic consumption, the Company has launched toward the end of 2012 roast and ground espresso capsules for use in espresso machines. The coffee capsules are manufactured in the coffee plant in Israel.

As part of the worldwide health trend, the Company invests in the development of health products in coffee, such as the Chicory Product in Russia, the development of "Turkish & More" coffee (roasted and ground coffee rich with antioxidants) and re-launching in Israel of Balance Coffee.

12.3 Segmentation of revenues and profitability of products and services

In 2013, 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 Group leads in the category of coffee products (various kinds) and milk chocolate powders. The major competitors in various categories are, as follows: (1) instant coffee - Osem-Nestle and Jacobs, which is marketed by Diplomat; (2) in the roast and ground coffee products - Landwer, Jacobs and the private brands of the marketing chains; (3) Espresso capsules - Lavazza, which is collaborating with the Yellow; (4) AFH consumption - 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.

Coffee Market (instant and roast coffee)				
Market Share (in %)	**For 2013**		**For 2012**	
	The Group	**Major Competitor**	**The Group**	**Major Competitor**
Israel: Instant Coffee	42.3%	41.5%	44.1%	41.7%
Israel: Roast coffee	63.2%	5.6%	63.0%	6.3%
Israel: Coffee Weighted	52.1%	24.6%	53.1%	24.7%

*The market shares for the group of roast coffee products in Israel was calculated by weighing the data of StoreNext of bar-coded retail market from and an estimate of none bar-coded market direct sales, in light of the evaluation of the Company that the data of StoreNext alone does not represent this group of products.

Negative factors influencing or are likely to influence its competitive status in the Israel Coffee segment, in addition to the world economic crisis, may 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.

The Group deems that among the positive factors, which 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 capabilities to develop products 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 2013 and 2012 on the Company's income in the Israel Coffee segment, by quarter, in NIS millions:

	2013		2012	
	Income (NIS millions)	% of total income of segment	Income (NIS millions)	% of total income of segment
Q1	207	29.0%	220	31.1%
Q2	155	21.7%	146	20.6%
Q3	168	23.5%	172	24.3%
Q4	185	25.8%	170	24.0%
Total	715	100%	708	100%

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 2013 and 2012 was approximately 18 thousand tons. The average rate of actual utilization of production capacity in the years 2013 and 2012 was 74% and 71%, 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 2014.

In the first quarter of 2014, Strauss Coffee completed the shutting down of the manufacturing operations of instant coffee in the plant, situated at the center of a residential neighborhood in the town of Safed, while other manufacturing operations, including the packing and other operations remained in the plant at the industrial zone of Safet. This step is expected to continue and contribute to the improvement of the supply chain of the Company in instant coffee in Israel. For additional details, see Note 35 to the financial statements of the Company, as at December 31, 2013.

12.7 <u>Fixed Assets, Real Estate and Facilities</u>

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 m²	Approx. 5,300 m²	Ownership. For details concerning shutting down the manufacturing operations, see Section 12.6 above.
Plant in the new industrial zone in Safed	Packaging	Approx. 17,000 m²	Approx. 3,200 m².	Lease from the ILA under capitalized lease agreements, ending in March 2031 (approx. 10,500 m²) and in January 2033 (approx. 6,400 m²). 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 m²	Approx. 4,441 m²	Ownership of 4,800 m² and a lease of approx. 800 m² under a non-capitalized lease agreement ending in 2033. The lease agreement includes an option to the lessee to extend the rental period for a further 49 years.

The assets are not pledged.

(*) 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 several third parties for various leasing periods. The Company renews the lease period as necessary.

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, 2013.

12.8 Intangible Assets

The Group registered trademarks in Israel on most of the coffee brand names excluding products that are 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 2013 and 2012, see Note 15 to the Financial Statements of the Company as at December 31, 2013.

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 34 and 17 employees of manpower agencies), as at December 31, 2013 and December 31, 2012, respectively:

	Number of Employees as at	
	December 31, 2013	**December 31, 2012**
Management	7	4
Administration	60	59
Sales and Distribution	364	352
Supply Chain (Procurement and Logistics)	25	30
Industry (Operations)	217	195
Total	673	640

b. The management members mentioned above are members of the management of Strauss Coffee, which concentrates the Group's entire coffee operations.

c. 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.

d. In 2011, the Board of Strauss Coffee approved an international plan for the allotment of un-negotiable options for shares of Strauss Coffee to its senior executives. See Note 25.4.2 to the Financial Statements of the Company, as at December 31, 2013

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 2013:

The Amounts Included in the Financial Statement	
Operative current assets (*)	**199,575**
Operative current liabilities (**)	**76,131**
Balance of current assets over current liabilities	**123,444**

(*) - Including: net trade receivables, inventory, receivable income and prepaid expenses.

(**) - Including: net trade accounts payable 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, an 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.

<u>The Shareholders Agreement</u> – 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.

On July 4, 2013, the Company notified that it holds an examination together with TPG in order to examine alternatives for TPG withdrawing from Strauss Coffee. On November 26, 2013, TPG filed a motion with the court in the Netherlands against Strauss Coffee (and against the Company and the CEO of Strauss Coffee as involved parties) pursuant to the holding of an examination in connection with the Service Agreement between the Company and Strauss Coffee, inter alia, in matters of payments and taxation, pertaining to these agreements, the decision making process concerning the dismissals of the CEO of Strauss Coffee, issues of contrast of interests and a motion for interim relieves. On December 24, 2013, the court in the Netherlands dismissed the motion. For additional details, see immediate reports, dated November 27, 2013 and December 24, 2013 (reference Nos. 2013-01-204807 and 2013-01-107182, respectively).

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 Brazil, Russia Ukraine and in Central and Eastern European countries. 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.

Brazil – in 2013, sales of the Group in Brazil increased and the Group became the leading coffee company in Brazil. In light of the economic situation, the government of Brazil decided to control the inflation levels and assume a policy of interest reduction in 2013 and strengthening of the local currency. These actions and others encouraged growth in Brazil. In addition, during the first quarter of 2013, the government in Brazil cancelled an indirect tax on a package of food products, including coffee**.**

Eastern and Central European Countries (Poland, Romania and Serbia) – are in a recession with high rates of unemployment. The economic recession together with high inflation and erosion of wages led a decrease in consumption and demand. Sales of the Group in these countries diminished in 2013. Sales were mainly affected by intensive competition, a quantitative decrease in the coffee market and erosion of the average rate of the local currency opposite the shekel. Consumers in these countries are mainly interested in basic products according to low cost prices, sales and discounts, and the demand for private brands of large networks increased. In order to handle the economic situation and maintain profitability and market segments, the Group invested in the purchasing of new brands, sales promotion, sales and discounts.

Russia and Ukraine – these countries are in an economic recess, a political and social recess, high rates of unemployment and high inflation that led to a decrease in the purchasing power of the consumers. Sales of the Company diminished in 2013 in comparison with the corresponding period, a decrease that emerges, among others, from the erosion of the average rate of the ruble against the shekel. In 2013, a serious competition took place between the coffee manufacturers in Russia and Ukraine, as two strong competitors on the coffee market reduced the price of coffee by 25%. For additional details, see Section 13.4 hereunder.

After the date of the balance sheet, the political and economic crisis in Ukraine became more serious, in consequence thereof the prime minister resigned and the riots that burst led to the removal from office of the president. In March 2014, a referendum was held, within its framework it was decided according to high majority on the annexation of Crimea peninsula to Russia. At the background of the crisis and due to the complexity of the relations of Russia opposite the west, the Ukraine and Russian currency suffered a significant devaluation from the beginning of 2014 opposite the central currencies and opposite the shekel (at a rate of approx. 20% and 10%, respectively). In an effort to block the continuance of the devaluation in the ruble, interest was raised by the central bank from 5.5% to 7.0%. The Group routinely monitors the macro economic developments and the markets in which it operates.

13.2 Products

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

In 2013, Strauss Coffee focused on strengthening and positioning its brands and the development of new categories and flavors and strengthening the espresso capsules and espresso machine brands.

Brazil – the Group sells roast and ground coffee, instant coffee, espresso machines and capsules, cappuccino products, chocolate and other drink powders. In 2013, Strauss Coffee committed with Cafittaly, a manufacturer of coffee machines and capsules. In the framework of this commitment, the Company imports from Italy to Brazil espresso machines and capsules and other beverages (Single Portion) of the **Tres** brand. The Group operates mainly under the brands of **Café Tres Coracoes, Santa-Clara** and **Pimpinela** (instant coffee, roast and ground coffee), "**Fino Grão** (roast and ground coffee), **Leticia Frisco** (roast and ground coffee), **Tres** and **Leticia Frisco** (espresso machines and capsules). Within its operation in Brazil, the Group purchases, processes and imports green mainly to Europe and to the US.

Poland – the Group manufactures and sells roast and ground coffee and it also sells instant coffee and espresso coffee. The Group operates mainly under the brands of **MK**, **Fort** and **Pedro's**. In 2013, the Company launched two new blends of MK brands – Mk Café Brasilia Beans and Mk Café Guatemala Beans and also a new tea blend in the AFH product category, **TeArtis.**

Romania – the Group sells roast and ground coffee, espresso coffee, instant coffee and additional drinking powders. 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), **Doncafe Espresso** and **Totti Café Espresso** (espresso coffee), as well as **Fort** (roast and ground coffee). In February 2014, the Coffee Company committed with CIA Iguacu De Café Soluvel in the purchasing of the Amigo Coffee Brand. The transaction is stipulated in receipt of the antitrust commissioner in Romania.

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 2013, the Group launched a new blend in the category of **C-Kafa**.

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).

13.3 Segmentation of Revenues and Profitability of Products and Services (according to executive reports of the Company)

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 2013, 2012 and 2011:

Group of Similar Products	Income in NIS Millions			Rate of Group's Total Income		
	2013	2012	2011	2013	2012	2011
In Brazil[10]	1,697	1,778	1,708	20.7%	21.7%	22.2%
In former Yugoslavia countries	205	212	234	2.5%	2.6%	3.1%
In CIS countries	729	844	695	8.9%	10.3%	9.0%
In the Balkan States	226	257	249	2.7%	3.1%	3.2%
In Poland	368	407	386	4.5%	5.0%	5.0%
Other	5	0	0	0.06%		
Total International Coffee segment	3,230	3,498	3,272	39.4%	42.7%	42.5%

For further information on the coffee products, see Financial Information on Geographical Regions – Section 29 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 2013, 2012 and 2011:

[10] Including the green coffee and corn operations in an amount of NIS 317 million in 2013.

	Income in NIS Millions			Percentage of Group's Total Income		
	2013	2012	2011	2013	2012	2011
Roast & ground coffee	2,038	2,084	1,952	24.9%	25.5%	25.4%
Instant coffee	642	756	608	7.8%	9.2%	7.9%
Other	549	658	712	6.7%	8.0%	9.2%
Total International Coffee segment	3,229	3,498	3,272	39.4%	42.7%	42.5%

13.4 <u>Competition</u>

a. **In Brazil** – the Federal Republic of Brazil is divided into 26 states, enjoying a federal status and one federal district where the capital Brasilia is situated. In consequence thereof, the market is regional and decentralized (many small companies without a local dominant manufacturer). In each area, there is one or two competitors as leading central competitors, several medium size competitors and a large number of small local manufacturers. Melitta and DEMB (previously Sara Lee) are the two main competitors of the Group. In 2013, the Group became the largest company in Brazil in the field of coffee.

Poland – in the field of roast and ground coffee, the Group has three main competitors – Mondelez (formerly Kraft), Tchibo and Sara Lee. In instant coffee products, there are three main international competitors – Nestle, Kraft, Tchibo, leading in the market. Competitors in the field of espresso capsules are mainly Nestle and Kraft.

In Romania – in the roast and ground coffee market, the main competitor is the international concern of Mondelez, Amaroy - a private brand of the large marketing network Aldi and also several small manufacturers. In the instant coffee market, the main competitors are CIA Iguacu, Nestle and Kraft. In 2013, the significant competitor reduced the prices of the consumer of the brand coffee Jacob's, an action that led to a decrease in shelf prices. In order to avoid erosion of profitability, the Group invested in an advertising campaign "Best Price per Cup", which increased the sale of the Group, retained the value of the brand and profitability.

In Serbia – in the field of roast and ground coffee, the main competitor is Atlantice Group. In 2013, a new competing company started its operations in the field, Om

Cafe. In the field of instant coffee products there are three competitors: Nestle, KJS and Atlantice. In the field of espresso products, there are four competitors: Grand, Meinal Gulius, Segafredo and Lavazza. In 2013, the main competitor Atlantice Group strengthened in the field of instant coffee and currently it is the second in size on the Serbian market. In 2013, the main competitor Atlantice Group significantly reduced shelf prices causing a decrease in the prices of coffee to the consumer.

In Russia – the main competitors are Pauling, Orimi, Mondelez (roast and ground coffee) and Tchibo, Orimi, Mondelez, Nestle (instant coffee and espresso). In 2013, the leading competitors in Russia and Ukraine, Nestle and Mondelez, reduced the prices to the consumer of coffee products by 25%, an action that led to a decrease in the shelf prices by approx. 10-20% and to a serious price competition between the coffee companies.

In Ukraine – the main competitors are the international concern of Mondelez (in roast, ground and instant coffee) and Nestle (instant coffee) and also local manufacturers.

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.

Similar product groups	Weighted Market Share (in Percent – Value)			
	For 2013		For 2012	
	The Group	Major Competitor	The Group	Major Competitor
Brazil: Roast coffee	21.5%	18.8%	21%	21%
Poland: Roast coffee	17.4%	25.9%	18%	25%
Serbia: Roast coffee	34.1%	50.3%	34%	50%
Romania: Roasted coffee	25.1%	36.5%	27%	40%
Romania: Instant coffee	20.6%	28.0%	20%	28%

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 Seasonality

Following are data for the years 2013 and 2012 on the Company's income in the International Coffee segment, by quarter, in NIS millions:

	2013		2012	
	Income (NIS millions)	% of total income of segment	Income (NIS millions)	% of total income of segment
Q1	782	24.3%	828	23.7%
Q2	837	25.9%	838	23.9%
Q3	786	24.3%	877	25.1%
Q4	825	25.5%	955	27.3%
Total	3,230	100%	3,498	100%

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 Production Capacity

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 2013 and 2012 was approx. 295 thousand tons and 280 thousand tons, respectively. The average rate of actual utilization of production capacity in the years 2013 and 2012 was approx. 70%. 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 2014.

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	52,689 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, Can be 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	Tres Coracoes is the holder of the land ownership rights	See Note 26.2 to the financial statements of theCompany, as at Dec. 31, 2013.
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 theCompany, as at Dec. 31, 2013.
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 theCompany, as at Dec. 31, 2013.
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 theCompany, as at Dec. 31, 2013.

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, as at Dec. 31, 2013.
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	
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	Vladimirskaya area, Strunino	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 the coffee company in 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, 2013.

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 2013 and 2012, see Note 15 to the Financial Statements of the Company as at December 31, 2013.

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 459 and 761 employees of manpower agencies), as at December 31, 2013 and December 31, 2012, respectively:

	Number of Employees as at	
	Dec. 31, 2013	**Dec. 31, 2012**
Finance, Marketing, HR, IT and Administration	658	578
Sales and Distribution	3,388	3,142
Supply Chain (Procurement and Logistics)	333	327
Industry (Operations)	1,974	2,258
Total	6,353	6,305

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 2013:

The Amounts Included in the Financial Statement	
Operative current assets (*)	**917,819**
Operative current liabilities (**)	**187,898**
Balance of current assets over current liabilities	**729,921**

(*) - Including: net trade receivables, inventory, receivable income and prepaid expenses.

(**) - Including: net trade accounts payable and payable expenses and prepaid income.

13.12 Restrictions and Control of the Business Segment

For details concerning restrictions and control over the operations of the segment, see Section 12.12 above. For details concerning restrictions and control over the operations of the Group, see Section 25.1 hereunder.

13.13 Material Agreements

Joint venture in Brazil

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 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.

SCP Shareholders Agreement – 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[11] 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, 2013, 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 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, 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

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

Shareholder to sell its shares to a competitor of the jointly-held company until January 1, 2020.

Agreements with respect to the pledging of SCP's shares – on December 29, 2005 the Shareholders and SCP engaged in mutual share pledging agreements, in such manner that EDBP pledged its shares in SCP in favor of PRL under a first lien, and undertook to 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 **"Pledged Assets"**). Accordingly, PRL pledged its shares in SCP in favor of EBDP under a first lien, and undertook to so pledge all Pledged 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 pledged 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 Pledged 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 pledged shares. It was further determined that a Shareholder shall not be entitled to pledge its shares or the Pledged Assets, or to sell, assign or transfer the Pledged 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 3CI 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 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. <u>The International Dips and Spreads Segment</u>

14.1 <u>General information on the International Dips and Spreads Segment</u>

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 in collaboration with the international food concern PepsiCo.

In October 2011, the collaboration between the Company and PepsiCo was expanded with the signing of another partnership agreement with PepsiCo for the establishment of a global joint venture Obela, operating in other markets besides North America, Mexico and Australia. For further information of the Agreement with PepsiCo, see Section 14.13 hereunder.

b. Changes in the Scope of Operations in the Segment and its Profitability

<u>Changes in the Scope of Operations</u>

2013 witnessed continuance of the consumption trends on the market with a demand for healthy gluten free, natural and organic products. Likewise, consumers seek products that provide valuable consideration (price, quality and brand). In 2013, the Group continues to lead the market in the category of hummus and it continues with the development and innovativeness of fresh dips and salads. In 2013, the Group developed new products and enhanced the category of chilled salads and dips, improved the packages of products, significantly increased its geography spreading throughout the US and improved the distribution on large marketing chains. The Group invested in advertising, marketing and sale in order to a reach as many customers and enhance the awareness among consumers to the products of the Company.

Changes in Profitability

The trend of increase of the commodities prices and energy products continued also in 2013 leading to price rises of transportation, packing and cost of operation of manufacturing facilities.

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, 2013.

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

For further information on critical success factors and changes therein, see Section 7 of this chapter.

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

For further information on 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

The Group 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, the Group also manufactures and sells fresh salsa products under two brands, **"Santa Barbara"** and **"Chachies"**.

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 2013, the Group launched the Obela Hummus brand.

In Mexico, Obela manufactures sells and distributes hummus under the Obela brand.

14.3 Segmentation of Revenues and Product and Service Profitability

In 2013, 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: (1) hummus – Mondelez's **Athenos** and **Cedar's** and **Tribe**, of Nestle Company; (2) Salsa - the main competitor is Garden Fresh, name of the company and brand; (3) guacamole, the major competitor is **Wholly** of Hormel Foods Company; (4) dips – **Tribe** and **Marzetti**. The operations in the US are characterized by local competition against large companies possessing extensive distribution capabilities, and also against private brands of 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 convenience stores present alternative distribution opportunities.

Market Share

Sabra's market share (in value terms) in the US hummus category in 2013 is approx. 64%. Private brands remained almost unchanged as compared to 2012, with a market share of approx. 8% and a status of the second largest competitor (according to data of Symphony IRI Group[12]).

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[13]) was approx. 27.5% in 2013; the second-largest competitor in this market held a market share of 5.3%.

Scopes of sale in Australia and Mexico are insignificant.

14.5 Seasonality

Following are data for the years 2013 and 2012 relating to the Company's income in the International Dips and Spreads segment by quarter, in NIS millions:

	2013		2012	
	Income (NIS millions)	**% of total income of segment**	**Income (NIS millions)**	**% of total income of segment**
Q1	134	22.3	112	21.5
Q2	159	26.5	131	25.1
Q3	159	26.5	140	26.8
Q4	148	24.7	139	26.6
Total	600	100	522	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.

14.6 Production Capacity

a. The production capacity 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 manufacturing, operating in three shifts, in tons product per year in the years 2013 and 2012 was approx. 91 thousand tons and approx. 85 thousand tons, respectively. The actual average production capacity utilization rate in the years 2013 and 2012 was approx. 65% and approx. 61%, respectively.

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

14.7 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 (Approx.)	Rights in the Site
Plant	In Colonial Heights, Virginia	Production of salads	Approx. 193,200 m²	10,300 m²	Under title of Sabra (which operates toward expansion of production of the plant)
Plant	in Farmingdale, New York	Production of dips	Approx.7,600 m²	3,800 m²	Lease from a third until December 2035
Plant	in Oceanside, California	production of salsa	8,700 m²	3,600 m²	Under title of Sabra
Plant	In Cavan, South Australia	Production of dips	Approx.7,930 m²	2,000 m²	Lease from a third for 5 years from august 2013, inc. 2 option of 5 years, each.
Plant	In Mexico City, Azcapotzalco Industiral Zone, Mexico	Production of dips	Approx.1,639 m²	1,639 m²	Lease from a third for 10 years until 2021.

The assets are not pledged.

14.8 Research and Development

The Group together with PepsiCo erected a center of excellence, where it executes the research and development and levers the know-how in order to support the operations in Australia and in Mexico. See Section 20 of this chapter.

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 17 and 14 employees of manpower agencies), as at December 31, 2013 and December 31, 2012, respectively:

	Number of Employees as at	
	Dec. 31, 2013	Dec. 31, 2012
Management	13	15
Finance, Marketing, HR, IT and Administration	80	82
Sales and Distribution	39	32
Procurement and Logistics	87	73
Operations	445	414
Total	664	616

b. The employees are employed under offer letters. Employees from PepsiCo and relocated employees are employed under personal employment contracts. Collective agreements do not apply to these employees.

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).

In 2013 and in the first quarter of 2014, price of sesame increased significantly, in consequence of poor crops in India and in China and an increase in demands throughout the world. Prices of Hummus grains (chickpeas) decreased in 2013 in consequence of an increase in stock and crops after there was a poor crop in 2012 due to weather damages.

Prices of soybean oil (SBO) decreased in 2013 following a significant increase in 2011, which continued also in 2012. the decrease emerges from price erosion and a large supply of SBO on the market. Prices packing materials (plastic containers and lids) increased in the beginning of 2013 following price rises of energy inputs, however, price decreased slightly and stabilized along the year.

There is no dependence on any supplier in this segment. 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 Working Capital

The following is the composition of working capital in the International Dips & Spreads segment in 2013:

The Amount Included in the Financial Statement	
Operative current assets (*)	**79,847**
Operative current liabilities (**)	**54,382**
Balance of current assets over current liabilities	**25,465**

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

14.13 Material Agreements

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 (hereinafter: **"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.) (hereinafter: 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 where to 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. **<u>Joint Transaction with PepsiCo – Global Joint Venture</u>**

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 2011 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.

<u>Appointment of a Chief Executive Officer and Chief Financial Officer</u>: 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.

<u>Product distribution</u>: 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.

<u>Share transfer</u>: 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.

<u>Profit distribution</u>: 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, 2013 in "Other" segment. These Operations include:

15.1 Strauss Water

a. General information

The Group is active in the worldwide water market, in the development, assembly, marketing and service of water systems for filtering and purification of drinking water, 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 2013, 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.

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

In China – the operations of Strauss are executed together with Haier Company. (For a description of the Agreement, see Section 15.1.j (1) of this chapter.

The operations of Haier Strauss Water focused on the establishment of relations with the retail system, creating awareness to advanced purification technology (MAZE) safety and maximum comfort, among focused publics and the sale of products of the Water Market Premium.

In UK - The operations is executed in collaboration with Virgin Group, with whom a joint venture was established in the UK and Ireland. For further information, see Section 15.1.j (1) of this chapter and Note 6.6 to the Financial Statements of the Company, as at December 31, 2013.

In the UK, the segment of bars (the POU category) is not developed. In 2013, the operation of the Company in UK focused on the development of new branding, establishing awareness and improving the basis of the operative model.

b. **<u>Products:</u>**

The company engages in the development, assembly, marketing, sale and servicing of filtration and purification systems for drinking water, based upon an innovative technology developed by the Group, consisting of a combination between innovative developments in the field of engineering, chemistry and microbiology. Products of the Company include a verity of indoor and outdoor solutions.

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 2013, the Group launched the Bubble Bar Tammi4 appliance, a water bar that offers in addition to hot and cold water also gassy water (soda) in three levels of carbonation.

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 2013, the Group completed the line of products and launched the Watermaker Young and Watermaker Basic, as similarly to the Premium product, the Young products will also be sold in a version of hot/cold and hot/lukewarm while the Basic product will be sold according to the hot/lukewarm version only.

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 additional countries - Costa Rica, Singapore, Portugal, Canada Finland 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 (hereinafter: "**the BPN countries**")

c. **Competition**

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

The aggressive competition in the market of filtrated water solutions for the domestic sector (the POU category) increased also in 2013, as the competition increased the category at the expense of mineral water, while the consumer showed how sensitivity to the price of the appliance and service. The Group handled the competition through raising new customers and preserving current customers, improving trends of comfort, water quality and price desirability opposite brands of mineral water, as well as the launching of the new product, that also provides soda water .

In China – the main competitors are Qinyuan ,Midea and Angel. The market of water solutions remained stable, 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, raising customers through the Haier marketing networks in China

In the UK – competitors are actually companies of water in bottles and filters in jars, such as Brita. In 2013, the Group focused in raising customers through digital channels and connecting to the Virgin brand.

d. **Seasonality**

Following are data for the years 2013 and 2012 with respect to the income from the Water operation, divided by quarters, in NIS millions:

	2013		2012	
	Income (NIS millions)	% of total income of segment	Income (NIS millions)	% of total income of segment
Q1	104	21.5%	99	23.7%
Q2	114	23.6%	103	24.6%
Q3	126	26.1%	112	26.8%
Q4	139	28.8%	104	24.9%
Total	483	100%	418	100%

In the summer months (third quarter), the demand for cold water increases compared to other quarters. The increase in the income during the fourth quarter emerges from a growth in the international operation (mainly in China).

e. **Customers**

customers of the Group are households and the small business sector such as offices and stores, and institutional customers. Sales are executed according to orders from time to time without an accumulation of order in advance. The service agreements are not binding upon the customer, who may terminate the commitment at all times.

f. **Marketing and Distribution**

The marketing and distribution of products of the Group to households and businesses are carried out by direct sale in Israel and in the UK, through a call center or directly via the company's websites. Marketing in the business to institutional customers is performed through sales agents, who are in contact directly with potential customers and are filing offers to tenders, if necessary. Sales to customers are characterized by great variance and dispersion.

China – marketing and distribution operations are executed by means of marketing networks, mainly by means of the marketing network of Haier. The main advertising is on the internet, magazines and advertising on local billboards.

Israel - major advertising channels are the mass media, radio, television and print, and advertising on the Internet.

UK - on the Internet on billboards and printed press

The BPN countries – the marketing and distribution operations are executed by means of various partners in each country, on various marketing channels or in combination of one or more, such as marketing networks, direct sales 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 the water operations:

Nature of the Site	Location of the Site	Designation of the Site	Built Area of	Rights in the Site
Plant	Industrial zone nearby Kibbutz Native Ha LH	Manufacturing, assembly and packaging	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	8,052 m^2	Lease from a third party for a period up until December 2019 in one building and until August 2014 in the other building
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 2019
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

h. **Research and Development:**

The Group 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, boiling and soda water. All the innovative developments are supported by means of 18 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**

Following is information on the number of employees of Strauss Water as at December 31, 2013 and December 31, 2012, respectively:

	Number of Employees as at	
	Dec. 31, 2013	Dec. 31, 2012
Management	6	5
Finance, Marketing, HR, IT, R&D and Administration	216	191
Sales and Distribution	647	410
Procurement and Logistics	8	6
Operations	271	334
Total	1,148	946

The number of employees in Stauss Water in a division according to countries, as at December 31, 2013 and 2012:

	Number of Employees as at	
	Dec. 31, 2013	Dec. 31, 2012
Israel	833 **(including workers of manpower agencies)**	744 **(including workers of manpower agencies)**
UK	20	54
China (inc. the joint venture)	152	92
Total (including workers of manpower agencies)	1,148	946

j. **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 uses compressors and ultraviolet bulbs.

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

k. **Material agreements**

1) **Joint Venture – Haier**

On October 16, 20122010, 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 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 2012, 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 2012 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. In 2012, $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 was managed under joint control of Strauss Water and VGF from the date of the commitment up until December 31, 2013.

It was agreed between the parties, 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.

It was further agreed that VSW UK will be managed under joint control, 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, the conditions for an additional investment have not materialized, as stated, and the additional investment in the capital have not been made, as yet.

In light In light of that stated, from January 1, 2014, one of the three directors appointed by the Virgin Group submitted his resignation and as of the date of publication of this report, the Company has five directors, three of whom were appointed by the Group and two were appointed by the Virgin Group. As of the date of publication of this report, the Company has control over

15.2 <u>Max Brenner</u>

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 53 branches in Israel and worldwide, 5 of them owned by the Group and 48 operated under franchise, as specified hereunder: (1) Israel - six branches are operating under franchise; (2) USA – five are under ownership: in New York[13], Philadelphia, Las Vegas, Boston and Meriland; (3) Australia – 35 branches in (in 2013 five new branches were opened); (4) the Far East – 2 branches in Japan and 3 in Singapore and one in Philippines; (5) Russia.

The Max Brenner manufacturing plant is situated 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 Authority (which itself has leased the rights from the Greek Patriarch until the year 2053) under a capitalized lease agreement ending in April 2043.

[13] In New York, together with a partner, which holds 10% of the holdings.

As at December 31, 2013 the Group employs 482 employees in Max Brenner's operations, compared to 486 in 2012.

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 15.1.e 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 being able to choose from a variety of products offered to him, as this choice is usually made by the purchasing director or central buyer. Parameters of 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. 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 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.

Chilled salads– 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. 24% of the sales; Mass Merchandisers (giant chains of department stores such as Walmart); retail chain (stores on nationwide and regional chains) – constituting approx. 61% of the market; and convenient stores – approx. 5% of the market. The largest customer, covering 15% 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.

c. 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 2013 and 2012:

Customer type	Sales Channels – 2013							
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads[14]	Other	Total Group	% of total
Large customer market	1,168	456	353	1,071	515	--	3,563	43.8%
Private market	561	358	97	1,722	56	--	2,794	34.3%
AFH	232	161	146	147	29	116	831	10.2%
Other	26	38	119	289	--	483	955	11.7%
Total	1,987	1,013	715	3,229	600	599	8,143	100%

Customer type	Sales Channels – 2012							
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads	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%

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, 2013.

[14] Including sales of Sabra at a rate of 50% only.

16.2 Dependence on customers

In 2013 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 in the medium and long term.

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 in Israel) 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 Yotvata, 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; In the beginning of 2014, the Company executed a significant step in consequence thereof the Company provides to most of its customers chilled products within a period of up to 24 hours; "van-sale" method - 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, 2013. 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. In 2013, the Group narrow down the shelf-stocking teams, that handled renewal of orders and arranging the Group's products on the shelves, in consequence of a transition of large chains, such as Shufersal, Mega, Beitan Wines, Hatzi Hinam and Co-Op Shop to independent shelf-stocking in the area of dry foods.

   In regard of the stand of the antitrust commissioner of January 2005 and the agreed injunction order consolidated between the commissioner and the dominant food suppliers, 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 to 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.

Brazil – the sales and distribution system serves some 57 thousand points of sale in the presale method and is operated by distributors who are Company employees and a small number of independent distributors, who are engaged by the Company as needed. The products are transported by trucks owned by the Group and additional trucks of external carriers, as needed. 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.

Poland – the retail market and AFH sales system serves some 12 thousand points of sale in the pre-sale method 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. In 2013, the Company opened in Poland a main logistic center for the purpose of the sale system in the AFH field. Orders in the AFH field are executed by means of the new logistic center. Accordingly about 8 warehoused were shut down. The Company in Poland makes use of 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 employees of the Company in Poland and through independent distributors.

Romania – the sales and distribution system in the retail and AFH markets serves some 25 thousand points of sale through independent distributors in the pre-sale and tele-sale methods. The Company in Romania 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. 16 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. The Coffee Company in Serbia has two clients, whose loss will significantly effect the profits of the Coffee Company in Serbia – Delhaize Serbia and Mercators.

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, 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.

Sabra – The sales and distribution system serves some 50 thousand points of sale in the USA and Canada. the distribution of its products is d is carried out through independent logistics centers, owned by a third party (3PL). The products are sold according to the pre-sale method, distributed directly to the logistics centers of the chains or by means of independent distributors. There is no shelf-stocking practice among customers. Deliveries are made within up to 10 days from the day the order was received and there are no returns of goods.

18. Connection with Consumers, Advertising and Marketing Communications

The Group supports its leading brands in Israel by extensive marketing communications handled through three main channels – (1) **The advertising channel** mainly consists of the mass advertising media such as television, Internet, billboards, cinema, printed press and radio. In 2013 the Group continued to lead as the Number 1 advertiser in Israel in terms of the total volume of investment in all advertising channels[15]. The Company increases the presence of its brands in the digital arena and executed substantial moves in the worlds of cellular

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

advertising, 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** consists of events and sales promotion campaigns, their goal being to enhance the brand experience, create awareness of campaigns at various stores and food chains (such as product samplings at points of sale, sample giveaways etc.).

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

The Group manages its product portfolio in all countries where it is active.

In 2013, the Group invested in the development of infrastructures, the structuring of channels and contents that promote a direct and daily dialogue with the consumer through social medias and various digital channels, such as a website, the Strauss Sheli Group, Facebook, Twitter and the like.

The Group's advertising expenses (including accessories, market surveys and packaging design) in NIS millions in the years 2013, 2012, and 2011 are as follows:

	2013	2012	2009
Israel operations	189	155	170
Coffee operations	224	194	168
Other	113	108	98
Total	526	457	436

The increase in advertising and marketing communication expenses in 2013 emerges from a development of brands of the Company and innovations in all segments and an investment in reinforcing current brands.

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. As of December 31, 2013, the rights in the asset were not registered in favor of the Company, as yet, however, a cautionary notice is registered in favor of the Company with respect to the asset.

In 2013, all the tax approvals concerning the purchase transaction were furnished upon the Company, and according to provisions of the Sale Agreement the entire amount of deposit that was held pursuant to assurance of the furnishing of the tax approval was released to the sellers. 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 in respect thereof are received.

Furthermore, the sellers undertook 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, 2013, the rights to the asset have not yet been registered in the sellers' name.

In 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. For further information, see the Company's Immediate Report of January 24, 2011 (Ref. 2013-01-026859).

In the third quarter of 2012, the management of the Company decided to designate the additional areas to real estate for investment. For further information, see Note 16.3 to the Financial Statements of the Company, as at December 31, 2013.

19.2 Real Estate in Givatayim

As of the date of the Report, the Group holds rights in an 8,346 m² plot in the "city" quarter of Givatayim, after sale of most of the area owned by it). See Note 16.4 to the Financial Statements of the Company as at December 31, 2013. the rights are mortgaged in favor of a banking institute.

20. Research and Development

The Group, as part of its business strategy, 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. The development and innovations of the dairy products and salty snacks is executed through using the comprehensive knowledge in the possession of the Company's strategic partners, PepsiCo and Danone, respectively. In addition, the Group operates to promote technological cooperations with global companies from concurrent disciplines, such as companies of cosmetics, packing, raw materials and the like.

In 2013, the Group continued to develop innovative products and create solutions that improved the health of its consumers, improving and increasing the efficiency of manufacturing processes, developing consumption of alternative energy, environmental matters, including the development of new packages, which will improve maintenance of quality and freshness of the products. The technological solution for needs of the Group is provided by technological teams, consisting of development people in business units and teams of engineering and technology in plants. Furthermore, a professional team was established of various disciplines in the management of the Group, in order to reinforce the technological leadership of the Group. The team engages in the construction of infrastructures for processes of management, professional promotion, qualification plans, designative training plans, development courses, indexes of performance and improving the profile of manpower raising profile. For this purpose, we have created the Food Tech Alpha Strauss Community in Israel, that actively connects Strauss to researchers, inventors, initiators, academic institutes and governmental capital risk funds. 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 the Company and its capability to turn technologies into products is of a great value to all the parties. In 2013, many plans of new technologies were examined and over 20 projects executed. In addition, several breakthrough projects were launched under support of the Chief Scientist of the Ministry of Economics. The projects examined in advanced manner various technologies having value in all the entire technological envelope of products of the Company, raw materials, unique components, processes of quality control and assurance, packages, energy, wastewater and components having health benefit.

For research and development in the operations of Strauss Water, see Section 15.1 of this chapter.

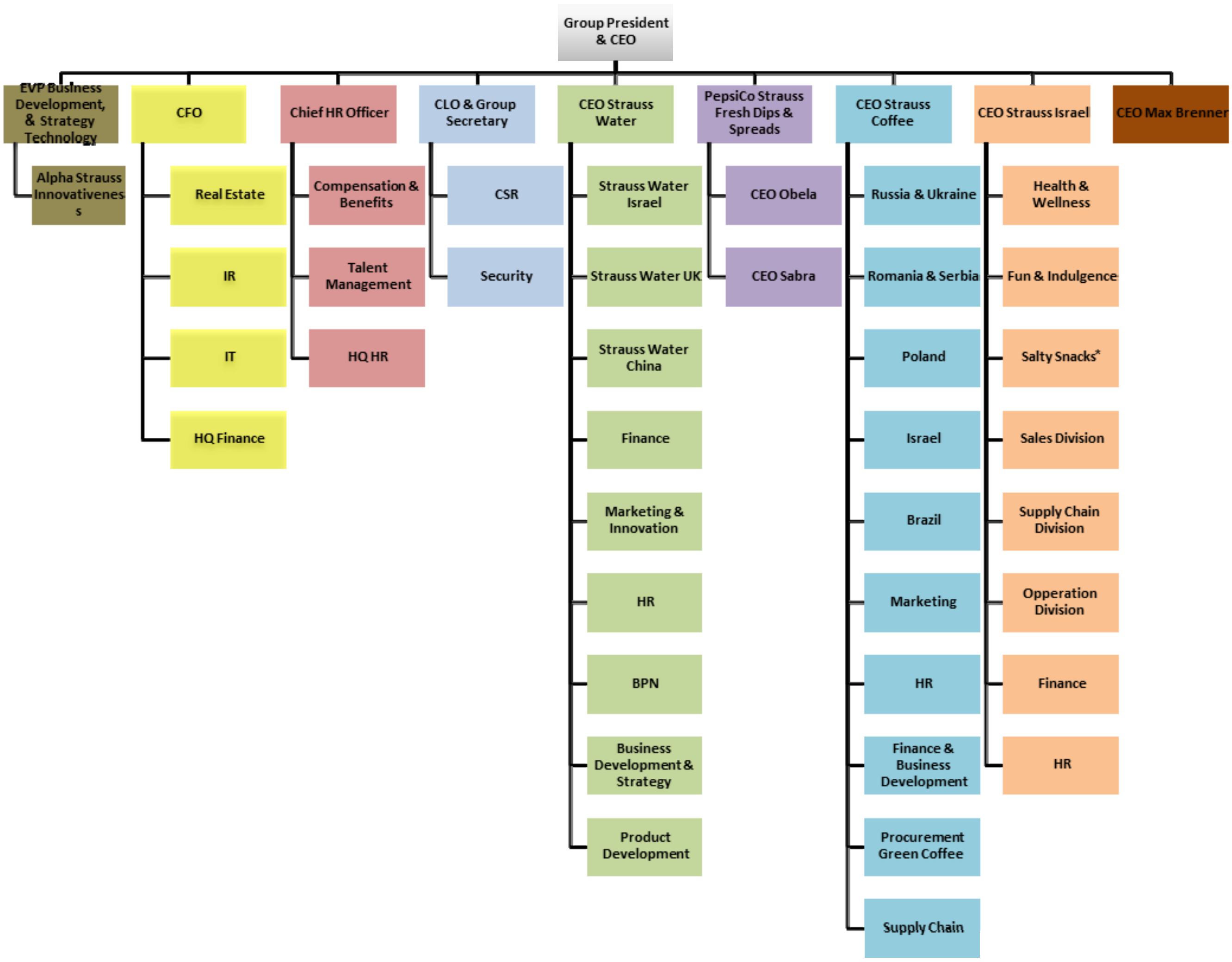
According to the evaluation of the Company, the total financial resources consumed during 2013, as part of the development of new flavors and products, new packages, improving and increasing the efficiency of work processes, projects pertaining to breakthrough technologies and the like amounted to approx. NIS63 million (in 2012, approx. NIS68 million).

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.

*** Group Communications department is subordinated to the Group President & CEO.

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, legal consultant and the Group Secretary, Group VP Human Resources, Group CFO, and VP Strategy and Business Development.

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

For information on the number of employees in the group headquarter in the years 2013 and 2012, 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 planning of supply, 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 management 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 provides Strauss Coffee in Israel with certain head office services, such as human capital, operations and logistics, sales and distribution, which are directed by the Management 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. The international coffee business is managed through the managements of the companies in various countries: Poland, Russia, Ukraine, Romania, Serbia, Israel and Brazil. Each company in these countries maintains separate headquarters, consisting of the following: CEO, 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 22 countries worldwide. The total workers employed by the Group amount to approx. 13,565 and approx. 13,570 employees, as at December 31, 2013 and December 31, 2012 respectively (including approx. 1,139 and approx. 1,388 workers of manpower agencies, as of December 31, 2013 and December 31, 2012 respectively. The layout of employees includes all employees of the Group, even in cases where the activity is jointly controlled and proportionately consolidated.

b. Following is a breakdown of the number of employees in the Group Corporate Center in Petach Tikva, including 1 and 2 workers of manpower agencies, as at December 31, 2013 and December 31, 2012, respectively.

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	Number of employees as at December 31, 2013	Number of employees as at December 31, 2012
Headquarters employees	184	169

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 143 and 219 temporary workers of manpower agencies, as at December 31, 2013 and December 31, 2012, respectively.

	Number of employees as at December 31, 2013	Number of employees as at December 31, 2012 (*)
Employees of Israel HQs, Sales Division HQ and Supply Chain Division HQ	1,508	1,904

(*) A decrease in the quantity of workers in sales emerge mainly from the transition to an independent management of shelf stocking by the marketing networks.

d. The Group employs approx. 10.5 thousand employees, while neutralizing half of the employees of relatively consolidated companies, as per the executive reports (the Group employs in all of its companies approx. 13.5 thousand employees, half of them in Israel, as stated in Section 21.a above). The Group employs approx. 6.4 thousand employees in companies, controlled by the Group (as per the financial statements). The ratio between the fee of CEO of the Group and employees of the Group is all the countries of operation of the Group (Israel, Russia, Poland, Romania, etc.) not included on the senior management, as per the financial statements, amounts in 2013 to 60. The ratio, while neutralizing share based payment amounts in 2013 to 26. The Company acts pursuant to maintaining the accepted gap on the market between the salary of its seniors and its employees. According to data of the Company, in 2013 the ratio between the salary of the CEO of the operations in Israel and employees of the Company in Israel, who are not on the senior management, amounts to 19. The ratio, while neutralizing share based payment, amounts in 2013 to 16. The ratio between the salary of the CEO of Strauss Group (directing the entire operations of the Group, including vast international operations) and headquarters employees, who are not on the senior management, amounts in 2013 to 31. The ratio, while neutralizing share based payment, amounts in 2013 to 14.

21.3 Benefits and the Nature of the Employment Agreements

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 2013 agreements were signed in two plants of the Group in Israel. The agreements include wage increases and seniority additions, as well as special welfare condition unique to each site.

The terms and conditions of employment of the employees are determined in personal employment contracts.

Employees of the Sales Division, Corporate Center employees and employees of the head offices in all divisions in Israel as well as sale persons in the Sales Division 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.

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.

The Company provides to its employees services of a “hot line”, a direct channel on issues of ethics and ordered management, available to all the employees of the Group throughout the world. The “hot line” enable employees to report in a variety of issues, including: discrimination and harassment, improper or unsuitable conduct, theft, violence or menace, violation of corporate policy and the like.

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 the US, Russia, Ukraine, Poland, Romania and Serbia there is no general collective agreement that applies to the Company's employees and the employees are not organized in 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 various training options within the organization and professional contents.

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, 2013 is NIS 7.1 million. In

Brazil, there is an arrangement with the banks, pursuant to the giving of loans to employees through the banks.

21.7 **<u>Contractor's Employees</u>** – 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 whereto 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 2013, 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 **<u>Officers and Managers</u>**

a. **Option Plan** – with respect to updates in the option plan for senior officers from May 2003, see Note 25 to the financial statements the Company, as at December 31, 2013. There were no new grants in 2013. For further information concerning grants in 2014 up until the date of the Report, see Note 40 to the financial statements the Company, as at December 31, 2013.

b. **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 25.4.2 to the Financial Statements of the Company as at December 31, 2013.

d. **Management Incentive** – in 2013, as per Amendment No. 20 to the Companies Law, the Group approved the remuneration policy of officers. For details of the remuneration policy of officers, 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 of Additional Information on the Corporation.

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 2013:

	Average interest rates, including linkage expenses* on loans not designated for specific use for the year 2013		
	Short-term loans	**Long-term loans**	**Average rate**
Group Corporate Center			
Bank loans	3.05%	5.39%	5.39%
Non-bank loans (*)	--	5.63%	5.63%
Average rate	3.05%	5.60%	5.60%
International Coffee			
Bank loans	4.37%	5.12%	4.69%
Other			
Bank loans	--	3.99%	3.99%

Non-bank loans	--	4.40%	4.40%
Average rate		4.01%	4.01%

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

22.2 Details concerning debentures, issued by the Company, see in Notes 20.2 to the Financial Statements of the Company as at December 31, 2013.

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, 2013.

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 **Credit Restrictions**

The Company undertook toward banking institutes and institutional investors and also toward 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, 2013 the ratio of the shareholders equity (not including the minority interest) to the total balance sheet value was 26.3%, and the net financial debt to EBITDA ratio was 1.53. 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 238 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, 2013.

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 235 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, 2013 until on or about the date of the Periodic Report, credit in an amount of approx. NIS 25 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 2,473 million, the Group as of said date utilized an amount of approx. NIS 1,059 million. Most of the credit frameworks that were rendered in favor of the operations of the Company and of Strauss Coffee.

22.9 <u>Credit According to Variable Interest Rates</u> – following is an itemization of credit at varying interest rates for 2013:

	Change mechanism	Interest range	Amount of credit as at December 31, 2013 (NIS millions)	Interest rate on or about date of Report
Group Corporate Center	**Dollar – LIBOR**	**2.25%-2.28%**	**43**	**2.24%**
International Coffee	**Real – TJLP/TR/CDI**	**5.0%-10.9%**	**19**	**5% - 11.41%**
International Coffee	**Dollar – LIBOR**	**1.44%-2.6%**	**94**	**1.4% - 2.6%**
International Dips and Spreads	**Dollar – LIBOR**	**1.95%-1.98%**	**46**	**1.94%**
Other	**Dollar – LIBOR**	**2.03%-2%**	**18**	**1.99%**
Other	**NIS – prime / on call**	**3.25%- 5.15%**	**23**	**2.7% - 4.4%**

22.10 <u>Credit Rating</u>

On July 25, 2013 Maalot published affirmation of the ilAA+ rating of Debentures Series B and D in circulation. See the Company's Immediate Report of July 25, 2013, Reference 2013-01-100902.

On January 21, 2014, Midroog published affirmation of the Aa+ 1 with stable horizon with respect to Debentures Series B and D in circulation. See the Company's Immediate Report of January 21, 2014 (Reference 2014-01-001663).

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, 2013.

23.2 Tax Assessments Issued to Companies of the Group in Israel and outside Israel

For details, see Note 37.5 to the Financial Statements of the Company as at December 31, 2013.

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

For details, see Notes 37.1 and 37.2 to the Financial Statements of the Company as at December 31, 2013.

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, 2013.

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, 2013.

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, 2013. For losses in which respect no deferred taxes were credited, see Note 37.6 to the Financial Statements as at December 31, 2013.

24. Environmental Quality

24.1 General Environmental Risks Involved in the Operations of the Group

In general, plants of the Group, due to the nature of their manufacturing processes, do not pose a potential for environmental risks, which could materially effect the Group. At the same time, manufacturing processes in plants of the Group are effected by a variety of environmental aspects, among others, waste, wastewater and hazardous materials, uncontrolled use of or treatment thereof is liable to induce environmental risks. The Group therefore assumes the necessary means in order to diminish such risks, as follows:

a. **Wastewater treatment** – considerable amounts of water and detergents are used in the Group's production sites, among others, containing organic substances, oils and sodium, which are is liable to increase the pollutant concentration, cause smell nuisances and sanitary nuisances. This wastewater should be treated, inter alia, due to the policy if returning wastewater for irrigation in Israel, requiring purification of wastewater according to high quality in order that they can be used for irrigation.

b. **Air pollution** – energy consumption in the Group's sites and fuel consumption for the manufacturing operations of the Group (the use of steam boilers and ovens) and within the framework of the current operation (the use of electricity, consumption of fuel for the distribution of products of the Group). Use of Freon cooling fluids in part of units of the Group. 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. These processes and uses are liable to cause air pollution, emission of greenhouse gases and damage to the ozone layer.

c. **Soil pollution and contamination of water sources** – leakage of hazardous materials used by units of the Group (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. This problem is shared by all the Group’s sites throughout the world. 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 <u>Legal Provisions Relating to Environmental Quality Which Apply to the Group</u>

In the Company's activity in Israel, it is subject to environmental legal provisions, mainly as follows:

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 Law (Plant Wastewater Discharged into the Sewage System), 2012, 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. These rules entered validity in September 2011. In 2014, a new draft of the rules is about to be published; the rules of water and sewage corporations (tariffs for water and sewage services and the erection of water or sewage systems) 2009 define special payment of tariffs to the extent that quality of sewage is under that defined in the sewage quality rules.

Monitoring and control of sewages plans were determined by the water and sewage corporations to some of the sites of the Company, including the manufacturing plants, according to the rules of quality of wastewater. In several events, payment requirements were received due to deviation in sewages, which as of the date of this Report are in dispute and are under clarification with the various water and sewage corporations and/or the Environmental Protection Ministry. At the same time, the Company acts routinely to repair malfunctions and to execute changes and improvements in the sewage systems, where it is necessary.

In addition, the business licenses and toxic permits that are given to each plant may include provisions for the treatment of sewages.

b. **Air pollution and damage to the ozone layer** – the Clean Air Law, 2008, and the regulations installed on its strength, are intended to bring about an improvement in the air quality, in order to protect the life and health of individuals and protect the environment. The law deals with many of air quality, among others, imposing a duty on various industrial sectors listed in it to be equipped with emission permits, as a condition to the continuance of their operation, as stated by law for each sector. For operations that are not listed by the law and which involve emissions of contaminators to the air, relevant provisions will be determined in the business license of the plant. Sites of the Company are not required to holds an emission permit, as stated, and the provisions on the issue of air emissions of contaminators are assimilated, where necessary, in the business licenses of plants of the Group.

