STRAUSS-GROUP LTD.

FINANCIAL STATEMENTS

AS AT MARCH 31, 2011

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

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DESCRIPTION OF THE CORPORATION'S BUSINESS

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

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

1.1 The Strauss Group Ltd. (formerly Strauss-Elite Ltd., hereinafter: the **"Company"**) and the companies it controls (for the reader's convenience, the Company and the companies it controls shall hereinafter be called the **"Group"**) are a group of industrial and commercial companies that operate in Israel and abroad, principally in the development, manufacture, marketing and sale of a variety of branded food and beverage products.

1.2 The Group's activity is centered in Israel, where it estimates that it is the second-largest company in the Israeli food and beverage industry, and in 2010 held an 11.2% share of the total domestic food and beverage market (in financial terms[1]), not including the market share of the products of Strauss Water Ltd. (formerly Tana Industries Company Ltd. – Tami4), which was acquired in October 2009, see sections 1.17 and 16.1 in this chapter in the Periodic Report regarding the description of the corporation's business (hereinafter: **"This Chapter"**). The Group is also active in Central and Eastern European countries and in Brazil, principally in the roast and ground coffee products market, and in most of these countries it is among the leading firms in this market. The Company is also active in the USA in the development, manufacture and sale of refrigerated Mediterranean salad products and in the operation of three Chocolate Bars in New York, Philadelphia and Las Vegas. In China, the Group is currently in the penetration phase through Strauss Water.

1.3 The Company was incorporated in Israel in 1933 as a private company limited by shares. In 1973 it became a public company whose shares are listed for trading on the Tel Aviv Stock Exchange Ltd. (hereinafter: the **"Stock Exchange"**).

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

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

[2] Strauss Holdings Ltd. is a private company registered in Israel. To the best of the Company's knowledge, the ordinary shares of Strauss Holdings are held by Michael Strauss Assets Ltd. [a corporation held by Mr. Michael Strauss (approximately 56.7%), Ofra Strauss (approximately 18.1%) and his family members (**"Michael's Assets"**)]; by Raya Strauss Ben-Dror Assets Ltd. [a corporation held by the sons of Raya Strauss Ben Dror, Gil Midyan (approximately 50%) and Ran Midyan (approximately 50%) (**"Raya's Assets"**)]; as well as a self holding by Strauss Holdings Ltd. (approximately 29%). The effective holding of Michael's Assets and Raya's Assets in Strauss

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 is dominant in most of the markets in which it operates. The Group has diverse production technologies and operates through large-scale marketing, sales and distribution systems, allowing for 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 has collaborations with three multinational corporations – the French concern Danone (Compagnie Gervais Danone S.A.) (hereinafter: **"Danone"**) and the American corporation PepsiCo, Inc. (hereinafter: **"PepsiCo"**). On October 16, 2010 an agreement was signed with the Haier Group of China through its subsidiary Haier Whole Set Distribution Co. Ltd. (**"Haier Consumer Goods"**), for the establishment of a joint venture in China. The joint venture will engage in marketing, sales and service based on the products of Strauss Water in China. For information on the agreements with these corporations, see sections 10.14.1 (Danone), 11.14 (PepsiCo) and 16.1 (Haier) in This Chapter.

1.7 The Group's activities commenced in 1934 with the production of chocolate tablets and assorted sweet snack bars at its manufacturing site in Ramat Gan. In the mid-1950s the Group began to manufacture instant coffee in Israel, and the instant coffee manufacturing site in Safed was inaugurated. In subsequent years the Group expanded its business in snacks and coffee by establishing plants and through the acquisition of firms active in these areas.

1.8 In 1990 the Group's collaboration with PepsiCo began in the salty snacks category, following which the Group established the snack production site in Sderot.

1.9 In the early 1990s the Group initiated its international coffee activity in Europe, principally in the roast and ground (R&G) coffee market. The business started out in the private label segment, but over the years the Group shifted its focus to branded products. The Group expanded its international activity in Central and Eastern Europe through the acquisition of

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Holdings, excluding the self holding of shares, is 73.4% by Michael's Assets and 26.6% by Raya's Assets. The voting shares in Strauss Holdings are held by Mr. Michael Strauss (99%) and Raya Strauss Ben Dror (1%).

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

To the best of the Company's knowledge, the ordinary shares of Strauss Holdings confer upon the holders thereof all property rights (dividends and receipt of the residual value of the Company on winding-up); the right to be invited and to participate, without voting rights, in General Meetings, and to vote in General Meetings only on resolutions relating to the modification of any provision in Strauss Holdings' bylaws; and the right to appoint one director in respect of each holding of 15% of the Ordinary Shares of Strauss Holdings.

companies active in the business as well as through the establishment of new operations. In late 2000 the Group also initiated activities in South America with the acquisition of a coffee company in Brazil, an activity that was significantly expanded in 2005, as described in detail below.

1.10 In 2004 the companies 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's activities now became focused mainly on dairy products, prepared packaged salads, cut vegetables, flavored milk drinks and natural juices. For more information on the Merger Transaction, see section 27.1 in This Chapter. The diary business was initiated in the 1930s when Hilda and Dr. Richard Strauss set up a cowshed and family dairy in Nahariya. In 1969 the dairy became active in yogurts and dairy desserts after the French concern Danone acquired an ownership interest. In 1982 Danone sold back its holding in the dairy, but in 1996, with the founding of Strauss Health Ltd. (to which the Strauss family transferred the dairy business), Danone acquired 20% of its shares. In 1997 Strauss Health Ltd. expanded into the milk drinks category with the acquisition of the controlling interest in Yotvata Dairies. The salad business was initiated with the founding of Strauss Salads Ltd. in 1991, which was to become one of the leading companies in the development of the fresh packaged salad products category in Israel.

1.11 In 2005 the Group significantly expanded its international coffee business through a series of acquisitions in Brazil, Poland and Serbia. In Brazil the Group strengthened its position in the domestic coffee market considerably following the establishment of a jointly held company, the second-largest coffee company in the country, with a leading entity in Brazil. The expansion of the international coffee activity continued in the following years through additional acquisitions in Albania in 2008 and in Russia in 2010, where the Group recently enhanced its status in the domestic coffee market significantly.

1.12 In 2005 the Group also became active in the USA in the production and sale of refrigerated Mediterranean salads (such as hummus and eggplant). In late 2006 the Group expanded its activity in North America through the acquisition of the assets and business of a dairy product manufacturer, with the aim of developing, producing and selling refrigerated dairy dips and spreads under the "Sabra" brand. At the end of 2007 the Group engaged in a partnership agreement with PepsiCo for the development, manufacture and sale of refrigerated dips and spreads in the USA and Canada through the company, Sabra, in the USA. The Group and PepsiCo each hold 50% of the joint company; see section 15.11 in This Chapter. Additionally, the Group has expanded the Max Brenner business internationally and entered the American market – see section 16.2 in This Chapter.

1.13 In February 2007 the Company's name was changed from Strauss-Elite Ltd. to the Strauss Group Ltd. The new Company name is also the corporate brand, Strauss, and the Group also adopted a new logo. The goal of the change of the Company's name was to define a single identity for all of the Group's activities, in Israel and abroad. In 2008 a gradual process of adapting the packaging of all of the Group's products to the new identity was initiated, with emphasis placed on the connection to the corporate brand in a manner that preserves the uniqueness of each product but connects them all to one company. See also section 19 in This Chapter.

1.14 In June 2007 the Board of Directors of the Company approved a change in the operating model and organizational structure of the Group, the Group Corporate Center and the Company's activity in Israel. The major goal of the organizational change was to align the Group's operating model and structure with its rate of growth and development and its strategic plans, and to enable it to evolve into one international group operating according to leading international standards.

The new operating model is based on a matrix model and integrates business units responsible for profitable growth with central units in the Corporate Center and the Israeli activity, which manage core processes and supporting processes across the organization.

All of the Group's manufacturing sites are consolidated in a central Operations Division which serves all business divisions; new processes and powers are concentrated in the Planning Department in the Supply Chain Division; and Human Resources and financials are consolidated in central units that provide services to the business divisions and the central units in Israel.

In the first half of 2009 a new strategic management model was formulated for the Group. This model outlines the Group's management method, Group Management's mission and the work interface between Group Corporate Center and the companies. The model creates a balance between the needs of the Group and those of the companies and enables Group Management to focus the majority of efforts on strategic issues at Group level and on the most important issues in each company. The model allows Group Management to run the Group's businesses in a more controlled manner through quick and effective decision making, in a way that enables the Group companies to function independently in the routine day-to-day operational management of the business. For further information, see section 22.1.1 in This Chapter.

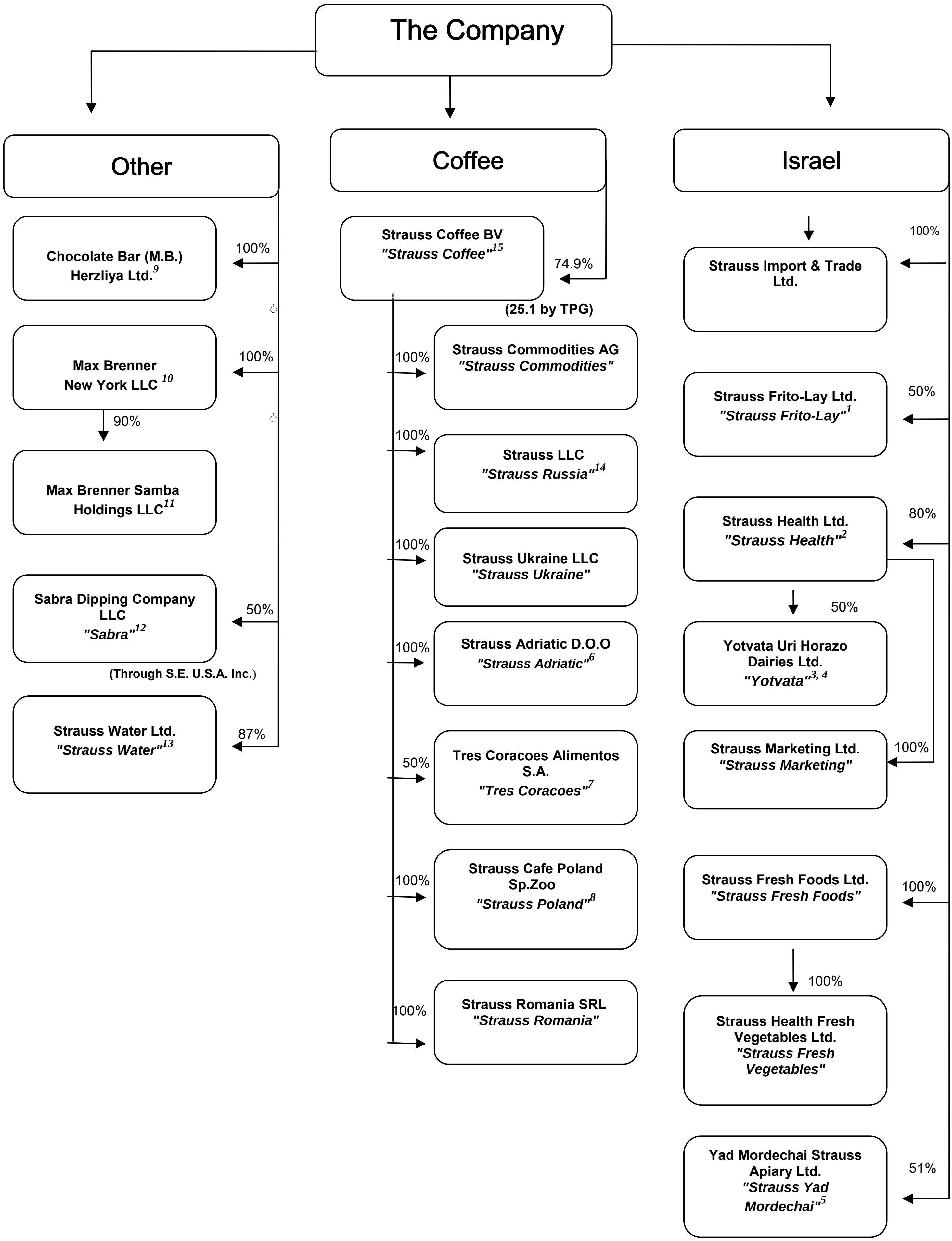
1.15 In regard to the issue and listing for trading on the Stock Exchange of Debentures (Series A) in March 2005, to a private placement of Debentures (Series B) which were listed for trading on the Stock Exchange in May 2007 and to the publication of a shelf prospectus on the same date, to the issue and listing for trading on the Stock Exchange of Debentures (Series C) in May 2009, see sections 23.2-23.4 in This Chapter.

On February 22, 2011, after having received approval in principle from the Stock Exchange, permission from the Securities Authority and the approval of the Board of Directors of the Company, the Company published a shelf prospectus.

1.16 In the framework of realizing the Group's global expansion strategy in the coffee business and in light of requirements to finance this strategy, in 2008 the Company engaged in a series of agreements in which framework the private equity investment fund TPG (through Robusta Coöperatief U.A., a corporation registered in the Netherlands, hereinafter: the **"Investor"**) invested in the Company's subsidiary, Strauss Coffee B.V., which is incorporated in the Netherlands (hereinafter: **"Strauss Coffee"**), approximately $293 million against the allotment of 25.1% of the shares of Strauss Coffee. As part of the transaction outline the Group's coffee business in Israel was transferred to Strauss Coffee, which today concentrates the Group's entire coffee business.

1.17 In July 2009 the Group announced the establishment of Strauss Water and the Group's entrance to an activity in the drinking water filters and purifiers market, and in October 2009, through its subsidiary H2Q Water Industries Ltd. (hereinafter: **"H2Q"**) (87%), the Company acquired all of the shares of Tana Industries Company Ltd. (hereinafter: **"Tami4"**). In August 2010 the subsidiary's name was changed from H2Q Water Industries Ltd. to Strauss Water Ltd. (hereinafter: **"Strauss Water"**). On October 16 an agreement was signed with the Haier Group for the establishment of a joint venture in China, and on December 12, 2010 Tami4's merger with Strauss Water was approved. For further information see section 16.1 in This Chapter, as well as Notes 6.4 and 6.6 to the Consolidated Financial Statements of the Company as at December 31, 2010.

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


The Company
Other
Coffee
Israel
Chocolate Bar (M.B.) Herzliya Ltd.[9]
100%
Max Brenner New York LLC [10]
100%
90%
Max Brenner Samba Holdings LLC[11]
Sabra Dipping Company LLC "Sabra"[12]
50%
(Through S.E. U.S.A. Inc.)
Strauss Water Ltd. "Strauss Water"[13]
87%
Strauss Coffee BV "Strauss Coffee"[15]
74.9%
(25.1 by TPG)
Strauss Commodities AG "Strauss Commodities"
100%
Strauss LLC "Strauss Russia"[14]
100%
Strauss Ukraine LLC "Strauss Ukraine"
100%
Strauss Adriatic D.O.O "Strauss Adriatic"[6]
100%
Tres Coracoes Alimentos S.A. "Tres Coracoes"[7]
50%
Strauss Cafe Poland Sp.Zoo "Strauss Poland"[8]
100%
Strauss Romania SRL "Strauss Romania"
100%
Strauss Import & Trade Ltd.
100%
Strauss Frito-Lay Ltd. "Strauss Frito-Lay"[1]
50%
Strauss Health Ltd. "Strauss Health"[2]
80%
Yotvata Uri Horazo Dairies Ltd. "Yotvata"[3, 4]
50%
Strauss Marketing Ltd. "Strauss Marketing"
100%
Strauss Fresh Foods Ltd. "Strauss Fresh Foods"
100%
Strauss Health Fresh Vegetables Ltd. "Strauss Fresh Vegetables"
100%
Yad Mordechai Strauss Apiary Ltd. "Strauss Yad Mordechai"[5]
51%

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.

[2] 20% of the shares of Strauss Health are held by the French corporation, Danone. In May 2007 Strauss Health completed the acquisition of the complete ownership of Aviv Netivot Dairies Ltd. (hereinafter: **"Aviv Dairies"**).

[3] 50% of the shares of Yotvata are held by Kibbutz Yotvata. Strauss Health has a casting share in Yotvata. For information on the rights attaching to the casting share and on an option held by Kibbutz Yotvata and Strauss Health to execute a merger by way of an exchange of shares, see section 10.14.2 in This Chapter.

[4] Yotvata holds approximately 6.32% of the share capital of Gan Shmuel Foods Ltd. (hereinafter: **"Gan Shmuel"**) (after neutralizing the shares of Gan Shmuel held by a wholly-owned subsidiary – 6.67%) and approximately 6.67% of the voting rights therein. Gan Shmuel is the controlling shareholder of Ganir (1992) Ltd. (hereinafter: **"Ganir"**); the Group (through Strauss Marketing) is the exclusive distributor of refrigerated juices manufactured by Ganir. Pursuant to a distribution agreement of December 5, 2006 between the parties, Strauss Marketing was appointed the exclusive distributor of fresh fruit and vegetable juices manufactured by Ganir or Gan Shmuel, for a period of 10 years commencing on April 21, 2006; provided, however, that should Yotvata's holding in Gan Shmuel be less than 5%, Ganir shall be entitled to annul the agreement with 12 months' early notice.

[5] 49% of the shares of Strauss Yad Mordechai are held by Kibbutz Yad Mordechai.

[6] Strauss Adriatic Group is composed of two companies that are active in the former Yugoslavia countries, the main one being Strauss Adriatic D.O.O. (formerly Doncafe Group D.O.O.), which is active in Serbia.

[7] In 2007 the holdings of the companies in Brazil were restructured. Prior thereto, Strauss Coffee held 100% of the shares of Elite Do Brasil Participacoes Ltda (hereinafter: **"EDBP"**), which held 50% of the shares of Santa Clara Participacoes S.A. (hereinafter: **"SCP"**) which held Tres Coracoes (100%) and Café Tres Coracoes S.A. (100%) (hereinafter: **"3C"**). The remaining 50% of the shares in SCP were held by a corporation controlled by the Lima family (for a description of the joint transaction between the Group and the Lima family and the formation of SCP, see section 14.13 in This Chapter). In the framework of the restructuring process EDBP transferred its holdings in SCP to its parent company, Strauss Coffee, and SCP was merged in its subsidiary, Tres Coracoes. Following the restructuring of the holdings, as at the date of this Periodic Report, Strauss Coffee directly holds 50% of the shares of Tres Coracoes (the remaining 50% are held by a Brazilian corporation controlled by the Lima family). Tres Coracoes holds 3C (100%), and 3C holds Principal Commercio e Industria de Café Ltda (100%) (hereinafter: **"Café Principal"**). Additionally, Strauss Coffee directly holds 50% of the shares of Tres Coracoes Imoveis Armazens Gerais e Servicos Ltda (hereinafter: **"3CI"**), whose main activity consists of leasing real estate assets and supplying shared administrative services to the Group's companies in Brazil.

[8] Strauss Poland was acquired over fifteen years ago. After the acquisition date the Company discovered that it was not in possession of 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 arguments 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.

[9] Held (100%) by the Company. Pursuant to an agreement of February 11, 2007 between the Company and a director of the Max Brenner business who is engaged with the Company in a consulting agreement, the Company is to transfer its Max Brenner activity to a company in which framework the Max Brenner business in Israel and globally will be operated (hereinafter in this sub-clause, the **"New Company"**). When the Max Brenner business is transferred to the New Company the director will be awarded 3.5% of the share capital of the New Company, which shall be deposited with a trustee for a period of 10 years, and each year the trustee shall transfer to the director 10% of the deposited shares. For as long as the New Company remains a private company, the voting rights in respect of the director's shares in the New Company shall be granted to the Company. For as long as Max Brenner is not listed for trading on the Stock Exchange and pursuant to the terms and conditions of the agreement, the director shall be entitled to sell the shares in his possession to the Company on defined dates and for a consideration to be determined according to a valuation mechanism, as set forth in the agreement. Should the consulting agreement between the Company and the director be terminated or should it not be renewed by the director, the Company's obligation to acquire the director's shares shall be limited only to shares that have already been transferred to his possession, and the remaining shares shall be transferred from the trustee to the Company. Furthermore, two additional directors of the Max Brenner business have been granted options to acquire 1.4% of the share capital of the New Company (cumulatively for the two directors), under the terms and conditions set forth in agreements with them, including with respect to maturation periods and exercise periods of the options.

[10] Max Brenner New York LLC is held (100%) by Max Brenner USA, Inc., which is held (100%) by the Company. Max Brenner USA, Inc. also holds Max Brenner International, Inc., which engages in the development of the Max Brenner brand and in the management of planning and strategy in its respect. Max Brenner New York LLC holds Max Brenner Walnut LLC – the Chocolate Bar branch in Philadelphia.

[11] 10% of the shares of Max Brenner Samba Holdings LLC are held by Samba Chocolate LLC and grant it equity rights only. Max Brenner Samba Holdings LLC holds Max Brenner Union Square LLC and Max Brenner Second Avenue LLC – Chocolate Bar branches in New York.
[12] 50% of the shares of Sabra are held (indirectly) by the American corporation, PepsiCo. For a description of the joint transactions with PepsiCo, see also section 15.11 in This Chapter.
[13] On October 1, 2009 the subsidiary Strauss Water Ltd. (formerly H2Q) acquired 100% of the shares of Tami4. The acquisition was financed by an investment by the Group in Strauss Water, which raised the Group's holding in Strauss Water to 87% of the issued and paid-up share capital. On December 12, 2010 Tami4 was merged with Strauss Water. The CEO of Strauss Water was granted options to acquire 1.2% of the shares of Strauss Water under the terms and conditions set forth in the agreement with him, including with respect to maturation periods and exercise periods of the options. The shares that shall be allotted to him in respect of the exercise of the options do not confer any voting rights.
[14] A coffee business, most of which was acquired in April 2008 from Cosant Enterprises Ltd. On November 26, 2010, Strauss Coffee acquired the Le Café brand (instant coffee), which is sold in Russia and the CIS countries, in consideration for $37 million. Strauss Coffee also acquired 51% of the shares of the Le Café group.
[15] For information on a non-marketable option plan for the senior executives of Strauss Coffee, which reflects (in full dilution) an allotment of 2.5% of the share capital of Strauss Coffee, see section 13.9.2 in This Chapter. The plan requires the approval of the General Meeting of Strauss Coffee and consequently, also of the Board of Directors of the Company.