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 Water Law, 1959, prohibits contamination of water sources; the use of hazardous materials in units of the Group is subject to the Hazardous Substances Law, 1993, which regulates the manner of handling poisons and harmful chemicals. Production sites receive a poison license, on and the strength of this law. In some of the sites of the Group, there is use and possession of hazardous materials for purposes of cleaning and treating sewages. All the sites of the Group, holding hazardous materials, that require a toxic permit, obtain a valid toxic permit. The Safety at Work Regulations (Safety Data Sheet, Classification, Packing, Labeling and Marking), 1998, which dictate the method of work with hazardous materials and the manner of their storage. As of the date of the Report, there is a Draft Law for the Prevention of Soil Contamination and Rehabilitation of Contaminated Soils, 2011, imposing broad duties on an owner/holder of a land

and anyone causing contamination of soil. According to the best knowledge of the Company, this is a draft law and there is no certainty as to the final drafting, which will be finally accepted, if any.

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. Supervisors, as stated, are active in sites of the Company in Israel.

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 Packages Law, 2012, (“**the Packages Law”**) 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.

The Company in Israel erected a layout of measurement, reporting and control for product packages that are dispatched to the market, all of that according to the duty of reporting waste of packages, applying to the Group according to the Packages Law. Strauss Company participates in the board of directors of T.M.I.R. Corporation, it is committed through contract with the corporation, as a manufacturer of waste of packages, and meeting all the requirements of the Packages Law. The coffee plants outside of Israel maintain a collection of packages for recycling, according to the requirements of local regulations. It ought to be indicated, that most of the sites of the Group outside of Israel are subject to local regulations concerning recycling of packages.

The Environmental Handling of Electric and Electronic Equipment and Batteries Law, 2012, (hereinafter: "**the Electronic Waste Law**"). The law, which entered validity on March 1, 2014, determines arrangements in the matter of environmental handling of electric and electronic equipment and batteries, inter alia, by way of imposing broadened liability on manufacturers and importers of electric and electronic equipment and batteries, pursuant to the execution of approved recycling of equipment and battery waste, as per the targets stated in the law. The law compels manufacturers and importers to commit with an recognized application organization, pursuant to the fulfillment of their duties by law, as they are required to finance all the cost of evacuation and handling of electronic waste.

The law further compels anyone holding a business electronic waste (those who are not private households) to commit with a recognized organization pursuant to the evacuation of the electronic waste in their disposal. Strauss Water is making preparations in order to meet the requirements of the law.

f. **Registration and reporting duty** – The Environmental Protection Law (Emissions and Transfer of Contaminants – Duty of Reporting and Registration) 2013, defines methods of public reporting of emissions to the environment of ground, air and water contaminants, and also wastewater treatment. Strauss Dairy in the Barlev Industrial Zone and Yotvata Dairy, both plants belong to Strauss, are under the duty of reporting according to the PRTR Law, have passed an initial report to the Ministry of Environmental Protection in March 2013, according to the indexes required for the report.

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 environmental directives. In Brazil, national regulation is determined by two bodies, CONAMA and IBAMA, as 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 comply with both the laws of the countries where the plant is situated and municipal bylaws of the authority where the plant is located. In addition there is a requirement to hold an operating license, approval of 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 <u>Major Environmental Incidents</u>

a. **In Israel:**

Strauss Dairy in the Barlev Industrial Zone – during the reported year, two approaches were directed to the plant with respect to plastic residues that reached the regional sewage facility. The plant held a comprehensive inquiry in this matter and assumed additional means for sake of caution. In addition, the plant received approaches concerning smells from the sewage treatment layout. The source of the problem was identified and a treatment plan was constructed.

b. **The Instant Coffee Plant in Safed** – fuel oil leakage was identified in the production site in consequence of surplus filling of the fuel oil tank. In consequence thereof, the plant ordered a survey, which indicated a contamination of the upper soil strata, without any reasonable fear of contamination of underground water. The plant filed a work plan with the authorities, pursuant to the placement of soil in the area of the spill.

In consequence of a problem of evolving foam in sewages of the plant, an event of foaming was recorded in a sewage pit nearby the plant, and spilling over of sewages to the road. In consequence of the problems described above, an approach was made on behalf of the water and sewage corporations of Peleg Hagalil to the plant, within the framework of which the plant was required to act pursuant to the repairing of the malfunctions and curing the deviations discovered in the sewages of the plant, which were passed to the waste treatment facility. In coordination with the corporation and the relevant authorities, the plant sought out the malfunctions and assumed various means to prevent their repetition. The plant received a notice from the water and sewage corporation concerning the imposition of a charge due to dumping of exceptional and/or apparently prohibited sewages. The plant approached the corporation with a request to receive clarifications. The response of the corporation was not received, as yet. During the first quarter of 2014, Strauss Coffee completed the shutting down of the manufacturing operations of instant coffee in the plant situated at a center of a residential neighborhood in the town of Safed, while other manufacturing operations, including the packing and other operations remained in the plant at the industrial zone of Safed. This step is expected to continue and contribute to the improvement of the supply chain of the Company in instant coffee in Israel. For additional details, see Note 35 to the financial statements of the Company, as at December 31, 2013.

Strauss Salads Plant – deviations in the quality of sewages were recorded in the plant. The plant invested approx. NIS 300,000 in the improvement of treatment of sewage in 2013, consolidating a long term work plan.

Aviv Dairy Plant in Netivot – deviations were recorded in reaction values of wastewater in the plant, and emission of black smoke from the chimneys. In 2013, the operations in the plant were shut down.

Sold Snack Plant in Sderot – the plant erected a system that converts the heat received from the chimneys of the plant to the air-conditioning in the halls of the plant.

Max Brenner Plant in Beit Shemesh – in 2012 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 Protection Ministry, requesting to disqualify the sampling (due to a faulty sampling procedure) and its results (due to lack of reasonability). The contentions of the plant were accepted by the appeal committee in the beginning of 2013. From 2013 sampling of waste water are executed in a manner agreed upon between the parties.

The Distribution Center of the Company in Petach Tikva and the Office Building of the Company in Petach Tikva – a notice of charge was received from the water and sewage corporation concerning the dumping of apparently irregular and/or prohibited wastewater. It should be indicated, that this is not wastewater originating in an industrial manufacturing process and it is mainly kitchen wastewater. The Company filed appeals with the in charged with the Environmental Protection Ministry. His response was not received as yet.

The Distribution Center of Strauss Company in Haifa – a notice of charge was received from the water and sewage corporation concerning the dumping of apparently irregular and/or prohibited wastewater. The Company approached the corporation in order to inquire into this matter. The response of the corporation was not received as yet.

Strauss Water Plant in Netiv LH – the plant is under proceedings toward receipt of a permit of the firefighting authority. The plant is currently making preparations to meet the requirements of the Electronic Waste Law. Strauss Water is toward the end of the process of erecting an environmental management system in its various sites, through process of qualification according to Standard ISO 14001.

c. **Brazil** – in 2013, tests for the examination of the quality management systems of the plant according to the ISO 14001 Standard were executed at the plants of the Company in Brazil by means of an international external organization, pursuant to testing if the plants meet the local requirements of the law. Within the process of the tests, gaps were identified in the various sites, in consequence thereof remedial actions were commenced. In addition, projects for the improvement and maintenance of firefighting systems were executed in sites of the coffee company in Brazil, a project of installation of a solar system for water heating, as well as several projects of placing facilities that collect chemical sewage and oils upon a dumping event, in order to prevent soil contamination.

d. **Poland** – the installation of power saving led bulbs in the site and utilizing of a residual energy rule by f an air compressor at the site in order to heat the raw coffee warehouse.

e. **Germany** – in 2013, the plant completed the installation of an automatic washing and disinfection system (CIP) in order to increase the saving of water used for washing, as well as increasing the use of recycled water for second washes at the site. Furthermore, in 2013, the plant installed a catalyser in the chimney of the main roasting oven at the plant, in order to reduce emission of smells to the environment.

In 2013 there were no violations and environmental incidents likely to create any material exposure. Possible implications the Company may be caused in respect of these incidents are the temporary loss of the business license of the plant until the faults mentioned have been remedied; as well as exposure to legal action by the environmental authorities in that country.

24.4 The Group's Policy in the Management of Environmental Risks

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 2013, 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. An environmental data collecting layout was also added to the instant coffee plant of the Company in Germany. 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. An examination was executed in Brazil by means of an external organization, in order to examine fulfillment of the requirements of the local law by sites of the Coffee Company.

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 2013, the Company continued the process of testing and improving the hazardous materials management system in the plants and in the distribution system, and also containment pallets were installed and upgraded. The Group’s plants abroad operate according to local regulation requirements with respect to each site.

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 2013, 20% of emissions of the greenhouse gases were reduced. At sites where complaints of smell nuisances have been received, the Group is working to reduce them by including the site's neighbors. The coffee plants outside of Israel have a target of decreasing 15% up until 2016 (based on data of 2012). In 2013, 3% was decreased in the use of Freon that exists in most of the cooling systems of the Group. However, new systems are adjusted to the use of environmental friendly coolers.

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 2012 – 2016 (based on data of 2011). In addition, the coffee plants outside of Israel operate according to local directives, pertaining to the separation and recycling of waste in sites, as this issue is very developed in various sites in Europe.

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 increase 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 2013, 2% 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 decreased. By the end of 2013, the Company decreased 17% of its water consumption per ton. The coffee plant outside of Israel set a reduction target of 5% per ton of product by 2016 (based on data of 2011). In 2013, in consequence of improvement in the layout of monitoring consumption and in consequence of introduction of an instant coffee plant, that consumes water according to a large quantity, the Coffee Company fail to save water per production ton in 2013.

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 2013 the Group invested approximately NIS 14 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 19.5 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 Report relating to its sites and to environmental requirements, the Group does not plans any irregular investments in 2014. 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.

As of the date of the Report, the Company is not a party to an essential legal or an administrative proceeding on environmental matters, which the Company or a senior officer is a party thereto. Furthermore, the Company was not a party to such a proceeding during the reported year and it did not incur any 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

a. 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, 2011 the Knesset approved the Milk Sector Planning Law, 2011. The purposes of the law are, inter alia, to guarantee appropriate prices for the farmers, the dairies and the public; see Sections 9.13 and 10.13 of this chapter.

b. The Dairy Market Planning Law, 2011, was passed by the Knesset on March 28, 2011. The objectives of this law, inter alia, to assure appropriate prices to manufacturers, dairies and the public; see Section 9.13 of this chapter.

c. In November 2013, 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 Draft Law was passed in the Knesset during the first voting and was transferred to the handling of the economic committee, which completed its work at the beginning of March 2014, proposing amendments to the draft of the law. The updated draft of the law was passed to a second and third voting in the Knesset and was approved by the end of March 2014. The objective 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 giving of enforcement authorities upon the antitrust commissioner and also by imposing a duty of publication of prices. The law, inter alia, states prohibitions and restrictions to actions and arrangements between retailers. The law prohibits a commitment between a large supplier and a retailer on the issue of shelf stoking; prohibiting stipulation of purchasing of one product in the purchasing of another; prohibiting a retailer to allot to very large suppliers, accumulatively, a total shelf area in the store that exceeds 50%; authorizing the antitrust commissioner to determine to a retailer a certain shelf area for certain products of a certain supplier and the like. Furthermore, it is proposed to install in the law arrangements intended to promote and assure competition on the retail market at the regional level. The antitrust commissioner received authorities to approve or deny approval of erection of new outlets of a retailer at a certain geographic area, under certain circumstances. The law, inter alia, states provisions to a large retailer with respect to the duty to advertise current information on electronic means with respect to products that are sold in each of its stores (such as: list of products, their prices, sales and conditions and the like). Commencement of application of the law is from January 2015. As of the date of the report, the Company studies the provisions of the law and will be prepared toward its application in 2014. It is not possible at this stage to evaluate the extent of anticipated effect of the recommendations on the results of the Company in 2015 henceforth.

d. In the beginning of November 2013, the antitrust authority published a draft of opinion on the issue of "Prohibition of Overcharging by a Monopoly Holder". As of the date of the report, the Company studied and examined that stated in this draft and its possible implications.

e. On July 30, 2013, the plenum of the Knesset passed the Budget Law and the Arrangements Law for 2013 and 2014. Within the framework of the legislation, the Companies Tax was raised to 26.5% from January 1, 2014. It was further determined that a tax on a dividend to an individual and to a foreign resident distributed from January 1, 2014, originating in surplus income, will be increased to a rate of 20% instead of the current rates applicable of 15%.

25.3 <u>Operating Licenses</u>

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", which Group is handling receipt of business licenses in their respect. 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. As at the date of the Periodic Report they are valid, or that the Group is acting toward their renewal.

25.4 <u>Antitrust</u>

a. **Monopoly Declarations**

In the matter of the monopoly declarations relating to the Company and for the Antitrust Commissioner's instructions in this regard, see Section 9.13.a – (dairy desserts); Section 10.13.a – (chocolate tablets), and Section 12.12.a – (instant coffee and cocoa powder for domestic consumption)

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 (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 Commissioner authority has extended the Interim Period until December 31, 2013.

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 program 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.

In the matter of orders in agreements with respect to chocolate and sweet products and with respect to the announcement of the merger with "elite coffee", see Note 26.1.2.3 to the Financial Statements of the Company as at December 31, 2013 and also Section 12.12.c of this chapter, respectively.

25.5 **Kashrut** – 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 **Approved Supplier to the Ministry of Defense** – 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 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 – in the Merger Agreement of 2004 between the Company and Strauss Holdings (pursuant whereto 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 **Trust deed and Debentures (Series B) and trust deed and Debentures (Series D)** – See Note 40.1 to the Financial Statements of the Company as at December 31, 2013.

27. Legal Proceedings

For information on class actions and other legal proceeding and claims against the Company, see Notes 26.1.1 and 26.1.2 to the Financial Statements of the Company as at December 31, 2013.

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.

From 2011, the Company customarily execute each year a process of strategic revitalizing, encompassing all the fields of operations of the Group, as well as updating the strategic course according to the development in markets and the promotion of the business affairs of the Company.

The Company continuously develop its international growth drivers, particularly Strauss Coffee Company, Strauss Water Company, 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 continue improving 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 coffee market accounts for most of it. See also Section 11.1 of this chapter.

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 several main directions:

a. Operative excellence and continued improvement of processes of supply and manufacturing chain.

b. Focusing on the brand equity development of brands of the Company.

c. Continuance of processes of innovation and development of new products.

d. An examination of possibilities of purchase and current geographic broadening.

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. The Company invests and develops the operation of the plant.

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>

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.

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.

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 <u>Other Operations</u>

a. **<u>Strauss Water Operations</u>**

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 regards the development of technology for qualitative drinking water solution at home and outdoor a way of improving the living quality of millions of people throughout the world.

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.

At present, 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.

Strauss Water intends to reserve its status as the leading POU company in Israel, and continue maintaining a rapid growth rate in international operations in China, UK and within the network of business partners in additional countries (BPN).

b. **<u>Max Brenner</u>**

In the framework of exploring possibilities for leveraging its capabilities in additional business areas, the Company 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.

The Company plans to continue to locating new franchisers 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 30 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, 2013.

29.2 For explanations on developments, see the Company's explanations in the MDNA Report as at December 31, 2013.

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 has 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. Customs duties in countries where the Group operates – 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.

3. 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 30.4 to the Financial Statements of the Company as at December 31, 2013). 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.

4. Economic and political instability – 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. The Group is also exposed to the risk of boycotting Israeli produce in overseas countries due to political reasoning and a risk of an anti-Israeli policy or against businesses with Israeli companies.

5. 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.

6. 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. An increase in the interest rate will also cause the increment of new loans, to the extent that they are taken by the Company, and in consequence thereof are liable to cause a future increase in the financing expenses.

Sectorial Risk Factors:

7. Exposure to fluctuations in raw material prices – raw materials form a substantial component in the production inputs of the Group's products. A significant part of the raw materials are agricultural goods, whose price and availability depend on factors, such as weather and political stability in the source countries. In addition, a significant part of the raw materials used by the Group is traded on the global commodities market (coffee, cocoa, sugar) and is exposed to fluctuation of prices, which are liable to erode the profitability of the Group. The Group also purchases financial derivatives in order to partially hedge the risk of price rise of raw materials. Bearing in mind that the derivative partially hedged against exposure to various future periods are measured according to their fair value on a current basis, the accounting profit (loss) reported is subject to essential fluctuations.

8. 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.

9. 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 and spare-parts for these appliances, 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.

10. 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.

11. The price of unprocessed milk – 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.

12. 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.

13. Regulatory developments – changes in legislation or standardization in Israel and other countries with respect to restrictions imposed on food manufacturers concerning food and beverage products or other products sold by the Group (e.g. coffee machines and water filtration and purification devices) or with respect to the conduct of food manufacturers opposite retailers 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. Part of the products of the Group is controlled according to the Control Over Prices of Products and Services Law. Changes in these prices in a manner that the maximum price is decreased or that the possibility of increasing the price of the product is restricted will injure the possibility of the Group to update prices according to the increase in the prices of input, and is liable to injure the capability of competition of the Group with respect to same products. Furthermore, the possibility of imposing control over the price of additional products is liable to injure the profitability of the Group in the futures.
14. The ability to anticipate changes and develop new products – 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. A change in the consumption habits could also emerge from contentions that the food manufactured by the Group is not healthy. 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.

15. 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 to the Financial Statements of the Company as at December 31, 2013.

16. 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.

17. 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. These protests can be expressed through demonstrations, actions on various social media and also articles on the printed media or on the television. 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.

18. 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

19. 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.
20. 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.
21. 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.
22. 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%.
23. Concentration of production in a number of plants – a considerable part of the Group's activity is concentrated at a limited number of sites, including sub-contractor’s 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 were exposed to the continuous firing of missiles from the Gaza Strip.

24. 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 2013 and 2012 was NIS 1,947 million and NIS 1,947 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.

25. 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.

26. Environmental issues – the activity of production sites may lead to its exposure to environmental legal action and the risk of a polluting plant being shut down.

27. Computer and communication systems crash – computer and communication systems crash, including the ERP system, 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.

28. 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.

29. 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.

30. Managerial Complexity and Multi-Partners – the Group operates in a great geographic dispersion, on a wide variety of business affairs, some of which are under joint title with entities that are not part of the Group. 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. In addition, the great geographic and business dispersion is liable to cause difficulties in the flow of information in the Group from the companies downwards and vice versa and in consequence thereof to difficulties in the implementation of business steps.

31. 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, Yotvata, 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.

32. Financial Debt – the Group has debts to various financial organizations, partially backed through an obligation to meet financial covenants (stipulations). The payment schedule was constructed in such a fashion that the debt is reimbursed gradually over many years. In order to provide for the debt, each year, the Group is required to create an available positive cash flow sufficiently or to recycle the debt. The ability of the Company to recycle the debt is liable to be effected by exogenic factors, such as an economic crisis, which will lead to a credit distress and in result thereof the Group could divert resources that were intended to real investment in favor of covering of the debt.

33. A New Logistic Center in Shoham – the Group is in the midst of a process, in which the current logistic centers of the Company will be moved from Tsrifin and Petach Tikvah to a new center in Shoham. Essential flaws in the execution of the transfer are liable to cause disruptions in supply of products of the Company and injure its business results in the Israeli geography.

34. Hiring and retaining 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. Customs in countries where the Company operates			+
3. Exposure to changes in exchange rates	+		
4. Lack of economic and political stability	+		
5. Security risk		+	
6. Exposure to interest and CPI		+	

Sectorial Risks			
7. Fluctuations in raw material prices	+		
8. Customer credit		+	
9. Defective product quality	+		
10. Kosher			+
11. Price of unprocessed milk		+	
12. Private brands		+	
13. Regulatory developments		+	
14. Ability to anticipate changes and develop new products.		+	
15. Exposure to class actions	+		
16. Activity in a competitive market	+		
17. Applying pressures on profit margins in the food and beverage sector		+	
18. Exposure to legal action due to the presence of substances in products likely to cause pecuniary or non-pecuniary damage to certain consumers	+		
Risks unique to the Group			
19. Brand dependence	+		
20. Dependence on customers	+		
21. Licenses and franchises	+		
22. Declaration as a monopoly		+	
23. Concentration of production in a number of sites	+		
24. Change of control of the Company			+
25. Successful assimilation of acquired		+	

businesses			
26. Environmental quality		+	
27. Computer and communication systems crash	+		
28. Protection of information		+	
29. Subordination to restrictions in agreements signed with strategic partners			+
30. Managerial Complexity and Multi-Partners	+		
31. Subordination to restrictions on the transfer or sale of the Company's holding in joint ventures and subsidiaries			+
32. Transition to a new logistics center		+	
33. Financial debt		+	
34. Hiring and retaining key personnel.		+	

Convenience Translation from Hebrew

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2013

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 CORPORATION'S BUSINESS

For information on the corporation's activities and a description of the development of its business – see section 1 in the chapter "Description of the Corporation's Business".

For information on the corporation's areas of activity – see section 2 in the chapter "Description of the Corporation's Business".

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS).

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 as Passover approaches.

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, a period that is characterized by increased purchases of coffee products due to the timing of the Christian holidays and the end of the (Gregorian) year.

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 year 2013 was characterized by increases in the prices of some production inputs such as electricity, water, municipal rates and taxes and the minimum wage. In commodities, the price of cocoa rose and green coffee and sugar prices dropped in relation to 2012; however, in early 2014 and as at the date of publication of the report, agricultural commodity prices rose significantly (particularly green coffee) and have returned to the average price levels that prevailed in 2012.

The average price of raw milk in 2013 was significantly higher than in 2012. In early 2014 the target price decreased. During 2013 grain prices (wheat and corn) dropped compared to 2012.

The Group is influenced by regulatory changes occurring from time to time with respect to wages, the price of raw milk and water quotas, which constitute a major part of its inputs. In 2011 the Knesset approved the Dairy Market Planning Law, 2011, which, for the first time, comprehensively anchors the powers that are necessary to plan and regulate the dairy industry. Changes in water quota policy are damaging to the volume of agricultural crops, leading to an increase in the prices of some of the inputs used by the Group. In 2011 a general collective agreement was signed for the revision of the minimum wage in Israel. In accordance with the agreement, the Company raised the minimum wage twice (in October 2012 and July 2013).

In the past few years energy prices have been on a rising trend as a result of increased world demand, as well as following geopolitical changes. The year 2013 was characterized by volatility in the prices of energy and energy derivatives and by an increase in natural gas prices. Rising energy prices have a negative effect on the costs of production, transport and raw materials, as well as on the costs of packaging materials.

Additionally, in this period most of the currencies in the countries where the Group is active weakened in relation to the Shekel. The changes in the exchange rates of the various currencies led to changes in the Shekel value arising from the translation into Shekels of the Company's business results in some markets, and to a decrease in the shareholders' equity of the Group.

After the date of the Statement of Financial Condition the political and economic crisis in Ukraine escalated, leading to the resignation of the Prime Minister, and the severe riots led to the ousting of the President. In March a referendum was held on the annexation of the Crimean Peninsula by Russia, which was passed by a huge majority. Due to the crisis and the complex relationship between Russia and the West, the Ukrainian and Russian currencies have devalued significantly since the beginning of 2014 in relation to the major currencies and the Shekel (approximately 20% and 10%, respectively) on or about the date of publication of this report. In an effort to stem the continued devaluation of the Ruble, the Central Bank of Russia raised the interest rate from 5.5% to 7.0%. The Group continuously monitors macroeconomic developments in the markets in which it is active.

The Group is unable to predict future developments in the commodities or currency markets, but is taking the necessary steps to be prepared for the different scenarios and to deal with them in the best manner possible.

Price control

The Supervision of Essential Goods and Services Law (1996) enables the minister in charge, *inter alia*, to apply the provisions of the law by means of an order to a particular product or service in which the causes determined in the law as justifying price control are fulfilled (*inter alia*, an essential product or service, control over the price of which is necessary according to considerations of the common good, or in which respect a monopoly has been declared). When the law has been applied by order to a particular product or service, the law allows for the appointment of a supervisor over the prices of that product or service and for the definition, in the order, following consultation with the Price Committee as defined in the law, of the price, maximum price or minimum price for that product or service. In late December 2013 the Ministry of Finance and the Ministry of Agriculture announced the adoption of the recommendations of the Price Committee under Section 3 of the Supervision of Essential Goods and Services Law (1996) with respect to dairy products which are subject to control. At the recommendations of the Price Committee and according to the decisions of the Ministers of Finance and Agriculture, in January 2014 white cheese (5% fat, 250 g) and sweet cream (38% fat, 250 ml) were subjected to control under Chapter 5 of the Supervision of Essential Goods and Services Law, and their retail price was lowered by over 20%.

In November 2012 the memorandum bill for the promotion of competition in the Israeli food industry was published. The bill is based on the recommendations of the inter-ministry team headed by the Director-General of the Ministry of Industry, Trade and Labor Mr. Sharon Kedmi (the Kedmi report). The Knesset approved the first reading of the memorandum bill, and the bill was then addressed by the Knesset Economic Affairs Committee, which completed its work in early March 2014 and proposed changes in the wording of the law. The Knesset passed the second and third readings of the law, which was approved at the end of March 2014. The goal of the law is to increase competitiveness in the food and consumer goods market in order to lower the retail prices of products by imposing prohibitions and limitations on actions and arrangements between parties operating in the market, by granting the Anti-Trust Commissioner enforcement powers and by imposing the obligation to publish prices. The law determines, *inter alia*, prohibitions and limitations on actions and arrangements between the food suppliers and retailers, including: large suppliers or parties acting on their behalf are prohibited from arranging the products in the stores of a large retailer; large suppliers are prohibited from intervening with retailers regarding retail prices changed by the retailer; prohibition against engagements between large suppliers and retailers regarding shelf space; prohibition against making purchases of one product conditional on purchases of another product; retailers are prohibited from cumulatively allocating very large vendors total shelf space in the store that exceeds 50%; the Anti-Trust Commissioner is granted the power to determine the shelf space a retailer will allocate to a particular product of a particular supplier, and others. The law also defines arrangements aimed at promoting and ensuring competition in the retail market on the regional level, and the Anti-Trust Commissioner has been granted powers to approve or not to approve the opening of new stores by a retailer in a particular geographical region in certain circumstances. The law determines instructions for large retailers regarding the obligation to publish current information by electronic means on products sold in each of their stores (such as a list of the products, their prices, campaigns and their terms and conditions, etc.). The law will be implemented commencing in January 2015. As at the date of the report, the Company is reviewing the provisions of the law and will prepare for its implementation in the course of 2014. It is not possible at the present stage to assess the extent of the anticipated impact of the provisions of the law on the Company's business results in the year 2015 and thereafter.

In early November 2013 the Anti-Trust Authority published a Draft Opinion on the "Prohibition against the Collection of Excessive Prices by a Monopoly". As at the date of this report, the Company is reviewing the contents of the draft and its possible implications.

On July 30, 2013 the Knesset plenum passed the Budget Law and the Economic Arrangements Law for the years 2013 and 2014. The legislation raised corporate tax to 26.5% commencing on January 1, 2014. It was further determined that the tax rate on dividends applicable to individuals and foreign residents, paid commencing on January 1, 2014 and originating in "preferred income", would be raised to 20% instead of the rate of 15% which applied in 2013.

QUALITATIVE REPORT ON EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT

Other than as described below, as at the end of the fourth quarter and compared to the end of 2012, 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, 2012. For further information, see also Note 30 to the financial statements and section 30 in the chapter "Description of the Corporation's Business", in the discussion of risk factors.

ANALYSIS OF FINANCIAL RESULTS

Commencing in the first quarter of 2013 Strauss Group has retroactively applied IFRS 11 – Joint Arrangements. The significance of the standard is that the statements of income and statements relating to financial condition, comprehensive income, changes in shareholders' equity and the cash flows of businesses which are jointly controlled by Strauss and a partner are no longer stated according to Strauss's relative holding in the entity as was the practice to date, but in a separate row ("Income of equity-accounted investees", and in other reports in the relevant section). The reporting method does not alter the Group's profit.

It is noted that this is a change in reporting method only and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. Neither does this signify any managerial change in the jointly held businesses.

In view of the fact that the Group's non-GAAP reports and the manner in which Group Management measures the results of subsidiaries and the jointly owned companies have remained unchanged, the Group has continued to present the activity segments in the same manner in which they were presented in prior periods. For the sake of convenience, the next pages present the GAAP reports – which are reported in accordance with IFRS 11, the required adjustments to the non-GAAP reports, and the non-GAAP reports that express the Group's relative holding in the subsidiaries and the jointly owned companies as reported in the past.

The Strauss Group has a number of jointly controlled companies: Três Corações (in Brazil) [1], Sabra Dipping Company (a subsidiary in North America), Strauss Frito-Lay Ltd. (the salty snack operation in Israel), PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela), Virgin Strauss Water (a Strauss Water subsidiary in the UK), and Haier Strauss Water (a Strauss Water subsidiary in China).

The next pages present the non-GAAP reports, the GAAP reports and the various adjustments made by Company Management in making the transition from the Company's GAAP reports to its non-GAAP reports:

[1] Três Corações(3C) – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (data reflect Strauss Coffee's share (50%) unless stated otherwise).

Following are the condensed results of business operations (based on the Company's non-GAAP management reports) for the years and quarters ended December 31, 2013 and 2012 (in NIS millions)*:

	Year			Fourth Quarter		
	2013	**2012**	**% Chg**	**2013**	**2012**	**% Chg**
Sales	**8,143**	**8,182**	***(0.5)***	**2,074**	**2,103**	***(1.4)***
Cost of sales	5,029	5,311	*(5.3)*	1,276	1,365	*(6.5)*
Gross profit	**3,114**	**2,871**	***8.5***	**798**	**738**	***8.2***
% of sales	38.2%	35.1%		38.5%	35.1%	
Selling and marketing expenses	1,896	1,808	*4.9*	513	462	*11.3*
General and administrative expenses	449	438	*2.5*	127	119	*7.1*
Operating profit	**769**	**625**	***23.0***	**158**	**157**	***0.2***
% of sales	9.4%	7.6%		7.6%	7.5%	
Financing expenses, net	(134)	(135)	*(0.3)*	(32)	(33)	*(2.4)*
Income before taxes on income	**635**	**490**	***29.4***	**126**	**124**	***0.9***
Taxes on income	(190)	(163)	*15.6*	(26)	(34)	*(26.5)*
Effective tax rate	29.8%	33.4%		20.6%	28.2%	
Income for the period	**445**	**327**	***36.3***	***100***	***90***	***11.6***
Attributable to: **The Company's shareholders**	**329**	**238**	***39.1***	**70**	**68**	***4.4***
Non-controlling interests	116	89	*28.9*	30	22	*34.1*

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, 2013 and 2012 (in NIS millions)*:

	Year			Fourth Quarter		
	2013	**2012**	**% Chg**	**2013**	**2012**	**% Chg**
Israel						
Net sales	3,000	2,901	*3.4*	746	703	*6.0*
Operating profit	315	297	*6.2*	67	66	*2.2*
Coffee						
Net sales	3.944	4,206	*(6.2)*	1,009	1,125	*(10.3)*
Operating profit	403	312	*29.2*	85	91	*(5.7)*
International Dips and Spreads						
Net sales	600	522	*14.9*	148	139	*6.3*
Operating profit	57	44	*30.2*	11	9	*24.2*
Other						
Net sales	599	533	*8.3*	171	136	*26.9*
Operating loss	(6)	(28)		(5)	(9)	
Total						
Net sales	**8,134**	**8,182**	***(0.5)***	**2,074**	**2,103**	***(1.4)***
Operating profit	**769**	**625**	***23.0***	**158**	**157**	***0.2***

**** Financial data were rounded off to NIS millions. The percentages change were calculated on the basis of the exact figures in NIS thousands***

Convenience Translation from Hebrew

Following are the condensed financial accounting statements of income (GAAP) for the years and quarters ended December 31, 2013 and 2012 (in NIS millions)*:

	Year			Fourth Quarter		
	2013	**2012**	**% Chg**	**2013**	**2012**	**% Chg**
Sales	**5,605**	**5,699**	***(1.6)***	**1,451**	**1,433**	***1.3***
Cost of sales excluding impact of hedging transactions	3,401	3,541	*(3.9)*	887	902	*(1.5)*
Valuation of balance of commodity hedging transactions as at end of period	(12)	5		(20)	25	
Cost of sales	3,389	3,546	*(4.4)*	867	927	*(6.4)*
Gross profit	**2,216**	**2,153**	***2.9***	**584**	**506**	***15.3***
% of sales	39.5%	37.8%		40.3%	35.3%	
Selling and marketing expenses	1,341	1,320	*1.6*	355	335	*5.7*
General and administrative expenses	346	340	*2.0*	102	93	*10.4*
Total expenses	**1,687**	**1,660**		**457**	**428**	
Share in income of equity-accounted investees	175	63		39	35	
Operating profit before other income (expenses)	**704**	**556**	***26.5***	**166**	**113**	***45.7***
% of sales	12.6%	9.8%		11.5%	8.0%	
Other income (expenses), net	(94)	45		(77)	(6)	
Operating profit after other income (expenses)	**610**	**601**	***1.3***	**89**	**107**	***(17.6)***
Financing expenses, net	(114)	(114)	*(0.4)*	(27)	(28)	*(5.0)*
Income before taxes on income	**496**	**487**	***1.8***	**62**	**79**	***(22.0)***
Taxes on income	(165)	(162)	*1.9*	(16)	(23)	*(32.2)*
Effective tax rate	33.4%	33.3%		25.7%	29.5%	
Income for the period	**331**	**325**	***1.7***	**46**	**56**	***(17.8)***
Attributable to: **The Company's shareholders**	**234**	**244**	***(4.6)***	**25**	**41**	***(41.6)***
Non-controlling interests	97	81	*20.6*	21	15	*46.1*

**** Financial data were rounded off to NIS millions. The percentages change were calculated on the basis of the exact figures in NIS thousands***

<u>Following are the adjustments to the Company's non-GAAP management reports (NIS millions)*</u>:

- Adjustments for IFRS 11 – change from the equity method in the GAAP report to the proportionate consolidation method (according to the segmental information based on the Group's management accounting (non-GAAP) and internal reports):

	2013			2012			Fourth Quarter 2013			Fourth Quarter 2012		
	Equity method	Change	Proportionate consolidation method (applied to date)	Equity method	Change	Proportioate consolidation method (as published before IFRS 11 took effect)	Equity method	Change	Proportionate consolidation method (applied to date)	Equity method	Change	Proportioate consolidation method (as published before IFRS 11 took effect)
Sales	**5,605**	**2,538**	**8,143**	**5,699**	**2,483**	**8,182**	**1,451**	**623**	**2,074**	**1,433**	**670**	**2,103**
Cost of sales excluding impact of hedging transactions	3,401	1,628	5,029	3,541	1,770	5,311	887	389	1,276	902	463	1,365
Valuation of balance of commodity hedging transactions as at end of period	(12)	-	(12)	5	-	5	(20)	-	(20)	25	2	27
Cost of sales	3,389	1,628	5,017	3,546	1,770	5,316	867	389	1,256	927	465	1,392
Gross profit	**2,216**	**910**	**3,126**	**2,153**	**713**	**2,866**	**584**	**234**	**818**	**506**	**205**	**711**
% of sales	39.5%		38.4%	37.8%		35.0%	40.3%		39.5%	35.3%		33.8%
Selling and marketing expenses	1,341	555	1,896	1,320	488	1,808	355	158	513	335	127	462
General and administrative expenses	346	121	467	340	117	457	102	29	131	93	32	125
Share in income of equity-accounted investees	175	(175)	-	63	(63)	-	39	(39)	-	35	(35)	-
Operating profit before other income (expenses)	**704**	**59**	**763**	**556**	**45**	**601**	**166**	**8**	**174**	**113**	**11**	**124**
% of sales	12.6%		9.4%	9.8%		7.4%	11.5%		8.4%	8.0%		6.0%
Other income (expenses), net	(94)	(6)	(100)	45	(1)	44	(77)	(4)	(81)	(6)	(1)	(7)
Operating profit after other income (expenses)	**610**	**53**	**663**	**601**	**44**	**645**	**89**	**4**	**93**	**107**	**10**	**117**
Financing expenses, net	(114)	(20)	(134)	(114)	(21)	(135)	(27)	(5)	(32)	(28)	(5)	(33)
Income before taxes on income	**496**	**33**	**529**	**487**	**23**	**510**	**62**	**(1)**	**61**	**79**	**5**	**84**
Taxes on income	(165)	(33)	(198)	(162)	(23)	(185)	(16)	1	(15)	(23)	(5)	(28)
Effective tax rate	33.4%		37.5%	33.3%		36.3%	25.7%		24.6%	29.5%		33.7%
Income for the period	**331**	**-**	**331**	**325**	**-**	**325**	**46**	**-**	**46**	**56**	**-**	**56**
Attributable to: **The Company's shareholders**	**234**	**-**	**234**	**244**	**-**	**244**	**25**	**-**	**25**	**41**	**-**	**41**
Non-controlling interests	97	-	97	81	-	81	21	-	21	15	-	15
Income for the period	331	-	331	325	-	325	46	-	46	56	-	56

**** Financial data were rounded off to NIS millions. The percentages change were calculated on the basis of the exact figures in NIS thousands***

- ***Additional adjustments to the non-GAAP management reports (share-based payment, valuation of hedging transactions, other expenses and taxes referring to these adjustments)*:***

	Year			Fourth Quarter		
	2013	**2012**	**% Chg**	**2013**	**2012**	**% Chg**
Operating profit – according to proportionate consolidation method – after other income (expenses)	**663**	**645**	***2.8***	**93**	**117**	***(21.1)***
Share-based payment	18	19		4	6	
Valuation of balance of commodity hedging transactions as at end of period	(12)	5		(20)	27	
Other expenses (income)	100	(44)		81	7	
Operating profit – non-GAAP	**769**	**625**	***23.0***	**158**	**157**	***0.2***
Financing expenses, net	(134)	(135)		(32)	(33)	
Taxes on income	(198)	(185)		(15)	(28)	
Taxes in respect of adjustments to the above non-GAAP operating profit	8	22		(11)	(6)	
Income for the period – non-GAAP	**445**	**327**	***36.3***	**100**	**90**	***11.6***
Attributable to: **The Company's shareholders**	**329**	**238**	***39.1***	**70**	**68**	***4.4***
Non-controlling interests	116	89	*28.9*	30	22	*34.1*

**** Financial data were rounded off to NIS millions. The percentages change were calculated on the basis of the exact figures in NIS thousands***

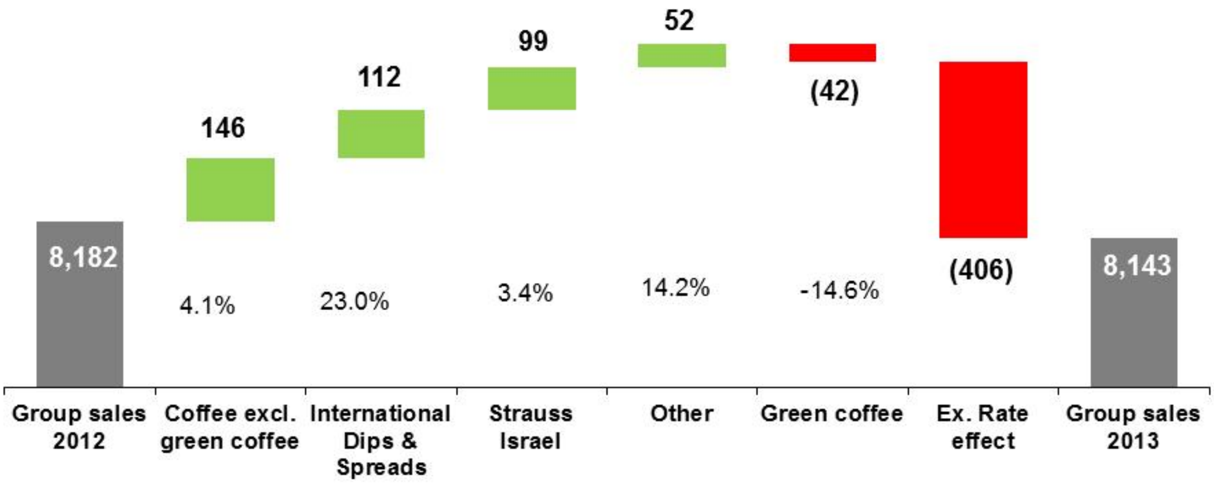
ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

Sales – non-GAAP

	Year		Fourth Quarter	
	2013	**2012**	**2013**	**2012**
Sales	8,143	8,182	2,074	2,103
Growth	(0.5%)	6.3%	(1.4%)	1.6%
Organic growth excluding currency impact	4.8%	7.1%	5.4%	3.6%

In 2013 and in the fourth quarter of the year the Group's sales decreased by approximately NIS 39 million and NIS 29 million, respectively. Following are the components of the change in sales in these periods in local currency and the rates of increase (decrease) according to the Company's major activity sectors in local currency, together with the overall impact of translation differences (the impact of currency exchange rates) on the Group's sales:

2013



The Group's sales in 2013, and particularly sales by Strauss Coffee, were impacted by differences arising from translation into Shekels, which amounted to approximately NIS 406 million for the Group. Most of these differences are due to the erosion of average rate of the Brazilian Real versus the Shekel (approximately 14.9% compared to the average rate of the Real last year). The erosion led to a decrease of approximately NIS 265 million in the Group's share of the sales of Três Corações[1] in 2013, which are presented by the Group in Shekels.

Excluding the currency impact, the Group's sales grew by approximately NIS 367 million compared to the corresponding period last year. Sales growth in local currency was reflected in most of the Company's activity segments and was the result of the following factors:

- Growth in sales by the coffee business, excluding green coffee (an increase of approximately NIS 146 million), which is mainly due to the growth in sales by Três Corações and reflect Strauss Coffee's share (50%) (see also the consolidated financial statements of Três Corações, which are attached to the financial statements of the Group). The sales growth achieved by Três Corações mainly reflects price increases and growth in sales volumes and was offset in part by effective price decreases in Russia, in CEE countries and in Israel;

- Growth in sales by the International Dips and Spreads Activity (an increase of approximately NIS 112 million), which is mainly the result of growth in sales by Sabra and primarily reflects a significant volume growth in hummus sales as well as growth in guacamole sales;

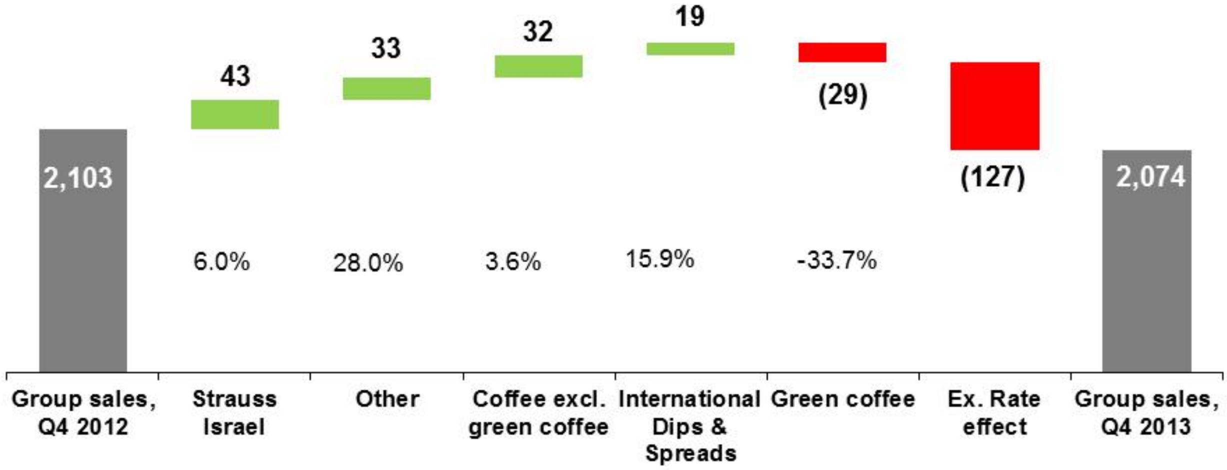
- Growth in sales by Strauss Israel (an increase of approximately NIS 99 million), which is mainly due to growth in sales volumes in most business units and to an improvement in the Company's product mix;

- Growth in sales by the "Other" segment (an increase of approximately NIS 52 million), which is mainly due to growth in Strauss Water as a result of international sales growth, as well as to the continuing growth trend in the customer base in the local market;

- With the setoff of a decrease of approximately NIS 42 million in green coffee export sales by Três Corações in Brazil, reflecting Strauss Coffee's share (50%). This decrease was impacted by a drop in green coffee prices compared to the corresponding period last year, which was offset in part by growth in sales volumes.

1 Três Corações(3C) – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (data reflect Strauss Coffee's share (50%) unless stated otherwise).

<u>Fourth quarter of 2013</u>



In the fourth quarter of 2013 the impact of translation differences amounted to approximately NIS 127 million for the Group, of which some NIS 77 million are the result of the erosion of the average rate of the Brazilian Real versus the Shekel (approximately 17.0% compared to the average rate of the Real in the corresponding period last year).

Excluding the currency impact, the Group's sales grew by approximately NIS 98 million compared to the corresponding period last year. Growth in the Group's sales in local currency was reflected in most of the Company's activity segments and was the result of the following factors:

- Growth in sales by Strauss Israel (an increase of approximately NIS 43 million), which is mainly due to growth in sales volumes in all business units and to an improvement in the Company's product mix;

- Growth in sales by the "Other" segment (an increase of approximately NIS 33 million), which is mainly due to growth in Strauss Water as a result of international sales growth, as well as to the continuing growth trend in the customer base in the local market;

- Growth in sales by the coffee business, excluding green coffee (an increase of approximately NIS 32 million), which is mainly due to the growth in sales volumes by Três Corações and reflect Strauss Coffee's share (50%), and to sales growth in Russia. Growth was offset in part by effective price decreases;

- Growth in sales by the International Dips and Spreads Activity (an increase of approximately NIS 19 million), which is mainly the result of growth in sales by Sabra and primarily reflects continuing significant volume growth in hummus sales as well as strong growth in guacamole sales;

- With the setoff of a decrease of approximately NIS 29 million in green coffee export sales by Três Corações in Brazil, reflecting Strauss Coffee's share (50%). This decrease was impacted by a drop in green coffee prices compared to the corresponding period last year.

Further explanations on the Group's sales are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

Gross Profit – Non-GAAP

	Year			Fourth Quarter		
	2013	**2012**	**% Chg**	**2013**	**2012**	**% Chg**
Gross profit	3,114	2,871	8.5	798	738	8.2
Gross profit margin	38.2%	35.1%		38.5%	35.1%	

The Group's non-GAAP gross profit in 2013 grew by approximately NIS 243 million compared to last year as a result of the growth in the gross profit of the coffee business (an increase of approximately NIS 123 million). This is explained mainly by an improvement in the gross profit of Três Corações (see Três Corações' consolidated financial statements, which are attached to the financial statements of the Group), primarily as a result of continued focus on the improvement of margins in roast and ground (R&G) coffee in Brazil. Additionally, the gross profit of the Israel sector increased by approximately NIS 76 million, mainly as a result of growth in sales volumes in most business units, a positive impact by currency exchange rates on the cost of sales, an improvement in the Company's product mix and continued streamlining processes in production. The remainder of the growth (approximately NIS 44 million) is explained by an increase in the aggregate gross profit of the International Dips and Spreads Activity and of the "Other Operations" segment, mainly as a result of sales growth.

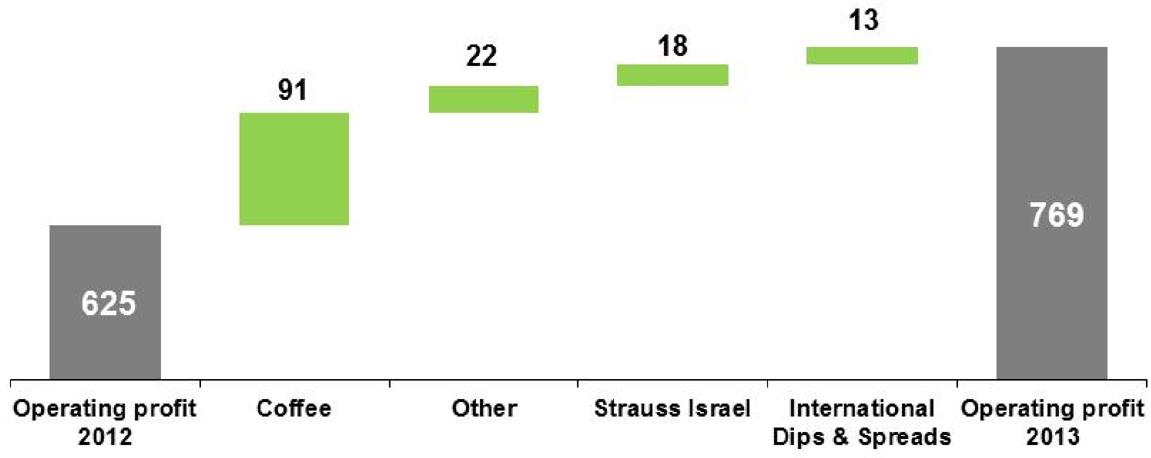
The Group's non-GAAP gross profit in the fourth quarter of 2013 grew by approximately NIS 60 million compared to the corresponding quarter last year. The change is the result of the growth in the gross profit of the coffee operation (approximately NIS 7 million), which is explained mainly by an improvement in the gross profit of Três Corações (see Três Corações' consolidated financial statements, which are attached to the financial statements of the Group), primarily as a result of continued focus on the improvement of margins in roast and ground (R&G) coffee in Brazil; growth in the gross profit of Strauss Israel (approximately NIS 36 million), primarily as a result of growth in sales volumes in all business units, a positive impact by currency exchange rates on the cost of sales, an improvement in the Company's product mix and continued streamlining processes in production. The rest of the growth (approximately NIS 17 million) is explained by an increase in the aggregate gross profit of the International Dips and Spreads Activity and of the "Other Operations" segment, mainly as a result of sales growth.