The above diagram of the structure of holdings does not include holdings (direct or indirect) in companies whose activity is immaterial or whose activity consists solely of the holding of assets or leasing of assets, or in companies which are inactive.

2. Segments of Activity

The Group operates in two main activity frameworks: the **Israel activity framework and the coffee activity framework.** These main frameworks are divided into four areas of activity that are reported as segments, as described in Note 29 to the Consolidated Financial Statements of the Company as at December 31, 2010. In the Israel activity framework the Company is active in two segments: Health & Wellness and Fun & Indulgence; in the coffee activity framework the Company is active in two segments: Israel Coffee and International Coffee, as described below:

The Israel activity framework – 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 center on providing a response to two leading consumption trends, "Health & Wellness" and "Fun & Indulgence", and accordingly, the Company's activity in this framework is divided into the two following segments:

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 Mediterranean salads (hummus, tehina, eggplant, etc.), cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil and jams, and natural juices manufactured by Ganir and long-life milk manufactured by Ramat Hagolan Dairies[3], both of which are sold and distributed by the Group. For more information on the Health & Wellness segment, see section 10 in 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, confectionery, chewing gum, cakes and cookies, biscuits, wafers and salty snacks. For more information on the Fun & Indulgence segment, see section 11 in This Chapter.

The coffee activity framework – 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:

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

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; manufactures and sells in Israel chocolate powders and other drink powders; and until the end of 2009 sold and distributed in Israel instant coffee products ("Jacobs"). 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 the various subsidiaries of Strauss Coffee, which are fully assigned as burden costs). For more information on this segment, see section 13 in This Chapter.

D. **The International Coffee segment:** In this segment the Group develops, manufactures, sells, markets and distributes a variety of coffee products bearing its brands in Central and Eastern European countries and in Brazil; in several countries outside of Israel the Group manufactures and sells chocolate powders and other drink powders; in a number of countries outside of Israel it sells and distributes espresso products; and in the framework of its activity in Brazil the Group buys, processes and sells green coffee to exporters in Brazil and to customers outside of Brazil (mainly in Europe and the USA). For more information on this segment, see section 14 in This Chapter.

The Company also has an **International Dips and Spreads segment**, which today is carried out through "Sabra", in collaboration with the international food concern, PepsiCo. For more information on this segment, see section 15 in This Chapter.

In addition to the segments described above, the Group has various other activities that are immaterial to its business, that 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, which are included in the Financial Statements of the Company as at December 31, 2010 as the "Other Operations" segment. The main activities among these operations are:

The Strauss Water Activity: In 2007 the Company entered a partnership in a new venture in the water industry (H2Q). On July 11, 2009 the Company announced the launch of a strategy for the water business, and in July 2009 announced the establishment of Strauss Water and entrance to an activity in drinking water filters and purifiers. In October 2009, through its subsidiary H2Q (87%), the Company acquired all of the shares of Tami4. In August 2010 the subsidiary's name was changed from H2Q Water Industries Ltd. to Strauss Water Ltd. (hereinafter: **"Strauss Water"**). On October 16, 2010 an agreement was signed with the Haier Group for the establishment of a joint venture in China, and on December 12, 2010 Tami4's merger with Strauss Water was approved. For further information see section 16.1 in This Chapter, as well as Notes 6.4 and 6.6 to the Consolidated Financial Statements of the Company as at December 31, 2010.

The Max Brenner Activity: 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 under franchise and through partners, and deliver a novel consumption experience in the chocolate and chocolate beverage category. For further information, see section 16.2 in This Chapter.

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

In the period commencing January 1, 2009 and ending March 14, 2011, the Company issued 784,519 Ordinary Shares of the Company in respect of the exercise of option warrants awarded to senior employees of the Company. For information on the exercise of options granted to employees during 2010 see Article 20 in the chapter, "Additional Information on the Corporation"; for information on the option plan, see section 22.8.2 in This Chapter.

In December 2010, in a transaction outside of the Stock Exchange, Strauss Holdings sold 5,296,325 Ordinary Shares of the Company to a company owned by Bank Hapoalim. The sale was made at the price of NIS 56.26 per share. For further information, see the Company's Immediate Report of December 26, 2010. Additionally, in December 2010 Strauss Holdings acquired Ofra Strauss's shares in the Company from Ms. Strauss, a total of 896,306 Ordinary Shares of the Company. The acquisition was made at the price of NIS 57.64 per share. For further information, see the Company's Immediate Report of December 29, 2010.

4. Dividend Distribution

4.1 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.

4.2 On January 6, 2011 the Company announced a cash dividend of NIS 1.88 on each share of NIS 1 par value, in a total amount of NIS 200,042 thousand. The dividend was paid on February 6, 2011. See also Note 40.5 to the Consolidated Financial Statements of the Company as at December 31, 2010.

4.3 On January 19, 2010 the Company announced a cash dividend of NIS 1.89 on each share of NIS 1 par value, in a total amount of NIS 200,000 thousand. The dividend was paid on February 17, 2010. See also Note 28.3 to the Consolidated Financial Statements of the Company as at December 31, 2010.

4.4 On March 25, 2009 the Company announced a cash dividend of NIS 1.90 on each share of NIS 1 par value, in a total amount of NIS 200,000 thousand. The dividend was paid on April 27, 2009. See also Note 28.3 to the Consolidated Financial Statements of the Company as at December 31, 2010.

The balance of available distributable profits as at the date of the Statement of Financial Condition is NIS 1,231 million.

4.5 The external limitation on the Company's ability to pay dividends, which is likely to influence its ability to distribute dividends in the future, are undertakings of the Company to banks, pursuant whereto it is required to meet two financial stipulations: the ratio of the shareholders' equity (not including the minority interest) to the total Statement of Financial Condition shall be no less than 20%, and the net financial debt to EBITDA ratio shall be no more than 3. As at the date of the Statement of Financial Condition, the Company is in compliance with these undertakings. For information on the abovementioned undertakings, see section 27.2 in This Chapter.

4.6 On June 20, 2010 the rating committee of Maalot the Israel Securities Rating Co. Ltd. (hereinafter: **"Maalot"**) confirmed the rating (AA+/Stable) of the Company's Debenture Series currently in circulation (A, B and C). On October 12, 2010 Midroog's rating committee confirmed the Aa1 rating of the Debenture Series in circulation (A, B and C). For further information, see section 23.10 in This Chapter.

Part II – Other Information

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

5.1 In 2007, following the implementation of IFRS-8 for the first time, the Company executed a change in the segments for reporting purposes in its financial statements. Following discussions between the Company and the staff of the Securities Authority in the framework of preparing the shelf prospectus published on February 22, 2011, the Company again reviewed its reporting on segments of activity and decided, commencing with its Annual Financial Statements for 2010, to present the structure of the "Report on Segments of Activity" note extensively, as described in section 2 in This Chapter. For further information, see Note 29 to the Consolidated Financial Statements of the Company as at December 31, 2010.

5.2 It is understood that the amounts of income, expenses, assets (including inventory; fixed assets; and other assets) and the liabilities of the various activities that can be directly attributed to the segments were attributed accordingly. Mixed activities were attributed to one segment according to the main activity executed therein. The expenses and assets (including trade receivables) that could not be attributed directly were allocated according to economic models applied in the Group as at the date of the Periodic Report.

5.3 Following are the Company's consolidated financial data presented according to segments of activity, in NIS millions (according to Note 29 to the Consolidated Financial Statements of the Company as at December 31, 2010):

Year 2010											
		Health & Wellness	**Fun & Indulgence**	**Total Israel**	**Israel Coffee**	**International Coffee**	**Total Coffee**	**International Dips & Spreads**	**Other**	**Adjustments for Consolidation**	**Consolidated**
Income	**From external parties**	1,811	872	2,683	592	2,794	3,386	297	489	0	6,855
	From other activity segments	7	28	35	22	-	22	-	1	(58)	-
	Total	1,818	900	2,718	614	2,794	3,408	297	490	(58)	6,855
Total costs attributed	**Costs that do not constitute income in another segment:**										
	Fixed:	461	282	743	171	890	1,061	90	170	60	2,124
	Variable:	1,107	533	1,640	362	1,709	2,071	181	298	-	4,190
	Costs constituting income of other segments	22	8	30	6	13	19	-	9	(58)	-
	Total	1,590	823	2,413	539	2,612	3,151	271	477	2	6,314
Income from ordinary operations:											
Attributed to majority		167	77	244	57	136	193	26	11	(52)	422
Attributed to minority		61	-	61	18	46	64	-	2	(8)	119
Total assets		829	784	1,613	762	2,447	3,209	417	575	456	6,270
Total liabilities		334	195	529	190	690	880	165	238	1,736	3,548

Year 2009											
		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Other	Adjustments for Consolidation	Consolidated
Income	From external parties	1,769	855	2,624	598	2,751	3,349	215	185	-	6,373
	F rom other activity segments	7	23	30	27	-	27	-	1	(58)	-
	Total	1,776	878	2,654	625	2,751	3,376	215	186	(58)	6,373
Total costs attributed	Costs that do not constitute income in another segment:										
	Fixed:	444	270	714	173	840	1,013	52	86	46	1,911
	Variable:	1,093	528	1,621	369	1,700	2,069	133	115	-	3,938
	Costs constituting income of other segments	22	9	31	5	19	24	-	3	(58)	-
	Total	1,559	807	2,366	547	2,559	3,106	185	204	(12)	5,849
Income from ordinary operations:											
Attributed to majority		159	71	230	58	139	197	30	(14)	(41)	402
Attributed to minority		58	-	58	20	53	73	-	(4)	(5)	122
Total assets		804	710	1,514	854	2,390	3,244	329	513	558	6,158
Total liabilities		312	246	558	96	701	797	72	177	1,668	3,272

Year 2008											
		Health & Wellness	**Fun & Indulgence**	**Total Israel**	**Israel Coffee**	**International Coffee**	**Total Coffee**	**International Dips & Spreads**	**Other**	**Adjustments for Consolidation**	**Consolidated**
Income	**From external parties**	1,805	866	2,671	582	2,661	3,243	237	95	-	6,246
	From other activity segments	4	44	48	33	1	34	-	-	(82)	-
	Total	1,809	910	2,719	615	2,662	3,277	237	95	(82)	6,246
Total costs attributed	**Costs that do not constitute income in another segment:**										
	Fixed:	435	274	709	173	746	919	55	46	(167)	1,562
	Variable:	1,154	554	1,708	372	1,702	2,074	152	61	-	3,995
	Costs constituting income of other segments	21	7	28	1	28	29	18	7	(82)	-
	Total	1,610	835	2,445	546	2,476	3,022	225	114	(249)	5,557
Income from ordinary operations:											
Attributed to majority		140	75	215	67	179	246	12	(16)	163	620
Attributed to minority		59	-	59	2	7	9	-	(3)	4	69

A variable cost is a cost that is directly and immediately influenced by the scope of the business's activity, as opposed to a fixed cost, which is a cost that does not change in the short term and is therefore not directly and immediately influenced by the scope of the business's activity. For example, a variable cost includes the cost of materials and regular ongoing 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 activities. The Company can decide on the discontinuation of the operation of production lines and have a decisive impact on the scale of these variable costs.

5.4 **Nature of adjustments for consolidation** – the adjustments of income, costs and assets (including cash, investments and other unidentified joint assets) for consolidation arise from the sale of finished goods and goods in process between segments of activity, as well as from one-time amortizations, income and expenses. For further information, see Note 29.1 to the Consolidated Financial Statements of the Company as at December 31, 2010.

5.5 **Explanation of developments that occurred** – for an explanation of developments that occurred, see the Board of Directors' Report on the Corporation's Business Condition for the year ended December 31, 2010.

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 activity, there are factors in the Group's macroeconomic environment which had a material impact on the Group's activity. A number of factors in the Group's macroeconomic environment, including currency exchange rates and fluctuating raw material prices, influenced the Group's activity, as described below:

6.1 **Price fluctuations in commodities markets** – commodities form a substantial component of the raw materials used in producing the Group's products. Commodities are highly traded and are consequently subject to market price fluctuations, which are occasionally volatile. In recent years the prices of some commodities have risen as part of a world shortage crisis, which has a material impact on raw material prices. In 2010, especially the second half of the year, significant increases in the prices of the commodities used by the Group developed – cocoa (in the first half), sugar, green coffee, oils and flour. These increases were due, among other things, to world weather problems and geopolitical changes, coupled with increased demand, particularly by Asia, the rising standard of living in developing countries, and the entry of hedge funds to the commodities market. The Group has taken action to mitigate these influences, including, among others, by hedging the risk in the prices of some commodities and by changing its material mix and applying operational streamlining measures (for further information, see sections 10.11, 11.11 and 13.10 in This Chapter).

6.2 **Regulatory developments in the prices of production inputs** – the Group is influenced by regulatory changes occurring from time to time in relation to labor costs and the price of unprocessed milk, which constitute a major part of its production inputs. In late 2010 the Knesset Economic Affairs Committee approved for second and third reading a bill designed to anchor the existing arrangements in the dairy industry (see section 10.13.2 in This Chapter). Changes in the water quota policy impaired the scale of agricultural crops and consequently, the prices of some of the Group's inputs have risen. On January 2, 2011 a general collective agreement was signed for the revision of the minimum wage in Israel. According to the agreement, the minimum wage will be raised in two stages, on July 1, 2011 and October 1, 2012. As at the date of the Report the collective agreement has not yet become effective. The Company estimates that the impact of the agreement on the results of its activity will be marginal.

6.3 **Energy prices** – in recent years, energy prices have been on a rising trend as a result of increasing world demand. This trend continued in 2010 and has grown sharper in the first quarter of 2011. Increasing energy prices have a negative impact on production and transportation costs and on raw material costs, particularly the prices of packaging materials.

6.4 **Fluctuations in currency exchange rates** – the Group's business is conducted in a number of currencies (expenses – mainly in Dollars, Euros and various European currencies, and income – in Shekels and in the local operating currencies in the countries where the Group is active). Fluctuations in the exchange rates of foreign currencies (mainly the US Dollar, the Euro and the British Pound) in relation to the Shekel, or fluctuations in the exchange rates of the local operating currencies in relation to the Dollar, are liable to lead to an improvement or erosion of the Group's profitability. Moreover, the Group has loans, deposits and financial derivatives in foreign currency, and changes in the exchange rates of the foreign currencies consequently have a positive or negative impact on the Group's financing income/expenses.

The Company's international activities are mainly conducted through autonomous subsidiaries. The weakening of most of the local operating currencies (Euro, other European currencies and the Dollar, with the exception of the Brazilian Real) in relation to the Shekel had a negative impact on the Company's (Shekel) sales turnover and on the shareholders' equity.

6.5 **Economic stability in certain countries** – the Group is active in a number of Eastern European countries, a few of which are still being affected by the global economic crisis of 2008 and 2009. The main countries are Ukraine, Serbia and Romania, whose economic stability has been significantly undermined. Among other things, this instability has had an adverse effect on demand for consumer goods in these countries.

6.6 **Inflation** – in 2010 inflation in Israel was 2.3% (on the basis of the known Index), lower than inflation in 2009 (3.8%). The Company has a significant volume of Index-linked liabilities (Debentures Series A and B), and consequently, changes in inflation rates have a significant impact on the Company's total financing expenses. The Company partially hedges its exposure to changes in inflation rates. In the countries where the Group is active (except for Serbia) inflation in 2010 was single-digit.

6.7 **Interest** – the Bank of Israel interest rate rose from 1.00% in December 2009 to 2.00% in December 2010. This increase influenced the Company's financing expenses, as it is also financed by the Series C Debentures, where the Shekel interest is variable. In the CEE countries, except for Serbia, interest rates dropped in 2010. In Brazil, the interest rate rose in 2010, but financing expenses in that country decreased thanks to the decrease in the balance of loans and the composition of subsidized loans aimed at encouraging exports from Brazil.

6.8 **Customs duties and purchase taxes** – in countries where the Group is active outside of Israel, the import of raw materials and finished goods is subject to customs duties. These customs rates change from time to time, occasionally unexpectedly, which is liable to affect the Group's ability to compete with local manufacturers or foreign manufacturers that are not subject to these customs duties.

It is noted that the abovementioned factors are likely to continue to have a positive or negative influence on the Group's business activities and its financial results in the future as well, depending on their trend. The degree of influence, if any, depends, among other things, on the intensity, scope and duration of the occurrences and on the Group's ability to contend with them.

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

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 millions of consumers in Israel and worldwide.

According to StoreNext figures, in 2010 real growth in the Israeli food and beverage industry continued, up by 4.2% compared to 2.3% in 2009; however, in nominal values, growth in the past two years was identical at 2.8%. The Israeli food and beverage industry is estimated at NIS 33 billion and constitutes approximately 86% of all FMCG sales in Israel. A review of growing categories in the food and beverage market in Israel shows that in 2010, the categories defined premium demonstrated renewed and increased growth.

In recent years there has been a trend of consolidation and merger processes among food and beverage vendors in Israel and globally, as companies seek to capitalize on economies of scale and create focus and leadership in their core businesses. This trend continued in 2010; for example, in January 2010 Tata Coffee (among India's largest coffee growers and exporters) signed an agreement of understanding and collaboration with Starbucks; in early 2010 the world food and beverage giant Kraft acquired Cadbury, the international confectionery giant; in September 2010 the USA coffee giant Green Mountain Coffee acquired Van Houtte, a coffee company active in North America that owns some 71 thousand coffee booths; in November 2010 Sara Lee acquired the Brazilian coffee company Damasco; in March 2010 Lactalis, Europe's biggest dairy product company, acquired the dairy product business of the Spanish company, Ebro Puleva; in August 2010 Luigi Lavazza SpA acquired 7% of the shares of Green Mountain Coffee with the aim of expanding in the USA. The companies agreed on the joint production of espresso machines and capsules for home use, and the sale of existing Lavazza machines; in January 2010 Danone signed an agreement for the merger of its dairy division with its counterpart in the Russian company, Unimilk. The merger will turn the two into leaders in the dairy product market in countries in the CIS region. Large international corporations, manufacturers and retailers alike, are expanding their global activities, including in emerging markets.

This trend has led to a situation where giant conglomerates continue to gain power by acquiring other companies, while relatively small companies focus their activities on unique niche markets.

In recent years there has been in and outside Israel a marked trend of growth in food chains that are relatively large, but smaller than the chains in the organized market (the **"big private market"**) at the expense of the organized market and of mini-markets and grocery stores (the **"small private market"**). In 2010, for the first time, the share of large stores in the private market in Israel was close to the share held by large stores in the organized market (not including mini-markets and neighborhood stores) – 29.8% versus 28.6% respectively (according to StoreNext figures).

Moreover, there has been a consistent trend of growth, globally and in Israel, in the Away From Home (AFH) market, which includes the consumption of food and beverages in restaurants, cafés and stalls, vending machines, hotels, institutions, workplaces and others. As part of the development of consumer habits in recent years, of particular prominence is the development of three major consumption trends, which place emphasis on convenience, health and indulgence. **Convenience products** fill the need for high-quality quick nutrition solutions that save time and allow for consumption anywhere, anytime. Another noteworthy emerging trend is the purchase of packs on account of individual units – convenience in shopping and not just in consumption; **Health and Wellness products** provide a response to the need for improved physical well-being as a result of increased awareness of the importance of a healthy lifestyle, and the demand for products rich in calcium and omega has increased; **Fun and Indulgence products** provide a response to the rise in the standard of living and the demand for high quality and enjoyment.

Due to the high costs of media and advertising, coupled with the crucial need to build strong brands, in 2010 the Company persevered in the trend of reducing the number of its brands and converging diverse product categories under broader product umbrellas. This trend is designed to strengthen the "master brands" by investing funds in a more efficient manner and accomplishing optimum marketing effectiveness.

In the Group's activity in the food and beverage industry, several key success factors that are common to all its segments of activity are evident, which form a positive factor of influence on its competitive position. These are market dominance; branded products that provide an experience and added value to the end consumer; a broad and diverse product range in each segment of activity, designed for the general population and different consumption opportunities; continuous product innovation; a response to changing consumption trends; meticulous attention to product quality; competitive prices; an extensive distribution system that provides for high product availability at a large number of points of sale; and collaboration with international corporations that are among the most prominent in the industry.

The major entry barriers that are common to all of the Group's business areas arise from the need to maintain a brand that is relevant; the need for technological know-how in production and the large investments required to establish production sites; and the need for sales and distribution infrastructure.

8. Synergies between the Group's Segments of Activity

The synergy between the Group's segments of activity is high, with shared logistic and management systems, including sales, distribution, information infrastructure, general procurement and the procurement of commodities and raw materials, coffee product development, branding, human resources management, inter-unit raw material supplies, media buying and financial management.

In 2007 the Company launched a computerized ERP system in Israel, which integrates all of the Group's data and business processes in a single uniform system. The system has led to the unification of work processes in the Group and provides a uniform, comprehensive computerized solution for the Company's activities in Israel in the areas of financials, procurement, planning, production, inventory and service.

In February 2008 a system for the management of sales, distribution and logistics that is among the most advanced in the world was launched in Israel. Additionally, the Company has developed control, budget planning and management, and financial statement consolidation systems, some of which were already launched in 2008, and in February 2009 a sales campaign management system was launched for the first time. The operation of all of these systems was completed in the course of 2009.

In January 2009 a unified system was launched for the management of green coffee quality testing. The system is designed to achieve a uniform terminology and method for coffee quality control across the entire Group, the quick location of quality problems, transparency and operating efficiency. The system is operational in most of the companies in the Group, including at the premises of the Company's suppliers worldwide.