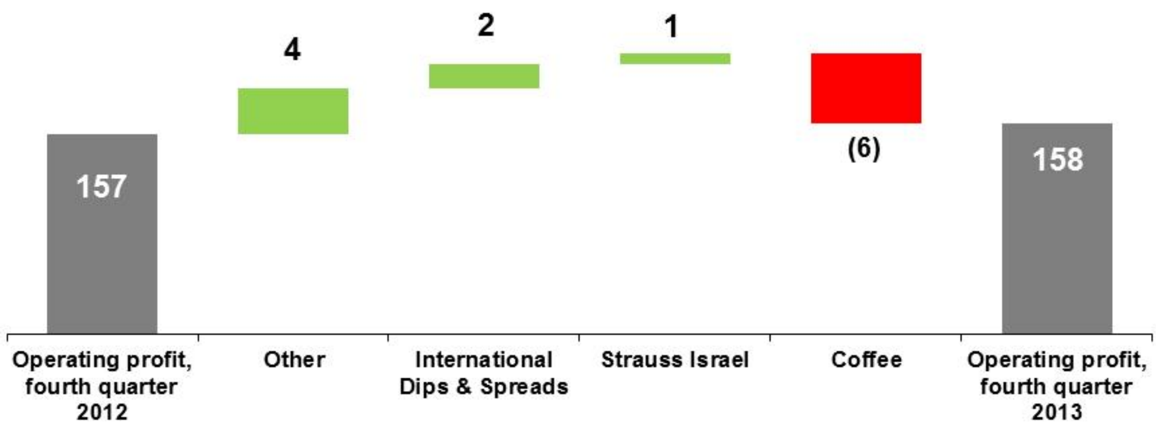
Further explanations on the Group's gross profit are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

Operating Profit before Other Income (Expenses) – Non-GAAP

	Year			Fourth Quarter		
	2013	**2012**	**% Chg**	**2013**	**2012**	**% Chg**
Operating profit	769	625	23.0	158	157	0.2
Operating profit margin	9.4%	7.6%		7.6%	7.5%	

The non-GAAP operating profit in 2013 and in the fourth quarter grew by approximately NIS 144 million and NIS 1 million, respectively. Following are the components of the change in the operating profit compared to the corresponding period last year, according to the Company's major activity sectors:





The increase in the Group's operating profit in 2013 is evident in all areas of the Group's activity, particularly coffee, and occurred despite an increase in the Group's marketing expenses. Most of the growth in coffee is the result of the improvement in Três Corações' operating profit (see Três Corações' consolidated financial statements, which are attached to the financial statements of the Group). In the "Other Operations" segment, the growth in the operating profit is due to an improvement in the results of operations in Strauss Water's international activities. The improvement in the operating profit of Strauss Israel and the International Dips and Spreads Activity is the result of sales growth along with various continued streamlining processes in production.

The Group's operating profit in the fourth quarter of 2013 was influenced by the abovementioned factors but included a decrease of NIS 6 million in the coffee operation. The decrease in the operating profit of the coffee business in the fourth quarter was mainly due to an increase in marketing expenses, particularly in Israel and also in Três Corações, mainly as a result of the launch of activities in the single portion ("capsules") coffee and other beverages segment. The operating profit in Strauss Coffee was also impacted by a loss in respect of closing green coffee futures transactions.

Further explanations on the Group's operating profit in the reported period are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

Financing Expenses, Net – Non-GAAP

Net financing expenses remained stable in 2013 in relation to 2012 and amounted to NIS 134 million this year compared to expenses of NIS 135 million last year. The increase in financing expenses in respect of the 1.9% increase in the known Index this year compared to 1.4% last year due to the revaluation of Index liabilities, as well as an increase in interest expenses due to the increase in the gross average debt life, was offset as a result of expenses in 2012 arising from the revaluation of foreign currency derivatives following the revaluation of exchanges rates of the currencies of some of the countries in which the Group is active in relation to the Dollar, and to an increase in the capitalization of the cost of credit for fixed assets and in income and revaluation from securities.

Net financing expenses in the fourth quarter of 2013 totaled NIS 32 million compared to expenses of NIS 33 million in the corresponding quarter last year.

Net credit (according to the proportionate consolidation method) as at December 31, 2013 totaled NIS 1,475 million compared to NIS 1,422 million on December 31, 2012.

Net credit (according to the equity method) as at December 31, 2013 totaled NIS 1,364 million compared to NIS 1,199 million on December 31, 2012.

Taxes on Income – Non-GAAP

In 2013 taxes on income (non-GAAP) amounted to NIS 190 million, reflecting an effective tax rate of 29.8%, whereas last year taxes on income amounted to NIS 163 million and the effective tax rate was 33.4%.

In the fourth quarter taxes on income (non-GAAP) amounted to NIS 26 million, reflecting an effective tax rate of 20.6%, whereas last year taxes on income amounted to NIS 34 million and the effective tax rate was 28.2%.

The decrease in the effective tax rate in 2013 and in the fourth quarter of the year compared to corresponding periods is mainly the result of a decrease in losses in existing businesses in which respect no deferred taxes were created, and in the profit mix for tax purposes between the companies in the different countries.

Income for the Period Attributable to the Company's Shareholders – Non-GAAP

	Year			**Fourth Quarter**		
	2013	**2012**	**% Chg**	**2013**	**2012**	**% Chg**
Income attributable to the Company's shareholders	329	238	39.1	70	68	4.4
% of sales	4.0%	2.9%		3.4%	3.2%	

Non-GAAP income attributable to the Company's shareholders in 2013 increased by approximately NIS 91 million compared to last year. The increase in non-GAAP income attributable to the Company's shareholders was the result of the increase in the Group's non-GAAP operating profit (NIS 144 million), which was offset in part as a result of the increase in the Group's tax expenses (NIS 27 million) and by the increase in income attributable to the non-controlling interest (NIS 27 million).

Non-GAAP income attributable to the Company's shareholders in the fourth quarter of 2013 remained essentially unchanged in relation to the corresponding period last year.

Comprehensive Income for the Period (according to the GAAP report)

The other comprehensive income includes profit or loss items carried directly to equity, particularly differences arising from the translation of foreign currency in respect of investment in investee companies abroad and the revaluation of securities available for sale. In 2013 the GAAP other comprehensive income amounted to approximately NIS 73 million, compared to other comprehensive income of NIS 266 million last year. In the reported period losses in respect of translation differences, which are the main component of the other comprehensive income, amounted to NIS 270 million compared to losses of NIS 61 million arising from translation differences in the corresponding period last year. The translation differences are the result of the weakening of part of the Group's operating currencies abroad in relation to the Shekel, which was expressed in the movement in the foreign currency translation reserve in the period.

LIQUIDITY, SOURCES OF FINANCE AND FINANCIAL CONDITION (ACCORDING TO THE GAAP REPORT)

Cash flows provided by operating activities in 2013 amounted to a positive cash flow of approximately NIS 480 million, compared to a positive cash flow of NIS 481 million last year. The decrease in cash flows from operating activities is due to a change in working capital in the current period versus the corresponding period, which was offset by an increase in net interest payments this year versus last year.

Cash flows used in investing activities in 2013 amounted to a negative cash flow of approximately NIS 315 million compared to a negative cash flow of NIS 428 million last year. Most of the change is due to the transaction involving the operation of the freeze-dried coffee production site in Germany, which occurred in the corresponding period, following which long-term loans were granted; additionally, investments were made with deferred expenses. Furthermore, during the period a dividend of NIS 88 million from investees was received. By contrast, in the corresponding period a consideration was received for the sale of fixed assets.

Cash flows provided by (used in) financing activities in 2013 amounted to a negative cash flow of approximately NIS 120 million compared to a positive cash flow of NIS 36 million provided by financing activities last year. Most of the change is due to a change in entitled parties in a jointly held company and to the acquisition of a non-controlling interest in a subsidiary.

The Company's cash and cash equivalents as at December 31, 2013 totaled approximately NIS 772 million compared to NIS 735 million on December 31, 2012. 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 (financial funds, government bonds and highly rated corporate debentures).

The Company's liquidity ratio as at December 31, 2013 is 1.63, similar to December 31, 2012. On December 31, 2013 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,382 million compared to NIS 2,150 million on December 31, 2012. On December 31, 2013 the Company had no short-term credit (excluding current maturities), compared to NIS 4 million on December 31, 2012. On December 31, 2013 supplier credit totaled NIS 769 million, compared to NIS 727 million on December 31, 2012.

Total assets in the Company's Consolidated Statement of Financial Condition on December 31, 2013 amounted to NIS 6,643 million, compared to NIS 6,583 million on December 31, 2012.

Reportable credit – further to Note 22.3 to the financial report – Financial Criteria – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Condition as at December 31, 2013 is 26.3%, compared to 28.7% on December 31, 2012. The net financial debt-to-EBITDA ratio as at December 31, 2013 is 1.5, compared to 1.6 on December 31, 2012. The Company is in compliance with the required financial criteria.

Following IFRS 11 becoming effective, the Company elected to include a number of relevant data that correspond to the GAAP reporting method in practice prior thereto. The data below are in the proportionate consolidation method (as reported by the Company up to and including 2012). The Company reserves the right not to include this information in the future.

	Year		Fourth Quarter	
Information in the proportionate consolidation method, prior to IFRS 11 becoming effective	**2013**	**2012**	**2013**	**2012**
Cash flow provided by operating activities	716	670	266	260
Acquisition of fixed assets and investment in intangible assets and deferred expenses	482	415	153	93
Net debt balance as at the report date	1,475	1,422	1,475	1,422
Depreciation and amortization:	223	228	56	59
Strauss Israel:				
Health and Wellness	50	48	13	6
Fun and Indulgence	28	27	7	7
Strauss Coffee:				
Israel Coffee	14	17	5	7
International Coffee	59	61	12	13
International Dips and Spreads	19	20	4	5
Other	53	55	15	21

ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP'S MAJOR BUSINESS UNITS

Strauss Coffee

On July 4, 2013 the Company announced that a review was being conducted in conjunction with TPG Capital, the non-controlling interest holder in Strauss Coffee, to examine options for TPG's exit from Strauss Coffee. No agreements have yet been signed.

In the first quarter of 2014 Strauss Coffee completed the discontinuation of instant coffee production in a plant located in the heart of a residential suburb in the city of Safed while other production operations, including packaging and other activities, have remained in the plant in the industrial park in Safed. The process is expected to continue to contribute to the improvement of the Company's supply chain in instant coffee in Israel. For further information, see Note 35 to the financial statements of the Company as at December 31, 2013.

In February 2013 Três Corações signed a distribution agreement and a joint venture agreement with Caffitaly S.p.A, following which Três Corações became active in the single portion coffee and other beverages ("capsules") segment in Brazil. Sales by Três Corações in this segment were initiated in November 2013.

In February 2014 the Company engaged with Cia Iguaçu de Café Solúvel for the acquisition of the Amigo coffee brand, which is sold mainly in Romania, in consideration for some $20 million. The brand's sales turnover in 2012 was estimated at approximately $12.5 million. The closing of the transaction is conditional on its approval by the Romanian Competition Council.

Following are the condensed results of business operations based on non-GAAP management reports of the Coffee Company by reported segments for the years and quarters ended December 31, 2013 and 2012 (in NIS millions):

	Year			Fourth Quarter		
	2013	**2012**	**% Chg**	**2013**	**2012**	**% Chg**
Israel Coffee						
Net sales	715	708	*0.9*	185	170	*8.4*
Operating profit	80	77	*2.7*	4	13	*(71.8)*
% operating profit	11.1%	10.9%		2.0%	7.8%	
International Coffee						
Net sales	3,229	3,498	*(7.7)*	824	955	*(13.6)*
Organic growth excluding impact of exchange rate differentials	3.2%	10.4%		(1.3%)	0.8%	
Operating profit	323	235	*37.9*	81	78	*5.6*
% operating profit	10.0%	6.7%		10.0%	8.1%	
Total Strauss Coffee						
Net sales	**3,944**	**4,206**	***(6.2)***	**1,009**	**1,125**	***(10.3)***
Organic growth excluding impact of exchange rate differentials	**2.7%**	**10.0%**		**0.3%**	**2.1%**	
Gross profit	**1,341**	**1,218**	***10.1***	**345**	**338**	***1.9***
% gross profit	**34.0%**	**29.0%**		**34.2%**	**30.1%**	
Operating profit	**403**	**312**	***29.2***	**85**	**91**	***(5.7)***
% operating profit	**10.2%**	**7.4%**		**8.5%**	**8.1%**	

Sales

In 2013 Strauss Coffee's sales decreased by approximately NIS 262 million compared to last year. Differences arising from translation into Shekels amounted to NIS 367 million in the period, of which approximately NIS 265 million were the result of the erosion of the average exchange rate of the Brazilian Real versus the Shekel. Additionally, green coffee export sales from Brazil by Três Corações, reflecting Strauss Coffee's share (50%), decreased by approximately NIS 42 million excluding the currency impact, and by approximately NIS 93 including the currency impact. The decrease in export sales of green coffee by Três Corações in Brazil was influenced by the drop in green coffee prices compared to the corresponding period last year and was partly offset by an increase in sales volumes. Excluding the currency impact and the decrease in green coffee sales as described above, Strauss Coffee's sales grew overall by 4.1%.

In the fourth quarter of 2013 Strauss Coffee's sales decreased by approximately NIS 116 million. Differences arising from translation into Shekels amounted to NIS 119 million in the period, of which approximately NIS 77 million were the result of the erosion of the average exchange rate of the Brazilian Real versus the Shekel. Additionally, green coffee export sales from Brazil by Três Corações, reflecting Strauss Coffee's share (50%), decreased by approximately NIS 29 million excluding the currency impact, and by approximately NIS 47 million including the currency impact. This decrease was influenced by a drop in green coffee prices compared to the corresponding period last year. Excluding the currency impact and the decrease in green coffee sales in Brazil, Strauss Coffee's sales grew overall by 3.6%.

Gross profit

In 2013 the gross profit of the coffee business grew by NIS 123 million compared to last year, mainly as a result of the increase in Três Corações' gross profit, which was primarily the result of continued focus on improving Três Corações' R&G margins. Furthermore, the gross profit of the coffee business was positively influenced by a drop in the cost of green coffee compared to the corresponding period last year; in some countries where the Company is active, by an erosion of the average exchange rate of the Dollar versus the local currency in 2013 compared to the corresponding period last year (for example, Shekel: approximately -6.8%; Romanian Lei: -4.3%; Serbian Dinar: -3.2%; Polish Zloty: -3.0%); by a growth in the Company's sales volumes; and by an improvement in the supply chain in Russia. Conversely, the growth in gross profit was partly offset as a result of the negative impact of differences arising from translation into Shekels, by price erosion in most CEE countries due to the sharply growing competition, and by the lowering of the effective price in Israel. In total, these influences amounted to an increase of 5.0% in the gross profit margin, which in 2013 was 34.0%.

In the fourth quarter the gross profit increased by approximately NIS 7 million compared to the corresponding quarter last year. The gross profit margin improved by approximately 4.1% and amounted to 34.2% in the quarter. The factors that influenced the year 2013, as described above, also contributed to the improvement in gross profit in the fourth quarter of the year.

Operating profit

In 2013 the operating profit increased by NIS 91 million compared to last year. The operating profit margin improved by 2.8% and amounted to 10.2%. The growth in the operating profit in the year was the result of the growth in the gross profit as described above and was partly offset mainly by an increase in marketing expenses in most of the coffee companies.

In the fourth quarter of 2013 the operating profit of the coffee operation decreased by approximately NIS 6 million. The operating profit margin improved by 0.4% and amounted to 8.5% in the quarter.

The decrease in the operating profit in the fourth quarter was mainly the result of an increase in marketing expenses in most of the coffee companies. The operating profit in the quarter was also influenced by a loss in respect of closing green coffee futures transactions.

Strauss Coffee sales by major geographical regions

Following is the scope of sales of the coffee business in the major geographical regions (not including intercompany sales), and growth rates for the years and quarters ended December 31, 2013 and 2012 (in NIS millions):

	Year				Fourth Quarter			
Geographical region	**2013**	**2012**	**% chg**	**% change in local currency***	**2013**	**2012**	**% chg**	**% change in local currency***
Israel Coffee	**715**	**708**	***0.9***	***0.9***	**185**	**170**	***8.4***	***8.4***
International Coffee								
Três Corações (3C) (Brazil) (1) (2) (3)	1,697	1,778	*(4.5)*	*12.2*	407	482	*(15.6)*	*1.4*
Former USSR countries	733	844	*(13.7)*	*(4.7)*	221	236	*(7.3)*	*6.2*
Poland	368	407	*(9.6)*	*(6.2)*	88	107	*(17.4)*	*(12.7)*
Romania	226	257	*(12.1)*	*(10.0)*	56	68	*(17.5)*	*(15.8)*
Serbia	205	212	*(3.3)*	*(0.1)*	52	62	*(15.8)*	*(11.3)*
Total International Coffee	**3,229**	**3,498**	***(7.7)***	***3.2***	**824**	**955**	***(13.6)***	***(1.3)***
Total Coffee	**3,944**	**4,206**	***(6.2)***	***2.7***	**1,009**	**1,125**	***(10.3)***	***0.3***

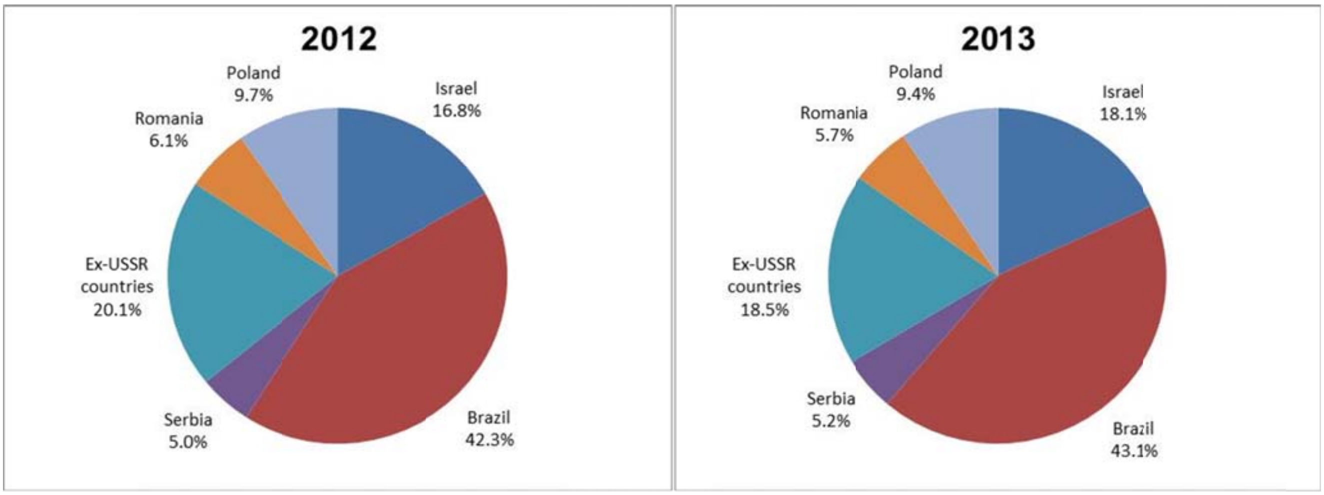
* The growth rate in the local currency neutralizes the impact of changes in exchange rates in the different countries versus the Shekel on the growth in the countries' sales.

(1) Três Corações sales in 2013 include sales amounting to NIS 249 million of green coffee and NIS 68 million of corn. In 2012 sales of green coffee amounting to NIS 342 million and corn amounting to NIS 70 million were included.

(2) Três Corações sales in the fourth quarter of 2013 include sales amounting to NIS 58 million of green coffee and NIS 15 million of corn. In the fourth quarter of 2012 sales of green coffee amounting to NIS 105 million and corn amounting to NIS 18 million were included.

(3) Três Corações (3C) – Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (data reflect Strauss Coffee's share (50%))

Distribution of coffee sales by geographical region in the years 2013 and 2012:



<u>3C – Brazil (Três Corações) – a company jointly held by the Group (50%) and by a local holding group, São Miguel Holding e Investimentos S.A. (50%) (data reflect Strauss Coffee's share (50%))</u>

Três Corações' average market share in roast and ground (R&G) coffee in 2013 reached 21.5% (value market share according to A.C. Nielsen), compared to 20.6% in 2012.

In February 2013 Três Corações signed a distribution agreement and a joint venture agreement with Caffitaly S.p.A, following which Três Corações became active in the single portion coffee and other beverages ("capsules") segment in Brazil. Sales by Três Corações in this segment were initiated in November 2013.

Três Corações' sales in local currency increased by 12.2% in 2013 and by 1.4% in the fourth quarter; excluding green coffee sales, Três Corações' sales in local currency grew by 18.6% and 11.2% in the year and in the quarter, respectively.

In the first quarter of 2013 the Brazilian government eliminated an indirect tax (PIS-Cofins) on the basic food product basket, including coffee.

The impact of the erosion of the average exchange rate of the Brazilian Real versus the Shekel on sales in 2013 and in the fourth quarter of the year totaled NIS 265 million and NIS 77 million, respectively (14.9% and 17.0% erosion compared to the average exchange rate in 2012 and in the corresponding quarter last year, respectively).

Following the continued focus placed on improving R&G margins in Brazil, the drop in prices of the raw material, green coffee, and as a result of the continued increase in sales volumes, Três Corações' gross profit improved considerably compared to the corresponding period last year (see Três Corações' financial statements, which are attached to the financial statements of the Group). The improvement in R&G margins commencing in the fourth quarter of 2012 also contributed to the growth in Três Corações' operating profit.

The former USSR countries

The Company's sales in the region decreased by NIS 111 million and NIS 15 million in the year and in the fourth quarter of 2013, respectively, compared to the corresponding periods last year. The Company's Shekel sales in the region were adversely impacted by the erosion of the average exchange rate of the Ruble versus the Shekel (8.6% and 12.5% erosion compared to the average exchange rate of the Ruble in 2012 and in the fourth quarter last year, respectively). Excluding differences arising from translation into Shekels, the decrease in sales in 2013 amounted to NIS 42 million, whereas in the fourth quarter the Company's sales in local currency grew by approximately 6.2% (approximately NIS 12.9 million). In the fourth quarter of 2013 the competitive environment in Russia improved slightly, and the Company again began posting a measure of growth in sales volumes of freeze-dried instant coffee.

Poland

The Company's sales in Poland decreased by approximately NIS 39 million and NIS 19 million in the year and in the fourth quarter of 2013, respectively, compared to the corresponding periods last year. Sales were influenced by an intensified competitive dynamic, by a drop in volumes in the Polish coffee market in general, and by the erosion of the average exchange rate of the Zloty versus the Shekel in 2013 and in the fourth quarter of the year (3.5% and 5.4% erosion compared to the average exchange rate of the Zloty in 2012 and in the corresponding quarter last year, respectively).

Romania

The Company's sales in Romania decreased by NIS 31 million and NIS 12 million in the year and in the fourth quarter of 2013, respectively, compared to the corresponding periods last year. Sales were influenced by the intensifying competition and by the erosion of the average exchange rate of the Romanian Lei in the year and in the fourth quarter (2.3% and 2.2% erosion compared to the average exchange rate of the Lei in 2012 and in the fourth quarter last year, respectively).

Serbia

The Company's sales in Serbia decreased by NIS 7 million and NIS 10 million in the year and in the fourth quarter of 2013, respectively, compared to the corresponding periods last year. Sales were influenced by a drop in volumes in the Serbian coffee market in general, and by the erosion of the average exchange rate of the Serbian Dinar versus the Shekel in 2013 and in the fourth quarter of the year (3.4% and 5.1% erosion compared to the average exchange rate of the Serbian Dinar in 2012 and in the corresponding quarter last year, respectively).

Israel

The Company's sales in Israel grew by approximately NIS 7 million and NIS 15 million in the year and in the fourth quarter of 2013, respectively, compared to the corresponding periods last year. The growth in yearly sales was the result of an increase of around 8.4% in coffee sales in Israel in the fourth quarter, which reflected a significant increase in sales volumes in the main coffee categories in Israel along with effective price decreases, increased marketing effort and product innovation.

The operating profit of Israel Coffee grew by NIS 3 million in 2013 and decreased by NIS 9 million in the fourth quarter of the year, compared to the corresponding periods last year. The decrease in the operating profit in the quarter was the result of a significant increase in Israel Coffee's marketing expenses. Additionally, the operating profit of the Israel Coffee segment was influenced by a loss in respect of closing green coffee futures transactions.

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in 2013 according to StoreNext figures held an 11.8% share of the total retail domestic food and beverage market in value terms (similar to its share in 2012). According to StoreNext, in 2013 the Israeli food and beverage market grew by 3.2% in financial value.

Sales by the entire activity of Strauss Group in Israel include sales by the Health & Wellness and Fun & Indulgence divisions, the coffee operation in Israel, Max Brenner in Israel and Strauss Water Israel (Tami 4).

In 2013 sales by Strauss Group's entire operation in Israel totaled NIS 4,144 million compared to NIS 4,039 million last year, an increase of 2.6%. In the fourth quarter of the year Israel sales totaled NIS 1,042 million versus NIS 973 million last year, an increase of 7.0%.

Strauss Israel

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, 2013 and 2012 (in NIS millions):

	Year			**Fourth Quarter**		
	2013	**2012**	**% Chg**	**2013**	**2012**	**% Chg**
Health & Wellness segment						
Net sales	1,987	1,920	*3.5*	499	467	*6.9*
Operating profit	200	187	*7.1*	51	45	*14.1*
% operating profit	10.1%	9.7%		10.2%	9.6%	
Fun & Indulgence segment						
Net sales	1,013	981	*3.2*	247	236	*4.4*
Operating profit	115	110	*4.5*	16	21	*(23.0)*
% operating profit	11.4%	11.2%		6.6%	8.9%	
Total Strauss Israel						
Net sales	**3,000**	**2,901**	***3.4***	**746**	**703**	***6.0***
Gross profit	**1,211**	**1,135**	***6.7***	**307**	**271**	***13.0***
% gross profit	**40.4%**	**39.1%**		**41.2%**	**38.6%**	
Operating profit	**315**	**297**	***6.2***	**67**	**66**	***2.2***
% operating profit	**10.5%**	**10.2%**		**9.0%**	**9.4%**	

In 2013 Strauss Israel posted a growth in sales coupled with an improvement in gross and operating profit margins, attributed mainly to the implementation of streamlining processes, product innovation and an improvement in the sales mix.

Sales

In 2013 Strauss Israel's sales grew by approximately NIS 99 million compared to last year. The growth is due to an increase of NIS 67 million in the Health & Wellness segment and NIS 32 million in the Fun & Indulgence segment.

In the fourth quarter Strauss Israel's sales grew by NIS 43 million, an increase of NIS 32 million in the Health & Wellness segment and NIS 11 million in the Fun & Indulgence segment. This increase reflects strong growth (approximately 6.0%), which was expressed in all Strauss Israel's business units.

Gross profit

In 2013 Strauss Israel's gross profit increased by approximately NIS 76 million, with a 1.3% improvement in the gross profit margin, compared to last year. In the fourth quarter, Strauss Israel's gross profit increased by NIS 36 million, with a 2.6% improvement in the gross profit margin compared to last year.

The improvement in the gross profit in the year and in the fourth quarter mainly reflects growth in sales volumes, an improvement in the Company's product mix, the continued implementation of streamlining processes in production and the positive impact of currency exchange rates on the cost of sales.

Operating profit

In 2013 Strauss Israel's operating profit increased by approximately NIS 18 million and the operating profit margin improved by about 0.3% and amounted to 10.5% of sales. In the fourth quarter Strauss Israel's operating profit increased by approximately NIS 1 million and the operating profit margin decreased by 0.4%, amounting to 9.0% of sales.

The improvement in Strauss Israel's operating profit is due to the improvement in the gross profit, and was offset in part mainly as a result of a significant increase in marketing expenses.

The decrease in the operating profit of the Fun & Indulgence segment in the fourth quarter of 2013 was the result of an increase in raw material prices (mainly the effective price of cocoa) as well as an increase in marketing expenses compared to the corresponding quarter last year.

The International Dips and Spreads Activity

Sales by the International Dips and Spreads activity increased in 2013 and in the fourth quarter of the year by approximately NIS 78 million and NIS 9 million, respectively. The organic growth rate, excluding the currency impact, is 20.0% and 15.9%, respectively.

Sabra

Following are selected financial data on Sabra's activity (reflecting 100%):

	Year		Fourth Quarter	
	2013	2012	2013	2012
Sales	1,131	1,007	274	256
Growth	12.3%	29.8%	7.2%	27.7%
Organic growth excluding currency impact	20.3%	20.1%	16.9%	23.8%
Operating profit	147	129	28	31
% operating profit	13.0%	12.8%	10.4%	12.0%

According to IRI, Sabra's market share in the 52 weeks ended on December 29, 2013 was 27.5% of the total refrigerated flavored spreads category (Number 1 in the market), compared to 23.7% in the corresponding period last year. Sabra's value market share of the hummus category in the same period was 63.7%, compared to 61.6% last year. In the third quarter of 2013 IRI changed its market share calculation method, and the comparative figures were amended accordingly.

According to IRI, in 2013 Sabra led approximately 68% of the growth of the refrigerated flavored spreads category and 76% of the growth of the hummus category.

Sales

Sabra's sales grew by approximately NIS 124 million in 2013 compared to last year. In the fourth quarter sales grew by NIS 18 million compared to the corresponding quarter in 2012. Most of the sales growth in local currency was mainly due to significant volume growth in hummus sales and to strong growth in sales of guacamole, thanks to deepening the distribution of the company's products, increased marketing effort and product innovation. By contrast, sales in Shekels were adversely impacted by the erosion of the average exchange rate of the US Dollar in 2013 and the fourth quarter versus the Shekel (6.4% and 8.2%, respectively) compared to the corresponding periods last year.

Operating profit

In 2013 the operating profit increased by NIS 18 million, with a 0.2% improvement in the operating profit margin compared to last year. The growth in the operating profit is mainly explained by the growth in sales and is also the result of various continued streamlining processes in production (streamlining of production lines, a decrease in wastage thanks to automation), and was achieved despite the increase in marketing effort.

In the fourth quarter the operating profit decreased by NIS 3 million, with 1.6% erosion in the operating profit margin compared to the corresponding period last year. The decrease in the operating profit is mainly the result of significant growth in Sabra's marketing effort.

Obela

Following are selected financial data on Obela's activity (reflecting 100%):

Obela's operations were launched in the second quarter of 2012 with the opening of a new production facility in Mexico, to which the production lines from Sabra's previous salad factory in Astoria, New York, were transferred. In the same quarter Obela acquired an existing refrigerated salads business in Australia (Red Rock) from PepsiCo. In the third quarter of 2012 expansion in Australia continued through the acquisition of the Australian company Copperpot, which specializes in refrigerated salads. In the third quarter of 2013 Obela Australia began selling the Obela hummus brand in the country's three leading chains.

Obela's sales in 2013 amounted to approximately NIS 69 million compared to NIS 38 million last year (as mentioned, Obela's activity was launched in the second quarter of 2012). In the fourth quarter of the year Obela's sales totaled NIS 22 million, compared to NIS 23 million in the corresponding quarter last year. Excluding the currency impact, organic growth amounted to approximately 17.2% in 2013 and 14.1% in the fourth quarter. Shekel sales were adversely affected by the erosion of the average rate of the Australian Dollar in 2013 and in the fourth quarter of the year versus the Shekel (12.4% and 18.1%, respectively) compared to the corresponding periods last year (in 2012, the average exchange rate was applied only for the quarters in which the company was active, i.e. not including the first quarter of 2012).

The non-GAAP operating loss in 2013 totaled NIS 33 million, compared to NIS 41 million in 2012.
The non-GAAP operating loss in the fourth quarter totaled NIS 7 million compared to NIS 13 million in the corresponding quarter last year.

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.

Total sales by the "Other Operations" segment increased in 2013 and in the fourth quarter of the year by approximately NIS 46 million and NIS 35 million, respectively. Excluding the currency impact, organic growth amounted to 13.3% and 28.7%, respectively.

Strauss Water

In January 2013 a new water purifier, the WaterMaker Young, was launched in China, joining the WaterMaker Premium already sold in that country. The new appliance does not require a connection to the water line, is sold at a lower price than the WaterMaker Premium, and is available in two versions: hot water/cold water or hot water/water at room temperature. In November 2013 a basic water purifier (the V3) was launched in China, which supplements the company's product portfolio and is sold at the lowest price among the range of the company's appliances that are on sale in China. Additionally, in November 2013 Haier Strauss Water signed an agreement with China Telecom, pursuant whereto 3,000 Strauss Water purifiers will be placed in China Telecom's service centers. As at the date of publication of the report the company sells Strauss Water's products in over twenty cities in China, including Beijing, Shanghai, Qingdao, Tianjin, Shenzhen and Taiyuan.

In November 2013 Strauss Water announced a limited launch of another innovative appliance in the Israeli market, the Tami4 Bubble Bar, which, besides hot and cold water, also dispenses carbonated water. The appliance is a technological breakthrough in the water bar category and is the only one of its kind which dispenses a single-press serving of carbonated water. In January 2014 the full launch of the appliance in the local market was initiated, in addition to the Tami4 Primo and Tami4 Family models, which supplement the product line for the Israeli market.

In 2013 Strauss Water's sales amounted to NIS 483 million compared to NIS 418 million last year, an increase of 15.6%. In the fourth quarter Strauss Water's sales amounted to NIS 139 million compared to NIS 104 million in the corresponding quarter in 2012, an increase of 33.6%. The growth in sales in 2013 and in the fourth quarter of the year is mainly the result of the growth in international sales and the continued growth in the company's customer base in Israel.

Max Brenner

At the date of publication of the report, the Max Brenner chain comprises fifty-three "Chocolate Bars" in Israel and around the world (forty-eight under franchise and five owned by the Company (in the USA: New York, Philadelphia, Las Vegas, Boston and Maryland). The Max Brenner branches are spread throughout Australia (35), Israel (6), the USA (5), Singapore (3), Japan (2), the Philippines (1) and Russia (1). Since the date of publication of the report for the third quarter of 2013, two new Max Brenner locations have been opened in Australia, two in Japan and one in Russia (all of them under franchise).

In 2013 Max Brenner's sales totaled NIS 116 million compared to NIS 135 million last year, a decrease of 14.2%. Excluding the impact of the exchange rate and the sale of the five branches in Israel to a franchisee, sales in 2013 grew by 5.0%.

In the fourth quarter Max Brenner's sales totaled NIS 30 million compared to NIS 31 million last year, a decrease of 2.7%. Excluding the exchange rate impact, sales in the quarter grew by 4.5%.

Reporting according to linkage bases

For information on reporting according to linkage bases, see Note 30 to the financial statements.

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 30 in the Description of the Corporation's Business (Discussion on 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

Commodities procurement

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.

The Group also has a committee for the management of commodities exposure 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 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.

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 the 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 Russia	Dec. 2013	649	731	External (1) (2)	DCF	10.5%	0.0%	65%	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.

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. As at the date of publication of the report the Board of Directors comprises 12 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 Remuneration 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.

The Link between Remuneration Paid in Accordance with Regulation 21 and the Recipient's Contribution to the Corporation

On September 9, 2013 the Company adopted a remuneration policy for officers of the Company in accordance with Amendment 20 to the Companies Law (see the Company's Immediate Report of September 9, 2013 (reference no. 2013-01-140616)).

The Board of Directors of the Company reviewed the remuneration of the officers enumerated in Regulation 21 of the Securities Regulations (Periodic and Immediate Reports), 1970 (the "Report Regulations"), Ms. Ofra Strauss, Mr. Gadi Lesin and Mr. Shahar Florence. The Board of Directors found that the remuneration of the senior officers is compatible with the Company's remuneration policy.

Additionally, the Board of Directors reviewed the remuneration of Mr. Gennady Jilinski, who is not an officer of the Company. For the purpose of the review, the Board of Directors was presented with the relevant data in regard to Mr. Jilinski's employment conditions in good time. In the discussions, it was emphasized that remuneration was based on Mr. Jilinski's role and on his personal contribution to the management of Strauss Coffee, its activity and advancement. The annual bonus was determined according to a mechanism linking the bonus to Strauss Coffee's financial performance and to functional targets which are within the manager's specific area of occupation and responsibility, and are all based on Strauss Coffee's work plans and strategic goals. The Board of Directors is of the opinion that Mr. Jilinski's remuneration for 2013 is fair and reasonable and reflects the manager's contribution.

For information on the remuneration of Mr. Todd Morgan in view of the legal proceedings underway in regard to the termination of his employment, see details in Periodic Report in accordance with Regulation 21 of the Report Regulations.

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 relating to 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 and controlled by Group Corporate Center, which also manages master risks on the Group level. Every three years the Company performs an internal risk survey and revises the risk maps of the Group's areas of activity. In 2013 a risk survey was performed in the Group. Additionally, last year the Company ratified the risk management policy. Further to the up-to-date risk survey 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 periodic reports for the purpose of supervising and assessing issues relating to risk management in the Group. For information on risk factors in the Group, see the section "Discussion on Risk Factors" in the chapter "Description of the Corporation's Business" in this report.

Sustainability, Corporate Responsibility, Social Investment and Donations

<u>In 2013 the Group's sustainability and corporate social responsibility (CSR) activities focused on the following spheres</u>:

A. **Sustainability strategy:** Formulation of a cross-organizational six-year sustainability strategy, which includes measurable targets, focusing on the substantial impacts in the Group's business activity.

B. **Work environment and investment in employees:** Continued assimilation of the intra-organizational social program coupled with an extended supportive welfare policy, with emphasis on tri-sector collaboration for the benefit of employees.

C. **Refreshing the Code of Ethics in all Group companies:** The yearly refresher of the Code of Ethics and its principles in the companies in the Group.

D. **Product responsibility:** Continued review of the product response to consumers.

E. **Social investment and community relations:** Deepening Strauss's social investment, focusing on the flagship issue – the promotion of employment among diverse populations in general and women's empowerment in particular.

F. **Implementation of sustainability principles in various core areas in Strauss's value chain:** The supply chain, environmental quality, workplace safety, promotion of good nutrition and a healthy lifestyle.

Description

A. Sustainability strategy

In 2013, for the first time in Strauss Group's history, a global sustainability strategy was formulated. The cross-organizational strategy, which was formulated in alignment with the Group's visionary goals, will be managed and measured as part of the Group's business strategy. One of the goals of the global sustainability strategy is to be on a par with the world's leading food and beverage companies, which are active in sustainability according to a defined and measurable vision and targets, as well as to bring about a significant improvement in the Group's sustainability performance. The six-year sustainability strategy for 2020 is in effect and applies to all companies in the Group, and includes a series of measurable targets divided betwen three spheres: employees, products and the external environment (including suppliers, environmental quality and the community). Relevant targets have been defined for each of these spheres. In total, 15 targets have been defined for realization by 2020, by all companies in the Group. These targets are translated into operational work plans tailored to each company. Each company has a degree of latitude, in which framework it may choose additional spheres of influence in the relevant areas of sustainability, while measuring and monitoring their performance. The sustainability strategy objectives are divided among three performance levels: Meet, Exceed, Lead. "Meet" represents the basic performance level, which ensures that the Group complies with all standards and the regulation in the countries in which it operates. "Exceed" represents a level where we aspire to display CSR performance on a par with leading global practices in a number of substantive spheres in which Strauss is already active on a significant scale. "Lead" represents a level where Strauss will aspire to assimilate leading corporate responsibility practices, above and beyond those which are currently in place in the industry, in new spheres in which Strauss has not been active to date.

B. Work environment and investment in employees – intra-organizational social program

In 2013 the assimilation of the intra-organizational social program continued. The program focuses on the employees of Strauss Israel and includes supplementary 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 2013 additional elements were added in the form of broad healthcare plans offered to employees by the Company and the expansion of healthcare coverage for the benefit of employees, and the launch of a comprehensive information program on pension savings which makes clear professional information available to employees on their pension rights and on the savings options available to them, as well as on the importance of the issue to their future.

C. Refreshing the Code of Ethics in all Group companies – launch of new ethics courseware

2013 was devoted to a comprehensive refresher of the Code of Ethics, its principles, common ethical dilemmas encountered by employees in their jobs and the means and tools available them to solve these dilemmas. This year new computerized courseware was launched to facilitate learning and refreshing the knowledge of Strauss's Code of Ethics, which allowed for an efficient, in-depth learning process for computer users, along with the adaptation of the version for frontal training for employees who are not computer users. The lessons and learning aids were also revised with the goal of making the learning experience more experiential and effective. During the year the variety of means available to employees seeking help in solving an ethical dilemma or wishing to make a complaint regarding the violation or suspected violation of one or more principles of the Code were communicated to employees via the various internal communication platforms.

D. Product responsibility

In 2013 Strauss 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 efforts to expand this product basket continued. The feasibility study process initiated in Strauss Israel in 2012 has continued into 2014 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 in and outside the digital space.

E. 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 through the two largest food banks in Israel that provide food to dozens of nonprofits and to the needy throughout the country.

In 2013 Strauss continued to deepen its investment in the flagship social issue chosen as its focus: the advancement of employment among diverse populations, particularly women's empowerment. This social cause was furthered in a variety of ways, which included donations in cash and in kind (food products) and employee volunteering. In addition to the Company's community relations and volunteering activities, which are led by social leaders in all units in Israel and globally, we continued to deepen our strategic social partnerships that focus on furthering the flagship social issue, the promotion of employment among diverse populations, especially women. This was done by creating new social partnerships with local organizations and projects, replicating successful social models among production sites, and increasing volunteer hours on the Group's annual CSR Day in October 2013. The Group continued to further the "Window to the Future" social investment model, in which 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. This year, the number of employee volunteer hours grew significantly and totaled some 18,000 hours (an increase of around 25% compared to 2012).

Besides Strauss's primary social investment activity, the Group continues to support a variety of social causes in and outside Israel, in markets where Strauss has business operations.

In 2013 Strauss Group invested approximately NIS 11.8 million in community investment, donations in cash and in kind and volunteer hours, of which NIS 3.8 million were in the form of financial support, NIS 5 million were donated in the form of food products (at cost prices to the Group), NIS 0.9 million were spent on the development of corporate responsibility, NIS 0.6 million on community activities, and NIS 1.5 million on employees' volunteer hours.

F. Implementation of sustainability principles in various core areas in Strauss's value chain

1. The supply chain – launch of the supplier diversity program

In 2013 a program was launched to expand the variety of suppliers from which Strauss buys the goods and services it requires, with emphasis on women-owned businesses. As the first step Strauss's major suppliers in Israel were mapped in order to examine the rate of procurement from women-owned vendors (owned, controlled and managed by 51% women and above). In the second stage a program was built for the realization of the major goal set in the sustainability strategy for 2020, the aim of which is to further procurement from women-owned businesses.

2. **Environmental quality**
   In 2013 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, with continuous reporting and transparency regarding our environmental performance metrics, which are described in detail in the annual Sustainability Report published in June each year as well as in our corporate website. Additionally, we continued to assimilate Strauss employees' environmental project, "Saving the Environment", designed 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 chapter "Description of the Corporation's Business".

3. **Workplace safety**
   Strauss has set goals for improving safety performance and addressing 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**
   Strauss acts continuously to expand its product and non-product response with the goal of helping and supporting the promotion of a healthy lifestyle among our consumers. As part of our commitment to improving the consumer's quality of life and based on our 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 the Company's 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. Additionally, in 2013 Strauss launched the Strauss Institute for the Promotion of a Healthy Lifestyle, which developed a suite of dedicated tools for adults and children; deepened the activity of the Alpha Strauss project for the food technology community, in which framework technology that supports a healthy lifestyle is located and assimilated in Strauss's business activities; expanded the digital channels that facilitate the accessibility of information and tools for the promotion of a healthy lifestyle among our consumers; and dedicated a major part of the sustainability strategy (section A above) to objectives focused on the promotion of a healthy lifestyle.

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 level 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.

<u>Considerations in determining the subjects in the audit plan</u>:
- 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.

<u>Audits abroad or audits of investee companies</u>: The audit plan encompasses the corporations that constitute material holdings of the Company.

<u>Scope of engagement</u>: 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 - 4,001 hours.
- In investee companies abroad - 3,238 hours.

Total: 7,239 (compared to 7,311 hours in 2012).

<u>Performing the audit</u>: The internal audit 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.

<u>Access to information</u>: 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.

<u>Auditor's report</u>: The Auditor's reports are submitted in writing on a regular basis throughout the year. In 2013 twenty-four 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 2013 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 senior Group Management.

<u>The Board of Directors' evaluation of the Internal Auditor's activity</u>: 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.

<u>Compensation</u>: The total financial compensation paid for the work of the Auditor and his staff is based on an agreed tariff per work hour. In 2013 the Auditor was paid an amount of approximately NIS 1,640 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 Galia Maor 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, two independent directors (who are also outside directors) serve on the Board of Directors as well as two other directors who fulfill the conditions for qualifying as independent directors, who together form about 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 director). 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 2014, during the preparation of the financial statements, discussions were held in regard to the financial statements for the Year 2013.

- On March 20, 2014 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 fairness 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 2013; (g) 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. Discussions were attended by CPA Dalya Lev (temporary Committee Chairperson), Professor Dafna Schwartz, Meir Shanie, Micha Anghel, Arie Ovadia, Ronit Haimovitch and Adi Strauss as observers, the Group EVP Finance, the Group Corporate Center CFO, the Group Controller, the Internal Auditor of the Company and the Company Auditor.

- On March 20, 2014 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 the year 2013. The meeting was attended by CPA Dalya Lev (temporary Committee Chairperson), Professor Dafna Schwartz, Meir Shanie, Micha Anghel, Arie Ovadia, Ronit Haimovitch and Adi Strauss as observers, the Group EVP Finance, the Group Corporate Center CFO, the Group Controller, the Internal Auditor of the Company 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, 2013 were approved, a meeting was held with the temporary Chairperson to discuss material issues that arose during the preparation of the Annual Financial Statements.

- The Company Auditor also holds conversations with the Financial Statements Review 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 Financial Statements Review Committee to discuss material issues that arose during the audit of the financial statements as at December 31, 2013.

- 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 of Directors 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 some three 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 25, 2014 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, 2013. In the opinion of the Board of Directors, in view 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. 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 resolved to approve the financial statements of the Company for the year 2013.

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 ISA of its Criteria for the Recognition of an Internal Enforcement Program in the Securities Field on August 11, 2011, the Company has completed the assimilation of an 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 an included 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.

AUDITOR'S FEES

Following is information on the fees paid to the auditors of the material companies in the Group:

		For the year ended December 31, 2013					
		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)	3,369	14,625	-	-	3,369	14,625
Max Brenner NY	Eshel & Partners LLP	199	1,104	-	-	199	1,104
SE USA Inc.	Eshel & Partners LLP	131	473	-	-	131	473
Sabra Dipping Company LLC (100%)	KPMG & JH Cohn	1,517	2,112	90	47	1,607	2,159
PepsiCo Strauss Fresh Dips & Spreads	KPMG Switzerland, Mexico, Australia	1,429	1,563	449	237	1,878	1,800
Virgin Strauss Water UK Ltd.	KPMG LLP (UK)	147	329	43	122	190	451
Strauss Water companies in China	KPMG China	344	970	-	-	344	970
Strauss Romania SRL	KPMG Romania	283	1,220	-	-	283	1,220
Strauss Adriatic Group Cluster	KPMG Serbia	158	600	29	100	187	700
Strauss Ukraine LLC	KPMG Ukraine	106	421	-	-	106	421
Strauss Café Poland Sp.z.o.o	KPMG Poland	268	968	-	-	268	968
Três Corações Alimentos S.A (100%)	KPMG Brazil	636	2,400	-	-	636	2,400
Strauss Coffee B.V.	Mazars & KPMG (Israel)	1,799	5,583	499	1,247	2,298	6,830
Strauss Commodities AG	KPMG Switzerland	234	260	-	-	234	260
Strauss Russia LLC	KPMG Russia	591	1,426	263	700	854	2,126

		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 Bosnia, 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

(1) The Company receives audit services together with other investee companies, the main ones being Yad Mordechai Strauss Apiary Ltd., Strauss Fritolay Ltd. (100%), 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 to the consolidated financial statements as at December 31, 2013.

DEDICATED DISCLOSURE TO DEBENTURE HOLDERS

For information on the Company's debentures, see Notes 20.1 and 20.2 to the Annual Financial Statements.

The Board of Directors and Management express their gratitude and appreciation to the employees and managers of Strauss Group.

Ofra Strauss Chairperson of the Board	Gadi Lesin Chief Executive Officer

March 25, 2014

Strauss Group Ltd.

Financial Statements
As at December 31, 2013

Contents

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, 2013, 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, 2013. 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 consolidated subsidiaries whose assets constitute 8.2%, 9.2% and 11.5% of the total consolidated assets as of December 31, 2013, 2012 and 2011, respectively, and whose revenues constitute 2.4%, 2.6% and 1.5 % of the total consolidated revenues for the years ended December 31 2013, 2012 and 2011, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the reports of the other auditors.

We conducted our audit 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 audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of December 31, 2013 2012 and 2011 and their results of operations, changes in equity and cash flows, for each of the three years in the period ended December 31, 2013, in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Securities Regulations (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" and its amendments, the components of the Company’s internal control over financial reporting as of December 31, 2013, and our report dated March 25, 2014 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 25, 2014

Consolidated Statements of Financial Position

	Note	December 31 2013	2012 Restated*	2011 Restated*
		NIS millions		
Current assets				
Cash and cash equivalents	7	772	735	649
Securities and deposits	8	246	216	147
Trade receivables	9	893	891**	872**
Income tax receivables		44	62	55
Receivables and debit balances	10	207	238	160
Inventory	11	661	610	596
Assets held for sale	16.3	-	10	-
Total current assets		2,823	2,762	2,479
Investments and non-current assets				
Investment in equity-accounted investees	12	887	918	910
Other investments and long-term debt balances	13	264	267**	188
Fixed assets	14	1,490	1,367	1,296
Intangible assets	15	1,082	1,160	1,153
Deferred expenses	3.6	52	61	22
Investment property	16	25	21	42
Deferred tax assets	37	20	27	18
Total investments and non-current assets		3,820	3,821	3,629
Total assets		6,643	6,583	6,108

Ofra Strauss
Chairwoman of the Board of Directors

Gadi Lesin
Chief Executive Officer

Shahar Florence
Chief Financial Officer

Date of approval of the financial statements: March 25, 2014

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.
** Reclassified, see Note 2.8.6.

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

Consolidated Statements of Financial Position (cont'd)

	Note	December 31		
		2013	2012 Restated*	2011 Restated*
		NIS millions		
Current liabilities				
Current maturities of debentures	20	180	166	165
Short-term credit and current maturities of long term credit and loans	20,21	111	65	91
Trade payables	17	769	727	706
Income tax payables		8	18	24
Other payables and credit balances	18	618	684**	570**
Provisions	19	48	33	35
Total current liabilities		1,734	1,693	1,591
Non-current liabilities				
Debenture	20	965	881	1,033
Long-term loans and credit	20,22	1,126	1,038	623
Long-term payables and credit balances	23	58	38**	29
Employee benefits, net	24	55	50	40
Deferred tax liabilities	37	154	146	105
Total non-current liabilities		2,358	2,153	1,830
Equity and reserves	28			
Share capital		243	243	243
Share premium		622	622	622
Translation reserve		(496)	(287)	(240)
Treasury shares		(20)	(20)	(20)
Reserve in respect of available for sale financial assets		9	4	2
Retained earnings		1,387	1,325	1,214
Total equity attributable to the Company's shareholders		1,745	1,887	1,821
Non-controlling interests		806	850	866
Total equity		2,551	2,737	2,687
Total liabilities and equity		6,643	6,583	6,108

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.
** Reclassified, see Note 2.8.6.