In February 2009 the Group launched its global financial reporting system. Commencing in the first quarter of 2009 and thereafter, the Group's financial reports are prepared using the new system, which improves the quality, scope, depth and accuracy of consolidated reporting in the Group. As part of the process of assimilating ISOX in the Group, the Company assimilated a global system for the management of the process in all major companies in the Group in and outside of Israel.

Additionally, in early 2009 the deployment of computerization at the "elite coffee" points of sale (some 70 in number) was completed, upgrading management capabilities, supervision and control in the operation of all points of sale in the chain.

In July 2009 a system for warehouse floor management was launched. The new system, which replaced the WMS system, creates a uniform language, methods and work process in all logistic warehouses, supports changing needs in and outside of the organization, and enables the Group to deliver the best service possible in the logistics field. In 2009 the system went live in the Company's central logistics warehouse in Zrifin, and in 2010 was assimilated in all the major logistics centers in Israel.

In the second half of 2010 the infrastructure departments of the Supply Chain were merged with the infrastructure department of the Sales Division with the goal of creating one organizational point of reference and a single knowledge center for all data on all infrastructural issues. This move expresses the organization's focus on professionalism.

To improve control in the maintenance sphere and streamline the operation of the Group's manufacturing sites, in 2010 a computerized system for maintenance management in the Group's sites in Nazareth and Achihud was implemented.

In 2010 the Company implemented a disaster recovery plan (DRP) and transferred the central computer facility to Petach Tikva while establishing a site in a different geographic location to provide complete backup.

In 2010 the operating systems and Office systems in the personal computers of the Company's employees were upgraded in order to base the infrastructural elements on the most up-to-date technology and improve the level of service to the employee.

Outside of Israel, in mid-2009 a project, the first of its kind, was launched, for the complete computerization of the companies in the Group with an ERP system. Sabra in the USA was the first company in which this project was implemented. In October 2009 the financial, inventory and procurement modules went live, and in February 2010 the new sales and distribution systems were launched. In 2010 a project for the complete computerization of Strauss Romania with an ERP system was initiated. The project includes operation of the financial, inventory, procurement, sales and distribution systems. The system was launched and became operational in January 2011.

The Group leverages the knowledge and resources, including technological and marketing, that exist in its various business units in Israel and abroad, for the benefit of the Group as a whole. In this framework the Group aims to manufacture products by combining different production technologies in its possession.

Following is a description of the Group's businesses in regard to each of its segments of activity individually, except for subjects that relate to all of its segments of activity, which are described in the fourth part of This Chapter.

9. The Israel Activity Framework

General information on the Israel activity framework

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

9.1 The structure of the activity framework and changes occurring therein

In this activity framework the Group develops, manufactures, sells, markets and distributes in Israel a large variety of branded food and beverage products. For a description of the products, see sections 10.2 and 11.2 in This Chapter.

In recent years there has been a trend of consolidation and merger processes among food and beverage vendors in Israel. These processes have led to the creation of five leading food and beverage groups, which provide (according to StoreNext figures), a significant share of food and beverage consumption in the country: Tnuva, the Company, Osem Nestle, the Central Bottling Company and Neto Trade. According to StoreNext data, the Group is the second-largest food and beverage concern in Israel (see also sections 10.4 and 11.4 in This Chapter). In 2009 the trend of consolidation in the industry continued; for example, Strauss Group acquired Tami4, active in water filtration and purification systems, and Osem Nestle acquired Materna, active in baby food.

9.2 Changes in the scale of the activity framework and in its profitability

The years 2009 an 2010 were characterized by increased competition in the food industry in Israel. The high density of stores contributed to the price-strategy based competition.

Until 2009 food prices in Israel rose; however, since 2009 prices have been relatively stable, as a result of the many consumer discount campaigns.

In terms of raw material prices, 2010 was characterized by mixed trends (for further information on the subject, see sections 10.11 and 11.11 in This Chapter).

For details on the changes in revenues and profitability in the Health & Wellness and Fun & Indulgence segments, see the Board of Directors' Report as at December 31, 2010.

9.3 Developments in the markets of the activity framework or 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 in This Chapter. In the food retail sector in Israel there are three large chains whose market share amounts to 45.8% (compared to 47.7% in 2009) of the total retail market (according to StoreNext figures).

In 2010 the trend of growing strength of the large food chains in the "private market" (the "big private market") at the expense of the "organized market" and the "small private market" continued, expressed in the opening of new stores while expanding significantly into new regions throughout the entire country.

In 2010 the "Kimat Hinam" chain acquired the "Haviv Yarkon" chain, and the "Dan" chain acquired the "Lahav" chain; all of the foregoing chains are part of the "big private market".

In recent years new food chains were established and existing chains entered the category of stores based on organic products, in the desire to cater to the health and wellness consumption trend.

The two chains in the organized market established customer clubs, which serve them as a lever for empowerment and the development of a loyal customer public. Through high frequency, large scale campaigns and benefits, the customer clubs have grown significantly in the past few years.

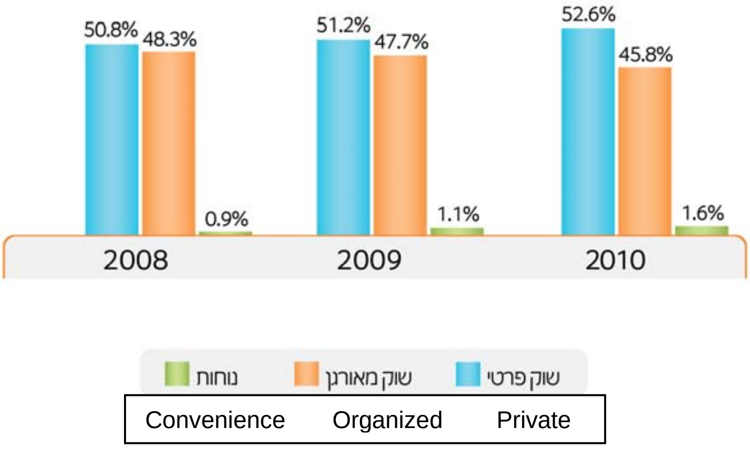
Recently, digital shopping sites have been established on the Internet; these deliver a quick and convenient shopping experience at any and all times convenient for the consumer, liberating him from dependence on the store's hours of operation.

In 2010 the branding and growth momentum of the convenience store chains continued (the "convenience market"). These stores are located at gas stations and constitute a niche for supplemental shopping on the way home at the expense of neighborhood mini-markets and grocery stores, as well as serving as a venue for refreshments and a break on the go.

In 2009 and 2010, two phenomena were significantly accelerated: the EDLP (Every Day Low Price) marketing strategy, a price policy adopted by most chains in both the organized market and big private market; and simultaneously, promotion of "private label" products in the two aforesaid markets, which compete with the products of the food companies. The combination of these two occurrences led to the strengthening of the basic product portfolio and to intensified competition. In the Company's view, its robustness and high positioning have contributed to its continuing success and sustainability in the face of the emerging trends.

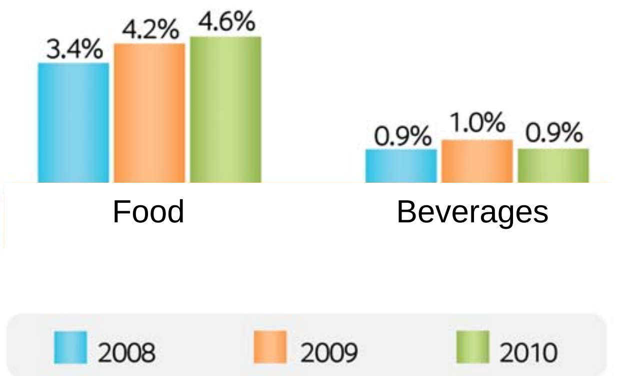
The following diagram presents the distribution of market share between the organized market, the private market and the convenience market in the years 2008-2010:

Market Share 2008 – 2010 between the Organized, Private and Convenience Markets in the Food & Beverage Industry (According to StoreNext)[4]



The trend of the increasing strength of private label brands in the food market continued in 2010 (excluding the beverage market).

The following diagram presents the market shares of private label brands in the years 2008-2010:



9.4 **<u>Critical success factors in the activity framework and changes occurring therein</u>**

In addition to the critical success factors that are common to all of the Group's segments of activity described in section 7 in This Chapter, there are success factors that are unique to the Israel activity framework or such that possess especially great importance, which include:

A strong and leading corporate brand, leading brands in the different products; high product credibility among consumers, with emphasis on product quality, freshness and healthiness; unique operational and logistic capabilities required in the production, distribution and storage of products requiring refrigerated conditions; quick launch of new, experience-intensive products; product development and innovation; financial robustness for a

4 The figures for 2009 and 2008 were revised following an amendment received from StoreNext.

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.

9.5 **Major entry barriers to the activity framework 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 in 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 contend with the freshness issue in mass production and in distribution; furthermore, the short shelf life and customs duties applicable in Israel serve as a barrier to entry by imported dairy products.

9.6 **Substitutes for the products of the activity framework and changes occurring therein**

The Group's products in the Israel activity framework have substitutes manufactured by competitors, including imported products and the private label products of the retail chains. As a result of the strengthening of the Shekel, imports of inexpensive competing products to Israel have increased, mainly "Fun and Indulgence" products, most of which are not subject to customs duties or quotas.

9.7 **Structure of the competition in the activity framework and changes occurring therein**

The Group's food operations in the Israel activity framework are subject to tough competition between a limited number of large food manufacturers selling similar products to those of the Group. The rest of the competition in this activity framework is posed by the retailers' private label products and by small manufacturers and local open-air markets. Competition against part of the Group's products is posed by imports of competing products.

10. The Health & Wellness Segment

10.1 **General information on the Health & Wellness segment**

For general information of the Israeli activity framework, which comprises the Health & Wellness and Fun & Indulgence segments, see section 9 in This Chapter.

10.2 Products

In 2009 and 2010 the Company consolidated its brands under "master brands"; **Health & Wellness** products were consolidated under the Strauss corporate brand and the Danone brand.

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

Health & Wellness products are characterized by the emphasis of nutritional and functional aspects that are important to the consumer's healthy diet. Features emphasized in the development of healthy products include raw material composition, inclusion of healthy functional 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), and consequently, they are less exposed to imports of competing products.

10.3 Segmentation of revenues and product profitability

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

In Health & Wellness products – "dairy products" (including mainly yogurt, dairy desserts, white cheeses, enriched milk and flavored milk beverages); "salads" (including mainly prepared packaged salads and cut vegetables); and "other Health & Wellness products" (including mainly cereal bars, granola, honey products, olive oil and jams);

Group of Similar Products	Income in NIS Millions			Percentage of Group's Total Income		
	2010	2009	2008	2010	2009	2008
Dairy products	1,323	1,289	1,323	19.3%	20.2%	21.1%
Salads	243	241	241	3.5%	3.8%	3.9%
Other Health & Wellness products	245	239	241	3.6%	3.8%	3.9%
Total Health & Wellness products	1,811	1,769	1,805	26.4%	27.8%	28.9%

10.4 **Competition**

In the Health & Wellness segment competition between food manufacturers selling similar and substitute products is fierce. All of the Group's major product groups in Health & Wellness have competing products.