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

Consolidated Statements of Income

	Note	For the year ended December 31 2013	2012 Restated*	2011*
			NIS millions	
Sales	31	5,605	5,699	7,699
Cost of sales	32	3,389	3,546	5,022
Gross profit		2,216	2,153	2,677
Selling and marketing expenses	33	1,341	1,320	1,727
General and administrative expenses	34	346	340	427
		1,687	1,660	2,154
Share of profit of equity accounted investees	3.1.5	175	63	-
Operating profit before other income (expenses)		704	556	523
Other income		25	124	34
Other expenses		(119)	(79)	(94)
Other income (expenses), net	35	(94)	45	(60)
Operating profit		610	601	463
Financing income		22	26	42
Financing expenses		(136)	(140)	(145)
Financing expenses, net	36	(114)	(114)	(103)
Income before taxes on income		496	487	360
Taxes on income	37	(165)	(162)	(127)
Income for the year		331	325	233
Attributable to:				
The Company's shareholders		234	244	161
Non-controlling interests		97	81	72
Income for the year		331	325	233
Earnings per share	38			
Basic earnings per share (in NIS)		2.19	2.30	1.52
Diluted earnings per share (in NIS)		2.17	2.30	1.52

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards. IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

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

Consolidated Statements of Comprehensive Income

	Note	For the year ended December 31		
		2013	2012	2011
		NIS millions		
Profit for the year		331	325	233
Other comprehensive income (loss) components that will be transferred in the future to the statement of income:				
Foreign currency translation differences	28.5	(133)	15	15
Other comprehensive loss of joint ventures		(137)	(76)	(16)
Changes in fair value of available for sale financial assets, net of tax		13	5	(5)
Total other comprehensive loss components that will be transferred in the future to the statement of income		(257)	(56)	(6)
Other comprehensive income (loss) components that will not be transferred in the future to the statement of income, net of tax:				
Change in employee benefits, net of tax*		(1)	(3)	(1)
Total other comprehensive income components that will not be transferred in the future to the statement of income, net of tax		(1)	(3)	(1)
Comprehensive income for the year		73	266	226
Attributable to:				
The Company's shareholders		29	196	157
Non-controlling interests		44	70	69
Comprehensive income for the year		73	266	226

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

The accompanying notes are an integral part of the interim 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, 2013 after retrospective adjustment*	243	622	(287)	(20)	4	1,325	1,887	850	2,737
Changes in 2013 :									
Total Comprehensive Income (loss) for the year									
Income for the year	-	-	-	-	-	234	234	97	331
Components of other comprehensive Income (loss):									
Differences related to translation of foreign exchange, net of tax	-	-	(209)	-	-	-	(209)	(61)	(270)
Changes in fair value of available for sale assets, net of tax	-	-	-	-	5	-	5	8	13
Change in employee benefits, net*	-	-	-	-	-	(1)	(1)	-**	(1)
Other comprehensive Income (loss) for the year, net of tax	-	-	(209)	-	5	(1)	(205)	(53)	(258)
Total Comprehensive Income (loss) for the year	-	-	(209)	-	5	233	29	44	73
Exercise of options granted to employees	-**	-	-	-	-	-	-**	-	-**
Share-based payment	-	-	-	-	-	13	13	-	13
Share-based payment to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	5	5
Dividend paid	-	-	-	-	-	(157)	(157)	-	(157)
Dividend to Non-Controlling interests in subsidiaries	-	-	-	-	-	-	-	(73)	(73)
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	(27)	(27)	(20)	(47)
Balance as at December 31, 2013	243	622	(496)	(20)	9	1,387	1,745	806	2,551

*Retrospective adjustment- see Note 2.8, initial implementation of the new standards
** 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, 2012 after retrospective adjustment*	243	622	(240)	(20)	2	1,214	1,821	866	2,687
Changes in 2012 :									
Total Comprehensive Income (loss) for the year									
Income for the year	-	-	-	-	-	244	244	81	325
Components of other comprehensive Income (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
Change in employee benefits, net*	-	-	-	-	-	(3)	(3)	-**	(3)
Other comprehensive Income (loss) for the year, net of tax	-	-	(47)	-	2	(3)	(48)	(11)	(59)
Total Comprehensive Income (loss) for the year	-	-	(47)	-	2	241	196	70	266
Exercise of options granted to employees	-**	-	-	-	-	-	-**	-	-**
Share-based payment	-	-	-	-	-	10	10	-	10
Share-based payment to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	9	9
Dividend paid	-	-	-	-	-	(140)	(140)	-	(140)
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	-	(95)	(95)
Balance as at December 31, 2012	243	622	(287)	(20)	4	1,325	1,887	850	2,737

*Retrospective adjustment- see Note 2.8, initial implementation of the new standards.
** 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
Effect of retrospective adjustment of new standards*	-	-	-	-	-	(11)	(11)	-**	(11)
Balance as at January 1, 2011 after retrospective adjustment*	243	622	(239)	(20)	4	1,220	1,830	878	2,708
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)
Change in employee benefits, net*	-	-	-	-	-	(1)	(1)	-**	(1)
Other comprehensive Income (loss) for the year, net of tax	-	-	(1)	-	(2)	(1)	(4)	(3)	(7)
Total Comprehensive Income (loss) for the year	-	-	(1)	-	(2)	160	157	69	226
Share-based payment	-	-	-	-	-	11	11	-	11
Share-based payment to Non-Controlling interests 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	1,214	1,821	866	2,687

*Retrospective adjustment- see Note 2.8, initial implementation of the new standards.
** Less than NIS 1 million.

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

Consolidated Statements of Cash Flows

	Note	For the year ended December 31 2013	2012 Restated*	2011*
		NIS millions		
Cash flows from operating activities				
Income for the year		**331**	**325**	**233**
Adjustments:				
Depreciation		137	137	166
Amortization of intangible assets and deferred expenses		48	53	53
Impairment loss of fixed assets, intangible assets and investment property,net	14.1, 15.1, 16.1	43	44	60
Other expenses (income), net		13	(114)	(2)
Expenses in respect of share-based payment	25.5	18	19	22
Gain from loss of control in a subsidiaries		-	-	(22)
Financing expenses, net		114	114	103
Income tax expense		165	162	127
Share of profit of equity accounted investees		(175)	(63)	-
Change in inventory		(86)	(25)	(187)
Change in trade and other receivables		(6)	(53)**	(55)**
Change in long-term receivables		(4)	7	5
Change in trade and other payables		54	56**	(31)**
Change in employee benefits		6	7	7
Interest paid		(84)	(76)**	(84)**
Interest received		26	15	29
Income tax paid, net		(120)	(127)	(120)
Net cash flows from operating activities		**480**	**481**	**304**
Cash flows from investing activities				
Sale (purchase) of marketable securities and deposits, net		(28)	(68)	(104)
Proceeds from sale of fixed and intangible assets and investment property		31	139	29
Acquisition of subsidiaries and operations, net of cash acquired		-	-	(61)
Acquisition of fixed assets		(336)	(232)**	(280)**
Investment in intangible assets and deferred expenses		(40)	(99)	(37)
Investing in long-term deposits		(3)	-	-
Repayment of deposits and long-term loans granted		45	31	14
Long-term loans granted		(70)	(123)	(12)
Short-term loans granted, net		-	(4)	-
Taxes paid due to the sale of investment property		(2)	(27)	-
Dividends from investee companies		88	27	
Proceeds from realizing holdings in investee companies		-	(72)	-
Net cash flows used in investing activities		**(315)**	**(428)**	**(451)**

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards. IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.
** Reclassified, see Note 2.8.6.

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

Consolidated Statements of Cash Flows (cont'd)

		For the year ended December 31		
		2013	2012 Restated*	2011*
	Note	NIS millions		
Cash flows from financing activities				
Short-term bank credit, net		(4)	4	137
Proceeds from issuance of Bonds,net		247	-	-
Receipt of long-term loans	22.2	203	435	611
Repayment of long-term loans and debentures		(235)	(214)	(341)
Issuance of redeemable preferred shares to non-controlling interests in subsidiary		(47)	-	(5)
Change in jointly controlled entity payables		(48)	41	10
Dividends paid	28.3	(157)	(140)	(200)
Dividend paid to non-controlling interests holders in subsidiary		(79)	(90)	(65)
Net cash flows from (used in) financing activities		**(120)**	**36**	**147**
Net increase (decrease) in cash and cash equivalents		**45**	**89**	**-**
Cash and cash equivalents as at January 1		735	649	729
Effect of exchange rate fluctuations on cash balances		(8)	(3)	14
Cash and cash equivalents as at December 31		**772**	**735**	**743**

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

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, 2013 comprise the Company and its subsidiaries. The financial statements have been approved by the Company's board of directors on March 25, 2014.

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.

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 and 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.

Note 2 - Basis of Preparation (cont'd)

2.4 Use of estimates and judgments (cont'd)

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 and also the amount of dividends distributed to the ordinary shareholders.

2.8 Changes in accounting policies

As from January 1, 2013 the Group applies the new standards and amendments described below:

2.8.1 A new suite of accounting standards on consolidation of financial statements, joint arrangements and disclosure of interests with other entities-

2.8.1.1 IFRS 10, Consolidated Financial Statements-

Standards main changes:

- IFRS 10 introduces a new control model for determining whether investee companies should be consolidated, which is to be implemented with respect to all investees.
- De facto power is to be considered when assessing control, which means that the existence of effective control of an investee will require consolidation.
- 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.
-

Implementation of this standard has no impact on the financial statements.

2.8.1.2 IFRS 11, Joint Arrangements, IAS 28 (2011), Investments in Associates-

Standards main changes:

Joint ventures, which are all the joint arrangements structured in a separate entity 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 accordance with IFRS 11, The Group evaluated its involvement in joint arrangements it holds and classified it as a joint ventures.

Note 2 - Basis of Preparation (cont'd)

2.8.1.2 IFRS 11, Joint Arrangements, IAS 28 (2011), Investments in Associates (cont'd)-

Accordingly, joint ventures will be accounted for under the equity method, while up to the application of the standard the Group policy had applied the proportionate consolidation method. The investment under the equity method as at December 31, 2011 amounted to NIS 910 million.

The standard has been retrospectively implemented in the statement of income, comprehensive income and statement of cash flow on comparatives to the year ended December 31, 2012. IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 in the aforementioned statements, according to the transition exemption of the standard. The standard has been retrospectively implemented in the statement on financial position as at December 31, 2012 and 2011.

The quantitative effects on the Group's financial statements due to adoption of the standard are detailed below.

2.8.1.3 IFRS 12 Disclosure of interests with Other Entities-

Standards main changes:

IFRS 12 contains extensive disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 12 is applicable retrospectively (except for certain reliefs in the transitional provisions).

The standard's requirements were included in these financial statements as part of Note 6 regarding subsidiaries and Note 12 regarding equity accounted investees.

2.8.2 IFRS 13, Fair Value Measurement

Standards main changes:

- When measuring the fair value of a liability the effect of the entity's own credit risk must be taken into account.
- Measurement of fair value of investment property should reflect consideration of future capital expenditure which would improve or extend the property and the future economic benefits to be gained from this expenditure should such expenditure or benefits be taken into account by market participants on the measurement date.
- Should there be a bid price and ask price for an asset or liability being measured at fair value, the price in the range between them which best reflects fair value under the circumstances should be used in order to measure fair value.

IFRS 13 is applicable on a prospective basis where the disclosure requirements need not be applied in comparative information for periods before initial application. Implementation of this standard has no material impact on the financial statements.

2.8.3 Amendment to IAS 19, Employee Benefits

Standards main changes:

- Employee benefits will be classified as short term employee benefits or as other long-term employee benefits (for measurement purposes) depending on when the Group expects the benefits to be wholly settled and not in accordance with when the employee is entitled to utilize the benefit.
- Actuarial gains and losses will be immediately recognized to other comprehensive income.
- Interest recognized in profit and 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.
- Past service costs will be recognized immediately regardless of the vesting date of the benefits.

As a result of the application of the amended standard, the Group reclassified, for measurement purposes only, employee benefits for vacation from short-term employee benefits to other long-term employee benefits.

Note 2 - Basis of Preparation (cont'd)

2.8.3 Amendment to IAS 19, Employee Benefits (cont'd)

Furthermore, following application of the amended standard the Group immediately recognizes the gains/losses from remeasurement of a defined benefit program directly to retained earnings, instead of applying the corridor method.
Quantitative effects on the financial statements of the Group are listed below in this note.

2.8.4 Amendment to IAS 1, Presentation of Financial Statements in respect of presentation of items of other comprehensive income

The amendment to IAS 1 changed the presentation of items of other comprehensive income in the financial statements, so that items of other comprehensive income that after initial recognition in other comprehensive income are reclassified to profit and loss are presented separately from those that would never be reclassified to profit and loss.

The amendment to IAS 1 is applicable retrospectively. The statement of comprehensive income for comparative periods has been restated in accordance with the amendment.

2.8.5 Amendment to IAS 36, Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets

The amendment to IAS 36 contains new disclosure requirements for situations in which an impairment loss is recognized and the recoverable amount is determined at fair value less costs of disposal. In addition, the amendment to IAS 36 eliminates the requirement to disclose the recoverable amount of significant cash-generating units even if impairment was not recognized in their respect.

The mandatory effective date of the amendment is for annual periods beginning on or after January 1, 2014.
The amendment to IAS 36 is generally applicable on a retrospective basis. The Group has chosen to early adopt the amendment to IAS 36.

The new disclosure requirements were combined in Note 15 regarding intangible assets.

2.8.6 Reclassification

Reclassified as at December 31, 2012 immaterial amounts between trade receivables and other investments and long-term debit balances and between other payables and credit balances and long-term payables and credit balances. In addition, Reclassified as at December 31, 2012 and December 31, 2011 an amount of NIS 71 and 63 million, respectively, which increased the trade receivables and other payables and credit balance.
These reclassifications did not have an effect on income and equity.

Reclassified in the statement of cash flows as at December 31, 2012 and December 31, 2011 immaterial amounts which were reclassified from change in trade receivables and other receivables to change in trade payables and other payables. In addition, Reclassified immaterial amounts related to borrowing costs that were capitalized from interest paid in operating activities to purchase of fixed assets in investing activities, see note 3.16.

Note 2 - Basis of Preparation (cont'd)

2.8 Changes in accounting policies (cont'd)

2.8.7 Following are the quantitative effects on the Group's financial statements due to adoption of the new Standards:

Statement of financial position

	December 31, 2012			
	Previously reported	Effect of retrospective adjustment- IFRS 11	Effect of retrospective adjustment- IAS 19	As reported in these statements
	NIS millions			
Cash and cash equivalents	865	(130)	-	735
Trade receivables	1,200**	(309)	-	891
Inventory	808	(198)	-	610
Other current assets	547	(21)	-	526
Total current assets	**3,420**	**(658)**	**-**	**2,762**
Investment in equity-accounted investees	-	918	-	918
Other investments and long-term debt balances	238**	29	-	267
Assets designated for the payment of employee benefits, net	4	-	(4)	-
Fixed assets	1,745	(378)	-	1,367
Intangible assets	1,684	(524)	-	1,160
other non – current assets	111	(2)	-	109
Total investments and non-current assets	**3,782**	**43**	**(4)**	**3,821**
Total assets	**7,202**	**(615)**	**(4)**	**6,583**
Short-term credit and current maturities of long term credit and loans	306	(241)	-	65
Trade payables	850	(123)	-	727
Other payables and credit balances	748**	(64)	-	684
Other current liabilities	231	(14)	-	217
Total current liabilities	**2,135**	**(442)**	**-**	**1,693**
Long-term loans and credit	1,164	(126)	-	1,038
Employee benefits, net	41	(2)	11	50
Deferred tax liabilities	187	(41)	-	146
Other non – current liabilities	923**	(4)	-	919
Total non-current liabilities	**2,315**	**(173)**	**11**	**2,153**
Equity and reserves				
Share capital, share premium and other reserves	582	-	-	582
Treasury shares	(20)	-	-	(20)
Retained earnings	1,340	-	(15)	1,325
Total equity attributable to the Company's shareholders	**1,902**	**-**	**(15)**	**1,887**
Non-controlling interests	**850**	**-**	**-***	**850**
Total Equity	**2,752**	**-**	**(15)**	**2,737**
Total liabilities and equity	**7,202**	**(615)**	**(4)**	**6,583**

* Less than NIS 1 million.
** Reclassified, see Note 2.8.6.

Note 2 - Basis of Preparation (cont'd)

2.8 Changes in accounting policies (cont'd)

2.8.7 Following are the quantitative effects on the Group's financial statements due to adoption of the new standards (cont'd):

Statement of financial position (cont'd)

	December 31, 2011			
	Previously reported	**Effect of retrospective adjustment-IFRS 11**	**Effect of retrospective adjustment-IAS 19**	**As reported in these statements**
	NIS millions			
Cash and cash equivalents	743	(94)	-	649
Trade receivables	1,178**	(306)	-	872
Inventory	873	(277)	-	596
Other current assets	409	(47)	-	362
Total current assets	**3,203**	**(724)**	**-**	**2,479**
Investment in equity-accounted investees	-	910	-	910
Other investments and long-term debt balances	150	38	-	188
Assets designated for the payment of employee benefits, net	5	-	(5)	-
Fixed assets	1,649	(353)	-	1,296
Intangible assets	1,724	(571)	-	1,153
other non – current assets	88	(6)	-	82
Total investments and non-current assets	**3,616**	**18**	**(5)**	**3,629**
Total assets	**6,819**	**(706)**	**(5)**	**6,108**
Short-term credit and current maturities of long term credit and loans	451	(360)	-	91
Trade payables	821	(115)	-	706
Other payables and credit balances	625**	(55)	-	570
Other current liabilities	235	(11)	-	224
Total current liabilities	**2,132**	**(541)**	**-**	**1,591**
Long-term loans and credit	730	(107)	-	623
Employee benefits, net	34	(1)	7	40
Deferred tax liabilities	144	(39)	-	105
Other non – current liabilities	1,080	(18)	-	1,062
Total non-current liabilities	**1,988**	**(165)**	**7**	**1,830**
Equity and reserves				
Share capital, share premium and other reserves	627	-	-	627
Treasury shares	(20)	-	-	(20)
Retained earnings	1,226	-	(12)	1,214
Total equity attributable to the Company's shareholders	**1,833**	**-**	**(12)**	**1,821**
Non-controlling interests	**866**	**-**	**-***	**866**
Total Equity	**2,699**	**-**	**(12)**	**2,687**
Total liabilities and equity	**6,819**	**(706)**	**(5)**	**6,108**

* Less than NIS 1 million.

** Reclassified, see Note 2.8.6

Note 2 - Basis of Preparation (cont'd)

2.8 Changes in accounting policies (cont'd)

2.8.7 Following are the quantitative effects on the Group’s financial statements due to adoption of the new standards (cont'd):

Statement of income and comprehensive income

	For the year ended December 31, 2012			
	Previously reported	Effect of retrospective adjustment- IFRS 11	Effect of retrospective adjustment- IAS 19	As reported in these statements
	NIS millions			
Sales	8,182	(2,483)	-	5,699
Cost of sales	5,316	(1,770)	-	3,546
Gross profit	**2,866**	**(713)**	**-**	**2,153**
Selling and marketing expenses	1,808	(488)	-	1,320
General and administrative expenses	457	(117)	-	340
	2,265	(605)	-	1,660
Share of profit of equity accounted investees	-	63	-	63
Operating profit before other income (expenses)	**601**	**(45)**	**-**	**556**
Other income	124	-	-	124
Other expenses	(80)	1	-	(79)
Other income, net	44	1	-	45
Operating profit	**645**	**(44)**	**-**	**601**
Financing income	25	1	-	26
Financing expenses	(160)	20	-	(140)
Financing expenses, net	(135)	21	-	(114)
Income before taxes on income	**510**	**(23)**	**-**	**487**
Taxes on income	(185)	23	-	(162)
Income for the period	**325**	**-**	**-**	**325**
Comprehensive income for the year	**269**	**-**	**(3)**	**266**

Statement of Cash Flows

	For the year ended December 31, 2012		
	Previously reported	Effect of retrospective adjustment- IFRS 11	As reported in these statements
	NIS millions		
Cash flows from operating activities	670**	(189)	481
Cash flows from investing activities	(479)**	51	(428)
Cash flows from financing activities	(62)	98	36
Increase in cash and cash equivalents	**129**	**(40)**	**89**
Cash and cash equivalents at the beginning of period	743	(94)	649
Effect of exchange rate fluctuations on cash balances	(7)	4	(3)
Cash and cash equivalents at the end of period	**865**	**(130)**	**735**

** Reclassified, see Note 2.8.6.

IFRS 11 has not been retrospectively implemented on comparatives in Statement of income, Statement of Comprehensive Income and Statement of Cash flow to the year ended December 31, 2011 according to the transition exemption of the standard.
The effect of retrospective implementation of the amendment to IAS 19 on the aforementioned amounts is immaterial.
The transition to adoption of the equity method does not effect on compliance with covenants for which the company is obligated (see also Note 22.3).

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements except for changes due to implementation of new standards (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 and 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.**

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: share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

<u>Measurement of non-controlling interests on the date of the business combination</u>

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.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.3 Non-controlling interests (cont'd)

Allocation of comprehensive income to the shareholders

Profit and 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. **The difference between the sum of the proceeds and fair value of the retained interest, and the derecognized balances is recognized in profit or loss under other income or other expenses.**

3.1.5 Investment in joint ventures

Joint ventures are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The cost of investments includes transaction costs. The consolidated financial statements include the Group's share of the income and expenses in profit and loss and of other comprehensive income of equity accounted investees.

The joint ventures' operations consistent an integral part of the Group's operations, and accordingly, the Group's share in their results is included in the operating profit in the statement of income.

The accounting policies of jointly ventures 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 its investment, and **recognizes a profit or loss from the sale, under the other income or expenses item in the Statement of income.**

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest **in these investments.** 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- translation reserve. 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.

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, including foreign operations which are subsidiaries, are recognized in income statements in the consolidated reports. When 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

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.1 Non-derivative financial instruments (cont'd)

to others the financial assets without retaining control over the asset or actually transfers all the risks and rewards deriving from the asset. Purchases and sales of financial assets that are conducted in a regular way 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 or cash equivalents comprise cash balances or deposits that can be withdrawn immediately. Furthermore, cash equivalents comprise highly liquid deposits, that their deposit period at the time of deposit 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 gains or losses in equity are 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.

Non-derivative financial liabilities
Non-derivative financial liabilities include trade and other payables, debentures and loans received. Financial liabilities are recognized initially at fair value plus any 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 income 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.**

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.2 Derivative financial instruments (cont'd)

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 net of tax effect, 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.**

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.

Gain and loss on disposal of a fixed asset item is 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, when they meet the definition of fixed assets in IAS 16, and are otherwise to be classified as inventory.

Note 3 - Significant Accounting Policies (cont'd)

3.4 Fixed assets (cont'd)

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 in the statement of income 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.
The principal depreciation rates for the years 2011-2013 are as follows:

	%	
Buildings and leased lands	2-5	
Machinery, equipment	5-20	
Motor vehicles	15-20	
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.

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.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

3.5.3 Research and development (cont'd)

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. For details on measurement of assets at the acquisition data of business combination, 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.

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 in the statement of income 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 2011-2013 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

Mainly includes prepaid expenses in respect of long-term leases, which are amortized over the lease period on a straight-line basis.

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.

Note 3 - Significant Accounting Policies (cont'd)

3.7 Investment property (cont'd)

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 income or expenses, as the case may be, in the Statement of income.

3.8 Leased assets

Leases, including land leases from the Israel Lands Administration, 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.

<u>Operating lease payments</u>

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).

<u>Finance lease payments</u>

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.

Note 3 - Significant Accounting Policies (cont'd)

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.

3.10 Impairment

3.10.1 Non-financial assets

The carrying amounts of the Group's non-financial assets (other than inventory, deferred tax assets and employee benefits 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 loss is 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 loss in respect of goodwill in subsidiaries is 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

The Group is examining impairment of trade and other receivables that 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.

Note 3 - Significant Accounting Policies (cont'd)

3.10 Impairment (cont'd)

3.10.2 Trade and other receivables (cont'd)

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.

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.

3.10.3 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).

3.10.4 Investments in joint ventures

An investment in joint venture is tested for impairment when objective evidence indicates there has been impairment.
Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognized separately, and therefore is not tested for impairment separately.
If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price. In assessing value in use of an investment in joint venture, the Group either estimates its share of the present value of estimated future cash flows that are expected to be generated by the joint venture, including cash flows from operations of the joint venture and the consideration from the final disposal of the investment, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and it is recognized as other expenses in the statement of income. An impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or in the joint venture.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized. The investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

Note 3 - Significant Accounting Policies (cont'd)

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.

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 Group determines the net interest on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset).

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.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). **Remeasurements are recognized immediately directly in retained earnings through other comprehensive income**.

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 that were recognized in the statement of income are presented under wages expenses.

3.12.3 Paid vacation and employee convalescence allowance

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Company expects the benefits to be wholly settled. Classification of employee benefits is made according to the date the liability is due to payment.

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.

Note 3 - Significant Accounting Policies (cont'd)

3.12 Employee benefits (cont'd)

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 recognized 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.

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.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

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. Therefore, the provisions are not presented at their current value. The impact of the discount is not material.

Note 3 - Significant Accounting Policies (cont'd)

3.14 Revenue

3.14.1 Products sold

3.14.1.1 Goods sold
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. The Group is recognized in revenue 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.

3.14.1.3 When it is possible to identify the separate components of a transaction, such as: sale of a product and service, revenue is measured in respect of each separate component, when the allocation of consideration is based on the relative fair values of each unit.

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 the statement of income 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 joint ventures 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 in the statement of income. 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

Note 3 - Significant Accounting Policies (cont'd)

3.15 Government grants (cont'd)

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 the statement of income.

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 the statement of income, 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 excluding credit costs discounted to fit assets and paid in cash are presented along with the purchase of fixed assets as part of cash flows from investing activities. Dividends paid are presented under financing expenses and Dividends received are presented in investing activities.

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 these cases 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 and any tax arising from dividends.

<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 joint ventures 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.

Note 3 - Significant Accounting Policies (cont'd)

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.

3.20 New standards not yet adopted

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. 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 changes in the credit risk of the liability, be presented in other comprehensive income, with the remaining amount being included in profit or loss.

The mandatory effective date of IFRS 9 has not yet been determined. Early application is permitted subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the standard. IFRS 9 is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in IFRS 9.

The Group is examining the effects of IFRS 9 on the financial statements with no plans for early adoption.

3.20.2 IFRS 9 (2013), Financial Instruments, amendments to IFRS 9 (2010), IFRS 7 and IAS 39-

IFRS 9 (2013) amends IFRS 9 (2010), IFRS 7 and IAS 39 on general hedge accounting. Under the standard additional hedging strategies that are used for risk management will qualify for hedge accounting (such as risk components of non-financial items or groups of items that constitute net positions). The standard replaces the present 80%-125% test for determining hedge effectiveness, with the requirement that there be an economic relationship between the hedged item and the hedging instrument, with no quantitative threshold. In addition, IFRS 9 (2013) introduces new models that are alternatives to hedge accounting as regards exposures and certain contracts outside the scope of the standard. The standard sets new principles for accounting for hedging instruments, for example allowing cash instruments to be hedging instruments in more cases and adding the possibility to defer or amortize the "cost of hedging" (such as the time value of purchased options). In addition, the standard provides new disclosure requirements.

The mandatory effective date of the standard has not yet been determined. Early application is permitted subject to the conditions specified in the standard.

The Group has not yet commenced examining the effects of adopting the standard on the financial statements.

Note 3 - Significant Accounting Policies (cont'd)

3.20 New standards not yet adopted (cont'd)

3.20.3 Amendment to IAS 32 Financial Instruments: Presentation -

The amendment 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 is applicable retrospectively for annual periods beginning on or after January 1, 2014.
The amendment is not expected to have a material effect on the Group's 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>Assets 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, including investments in joint ventures, accounted for using the equity method. When there are signs indicating impairment in value, the Group examines whether the carrying amount of the asset exceeds its recoverable amount.

Once a year and on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash generating unit that contains goodwill, or intangible assets that have indefinite useful lives or are unavailable for use.

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.
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 receivables balance. This decision requires exercising significant discretion. When exercising this discretion the Group takes into account, inter alia, the aging analysis of the trade trade receivables, the doubtful debts history, debt collection patterns, financial strength and a short-term analysis of the trade receivables 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.
- Other intangible assets- 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.
The fair value of commodity futures is the contract price denominated in on the statement of financial position, which is the present value of the nominal price of a future transaction. 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			Country of association and the main location of company operations
	2013	**2012**	**2011**	
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
Strauss Water	88	88	88	Israel
SE USA Inc.	100	100	100	USA
Max Brenner USA LLC. (4)	100	100	100	USA
Max Brenner Int'l Inc. (5)	100	100	100	USA
Strauss Coffee B.V.	74.9	74.9	74.9	Holland
Strauss Café Poland Sp.z.o.o. (6)	100	100	100	Poland
Strauss Commodities AG (6)	100	100	100	Switzerland
Strauss Romania SRL (6)	100	100	100	Rumania
Strauss Ukraine LLC (6)	100	100	100	Ukrain
Elite CIS B.V. (6)	100	100	100	Holland
Strauss Adriatic Group (6)	100	100	100	Serbia
Strauss LLC (6)	100	100	100	Russia
Le café Soluvel Rus ,LLC (7)	100	51	51	Russia
Strauss Water HK Trading Co Ltd (8)	100	100	100	Hong Kong
Strauss Water (Shanghai) Co Ltd (8)	100	100	100	China

(1) Held by Strauss Fresh Foods Ltd.
(2) Held by Strauss Salads Trade Ltd.
(3) Held by Strauss Health Ltd. see Note 6.3.
(4) Held by S.E USA, Inc.
(5) Held by Max Brenner USA, LLC.
(6) Held by Strauss Coffee B.V.
(7) Held by Strauss Coffee B.V. See Note 6.6.2 about the increase in holding share in 2013.
(8) Held by Strauss Water Ltd.

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).

Note 6- Subsidiaries (cont'd)

6.2 Information on investment in directly held subsidiaries (cont'd)

	Investments		Loans		Guarantees	
	2013	2012	2013	2012	2013	2012
	NIS millions					
Strauss Health Ltd.	219	361	-	-	-	-
Strauss Fresh Foods Ltd.	93	101	-	-	-	-
Yad Mordechai – Strauss Apiary Ltd.	15	15	-	-	3	3
Strauss Water	(121)	(42)	307	276	-	-
SE USA Inc.	122	103	130	181	57	62
Strauss Coffee B.V.	1,779	1,785	-	-	-	-

6.3 Information regarding discretion and assumptions in determining control in a subsidiary

6.3.1 Investment in Strauss Health

The Company holds 80% of Strauss Heath's stock capital. Danone holds 20% of the stock capital. The shareholders' agreement established a list of activities that will not be carried out if all of the board member appointed by Danone object to them, which include transactions between Strauss Health and other companies controlled by the Strauss Group or by Strauss Group interested parties, unless they are carried out under market conditions or were in effect upon signing the purchase agreement, except in cases in which Danone is willing to receive compensation for the difference between value under market conditions and the transaction's value in practice; distribution of dividends at a rate of under 25% of the yearly net profit (after saving the balances needed by Strauss Health as set in the agreement); a public offer or change in stock capital, which dilutes Danone; the establishment of subsidiaries by Strauss Health that are not in its full direct or indirect possession, which deal with products that are not milk products, and whether their shareholder is a Danone competitor; a material difference in the business of Strauss Health or investments in a field that is not the field of dairy products, as a result of which the turnover in the non-dairy field exceeds the rate listed in the agreement from the Strauss Health turnover; and distribution by Strauss Health or its subsidiaries of products created by Strauss Holdings or any company controlled by it or by its shareholders (except for Golan Heights Dairies Ltd. and Strauss Ice Cream), if the total yearly sales of the products in question exceed the rate denoted in the agreement from Strauss Health's consolidated yearly turnover. In the opinion of the Company, these operations grant the non-controlling interests the ability to affect events or transactions that are beyond the normal course of the business, therefore they comprise protection rights which do not prevent from the Company to maintain control over Strauss Health.

In light of the circumstances detailed above, according to the Group's estimates, Strauss Health is controlled by the Strauss Group, and as such is consolidated in the Group's financial statements.

6.3.2 Investment in Yotvata

Strauss Health holds 50% of Yotvata's stock capital an holds the determining share on the Board of Directors. Kibbutz Yotvata holds 50% of the stock capital. Strauss Health purchased by way of a stock allocation:

(a) 50% of Yotvata's issued and paid up regular stock value, which grants the rights generally granted shareholders of a Ltd. company, with the exception of the right to appoint or dismiss executives. The balance of the regular shares remain in the kibbutz's possession;

(b) 2 management shares, granting, each, the right to appoint or dismiss a Yotvata board member. 3 Additional management shares held by the kibbutz;

(c) One determining share, granting the right to appoint or dismiss a single director at Yotvata who is also the Chairman of the Board of Directors and Chairman of the General Meeting and shall have an additional vote in the Board of Directors and the shareholders' meeting in the event of a tie.

In general, the agreement with Yotvata determines the agreements regarding the conducting of Yotvata, including that the CEO of Yotvata is appointed by the Yotvata Board of Directors, at the Kibbutz's recommendation.

Directors appointed by Strauss Health have a veto right to prevent the appointment of a CEO. The Chairman of the Board of Directors is appointed by Strauss Health. Directors appointed by the kibbutz have the right to object to the appointment of a CEO who is unsuitable to their position. The Yotvata CFO is appointed by Strauss Health. Directors appointed by the Kibbutz have a veto right on such an appointment but they shall not be entitled to activate this right except on reasonable grounds.

Note 6- Subsidiaries (cont'd)

6.3.2 Investment in Yotvata (cont'd)

In the opinion of the Company, these operations grant the non-controlling interests the ability to affect events or transactions that are beyond the normal course of the business, therefore they comprise protection rights which do not prevent from the Company to maintain control over Yotvata. In light of the circumstances detailed above, according to the Group's estimates, Yotvata is controlled by the Strauss Group (via Strauss Health), and as such is consolidated in the Group's financial statements.

6.3.3 Investment in Strauss Coffee

The Company holds 74.9% of the stock capital of Strauss Coffee B.V., with private investment fund TPGH Capital holding 25.1% of the shares. The agreement between the Company and the investment fund sets a list of cases the decision making regarding which or their performance requires the approval of shareholders holding 90% of the stock of Strauss Coffee as well as cases in which the approval of the Board of Directors is needed, so long as at least one board member appointed by the investor voted in favor of approval. These cases include decisions about: correction of incorporation documents with minority rights; change in the share capital of Strauss Coffee, which would result in dilution of minority shareholders and / or the issuance of other securities; approval of acquisitions or disposals of activities or assets of significant scale; decision on significant change in activities of the Strauss Coffee; and approval of transactions or processes that exceed the ordinary course of business of Strauss Coffee.

In the Company's opinion, these instructions grant the non-controlling interests the ability to influence transactions or events deviating from the normal course of business, and therefore constitute protection of minority rights that do not prevent the Company's continued control of Strauss Coffee. A problem solving mechanism was established for these subjects, in the absence of such approvals. In light of the circumstances detailed above, according to the Company's estimates Strauss Coffee B.V. is controlled by the Strauss Group, and as such is consolidated in the Company's Financial Statements.

6.4 Information regarding a subsidiary with non-controlling interests

The following is information regarding subsidiary Strauss Coffee, regarding which non-controlling interests exists that are material to the Group (before writing off inter-company transactions):

	December 31	
	2013	**2012**
	NIS millions	
Current assets	1,322	1,235
Non-current assets	1,520	1,659
Total assets	2,842	2,894
Current liabilities	373	416
Non-current liabilities	69	66
Total liabilities	442	482
Total net assets 100%	2,400	2,412
Non-controlling interests	602	605

	For the year ended December 31	
	2013	**2012**
	NIS millions	
Revenues	2,250	2,438
Profit	272	177
Other comprehensive income	(240)	(53)
Total comprehensive income	32	124
Profit attributed to minority shareholders	8	32
Cash flow from operating activity	181	166
Cash flow from investment activity	(5)	(174)
Cash flow from finance activity without dividends to non-controlling interests	(49)	(130)
Dividends paid to non-controlling interests	-	(43)
Effect of exchange rate fluctuations on cash balance	(9)	(3)
Total increase (decrease) in cash and cash equivalents	118	(184)

Note 6- Subsidiaries (cont'd)

6.5 Dividend distributed by subsidiaries

During the course of 2013 the Company and subsidiary companies received a sum of approximately NIS 347 million that was distributed by the subsidiary companies.

6.6 Significant transactions in subsidiaries

6.6.1 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").

In 2012, a sum of 10 million USD was invested in the venture, USD 5 million by each one of the partners in the venture based on VSW UK value before money of USD 8 million. After the foregoing investments the holdings are approximately 72% to Strauss Water and approximately 28% to VGF. From the investment date until the report date, VSW UKL was jointly controlled by Strauss Water and VGF.

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 USD 10 million in the Company's capital in UK. Likewise, no additional investments in capital have been made.

Subsequently, starting January 1 2014, one of the three directors appointed by the Virgin Group filed his resignation, leaving five members of the VSW UK Board of Directors, three of whom were appointed by the Group and an additional two appointed by Virgin. Starting from that date, Strauss Water achieved control of VSW UK. The achievement of control is not expected to influence Strauss Water results for the first quarter of 2014.

Over the course of the reported period, Strauss Water recognized an impairment loss in an amount of NIS 18 million. The amortization was charged to other expenses in the Statement of income. The recoverable amount reflects the fair value, which was estimated under level 3, using the market approach- based on comparison to similar transactions.

6.6.2 In January 2013 Strauss Coffee signed an agreement to purchase the remaining of the shares (49%) in the Le Café and Instanta companies operating in Russia, in consideration for approximately USD 13.4 million, according to which, Strauss Coffee will hold 100% of the shares in these companies. As part of the agreement, Strauss Coffee paid in advance in the reported period an amount of USD 2.75 million.

In September 2013 the transaction was completed with some adjustments to the preliminary agreement. According to the revised agreement, Strauss Coffee acquired additional 49% of the shares in Le café, merged the Instanta activity into the Russian subsidiary and sold its shares in Instanta (51%) to the non-controlling interests holders. In addition, on September 30, 2013 Strauss Coffee paid the remaining proceeds, an amount of USD 10.65 million.

Note 7 - Cash and Cash Equivalents

	December 31 2013	December 31 2012 Restated*
	NIS millions	NIS millions
Cash and balances in banks	96	87
Deposits	676	648
	772	735

Note 8 - Securities and Deposits

	December 31 2013 NIS millions	December 31 2013 Interest rate	December 31 2012 Restated* NIS millions	December 31 2012 Restated* Interest rate
Deposits and non-traded securities				
Corporate debentures	-		2	4.5%
Deposit in NIS (1)	4	1.24%-1.50%	61	1.58%-2.75%
	4		63	
Marketable securities	85		25	
Government debentures	157		128	
Corporate debentures	242		153	
	246		216	

(1) The amount are deposited with purchasing organizations of Negev farms (2012 - NIS 10 million).

Note 9 - Trade Receivables

9.1 Composition

	December 31 2013	December 31 2012 Restated*
	NIS millions	NIS millions
Open debts	795	770
Checks receivable	120	145
Interested and related parties	10	6
Credit cards companies with respect to trade receivables	18	16
Less provision for doubtful debts	(50)	(46)
	893	891

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

Note 9 - Trade Receivables (cont'd)

9.2 Analysis of customer aging:

	December 31, 2013		December 31, 2012 Restated*	
	Gross	Provision for doubtful debts	Gross	Provision for doubtful debts
	NIS millions			
Not past due	852	(2)	830	(1)
Past due 1-30 days	29	-	44	-
Past due 31-60 days	4	-	5	-
Past due 61-90 days	1	-	2	-
Past due 91-120 days	1	-	2	-
Past due more than 120 days	56	(48)	54	(45)
	943	(50)	937	(46)

9.3 Changes in the provision for doubtful debts during the period:

	2013	2012 Restated*
	NIS millions	
Balance as at January 1	46	49
Impairment loss recognized during the period	8	2
Doubtful debts that became bad debts	(3)	(4)
Effect of foreign currency changes	(1)	(1)
Balance as at December 31	50	46

9.4 The maximum credit exposure in respect of customers as at the date of the report by type of customer:

	December 31	
	2013	2012 Restated*
	NIS millions	
Large customers market	532	543
Private market	121	117
Away from home	181	168
Other	59	63
Total	893	891

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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.

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

Note 10 - Receivables and Debit Balances

	December 31	
	2013	2012 Restated*
	NIS millions	
Advances to trade payables	14	17
Government institutions	20	14
Employees	1	-
Sundry debtors	22	27
Loans granted, including current maturities of long term liabilities	26	14
Accrued income	29	23
Derivatives (1)	30	43
Jointly controlled companies	30	58
Prepaid expenses	35	42
	207	238

(1) The balance includes deposits in favor of derivatives which is not measured at fair value, at the amount of NIS 20 and 39 million, as at December 31, 2013 and 2012 respectively.

Note 11 - Inventory

	December 31	
	2013	2012 Restated*
	NIS millions	
Raw materials	306	256
Packaging materials	54	72
Unfinished goods	24	26
Finished goods (including purchased products)	266	247
Spare parts	11	9
	661	610

Note 12 - Proportionate Consolidation of Jointly Controlled

12.1 Principal jointly controlled companies

	Percentage of equity and control (%) December 31			Country of association and the main location of company operations
	2013	2012	2011	
Tres Coracoes Group (1)	50%	50%	50%	Brazil
Sabra Dipping Company (2)	50%	50%	50%	USA

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

(1) A joint business of the group and Brazilian holding company Sao Miguel, which develops, processes, sells, markets, and distributes a variety of branded coffee products, corn products, paper filters for filter coffee, instant coffee, cappuccino, liquid cappuccino, chocolate beverages, and powdered juice, and sells green coffee, primarily to customers outside Brazil.

Note 12 - Proportionate Consolidation of Jointly Controlled (cont'd)

(2) A joint business of the group and PepsiCo, which develops, manufactures, sells, markets, and distributes dips and spreads throughout the US and Canada.

12.2 Summary information on material joint transactions

	Sabra Dipping Company		Três Corações Group	
	December 31		December 31	
	2013	2012	2013	2012
	NIS millions		NIS millions	
Current assets	305	306	840	878
Of which:				
Cash and cash equivalents	157	152	55	30
Non-current assets	431	382	475	548
Total assets	736	688	1,315	1,426
Current liabilities	183	140	495	755
Of which:				
Trade and other payables	141	95	196	286
Non-current liabilities	136	189	222	196
Total liabilities	319	329	717	951
Total net assets 100%	417	359	598	475
Company share of net assets	208	180	299	238
Fair value adjustments made upon purchase	98	105	193	240
Book value of investment	306	285	492	478

	Sabra Dipping Company			Três Corações Group		
	December 31			December 31		
	2013	2012	2011	2013	2012	2011
	NIS millions					
Revenues	1,131	1,007	776	3,426	3,581	3,455
Expenses	568	520	426	2,403	2,817	2,707
Gross profit	563	487	350	1,023	764	748
Operating profit	147	129	72	350	169	124
Yearly profit	76	65	34	268	108	72
Other comprehensive income (loss)	(28)	(10)	18	(126)	(77)	(52)
Total comprehensive income	48	55	52	142	31	20
Of which:						
Depreciation and amortization	36	39	33	27	24	28
Interest revenues	-*	-*	-*	3	4	3
Interest expenses	12	15	14	26	35	38
Income tax revenues (expenses)	(57)**	(49)**	(26)**	53	28	19
Company's share of comprehensive earnings presented in the books	24	28	26	71	16	10

* Less than NIS 1 million.

**Tax expenses recorded in respect of the joint venture company holding SE USA Inc.

Note 12 - Proportionate Consolidation of Jointly Controlled (cont'd)

12.3 Concise Aggregate Information on Shared Transactions that are Not Inherently Material

	December 31	
	2013	2012
	NIS millions	
Book value of investments	89	158
Group's share of income	(23)	(46)
Group's share of other comprehensive income	(3)	(4)
Group's share of comprehensive income	(26)	(50)

12.4 Details on Dividends from Shared Transactions

	For the year ended December 31	For the year ended December 31
	2013	2012
	NIS millions	
Três Corações Group	32	27
Sabra Dipping Company	23	-
Strauss Frito-Lay Ltd.	33	-
	88	27

12.5 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.

	Country of Incorporation	Company's Rights in Equity	Investments		Loans		Guarantees	
			2013	2012	2013	2012	2013	2012
			NIS millions					
Strauss Frito-Lay Ltd.	Israel	50%	74	93	-	-	-	-
Pepsico Strauss Fresh Dips & Spreads International GMBH	Switzerland	50%	-*	21	29	-	-	-

* Less than NIS 1 million.

Note 12 - Proportionate Consolidation of Jointly Controlled (cont'd)

12.6 Attached financial statements

The Group is enclosing to these consolidated financial statements the consolidated financial statements of Tres Coracoes Group.

The investee's reports are presented in Brazilian reals.

The real-shekel exchange rate was 1.47 as of December 31, 2013.

The following are the average exchange rates and rates of change in the real exchange rates during the reporting period:

	Real Exchange Rate	
	Average for the period	**Change in %**
For the year ended:		
December 31, 2013	1.69	(19.3)
December 31, 2012	1.98	(11.0)

Note 13 - Other Investments and Long-Term Debit Balances

13.1 Classification according to classification of investment

	December 31	
	2013	**2012 Restated***
	NIS millions	
Non-current receivables	2	1
Long term deposite	6	3
Investment in shares of other company (1)	33	19
Non-current trade receivables	23	21**
Less current maturities	(8)	(9)
Less provision for doubtful debts	(4)	(4)
	11	8
Non-current loans to others (see 13.2 and 13.3 hereunder)	247	268
Less current maturities	(35)	(32)
	212	236
	264	267

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.
** Reclassified, see Note 2.8.6.

(1) This investment is accounted for as an available-for-sale financial asset.

Note 13 - Other Investments and Long-Term Debit Balances (cont'd)

13.2 Details of long-term loans and their terms:

	December 31 2013 NIS millions	Loan Terms
Capital note issued to Kibbutz Yotvata	12	Unlinked and non-interest bearing
Loans to employees	7	Linked to CPI and bearing interest of 5.47%
Loans to dairy farmers	12	Unlinked to CPI and bearing interest of 2.5%- 7 %
Loans to dairy farmers	1	Linked to CPI and bearing interest of 3.9%-5.47%
Loans to suppliers	7	Unlinked and bearing interest of 5%-7.2%
Loans to suppliers	2	Linked to Dollar and non-interest bearing
Loan to non-controlling interests holders in a subsidiary	1	Linked to CPI and bearing interest of 7.37%
Loan to jointly controlled company	117	Linked to Dollar and bearing interest of 0% -6.5%
Loan under operating leases (see Note 27.1.2)	88	Linked to Euro and bearing interest of 8%
	247	

	December 31 2012 Restated* 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 and bearing interest of 2.5%-7.5%
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	117	Linked to Dollar and bearing interest of 5.16% -6.5%
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 and bearing interest of 5%-7.2%
	268	

13.3 Repayment schedule of long-term loans:

	December 31	
	2013	2012 Restated*
	NIS millions	
First year	35	32
Second year	34	66
Third year	31	33
Forth year	115	30
Fifth year and thereafter	32	107
	247	268

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

Note 13 - Other Investments and Long-Term Debit Balances (cont'd)

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 3.0%-8.0% (2012: 4.6%-8.0%). The repayment schedule of long-term receivables is as follows:

	December 31					
	2013			2012 Restated*		
	Long term trade Receivables	Interest component	Principal component	Long term trade Receivables (1)	Interest component	Principal component
	NIS millions					
First year (current maturity)	8	-	8	9	-	9
One to five years	16	1	15	13	1	12
	24	1	23	22	1	21

(1) Net of long-term prepaid expenses for services not yet provided.

Note 14 - Fixed Assets

14.1 Changes in fixed assets

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
	NIS millions					
Cost						
Balance as at January 1, 2013*	894	1,923	46	268	203	3,334
Additions	162	148	4	13	11	338
Disposals	(11)	(32)	(4)	(2)	(4)	(53)
Classification from inventory	-	7	-	-	-	7
Effect of changes in exchange rates	(13)	(17)	(2)	-	(3)	(35)
Balance as at December 31, 2013	1,032	2,029	44	279	207	3,591
Accumulated depreciation						
Balance as at January 1, 2013	315	1,311	31	217	137	2,011
Impairment (1)	8	23	-	1	2	34
Depreciation for the year	23	79	4	15	16	137
Disposals	(1)	(17)	(3)	(1)	(4)	(26)
Effect of changes in exchange rates	(1)	(11)	(1)	(1)	(1)	(15)
Balance as at December 31, 2013	344	1,385	31	231	150	2,141
Spare parts						40
Balance as at December 31, 2013	688	644	13	48	57	1,490

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

(1) Primarily related to restructuring in subsidiary, see Note 35.

Note 14 - Fixed Assets (cont'd)

14.1 Changes in fixed assets (cont'd)

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
	NIS millions					
Cost						
Balance as at January 1, 2012*	825	1,831	45	264	211	3,176
Deconsolidation	-	(6)	-	(3)	(13)	(22)
Additions	111	111	4	11	6	243
Disposals	(1)	(34)	(4)	(5)	-	(44)
Classification from inventory	-	13	-	-	-	13
Classification to investment property	(42)	-	-	-	-	(42)
Effect of changes in exchange rates	1	8	1	1	(1)	10
Balance as at December 31, 2012	894	1,923	46	268	203	3,334
Accumulated depreciation						
Balance as at January 1, 2012	294	1,262	29	208	129	1,922
Deconsolidation	-	(3)	-	(1)	(9)	(13)
Depreciation for the year	21	79	5	15	17	137
Disposals	(1)	(33)	(3)	(5)	-	(42)
Effect of changes in exchange rates	1	6	-	-	-	7
Balance as at December 31, 2012	315	1,311	31	217	137	2,011
Spare parts	-	-	-	-	-	44
Balance as at December 31, 2012*	579	612	15	51	66	1,367

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards

14.2 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 2013 include capitalized borrowing costs in the amount of NIS 12.4 million that were capitalized using a rate of 5.9% (2012: NIS 5.1 million using a rate of 5.1%). See also Note 14.4.

14.3 Fixed assets purchased on credit

Fixed assets in the amount of NIS 87 million were purchased on credit as at December 31, 2013 (2012: NIS 91 million).

Note 14 - Fixed Assets (cont'd)

14.4 Real estate rights presented in the consolidated statement of financial position as at December 31, 2013

	Years to end of lease period	December 31 2013	December 31 2012 Restated*
		NIS millions	
Freeholds rights (1)	-	277	312
Rights leased under finance lease:			
Non-capitalized (1)	2020	-**	-**
Capitalized (2)	2026-2059	411	267
Balance as at December 31		688	579

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards
** Less than NIS 1 million.