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 relatively small local competitors.

The two major competitors of the Group's dairy products have collaborations with international corporations, intensifying the competition in the yogurt and dairy dessert market. Since 2002, Tnuva has collaborated in yogurt products with the international dairy manufacturer Yoplait, and Tara has collaborated in yogurt products and dairy desserts with the international dairy firm Müller since early 2008. These collaborations have greatly increased the competition in the yogurt and dairy dessert market.

In 2010 competition by the private label products of retailers continued, as the latter expanded the range of products competing against those of the Group in the Health & Wellness segment. See also the section on Risk Factors, section 32.1.2.Q in This Chapter.

The following table presents information on the market shares of the Group and its major competitor in each category in the years 2009 and 2010 in reference to the Group's main Health & Wellness products, according to weighted data based on StoreNext figures for the barcoded retail market (which includes the large food chains, barcoded private mini-markets and independent food chains):

Similar product groups	Weighted Market Share (in Percent – Value)			
	For 2010		For 2009	
	The Group	Major Competitor	The Group	Major Competitor
Yogurts[5]	44%	38%	47%	37%
Cheeses[6]	22%	64%	20%	68%
Dairy desserts[7]	66%	23%	71%	20%
Flavored milk	63%	33%	62%	34%
Enriched milk	55%	43%	54%	45%
Packaged salads[8]	27%	41%	30%	40%
Cut vegetables[9]	61%	12%	49%	19%
Honey	61%	14%	60%	21%

Among the negative factors that in the opinion of Company Management influence or are likely to influence the Group's competitive position in the Health & Wellness segment are the growing strength of the private label brands of the food chains; expansion of the activity of international food companies in the domestic food market in Israel; increasing imports of inexpensive branded products; the development of brands and selling and marketing capabilities by competitors, which will reduce the Group's competitive advantage. For positive factors influencing the Group's competitive position, see section 7 in This Chapter.

[5] Including probiotic drinks

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

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

[8] Including the products under the Achla brand

[9] The cut vegetable products are marketed under the Group's brands and are also sold as a private label of the Co-Op Blue Square chain

The Group contends continuously with the competition in the Health & Wellness segment by concentrating marketing efforts and advertising; building and maintaining its brands; a comprehensive distribution system; collaborations with multinational corporations (Danone), which allow the Group use of knowledge and trademarks; development and launch of new products; entry to new business areas (including through the creation of various local partnerships and the acquisition of holdings in companies that specialize in new spheres); investment in production sites and the development of technological capabilities.

10.5 **Seasonality**

Following are data for the years 2010 and 2009 relating to the Company's income in the Health & Wellness segment by quarter, in NIS millions:

	2010		2009	
	Income (NIS millions)	% of total income of segment	Income (NIS millions)	% of total income of segment
Q1	425	23.5	418	23.6
Q2	448	24.7	444	25.1
Q3	475	26.2	473	26.8
Q4	463	25.6	434	24.5
Total	1,811	100%	1,769	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.

10.6 **Production capacity**

10.6.1 The production capacity of the Group's sites in the Health & Wellness segment is measured in quantities produced 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.

10.6.2 The maximum potential yearly production capacity of the Group's manufacturing sites in the Health & Wellness segment, operating in three shifts, in tonnes product per year in the years 2010 and 2009 was 289 thousand tonnes and 284 thousand tonnes, respectively. The actual average production capacity utilization rate in the years 2010 and 2009 was 56% and 54%, respectively. The increase in the utilization rate of production capacity is the result of streamlining efforts in the segment's production sites.

10.6.3 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. In April 2010 a state-of-the-art biological wastewater treatment plant for the treatment of the dairy's wastewater, established at a cost of NIS 12 million, became operational. 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 Health & Wellness segment in 2011.

10.7 **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 Health & Wellness segment.

10.7.1 **Production sites**

A. **Dairy in the Bar-Lev industrial park** – a dairy serving for the production of dairy products. The dairy is located on a plot of some 66.5 dunam (16.6 acres), with a built-up area of 21,000 m². Strauss Health leases the real estate from the Israel Land Administration under a capitalized lease agreement of 2003. The lease period is 49 years commencing June 15, 1997.

B. **The milk beverages dairy in Yotvata** – a dairy serving primarily for the production of milk beverages and enriched milk. The dairy is located on an 8,000 m² plot and its built-up area is 6,100 m². Yotvata Dairies leases the real estate from Kibbutz Yotvata under a sublease. Part of the area of the Dairies is leased until 2026 and part until 2046. It was determined that the lease fees are to be paid according to the payment of the lease fees to the Israel Land Administration under the main lease agreement. Although the sublease has not yet been approved by the Israel Land Administration, Group Management is of the opinion that there is no prevention against the receipt of this approval. However, it appears that receipt of the approval will require payment of a capitalization fee to the Administration.

C. **Aviv Dairies in the Netivot industrial zone** – a dairy serving for the production of dairy products under Kashrut Mehuderet. The dairy is located on a 5,000 m² plot and the built-up area is 2,020 m². Aviv Dairies has leased the property from a third party for a period ending on

February 28, 2012 and has an option to renew the lease for a further ten years.

D. **Salad plant in Carmiel** – the plant serves for the production of salads and is located on an 18,000 m^2 plot with a built-up area of 9,000 m^2. The real estate property is owned by the Group.

E. **Cut vegetables plant in Sde Nitzan** – a plant serving for the cutting, mixing and packaging of fresh refrigerated vegetables. The plant is located on a 2,800 m^2 plot and its built-up area is 2,560 m^2. Strauss Fresh Vegetables has leased the property from Sde Nitzan – Workers' Moshav for Cooperative Agricultural Settlement Ltd. for a period of 23 years ending in January 2031.

F. **The Strauss Yad Mordechai Apiary plant at Kibbutz Yad Mordechai** – a plant serving for the production of honey products, olive oil and jams. The plant is located on a 10,400 m^2 plot and its built-up area is 4,300 m^2. Strauss Yad Mordechai has leased the land rights from Kibbutz Yad Mordechai for a ten-year period ending in December 2013 which will be renewed automatically for a further ten years unless either of the parties has informed the other of the cancellation of the rental agreement.

10.7.2 **Distribution, logistics and cross-docking centers**

A. **Major distribution centers for refrigerated products** – these centers serve the products included in the Health & Wellness segment, which require a refrigerated distribution system. The distribution and logistics centers in Haifa (responsible for the northern region) and in Petach Tikva (responsible for the central and southern regions) handle products requiring a refrigerated distribution system. The Haifa distribution center is located on an 8,865 m^2 plot and its built-up area is 4,735 m^2. Strauss Health has leased the property together with Strauss Ice Cream Ltd. (hereinafter: **"Strauss Ice Cream"**) from third parties for a twenty-year period ending in October 2018. The joint rental began in a period when the lessees were sister companies and distribution to the organized market was jointly managed. The Company holds 55% of the site area, and Strauss Ice Cream – 45%. The rental costs and municipal rates and taxes are allocated pro rata to the division of the space; 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). The Petach

Tikva distribution center is located on a 15,000 m² plot with a built-up area of 5,790 m². Strauss Marketing has leased the property since 1990 from Rav Etgar Ltd. (a company controlled by some of the controlling shareholders of the Company). The current lease period ends in 2012.

B. **Major cross-docking sites** – the Group's main cross-docking sites in Israel are the sites in Beit Shemesh and Beersheba. These sites mainly serve the Health & Wellness segment. The Beit Shemesh cross-docking site is located on a 390 m² plot. Strauss Marketing has leased the area from a third party until the end of 2011 and has an option for further extensions. The Beersheba site is located on a 4,920 m² plot. The Group has leased this area from the Israel Land Administration under a capitalized lease contract for a period 49 years ending in 2029.

The real estate and other fixed assets, including facilities, apparatuses, tools and equipment of the Company, Yotvata and Aviv Dairies are attached under a floating charge in favor of the State of Israel to ensure the liabilities of the abovementioned companies with respect to the receipt of investment grants in the framework of the grant of "Approved Enterprise" status for the production facilities of the above companies under the Encouragement of Capital Investments Laws or the Encouragement of Capital Investments in Agriculture Law, 1980 (hereinafter: the **"Encouragement of Capital Investments Laws"**). For information on the investment plans in which respect the plants were granted "Approved Enterprise" status and related benefits, see section 24.3 in This Chapter.

For information on the Company's policy for depreciating the machinery and equipment in its various manufacturing plants in its books, see Note 3.4 to the Consolidated Financial Statements of the Company as at December 31, 2010.

10.8 **Research and development**

For a description of research and development carried out in the Group, see section 21 in This Chapter. Dairy products are developed, inter alia, by using the comprehensive know-how in Danone's possession.

10.9 Intangible assets

10.9.1 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 10.14.1.B in This Chapter.

10.9.2 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 27.1 in 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 an itemization of costs and financial movements relating to intangible assets in the years 2010 and 2009, see Note 15 to the Consolidated Financial Statements of the Company as at December 31, 2010.

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 22 in 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 266 and 180 employees of personnel agencies), as at December 31, 2010 and December 31, 2009, respectively:

	Number of Employees as at	
	December 31, 2010	**December 31, 2009**
Finance, Marketing, HR, IT and Administration	121	173
Sales and Distribution	890	940
Procurement and Logistics	86	92
Operations	771	738
Total	1,868	1,943

The decrease in the number of employees is mainly due to the statutory mobility of employees from the business units to the Corporate Center; i.e. correction of the registered attribution of a number of employees from one company to another within the Group; as well as a reduction in number of shelf-stocking employees.

For information on the number of employees in Israel HQ, Sales HQ and Supply Chain HQ, who serve the Group's entire activity in Israel, see section 22.2.3.

10.11 **Raw materials and suppliers**

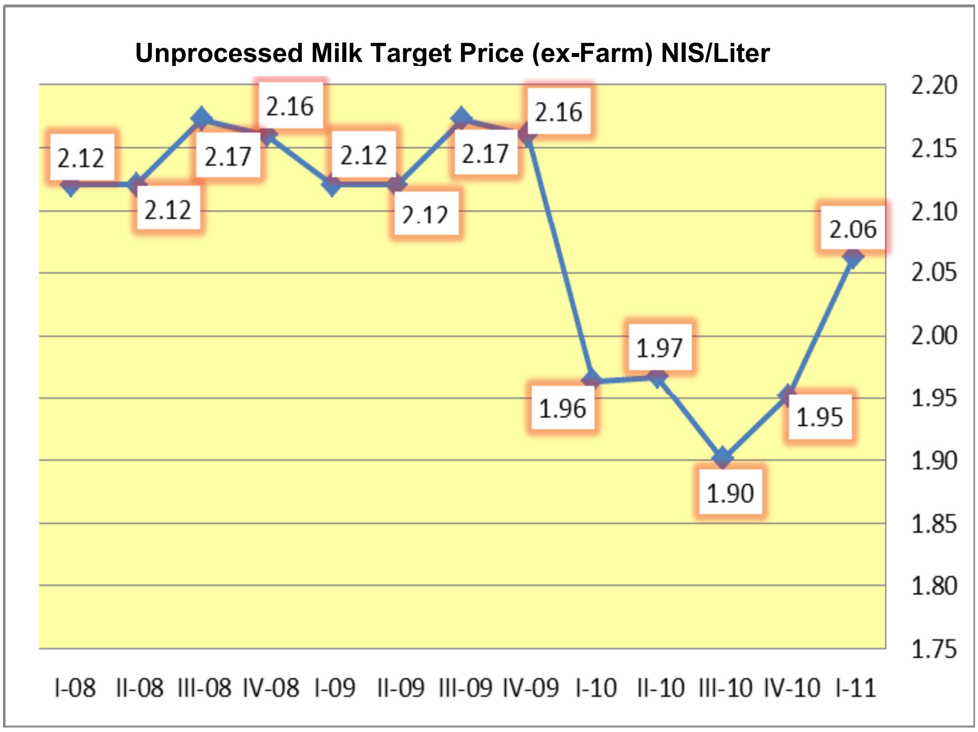
10.11.1 In the course of 2010 and especially in the second half, a trend of substantial increase in the prices of most of the main raw materials used by the Company in its activity in the segment began as a result of increased demand, a reduction in the supply of raw materials due to inclement weather all over the world, and the shutdown of manufacturing sites during the economic recession, which have not yet been reopened. Additionally, speculative activity in the commodities market also contributed to the trend of rising prices and to the feeling of uncertainty in the various markets.

10.11.2 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, tehina, different vegetables and legumes, frozen and crushed fruit, olive oil, honey and packaging materials.

Liquid milk is purchased from various dairy farmers in the Western Galilee, the 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 Strauss Ice Cream at market prices. Following the recovery of the dairy industry and due to particularly hot weather, during 2010 a severe shortage of both milk powders and butter was created and as a result, the Company was obliged to increase the quantities of milk powders and butter imported from abroad.

It is the practice of Strauss Health, Yotvata and Aviv (to the best of the Company's knowledge, in line with accepted practice in the dairy industry) to grant loans to dairy farmers (as at December 31, 2010, these totaled NIS 11.8 million), designed for investment in infrastructure or equipment in the cowsheds, under accepted commercial terms and conditions and secured by various collateral.

For information on the arrangements with respect to the definition of unprocessed milk prices, see section 10.13.2 in This Chapter. The following diagram presents the changes occurring in the price of unprocessed milk from 2008 until January 2011 (inclusive) (the figures on the vertical axis represent the cost in NIS of 1 liter, and the figures on the horizontal axis represent time):



Beginning in the third quarter of 2009 through to the third quarter of 2010 there was a series of decreases in the price of unprocessed milk as a result of reductions in the price of cattle feed. From the third quarter of 2010 the trend in the prices of cattle feed changed, and a rising trend developed in the world market and in Israel. Consequently, unprocessed milk prices began to rise, a trend that continued in early 2011. Simultaneously the rising trend of milk powder prices continued in 2010 and early 2011 due to increased demand, mainly by eastern Asia, and due to the ravages of the weather worldwide.

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 the information on the Fun & Indulgence segment in section 11.11.2 in This Chapter.

In the relevant reported period there was no single supplier from which the volume of the Group's purchases exceeded 10% of total raw and packaging material purchases for Health and Wellness products.

10.11.3 The main packaging materials used by the Group in its activity in the Health & Wellness segment are laminates and plastic sheets, ready cartons, cups and bottles, and corrugated cardboard, which are purchased from various suppliers, mainly in Israel, and partly abroad (principally in Europe). In 2009 there was a significant drop in the prices of packaging materials following the decrease in world oil prices. In 2010 the trend changed and the prices of packaging materials increased considerably as a result of the reduction in the number of plants producing these materials during the economic crisis, and due to the reversal in the trend of energy prices, which again began to rise in 2010.

The following diagram shows the changes in oil prices per barrel in the years 2008 – 2010:

The Group contends with 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.

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.

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

As a rule, it is the Group's policy to have a number of suppliers for each of the raw materials (to the extent possible). Generally, most of the Group's agreements with its suppliers are framework agreements, usually for periods of up to 12 months, which include delivery dates, price, quality, supply quantities and credit terms. Purchases are usually made on the basis of continuous orders. In 2010 the Group began to initiate engagements with suppliers for periods of more than 12 months, mainly in commodities and packaging materials.

10.12 **Working capital**

10.12.1 The average balance of working capital in the Health & Wellness segment in 2010 was approximately NIS 127 million. The Company finances the working capital deficit through its current capital sources.

10.12.2 Raw material inventory policy – in the Health & Wellness segment, the Company held an average of raw and packaging material inventory (excluding milk, which is held as daily inventory) which in 2010 served it for 54 days[10].

10.12.3 Finished goods inventory policy – in the Health & Wellness segment, in 2010 the Company held an average of finished goods inventory for 9 days.

10.12.4 Returns policy – The Group enables the end consumer and customers to return defective or expired products and to receive the appropriate financial credit.

10.12.5 **Credit policy:**

A. Customer credit: The Company grants its customers credit for various periods of up to 135 days, according to the type of customer and the engagement with it. The average customer credit period in 2010 in the Health & Wellness segment was 40 days. The average volume of customer credit in 2010 was NIS 234 million.

B. Supplier credit: The Company receives credit from its suppliers for periods ranging from 15 to 120 days, except for part of the commodities suppliers which are paid in cash, and except for liquid milk, which is purchased on supplier credit that is typically short – an average of 17 days. The average credit period received by the Group from its suppliers in 2010 in the Health & Wellness segment was 65 days. The average volume of supplier credit in 2010 was NIS 197 million. Supplier credit is managed according to criteria defined by the Credit Committee, which operates by virtue of procedures empowering the Committee to discuss exceptional requests.

10.13 **Restrictions applying to and control of the segment**

10.13.1 **Declaration as a monopoly in dairy desserts** – by virtue of a declaration of 1998 under the Antitrust Law, Strauss Holdings (including any other

[10] The calculation is based on accounting data, by dividing the average yearly raw material inventory in the relevant year by the material usage included in the Company's (consolidated) cost of sales in that year, multiplied by 365 days.

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

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

10.13.2 **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 target price is determined by the Ministry of Agriculture according to an agreed settlement with the Ministry of Finance, to which the Israel Dairy Industry Council (Production and Marketing) (hereinafter: the **"Milk Council"**) is a partner. The Milk Council was established in 1965 pursuant to a government decision, and serves as a common venue for all elements in the dairy industry – the government, the agriculturists', cattle farmers' and dairies' organizations – in which framework the agreements that are vital for the proper operation of the dairy industry are made. The target price is updated quarterly. Determination of the target price and the obligation to buy the unprocessed milk at a price that is no lower than it are not regulated in the legislation and are based on many-year-long agreements between the different elements in the industry. For changes occurring in the target price in recent years, see section 10.11.2 in This Chapter.

In late 2010 the Knesset Economic Affairs Committee approved for second and third reading a bill designed to comprehensively anchor the existing planning and regulation of the dairy industry through legislation. According to the proposed law, definition of the target price will be anchored in the law by means of the mechanism set forth in the Price Control Law. During an eight-year transition period (so states the version approved by the Committee) 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 valid, revised according to the currently accepted revision procedure. Government policy relating to all matters involved in the planning of the industry will be determined in the regulations by the Ministers of Agriculture and Finance, as the case may be. The Milk Council will be granted the necessary powers to implement the planning as determined according to government policy. As at the date of this Periodic Report, the Knesset has not yet approved the bill in the second and third reading.

10.13.3 For information on an agreed injunction relating to trade arrangements between suppliers and retail chains, see section 26.4.2 in This Chapter.

10.13.4 **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, by virtue 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 a the date of this Periodic Report only three of the Group's dairy products remain subject to control, and they are "Fresh Milk 3% Fat (Regular) in a Bag", "Fresh Milk 3% Fat (Regular) in a Carton" and "Sour Cream (15% Fat) (Regular)".

10.14 **Material agreements**

10.14.1 **Agreements with Danone**

A. 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.

B. <u>Licensing agreement</u> – On December 13, 1996 Strauss Health engaged 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 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.

The parties agreed, in the course of a period to be agreed between them in the future, to gradually remove from use the 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 is noted that the licensing agreement does not prevent Danone from making use of the trademarks in the Territory for other products, except those under the licensing agreement and other refrigerated products.

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

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

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

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

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

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

The percentage 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.

The total expenses paid in respect of the license, know-how and royalties in the years 2010, 2009 and 2008 were NIS 5,097 thousand, NIS 5,374 thousand and NIS 5,512 thousand, respectively.

In the estimate of Company Management the Company is not dependent on Danone; termination of the engagement between the Company and Danone will have a material impact on the results of Strauss Health's business operations in the short term only.

9.13.2 **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 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 no 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 2010, 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. The Company reviews the issue of the exercise of the merger option under the agreement from time to time and according to the circumstances. In the Company's estimate, until the date of this Report the terms and conditions for the exercise of the option have not been fulfilled; as at the date of the Report, the option has not been exercised by either of the parties.

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

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

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

In October 2006 Kibbutz 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, 2013 – see Note 13.2 to the Consolidated Financial Statements of the Company as at December 31, 2010.

11. The Fun & Indulgence Segment

11.1 General information on the Fun & Indulgence segment

For general information of the Israeli activity framework, which comprises the Health & Wellness and Fun & Indulgence segments, see section 9 in This Chapter.

11.2 Products

The Group's major Fun & Indulgence products are generally marketed in Israel under the **Elite** brand (bakery products, including biscuits, cakes, wafers and cookies, and sweet snack bars – **Mekupelet, Kif Kef, Tortit, Taami, Egosi**) as well as under additional brands: **Pesek Zman, Cow** (chocolate tablets, chocolate fingers and sweet spreads), **Must** (candy and chewing gum), **Tapuchips, Shoosh, Doritos** and **Cheetos** (potato and corn-based salty snacks). The Group's Fun & Indulgence products are manufactured at its sites in Israel, except for a limited number of products purchased from third parties in Israel and abroad, such as artificial sweetener, seeds and nuts and microwave popcorn. The Group sells, markets and distributes the products in Israel alongside a limited activity in the export 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. The Group seeks to provide a response to this trend by developing suitable products and technologies, such as the removal of trans fats and artificial food colorings from its products, the addition of healthy ingredients to products and the development of reduced-calorie offerings. Alongside the health trend is another trend: when the consumer decides to indulge himself he chooses a product that will provide maximum pleasure. Thus, for example, there has been a rise in the consumption of better quality, more expensive chocolate. Accordingly, the Group focuses on manufacturing premium Fun & Indulgence products that deliver special added value to the consumer.

The Group's Fun & Indulgence products are characterized by a relatively long shelf life of 3.5 to 12 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 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.

The Group views these trends as a business opportunity for leveraging its capabilities and relative advantages to create new consumption habits, launch branded products and deliver unique solutions for its consumers.