(1) Including Real estate rights in the amount of NIS 165 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.
(2) 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, 2013 amounts to NIS 353 million.

14.5 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, 2013*	443	259	764	50	95	1,611
Acquisition	-	11	-	-	3	14
Additions- Self development	-	9	-	15	-	24
Disposals	-	(1)	-		-	(1)
Effect of changes in exchange rates	(34)	(2)	(44)	-	(1)	(81)
Balance as a December 31, 2013	409	276	720	65	97	1,567
Accumulated amortization						
Balance as at January 1, 2013*	45	180	159	11	56	451
Amortization for the year	4	22	-	6	7	39
Impairment	-	-	-	3	-	3
Disposals	-	(1)	-	-	-	(1)
Effect of changes in exchange rates	(2)	(1)	(3)	-	(1)	(7)
Balance as at December 31, 2013	47	200	156	20	62	485
Balance as at December 31, 2013	362	76	564	45	35	1,082
Cost						
Balance as at January 1, 2012*	436	234	759	34	84	1,547
Additions	-	15	-	2	12	29
Additions- Self development	-	11	-	14	-	25
Disposals	-	(2)	(8)	-	(1)	(11)
Effect of changes in exchange rates	7	1	13	-	-	21
Balance as a December 31, 2012*	443	259	764	50	95	1,611
Accumulated amortization						
Balance as at January 1, 2012*	41	158	140	7	48	394
Amortization for the year	4	23	-	4	8	39
Impairment	-	-	22	-	-	22
Disposals	-	(2)	(2)	-	(1)	(5)
Effect of changes in exchange rates	-	1	(1)	-	1	1
Balance as at December 31, 2012*	45	180	159	11	56	451
Balance as at December 31, 2012*	398	79	605	39	39	1,160

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

Note 15 - Intangible Assets (cont'd)

15.2 Intangible assets with indefinite useful lives

As at December 31, 2013 intangible assets include an amount of NIS 351 million that is attributable to brands and trademarks having an indefinite useful life (2012 – NIS 383 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**	
	2013	**2012 Restated***	**2013**	**2012 Restated***
	NIS millions		**NIS millions**	
Israel	77	77	-	-
Water	154	154	102	102
Serbia	-	-	32	37
Poland	73	77	71	75
Russia	234	270	146	169
Romania	26	26	-	-
	564	604	351	383

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

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, 2013		December 31, 2012	
	Long-term growth rate	Discount rate	Long-term growth rate	Discount rate
Israel				
Fun & Indulgence	2.5%*	7.5%*	2.5%	7.5%
Health & Wellness	2.5%*	8.5%* - 11.9%	2.0% - 3.0%	8.5% - 11.9%
Coffee international (1)	(0.15%) - 0.1%	8.5% - 13.0%	(0.15%) - 0.1%	9.0% - 13.0%
Other	2.0%	12.0%	2.0%	12.0%

* After meeting the terms of Section 99 of Accounting Standard IAS 36, the impairment of assets, relative to the cash-generating units in fun and indulgence, and the number of cash-generating units in the health and wellness, the examination of the impairment of these units in the reported period is based on the recoverable amount, and on the assumptions on its basis, as of December 31, 2012.

(1) The estimated recoverable amount of the Company's activity in Russia as of December 31, 2013 exceeds its carrying amount by approximately 53 million NIS. Management has identified one key assumption for which there reasonably could be a possible change that could cause the carrying amount to exceed the recoverable amount. An increase of the pre-tax discount rate of 8% is required in order for the estimated recoverable amount to be equal to the carrying amount.

Note 16 - Investment Property

16.1 Changes in investment property

	December 31	
	2013	2012
	NIS millions	
Balance as at January 1	21	42
Additions	7	-
Change in designation from fixed assets to investment property	-	42
Impairment loss (see Note 16.4)	(4)	(23)
Classification of investment property as an asset held for sale	1	(40)
Balance as at December 31	25	21

Note 16 - Investment Property (cont'd)

16.2 Real Estate Rights

As of December 31 2013 the balance of investment property includes 3 real estate assets owned by the Group.

The investment properties include real estate owned by the Company in Park Yanai, Petach Tikva to the sum of 19 million NIS as of December 31 2013 (December 31 2012: 19 million NIS) (see 16.4 below), real estate owned by subsidiaries in Givatayim to the sum of 4 million NIS as of December 31 2013 (see also Note 16.3) and real estate owned by an overseas subsidiarity to the sum of 2 million NIS as of December 31 2013 (December 31 2012: 2 million NIS).

In the 2013 Financial Statements, borrowing costs for real estate in Petach Tikva were capitalized to the sum of 2 million NIS, according to a discount rate of 5.9% (in 2012: 2 million NIS according to a discount rate of 5.5%).

For details regarding liens see Note 26.2.

16.3 Real Estate Sales Transactions

Over the course of 2012 two subsidiaries sold 80% of their rights to a lot in Givatayim to a purchase group and to Clal Insurance in consideration of a sum of approximately 154 million NIS as well as an option for the sale of the remaining rights to the lot to the purchase group in return for an additional 39 million NIS, by January 15 2013. As a result of the transaction, in 2012 the Group recognized a net capital gain of 91 million NIS. Of the sum of the proceeds, a total of 140 million NIS was received as of the statement of financial position date. The remaining sum is held in trust and is classified as other receivables in the statement of financial position.

Over the course of 2013, the Group exercised its option for additional 18% of the rights to the lot in return for 36 million NIS, of the sum of the proceeds sum of 4 million NIS is held in trust. The net capital gain recognized by the Company in 2013 for the additional sales is 18 million NIS.

2% of the remaining rights to the lot, to the sum of 4 million NIS as of December 31, 2013, are classified as investment property in the statement of financial position.

16.4 Fair Value

Over the course of 2012 the Group recognized an impairment loss for the real estate areas in Park Yanai in Petach Tikva to the sum of 23 million NIS, included under other expenses in the Statement of income. In addition, as of December 31 2013 the Group performed an additional impairment test of these real estate properties. This examination revealed that the recoverable sum is lower than the property's book value, taking the costs expected for completing construction into account. As a result, the Group recognized an additional impairment loss for these areas in the reported period an insignificant amount, which was included under other expenses in the Statement of income.

The value of the relevant real estate was estimated at Level 3 using the comparison technique, with the value assessment model largely based on price per square meter as reflected in similar transactions. The estimate is based on assessing fair value after completing its establishment in envelope state.

For further details regarding these areas see Note 26.4.7.

The fair value of the remaining investment properties is not materially different from their book values.

Note 17 - Trade Payables

	December 31	
	2013	2012 Restated*
	NIS millions	
Open debts	755	710
Interested and related parties	12	17
Notes payable	2	-
	769	727

Note 18 - Other Payables and Credit Balances

	December 31	
	2013	2012 Restated*
	NIS millions	
Employees and other payroll related liabilities	169	176
Institutions	17	14
Jointly controlled companies	64	111
Derivatives	11	25
Accrued expenses	217	198
Deposits and guarantees from customers and distributors	73	71**
Redeemable preferred shares	13	13**
Deferred income	45	47**
Advances from customers	2	2
Other payables	7	27
	618	684

** Reclassified, see Note 2.8.6.

Note 19 - Provisions

19.1 Changes during the period

	Restructuring	Legal claims	Warranty	Total
Balance as at January 1, 2013*	8	13	12	33
Provisions made during the period	18	5	2	25
Provisions used during the period	(10)	-	-	(10)
Balance as at December 31, 2013	16	18	14	48

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

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, 2013 Face value	December 31, 2013 Carrying amount
				NIS millions	
Debentures Series B (see 20.2)	NIS	4.1	2014-2018	744	900
Debentures Series D (see 20.2)	NIS	4.5	2017-2023	249	245
Bank loans	USD	Libor+2	2014-2016	43	43
Bank loans	NIS	3.95	2019-2022	100	103
Bank loans	NIS	6.3	2019-2022	100	100
Bank loans (see 22.2)	NIS	2.9	2014-2017	185	185
Others loans	NIS	5.82	2014-2022	272	272
Others loans (see 22.2)	NIS	3.55	2014-2022	368	380
Bank loans	USD	Libor+1.7	2014-2017	66	66
Bank loans	NIS	3.3	2015	20	21
Bank loans	NIS	4.32-5.85	2014-2017	45	45
Bank loans	NIS	Prime+1.55-0.2	2014-2017	18	18
Others loans	NIS	Prime+1.9	2014-2017	4	4
					2,382

	Currency	Nominal interest %	Repayment	December 31, 2012 Restated* Face value	December 31, 2012 Restated* Carrying amount
				NIS millions	
Debentures Series B	NIS	4.1	2014-2018	744	881
Debentures Series C	NIS	variable	2013	167	166
Bank credit	NIS	Prime	2013	4	4
Bank loans	USD	Libor+2	2013-2016	56	56
Bank loans	NIS	3.95	2019-2022	100	101
Bank loans	NIS	6.3	2019-2022	100	100
Others loans	NIS	5.82	2013-2022	283	283
Others loans	NIS	3.55	2013-2022	372	375
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+0.00-1.6	2013-2015	8	8
					2,150

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

Note 20 - Loans and Credit (cont'd)

20.2 Information regarding bonds issued by the Company

20.2.1 On June 1, 2013, the Company repaid the last payment in respect of the Series C debentures.

20.2.2 Details of the series of bonds**:**

	Series B	**Series D**
Date issued	February 25, 2007	January 23, 2013
Listed for trading	May 21, 2007	January 27, 2013
Type of interest	Fixed	Fixed
Yearly interest rate	4.1% (until the listing for trading, the interest rate was 4.7%)	4.5%
The effective interest rate on the date registered to trade taking into account the offering costs	4.2%	4.7%
Par value on issue date	NIS 770 million	NIS 249 million
Nominal par value as at December 31, 2013	NIS 744 million	NIS 249 million
Index-linked par value as at December 31, 2013	NIS 901 million	Not applicable
Book value of Debentures as at December 31, 2013	NIS 900 million	NIS 245 million
Book value of interest payable as at December 31, 2013	NIS 15 million	NIS 3 million
Fair value as at December 31, 2013	NIS 991 million	NIS 266 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	7 l yearly payments on March 31 of each of the years 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	Half-yearly interest on February 1 and August 1, from 2007 to 2018	Half-yearly interest on March 31 and September 30, commencing on September 30, 2013 until on March 31, 2023
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 22.3

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

	December 31	
	2013	2012 Restated*
	NIS millions	
Short term bank loans	-	4
Current maturities of long term loans	111	61
	111	65

Note 22 - Long-Term Loans and Credit

22.1 Composition of non – current liabilities

	December 31	
	2013	2012 Restated*
	NIS millions	
Loans from others	656	658
Bank loans	581	441
	1,237	1,099
Less current maturities	(111)	(61)
	1,126	1,038

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

Note 22 - Long-Term Loans and Credit (cont'd)

22.2 Details of major loans received by the company

	April 1 2012	April 2 2012	December 23 2013
Sum of loan (in NIS millions)	222	150	185
Loan given by	A group of non-banking institutional bodies		Bank Leumi
Linkage	The loan shall bear Consumer Price Index linkage differences		None
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%.		2.90% fixed yearly interest.
Effective Interest	3.6827%	3.6815%	2.90%
Average life span	7.5 years	7.5 years	2.4 years
Loan repayment	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.	4 continuous annual installments starting December 23, 2014.
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	Semiannual payments from August 1, 2012	Semiannual payments from May 30, 2013	Along with the principal repayment.
Stipulations	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 IFRS 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.		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.

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. 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%).

Regarding debentures (Series D), 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 standards 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 income featuring material and relevant notes only, reviewed (but not audited) in accordance with the accounting standards according to which the Company's September 30, 2012 Financial Statements were prepared.
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.

As at the date of this report, the Company complies with the aforementioned covenants. In addition, two subsidiaries are required to meet covenants in favor of banks. As at the date of this report, the subsidiaries are in compliance with these covenants.

Note 23 - Long-Term Payables and Credit Balances

	December 31	
	2013	2012 Restated*
	NIS millions	
Accrued expenses	9	7
Deferred income	38	24**
Other payables	4	4
Derivatives	7	3
	58	38

** Reclassified, see Note 2.8.6.

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

Note 24 - Employee Benefits (cont'd)

24.1 (cont'd)

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.

24.3 Composition

	December 31	
	2013	2012 Restated*
	NIS millions	
Defined benefit plan		
Present value of funded obligation	127	116
Fair value of the plan assets	(72)	(66)
Total employee benefits, net	55	50

24.4 Defined benefit plans

24.4.1 Changes in the liability for defined benefit plans

	2013	2012 Restated*
	NIS millions	
Liability in respect of defined benefit plans as at January 1	116	103**
Benefits paid by the plans	(5)	(10)
Current service costs and interest	15	19
Actuarial losses (1)	1	4
Liability in respect of defined benefit plans as at December 31	127	116

(1) As at December 31, 2013 and 2012 an amount less than NIS 1 million, were derived from changes in demographic assumptions, and NIS 1 and 4 million, respectively, were derived from changes in financial assumptions. See Note 24.4.4.

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

Note 24 - Employee Benefits (cont'd)

24.4 Defined benefit plans (cont'd)

24.4.2 Comprise of defined benefit plan assets

	December 31	
	2013	2012 Restated*
	NIS millions	
Cash and cash equivalents	8	6
Government debentures	19	17
Corporate debentures	11	13
equity instruments and Real estate	34	30
Total plan assets	72	66

24.4.3 Changes in defined benefit plan assets

	2013	2012 Restated*
	NIS millions	
Fair value of plan assets as at January 1	66	64**
Contributions paid into the plan	6	5
Benefits paid by the plan	(4)	(8)
Expected return on plan assets	4	4
Actuarial gains	-	1
Fair value of plan assets as at December 31	72	66

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.
**Insignificant adjustment of comparative figures.

24.4.4 Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions as at the reporting date (weighted average) in nominal terms:

	2013	2012
Discount rate as at December 31 (1)	3.07%-3.21%	2.83%-4.66%
Future salary increases	3.0%-6.0%	3.0%-6.0%
Demographic assumptions (2)		

(1) The discount rate is based on debentures of the Government of Israel that bear a fixed rate of interest.

(2) 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.

Note 24 - Employee Benefits (cont'd)

24.4 Defined benefit plans (cont'd)

24.4.4 Actuarial assumptions and sensitivity analysis (cont'd)

Possible reasonable changes on the reported date to one of the actuary assumptions, assuming that the remaining assumptions remain unchanged, influence on the defined benefit obligation as follows:

		Change as of December 31, 2013
Discount rate	0.5% growth	(2)
Discount rate	0.5% decrease	2
Future salary costs	1% growth	4
Future salary costs	1% decrease	(3)
Departure rate	Multiplied by 0.8	1
Departure rate	Multiplied by 1.2	(1)

24.4.5 Influence of Plan on the Group's Future Cash Flows

The Group's estimate of deposits expected in 2014 in a financed defined benefit plan is 35 million NIS.

The Group's estimation of the plan's life span (according to a weighted average) as of the end of the reported period is 5.7-6.2 years (for 2012 5.3-6.3 years).

24.4.6 Yield in practice of plan assets

In 2013 the weighted yield rate was 3.33-3.37% (2012: 3.5%, 2011: 5.0%-5.6%). The tiled rate was calculated as follows: 3.07% yield on insurance companies (2012: 3.21%, 2011: 5.3%-4.9%), 4.31% yield on new pension funds (2012: 4.48%, 2011: 6.0%-5.7%); 5.62% yield on balanced veteran pension funds (2012: 5.8%-8.16%; 2011: 7.3%-8.1%); 4.35% yield on deficit pension funds (2012: 4.6.%; 2011: 4.8%-4.6%) and a yield of 3.07% on provident funds (2012: 3.21%, 2011: 4.9%-5.3%).

24.5 Defined Contribution Plans

In the year ended December 31, 2013, the Group recorded an expense of NIS 35 million (2012: NIS 34 million, 2011: NIS 33 million) with respect to defined contribution plans.

Note 25 - Share-Based Payments

25.1

In accordance with the May 2003 senior employee options plan, updated in June 2004, August 2006, April 2010, April 2011, March 2012, July 2012 and September 2013 (pursuant to the 20th Amendment to the Companies Law (hereinafter: "the Plan") and approved by the Company's Audit Committee and/or the Remuneration Committee and Board of Directors, the Company granted senior Group employees option warrants, free of charge, each of which may be exercised as an ordinary share worth 1 NIS NV on a "net stock" exercise basis, as detailed below:

On September 9 2013 the Company General Meeting, following the approval of the Company Board of Directors and Remuneration Committee, ratified the Company's executive remuneration policy. Pursuant to the remuneration policy, certain sections of the option plan were revised. Some of the updates, as detailed below, shall apply to new options granted, while regarding grants made before the application of the remuneration policy, the sections of the plan prior to the approval of the policy shall apply, all as detailed below.

The shares shall be allocated to the employees in return for their notational value at an amount equal to the difference between the closing rate of the share on the last day of trade on the stock exchange prior to the exercise date ("market value") and the exercise price* times the number of options divided by the option's market value (plus a number of shares worth the total denoted value of the issued shares).

* Exercise price – the exercise price of the options granted after September 2013 shall be set as the average closing rate of the Company's share on the 30 days of trade prior to the determining date plus a premium of just 5%, so long as the exercise price is no less than the share's closing price on the of the day of trade prior to the determining date. The exercise price of options granted prior to September 2013 reflects the average stock exchange price of the share immediately prior to the allocation approval, linked to the Consumer Price Index starting from the known CPI on the allocation date and until the last known CPI on the exercise date.

The exercise price or conversion ratio of each option shall be adapted on a relative basis due to the allocation of bonus shares, the consolidation and splitting of Company shares, the issue of rights to Company shareholders or the distribution of dividends.

According to the terms of the Plan, the options granted starting September 2013 shall be exercisable at three equal rates starting from two, three and four years from the option entitlement date. Options granted between April 2011 and September 2013 shall be exercisable at two equal rates starting from two and three years from the option entitlement date. Regarding allocations from March 2008 up to and including March 2011 the options are exercisable at three equal rates starting from two, three and four years from the option entitlement date. Individuals entitled to exercise the option warrants may exercise them within an additional period of 4 years from the date the employee first received the right to exercise that amount of options. Option warrants not exercised by that date shall expire. In the event of the discontinuation of employee-employer relationships (end of relationship between recipient and the Group) not due to dismissal for cause, the employee shall be entitled to exercise the options the exercise date has been reached for a period of 180 days from the end of the relationship. When 180 days have passed from the end of the relationship, all unexercised options shall expire. In the event of the departure of an employee with over two years of seniority in the Group, the Company may, with the approval of the Board of Directors and/or the Remuneration Committee, state that the employee shall be entitled to early vesting of the options expected to vest within 6 months of the conclusion of the relationship and extend the exercise period by an additional 180 days.

According to the plan, options granted executives shall be approved by the Remuneration 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 Committee.

Regarding employees in Israel, the plan was approved in accordance with Section 102 of the Income Tax Ordinance (Capital Pathway) and the options were kept in trust accordingly. According to the Plan, the employees shall be liable for any tax sum applying to the Plan.

Note 25 - Share-Based Payments (cont'd)

25.2 Changes in the number of share options:

	Number of share options (thousands)	
	2013	**2012**
Balance as at January 1	4,725	3,247
Additional allotment	-	2,308
Exercise of options (1)	(1,715)	(465)
Forfeiture of options	(45)	(365)
Balance as at December 31 (2)	2,965	4,725

(1) The weighted average share price on the exercise date of the options exercised in 2013 is NIS 56.33 (2012: NIS 47.76).

(2) On December 31 2013 ,277 thousand options have vested, of the remaining options (2012: 1,557 thousand).

25.3 Information on the share options outstanding as at December 31, 2013:

Number of options	Nominal exercise price (NIS)	Linked to CPI of	First third exercisable from
11,517	36.58	November 2006	2.3.2011
32,888	46.93	October 2007	1.9.2011
38,526	51.88	February 2008	30.3.2011
77,052	37.83	October 2008	1.11.2012
10,606	42.92	June 2009	21.7.2014
36,666	54.07	January 2010	7.3.2014
22,000	54.52	April 2010	14.6.2012
36,667	53.55	April 2010	14.6.2014
22,002	54.10	July 2010	31.8.2014
7,334	53.82	July 2010	31.8.2014
36,668	56.91	October 2010	21.11.2012
22,000	55.86	December 2010	2.2.2013
58,667	52.85	January 2011	13.3.2013
220,000	54.52	February 2011	11.4.2013
33,000	55.78	April 2011	17.5.2013
11,000	45.56	July 2011	11.9.2014
244,000	38.98	May 2011	8.7.2014
310,000	39.20	June 2012	15.7.2014
372,000	35.75	July 2012	13.9.2014
1,362,411	35.86	August 2012	16.9.2014
2,965,004			

25.4 Share-based payments in subsidiaries

25.4.1 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.

Note 25 - Share-Based Payments (cont'd)

25.4 Share-based payments in subsidiaries (cont'd)

25.4.2 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, 2013, the number of stock options is 6,029.

25.5 Salary expenses in respect of share-based payments

	For the year ended December 31		
	2013	2012	2011
	NIS millions		
Expenses in respect of equity-settled grant	18	19	22
Expenses (Income) in respect of liability grant	-*	-*	(1)
Total expense included in salary expenses	18	19	21

* Less than NIS 1 million.

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
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
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 markings on a product as a Kosher dairy product	270
February 2013	District Court in Tel-Aviv Yaffo	The Company	Prima facie misleading marking of dairy desert	24
May 2013	District Court in Central District-Lod	The Company	Prima facie misleading markings on a product	11
September 2013	District Court in Haifa	The Company	Prima facie misleading markings on a product	691
September 2013	District Court in Haifa	The Company	Prima facie misleading markings on a product	274
October 2013	District Court in Haifa	The Company	Prima facie misleading markings on a product	248
November 2013	District Court in Haifa	The Company	Prima facie misleading on a Product collection procedure	11
November 2013	District Court in Haifa	Yotvata Dairies In The Name Of The Late Uri Horzo Ltd. (50%)	Prima facie misleading on a Product collection procedure	52
December 2013	District Court in Haifa	The Company	Prima facie misleading markings on a product	10
January 2014	District Court in Haifa	The Company	Prima facie misleading on a product	30

Note 26 -Contingent Liabilities, Charges, Guarantees And Engagements (cont'd)

26.1 Contingent Liabilities (cont'd)

26.1.1 (cont'd)

* 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).

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

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)
April and May 2012	District Court in Tel-Aviv Yaffo	The Company	Infringement of the Consumer Protection Law and Misleading Advertising involving "Danacol". During the reported period, the Court approved an announcement of the claimant's resigning from two of the claims. The Company will pay the claimants' legal representatives a total of NIS 44 thousand plus VAT.	53
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. In May 2013 the court affirmed a settlement between the parties, pursuant to which the Company will provide consumer benefits to the public through discounts and donations of products estimated to a total sum of NIS 1.65 million, change the related marking, and pay the Plaintiffs and their counsel compensation and fees of a sum of NIS 416 thousand.	144 to each one of the Defendants
July 2012	District Court in Haifa	The Company	Marking on packaging of chocolate desserts. In October 2013 the court affirmed a settlement between the parties. The judgment stated the Company undertook to donate products to Voluntary association of a total sum of NIS 150 thousand, change the marking on packaging of chocolate desserts and pay the Plaintiff compensation and fees of a sum of NIS 151 thousand.	228
October 2012	District Court in Tel-Aviv Yaffo	Yotvata Dairies Company in the name of the late Uri Horzo Ltd. (50%)	Recalling products of the "Yotvata Chocolate Milk 225 ml bag" type. In October 2013 the court ruled to approve the Plaintiff's claim abandonment notice, without an order for costs .	10
January 2013	District Court in Tel-Aviv Yaffo	The Company	Prima facie misleading marking of pasta products. In February 2014 the court affirmed a settlement between the parties that the company pay to the Plaintiff compensation and fees sum of NIS 45 thousand.	7
April 2013	District Court in Tel-Aviv Yaffo	Yotvata Dairies Company in the name of the late Uri Horzo Ltd. (50%)	Prima facie misleading markings on a product. In February 2014 the court ruled to approve the Plaintiff's claim abandonment notice, without an order for costs .	50

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.2 Other claims and contingent liabilities

26.1.2.1 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 26.4.2.

26.1.2.2 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.

26.1.2.3 On January 31, 2010 Carmit Candy Industries filed a suit at the District Court, Central District against the Company and three of its executives at a sum of 22 million NIS. The plaintiff claims that it had been appointed in the early 2000s to serve as the sole representative/distributor of the Cadbury Company, an international candy company, and the Company allegedly prevented the entry of products competing with its products into the Israeli market. As a result, penetration by Cadbury products failed and in 2005 Cadbury severed its ties with the plaintiff. During the reported period, the sum of the suit was increased to 36 million NIS. Based on the advice of its legal counsel, Company management at this stage estimates that the chance the suit will be accepted are low.

26.1.2.4 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 26.1.2.2) total NIS 76 million as at the date of approval of these reports. 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.

26.1.2.5 There are lawsuits in civil court and other claims against the joint business in Brazil. As at the date of approval of these reports, the company's share of these claims totaled NIS 157 million, of which NIS 78 million were in respect of claims by the tax authorities. The joint business rejects the demand of the tax authorities; in its opinion, the current provisions in its books for these claims are adequate.

26.1.2.6 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	
	2013	2012 Restated*
	NIS millions	
On current assets abroad in favor of foreign banks	3	-
On assets in favor of subsidiaries	55	70

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	
	2013	2012 Restated*
	NIS millions	
In favor of subsidiaries in Israel and abroad	354	368
In favor of others in Israel and abroad	71	58

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

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 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.

26.4.2 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.

26.4.3 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.

26.4.4 Strauss Health, Yotvata and Strauss Aviv have agreements with dairy farmers to purchase the full milk produce quotas of the dairy farmers.

26.4.5 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)

26.4.6 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.

26.4.7 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. In 2012 the group management decided to designate the additional lands as an investment property.

26.4.8 On January 21, 2012, the Company signed an agreement with the owners of Norddeutsche Kaffeewerke GmbH, formerly named Viva Coffee GmbH (hereinafter: "NDKW"), to lease its freeze-dried coffee plant for a period of five years in exchange for annual amounts of € 0.5 million.
During the agreement period NDKW operates for the Company, and the Company is responsible for all of the rights and obligations of NDKW. The agreement grants a general power of attorney to the Company to nominate executive functionaries and to establish a managing board for the company, including the right for profits and dividends.

On March 27, 2012 Strauss Coffee granted NDKW a € 28 million loan, which bears an 8% interest, out of which an amount of € 10 million will be repaid by NDKW during the period of the agreement and is amortized through the leasing period. The rest in the amount of € 18.6 million will be transferred to NDKW by the owners of NDKW at the end of the agreement period, and as guarantee for that, 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 exchange for annual amounts of € 0.75 million during these three years. If the option is exercised, during the agreement period NDKW will repay an amount of € 17.5 million, out of the total amount of the loan Strauss Coffee has granted NDKW, 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.

In addition to the aforementioned, Strauss Coffee has received a call option to purchase NDKW, exercisable at any given time during agreement period, for an amount of € 50 million.

The aforementioned lease is accounted for as operating lease in the Company books.

26.4.9 See Note 27 regarding lease contracts.

26.4.10 See Note 30 regarding commitments in derivatives.

26.4.11 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	
	2013	2012 Restated*, **
	NIS millions	
In the first year	75	68
Between one and five years	162	138
In the fifth year and thereafter	110	121
	347	327

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.
** Reclassification of insignificant amounts.

Note 27 - Operating Leases (cont'd)

27.1 Leases in which the Group is the lessee (cont'd)

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 (1)	Petach Tikva distribution and logistical center	To June 2015
Subsidiary	Third party	Shops in New York, Philadelphia, Boston and Las Vegas to operate a chocolate bar	To 2023
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 2019
Subsidiary	Third party	Areas in Or Yehuda and Lod	To December 2015
Subsidiary	Third 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 in Shanghai and Shenzhen, China	To August 2014 with an option to extend by another year.
Subsidiary (2)	Third party	Factory of production freeze-dried coffee in Germany	To January 2017
Subsidiary	Third party	Points coffee sales across the country	To January 2019

(1) See Note 39.5.
(2) See Note 26.4.8

Note 27 - Operating Leases (cont'd)

27.1 Leases in which the Group is the lessee (cont'd)

27.1.2 In the year ended December 31, 2013 an amount of NIS 85 million was recorded as an expense in the statement of income in respect of operating leases (2012 and 2011 NIS 94 million and NIS 87 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	
	2013	2012 Restated*
	NIS millions	
Up to one year	1	5
Between one and five years	1	8
In the fifth year and thereafter	-**	1
	2	14

In the year ended December 31, 2013 an amount of NIS 3 million was recognized as rental revenue in the statement of income (2012 and 2011 NIS 3 million and NIS 2 million, respectively).

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.
** Less than NIS 1 million.

Note 28 - Capital and Reserves

28.1 Share capital

28.1.1 Composition

	December 31	
	2013	2012
	Number of shares (in thousands)- NIS 1 face value per share	
Authorized	150,000	150,000
Issued and paid-in	107,499	107,195
treasury stock (See note 28.2)	(868)	(868)
registered capital for Trading	106,631	106,327

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.

Note 28 - Capital and Reserves (cont'd)

28.3 Dividend distribution

Declaration date	Distribution date	Total dividend distributed NIS millions	Dividend per share NIS
October 30, 2013 (ex date: November 15, 2013)	November 28, 2013	157	1.473
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

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.

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		
	2013	2012	2011
	NIS millions		
International Coffee	(239)	(53)	(17)
International dips and spreads	(15)	(6)	14
Other	(16)	(2)	2
Total	(270)	(61)	(1)

28.5 Publish prospectus

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.

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.

The adoption of IFRS 11, as noted in Note 2.8, does not have an effect on the reportable segments, since the segmental information, which is based on the managerial and internal reports of the Company, remained unchanged.

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		
	2013	**2012**	**2011**
		NIS millions	
Revenues			
Sales to external customers:			
Health & Wellness	1,987	1,920	1,874
Fun & Indulgence	1,013	981	966
Total Israel	3,000	2,901	2,840
Coffee Israel	715	708	654
Coffee Abroad	3,229	3,498	3,272
Total Coffee	3,944	4,206	3,926
International dips and spreads	600	522	388
Other	599	553	545
Sales to other segments:			
Health & Wellness	6	9	7
Fun & Indulgence	25	28	22
Total Israel	31	37	29
Coffee Israel	6	22	22
Coffee Abroad	-	-	-
Total Coffee	6	22	22
International dips and spreads	-	-	-
Other	-	1	4
Total revenues of the segments	8,180	8,242	7,754
Cancellation of inter-segment sales	(37)	(60)	(55)
Total revenues of the segments Excluding the inter-segment sales	8,143	8,182	7,699
Adjustments to the equity method	(2,538)	(2,483)	-*
Total consolidated revenues	5,605	5,699	7,699

* IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

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		
	2013	2012	2011
	NIS millions		
Profit			
Health & Wellness	200	187	203
Fun & Indulgence	115	110	99
Total Israel	315	297	302
Coffee Israel	80	77	73
Coffee Abroad	323	235	187
Total Coffee	403	312	260
International dips and spreads	57	44	20
Other	(6)	(28)	(10)
Total profit of the segments	769	625	572
Unallocated income (expenses):			
Valuation of commodities hedging transactions as at the end of the year	12	(5)	(28)
Other income (expenses), net	(100)	44	(60)
Share based payment and non-recurring grant	(18)	(19)	(21)
Total operating profit	663	645	463
Adjustments to the equity method	(53)	(44)	-*
Total operating profit in the consolidated Statements	610	601	463
Financing expenses, net	(114)	(114)	(103)
Income before taxes on income	496	487	360

* IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

Note 29 - Segment Reporting (cont'd)

29.3 Additional information on operating segments and reconciliation the consolidated report

	Year ended December 31		
	2013	2012	2011
	NIS millions		
Depreciation and amortization			
Health & Wellness	50	54	43
Fun & Indulgence	28	27	29
Total Israel	78	81	72
Coffee Israel (1)	44	17	29
Coffee Abroad	59	76	105
Total Coffee	103	93	134
International dips and spreads	19	20	17
Other (1)	36	30	28
Total depreciation and amortization attributed to segments	236	224	251
Adjustments:			
Depreciation of Unallocated non-financial assets	23	48	28
Adjustments to the equity method	(31)	(38)	-*
Total depreciation and amortization	228	234	279

(1) In 2013, including expenses in respect of structural and organizational change in the coffee segment in Israel, and losses derived from a drop in the value of investments listed in the Strauss Water subsidiary in the other segment, see Note 35.

29.4 Information regarding geographical segments

Presented hereunder are the revenues of the Group from sales to external customers, as reported in the income statement, on the basis of the geographical location of the assets:

	Year ended December 31		
	2013	2012	2011
	NIS millions		
Israel	3,970	3,884	3,939
North America	88	90	467
Brazil	-	-	1,708
Europe and rest of the world	1,547	1,725	1,585
Total consolidated revenues	5,605	5,699	7,699
Adjustments to revenues operating segments	2,538	2,483	-*
Total revenues operating segments	8,143	8,182	7,699

* IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

Note 29 - Segment Reporting (cont'd)

29.4 Information regarding geographical segments (cont'd)

Presented hereunder are the non-current assets of the Group, as reported in the statement of financial position, according to their geographical location:

	As at December 31	
	2013	2012
	NIS millions	
Israel	1,758	1,602
North America	38	34
Europe and rest of the world	853	973
Total consolidated assets	2,649	2,609
Adjustment to assets operating segments	825	902
Total assets operating segments	3,474	3,511

These assets include mainly fixed assets and intangible assets, and do not include financial assets, current tax 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 as reported in the income statement, according to groups of similar products and services:

	Year ended December 31		
	2013	2012	2011
	NIS millions		
Revenues			
Dairy products	1,448	1,412	1,366
Salads	278	262	642
Other health and wellness	261	247	254
Sweets and baked products	828	811	810
Salted products	-	-	156
Coffee	2,247	2,429	3,926
Water refinery products and related services	427	403	405
Other	116	135	140
Total consolidated revenues	5,605	5,699	7,699
Adjustments to revenues operating segments	2,538	2,483	-*
Total revenues operating segments	8,143	8,182	7,699

* IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

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.

In 2013 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 balance of the Company's customers, 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.

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, 2013 credit to retail customers in the amount of NIS 427 million (2012: 374 million) is guaranteed by credit insurance. In addition, the company has deposits and guarantees from customers to assurance debts amount of 71 million as at 31 December 2013 (2012: amount of 70 million).
In the Group's opinion, if it did not have the credit insurance, the deposits and guarantees as above, 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.

Note 30 - Financial Instruments (cont'd)

30.2 Interest risks (cont'd)

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	
	2013	2012 Restated*
	NIS millions	
Fixed interest financial instruments		
Financial assets	285	419
Financial liabilities	(2,250)	(1,840)
	(1,965)	(1,421)
Floating interest financial instruments		
Financial assets	674	587
Financial liabilities (1)	(131)	(310)
	543	277

(1) Mainly variable liabilities rate are linked to USD, See Note 20 (December 31, 2012 including debenture (Series C) in the amount of NIS 167 million).

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 Fair value sensitivity analysis regarding floating interest instruments

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, 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, 2013				
	Increase of 2%	Increase of 1%	Income (expense) regarding floating interest	Decrease of 1%	Decrease of 2%
			NIS millions		
Total income (expense)	13	6	9	(6)	(13)

	December 31, 2012 Restated*				
	Increase of 2%	Increase of 1%	Income (expense) regarding floating interest	Decrease of 1%	Decrease of 2%
			NIS millions		
Total income (expense)	9	4	10	(4)	(9)

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

Note 30 - Financial Instruments (cont'd)

30.2 Interest risks (cont'd)

30.2.4 Cash flow sensitivity analysis regarding floating interest instruments (cont'd)

Additional details:
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 USD interest rates.

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, corn, sugar and oil). The book value of these derivative instruments at December 31, 2013 is not material

30.3.1 Sensitivity analysis - forward transactions and options

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, 2013						
	Increase (1)	Increase of 10%	Increase of 5%	Fair value and carrying amount	Decrease of 5%	Decrease of 10%	Decrease (2)
	NIS millions						
Arabica	5	2	1		(1)	(2)	(2)
Robusta	19	12	6		(5)	(10)	(13)
Total	24	14	7	(2)	(6)	(12)	(15)

	December 31, 2012 Restated*						
	Increase (1)	Increase of 10%	Increase of 5%	Fair value and carrying amount	Decrease of 5%	Decrease of 10%	Decrease (2)
	NIS millions						
Arabica	8	4	2		(2)	(4)	(5)
Robusta	23	16	8		(8)	(16)	(23)
Total	31	20	10	(146)	(10)	(20)	(28)

* Less than NIS 1 million.
** Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

(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.
(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.

Note 30 - Financial Instruments (cont'd)

30.3 Commodity risks (cont'd)

30.3.2 Sensitivity Analysis – Fair Value of Green Coffee Inventory

The following is a sensitivity analysis of the fair value of the group's green coffee inventory. The fair value includes only the stock exchange trading price component, not the differential component:

	December 31, 2013						
	Profit from the Changes			Fair value	Loss from the changes		
	(1)	10%	5%		-5%	-10%	(2
	NIS millions						
Arabica New York inventory	4	2	1	20	(1)	(2)	(3)
Robusta London inventory	3	2	1	22	(1)	(2)	(3)

	December 31, 2012 Restated*						
	Profit from the Changes			Fair value amount	Loss from the changes		
	(1)	10%	5%		-5%	-10%	(2
	NIS millions						
Arabica New York inventory	6	3	1	29	(1)	(3)	(4)
Robusta London inventory	4	3	1	27	(1)	(3)	(4)

** Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

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			The rate of change in year		
	2013	2012	2011	2013	2012	2011
	NIS			%		
Euro	4.7819	4.9206	4.9381	(2.8)	(0.35)	4.2
US Dollar	3.471	3.7330	3.821	(7.0)	(2.3)	7.7
Russian Ruble	0.1055	0.122	0.1182	(13.5)	3.2	1.8

30.4.1 The Group uses derivatives (OTC) in order to hedge part of its foreign currency risk. As at December 31, 2013 the carrying and the fair value of derivative financial instruments of the Group (foreign currency) amounted to less than NIS 1 million (as at December 31, 2012: net liability of NIS 4 million).
Accordingly, changes in exchange rates of major currencies as of December 31 had no material effect on capital (the equity attributable to all the Company's shareholders) and income for the period.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.1 Statement of financial position according to linkage balance (cont'd)

The currency risk of the Group, based on carrying amounts, is as follows:

	December 31, 2013							
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non-financial (1)	Total
	NIS thousands							
Cash and cash equivalents	-	527	110	77	9	49	-	**772**
Securities and deposits	73	173	-	-	-	-	-	**246**
Trade receivables	-	553	31	6	141	162	-	**893**
Income tax receivables	-	-	-	-	-	-	44	**44**
Other receivables and debit balances	4	14	79	32	2	7	69	**207**
Inventory	-	-	-	-	-	-	661	**661**
Investment in equity-accounted investees	-	-	-	-	-	-	887	**887**
Other investments and long-term debit balances	3	52	99	94	-	16	-	**264**
Fixed assets	-	-	-	-	-	-	1,490	**1,490**
Intangible assets	-	-	-	-	-	-	1,082	**1,082**
Deferred expenses	-	-	-	-	-	-	52	**52**
Investment property	-	-	-	-	-	-	25	**25**
Deferred tax assets	-	-	-	-	-	-	20	**20**
Current maturities of debentures	(180)	-	-	-	-	-	-	**(180)**
Short term Credit and loans from banks	(4)	(86)	(21)	-	-	-	-	**(111)**
Trade payables	-	(566)	(115)	(31)	(8)	(49)	-	**(769)**
Income tax payables	-	-	-	-	-	-	(8)	**(8)**
Other payables and credit balances	(21)	(416)	(22)	(10)	(49)	(36)	(64)	**(618)**
Provisions	-	-	-	-	-	-	(48)	**(48)**
Debentures	(720)	(245)	-	-	-	-	-	**(965)**
Long term -Loans and credit	(498)	(541)	(87)	-	-	-	-	**(1,126)**
Long-term payables and credit balances	-	(7)	(11)	-	-	(1)	(39)	**(58)**
Employee benefits, net	-	-	-	-	-	-	(55)	**(55)**
Deferred taxes	-	-	-	-	-	-	(154)	**(154)**
Total	(1,343)	(542)	63	168	95	148	3,962	**2,551**

(1) Including financial assets that were excluded from the scope of IFRS 7. For details regarding linkage basis of non-financial liabilities, see Note 30.4.2

Note 30 - Financial Instruments (cont’d)

30.4 Foreign currency risks (cont'd)

30.4.1 Statement of financial position according to linkage balance (cont'd)

	December 31, 2012							
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non-financial (1)	Total
	NIS million							
Cash and cash equivalents	-	511	103	52	11	58	-	**735**
Securities and deposits	83	132	1	-	-	-	-	**216**
Trade receivables	-	527	31	11	146	176	-	**891***
Income tax receivables	-	-	-	-	-	-	62	**62**
Other receivables and debit balances	5	54	68	9	3	37	62	**238**
Inventory	-	-	-	-	-	-	610	**610**
Assets held for sale					-		10	**10**
Investment in equity-accounted investees	-	-	-	-	-	-	918	**918**
Other investments and long-term debit balances	3	51	116	96	-	1	-	**267***
Fixed assets	-	-	-	-	-	-	1,367	**1,367**
Intangible assets	-	-	-	-	-	-	1,160	**1,160**
Deferred expenses	-	-	-	-	-	-	61	**61**
Investment property	-	-	-	-	-	-	21	**21**
Deferred tax assets	-	-	-	-	-	-	27	**27**
Current maturities of debentures	-	(166)	-	-	-	-	-	**(166)**
Short term Credit and loans from banks	(4)	(40)	(21)	-	-	-	-	**(65)**
Trade payables	-	(511)	(136)	(24)	(4)	(52)	-	**(727)**
Income tax payables	-	-	-	-	-	-	(18)	**(18)**
Other payables and credit balances	(32)	(422)	(40)	(13)	(59)	(49)	(69)	**(684) ***
Provisions	-	-	-	-	-	-	(33)	**(33)**
Debentures	(881)	-	-	-	-	-	-	**(881)**
Long term -Loans and credit	(492)	(434)	(112)	-	-	-	-	**(1,038)**
Long-term payables and credit balances	-	(3)	(3)	-	-	(1)	(31)	**(38)***
Employee benefits, net	-	-	-	-	-	-	(50)	**(50)**
Deferred taxes	-	-	-	-	-	-	(146)	**(146)**
					-			
Total	(1,318)	(301)	7	131	97	170	3,951	**2,737**

(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)

30.4.2 Statement of financial position according to linkage balance- related to non-financial liabilities

The currency risk of the Group related to non-financial liabilities, based on carrying amounts, is as follows:

	December 31, 2013					
	NIS linked	NIS unlinked	Dollar	Euro	Other	Total
	NIS million					
Income tax payables	(8)	-	-	-	-	**(8)**
Other payables and credit balances	-	(51)	(1)	(1)	(11)	**(64)**
Provisions	-	(46)	(1)	-	(1)	**(48)**
Long-term payables and credit balances	-	(38)	(1)	-	-	**(39)**
Employee benefits	-	(24)	(4)	(17)	(10)	**(55)**
Deferred taxes	-	(77)	(21)	(4)	(52)	**(154)**
Total	(8)	(236)	(28)	(22)	(74)	**(368)**

	December 31, 2012					
	NIS linked	NIS unlinked	Dollar	Euro	Other	Total
	NIS million					
Income tax payables	(18)	-	-	-	-	**(18)**
Other payables and credit balances	-	(45)	(3)	(1)	(20)	**(69)**
Provisions	-	(31)	(1)	-	(1)	**(33)**
Long-term payables and credit balances	-	(30)	(1)	-	-	**(31)**
Employee benefits	-	(24)	(5)	(20)	(1)	**(50)**
Deferred taxes	-	(72)	(14)	(4)	(56)	**(146)**
Total	(18)	(202)	(24)	(25)	(78)	**(347)**

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.3 Sensitivity analysis regarding financial assets (liabilities)

Any change in the exchange rates of the principal currencies as at December 31, 2013with regard to currency risk arising from financial items in foreign currencies, which is not functional currency of the company and its subsidiaries, would have increased (decreased) equity (the equity attributable to all the Company's shareholders) and income for the period by the insignificant amounts.

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		
	2013	2012	2011	2013	2012	2011
	Points			%		
Last published CPI	119.9	117.6	116.0	1.91	1.44	2.55

30.5.1 The Company uses futures contracts for various periods in order to hedge part of the CPI risk arising from the excess of liabilities. See Note 30.5.2.

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, 2013				
	5% increase	2.5% increase	Carrying amount	2.5% decrease	5% decrease
			NIS million		
Series B*	(46)	(23)	915	23	46
Linked loans*	(25)	(13)	509	13	25
Total	(71)	(36)	1,424	36	71

	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 loan*	(25)	(13)	506	13	25
Total	(70)	(35)	1,402	35	70

* Including interest payable.

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.

Note 30 - Financial Instruments (cont'd)

30.5 CPI risks (cont'd)

30.5.2 Sensitivity analysis (cont'd)

	December 31, 2013*				
	1% increase	0.5% increase*	Fair value and carrying amount	0.5% decrease	1% decrease
	NIS million				
Futures CPI contracts	13	6	(7)	(6)	(13)

	December 31, 2012*				
	1% increase	0.5% increase	Fair value and carrying amount	0.5% decrease	1% decrease
	NIS million				
Futures CPI contracts	14	7	(4)	(7)	(14)

* 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 D), 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, 2013									
	Note	Carrying amount	Contractual cash flow	2014	2015	2016	2017	2018	2019 and thereafter
		NIS million								
Trade payables	17	769	769	769	-	-	-	-	-
Derivatives	18	11	11	11	-	-	-	-	-
Redeemable preferred shares (1)	18	13	13	13	-	-	-	-	-
Other payables (2)	18	594	557	557	-	-	-	-	-
Debentures Series B	20.1	900	994	214	206	199	191	184	-
Debentures Series D	20.1	245	337	11	11	11	21	25	258
Dollar loan from banks	20.1	43	45	10	15	20	-	-	-
NIS loan from banks	20.1	100	140	6	6	6	6	6	110
NIS loan from banks	20.1	103	130	4	4	4	4	4	110
NIS loan from banks	20.1	185	200	53	50	49	48	-	-
NIS loan from others	20.1	152	192	8	8	8	8	8	152
NIS loan from others	20.1	228	287	9	9	9	9	8	243
NIS loan from others	20.1	272	378	27	26	26	25	24	250
Bank loans	20.1	48	48	12	12	12	12	-	-
Bank loans	20.1	18	18	-	18	-	-	-	-
Others loans	20.1	-	-	-	-	-	-	-	-
Banks and others loans	20.1	88	91	31	49	10	1	-	-
		3,769	4,210	1,735	414	354	325	259	1,123

(1) The preferred shares are redeemable immediately; however, the Company does not expect a redemption in the short term.
(2) The book value includes accrued expenses for interest.

Note 30 - Financial Instruments (cont'd)

30.6 Liquidity risk (cont'd)

	December 31, 2012									
	Note	Carrying amount	Contractual cash flow	2013	2014	2015	2016	2017	2018 and thereafter
		NIS million								
Trade payables	17	727	727	727	-	-	-	-	-
Derivatives	18	25	25	25	-	-	-	-	-
Redeemable preferred shares (1)	18	13	13	13	-	-	-	-	-
Other payables *	18	646	610	610	-	-	-	-	-
Debentures Series B	20.1	881	1,010	36	209	202	195	184	184
Debentures Series C	20.1	166	169	169	-	-	-	-	-
Dollar loan from banks	20.1	4	4	4	-	-	-	-	-
NIS loan from banks	20.1	56	58	10	11	16	21	-	-
NIS loan from banks	20.1	101	132	4	4	4	4	4	112
NIS loan from banks	20.1	100	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	-	-	-
Banks and others loans	20.1	107	115	30	48	37	-	-	-
		3,560	3,987	1,695	335	337	282	248	1,090

(1) The preferred shares are redeemable immediately; however, the Company does not expect a redemption in the short term.

* The book value includes accrued expenses for interest.

Note 30 - Financial Instruments (cont'd)

30.7 Fair value of financial instruments (cont'd)

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, 2013		December 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS million			
Series B Debentures (1)	915	991	896	990
Series C Debentures (1)	-	-	167	167
Series D Debentures (1)	248	266	-	-

(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, 2013 and December 31, 2012 – NIS 15 million (each), and on Series C debentures NIS 0.4 million as at December 31, 2012, and on Series D debentures NIS 3 million as at December 31, 2013.

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.

		December 31, 2013	
		Level 1	Level 2
	Note	NIS million	
Financial assets			
Marketable securities	8	242	-
Derivatives, net	10,18	(1)	(7)
Available for sale financial asset	13	33	-
		274	(7)

		December 31, 2012	
		Level 1	Level 2
	Note	NIS million	
Financial assets			
Marketable securities	8	153	-
Derivatives, net	10,18	(16)	(8)
Available for sale financial asset	13	19	-
		156	(8)

As at December 31, 2013 and 2012, the Company does not have financial instruments classified as level 3.

Note 31 - Sales

	For the year ended December 31		
	2013	2012 Restated*	2011
		NIS million	
Sales of manufactured products	4,656	4,746	6,535
Sales of other products	678	711	954
Other income (1)	271	242	210
	5,605	5,699	7,699

(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		
	2013	2012 Restated*	2011
		NIS million	
Materials consumed	2,687	2,825	4,205
Wages, salaries and related expenses	401	400	480
Depreciation and amortization	116	116	124
Other manufacturing expenses	211	210	253
Change in provision for warranty	3	2	1
Increase in inventories of unfinished and finished goods (1)	(17)	(12)	(69)
	3,401	3,541	4,994
Valuation of balance of commodities hedging transactions as at the end of the year	(12)	5	28
	3,389	3,546	5,022

(1) In 2013, including net loss of NIS 23 million (2012 and 2011: NIS 28 million and NIS 33 million, respectively) in respect of inventory impairment losses.

32.2 By source of income

	For the year ended December 31		
	2013	2012 Restated*	2011
		NIS million	
Manufactured products	2,958	3,122	4,247
Other products	334	333	669
Other income (1)	109	86	78
	3,401	3,541	4,994
Valuation of balance of commodities hedging transactions as at the end of the year	(12)	5	28
	3,389	3,546	5,022

(1) Costs in respect of other income include mainly maintenance expenses in respect of coffee machines and cost for services to water purifiers.

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards. IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

Note 33 - Selling and Marketing Expenses

	For the year ended December 31		
	2013	2012 Restated*	2011
		NIS million	
Salaries and related expenses	544	547	681
Advertising	331	301	396
Doubtful and bad debts	8	2	7
Transport expenses	219	211	320
Maintenance expenses	143	153	170
Depreciation and amortization	51	55	63
Reimbursement of expenses by jointly	(32)	(34)	(16)
Other	77	85	106
	1,341	1,320	1,727

Note 34 - General and Administrative Expenses

	For the year ended December 31		
	2013	2012 Restated*,**	2011*,**
		NIS million	
Salaries and related expenses (1)	227	226	249
Depreciation and amortization	18	16	22
Donations	8	8	11
Research and development	67	58	77
Maintenance expenses	24	26	34
Other	6	7	36
Reimbursement of expenses by jointly controlled companies	(4)	(1)	(2)
	346	340	427
(1) Less: Salaries and related expenses capitalized to software for self-use	5	5	3

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* Retrospective adjustment- see Note 2.8, initial implementation of the new standards. IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

** Reclassified to match current period

Note 35 - Other Income (Expenses), Net

	For the year ended December 31		
	2013	2012 Restated*	2011*
		NIS million	
Other income			
Gain on sale of fixed assets and investment property, net (1)	22	115	2
Gain on loss of control in a subsidiary, net	-	-	22
Gain on decrease in holding rate of jointly controlled entity	-	7	-
Dividend income on available-for-sale financial assets	2	1	2
Other income	1	1	8
Total other income	25	124	34
Other expenses			
Loss on sale of subsidiary	-	(14)	-
Impairment loss on investment property (2)	(4)	(23)	-
Restructuring expenses (3)	(66)	(14)	(20)
Expenses of establishment and purchase of operations	(3)	(4)	(14)
Impairment loss on intangible assets	-	(22)	(59)
Impairment loss on investees (4)	(36)	-	-
Other expenses	(10)	(2)	(1)
Total other expenses	(119)	(79)	(94)
Other income (expenses), net	(94)	45	(60)

(1) See Note 16.3.
(2) See Note 16.4.
(3) Including expenses totaling NIS 44 million in 2013 in respect of structural change in Strauss Coffee relating to instant coffee manufacturing in Tzfat. Subsequent to the date of the report on its financial situation, Strauss Coffee finished closing down its instant coffee manufacturing in a plant located in the center of a residential neighborhood in Tzfat, while other manufacturing operations, including its packaging and other operations remained in the factory in Tzfat industrial area. Of this amount, approximately NIS 34 million is fixed assets impairment, see Note 14. Also including expenses totaling NIS 9 million in respect of structural change in Strauss Water, and additional structural changes in subsidiaries in Israel.
(4) Including an impairment loss of investments recorded in the Strauss Water subsidiary, see Note 6.6. The remaining amount is in respect of investment (primarily in technology) that has been deducted in full.

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards. IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

Note 36 - Financing Expenses, net

	For the year ended December 31		
	2013	2012 Restated*	2011
		NIS million	
Financing income:			
Interest income	22	26	31
Net gain on financial assets measured at fair value through profit and loss	-	-	7
Net gain from changes in exchange rates	-	-	4
Total financing income	22	26	42
Financing expenses:			
Net loss on financial assets measured at fair value through profit or loss	-	(12)	-
Interest expenses	(103)	(106)	(121)
Net gain from changes in exchange rates	(6)	(3)	-
Differences from linkage to the Israeli CPI, net	(27)	(19)	(24)
Total financing expenses	(136)	(140)	(145)
Financing expenses, net	(114)	(114)	(103)

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards. IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

Note 37 - Taxes on Income

37.1 Particulars of the tax environment in which the group's companies operate

37.1.1 Corporate tax rate

- The following tax rates are relevant to the company in 2011-2013:

  24% - 2011

  25% - 2012

  25% - 2013

  On August 5, 2013, the Knesset passed the Law for the Change of National Priorities (Legislation Amendments for Achieving the Budget Purposes for the Years 2013 and 2014) - 2013. Among other things, this law raises the corporate tax rate from 2014 onwards by 1.5% to 26.5%.

  The balance of deferred taxes as of December 31, 2013 was calculated according to the new tax rates set by the Law for the Change of National Priorities, at the tax rate expected to apply on the date of the change. The effect of the change on the financial statements as of December 31, 2013 is an increase in the liabilities deferred tax, against deferred tax expenses by NIS 4 million.

  The regular taxes for the reported period were calculated according to the tax rates displayed in the above table.

- On February 4, 2010, Amendment 174 to the Income Tax Ordinance (new version) – 1961 (hereafter – "the Ordinance") adding Section 87a to the Ordinance was published in the Registry. This amendment set forth an administrative order stating that Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)," published by the Israel Accounting Standards Board, would not apply to the determining of taxable income for the 2007, 2008, and 2009 tax years, even if this standard was used in the financial statements (hereafter – "the Administrative Order"). On January 12, 2013, Amendment 188 to the Ordinance revising the provisions of the Administrative Order was published. This amendment stated that Standard 29 would not apply to the determining of taxable income in the 2010 and 2011 tax years. As of the 2012 tax year, no extension of this Administrative Order had been published, but the Israel Tax Authority announced that it also intended to extend the incidence of the Administrative Order to the following tax years. The above-mentioned Administrative Order did not affect the financial statements.

Note 37 - Taxes on Income (cont'd)

37.1 Particulars of the tax environment in which the group's companies operate (cont'd)

37.1.2 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.

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 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.

Note 37 - Taxes on Income (cont'd)

37.1 Particulars of the tax environment in which the group's companies operate (cont'd)

37.1.2 Benefits under laws for the encouragement of capital investments (cont'd)

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.

On August 5, 2013, the Knesset passed the Law for the Change of National Priorities (Legislation Amendments for Achieving the Budget Purposes for the Years 2013 and 2014) - 2013, which repealed the outline for tax reduction. Starting in the 2014 tax year, the tax rate on preferred income will be 9% in Development Area A and 16% in the rest of Israel. Furthermore, an enterprise meeting the definition of "special preferred enterprise" is entitled to a benefit period of 10 consecutive years and a reduced tax rate of 5% if it is located in Development Area A, or 8% if it is not located in Development Area A.

The Amendment also stated that tax would not be levied on dividends distributed from preferred income to a shareholder that is a company, both at the level of the company distributing the dividend and the company receiving it. A 15% tax rate will apply to a dividend distributed from preferred income to an individual shareholder or a foreign resident, subject to the conventions for avoiding double taxation. The Law for the Change of National Priorities (Legislation Amendments for Achieving the Budget Purposes for the Years 2013 and 2014) – 2013 increased the tax rate on a dividend originating in preferred income for an individual and a foreign resident distributed from January 1, 2014 to 20%.

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 2012, 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 2011-2012 fiscal year were submitted based on the tax rates defined in the Law.

C. The Administrative Order for Distribution of Exempt Profits

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 - 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 12 months) 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 30% 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.

During the period of the report, all the group's companies for whom the provisions of this law is relevant decided to implement the Administrative Order, and to unfreeze the NIS 203 million balance of their accumulated exempt

Note 37 - Taxes on Income (cont'd)

37.1 Particulars of the tax environment in which the group's companies operate (cont'd)

37.1.2 Benefits under laws for the encouragement of capital investments (cont'd)

profits in the group. The beneficiary tax rate in respect of the unfrozen profits is 10%. The group therefore recognized current tax expenses during the report period in respect of the beneficiary's NIS 20 million tax payment. According to the company's decision and the Administrative Order, the company is obligated to invest a total of NIS 15 million in an industrial enterprise (as defined in the Administrative Order) by the end of 2017.

37.1.3 The Law for the Encouragement of Industry (Taxes) – 1969

The Company and part of the Group's companies (including Strauss Health Ltd., Strauss Frito-Lay Ltd., Yotvata Dairies, Strauss Fresh Foods Ltd., Strauss Water) 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.

37.1.4 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 15% (until 31 December 2013- 10%); The Netherlands – a tax rate of 25%; Switzerland – a tax rate of around 9%; Ukraine – a tax rate of 19% (until December 31, 2012 the tax rate was 21%); Russia – a tax rate of 20%,; UK - a tax rate of 21% (until March 31, 2013 the tax rate was 23%); 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 Serbia, the Company is eligible for a reduced corporate tax rate of 2% (instead of a rate of 15%) 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 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 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 2012; 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.

37.4 Carried-forward tax losses

The Group has tax losses and an inflationary deduction carry-forward in the amount of NIS 496 million (2012: NIS 481 million). Deferred taxes were not recorded in respect of losses in the amount of NIS 437 million (2012: NIS 396 million).

37.5 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.

37.6 Disputed Assessments

During the report period, the company and a number of its subsidiaries in Israel received tax assessments for the 2008-2010 tax years requiring them to pay a total of NIS 89 million (including interest and linkage accumulated by May 15, 2013) above the amount included in the framework of its regular tax payments for the those years. The company and its subsidiaries reject the tax authorities' demand, and have filed an objection to these assessments through their tax advisers. The company believes that the existing provisions in the books of the company and its subsidiaries are adequate.

37.7 Income tax expense in the statement of income

	For the year ended December 31		
	2013	2012 Restated*	2011*
		NIS million	
Current taxes	152	136	129
Deferred taxes	13	27	(12)
Previous years taxes	(4)	(1)	(5)
The effect of changes in tax rates	4	-	15
	165	162	127

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards. IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

Note 37 - Taxes on Income (cont'd)

37.8 Reconciliation between the theoretical tax on the pre-tax income and the tax expenses recorded in the Company's books:

	For the year ended December 31		
	2013	2012 Restated*	2011*
		NIS million	
Income before taxes on income	496	487	360
Principal tax rate	25%	25%	24%
Taxes on income at the principal tax rate	124	122	86
Effect of change in tax rates	4	-	15
Trapped profits	20	-	-
Tax expenses on foreign dividend	5	5	8
Permanent differences, net	28	13	15
Temporary differences (losses utilized) where deferred taxes were not recorded in the past	3	15	(3)
Equity income	(27)	(2)	-
Losses due to impairment- where deferred taxes were not recorded	9	12	14
Net differences resulting from the differences in tax rates abroad	3	2	8
Previous years taxes	(4)	-	(5)
Differences resulting from benefits and reduced tax Rates	-	(3)	(6)
Gain on partial disposal of subsidiaries	-	(2)	(5)
Taxes on income in the statement of income	165	162	127
Effective tax rate	33.3%	33.3%	35.3%

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards. IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

Note 37 - Taxes on Income (cont'd)

37.9 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2012 Restated*	Decrease (Increase) in deferred tax in the statement of income	Changes in deferred tax recognized directly in equity	Balance as at December 31,2012 Restated*	Decrease (increase) in deferred tax the statement of income	change in tax rate recognized directly to profit and loss	Changes in deferred taxes recognized directly in equity	Balance as at December 31,2013
Deferred taxes in respect of:								
Provision for doubtful debts	7	-	-	7	1	-	-	8
Provision for vacation and convalescence	9	-	-	9	-	1	-	10
Inventory adjustments	-	2		2	(1)	-	-	1
Tax losses and deductions	47	(30)	-	17	(2)	1	-	16
Other temporary differences	(35)	7	4	(24)	1	(1)	-	(24)
Fixed assets, other assets and deferred expenses	(127)	(5)	(9)	(141)	(8)	(5)	2	(152)
Equity income	-	(3)		(3)	(4)	-	-	(7)
Hedging transactions	3	2	-	5	(2)	-	-	3
Provision of employees	9	-	-	9	2	-	-	11
	(87)	(27)	(5)	(119)	(13)	(4)	2	(134)
	11%-42%			9%-42%				9%-42%

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards.

Note 38 - Basic and Diluted Earnings per Share

The basic earnings per share as at December 31, 2013 is calculated by dividing the income attributable to the ordinary shareholders in the amount of NIS 234 million (2012 and 2011: NIS 244 million thousand and NIS 161 million, respectively) by the weighted average number of ordinary shares, as follows:

Weighted average of ordinary shares:

	For the year ended December 31		
	2013	2012	2011
		NIS million	
Balance as at January 1	107.2	107.1	107.1
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	106.5	106.2	106.2

The diluted earnings per share as at December 31, 2013, 2012 and 2011 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		
	2013	2012	2011
		NIS million	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	106.5	106.2	106.2
Effect of share options	0.8	-*	0.3
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	107.3	106.2	106.5

* Less than NIS 0.1 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, 2013, 275 thousand options (2012 and 2011: thousand 4,068 and 1,091 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.

On September 9, 2013, following approval by the company board of directors on August 4, 2013, the general meeting approved a salary increase for the CEO, effective on September 1, 2013. The CEO's gross salary will be NIS 150,000, linked to the Consumer Price Index, with related social benefits, a car, and reimbursement for various expenses.

Following the change in the method of determining the annual grants, as approved at the general meeting of September 9, 2013, following approval by the company board of directors on August 4, 2013, the CEO is entitled to an annual grant of up to 15 times his gross salary (excluding social provisions). Part of the grant (up to 12 times the gross salary) is calculated according to financial targets, and the remainder (up to 3 times the gross salary) is determined at the discretion of the board of directors compensation committee, taking into account the CEO's contribution to promotion of the company's benefit and its goals, and according to the criteria published as part of the group's compensation policy. The CEO is also entitled to options without payment in accordance with the options plan for senior employees in the group, according to a decision by the company board of directors.

39.2.2 In addition to salaries, the members of senior management participate in the options plan of the Company . In 2013 there was no allotment of shares options to the senior managers, See Note 25.

The benefits to members of senior management are as follows:

	For the year ended December 31					
	2013		2012		2011	
	Number of people	NIS million	Number of people	NIS million	Number of people	NIS million
Short-term employee benefits	9	28	9	25	9	25
Post-employment benefits	9	2	9	1	9	-*
Share-based payment	9	11	9	10	9	15
		41		36		40

* Less than NIS 1 million.

Note 39 - Balances and Transactions with Interested and Related Parties (cont'd)

39.2 Transactions with members of senior management (cont'd)

39.2.3 The benefits to members of the board are as follows:

	For the year ended December 31					
	2013		2012		2011	
	Number of people	NIS million	Number of people	NIS million	Number of people	NIS million
Directors not employed	11	3	10	3	10	3
Employed Directors	1	4	1	4	1	3
	12	7	11	7	11	6

39.2.4 See Notes 26.1.2.1 and 26.4.2,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. After the date of the financial statements, Strauss holds sold its holdings in Strauss Ice Cream.

39.3.3 For particulars concerning the existing right to indemnification for the company from Strauss Holdings, subject to the conditions set forth in the merger agreement, see Note 26.1.1.

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	Jointly controlled companies	Directors and members of senior Management	Total
	NIS million			
As at December 31, 2013:				
Current assets from interested parties that are presented under trade and other Receivables	5	26	-	31
Long-term assets from interested parties that are presented under investments and debit balances	-	94	-	94
Current liabilities to interested parties that are presented under trade and other payables	(10)	(65)	-	(75)
The highest balance of loans and debts of interested parties in the year	11	120	-	131
As at December 31, 2012*:				
Current assets from interested parties that are presented under trade and other Receivables	6	34	-	40
Long-term assets from interested parties that are presented under investments and debit balances	-	93	-	93
Current liabilities to interested parties that are presented under trade and other payables	(8)	(113)	-	(121)
The highest balance of loans and debts of interested parties in the year	12	127	-	139

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, 2013:				
Sales	34	18	-	52
Purchases	(19)	(35)	-	(54)
Selling, general and administrative income (expenses)	(26)	37	3	14
Financing income, net	-	6	-	6
For the year ended December 31, 2012*:				
Sales	33	16	-	49
Purchases	(20)	(30)	-	(50)
Selling, general and administrative income (expenses)	(14)	38	(3)	21
Financing income, net	-	7	-	7
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

(1) Including particulary purchases from Ramat Hagolan Dairies in the amount of NIS 18 million (2012: NIS 18 million, 2011: NIS 14 million), the payment of rent to Rav Etgar Ltd. in the amount of NIS 5 million (2012: NIS 5 million, 2011: NIS 5 million), sales of raw materials to Strauss Ice-cream Ltd in the amount of NIS 29 million (2012: NIS 28 million, 2011: NIS 25 million) and costs of advertising services from Reshet Noga Ltd of NIS 22 million (2012: NIS 14 million, 2011: NIS 12 million).

(2) Excluding fee and compensation to senior management – see Note 39.2.

* Retrospective adjustment- see Note 2.8, initial implementation of the new standards. IFRS 11 has not been retrospectively implemented on comparatives to the year ended December 31, 2011 according to the transition exemption of the standard.

Note 40 - Subsequent Events

40.1 For details regarding achieving control in a joint venture subsequent to the balance sheet date, see Note 6.6.1.

40.2 In February 2014 subsidiary Strauss Coffee entered into an agreement with coffee company Iguacu De Cafe Soluvel CIA, for the purchase of coffee brand “Amigo”, sold largely in Romania, in return for a total of USD 20 million. Closing the agreement is stipulated on the Romanian antitrust commissioner’s approval.

40.3 For details regarding a monetary suit, and a motion to approve it as a class action, filed against the Company subsequent to the balance sheet date, as well as regarding the completion of legal proceedings in a class action subsequent to the balance sheet date, see Note 26.1.1.

40.4 On January 20, 2014, the company board of directors’ compensation and human resources committee approved an allocation of 180,000 options for three senior executives in the group under the terms of the employee compensation plan. Each option is exercisable for 1 ordinary company share with a par value of NIS 1.

The executives will be entitled to exercise the options in three installments on January 20 of each of the years 2016-2018. The fair value of the benefit from this grant, calculated as of January 20, 2014, is NIS 3.1 million. The principal assumptions used in determining the fair value are as follows: a NIS 66.5 share price, an annual standard deviation of 23.35%-26.01%, a risk-free interest rate of 2.18%-3.00%, an exercise price of NIS 69.82, and a 4.2-5.2-year lifespan of the option. The benefit from this grant will be reported as an expense in the financial statements for the period beginning on January 1, 2014 and ending on March 31, 2018.

In addition, on March 23, 2014 the company board of directors’ compensation and human resources committee approved an allocation of 580,000 options for ten senior executives in the group, and in addition on March 25, 2014 the board of directors approved an allocation of 500,000 options for three officers in the Group, under the terms of the employee compensation plan. The fair value of these grants, based on an initial estimation, according to a draft evaluation received as at the date of approval of this reports, is approximately NIS 18 millions.

Strauss Group Ltd.
Additional Details of the Corporation

Regulation 10a: Essence of Quarterly Total Profit Statements

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
			NIS million		
PROFIT AND LOSS:					
SALES	1,418	1,334	1,402	1,451	5,605
COST OF SALES	836	856	830	867	3,389
GROSS PROFIT	582	478	572	584	2,216
SALE AND MARKETING EXPENSES	319	331	336	355	1,341
MANAGEMENT AND GENERAL EXPENSES	80	79	85	102	346
	399	410	421	457	1,687
SHARE IN THE PROFITS OF HELD COMPANIES, TREATED ACCORDING TO THE EQUITY METHOD	31	56	49	39	175
OPERATING PROFIT BEFORE OTHER INCOME (EXPENSES)	214	124	200	166	704
OTHER INCOME	23	1	*-	1	25
OTHER EXPENSES	(20)	(6)	(15)	(78)	(119)
OTHER INCOME (EXPENSES), NET	3	(5)	(15)	(77)	(94)
OPERATING PROFIT	217	119	185	89	610
FINANCING INCOME	9	10	1	2	22
FINANCING EXPENSES	(30)	(39)	(38)	(29)	(136)
FINANCING INCOME (EXPENSES), NET	(21)	(29)	(37)	(27)	(114)
PROFIT BEFORE TAXES ON INCOME	196	90	148	62	496
EXPENSES OF TAXES ON INCOME	(56)	(30)	(63)	(16)	(165)
PROFIT FOR THE PERIOD	140	60	85	46	331
RELATED TO –					
SHAREHOLDERS OF THE COMPANY	108	43	58	25	234
MINORITY RIGHTS	32	17	27	21	97
PROFIT FOR THE PERIOD	140	60	85	46	331

ITEMS OF PROFIT (LOSS) INCLUDING OTHERS, FORWARDED IN SUBSEQUENT PERIODS TO THE PROFIT AND LOSS:					
DIFFERENCES OF FOREIGN CURRENCY CONVERSION	(82)	(106)	(24)	(58)	(270)
CHANGES IN THE FAIR VALUE OF FINANCIAL ASSETS, AVAILABLE FOR SALE NET FROM TAX	*-	3	4	6	13
TOTAL LOSS ITEMS, INCLUDING OTHERS, FOR THE YEAR, TO BE FORWARDED TO THE PROFIT AND LOSS, NET FROM TAX	(82)	(103)	(20)	(52)	(257)
PROFIT (LOSS) ITEMS INCLUDING OTHERS, WHICH ARE NOT FORWARDED IN SUBSEQUENT PERIODS TO THE PROFIT AND LOSS:					

Regulation 10a: **Essence of Quarterly Total Profit Statements - Cont.**

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
			NIS million		
CHANGE IN BENEFITS TO WORKERS, NET OF TAX	*-	*-	*-	(1)	(1)
TOTAL PROFIT (LOSS) ITEMS, INCLUDING OTHERS WHICH ARE NOT FORWARDED TO THE PROFIT AND LOSS, NET OF TAX	*-	*-	*-	(1)	(1)
TOTAL PROFIT FOR THE PERIOD	58	(43)	65	(7)	73
RELATED TO –					
SHAREHOLDERS OF THE COMPANY	45	(37)	41	(20)	29
MINORITY RIGHTS	13	(6)	24	13	44
TOTAL PROFIT FOR THE PERIOD	58	(43)	65	(7)	73

* Representing an amount under NIS1 million.

Regulation 11: **List of Investments in Substantial Held Companies**

The following are the details of substantial subsidiaries and related companies of the Company (held directly by the Company) including the indication of number of shares and their par value, held by the Company upon the date of the report in each of the companies, their cost, price by which they are registered on the books of the Company, balance of loans of the Company to companies, as stated, and details of other investments of the Company in them, including their principal conditions:

Name of the Company	Class of Share	Number of Shares	Total Par Value of the Issued and Paid Up Capital	Par Value of the Share Capital Held by the Company	Rate of Holding in the Security	Rate of Holding in the Capital	Rate of Holding in Voting	Rate of Holding in the Authority to Appoint Directors	Value of the Investment on the Separate Financial Statements of the Company, as at Dec. 31, 2013	Value of Loans to Subsidiaries, as at Dec. 31, 2013
				NIS					NIS million	
Prielite Ltd.	Ordinary A NIS0.001	55,725,000	55,725	55,725	-	-	-	-	-	3
	Ordinary B NIS0.001	65,000	65	65	-	-	-	-	-	-
	Ordinary C NIS0.001	10,000	10	10	-	-	-	-	-	-
	Ordinary D NIS0.001	180,000	180	180	-	-	-	-	-	-
	Ordinary E NIS0.001	20,000	20	20	100	100	100	100	20	-
Strauss Import & Trade Ltd.	Ordinary NIS0.001	25,002,001	25,002	25,002	100	100	100	100	26	-
Strauss Frito Lay Ltd.	Ordinary NIS0.001	28,775,854	28,775,854	14,387,927	50	50	50	50	74	-
Strauss Coffee BV	Ordinary €1	190,600	€ 190,600	€ 142,759.4	74.9	74.9	74.9	74.9	1,779	-
SE USA Inc.	Ordinary $US0.001	1,000	US$ 1	US$ 1	100	100	100	100	122	130

Regulation 11: **List of Investments in Substantial Held Companies (Cont.)**

Name of the Company	Class of Share	Number of Shares	Total Par Value of the Issued and Paid Up Capital (NIS)	Par Value of the Share Capital Held by the Company (NIS)	Rate of Holding in the Security	Rate of Holding in the Capital	Rate of Holding in Voting	Rate of Holding in the Authority to Appoint Directors	Value of the Investment on the Separate Financial Statements of the Company, as at Dec. 31, 2013 (NIS million)	Value of Loans to Subsidiaries, as at Dec. 31, 2013 (NIS million)
Elite Joint Recourses Ltd.	Ordinary NIS0.0001	289,878	29	29	100	100	100	100	3	28
Yad Mordechai Apiary Strauss Ltd.	Ordinary NIS1.00	1,100	1,100	561	51	51	51	51	15	-
Strauss Health Ltd.	Ordinary NIS1.00	6,500,000	6,500,000	5,200,000	80	80	80	80	219	-
Strauss Fresh Food Ltd.	Ordinary NIS1.00	51,000	51,000	51,000	100	100	100	100	93	-
Strauss Water Ltd.	Preferred A NIS 0.01	700,014	700,014	7,000	100	100	88	88	(121)	307
	Preferred B NIS 0.01	3,863,711	3,863,711	36,976	95.7	95.7	-	-	-	
	Ordinary NIS0.01	490,000	490,000	4,312	88	88	88	88	-	-
	Dormant NIS1.00	1	1	-	-	-	-	-	-	-
PepsiCo Strauss Fresh Dips & Spreads International GmbH	Ordinary SF 100	200	200	100	50	50	50	50	*-	29

* Representing an amount under NIS1 million.

Regulation 12: Changes in Investments in Subsidiaries and Related Companies during the Reported Period

A. Changes in Investments Executed by Strauss Water

Name of the Company	Nature of Change	Date of Change	Change in %	Cost (Consideration) in NIS million
Strauss Water Hong Kong Trading Company Ltd	Transferring capital	Jan. - Dec. 2013	–	8
Virgin Strauss Water UK Ltd	The net investment in the held company is treated according to the equity method	March - Dec. 2013	–	10

B. Changes in the Investments Executed by Strauss Coffee B.V.

Name of the Company	Nature of Change	Date of Change	Change in %	Cost (Consideration) in NIS million
Le Café Soluvel rus LLC	Acquisition of the full rights, which are not conferring control	September 2013	49%	47.92
Instanta Rus LLC	Merger of the operations into Strauss Russia LLC and sale of the shares	September 2013	51%	0.2

Regulation 13: Income of Substantial Subsidiaries and Related Companies and the Income of the Corporation from them as at the Date of the Balance Sheet (NIS millions)

The following are the details of profit (loss) (in NIS million) before and after tax of the substantial subsidiaries and related companies of the Company, held directly by the Company [the data of profit (loss) are the consolidated data of these companies], the dividend, interest and management fees received by the Company or which it is entitled to receive, as at December 31, 2013:

Name of the Subsidiary/ Related Company	Pre-Tax Profit (Loss)	Post Tax Profit (Loss	Dividend	Refund of Management Expenses*	Nominal Interest Income (Expenses)	Other Total Profit	Total Profit
Prielite Ltd.	25	18	91	-	1	-	18
Strauss Import & Trade Ltd.	10	8	-	1	-	-	8
Strauss Frito Lay Ltd.	17	12	33	2	-	-	12
Strauss Coffee BV	344	274	-	26	-	242	516
SE USA Inc.	71	54	-	-	(16)	27	81
Yad Mordechai Apiary Strauss Ltd.	3	2	-	-	-	-	2
Strauss Health Ltd.	170	106	219	39	2	13	119
Strauss Fresh Food Ltd.	18	11	19	8	1	-	11
Strauss Water Ltd.	(93)	(90)	-	-	-	1	(89)
PepsiCo Strauss Fresh Dips & International GmbH Spreads	(18)	(18)	-	-	-	-	(18)

The data is in reference of companies having profits (losses) or any balances whatsoever, held directly by the Company, including their profits on a consolidated basis.

* Including management fees

Regulation 14: List of Loans

The giving of loans is not one of the principal engagements of the Company.

Regulation 20: Trade on the Stock Exchange

During the reported period, 304,510 Ordinary Shares of NIS1, n.v. were registered for trade on the Tel Aviv Security Stock Exchange Ltd. with respect to the exercise of option warrants, conferred upon senior employees of the Company.

During the reported period, the trade in the securities of the Company was not terminated.

Regulation 21: Payments to Interested Parties and Senior Office Holders

Details of Recipients of Remunerations				Remunerations for Services (in Cost Terms), in NIS 000's – without a Share Based Payment					
Name	**Position**	**Scope of Position**	**Rate of Holding in the Capital of the Corporation and in Full Dilution (A)**	**Annual Gross Salary of Employee**	**Salary Auxiliaries (B)**	**Total Salary**	**Grant [of which – a Deferred Amount According to the Remuneration Policy] (C)**	**Management Fees/Consultation Fees/Commission/Other**	**Total without Share Based Payment**
Ofra Strauss (1)	Chairperson of the Board of Directors of the Company	At least 80%	--	1,664	861	2,525	1,387	--	3,912
Gadi Lesin (2)	President and CEO of the Company	100%	In full dilution: 0.97%	1,800	1,226	3,026	1,665 (out of which a deferred amount of 315)	--	4,691
Todd Morgan (3)	CEO of Strauss Coffee (the Netherlands)	100%	--	2,749	1,715	4,464	2,271	--	6,735
Gennady Zelinski (4)	Deputy Marketing CEO of Strauss Coffee (the Netherlands)	100%	--	1,574	797	2,371	799	--	3,170
Shahar Florence (5)	CFO	100%	In full dilution: 0.26%	1,123	516	1,639	876 (out of which a deferred amount of 230)	--	2,515
The Remaining Directors (6)		--	--	--	--	3,029	--	--	3,029

Regulation 21: Payments to Interested Parties and Senior Office Holders (Cont.)

Details of Recipients of Remunerations		Remunerations for Services (in Cost Terms) in NIS 000's		
Name	**Position**	**Total Cost of Salary**	**Share Based Payment (D)**	**Total Salary without Share Based Payment**
Ofra Strauss	Chairperson of the Board of Directors of the Company	3,912	--	3,912
Gadi Lesin	President and CEO of the Company	10,715	6,024	4,691
Todd Morgan	CEO of Strauss Coffee (the Netherlands)	7,814	1,079	6,735
Gennady Zelinski	Deputy Marketing CEO of Strauss Coffee (the Netherlands)	4,481	1,311	3,170
Shahar Florence	CFO	3,384	869	2,515

Notes to the Table:

(a) Full Dilution – under the assumption of full exercise of 2,965,004 option warrants conferred upon senior employees, which could theoretically be exercised (as at March 25, 2014) into 2,965,004 ordinary shares of the Company. It ought to be emphasized that actually, according to the terms of the option plan of the Company, upon the exercise of the option warrants, the offerees will not be allotted the full shares emerging wherefrom, but only shares in a quantity, reflecting the amount of the financial benefit embodied in the option warrants, i.e. the balance between the rate of an ordinary share of the Company upon the exercise date and the original exercise date of the option, as it is linked to the consumer price index, adjusted for the distribution of dividends. Therefore, actually the quantity of allotted shares for the exercise of the options is under the quantity indicated above.

(b) Salary Auxiliaries – with respect to the recipients of remunerations, specified on the table, who are employed in the Company (including chairman of the Board) – the amount indicated under the column of "salary auxiliary" includes conditions that are related to the salary, such as: car maintenance, telephone, apparel and social benefits according to accepted rates. It ought to be indicated that employees of the Company, including its office holders, are entitled to receive reimbursement of expenses, according to procedures accepted with the Company.

(c) Grant – the amount indicated under the column of "grant" is the amount of grant for 2013, not including grant amounts, which were paid during 2013 with respect to 2012.

For details of the grant amount paid in 2013 with respect to 2012, see the following details with respect to each of the recipients of remunerations, included on the table.

Regulation 21: **Payments to Interested Parties and Senior Office Holders (Cont.)**

The amount of the grant to office holders includes a part that was forwarded to the subsequent year, as per the policy of remuneration of office holders (the part of the incentives presenting a "target incentive" as defined in the remuneration policy, to be paid in the salary of March 2014, payable at the beginning of April 2014. Part of the incentive that exceeds the salary amount, fixed as a "target incentive", will be deferred to the subsequent year and be paid shortly before the date of publication of the annual financial statements for 2014, so long as in 2014 the threshold condition for receipt of the annual incentive for 2014 was met).

In the matter of the grants plan to office holders of the Company, see the policy of remuneration of office holders of the Company (see immediate reports, published by the Company, on August 28, 2013 (Ref. No. 2013-01-130242)).

The grants to senior managers of the Group who are not office holders are fixed according to financial targets and functional targets, set and approved in advance with respect to each of the senior managers, each and every year. The annual grant in the Coffee Company is determined according to the location on the following matrixes of results of financial targets (as specified in Subsection (a) hereunder) and functional targets (as specified in Subsection (b) hereunder). The giving of the grant is stipulated in fulfillment of a threshold condition which is accomplishment of 80% at least of the operating profit target of the Coffee Company.

(a) **Financial Targets** – financial targets are determined each and every year within the annual work plan of the relevant company, approved by the Board of the relevant company. The financial targets for 2013 in the Coffee Company included five elements, having an identical weight: sales in tons; net sales in Euro (€); cash flows from current operations; pre PPA operating profit; net profit to the majority shareholders. Fulfillment of any of the financial targets receives a grade between 1 (failure to meet the target) and 5 (maximum fulfillment of the target). The degree of fulfillment of targets is determined according to the business results of the subsidiary, and the weighted average grade of fulfillment of the financial targets is brought as a datum before the Remuneration Committee and the Board, pursuant to the determination of the bonus through the matrix.

(b) **Functional Targets** – each and every year, the Board of the relevant company determines to each of the management members up to five functional targets, derived from the targets of the work plan in the relevant company. The degree of fulfillment of these targets with respect to each of the senior managers is examined by the CEO of the relevant company, according to the results of the actual fulfillment of the functional targets by the managers, which is then presented before the Remuneration Committee and the Board of the Company. The functional targets are determined to each of the senior managers personally, according to his/her position. Fulfillment of any of the functional targets is graded between 1 (failure to meet the target) and 5 (maximum fulfillment of the target). The weighted average grade of fulfillment of the business qualitative targets is used in the determination of the grant, through the matrix.

Regulation 21: **Payments to Interested Parties and Senior Office Holders (Cont.)**

Matrix of Incentive Rank 9 – Coffee Company		Functional performance				
		1	2	3	4	5
Financial performance	5.0	0.00	9.60	12.00	13.50	15.00
	4.0	0.00	8.40	11.00	11.81	13.13
	3.0	0.00	7.20	9.00	10.13	11.25
	2.0	0.00	4.00	5.00	5.63	6.25
	1.0	0.00	0.00	0.00	0.00	0.00

Matrix of Incentive Rank 8 – Coffee Company		Functional performance				
		1	2	3	4	5
Financial performance	5.0	0.00	5.00	8.00	9.00	10.00
	4.0	0.00	4.00	6.00	7.00	8.00
	3.0	0.00	2.50	4.00	5.00	6.00
	2.0	0.00	1.00	2.00	2.50	3.00
	1.0	0.00	0.00	0.00	0.00	0.00

(d) Share Based Payment – the amount indicated under the column of "Share Based Payment" expresses the expense registered by the Company in 2012, in accordance with the IFRS-2 International Accounting Standard, with respect to the options conferred.

Additional Data:

(1) **Mrs. Ofra Strauss** – Mrs. Strauss serves as the active Chairman of the Board of Directors of the Company from June 2001. Mrs. Strauss is employed according to a Personal Employment Agreement, valid from January 1, 2008. The Employment Agreement is for an undetermined period in advance, starting from January 1, 2008, and ending upon completion of the office of Mrs. Ofra Strauss as the Chairman of the Board. The validity of this Agreement is subject to its approval by the Control Committee, the Board and the general meeting of the Company every three years, as per the provisions of the law. The Employment Contract of the Chairman of the Board determines no special provisions with respect to the possibility of its cancellation by the parties, during said three year period, stating that its breaching will be under the provisions of the Contracts Law (Remedies for Breach of Contract) 1970. The recent approval of this Agreement was on June 6, 2011, in which the shareholders meeting approved the extension of the commitment of the Company in the Employment Agreement for another 3 year period, commencing upon the date of its approval by the meeting. In the matter of the terms of the Employment Agreement, see the meeting assembling report, published by the Company on June 1, 2011 (Ref. No. 2011-01-173922).

<u>Regulation 21:</u> **<u>Payments to Interested Parties and Senior Office Holders</u> (Cont.)**

As an active Chairman of the Board, Mrs. Strauss is responsible for the management of the Board and within the framework of the work of the Board outlining the strategy of the Company and supervising the execution of the functions of the CEO and the senior management of the Company (GMT – Group Management Team). Mrs. Strauss does not engage in the daily current management of the Company, and the managers subordinated to the CEO do not report to her and are not subordinated to her, but to the CEO. Furthermore, Mrs. Strauss does not fulfill additional positions with the Company, with the exception of her service on the boards of subsidiaries of the Company. The control over set boundaries between the positions of the chairman of the board and the position of the CEO of the Company is under liability of the Board of the Company.

The fee component of Mrs. Strauss includes a monthly salary in the amount of NIS xxxxx, gross, linked to the known consumer price index for the month of July 2007, published in August 15, 2007, updated every three months; and also auxiliaries to the salary, as specified in Note (b) above.

The grant amount actually paid to Mrs. Strauss during the second quarter of 2013 with respect to 2012 was in the amount of NIS xxx thousand. For details, see Article 21 of the financial statements of the Company as at December 31, 2012, published by the Company on March 20, 2013 (Ref. No. 2013-01-011449) (hereinafter: "**the 2012 Financial Statements**").

The amount of the grant to Mrs. Strauss for 2013 is NIS xxx thousand. This amount is with respect to fulfillment of financial targets at a rate of 124.9%. This rate is derived from sales in the amount of NIS8,143 million, representing fulfillment at a rate of 97.2% of the target, managerial operative profit in the amount of NIS769 millions, representing fulfillment at a rate of 118.6% of the target, net profit to shareholders of the Company, proforma, in the amount of NIS329 million, representing fulfillment at a rate of 136.9% of the target and current cash flows according to the relatively consolidation method (as stated in the report of the board of directors) in the amount of NIS716 million, representing fulfillment at a rate of 146.8% of the target. The Chairman of the Board was not granted an additional grant based on discretion. As stated in Note (c) above, parts of the grant amounts will be deferred to the subsequent year, to be paid shortly before the publication of the annual financial statements for 2014, so long as in 2014 the threshold condition to receipt of the annual incentive for 2014 was met.

<u>Regulation 21:</u> **<u>Payments to Interested Parties and Senior Office Holders</u> (Cont.)**

(2) **<u>Mr. Gadi Lesin</u>** – Mr. Lesin serves as the president and CEO of the Company from July 2009 (prior to this date, from September 2007, he served as the CEO of Strauss Israel). The employment of Mr. Lesin is for an unlimited period and can be terminated by way of a 90 day early notice in writing to the other party. After completion of the early notice period, as specified above, the employer-employee relations will continue to prevail and the Company will continue to pay to Mr. Lesin his salary and auxiliary conditions (including social benefits) over additional 12, months in the event of dismissal, and for additional 6 months in the event of resignation, with the exception of circumstances whereby it is lawfully possible to deny severance pay.

The fee component of Mr. Lesin includes a monthly salary in the amount of NIS 150,000, gross (from September 2013) and in the amount of NIS 135,000, gross, prior to September 2013, linked to the consumer price index of May 2009. The linkage is made once a month and it includes cost of living increments payable in the market, and also auxiliaries as specified in Note (b) above.

The amount of the grant actually paid to Mr. Lesin in 2013 for 2012 was in the amount of NIS xxx thousand. For details, see Article 21 on the 2012 Financial Statements.

The amount of the grant to Mr. Lesin for 2013 was NIS xxx thousand, with respect to for meeting financial targets only according to a grade of 4.40.

As of the date of the report, Mr. Lesin holds a total of 1,062,411 option warrants (non-negotiable) according to the following details: on September 25, 2012, the Board of the Company approved to allot to Mr. Lesin 1,062,411 option warrants which can be exercised (theoretically) into 1,062,411 ordinary shares of the Company of NIS1 n.v. each, according to an exercise price of NIS35.86 linked to the consumer price index for the month of August 2012. Concurrently, 355,050 option warrants, which were previously granted to Mr. Lesin, the entitlement for receipt thereof was not realized upon the date of the aforementioned resolution of the Board, were cancelled. The entitlement of Mr. Lesin to receive option warrants will be consolidated in four portions, as follows: (1) 50% of the total quantity of option warrants from September 16, 2014; (2) approx. 16.66% of the total quantity of option warrants from September 16, 2015; (3) approx. 16.66% of the total quantity of option warrants from September 16, 2016; and (4) the balance of option warrants, from September 16, 2017. The entitlement of Mr. Lesin to exercise each of the portions will be available to him up until September 15, 2020. The fair value of the option warrants as of the date of the grant, with the deduction of the revoked option warrants, was approx. NIS13.8 million. For further details, see the offering report, published by the Company on September 25, 2012 (Ref. No. 2012-01-244890).

(3) **Mr. Todd Morgan** – Mr. Morgan served as the CEO of Strauss Coffee up until January 2014. On January 3, 2014, the Board of Strauss Coffee Company approved the termination of service of Mr. Morgan as the CEO of the Coffee Company, in consequence of a decision of the Dutch Court, dated December 24, 2013. For further details, see immediate report, dated January 3, 2014 (Ref. No. 2014-01-003436). Mr. Morgan filed a claim against Strauss Coffee, within its framework he applies to declare the dismissals null and void and to return him to the position of CEO, alternatively to pay him compensation for loss of income and auxiliary benefits, and also to be entitled to all the options, allotted to him during his employment. Strauss Coffee is acting to repel the claim. In light of that stated, as of the date of the report not all the details of the withdrawal were concluded with the withdrawing CEO.
According to the terms of his employment, the annual fee of Mr. Morgan is €500,000 and also auxiliaries and social benefits, as accepted with respect to senior office holders in Strauss Coffee (pension, health insurance, sick days, leave, service car and reimbursements of expenses) and an annual bonus, not exceeding 15 monthly salaries, according to fulfillment of financial targets of Strauss Coffee and functional targets. For fulfillment of the targets of 2012, Mr. Morgan was paid a grant in the amount of NIS 2,550 thousand. For 2013, an amount of NIS 2,271 thousand was allocated in the financial statements, whose payment is subject to the approvals of Strauss Coffee and pending the legal proceedings, mentioned in the above paragraph.
On June 15, 2011, Mr. Morgan was conferred 1,912 option warrants, reflecting an allotment of additional 1% of the share capital of Strauss Coffee, which can be exercised into 1,912 ordinary shares of Strauss Coffee, according to an exercise price of €3,759. 20% of the option warrants matured as of the date of the grant and additional 40% matured up until December 31, 2013. The balance of the option warrants expired in consequence of the termination of the service of Mr. Morgan, (subject to legal proceedings). The fair value of all these option warrants, calculated on the basis of the model and the aforementioned assumptions is approx. NIS 9.5 million. Mr. Morgan paid in consideration of these option warrants an amount of approx. €300 thousand in 2013. The benefit emerging from this grant is recorded as an expense in the financial statements for the periods commencing on April 1, 2011 and ending on June 30, 2015. For further details, see Note 25.4.2 to the financial statements, as at December 31, 2013.

<u>Regulation 21:</u> **<u>Payments to Interested Parties and Senior Office Holders</u> (Cont.)**

(4) **<u>Mr. Gennady Zelinski</u>** – Mr. Zielinski serves as the marketing deputy CEO of Strauss Coffee from October 2011. According to his Employment Agreement, Mr. Zielinski is entitled to an annual fee of €294 thousand, auxiliaries and social benefits, as accepted for senior office holders with Strauss Coffee (pension, health insurance, sick days, leave, service car and reimbursement of expenses).
In addition, Mr. Zielinski was entitled to an annual grant according to the fulfillment of the targets of Strauss Coffee. For meeting the targets of 2012, Mr. Zielinski was paid a grant in the amount of NIS874 thousand. The amount of the grant approved to Mr. Zielinski for 2013 is in total of NIS xxx thousand.
As of the date of the report, Mr. Zielinski holds in 588 option warrants for shares of Strauss Coffee Company, which can be exercised into 588 ordinary shares of Strauss Coffee, according to an exercise price of €3,759. The options were conferred in consideration of an amount of €62 thousand, paid upon the date of the grant against the placement of a loan to Mr. Zielinski from Strauss Coffee, whose payment date was deferred and be paid in the salary of March 2014. Approx. 20% of the total options matured upon the date of the grant and the remaining options will mature in four equal portions on October 1 of the years 2012-2015. The entitlement to exercise the options depends on the occurrence of exit events, as defined in the plan, including a change of proprietorship of Strauss Coffee. The fair value of the benefit upon the date of the grant is approx. NIS3.7 million. For further details, see Note 25.4.2 to the financial statement as at December 31, 2013.

(5) **<u>Mr. Shahar Florence</u>** – Mr. Florence serves as the CFO of Strauss Group from November 1, 2008. The employment of Mr. Florence is for an unlimited period and can be terminated by way of a 90 day early notice in writing of either party. After completion of the early notice period, as specified above, the employer-employee relations will continue to prevail and the Company will continue to pay to Mr. Lessin his salary and auxiliary conditions (including social benefits) over additional 6 months, with the exception of circumstances whereby it is lawfully possible to deny severance pay.
The fee component of Mr. Florence in 2013 includes an average monthly salary in the amount of approx. NIS 94 thousand, gross. The fee is linked to the consumer price index for November 2008. The linkage is executed every three months and is in lieu of and includes cost of living increments paid in the market. The fee further includes auxiliaries as specified in Note (b) above.

<u>Regulation 21:</u> **<u>Payments to Interested Parties and Senior Office Holders</u> (Cont.)**

The amount of the grant paid to Mr. Florence in 2013 for 2012 was in the amount of NIS xxx thousand, granted for fulfillment of financial and functional targets (for details, see Article 21 on the 2012 Financial Statements) and an additional amount of NIS xxx, which is a grant based on discretion, according to approval of the Remuneration Committee and the Board in June 2013.

The amount of the grant to Mr. Florence for 2013 is NIS xxx thousand with respect to meeting financial targets according to a grade of 4.4. This amount is with respect to fulfillment of financial targets is derived from sales in the amount of NIS 8,143 million, representing a grade of 2.6 of the target, managerial operative profit in the amount of NIS769 millions, representing a grade of 5 of the target. As stated in Note (c) above, part of the grant amount will be deferred to the subsequent year, to be paid shortly before the publication of the annual financial statements for 2014, so long as in 2014 the threshold condition to receipt of the annual incentive for 2014 was met.

As of the date of the report, Mr. Florence holds a total of 287,052 non-negotiable option warrants, according to the following details: on November 17, 2008, the Board of the Company approved to allot to Mr. Florence 231,158 option warrants, which can be exercised (theoretically) into 231,158 ordinary shares of the Company of NIS1 n.v. each, according to an exercise price of NIS37.83 linked to the consumer price index for the month of October 2008. The entitlement of Mr. Florence to receive option warrants will be consolidated in three portions on November 11, 2010, 2011 and 2012. The fair value of the option warrants as of the date of the grant was approx. NIS1.8 million. Parts of the options granted in this grant were exercised up until the date of publication of the statements. On April 11, 2011 the Board of the Company approved to allot to Mr. Florence 110,000 option warrants which can be exercised (theoretically) into 110,000 ordinary shares of the subsidiary of NIS1, n.v., each, according to an exercise price of NIS54.52 linked to the consumer price index for the month of February 2011. The entitlement of Mr. Florence to receive the option warrants will be consolidated in two equal portions on April 11, 2013 and 2014. The fair value of the option warrants as of the date of the grant was approx. NIS1.7 million. On September 25, 2012, the Board of the Company approved to allot to Mr. Florence 100,000 option warrants which can be exercised (theoretically) into 100,000 ordinary shares of the Company of NIS1 n.v. each, according to an exercise price of NIS35.86 linked to the consumer price index for the month of August 2012. The entitlement of Mr. Florence to receive the option warrants will be consolidated in two equal portions on September 16, 2014 and 2015. The fair value of the option warrants as of the date of the grant was approx. NIS1.1 million.

(6) The payments to the other directors include the total payments received by all the directors of the Company, with the exception of Mr. Ofra Strauss. In the matter of indemnification and insurance of directors and office holders in the Company, see Note 26, Sections 1.2.1 and 4.2 to the Note.

Regulation 21a: **Control of the Corporation**

The shareholders in control of the Company are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: "**Strauss Holdings**") and also Mrs. Ofra Strauss, who is considered a joint holder together with him in the shares of the Company. For details concerning the holdings in Strauss Holdings, see Section 1.3 of the Description of the Corporation's Business Report.

Regulation 22:

The following details, according to best knowledge of the Company, concerning any transaction with the shareholder in control or that the holder in control has a personal interest in its approval (any transaction, as stated, that the Company or its subsidiary or a related company of it are a party thereto) in 2013 or upon a date latter to the reported year until the date of filing of this report or which it is still valid upon the date of publication of this report, save for interest in transactions made during the normal course of business of the aforementioned corporations. See also Note 39 to the financial statement of the Company, as at December 31, 2013. The Company adopted a procedure, whereby the Audit Committee of the Company examines each and every year whether the transactions with the holder in control of the Company or in which the holder in control has a personal interest, executed (if any) during that year, are according to the market conditions.

Transactions Included under Section 270(4) of the Companies Law

a. Employment Agreement with Ofra Strauss, Chairman of the Board – for details, see Article 21 in this chapter.

b. Giving a letter of indemnity obligation to Messrs. Ofra Strauss, Adi Strauss and Ran Midyan – on June 6, 2011, the general meeting of the Company approved the giving of a letter of obligation of the Company for the indemnification of the office holders thereof, as they will be from time to time, including Messrs. Ofra Strauss and Ran Midyan. The approval was resolved according to a special majority. On August 25, 2011, the extraordinary general meeting of the Company approved the giving of a letter of indemnification of the Company for the indemnification of its office holder, Mr. Adi Strauss. See Article 29a of this chapter and immediate reports of the Company, dated June 6, 2011 and August 25, 2011 (Ref. Nos. 2011-01-177714 and 2011-01-252213, respectively).

c. Insurance of directors and office holders with respect to Messrs. Ofra Strauss, Adi Strauss and Ran Midyan – the commitment of the Company in a policy for the insurance of the liability of directors and office holders of the Company and its subsidiaries, including with respect to Messrs. Ofra Strauss, Adi Strauss and Ran Midyan. For details, see Note 26.4.2 to the financial statements of the Company, as at December 31, 2013 and Article 29a of this chapter.

d. The director's fee paid to Messrs. Adi Strauss and Ran Midyan – the remuneration of Ran Midyan, valid as of April 1, 2008 and of Adi Strauss, as of August 25, 2011 equals the maximum possible amount, according to the Companies Regulations (Rules Concerning Remuneration and Expenses to an External Director) 2000, while taking into account the ranking of the Company, and as stated in the Second Supplement and Third Supplement of the Remuneration Regulation. For additional details, see Article 21 of this chapter.

e. Obligations for indemnification and given right of use in the name "Strauss" according to the merger transaction with Strauss – for details, see Section 26.1 of the chapter of Description of the Corporation's Business. As stated in this section, the Strauss family members were obligated not to compete against the Company and not to use the Strauss brand in certain areas and over certain periods, as specified in the aforementioned section. According to the best knowledge of the Company, the Strauss family members meet the aforementioned obligations.

Transactions which are not included under Section 270(4) of the Companies Law

a. Negligible transaction – according to the resolution of the Board of the Company, dated February 21, 2011, outlines and rules were determined for the classification of a transaction of the Company or a consolidated company of it or a company relatively consolidated with an interested party thereof, as a negligible transaction, as stated in Regulation 41(a)(6)(a) of the Securities Regulations (Annual Financial Statement) 2010. These rules and guidelines will also serve in the examination of the scope of disclosure in the periodic report and in the prospectuses (including a shelf offering report) with respect to the transaction of the Company, a corporation under its control or a related company of it with the shareholder in control or in which the shareholder in control has a personal interest; and also for the examination of the need to furnish an immediate report with respect to a transaction of the Company, as stated. The guidelines, inter alia, include directives with respect to transactions of the same class, having no dependence between them, which are frequently executed and repeated every period, combined transactions or such which are stipulated between them and also multi-annual transactions.

b. In 2013, no transactions were executed and no transactions are valid as of the date of this report with the shareholder in control or in which the shareholder in control has a personal interest, which are not included under Section 270(4) of the Companies Law and are not negligible transactions, save for the transactions specified hereunder. It ought to be emphasized that the negligible nature of a transaction specified hereunder was examined for the purpose of this report, according to an updated resolution of the Board of the Company, as stated above.

    1. The purchasing of UHT milk (ultra-high temperature milk) from the Ramat Hagolan Dairies – the Group purchases and distributes from 1983 UHT milk of the production of the Ramat Hagolan Dairies [held by Gideon Holdings Ltd. (a subsidiary of Strauss Holdings), Tnuva and Tara in equal shares between them]. The purchase is in insignificant scopes according to equal conditions as the remaining shareholders of the

Ramat Hagolan Dairies. According to the best knowledge of the Company, on November 23, 2009, an agreement with respect to the sale of the shares of the dairy by the three shareholders mentioned above was signed. Within the framework of the Sale Agreement, the aforementioned shareholders obligated to continue purchasing UHT milk from the Ramat Hagolan Dairies over a five year period from January 1, 2010, according to the quantities specified in the sale agreement.
Accordingly, Strauss Health Ltd. (a subsidiary held in 80% by the Company) committed with the Ramat Hagolan Dairies in a Manufacturing, Supply and Marketing Agreement, as from February 21, 2010, whereby the Ramat Hagolan Dairies will manufacture the products ordered by Strauss Health. Strauss Health obligated that during a period of five years, from January 1, 2010, it will order from the Ramat Hagolan Dairies a minimum quantity of products per annum, according to the quantities specified in the Agreement. The Agreement will be automatically extended for additional 12 months, unless either party notifies of its non extension. It ought to be indicated that the obligation for the purchasing of UHT milk, as per said Agreement, is according to conditions which are similar to the conditions by which Strauss has previously purchased UHT milk from the Ramat Hagolan Dairies, according to similar scopes of purchase quantities and an identical rate of a marketing commission (decreased from the purchase price of the UHT milk) and according to identical terms of payment. Furthermore, it should be indicated that the marketing commission to which Strauss Health is entitled is at a rate similar to the marketing commission to which all the shareholders were entitled prior to the transaction for the sale of their shares in the dairy. (For the financial scopes of purchasing of sterilized milk from the Ramat Hagolan Dairies, see Note 39.5 to the financial statement of the Company, as at December 31, 2013).

2. <u>Purchasing Advertising Time</u> – the Group purchases advertising time through the media company Reshet, the TV franchiser, as per the Second Authority for Television and Radio Law, 1990. According to the best knowledge of the Company, Mr. Michael Strauss and Mrs. Raya Strauss indirectly hold in Reshet an accumulative rate of approx. 16% of its share capital. The purchasing of advertising time is made within the normal course of business, according to accepted terms and market prices, as part of the purchasing of advertising time from other commercial broadcasting entities (such as Keshet, Channel 10 and Channel 24) executed according to reasoning of ratings and the marketing needs of the Group.
3. <u>The Sale of Raw Chocolate to Strauss Ice Cream</u> – Strauss Ice Cream purchases raw chocolate from the Company, occasionally and as needed, without an obligation to a framework of purchases. The raw chocolate is sold to Strauss Ice Cream, according to quantities that are manufactured on requirement, in cost prices together with a profit rate (cost+).

c. The following are details on transactions with the holder in control or that the holder in control has a personal interest in them, classified by the Company as negligible, as per the aforementioned resolutions, taking into account the nature of the Company, as one of the largest industrial companies in the market, having very vast operations in Israel and overseas, the scope of assets of the Company, the variegation in the operations of the Company, the nature of the transactions executed by it, and the degree of their reasonable effect on the operations of the Company and its results:

1. The Leasing of a Distribution Center in Petach Tikva – for details concerning the leasing of the distribution center in Petach Tikva, as per the Lease Agreement between Strauss Marketing and Rav Etgar Ltd. (which according to the best knowledge of the Company is controlled by the holders in control of the Company) was extended up until June 30, 2014, in consideration of lease fees according to insignificant amounts; see Note 39.5 to the financial statement of the Company, as at December 31, 2013.

2. Arrangements and Commitments between Strauss Ice Cream and the Group – between the Group and Strauss Ice Cream (part of its shares were held by Strauss Holdings and in 2014 Strauss Holdings sold its holdings in the Ice Cream Company) there are various arrangements, some are not set out in writing, as specified hereunder. The prices and market conditions with respect to the transactions executed with the interested parties are determined according to accepted business conditions. See Note 39.5 to the financial statement of the Company, as at December 31, 2013.

   The computer services that were rendered to Strauss Ice Cream by the Company completed according to an agreement, whose validity expired on May 1, 2012. Strauss Ice Cream continues to receive services of access to historic data (see Note 39.5 to the financial statement of the Company, as at December 31, 2013); the leasing of parking places to Strauss Ice Cream at the distribution center in Petach Tikva, at the distribution center in Acre (including use of electricity) and the docking center in Beit Shemesh, the plant in Karmiel, the plant in Nazareth, the distribution center in Beer Sheba and in the truck parking lot in Ashdod. Strauss Ice Cream purchases surpluses of milk powder and milk butter from the Group, as the Group merely serves as piping for the transferring from the milk manufacturers to Strauss Ice Cream, according to prices that are dictated in advance by the Milk Council and the Ministries of Treasure and Agriculture (hereinafter: "**the Target Price**"). The Group purchases from Strauss Ice Cream finished produce (for the store of the employees in Achihud and sale points of Elite Coffee To Go) and also a small number of transactions for the purchasing of raw materials (mainly food coloring and extracts), according to insignificant amounts from time to time and as needed (see Note 39.5 to the financial statement of the Company, as at December 31, 2013).

Furthermore, Strauss Ice Cream is conferred a right of use in a small number of trademarks of the Group, pursuant to the manufacturing and marketing of various ice cream products, in consideration of royalties according to a certain rate out of gross retail sales. The agreements are automatically renewed for additional one year periods, each, unless either party notifies of its interest to terminate the Agreement.
In addition, Strauss Health and Strauss Ice Cream, of the third part, lease the real estate of the distribution center in Haifa (see Section 9.7 of the Chapter of Description of the Corporate's Business).
The total net receiving (receiving obtained from the rendering of services after offsetting payments that were paid for receipt of the services) with respect to transactions of the Group with Strauss Ice Cream amounted in 2013 to approx. NIS31.1 million (in 2012, approx. NIS34.3 million).
According to the best knowledge of the Company, on April 26, 2010 an agreement was committed, whereby Strauss Holdings sold 39% of the share capital of Strauss Ice Cream. The agreement was approved by the antitrust commissioner on August 23, 2010.
It should be indicated, that according to the best knowledge of the Company, Strauss Holdings was obligated within the framework of said Sale Agreement that by completion of five years from the date in which the call option or the put option, mentioned in said Agreement, is exercised, if and to the extent that it is exercised (in consequence of the exercise of any of them Strauss Holdings will sell its remaining holdings in Strauss Ice Cream) Michael Strauss and Ofra Strauss and any company under the control of any of them will not manufacture and/or sell in Israel ice cream products, frozen deserts and Krembo, as specified in said Agreement, and also that they will not export and sell products overseas, which were manufactured in Israel, as stated. In addition, Strauss Holdings was obligated on behalf of the entire Strauss family members, including companies under their control (inter alia the Company) that no use will be made of the name "Strauss" in connection with the products that are directly competing with the products, as stated. According to the best knowledge of the Company, these obligations are similar to the obligations undertaken by Strauss Holdings in the past according to the previous agreement, which the provisions of the aforementioned Sale Agreement, as it enters validity, will replace the provisions of the previous agreement, including the obligation to avoid competition in Israel on its part and on the part of companies under control of its shareholders in control, with respect to ice cream products, frozen deserts and Krembo, and also in other products, constituting the main part of the business core of its partner in Strauss Ice Cream, worldwide (including tea, ready made tea drinks and margarine) and also an obligation not to make use of the trademarks, that include the name and logo of "Strauss", as specified in the previous agreement, outside of the Kosher food and beverage businesses, and also to avoid giving a license of use in respect thereof to a third party, who is not among the Strauss Group, according to its definition in the previous agreement. In

the matter of the provisions of the Merger Agreement between the Company and Strauss Holdings, in connection with the giving of a right to the Company to use the name "Strauss", subject to the restrictions undertaken by Strauss Holdings in connection with its holdings in Strauss Ice Cream, see Section 26.1 of the Chapter of Description of the Corporate's Business.

3. The subsidiary, Strauss Water Ltd. (88%) committed with IMS Electronics Ltd. According to the best knowledge of the Company, Mr. Michael Strauss (the father of Messrs. Ofra Strauss and Adi Strauss, and the uncle of Ran Midyan) is among the group of shareholders in control of this company. The commitment with IMS Electronics Ltd. concerns the development of electronic cards for appliances of Strauss Water. The commitment is according to a turnkey method, which is not restricted by time, and whose scope depends on the extent of orders made by Strauss Water from time to time, according to accepted market conditions with respect to commitments of this kind, and it is within the normal course of business. The board of the Company decided in July 2012 that this commitment is by way of "negligible transaction" and further to the resolution of the Control Committee, it decided to approve and ratify the commitment with IMS Electronics Ltd., and to determine that this commitment is not detrimental to the Company.

Regulation 24: **Holding of Interested Parties and Senior Office**

For details concerning the layout of holdings of interested parties and senior office holders, see immediate report of the Company, dated January 6, 2014 (Ref. No. 2014-01-006202).

Regulation 24a: **Registered Capital, Issued Capital and Convertible Securities**

For details, see Notes 28.1.1, 28.1.2 and 28.2 to the consolidated financial statements of the Company, as at December 31.2013.

Regulation 24d: Shareholder Register

Name	I.D. / Private Company No.	Street and No.	Town	Postal Code	Country	Balance
Ater Eran	33093634	D.N Hagalil Haelion	Kibbutz Gonen	12130	Israel	698
Ilan Miriam	346350	33 Hayarden St.	Shoham	60850	Israel	66
Arad Eliyahu	9883075	12 Hailanot St.	Zofit	44925	Israel	696
Ashkenazi Yosef	1028740	9 Habrosh St.	Moshav Magshimim	56910	Israel	1,786
Itzkovitz Ada	51019487	9 Gordon St.	Kiryat Ono	0	Israel	1,165
Buhbut Moshe	7654781	25 Dov Gruner St.	Ramat Aviv Gimel	0	Israel	1
Ben Tovim Henrietta	100	13 Ibn Gvirol St.	Jerusalem	92430	Israel	441
Beham Helli	721625	27 Hagderot St.	Savion	0	Israel	218
Bar Lev Yehuda	064837123	6 a Berski St.	Tel Aviv	69080	Israel	218
Glazer Gabriel	100	P.O.Box 16406	Tel Aviv	1163	Israel	346
Hadari Haim and Bluma	660611	12 Idar St. room 718	Haifa	0	Israel	460
The Registration Company of Bank Leumi	9806	9 Ehad Haam St.	Tel Aviv	0	Israel	56,509,531
Haimi Cohen Giza	4351161	9 Olifant St.	Tel Aviv	65228	Israel	7,876
Hatun Aloya	793341	8 a Shalem St.	Ramat Gan	0	Israel	173
Tessel Max	280105	6 Huberman St.	Tel Aviv	64075	Israel	960
Trachtingot Yeahuda Arie	051655249	6 Hakablan St., P.O.Box 43083	Jerusalem	91430 ת"ד	Israel	2,908
Tal Erez	32227241	21 Tagor St.	Tel Aviv	69203	Israel	1
The Heirs of Aharon Nisaa OBM	100	5 Hashoteret St.	Ramat Gan	0	Israel	173
Levental Naomi	01326248	2 Simtat Maayan Harod	Ramat Hasharon	47204	Israel	6
Lieber Haim	772534	2 Haprahim St., Apt. 26	Ramat Hasharon	47231	Israel	116
Mitram Ltd.	511984866	22 Geula St.	Tel Aviv	0	Israel	5
Livnat Raz	55088645	8 Hacarmel St.	Givat Savion Hahadasha	55900	Israel	5
Nisani Shoshana	7668635	10 Tsamarot St.	Herzlia	46424	Israel	55
Noiman David	833288	14 David Shimoni St.	Jerusalem	92623	Israel	109
Savion Tal	038506499	44 Geulim St.	Zichron Yaakov	30900	Israel	315

Name	I.D. /Private Company No.	Street and No.	Town	Postal Code	Country	Balance
Strauss Group Ltd.	520003781	49 Hasivim St.	Petach Tikva	0	Israel	867,940
Pulvermacher Paul	16695256	14 Los Angeles St.	Kiron	55222	Israel	-
Perl Menachem	346349	136 Snir St.	Kfar Vradim	25147	Israel	66
Rosenberg Arie	052602281	6 Baltimore St.	Tel Aviv	62194	Israel	84
Dr. Rosenberg Eliyahu	204624	15/13 Harav Ashi St.	Tel Aviv	0	Israel	262
Dr. Rom (Rosenberg) M.	004214813	40 Hildesheimer St.	Tel Aviv	0	Israel	262
Heirs of the late Shador Shmuel	271486	18 Soutine St.	Tel Aviv	0	Israel	84
Reshef Asher	50055433	14 Hacalaniyot St.	Tivon	0	Israel	5,250
Ilan Schwarz, Dr.	026014878	22 Helsinki St.	Tel Aviv	62996	Israel	1,134
Shlecter Amnon	50080472	16/5 Yigael Yadin St.	Holon	0	Israel	1
Shamai Haim	5100806	11 Borohov St.	Givataiym	0	Israel	84
Shamir Yair	8020646	10 Amirim St.	Savion	56516	Israel	-
Strauss Holdings Ltd.	510039829	84 Arlozorov St.	Ramat Gan	0	Israel	50,050,437
Gabrieli Yona	5050096	34 Golomb St.	Kiryat Tivon	36022	Israel	7,502
Gabrieli Itai	67130237	P.O.Box 3767	Mevaseret Zion	90805	Israel	7,503
Dov Herschkowitz	328763247	28/6 King George St.	Jerusalem	94262	Israel	262
Ater Erez	27160845	Helmondstraat 29	Arnhem, Holland	6843 SB	Holland	698
Poynton Trading Ltd	100	0	Isle of Man	0	Israel	175
Messrs Lansal Company	100	111 Brodway	New York, NY	10006	US	346
Norton Willi & Elinore	100	300 East 56TH St.	New York, NY	10022	US	5,071
Stanley Ganer	5	P.O.Box 1010	Mount Vernon,NY	10551	US	4,373
Domestic& OVERSEAS INVESTING COMPANY	100	P.O. Box 296	Elizabeth City, NC 27907	11426	US	84
Pollard GER. OR Jacauelin	100	2911 ACORN LANE	Northbrook	0	US	435
Koppel Harry	100	640 Turtle Way Sea	Plant, florida	33324	US	609
Kashdan Edward	100	1455 Johns PL. St.	Brooklin, New York	11213	US	84
Reichbart Lillian	100	594 Third AveuE	West haven, CT	6516	US	1
Steiloff M.	100	Unknown	Cambridge	0	Israel	18,023
Total						**107,499,098**

Regulation 25a: **Registered Address**

Address: 49 Hasivim St., Petach Tikva 49517
Tel. 03-6752499, Fax. 03-6752279
Email address: mike.avner@strauss-group.com

Regulation 26: **Directors of the Corporation**

The following are the details of the directors of the Company, serving as of the date of the report:

Name of the Director	**Ofra Strauss, Chairperson of the Board**	**Adi Strauss**	**Ran Midyan**	**Ronit Haimovitch**	**Dr. Michael Angel (External Director)**	**Prof. Arie Ovadia**
Identity Certificate	56616584	022889323	023831837	56417843	01136563	78284338
Date of Birth	August 22, 1960	February 27, 1967	July 15, 1968	May 12, 1960	January 13, 1939	December 25, 1948
Address for Service of Court's Processes	31 Hamatsbiim St., Tel Aviv	37 Havradim St., Ganei Yehuda	3 Hamelech Koresh St., Tel Aviv	Bluya Alley, 6 Maoz St., Tel Aviv	4 Apter St., Tel Aviv, 69362	11a Hashomer St., Raanana
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Date of Commencement of Service	February 1996	August 25, 2011	November 2004	August 2003	June 12, 2008	June 1997
Education	LL.B in Law – Tel Aviv University	English Studies in Cambridge, England; Business Administration, Sheffield University, England	BA in Cinema and Television – the Tel Aviv University	BA in Economics and Management – Technion and MA in Economics - Technion	BA in Economics – the Hebrew University of Jerusalem; MA in Financing, the University of Columbia, New York, USA and PhD in Financing – Columbia University, New York, US	Ph.D. in Economics – Wharton University (Pennsylvania, US); MBA in Finance and Accountings – Tel Aviv University

Engagement During the Recent Five Years	Chairman of the Board of Directors from June 2001	Business Manager	Active Manager with Nemaskara Ltd.	CEO of Strauss Investments (1993) Ltd.	Director with various companies	Business consultant to companies; lecturer with the management college
Kinship to Another Interested Party	The daughter of Michael Strauss; the sister of Adi Strauss; the cousin of Ran Midyan	The son of Michael Strauss; the brother of Ofra Strauss; the cousin of Ran Midyan	The niece of Michael Strauss, the cousin of Mrs. Ofra Strauss and Adi Strauss	None	None	None
Position in the Company, a Subsidiary, Related Company or an Interested Party in the Company	Chairman of the Board of the Company	Director with Strauss Holdings Ltd., director with Max Brenner; director with Strauss Health	None	An employee of a related Company of the shareholder in control of the corporation – the CEO of Strauss Investments (1993) Ltd.; a director with Strauss Holdings Ltd.	None	None
Additional Corporations in which He/She Serves as a Director	Strauss Holdings Ltd.; held and related companies of the Company	Strauss Holdings Ltd.; Adis Investments Ltd.; Adis Lifestyle Ltd.; Adis Montefiore Ltd.; Adis Herbert Samuel Ltd.; Adis Achad Haam Ltd.; Adis Alma Ltd.; Adis Marina Ltd.; Idan Marina Ltd.; Marina H. Hotel Management Ltd.; H.S. Trading Places Ltd.; Adis Assets Ltd.; Adis Hosting Ltd.; Michael Strauss Assets Ltd.	Namascara Ltd.; Strauss Holdings Ltd.; Raya Strauss Ben Dror Asstes Ltd.	Strauss Holdings Ltd.; Rav Etgar Ltd.; Noga Network Ltd.; Shvil Haela Ltd.; Acro Real Estate Initiatives Alaska Advisor S.A..; Red Canyon Industries Ltd; Perl Properties Holding Inc.; Emanate Technology & Trade Ltd. Deep Blue Yachting LTD; Ocean Blue Holdings LTD; Ocean Blue Yachting LTD;	Partner Communications Ltd.; Abugin Ltd.; Orbotech Ltd.; Dan Hotels Ltd.; ETC – Educational Technology Center; LHV – Qualification Studies in Management with the Tel Aviv University; Biuline rx Ltd.; Lomus Ltd.	Aenetz Consultants Ltd.; Bazan – Oil Refineries Ltd.; Carmel Ulpinim Ltd.; Giron Ltd.; Petrochemical Plants in Israel Ltd.; Destiny Investments Ltd.; Compugen Ltd.; Elrom Ltd.; Skylex Corporation Ltd.; Elron Electronic Industry Ltd.

Membership on Committee/s of the Board	Chairperson of the Ad Hoc Committee on Investment, Purchases and Mergers	None	None	The Ad Hoc Committee on Investment, Purchases and Mergers	Chairman of the Control Committee; the Balance Sheet and Finance Committee (examination of financial statements); Remuneration and Human Resources Committee ; the Ad Hoc Committee on Investment.	The Balance Sheet and Finance Committee (examination of financial statements); the Ad Hoc Committee on Investment, Purchases and Mergers Remuneration and Human Resources Committee
Does the Company Regard Him/Her as Having Accounting and Financial Expertise, in order to Meet the Minimum Number Stated by the Board.	No	No	No	Yes	Yes	Yes

Name of the Director	David Moshevitz	Meir Shani	Dalia Lev (independent)[1]	Prof. Daphna Schwartz (external director)	Akiva Mozes (independent)[2]	Galia Maor
Identity Certificate	007130271	8409732	007555337	50172667	006255046	01154780
Date of Birth	July 26, 1946	September 8, 1945	August 2, 1947	August 22, 1950	February 22, 1947	February 11, 1943
Address for Service of Court's Processes	3 Daniel Frisch St., Tel Aviv 64731	28 Hanof St., Savion 56540	16 Bnei Moshe St., Tel Aviv, 62308	4 Hasavion St., Kiryat Hahagana, Rehovot, 76568	31 Hasapir St., Rishon Lezion, 75437	10 Haparsa St., Ramat Gan, 5242550
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Date of Commencement of Service	December 1977	September 1997	June 12, 2008	June 12, 2008	June 12, 2008	May 2013
Education	LL.B – Hebrew University	BA in Economics and Accounting – Tel Aviv University; MBA – Tel Aviv University; qualified accountant	Accountancy – Hebrew University of Jerusalem; MA in Law – Bar Ilan University; ISMP – Harvard University	BA in Economics – Tel Aviv University; MA in Agricultural Economics and Administration – the Hebrew University; Ph.D. in Economics – the Hebrew University	BA in Economics and Political Sciences – the Hebrew University of Jerusalem; MBA – Hebrew University of Jerusalem	MBA – the Hebrew University of Jerusalem; BA in Economics and Statistics – the Hebrew University of Jerusalem
Engagement During the Recent Five Years	An attorney in a private practice	Self employed	Balgal Ltd. Investments, Real Estate and Managements Services and a director with the Company.	A director with various companies; business economic consultant; head of the department of Initiatives and Hi Tech Management, the Business Administration Department; manageress of the Bungis Hi Tech	Chairman of the board of the oil refineries Ltd.; CEO of Chemicals of Israel Ltd.; chairman of the Public Companies Association; public representative at the National Labor Court; chairman of the	President and CEO of Bank Leumi of Israel; Chairperson Leumi Private Bank Switzerland

1 The Company deems that the conditions of qualifications as an independent director, according to its definition in the Companies Law, 1999, are met with respect to Mrs. Dalia Lev.

2 . The Company deems that the conditions of qualifications as an independent director, according to its definition in the Companies Law, 1999, are met with respect to Mr. Akiva Mozes.

				Initiatives and Management Center, the Gilford Glazer Management Faculty with the Ben Gurion University; member of the Civil Research & Development National Council; member of the Board of trustees of Achva College; member of the Work Group Committee of the EU on the issue of -"policy relevant research on entrepreneurship and SME's"	Agriculture Committee of the International Fertilizer Manufacturer Organization; member of the managing council of the International Fertilizer Manufacturer Organization (IFA); chairman of the Society of Friends of the Soroka Medical Center in Beer Sheba; member of the board of trustees of the Ben Gurion University in Beer Sheba; member of the board of trustees of Shanker School for Arts and Design; member of the Academic Industrial Advisory Committee of the Academic College of Kineret, Emek Hayarden; member of the Advisory Committee to the Commissioner of Banks in matters pertaining to banking affairs.	
Kinship to Another Interested Party	None	None	None	None	None	None
Position in the Company, a Subsidiary, Related Company or an Interested Party in the Company	None	None	None	None	None	None
Additional Corporations in which He/She Serves	None	Maccabi Holdings; Sano Intertrans Ltd.; Shani-	Balgal Ltd.; Paz Petroleum	Bank Hapoalim Ltd.; Teva Pharmaceutical	Tagamal Muss Management 2012	Equity One Inc.; Teva Pharmaceutical Industries

as a Director		Aharoni Investments Ltd.; family companies, Delekten Ltd.; Alut, Fidel, Maala, Midot.	Company Ltd.; Paz Industries and Services Ltd.; the International Bank Ltd.	Industries Ltd.	Ltd.; A.E. Muss Investments 2012 Ltd.; Anthill	
Membership on Committee/s of the Board	Control Committee	The Balance Sheet and Finance Committee (examination of financial statements); the Ad Hoc Committee on Investment, Purchases and Mergers	The Balance Sheet and Finance Committee (examination of financial statements); the Control Committee; the Ad Hoc Committee on Investment, Purchases and Mergers	Chairman of the Remuneration and Human Resources Committee; Chairman of Financial ...## and Finance	The Ad Hoc Committee on Investment, Purchases and Mergers	No
Does the Company Regard Him/Her as Having Accounting and Financial Expertise, in order to Meet the Minimum Number Stated by the Board.	No	Yes	Yes	Yes	Yes	Yes

Regulation 26a: **Senior Office Holders**

Following are the details of senior office holders serving as of the date of the report:

Name of Office Holder:	Gadi Lessin, CEO	Giora Bar-Dea	Michael Avner	Nurit Tal Shamir	Shahar Florence	Zion Balas
Identity Certificate	022848352	51921195	65261398	058786245	059764407	59167858
Date of Birth	April 19, 1967	May 4, 1953	December 6, 1955	August 5, 1964	August 20, 1965	November 28, 1964
Date of Commencement of Service	July 1, 2009	July 4, 2011	April 1994	October 1, 2007	November 3, 2008	June 15, 2009
Position in the Company	President and CEO of the Group	CEO of PepsiCo Strauss International Dips & Spreads Ltd.	Senior Deputy CEO, Chief Legal Consultant and Secretary of the Company	HR Deputy CEO of the Group	CFO of the Group	CEO of Strauss Israel
Position in the Company, a Subsidiary, Related Company or an Interested Party in the Company	Director in subsidiaries of the Company	Director in subsidiaries of the Company	Chairman of the board of directors of Max Brenner	None	Director in subsidiaries of the Company	Director in subsidiaries of the Company
Education	MBA – Ben Gurion University in Beer Sheba; BA in Business Administration, the Management College of Tel Aviv	BA in Humanities, Tel Aviv University; graduate of the Advance Management - AMP Program of the Business Administration School of Harvard University, US	LL.B. – Tel Aviv University	BA in Educational Psychology, Sociology – the Hebrew University of Jerusalem; MA in Behavioral Sciences – Technion Haifa	BA in Accountancy and Economics – Tel Aviv University	BA and MA in Industrial and Management Engineering – Technion Haifa/
Engagement During the Recent Five Years	CEO of Strauss Israel; President and CEO of the Group – from July 1, 2009	CEO of PepsiCo Strauss International Dips & Spreads Ltd. from October 2007	Senior Deputy CEO, Chief Legal Consultant and Secretary of the Company	HR Deputy CEO of the Group from October 1, 2007	CFO of the Group from November 3, 2008	CEO of the Sale Division; CEO of Strauss Israel from June 15, 2009
Kinship to Another Interested Party	None	None	None	None	None	None

Senior Office Holders

Name of Office Holder:	Rami Ronen	Tomer Harpaz	Moshe Shapir Englberg	Shlomo Ben Shimol[3]
Identity Certificate	58102138	25257304	033856204	1230878-9
Date of Birth	June 17, 1963	February 28, 1973	April 18, 1977	July 2, 1956
Date of Commencement of Service	July 12, 2009	July 19, 2010	October 1, 2010	1999
Position in the Company	CEO of Strauss Water	Deputy CEO on Business Development and Strategy	Controller of the Group	Internal Auditor
Position in the Company, a Subsidiary, Related Company or an Interested Party in the Company	A director with subsidiaries of the Company	A director with subsidiaries of the Company, temporary CEO of Strauss Coffee	None	None
Education	Graduate of Electronic Engineering – Tel Aviv University; MBA – Tel Aviv University	LL.B. – U.E.A. University of Norwich, England; MBA – Hall University, London, England	BA in Accountancy, Economics and Political Sciences – Bar Ilan University; MBA – Bar Ilan University; qualified accountant	BA in Economics and Accountancy- Tel Aviv University; qualified accountant and internal auditor (CIA)
Engagement During the Recent Five Years	CEO of H2Q; CEO of Strauss Water	Chairman of re:bar Ltd. – from June 2006 henceforth; CEO of ARH Minerals – from October 2006 until June 2009; Deputy CEO on Business Development and Strategy of the Group	Manager of the reporting unit in the control of the Group – from January 2006; controller of the Group – from October 1, 2010	A partner with the accounting firm of Brightman, Almagor Zohar & Co.
Kinship to Another Interested Party	None	None	None	None

[3] See also details concerning the internal auditor within the framework of the report of the Board of Directors, constituting part of this period report.

Regulation 26b: Independent Signatories in the Corporation

There are no independent signatories in the Company.

Regulation 27: The Accountants of the Corporation

Someck Chaikin, 17 Harbaa St., Millennium Tower, Tel Aviv 64739.

Regulation 28: Change in the Memorandum or Articles of the Incorporation Entered During the Reported Year

There were no changes in the Memorandum or Articles of the Company in 2013.

Regulation 29: a. **Recommendations and Resolutions of the Directors**

On October 30, 2013, the Board of the Company decided to distribute cash dividend in an amount of approx. NIS1.47 per each ordinary share of NIS1, n.v. each; and a total amount approx. NIS157 million. The dividend was distributed on November 28, 2013. For further details, see Note 28.3 to the financial statements of the Company, as at December 31, 2013.

b. **Resolutions of an extraordinary general meeting**

On September 9, 2013, the extraordinary general meeting of shareholders of the Company (further to approval of the Board of the Company and the Remuneration Committee) approved the remuneration policy of the Company, as per the provisions of the Companies Law (after entrance into validity of the Companies Law (Amendment No. 20) 2012). For further details concerning the remuneration policy of the Company, see Article 21 above. In addition, the extraordinary general meeting approved an update of the conditions of service and employment of the CEO of the Company, Mr. Gadi Lessin, and giving an annual grant to the CEO of the Company for 2012. For further details, see Article 21 above.

Regulation 29a: Resolutions of the Company

Exemption, Insurance or Obligation for the Indemnification of an Office Holder

(1) As of the date of this report, the deeds of obligation for the indemnification of all the directors serving in the Company are valid, according to the resolution of the extraordinary general meeting of the Company, dated June 6, 2011 (Ref. No. 2011-01-177714). It should be indicated, that upon the re-appointment of directors, the Company for sake of caution approves the continuance of validity of the deeds of obligation for indemnification, as per the aforementioned resolution.

(2) On May 24, 2012, the Board of the Company decided to approve the commitment of the Company in policies for the insurance of the liability of directors and office holders, who are serving and who will serve from time to time with the Company and with its subsidiaries (including holders in control and their relatives) with Migdal Insurance Company Ltd. (hereinafter respectively: "**the Insurance Policy**" and "**Insurer**") for a period of 12 months. In addition, the Control Committee and the Board of the Company approved in advance the commitments of the Company from time to time in policies for the insurance of the liability of directors and office holders, as stated, for several insurance periods, which will not exceed accumulatively four years from completion of the insurance period, that being up until September 30, 2017, as the commitment could be made with the Insurer or with any other insurance company in Israel or overseas, so long as: (i) limits of the insurance coverage will not

exceed \$200 million (two hundred); (ii) the annual premium will not exceed \$250 thousand (two hundred and fifty); and also (iii) there are no essential differences in the conditions of the commitment as opposed to the Insurance Policy. The specific amounts and conditions of each insurance policy acquired, as stated, will be determined and approved by the CEO of the Company. It was further determined that commitments of the Company in policies according to this section will not be brought for an additional approval of the Control Committee, the Board of Directors or the general meeting of the Company. The conditions of the insurance policies, including premiums in respect thereof and their insurance coverage, were concluded with respect to all the directors and office holders in the Company and in its subsidiaries, in such a manner that all the directors and office holders, as stated, including directors who are among the holders in control or relatives thereof (Messrs. Ofra Strauss and Adi Strauss, and also for sake of caution only, Mr. Ran Midyan) are insured according to identical conditions. According to provisions 1.b(5) of the Companies Regulations (Easement in Transactions with Interested Parties), 2000; the aforementioned commitments with respect to Messrs. Ofra Strauss, Adi Strauss and Ran Midyan do not require approval of the general meeting of shareholders in the Company, bearing in mind that the terms of the insurance policies are identical to the terms of the Insurance Policy of the other office holders in the Company, which were concluded and determined according to that specified above. See immediate report of the Company, dated June 24, 2012 (Ref. No. 2012-01-164238).
On July 17, 2012, it was decided in the annual meeting of the Company, inter alia, to approve the commitment of the Company in the policies for the insurance of the liability of directors and office holders of the Company and its subsidiaries (save for directors who are the holder in control or relatives of the holder in control), see immediate report of the Company, dated July 17, 2012 (Ref. No. 2012-01-187101).

Strauss Group Ltd.

Name of Signers and Position:

Ofra Strauss, Chairperson of the Board of Directors
Gadi Lesin, CEO of the Company
Date: March 25, 2014

Três Corações Alimentos S.A.
Consolidated Financial Statements for 12/31/2013

Statements of Financial Position

	Note	December 31st, 2013	December 31st, 2012
		Audited	
		R$ thousands	
Current assets			
Cash and cash equivalents	5	36,952	16,503
Deposits	6	21,670	10,050
Trade receivables	7	250,914	247,162
Inventory	8	214,147	175,713
Income tax receivables		7,148	7,304
Other receivables, including derivatives	9	40,264	19,566
Total current assets		571,095	476,298
Investments and non-current assets			
Other investments and long-term debit balances	10	19,340	16,412
Fixed assets	11	174,679	155,193
Intangible assets	12	158,110	156,418
Deferred tax assets	20	9,067	9,297
Total investments and non-current assets		361,196	337,320
Total assets		932,291	813,618

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

Statements of Financial Position (cont'd)

	Note	December 31st, 2013	December 31st, 2012
		Audited	
		R$ thousands	
Current liabilities			
Short term loans and credit	13,14	186,920	251,906
Trade payables	15	64,203	56,799
Income tax payables		1,123	2,945
Employees and other payroll related liabilities	16	31,503	20,880
Proposed dividends	22	61,923	34,000
Other payables, including derivatives	17	39,622	32,989
Total current liabilities		385,294	399,519
Non-current liabilities			
Long term loans and credit	13,18	136,790	89,030
Long-term payables	19	4,406	4,599
Deferred tax liabilities	20	17,293	18,672
Provisions	21,24	15,091	10,399
Total non-current liabilities		173,580	122,700
Equity			
Share capital	22	271,669	271,669
Translation reserve	22	(50,388)	(44,597)
Retained earnings	22	152,136	64,327
Total equity		373,417	291,399
Total liabilities and equity		932,291	813,618

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

Statements of Income

		For the year ended December 31st,	
		2013	**2012**
		Audited	
	Note	**R$ thousands**	
Sales	25	2,039,186	1,813,557
Cost of sales	26	(1,430,652)	(1,427,728)
Gross profit		608,534	385,829
Selling and marketing expenses	27	(347,681)	(253,832)
General and administrative expenses	28	(55,513)	(43,149)
		(403,194)	(296,981)
Operating profit before other expenses, net		205,340	88,848
Other income, net	29	198	378
Operating profit		205,538	89,226
Financing income		48,889	30,065
Financing expenses		(66,413)	(45,367)
Financing expenses, net	30	(17,524)	(15,302)
Profit before income tax		188,014	73,924
Income tax expenses	31	(29,875)	(13,744)
Profit for the year		158,139	60,180

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

Statements of Comprehensive Income

	For the year ended December 31st,	
	2013	2012
	Audited	
	R$ thousands	
Profit for the year	158,139	60,180
Other comprehensive loss components that will be transferred in the future to the statement of income (*):		
Foreign currency translation differences	(5,791)	(9,695)
Comprehensive income for the year	152,348	50,485

* The other comprehensive loss will be transferred to the statement of income only in case the Group decides to dispose of the export activity.

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

Statements of Changes in Equity

	Share capital	Translation reserve	Retained earnings	Total equity
	R$ thousands			
Balance as of December 31st, 2012 – audited	271,669	(44,597)	64,327	291,399
Dividends distributed relative to 2012	-	-	(8,407)	(8,407)
Total comprehensive income (loss) for the year:				
Profit for the year	-	-	158,139	158,139
Other comprehensive income:				
Foreign currency translation differences	-	(5,791)	-	(5,791)
Total comprehensive income (loss) for the year	-	(5,791)	158,139	152,348
Dividend proposed 2013	-	-	(61,923)	(61,923)
Balance as of December 31st, 2013 – audited	271,669	(50,388)	152,136	373,417

	Share capital	Translation reserve	Retained earnings	Total equity
	R$ thousands			
Balance as of December 31st, 2011 – audited	271,669	(34,902)	65,151	301,918
Dividends distributed relative to 2011	-	-	(27,004)	(27,004)
Total comprehensive income (loss) for the year:				
Profit for the year	-	-	60,180	60,180
Other comprehensive income:				
Foreign currency translation differences, net	-	(9,695)	-	(9,695)
Total comprehensive income (loss) for the year	-	(9,695)	60,180	50,485
Dividend proposed 2012	-	-	(34,000)	(34,000)
Balance as of December 31st, 2012 – audited	271,669	(44,597)	64,327	291,399

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

Statements of Cash Flows

	For the year ended December 31st,	
	2013	**2012**
	Audited	
	R$ thousands	
Cash flows from operating activities		
Profit for the year	158,139	60,180
Adjustments:		
Depreciation	15,171	11,051
Amortization of intangible	1,684	1,449
Other expenses, net	(198)	(378)
Financing expenses, net	17,524	15,302
Income tax expenses	29,875	13,744
Change in trade receivables	1,454	(13,997)
Change in inventory	(36,526)	61,386
Change in long-term debit balances	129	1,162
Change in trade payables	404	(12,783)
Change in employees and other payroll related liabilities	10,623	1,953
Change in other receivables and payables, net	(3,148)	17,295
Interest paid, net	(15,331)	(17,172)
Income tax paid, net	(32,690)	(8,971)
Net cash flows provided by operating activities	**147,110**	**130,221**
Cash flows from investing activities		
Change in deposits	(11,620)	3,460
Acquisition of operations and subsidiaries	(8,441)	(16,901)
Proceeds from sale of fixed assets	1,448	1,987
Acquisition of fixed assets	(27,005)	(36,394)
Investments in intangible assets and deferred expenses	(3,392)	(2,823)
Repayment of long-term loans granted	87	442
Net cash flows used in investing activities	**(48,923)**	**(50,229)**

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

Statements of Cash Flows (cont'd)

	For the year ended December 31st,	
	2013	2012
	R$ thousands	
Cash flows from financing activities		
Receipt of short-term bank credit	385,015	357,373
Repayment of short-term bank credit	(484,442)	(449,563)
Receipt of long-term loans and credit	87,704	62,972
Repayment of long-term loans and credit	(23,608)	(33,992)
Dividend paid	(42,407)	(27,004)
Net cash flows used in financing activities	**(77,738)**	**(90,214)**
Net increase (decrease) in cash and cash equivalents	**20,449**	**(10,222)**
Cash and cash equivalents as of beginning of year	16,503	26,725
Cash and cash equivalents as of end of year	36,952	16,503

Date of approval of the financial statements: February 21st, 2014

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

Note 1 – Reporting Entity

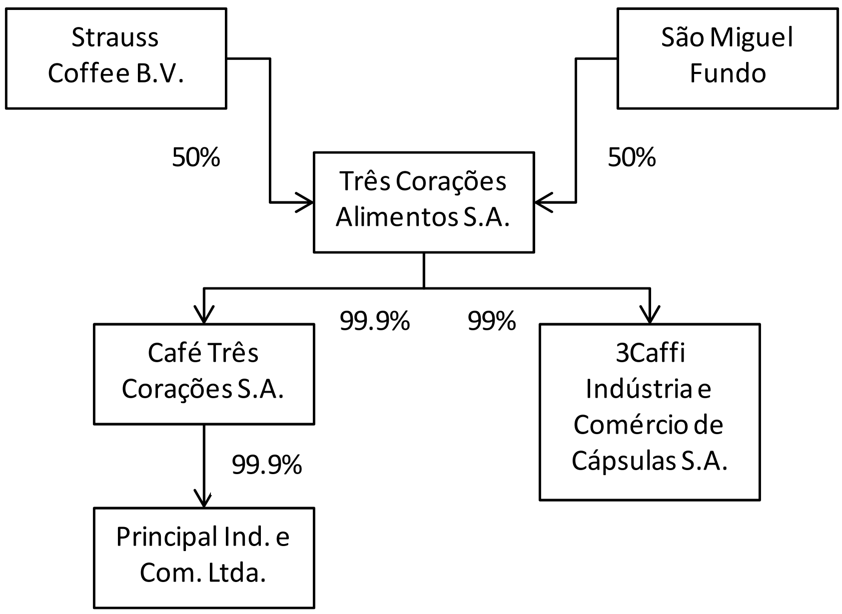
Três Corações Alimentos S.A. and its controlled entities are an industrial and commercial group of companies, which operates in Brazil, in producing and selling branded coffee products, powdered juices, chocolate drinks and corn meal products. The Group is also active in green coffee exports.

The Company controls the entities 3Caffi Indústria e Comércio de Cápsulas S.A. and Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda. all together referred as "the Group".

The Group is one of two largest groups in roasted and ground coffee business in Brazil, and owns the brands Santa Clara, Kimimo, Três Corações, Pimpinela, Principal, Fino Grão, Café Doutor, Café Opção, Café Divinópolis, Café Geronymo, Estrada Real, Café Letícia, Claralate, Dona Clara, Claramil, Frisco, Tornado and Tres.

The Group's industrial facilities are located in the states of Ceará, Rio Grande do Norte, Minas Gerais and Rio de Janeiro, and its distribution centers are located in all states of Brazil. Part of the facilities used by the Group is leased from one of its related parties, Três Corações Imóveis Armazéns Gerais e Serviços Ltda., which is not consolidated in this report, since it is not part of the Group structure presented below.

In November 2012 shareholders have decided to extinguish the recently acquired Café Fino Grão Indústria e Comércio Ltda. by means of amalgamation into Café Três Corações S.A. In August 2013, the entity 3Caffi Indústria e Comércio de Cápsulas S.A. was created. As of December 31st, 2013, the Group had the following structure:



Note 2 – Basis of Preparation

2.1 Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 2 – Basis of Preparation (cont'd)

2.2 Basis of measurement (cont'd)

These consolidated financial statements were prepared based on the historical cost, except for the following assets and liabilities:

- Financial instruments derivatives measured at fair value through profit and loss;
- Deferred tax assets and liabilities;
- Provisions.

For further information regarding the measurement of these assets and liabilities, see Note 3 regarding significant accounting policies.

2.3 Functional currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"), which in accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates is the Brazilian real (R$), except for the export business of green coffee, of which the functional currency is the United States dollar. The Group presents its financial statements in Brazilian Real, which is the presentation currency.

Foreign exchange differences arising on translation are recognized directly in a separate component of equity, as translation reserve.

Data on the representative exchange rates of the main currencies in the financial statements:

	December 31st,		Change during the year	
	2013	2012	2013	2012
	R$		%	
Functional Currency USD	2.3426	2.0435	15%	9%

2.4 Judgments and estimates

The preparation of financial statements requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The estimates and their relevant assumptions are based on past experience and on other factors Management considers reasonable under the circumstances. Their results constitute the basis for estimating the carrying amounts of assets and liabilities for which no disclosure is provided in other sources. 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 that may be affected.

In preparing these consolidated financial statements, significant judgments made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31st, 2012.

The judgments made by Management when implementing IFRS and determining the estimates are discussed in Note 4.

Note 2 – Basis of Preparation (cont'd)

2.5 Operating cycle

The operating cycle of the Group is one calendar 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.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements, and have been applied consistently within the Group.

3.1 Basis of consolidation

(1) Business combinations

The Group applies 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 acquired, 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.

When applicable, 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 connected with the business combination that were issued by the Group. In a step acquisition, the difference between the acquisition date fair value of the Group's pre-existing equity rights in the acquiree and their carrying amount at that date is recognized in profit or loss under Other income or expenses. 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.

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. In assessing control, potential voting rights that are currently exercisable are taken into account. The Group exercises discretion in determining the acquisition date and whether control has been obtained.

If the Group pays a bargain price for the acquisition (meaning including negative goodwill), it recognizes the resulting gain in profit or loss on the acquisition date.

Costs associated with the acquisition that were incurred by the acquirer in the business combination, such as: finder's fees, advisory, legal, valuation and other professional or consulting fees, other than those associated with an issue of debt or equity instruments connected to the business combination, are recognized as Other expenses in the period the services are received.

Note 3 – Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

(2) Subsidiaries

Subsidiaries are entities controlled by the Company. 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 Company.

(3) Loss of control

When applicable, 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.

In case of loss of control, the retained interest would be accounted for based on the level of influence retained by the Company in the relevant entity.

(4) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized income and expenses arising from intra-Group transactions, are eliminated in 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 Group 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 the statement of financial position.

3.3 Financial instruments

3.3.1 Non-derivative financial instruments

Non-derivative financial instruments include deposits, trade and other receivables, cash and cash equivalents, loans and credit received, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Note 3 – Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.1 Non-derivative financial instruments (cont'd)

A financial instrument is recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the assets. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits that can be withdrawn immediately. Cash equivalents also include short-term deposits where the deposit period on the day of deposit does not exceed three months.

Loans and receivables

Loans and other receivables which are not quoted in an active market are non-derivative financial instruments, that are measured at amortized cost using the effective interest method, less any impairment losses (see Note 3.8.2).

Should it become applicable, non-current receivables would be stated at their present value. The interest rate used in order to calculate the present value is composed of the time value of the receivable according to the currency of the receivable, plus the specific risk component of each customer. Income in respect of interest is recorded over the period of the receivable as financial income.

Non-derivative financial liabilities

Non-derivative financial liabilities include trade and other payables 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.

Note 3 – Significant Accounting Policies (cont'd)

3.3.2 Derivative financial instruments

The Group routinely uses derivative financial instruments in order to hedge against risks relating to prices of commodities and against 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 and of forward transactions and options on commodities. Nonetheless, derivatives not considered accounting hedges are accounted for as financial assets/liabilities and are presented at fair value through profit and loss as follows:

Derivative financial instruments are recognized at fair value both initially and subsequent to initial recognition, and are stated at fair value according to the market value of registered instruments and the stated market value of forward currency contracts.

Changes in fair value are recognized as income or expense as incurred. Gains and losses on commodity forward transactions are presented under cost of sales whereas other gains and losses are presented under financing costs.

3.4 Share capital

Ordinary shares

Ordinary shares are classified as equity.

3.5 Fixed assets

Recognition and measurement

Fixed assets are measured at cost, less government grants, accumulated depreciation (see below) and impairment losses (see Note 3.8.1).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located (when the Group has an obligation to dismantle and remove the asset or to restore the site), and, when applicable, capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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", if relevant, in profit or loss.

Subsequent expenditures

Improvements and enhancements are added to the cost of the assets, whereas maintenance and repairs are charged to expense as incurred.

Leasehold improvements

The construction costs on leased property, which will be transferred to the lessor's ownership at the end of the rental period, are amortized over the expected rental period on a straight-line basis.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 3 – Significant Accounting Policies (cont'd)

3.5 Fixed assets (cont'd)

Depreciation

Depreciation is recognized as an expense on a straight-line basis over the estimated useful lives of each component of an item of fixed asset, other than land that is not depreciated.

The principal depreciation rates for the reporting periods are as follows:

	%	
Buildings	2-3	
Machinery and equipment	7-10	
Vehicles	16-20	
Furnishing and other equipment	12	
Leasehold improvements	10-100	(over the shorter of the expected lease period or the estimated useful life of the asset)

Depreciation methods, useful lives and residual values are reassessed on every balance sheet date and the rates used for tax purposes may differ from the above rates.

In case of changes in the useful lives as a result of its reassessment, the new useful life is applied prospectively.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by Management.

3.6 Intangible assets

3.6.1 Goodwill

Goodwill arises on the acquisition of subsidiaries and jointly controlled entities, and is presented as part of intangible assets. In subsequent periods, goodwill is measured at cost, less accumulated impairment losses. See also Note 3.8.1.

3.6.2 Other intangible assets

The intangible assets include brands, trademarks, distribution networks and non-competition agreements that were acquired as part of business combination.

3.6.3 Subsequent expenditures

Subsequent expenditures 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 expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in the statement of income when incurred.

Note 3 – Significant Accounting Policies (cont'd)

3.6 Intangible assets (cont'd)

3.6.4 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.

The annual rates of amortization for the reporting periods are as follows (on a straight-line basis):

	%
Brands	-
Computer software	33
Other	20

Amortization methods, useful lives and residual values are reassessed on every balance sheet date.

In case of changes in the useful lives as a result of its reassessment, the new useful life is applied prospectively.

Goodwill and assets having an indefinite useful life are not amortized for reporting purposes. For tax purposes, Goodwill is amortized, according to Brazilian tax legislation.

The Group examines the useful life of an intangible asset that is not periodically amortized at least once a year in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

3.6.5 See Note 3.8.1 hereunder regarding impairment.

3.7 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 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	– At cost on the basis of the moving average method.

Inventory includes certain spare parts and maintenance equipment which will be used up within one year.

Note 3 – Significant Accounting Policies (cont'd)

3.8 Impairment

3.8.1 Non-financial assets

(1) *Timing* of impairment testing

The carrying amounts of the Group's non-financial assets (other than inventory, and deferred tax assets – see Notes 3.7 and 3.14, respectively) are examined on each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For assets, including intangible assets, that have indefinite useful lives, the Group estimates the recoverable amounts 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.

For the purposes of impairment testing, the goodwill acquired in a business combination 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.

(2) 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 net selling price (fair value less costs to sell). In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(3) Reversal of impairment

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 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. Impairment losses in respect of goodwill are not reversed.

3.8 Impairment (cont'd)

3.8.2 Non-derivative financial assets

The impairment of financial assets, which are not presented at fair value adjusted through profit and loss, including the trade receivables' balance, is examined when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from such assets.

The financial statements include special provisions in respect of bad debts, which in Management opinion, adequately reflect the loss arising from those debts the collection of which is doubtful. Management 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. Bad debts, which according to Management opinion are unlikely to be collected, are written-off the Group's books.

An impairment loss in respect to the receivables balance, which is measured at amortized cost, 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 expense in the statement of income.

Individually significant receivable balances are tested for impairment on an individual basis. The remaining customer balances are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized, and the reversal is recognized in the statement of income.

3.9 Employee benefits

3.9.1 Vacation and recreation pay

Under local law, each employee is entitled to vacation days and recreation pay, both computed on an annual basis. The annual entitlement is based on the number of months worked within the year.

The Group recognizes a liability and an expense for vacation and recreation pay, based on the entitlement of each employee, on an undiscounted basis.

3.10 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. The Group considers the present value of the liability, to be equivalent to the future value, as the differences are not material.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, disclosure is provided of a contingent liability, except when the possibility of the outflow of economic benefits is considered as remote.

Note 3 – Significant Accounting Policies (cont'd)

3.10 Provisions (cont'd)

(1) Restructuring

Should it become applicable, a provision for restructuring would be 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.

(2) Legal claims

Provisions for lawsuits 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 is or may become involved in court proceedings regarding a current legal obligation or an implied obligation due to an event that has occurred in the past, and when the Group's use of its financial resources in order to discharge the obligation is more likely than not to occur and when 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 present value. The impact of the discount is not material.

3.11 Investment subsidies

Investment subsidies are recorded in profit or loss when there is reasonable assurance that the subsidy will be received or compensated and the conditions established for the subsidy will be achieved by the Group. Afterwards, the revenue recognized in profit or loss is retained in Equity.

3.12 Revenue

3.12.1 Goods sold

Revenue from the sales of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized by the Group 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, and there is no expected continued management involvement with the goods and the revenue can be measured reliably.

3.12.2 Customer discounts are deducted from revenue on a cumulative basis when the terms and conditions entitling the customer to a discount are achieved, on the basis of a total annual volume of orders or sales campaigns that are held by the entity.

3.13 Financial income and expenses

Financial income comprises interest income on deposits invested, financial income from financial leases, foreign currency gains, and gains on derivative instruments (other than commodities) that are recognized in the statement of income.

In the cash flow reports, interests received and interests paid are presented as part of cash flows from operating activity. Dividends paid are presented under financing activity.

Note 3 – Significant Accounting Policies (cont'd)

3.14 Income tax expenses

Income tax expenses comprise current and deferred tax. Income tax expenses are recognized in the statement of income unless it relates to a transaction or event recognized directly in equity.

The current income tax expenses (in Brazil: "IRPJ" and "CSLL") of entity Três Corações Alimentos S.A. are calculated based on the legal percentage rate of 15%, plus additional of 10% on the taxable income over R$ 240, representing a total of 25% for IRPJ – which due to existing federal tax incentives results currently in an average percentage rate of 13% – and furthermore 9% on taxable income for CSLL, permitted a deduction of carry-forward tax losses, if any, limited to 30% of annual taxable income.

Deferred taxes are recognized in relation to temporary differences between accounting balances of assets and liabilities and the corresponding balance amounts used for tax purposes. Deferred income tax is not recognized for taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax is calculated based on the percentages expected to be applied when the temporary differences are reverted, based on laws in force or substantively in force up to the date of the financial statements.

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 balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Group offsets deferred tax assets and deferred tax liabilities if it has a legally enforceable right to set off current tax assets against current tax liabilities imposed by the same tax authority and the same taxable entity. A deferred tax asset is recognized to the extent it is probable that future taxable profits will be available, against which the temporary difference can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Group enjoys tax incentives on sales of products manufactured in the industrial facilities in the Northeast of Brazil. These incentives are applicable to certain sales volumes, according to the projects presented and approved by the relevant government agency, ADENE. These tax incentives are recorded in the profit and loss.

In the subsidiaries Café Três Corações S.A. and Principal Indústria e Comércio Ltda., current and deferred income taxes are calculated based on the legal percentage rate of 15%, plus additional of 10% on the taxable income over R$ 240 for IRPJ and 9% for CSLL, and deduction of carry-forward tax losses, if any, limited to 30% of taxable income.

3.15 Supplier discounts

Discounts received from suppliers, in respect of which the Group is not obliged to meet certain targets, are included in the financial statements upon making the proportionate purchases entitling the Group to the said discounts.

3.16 Advertising expenses

Advertising expenses are expensed as incurred.

Note 3 – Significant Accounting Policies (cont'd)

3.17 Initial implementation of accounting standards

3.17.1 Amendment to IAS 1 – Presentation of Financial Statements – regarding presentation of Other comprehensive income items

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 after initial recognition in OCI are reclassified to profit or loss are presented separately from those that would never be reclassified to profit or loss.

All items presented in the statement of comprehensive income in these financial statements are items which after the initial recognition in comprehensive income will be transferred to profit or loss.

3.17.2 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 does not have an impact on the Company's consolidated financial statements.

3.17.3 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.

Application of the standard had no material effect on the Company's consolidated financial statements. The required disclosures were included in these financial statements.

3.17.4 As part of Improvements to IFRSs 2009-2011, in May 2012 the IASB published amendments to 5 IFRS.

The amendment that may be relevant to the Group on the consolidated financial statements is the amendment to IAS 16 Property, Plant and Equipment: classification of servicing equipment (hereinafter: "the amendment"). The amendment clarifies that spare parts, servicing equipment and stand-by equipment are to be classified as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise to be classified as inventory.

The amendment does not have an impact on the Company's consolidated financial statements.

Note 3 – Significant Accounting Policies (cont'd)

3.18 New standards and interpretations not yet adopted

3.18.1 IFRS 9 (2010), Financial Instruments (hereinafter – "IFRS 9 (2010)")

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 1st, 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.

3.18.2 IFRS 9 (2013), Financial Instruments – Amendment of IFRS 9(2010), IFRS 7 and IAS 3

The standard revises IFRS 9 (2010), IFRS 7 and IAS 39 on the subject of hedging accounting – general. Under the standard, additional hedging strategies for risk management purposes are likely to be eligible for hedging accounting (such as risk components of non-financial items or groups of items constituting net positions). The standard replaces the current 80%-125% criteria for determining the effectiveness of hedging with a requirement of an economic correlation between the hedged instrument and the hedging instrument, without setting a quantitative threshold. In addition, the standard presents new models constituting alternatives to hedging accounting with respect to credit exposure and specific contracts to which the standard does not apply. The standard establishes new principles for handling hedging instruments, such as expanding cases in which cash instruments can serve as hedging items and adding the possibility of deferring or reducing the "cost of hedging" (such as the time value of a purchased option). The standard also establishes new disclosure requirements.

The mandatory implementation date of the standard has not yet been set. Early implementation is permissible, subject to the terms listed in the standard.

The Group has not yet begun consideration of the consequences of adopting the standard in its financial statements.

Note 3 – Significant Accounting Policies (cont'd)

3.18 New standards and interpretations not yet adopted (cont'd)

3.18.3 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 1st, 2014.

The amendment to IAS 32 is not expected to have a material effect on the Company's consolidated financial statements.

3.18.4 Amendment to IAS 36 – Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets

The amendment contains new disclosure requirements for situations in which impairment is recognized and the recoverable amount is set as the fair value, less sale costs. The amendment also eliminates the requirement of disclosure for the recoverable amount of significant cash-generating units if no impairment has been recognized for them.

The amendment will be implemented for annual periods starting on January 1st, 2014. The amendments will be applied retrospectively.

In the opinion of the Company, application of the amendment to IAS 36 will not have a material effect on the consolidated financial statements.

Note 4 - Determination of Fair Value

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 asset or liability.

4.1 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 between a willing buyer and a willing seller 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.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 4 – Determination of Fair Value (cont'd)

4.2 Intangible assets

The fair value of brands and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the brand or trademark being owned.

The fair value of know-how is based on the cost approach method. 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.

4.3 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.

4.4 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 as of balance sheet date, if the effect of discounting is material.

4.5 Derivatives

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market 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 a risk-free interest rate (based on government bonds).

For further information regarding the fair value hierarchy, see Note 23 on financial instruments.

Note 5 – Cash and cash equivalents

	December 31st,	
	2013	2012
	R$	
Bank balances	22,658	13,505
Cash on Hand	60	44
Short Term Deposits:		
Deposits in banks (*)	14,234	2,954
Cash and Cash equivalents, total	36,952	16,503

(*) Refers to short term deposits, with high liquidity, classified as financial instruments at fair value through profit and loss, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These deposits refer mainly to investments under repurchase agreements, with due date closer than 30 days, with interests of 64% of the Brazilian Interbank Deposit rate (in 2012, 90% of the Brazilian Interbank Deposit rate).

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 6 – Deposits

	December 31st,	
	2013	**2012**
	R$	
Deposits with brokers (*)	21,670	10,050
	21,670	10,050

(*) Refers to deposits made as margin requirements, classified as financial instruments at fair value through profit and loss, with brokers responsible for derivative financial instrument operations, especially green coffee sell and buy options.

Note 7 – Trade receivables

7.1 Composition

	December 31st,	
	2013	**2012**
	R$	
Open debts – third parties	257,559	247,634
Open debts – related parties	1,068	171
Export activity	21,292	35,723
	279,919	283,528
Less:		
Provision for revenue recognition (a)	(8,611)	(22,916)
Provision for discounts (b)	(15,781)	(7,829)
Subtotal	255,527	252,783
Provision for doubtful debts (c)	(4,613)	(5,621)
Total	250,914	247,162

(a) Refers to issued invoices, but which products were not delivered until December 31st, 2013 and 2012. The provision is recorded versus gross revenue, in profit and loss.

(b) Refers to discounts calculated based on agreements with big chains**.**

(c) Provision calculated based on an assessment of past due receivables, adjusted according to an individual analysis of the main customers with due debts, considering Management knowledge of the market and collection past record.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 7 – Trade receivables (cont'd)

7.2 Impairment losses

7.2.1 The aging of trade receivables at the reporting date was:

	December 31st, 2013		December 31st, 2012	
	Gross	Provision for doubtful debts	Gross	Provision for doubtful debts
	R$		R$	
Not past due	215,768	-	218,759	-
Past due 1-30 days	33,404	-	24,773	-
Past due 31-60 days	1,119	-	1,529	-
Past due 61-90 days	544	-	461	-
Past due 91-120 days	46	-	383	-
More than 120 days	4,646	(4,613)	6,878	(5,621)
	255,527	(4,613)	252,783	(5,621)

7.2.2 The movement in the allowance for doubtful debts during the period was:

	December 31st,	
	2013	2012
	R$	
Balance at January 1st	(5,621)	(3,793)
Impairment loss recognized, net	(1,545)	(2,926)
Doubtful debts classified to bad debts (write-offs)	2,553	1,098
Balance at December 31st	(4,613)	(5,621)

7.2.3 The maximum exposure to credit risks for trade receivables at the reporting date, not including trade receivables from Strauss Group companies, by type of customer was:

	December 31st,	
	2013	2012
	R$	
Retail - Organized market	116,484	100,320
Retail - Private market	112,158	112,799
Other	21,204	33,872
Balance of December 31st,	249,846	246,991

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 8 – Inventory

	December 31st,	
	2013	2012
	R$	
Finished goods	146,407	125,254
Unfinished goods	359	357
Raw material	25,342	23,437
Packaging and other materials	26,089	22,022
Other	15,950	4,643
	214,147	175,713
Carrying amount of inventory pledge as security for financial liabilities (including variable lien)	11,747	16,530

In 2013 the write-down of inventory to net realizable value amounted to R$ 2,036 (2012: R$ 1,149).

Inventory includes spare parts and maintenance equipment which will be used up within one year.

Inventory balances are presented net of provision for obsolescence.

Note 9 – Other receivables, including derivatives

	December 31st,	
	2013	2012
	R$	
Advances to trade payables	3,402	1,435
Government entities	28,434	11,009
Employees	1,605	1,108
Sundry	1,734	1,919
Derivatives (Note 23)	77	-
Prepaid expenses	5,012	4,095
	40,264	19,566

Government entities refers mainly to Federal and State VAT recoverable taxes.

Note 10 – Other investments and long-term debit balances

10.1 Composition –

	December 31st,	
	2013	2012
	R$	
Long-term loans to others (See 10.2 and 10.3)	379	466
Government entities	955	1,084
Long term deposits	18,006	14,862
	19,340	16,412

Long term deposits refers to escrow deposits made by the Group.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 10 – Other investments and long-term debit balances (cont'd)

10.2 Details and terms of the loans to third parties:

	December 31st, 2013
	R$
Três Corações Imóveis Armazéns Gerais e Serviços Ltda.	378
Other	1
Loan to third parties	379

	December 31st, 2012
	R$
São Miguel Participações e Empreendimentos S.A	189
Strauss Coffee B.V.	189
Other	88
Loan to third parties	466

10.3 The scheduled payments of the balance of Long term loans are as follows:

	December 31st, 2013	December 31st, 2012
	R$	R$
First year	-	-
Second year	-	-
Third year	-	-
Fourth year	-	-
Fifth and thereafter	379	466
	379	466

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 11 – Fixed assets

	Land and buildings	Machinery and equipment	Vehicles	Furnishing and other equipment	Leasehold improvements	Total
Cost						
Balance as of January 1st, 2013	35,574	137,819	23,328	27,179	20,479	244,379
Additions	1,573	15,199	8,707	6,236	2,290	34,005
Disposals	-	(909)	(1,081)	(888)	(31)	(2,909)
Transfer between classes of assets	(492)	236	209	334	(265)	22
Effect of changes in exchange rates	1,831	881	65	41	49	2,867
Balance as of December 31st, 2013	38,486	153,226	31,228	32,902	22,522	278,364
Accumulated Depreciation						
Balance as of January 1st, 2013	(5,425)	(48,991)	(18,711)	(13,525)	(2,534)	(89,186)
Depreciation for the year	(642)	(8,471)	(2,369)	(3,136)	(553)	(15,171)
Disposals	-	265	768	622	4	1,659
Transfer between classes of assets	(84)	(54)	27	50	61	-
Effect of changes in exchange rates	(314)	(499)	(91)	(27)	(56)	(987)
Balance as of December 31st, 2013	(6,465)	(57,750)	(20,376)	(16,016)	(3,078)	(103,685)
Balance net as of December 31st, 2013	32,021	95,476	10,852	16,886	19,444	174,679

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 11 – Fixed assets (cont'd)

	Land and buildings	**Machinery and equipment**	**Vehicles**	**Furnishing and other equipment**	**Leasehold improvements**	**Total**
Cost						
Balance as of January 1st, 2012	32,966	112,913	21,753	22,273	18,577	208,482
Additions	998	25,239	2,098	5,642	2,417	36,394
Disposals	-	(794)	(539)	(681)	-	(2,014)
Transfer between classes of assets	587	(75)	(12)	(78)	(542)	(120)
Effect of changes in exchange rates	1,023	536	28	23	27	1,637
Balance as of December 31st, 2012	35,574	137,819	23,328	27,179	20,479	244,379
Accumulated Depreciation						
Balance as of January 1st, 2012	(4,527)	(41,818)	(17,708)	(11,265)	(3,132)	(78,450)
Depreciation for the year	(576)	(7,009)	(1,502)	(2,614)	650	(11,051)
Disposals	-	164	451	392	-	1,007
Transfer	(6)	64	90	(24)	(6)	118
Effect of changes in exchange rates	(316)	(392)	(42)	(14)	(46)	(810)
Balance as of December 31st, 2012	(5,425)	(48,991)	(18,711)	(13,525)	(2,534)	(89,186)
Balance net as of December 31st, 2012	30,149	88,828	4,617	13,654	17,945	155,193

The cost of significant machine overhauls, which prolongs the useful life of the machine, is capitalized.

Leasehold improvements to leased premises are depreciated over the shorter of the expected lease period or the estimated useful life of the asset.

11.1 Fixed assets purchased on credit – The balance of the trade payables due to fixed assets purchased as of December 31st, 2013 is R$ 7,000 (R$ 0 as of December 31st, 2012).

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 11 – Fixed assets (cont'd)

11.2 The Group does not have any receivable as a result of fixed assets sale as of December 31st, 2013 or December 31st, 2012.

11.3 **Coffee machines and vehicles under financial leases**

The Group did not have any vehicles or coffee machines under financial leases as of December 31st, 2013 or December 31st, 2012.

11.4 The Group did not lease any land or buildings as of December 31st, 2013 or December 31st, 2012, except for operational leases with Três Corações Imóveis Armazéns Gerais e Serviços Ltda.

Note 12 – Intangible Assets

	Brands and trademarks	Computer Software	Goodwill	Other	Total
			R$		
Cost					
Balance as of January 1st, 2013	1,535	8,083	245,959	6,267	261,844
Additions	-	3,290	-	102	3,392
Transfer between classes of assets	-	42	-	(64)	(22)
Effect of changes in exchange rates	-	4	-	6	10
Balance as of December 31st, 2013	1,535	11,419	245,959	6,311	265,224
Accumulated Amortization					
Balance as of January 1st, 2013	(38)	(5,518)	(93,872)	(5,998)	(105,426)
Amortization for the year	-	(1,631)	-	(53)	(1,684)
Effect of changes in exchange rates	-	-	-	(4)	(4)
Balance as of December 31st, 2013	(38)	(7,149)	(93,872)	(6,055)	(107,114)
Balance net as of December 31st, 2013	1,497	4,270	152,087	256	158,110

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 12 – Intangible Assets (cont'd)

	Brands and trademarks	Computer software	Goodwill	Other	Total
			R$		
Cost					
Balance as of January 1st, 2012	1,285	6,265	245,806	6,265	259,621
Additions	250	1,818	755	-	2,823
Disposals	-	-	(602)	-	(602)
Effect of changes in exchange rates	-	-	-	2	2
Balance as of December 31st, 2012	1,535	8,083	245,959	6,267	261,844
Accumulated amortization					
Balance as of January 1st, 2012	(38)	(4,267)	(93,872)	(5,803)	(103,980)
Amortization for the year	-	(1,251)	-	(198)	(1,449)
Transfer between classes of assets	-	-	-	2	2
Effect of changes in exchange rates	-	-	-	1	1
Balance as of December 31st, 2012	(38)	(5,518)	(93,872)	(5,998)	(105,426)
Balance net as of December 31st, 2012	1,497	2,565	152,087	269	156,418

12.1 Intangible assets purchased on credit – The balance of other payables due to intangible assets purchased as of December 31st, 2013 is R$ 2,060 (R$ 10,141 as of December 31st, 2012), due to purchase of Fino Grão.

12.2 **Amortization and impairment charge**

As of December 31st, 2013 intangible assets include an amount of R$ 153,584 that is attributable to brands and trademarks having an indefinite useful life (December 31st, 2012 – R$ 153,584). These assets were assessed as having an indefinite useful life since according to an analysis of the relevant factors, there is no foreseeable limitation of the period they are expected 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 of the same brand and the awareness of the market of the brand name or trademark.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 12 – Intangible Assets (cont'd)

12.3 Impairment loss for cash-generating units containing goodwill or intangible assets with indefinite useful lives

The recoverable amounts of the cash-generating units are based on the calculation of their value in use. These calculations use cash flow projections that are based on the most current strategic operating plans (SOP) for three years of the relevant unit.

The cash flows for remaining periods are calculated using the relevant growth rate, which takes into account the anticipated growth rates of the category, industry, country and population. The estimated long term growth rate was 3.0% in 2013 and of 3.0% in 2012. The projected cash flows were capitalized according to pre-tax discount rates of 6.9% in 2013 and of 7.0% in 2012. Both 2013 and 2012 projected cash flows were prepared without inflation effects.

These discount rates reflect also the risk of the cash-generating units in each relevant year.

In 2013 and 2012 the Group did not recognize any impairment loss from the operation.

Note 13 – Loans and credit

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings, included in Notes 13 and 17.

				December 31st, 2013		December 31st, 2012	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
				R$			
Bank loan	BRL	2.50% to 10.90%	2014 to 2023	164,031	166,685	150,057	152,500
Bank loan	USD	1.44% to 3.32%	2014 to 2016	154,118	157,025	186,793	188,436
				318,149	323,710	336,850	340,936

There are no debt covenants on the Group’s loans and borrowings contracts with the banks.

Note 14 – Short term loans and credit

	December 31st, 2013	2012
	R$	
Bank loans	141,740	229,092
Current maturities of Long term bank loans	45,180	22,814
	186,920	251,906

Note 15 – Trade Payables

	December 31st, 2013	2012
	R$	
Open debts	64,203	56,799

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 16 – Employees and other payroll related liabilities

	December 31st,	
	2013	2012
	R$	
Payroll and related charges	4,468	3,572
Provision for vacation	15,532	12,815
Provision for variable remuneration	6,657	785
Other	4,846	3,708
	31,503	20,880

16.1 Employee benefits – The Group Employees benefits' treatment is in accordance with local legal requirements. These requirements mainly call for and are limited to monthly contributions to National Security funds (INSS, FGTS). The Group has no obligations under defined benefits plan.

Note 17 – Other payables, including derivatives

	December 31st,	
	2013	2012
	R$	
Government entities	15,478	15,442
Other payables	10,508	2,841
Payable for acquisition of activities – Fino Grão	2,060	10,141
Derivatives (Note 23)	11,133	2,978
Advances from customers	443	1,587
	39,622	32,989

Government entities refers mainly to Federal and State VAT payable taxes.

Note 18 – Long term loans and credit

18.1 Composition of long-term liabilities

	December 31st,	
	2013	2012
	R$	
Banks loans	181,970	111,844
Less:		
Current maturities of Long term loans	(45,180)	(22,814)
	136,790	89,030

18.2 Maturity dates of long-term liabilities

	December 31st,	
	2013	2012
	R$	
First year	45,180	22,814
Second year	60,050	24,480
Third year	40,774	45,923
Forth year	27,919	7,040
Fifth year	3,336	6,501
Thereafter	4,711	5,086
	181,970	111,844

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 19 – Long-Term Payables

	December 31st,	
	2013	2012
	R$o	
Government entities	4,406	4,597
Other	-	2
	4,406	4,599

Note 20 – Deferred Taxes (including assets and liabilities)

20.1 Composition of deferred taxes included in assets (liabilities)

	Balance as of January 1st, 2013	Decrease (increase) in deferred taxes expenses in the statement of income	Balance as of December 31st, 2013
		R$	
Provision for doubtful debts	1,642	(345)	1,297
Carryforward tax losses	8,953	(8,953)	-
Inventory adjustments	1,610	(99)	1,511
Exchange rate variation	(2,085)	2,085	-
Provisions for discounts	-	4,841	4,841
Provision for variable remuneration	-	2,386	2,386
Other temporary differences	5,646	3,109	8,755
Fixed assets, intangible assets and deferred expenses	(24,805)	(1,471)	(26,276)
Hedging transactions	(336)	(404)	(740)
	(9,375)	1,149	(8,226)

In 2013, the Group utilized all the deferred tax assets on carry-forward tax losses due to taxable profit in the year ended December 31st, 2013, and decided not to create new deferred tax asset for future carry-forward tax losses.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 20 – Deferred Taxes (including assets and liabilities) (cont'd)

20.1 Composition of deferred taxes included in assets (liabilities) (cont'd)

	Balance as of January 1st, 2012	**Decrease (increase) in deferred taxes expenses in the statement of income**	**Balance as of December 31st, 2012**
		R$	
Provision for doubtful debts	1,126	516	1,642
Carryforward tax losses	8,953	-	8,953
Inventory adjustments	1,134	476	1,610
Exchange rate variation	-	(2,085)	(2,085)
Other temporary differences	5,132	514	5,646
Fixed assets, intangible assets and deferred expenses	(20,981)	(3,824)	(24,805)
Hedging transactions	(247)	(89)	(336)
	(4,883)	(4,492)	(9,375)

20.2 The total amount of temporary differences for which no deferred tax assets were recognized is R$ 68,454(December 31st, 2012 R$ 86,522). The Group did not recognize such deferred tax asset as it is not anticipated that the temporary difference will reverse in the foreseeable future.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 21 – Provisions

Based on information from its legal advisors, an analysis of the pending legal proceedings, and previous experience with regards to amounts claimed, the Group recorded provisions for amounts considered sufficient to cover probable losses from current legal actions. The amounts of probable and possible losses with respect to legal and administrative actions against the Group are as follows:

21.1 Legal claims:

	December 31st,					
	2013			2012		
	Probable loss	Possible loss	Remote loss	Probable loss	Possible loss	Remote loss
Labor	13,857	32,583	53,572	9,031	21,673	33,652
Tax	113	21,889	113,618	245	73,987	18,018
Civil	1,121	4,463	4,401	1,123	3,383	3,329
	15,091	58,935	171,591	10,399	99,043	54,999

The main legal claims are listed below:

- Goodwill amortization – tax authorities claim that the Group does not meet all criteria to deduct Goodwill amortization for tax purposes. The Group and its tax advisors are of the opinion that the Group is entitled to the full tax relief of the Goodwill amortization and there is no need to record any liability. As of December 31st, 2013 the amount of the legal claim was R$ 20,339 (R$ 25,801 as of December 31st, 2012). The claim amount decreased due to the penalty rate reduction already accepted by the authorities, from 150% to 75% of the principal amount;

- Investment subsidies – revenues arising from investment subsidies granted by the Government are not subject to taxation, according to Brazilian tax laws. However, tax authorities claim that the tax incentives granted to the Group should not be classified as investment subsidies. In May 2013 the Group had favourable outcome in the first administrative instance, but the Government contested the ruling at the second administrative level, with no final outcome yet. As of December 31st, 2013 and as of December 31st, 2012, the amount of legal claim was R$ 12,139;

- Federal VAT (PIS/COFINS) credits – tax authorities claim that the Group (together with most other coffee companies in Brazil) had purchased green coffee from de facto, but not legally constituted companies in order to receive more PIS and COFINS credits and demand the difference between the total credit and the presumed credit, which amounted as of December 31st, 2013 to R$ 48,156 (R$ 15,846 as of December 31st, 2012). The Group and its tax advisors are of the opinion that there is no need to record any liability. The increase is due to new tax assessments on the same issue received by the Group during 2013.

  The legal claims above, classified as possible loss at the end of 2012, were reassessed and based on the Group's tax advisors opinion were classified as remote loss at the end of 2013, except for the investment subsidies claim, closed during the year.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 21 – Provisions (cont'd)

21.2 Contingent Liabilities

Contingent liabilities (Labor, Tax and Civil) are in the amount of R$ 245,617. The provisions for contingent liabilities are R$ 15,091.

Probability of the dispute outcome	Value of the dispute	Provision
More than 50% that the Group will succeed	230,526	-
Less than 50% that the Group will succeed	15,091	15,091
Total	245,617	15,091

Description	Loss probability (*)	Amount	Provision
Less than 50% that the Group will succeed	Probable	15,091	15,091
More than 50% that the Group will succeed	Possible	58,935	-
More than 50% that the Group will succeed	Remote	171,591	-
	Total	245,617	15,091

(*) Loss probability as classified by Group's legal advisors

21.3 Disputed Tax assessment detail by type of tax

	December 31st,					
	2013			2012		
	Probable loss	Possible loss	Remote loss	Probable loss	Possible loss	Remote loss
ICMS	24	9,644	1,651	35	9,093	239
PIS/COFINS	51	6,517	82,287	40	24,244	8,707
IRPJ/CSLL	-	-	20,339	-	35,344	-
INSS	-	5,578	9,093	31	5,167	8,841
Other	38	150	248	139	139	231
	113	21,889	113,618	245	73,987	18,018

21.4 Liens and mortgages

The following liens have been provided as security for the liabilities of the Group:

	December 31st,	
	2013	2012
	R$	
Liens registered in favor of the banks	45,652	42,875
Mortgages registered in favor of the banks	29,263	33,725
	74,915	76,600

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 21 – Provisions (cont'd)

21.5 Guarantees

Guarantees, including the above liens and mortgages, were given to banks and others as follows:

	December 31st,	
	2013	2012
	R$	
In favor of banks	339,801	383,133

Note 22 – Capital and Reserves

22.1 Share capital and share premium

	Ordinary shares	
	2013	2012
Issued and paid-in share capital as of January 1st	271,669	271,669
Capital reduction	-	-
Issued and paid-in share capital as of December 31st	271,669	271,669

22.2 Translation reserve from foreign operations

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

In the period the Group accounted for translation differences from foreign operations of the green coffee business activity, which uses functional currency of United States dollar, and the amounts in the reserve were R$ (9,695) in 2012 and R$ (5,791) in 2013.

22.3 Dividends

On June 17th, 2013, the dividends related to 2012 profits were approved by the General shareholders meeting in the amount of R$ 42,407, which represents additional R$ 8,407 when compared to the original provision, made in December 2012 based upon Management’s proposal at the time. The approved dividends were paid on September 12th, 2013.

Management’s proposal for 2013 profit destination is to pay the amount of R$ 61,923 in 2014. This amount is provisioned as proposed dividend in the balance sheet, subject to the approval by the General shareholders meeting.

22.4 Retained earnings

According to Brazilian tax law, the investments subsidies amounts granted to the Group must be reinvested in the operational activity, and are not free to be distributed to the shareholders.

Until December 31st, 2013, the accumulated amount of investment subsidies in the Company’s retained earnings was R$ 75,346 (R$ 41,468 as of December 31st, 2012).

Note 22 – Capital and Reserves (cont'd)

22.4 Retained earnings (cont'd)

In addition, according to the corporate law, part of the profit must be destined to protect the share capital against eventual future losses. Until December 31st, 2013, the accumulated amount destined according to the corporate law in the Company's retained earnings was R$ 18,769 (R$ 10,862 as of December 31st, 2012).

As a result, the amount of retained earnings available for future dividends distribution was R$ 58,021 as of December 31st, 2013 (R$ 11,997 as of December 31st, 2012).

Note 23 – Financial Instruments

The Group is exposed to the following risks as a result of using financial instruments:

- Credit risk
- Interest risk
- Liquidity risk
- Market risks that include: commodity price risks, foreign currency risks.

This note provides information regarding the exposure of the Group to these risks and regarding the policy of the Group for management of such risks.

In the sensitivity analyses the Group used the following models:

Options – Black & Scholes model, standard deviation and quotations of relevant underlying assets.

Forward transactions are determined according to the changes in the price of the relevant underlying asset and interest differences deriving from interest rates and storage costs (for green coffee).

23.1 Exposure to credit risk

23.1.1 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.

The sales of the Group to its customers are mainly made on accepted market credit terms. The credit to retail customers (that are not included in the organized retail market) is guaranteed by credit insurance (that includes a deductible) and by various collaterals, 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.

The credit to customers in the organized retail market is not guaranteed and is concentrated with a small number of customers, to whom the volume of the Group's sales is large, and therefore the non-repayment of credit by any of the customers in the organized market may significantly impair the Group's cash flows and business results. Most of the credit to foreign customers is not guaranteed.

The Group's Management constantly monitors customer outstanding indebtedness and the Group 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.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 23 – Financial Instruments (cont'd)

23.1 Exposure to credit risk (cont'd)

23.1.2 The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	December 31st,	
	2013	2012
	R$	
Cash and cash equivalents	36,952	16,503
Deposits	21,670	10,050
Trade Receivables	250,914	247,162
Other receivables	3,339	3,027
Derivatives	77	-
Other investments and long-term debit balances	18,385	15,328
Total	331,337	292,070

23.1.3 With respect to credit risk for trade receivables, see Note 7.

23.1.4 As of December 31st, 2013 and 2012, there was no credit for retail trade receivables insured by credit insurance or other guaranties.

23.2 Exposure to commodities price risk

23.2.1 The prices of raw materials used in manufacture of the Group's products are affected, among other things, by uncontrollable factors, such as weather conditions. Therefore, the Group uses 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 (primarily green coffee).

23.2.2 Commodity financial derivatives

The Group has engaged in future contracts and option contracts for the purchase and sale of commodities. The open positions as of balance sheet date are as follows:

As of December 31st, 2013	Expiry date	Face value (1)	Fair value and carrying amount (2)
		R$	
Future Contracts on commodities, net	Mar/2014 – Sep/2016	30,677	(422)
Options purchased:			
Buy Call	Feb/2014 – Dec/2014	240,419	2,922
Buy Put	Mar/2014 – Dec/2014	108,739	2,486
Options written:			
Sell Call	Feb/2014 – Dec/2014	(275,375)	(8,862)
Sell Put	Mar/2014 – Dec/2014	(118,564)	(7,180)
			(11,056)

(1) Face value is the commodity strike price multiplied by the number of contracts and the commodity quantities per contract

(2) Fair value, which is the amount in the Group's financial statements, is the option market value multiplied by the number of contracts and the commodity quantities per contract. This amount represents the amount to be received or paid if the expiry date was December 31st, 2013.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 23 – Financial Instruments (cont'd)

23.2 Exposure to commodities price risk (cont'd)

23.2.3 Sensitivity analysis

An increase in the prices of the following commodities as of December 31st would have increased (decreased) shareholders' equity and income or loss, in respect of forward transactions and options, by the amounts presented below. This analysis was performed using the Black&Scholes method to assess the derivatives sensitivity analysis. The variables considered in the Black&Scholes considers the fair value, market price, volatility, interest rate and expiry date of derivative open positions. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	December 31st, 2013						
	Increase (1)	Increase of 10%	Increase of 5%	Fair value And carrying amount	Decrease of 5%	Decrease of 10%	Decrease (2)
	R$						
Arabica	(2,590)	(1,709)	(595)	(11,056)	18	(602)	(4,325)
Robusta	-	-	-	-	-	-	-
Total	(2,590)	(1,709)	(595)	(11,056)	18	(602)	(4,325)

	December 31st, 2012						
	Increase (1)	Increase of 10%	Increase of 5%	Fair value And Carrying Amount	Decrease of 5%	Decrease of 10%	Decrease (2)
	R$						
Arabica	(965)	(655)	(233)	(2,978)	(10)	(261)	(1,513)
Robusta	-	-	-	-	-	-	-
Total	(965)	(655)	(233)	(2,978)	(10)	(261)	(1,513)

(1) In the last ten years, on the basis of closing rates, there was a daily maximum increase of 22% in the price of Arabica and of 15% in the price of Robusta.

(2) In the last ten years, on the basis of closing rates, there was a daily maximum decrease of 13% in the price of Arabica and of 13.5% in the price of Robusta.

23.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group does not use derivative financial instrument in order to reduce exposure to risks arising from changes in interest rates.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 23 – Financial Instruments (cont'd)

23.3 Interest rate risk (cont'd)

23.3.1 Profile

At the reporting date the interest rate profile of the Group's interest bearing financial instrument was:

	Carrying amount December 31st, 2013	Carrying amount December 31st, 2012
	R$	R$
Fixed rate instruments:		
Financial assets	-	-
Financial liabilities	(168,902)	(138,697)
Total	(168,902)	(138,697)
Variable rate instruments:		
Financial assets	35,904	13,004
Financial liabilities	(154,808)	(202,239)
Total	(118,904)	(189,233)

23.3.2 Cash flows sensitivity analysis for variable rate instruments

Changes in the interest rates as of the report date would increase (decrease) equity and the income or loss of the following period by the amounts presented below. This analysis was performed assuming that all the other variables remain the same.

	December 31st, 2013				
	Increase of 2%	Increase of 1%	Annual weighted interest	Decrease of 1%	Decrease of 2%
			R$		
Total	(2,378)	(1,189)	(5,756)	1,189	2,378

	December 31st, 2012				
	Increase of 2%	Increase of 1%	Annual weighted interest	Decrease of 1%	Decrease of 2%
			R$		
Total	(3,785)	(1,892)	(9,248)	1,892	3,785

23.3.3 Fair value sensitivity analysis for fixed rate instruments

Fixed interest assets and liabilities of the Group (such as deposits and loans) are not measured at fair value through profit or loss. Therefore, any change in the interest rate as of the reported date would not have an effect on the statement of income.

Note 23 – Financial Instruments (cont'd)

23.4 Currency risk

23.4.1 Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

	December 31st, 2013	December 31st, 2012
	US Dollar	
Financial liabilities:		
Short term loans and credit	(1,588)	(4,933)
Long term loans and credit	(26,803)	(15,382)
	(28,391)	(20,315)

23.4.2 Sensitivity analysis to currency risk

Any change in the exchange rates of the principal currencies as of December 31st would have increased (decreased) equity and the income or loss 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 Group 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 31st, 2013				
	10% increase	5% increase	Exchange rate/ Carrying amount	5% decrease	10% decrease
Functional currency BRL/USD exchange rate	2.5769	2.4597	2.3426	2.2255	2.1083
Effect in R$ thousands	(2,839)	(1,420)	(28,391)	1,420	2,839

	December 31st, 2012				
	10% increase	5% increase	Exchange rate/ Carrying amount	5% decrease	10% decrease
Functional currency BRL/USD exchange rate	2.2479	2.1457	2.0435	1.9413	1.8392
Effect in R$ thousands	(2,032)	(1,016)	(20,315)	1,016	2,032

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 23 – Financial Instruments (cont'd)

23.4 Currency risk (cont'd)

23.4.3 The Group uses derivative financial instruments in order to reduce exposure to risks arising from changes in foreign currency exchange rates. As of December 31st, 2013 the derivative financial instruments of the Group were as follows:

	Currency receivable	Currency payable	Expiration/ Maturity/ sale	R$ Face value
Forward currency contracts	USD	BRL	Feb/2014 – Oct/2016	2,216

23.4.4 Sensitivity analysis

Presented hereunder is a sensitivity analysis of the Group's derivative instruments (foreign currency) as of December 31st, 2013 and December 31st, 2012 in R$. Any change in the exchange rates of the principal currencies as of December 31st would have increased (decreased) the income or loss and the equity by the amounts presented below (in R$). This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	December 31st, 2013				
	10% increase	5% increase	Exchange rate/ Carrying amount and fair value	5% decrease	10% decrease
Functional currency BRL/USD exchange rate	2.5769	2.4597	2.3426	2.2255	2.1083
Effect of Forwards	644	322	57	(322)	(644)
Total	644	322	57	(322)	(644)

	December 31st, 2012				
	10% increase	5% increase	Exchange rate/ Carrying amount and fair value	5% decrease	10% decrease
Functional currency BRL/USD exchange rate	2.2479	2.1457	2.0435	1.9413	1.8392
Effect of forwards	7,306	3,653	(263)	(3,653)	(7,306)
Total	7,306	3,653	(263)	(3,653)	(7,306)

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 23 – Financial Instruments (cont'd)

23.5 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The following are the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements. This analysis is based on indices known as of December 31st, such as: foreign exchange rates and interest rates.

	December 31st, 2013							
	Carrying amount	Contractual cash flow	2014	2015	2016	2017	2018	Thereafter
Non-derivative financial liabilities:								
BRL long term loan	70,159	78,863	-	25,046	32,190	13,101	3,574	4,952
BRL credit from bank	96,526	99,789	99,789	-	-	-	-	-
USD long term loan	66,631	68,670	-	44,014	10,932	13,724	-	-
USD credit from bank	90,394	91,098	91,098	-	-	-	-	-
Trade payables	64,203	64,203	64,203	-	-	-	-	-
Other payables	44,071	44,071	44,071	-	-	-	-	-
Total	431,984	446,694	299,161	69,060	43,122	26,825	3,574	4,952
Derivative financial liabilities:								
Options on commodities	(11,133)	(11,133)	(11,133)	-	-	-	-	-
Total	(11,133)	(11,133)	(11,133)	-	-	-	-	-

	December 31st, 2012							
	Carrying amount	Contractual cash flow	2013	2014	2015	2016	2017	Thereafter
Non-derivative financial liabilities:								
BRL long term loan	71,790	81,348	-	27,870	33,395	7,725	6,925	5,433
BRL credit from bank	80,710	83,438	83,438	-	-	-	-	-
USD long term loan	17,240	18,032	-	3,230	14,802	-	-	-
USD credit from bank	171,196	173,149	173,149	-	-	-	-	-
Trade payables	56,799	56,799	56,799	-	-	-	-	-
Other payables	33,862	33,862	33,862	-	-	-	-	-
Total	431,597	446,628	347,248	31,100	48,197	7,725	6,925	5,433
Derivative financial liabilities:								
Options on commodities	(2,978)	(2,978)	(2,978)	-	-	-	-	-
Total	(2,978)	(2,978)	(2,978)	-	-	-	-	-

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 23 – Financial Instruments (cont'd)

23.6 Fair value hierarchy

23.6.1 The table below analyzes 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.
- Level 2: Inputs other than quoted prices within level 1 that are observable for the assets or liabilities, either directly (i.e, as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	December 31st, 2013	**December 31st, 2012**
	Level 1	**Level 1**
	R$	
Derivatives (included in other receivables and debit balances)	77	-
Derivatives (included in other payables and credit balances)	11,133	2,978

23.6.2 The carrying amount of cash and cash equivalents, deposits, trade receivables, other receivables and debit balances, credit received from banks, trade payables, other payables and credit balances, corresponds or is close to their fair value.

Presented below are the carrying amounts and fair values of financial assets and liabilities that are not presented in the financial statements at fair value:

	December 31st, 2013		**December 31st, 2012**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial Liabilities				
Credit from the Banks	141,740	133,870	229,092	222,554
Long term loans and credit from the Banks, including current maturities	181,970	164,131	111,844	108,529

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 24 – Provisions for contingencies

	2013	2012
	Litigation	
	R$	
Balance at January 1st	10,399	10,308
Provisions made during the period	5,689	519
Provisions used during the period	(997)	(428)
Balance at December 31st	15,091	10,399

Litigation

Litigation provisions have been set up to cover legal and administrative proceedings that arise in the ordinary course of business. Cancellation of such provisions refers to cases resolved in favor of the Group. The timing of cash outflows of litigation provision is uncertain as it depends upon the outcome of the proceedings. These provisions are therefore, not discounted. The discounting effect is immaterial.

Restructuring

The Group has no provision for restructuring.

Note 25 – Sales

	For the year ended December 31st,	
	2013	2012
	R$	
Gross revenue:		
Local market sales	2,080,881	1,875,479
Export activity sales	312,790	358,268
Services	715	814
Other	852	833
Taxes on sales	(204,236)	(302,338)
Returns and discounts	(118,080)	(93,865)
Product bonus	(33,736)	(25,634)
	2,039,186	1,813,557

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 26 – Cost of Sales

26.1 Composition

	For the year ended December 31st,	
	2013	**2012**
	R$	
According to components		
Materials consumed	1,358,482	1,359,951
Wages, salaries and related expenses	31,117	27,261
Depreciation and amortization	8,233	6,921
Services contracted	9,283	9,978
Maintenance	5,288	5,509
Other	18,249	18,108
	1,430,652	1,427,728
According to source		
Cost of local market sales	1,145,468	1,089,923
Cost of export activity sales	285,184	337,805
	1,430,652	1,427,728

Note 27 – Selling and Marketing Expenses

	For the year ended December 31st,	
	2013	**2012**
	R$	
Salaries and related expenses	143,667	111,208
Depreciation and amortization	5,622	3,148
Transport expenses	70,373	57,475
Export expenses	9,315	7,218
Services contracted	18,145	16,873
Marketing	80,914	39,538
Travel expenses	6,788	5,202
Other	12,857	13,170
Total	347,681	253,832

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 28 – General and Administrative Expenses

	For the year ended December 31st, 2013	2012
	R$	
Salaries and related expenses	23,962	20,456
Tax expenses	3,808	4,597
Depreciation and amortization	3,000	2,431
Services contracted	12,120	10,545
Contingencies	4,692	1,299
Travel expenses	1,653	1,920
Other	6,278	1,901
	55,513	43,149

The aggregate amount of research and development expenditure recognized as an expense during the period was not material.

Note 29 – Other Income, Net

	For the year ended December 31st, 2013	2012
	R$	
Gain on sale of fixed assets, net	198	378

Note 30 – Financing Expenses, Net

30.1 Composition

	For the year ended December 31st, 2013	2012
	R$	
Financing income:		
Interest income	3,500	1,919
Interest from deposits	1,674	436
Exchange rate effect	43,715	27,710
Total financing income	48,889	30,065
Financing expenses:		
Interest expenses	(2,218)	(515)
Interest on loans and borrowings	(15,537)	(16,325)
Exchange rate effect	(47,269)	(28,170)
Other	(1,389)	(357)
Total financing expenses	(66,413)	(45,367)
Financing expenses, net	(17,524)	(15,302)

Note 30 – Financing Expenses, Net (cont'd)

30.2 Third party interest Income Receivable \ Expenses Payable

- Interest expense **paid, net,** in cash during the twelve month periods ended December 31st, 2013 and December 31st, 2012 was R$ 15,331 and R$ 17,172, respectively.

Note 31 – Taxes on Income

31.1 The statutory tax rate for the year 2013 is 34%.

31.2 The Group is beneficiary of the following investment subsidies of the public sector:

31.2.1 "PROVIN" - State of Ceará

The Government of the State of Ceará, in accordance with the state public policies geared towards promoting the industrial development of Ceará, decided to allocate resources intended to provide financial assistance for the investments necessary for the installation of the unit headquartered in the city of Eusébio - CE. The incentive basically consists of the scheduled payment of the ICMS state VAT tax and the deduction of 56.25% on total sales of vacuum line. The incentive is valid until July 2018.

31.2.2 "PROADI" - State of Rio Grande do Norte

The government of the State of Rio Grande do Norte, in the interests of the development of this State, decided to grant funds intended to provide financial assistance to the investments necessary for the 3Corações units headquartered in the cities of Natal and Mossoró. The benefit basically consists of the scheduled payment of the tax and the subsequent deduction up to 75% of ICMS state VAT payable.

The incentives are valid at least until May 2020 (the Mossoró unit) and September 2018 (the Natal unit).

31.2.3 Other tax incentives

The Group has also received some tax incentives and Special tax regimes in other states.

31.2.4 Federal incentive - "Re-investment"

The Group is allowed to allocate part of its income tax payable to capital investments. The project associated to these investments is submitted to the authorities' approval.

The allocated amount is recognized in profit or loss at the moment of the Group's decisions, since there is reasonable assurance the grant will be approved.

31.2.5 Federal incentive - "Exploration profit"

According to the rules for income tax government grants, where until 2007 the amount, for local purposes, was set aside to the capital reserve - investment subsidy - the Group also benefits from the income tax exemption of 75% of the operating income derived from its main activities at the units of Eusébio (State of Ceará), Natal and Mossoró (State of Rio Grande do Norte).

The total amount recognized in profit or loss as a result of all grants above during the period of twelve months ended on December 31st, 2013 was R$ 45,106 (R$ 11,173 for the twelve months ended December 31st, 2012).

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 31 - Taxes on Income (cont'd)

31.3 Composition of taxes on income in the statement of income:

	For the year ended December 31st,	
	2013	2012
	R$	
Current taxes	31,024	9,252
Deferred taxes	(1,149)	4,492
	29,875	13,744

31.4 There were no taxes on income included directly in equity in 2013 and 2012.

31.5 Reconciliation between the theoretical tax on the pre-tax reported income and the tax expenses recorded in the Group's books:

	For the year ended December 31st,	
	2013	2012
Income before taxes on income	188,014	73,924
Principal tax rate	34%	34%
Taxes on income at the principal tax rate	63,925	25,134
Permanent differences, net:		
Tax incentives	(32,089)	(9,391)
IAS 21 adjustments	(9,541)	(5,929)
Other	7,580	3,930
	(34,050)	(11,390)
Taxes on income in the statement of income	29,875	13,744

31.6 The Group has tax losses carry-forward in the amount of R$ 68,454, for which no deferred tax assets were created.

31.7 Last full year income tax report submitted to the tax authorities was in June 2013.

31.8 Tax assessments

31.8.1 Final assessments

The composition of tax assessments in dispute was described in Note 21.1 and 21.3.

31.8.2 Disputed tax assessments

The composition of tax assessments in dispute was described in Note 21.1 and 21.3.

31.9 **Corporate Income Tax Received / Paid**

- Tax income / expense received / paid in cash during the twelve month periods ended December 31st, 2013 and December 31st, 2012 was R$ 32,690 and R$ 8,971, respectively.

Notes to the Financial Statements, presented in R$ thousands and rounded to the nearest thousands

Note 31 - Taxes on Income (cont'd)

31.10 On November 11th, 2013, the Government issued Provisory Measure 627 (MP 627/13) with amendments to income tax and Federal VAT legislation. The Group and its legal advisors assessed the changes, and concluded there is no impact on the Group's financial statements.

Note 32 - Balances and Transactions with Related Parties

The Group's related parties are the parent companies of 50% shareholding each, related parties of the parent companies, investee companies of both the Group and the parent companies and members of the Board, senior management and their close family members, of both the Group and the parent companies.

The prices and credit terms in respect of transactions with related parties are prescribed according to customary commercial terms.

	Strauss Commodities	Strauss Coffee B.V.	São Miguel Participações e Empreendimentos S.A.	Três Corações Imóveis Armazéns Gerais e Serviços Ltda.	Other	Total
			R$			
As of December 31st, 2013:						
Trade and other receivables	1,068	-	-	378	1	1,447
Trade and other payables	-	-	-	(3,442)	-	(3,442)
For the year ended December 31st, 2013:						
Sales	18,732	-	-	-	-	18,732
Cost of sales	-	-	-	(2,303)	-	(2,303)
General and administrative expenses	-	-	-	(1,859)	-	(1,859)
As of December 31st, 2012:						
Trade and other receivables	149	189	189	22	88	637
Trade and other payables	-	-	-	(3,219)	-	(3,219)
For the year ended December 31st, 2012:						
Sales	13,151	-	-	-	-	13,151
Cost of sales	-	-	-	(6,796)	-	(6,796)
General and administrative expenses	-	-	-	(453)	-	(453)
Financial income(expenses), net	-	17	-	-	-	17

Note 32 - Balances and Transactions with Related Parties (cont'd)

Strauss Commodities – refers to sale of green coffee beans.

Strauss Coffee B.V. and São Miguel Participações e Empreendimentos S.A. – refers to loans to shareholders.

Três Corações Imóveis Armazéns Gerais e Serviços Ltda. – refers to rent expenses of land and buildings.

Note 33 – Subsequent Events

The Group's Management is not aware of any other events subsequent to the balance sheet date that could have a significant impact and therefore should be disclosed in the Financial Statements or in the Notes to the Financial Statements.

Note 34 – Insurance

The Group hires insurance coverage for assets exposed to risks. The coverage is in an amount sufficient to cover eventual losses, considering the nature of the Group's activities. Risk premises adopted, due to its nature, are not part of a financial statements audit scope, and therefore were not examined by our independent auditors.

On December 31st, 2013, insurance coverage against operational risk comprised R$ 84,417 (R$ 71,145 on December 31st, 2012) for material damage, R$ 84,433 (R$ 54,157 on December 31st, 2012) for lost profits, R$ 3,500 (R$ 3,500 on December 31st, 2012) for civil responsibility and R$ 10,000 (R$ 5,000 on December 31st, 2012) for directors and members of the executive team civil responsibility.