11.3 **Segmentation of revenues and product profitability**

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

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

Group of Similar Products	Income in NIS Thousands			Percentage of Group's Total Income		
	2010	2009	2008	2010	2009	2008
Confectionery and bakery	729	718	728	10.6%	11.2%	11.7%
Salty snacks[11]	143	137	138	2.1%	2.2%	2.2%
Total Fun & Indulgence Products	872	855	866	12.7%	13.4%	13.9%

11.4 **Competition**

In its Fun & Indulgence products the Group contends in a market where competition is fierce between manufacturers and importers selling similar, interchangeable products. All of the Group's major product groups in the Fun & Indulgence segment have rival products. The major competing products to the Group's products are

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

manufactured by Unilever, Osem Nestle and Leiman Schlussel. There are also additional small players that compete with the Group.

In 2010 competition by the private label products of retailers continued, as the latter expanded the range of products competing against the Group's products in the Fun & Indulgence segment. See also the section on Risk Factors, section 32.1.2.Q in This Chapter.

The following table presents information on the market shares of the Group and its major competitor in the years 2009 and 2010 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):

	Weighted Market Share (in Percent – Value)			
	For 2010		**For 2009**	
Similar product groups	**The Group**	**Major Competitor**	**The Group**	**Major Competitor**
Chocolate tablets[12]	63%	9%	62%	10%
Sweet snack bars[13]	47%	19%	48%	20%
Chewing gum	32%	64%	34%	65%
Wafers	29%	18%	30%	17%
Salty snacks	33%	53%	33%	53%

Among the negative factors that in the opinion of Company Management influence or are likely to influence the Group's competitive position in the Fun & Indulgence segment are the growing strength of the private labels of the food chains; expansion of the activity of international food companies in the domestic food market in Israel; increasing imports of inexpensive branded products; the development of brands and selling and marketing capabilities by competitors, which will reduce the Group's competitive advantage. For positive factors influencing the Group's competitive position, see section 7 in This Chapter.

The Group contends continuously with the competition in the Fun & Indulgence segment by concentrating marketing efforts and advertising; building and

12 Including children's snack bars (not including Kinder Delice)

13 Including cereal bars and adult cereal bars

maintaining its brands; a comprehensive distribution system; collaborations with multinational corporations (PepsiCo), which allow the Group use of knowledge and trademarks; development and launch of new products; entry to new business areas (including through the creation of various local partnerships and the acquisition of holdings in companies that specialize in new spheres); investment in production sites and the development of technological capabilities.

11.5 **Seasonality**

Following are data for the years 2010 and 2009 relating to the Company's income in the Fun & Indulgence segment by quarter, in NIS millions:

	2010		**2009**	
	Income (NIS millions)	**% of total income of segment**	**Income (NIS millions)**	**% of total income of segment**
Q1	272	31.2	263	30.8
Q2	179	20.5	183	21.4
Q3	213	24.4	209	24.4
Q4	208	23.9	200	23.4
Total	872	100%	855	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.

11.6 **Production capacity**

11.6.1 The production capacity of the Group's sites in the Fun & Indulgence segment is measured in quantities produced 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.

11.6.2 The maximum potential yearly production capacity of the Group's manufacturing sites in the Fun & Indulgence segment, operating in three shifts, in tonnes product per year in the years 2010 and 2009 was 71 thousand tonnes and 61 thousand tonnes, respectively. The actual average production capacity utilization rate in the years 2010 and 2009 was 48% and 54%, respectively. The increase in the volume of potential production capacity is mainly the result of an investment in a new production line in the Frito-Lay site (salty snacks), launched at the end of 2009.

11.6.3 It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of preserving and increasing production capacity according to the

Group's work plans. On the basis of the information in the Company's possession as at the date of the Periodic Report, the Company does not anticipate that it will be required to make any exceptional material investments in equipment and machinery in the Fun & Indulgence segment in 2011.

11.7 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 Fun & Indulgence segment.

11.7.1 Production sites

A. **Confectionery plant in Nazareth** – a plant serving for the production of confectionery and bakery products. The plant is located on 47,500 m² plot and its built-up area is 35,000 m². The Company owns some 32,000 m² of the area, has the right to be registered as owner of 10,500 m² (the rights were acquired from the Israel Land Administration, have not yet been registered in the Company's name and are in the process of being registered) and has the right to lease an additional 5,000 m² under three non-capitalized lease agreements ending in August 2012 (500 m²), in August 2013 (2,000 m²) and in July 2020 (2,500 m²). Each of the lease agreements includes an option granted to the lessee to extend the lease period for a further 49 years. At the end of 2005 the Group signed a set of agreements for the acquisition of the right to lease an additional 28,000 m² in Nazareth, adjacent to the plant, as a land reserve for the production facility. In regard to this land, which is part of a plot, there is a joint agreement with a third party. As at the date of the Periodic Report the Company has received possession of the land, but the processes of registering the lease in the Group's name have not yet been executed.

B. **Salty snack plant in the Sha'ar Hanegev industrial zone** – a plant serving for the production of salty snacks. The plant is located on a 26,400 m² plot and its built-up area is 10,000 m². Strauss Frito-Lay leases the land rights from the Israel Land Administration (26,400 m²) under a lease agreement ending on October 17, 2058 (the lease fees are capitalized). The lease agreement includes an option to extend the lease period for a further 49 years.

11.7.2 **Distribution, logistics and cross-docking centers**

A. **Major distribution centers for Fun & Indulgence products** – the distribution and logistics centers for Fun & Indulgence products that do not require refrigerated distribution are located in Zrifin (responsible mainly for the central and southern regions) and in Akko (responsible for northern Israel).

The Zrifin distribution center is located on a 35,000 m² plot and its built-up area is 19,000 m². The Group has leased the property from a third party for a period of 25 years ending in November 2021. Occasionally, if required, the Company leases additional space in the area of the distribution center for very short periods.

The distribution center in Akko is located on a 20,000 m² plot and its built-up area is 8,695 m². The Group has leased the property from a third party (which itself has leased the land from the Israel Land Administration for a period ending on January 14, 2052) for a period of 10 years ending in February 2011. In February 2011 the Group exercised its option, and the lease period was extended for a further 10 years. The Group has an option for an additional 5-year extension.

B. **Major 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 10.7.2 in This Chapter.

The real estate and other fixed assets, including facilities, apparatuses, tools and equipment of the Company and Strauss Frito-Lay are attached under a floating charge in favor of the State of Israel to ensure the liabilities of the abovementioned companies with respect to the receipt of investment grants in the framework of the award of "Approved Enterprise" status for the production facilities of the companies under the Encouragement of Capital Investments Laws or the Encouragement of Capital Investments in Agriculture Law, 1980 (hereinafter: the **"Encouragement of Capital Investments Laws"**). For information on the investment plans in which respect the plants were granted "Approved Enterprise" status and related benefits, see section 24.3 in This Chapter.

For information on the Company's policy for depreciating the machinery and equipment in its various manufacturing plants in its books, see Note 3.4 to the Consolidated Financial Statements of the Company as at December 31, 2009.

11.8 **Research and development**

For a description of research and development carried out in the Group, see section 21 in This Chapter. Salty snack products are developed, inter alia, by using the know-how in PepsiCo's possession.

11.9 **Intangible assets**

11.9.1 **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 11.14 in This Chapter.

11.9.2 **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 an itemization of costs and financial movements relating to intangible assets in the years 2010 and 2009, see Note 15 to the Consolidated Financial Statements of the Company as at December 31, 2010.

11.10 **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 22 in 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 267 and 314 employees of personnel agencies), as at December 31, 2010 and December 31, 2009, respectively:

	Number of Employees as at	
	December 31, 2010	December 31, 2009
Finance, Marketing, HR, IT and Administration	91	83
Sales and Distribution	510	555
Procurement and Logistics	130	110
Operations	978	1,048
Total	1,709	1,796

The decrease in the number of employees is mainly due to the statutory mobility of employees from the business units to the Corporate Center; i.e. correction of the registered attribution of a number of employees from one company to another within the Group; as well as a reduction in number of shelf-stocking employees.

For information on the number of employees in Israel HQ, Sales HQ and Supply Chain HQ, who serve the Group's entire activity in Israel, see section 22.2.3.

11.11 **Raw materials and suppliers**

11.11.1 In the course of 2010 and especially in the second half, a trend of substantial increase in the prices of most of the main raw materials used by the Company in its activity in the segment began as a result of increased demand, a reduction in the supply of raw materials due to inclement weather all over the world, and the shutdown of manufacturing sites during the economic recession, which have not yet been reopened. Additionally, speculative activity in the commodities market also contributed to the trend of rising prices and to the feeling of uncertainty in the various markets.

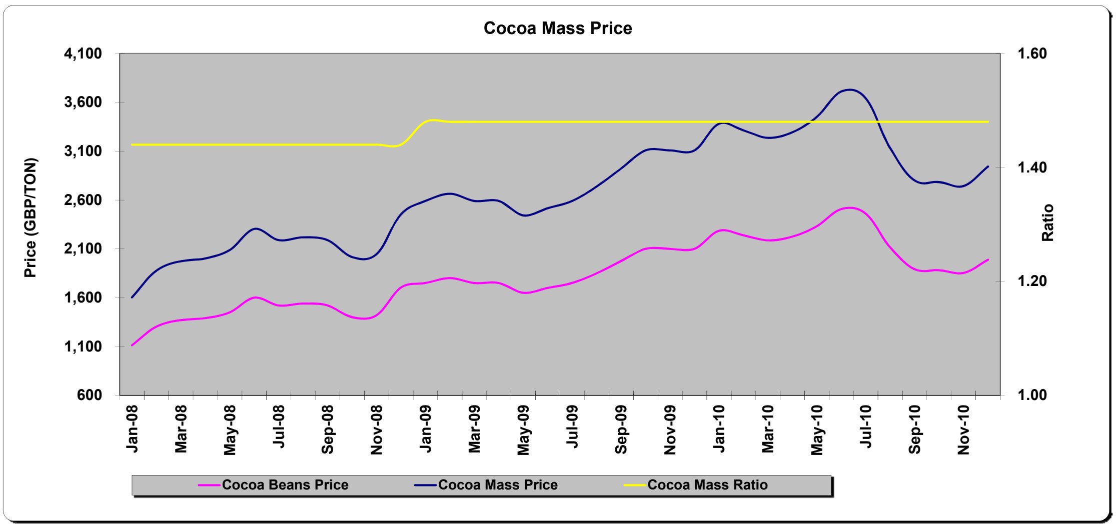
11.11.2 The major raw material used by the Group in the manufacture of Fun & Indulgence products, the cost of which forms 20% and more of total purchases of the raw materials used in these products, is cocoa products (cocoa butter and cocoa liquor). The Group also uses mainly milk powder, sugar, flour,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

A considerable part of the abovementioned raw materials are commodities that are bought and traded on the 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 climate changes, the ripening period, etc. Cocoa butter and liquor prices depend to a great degree on the political and security situation in African countries such as the Ivory Coast, which is the major exporter of these raw materials and has been characterized by government instability in recent years.

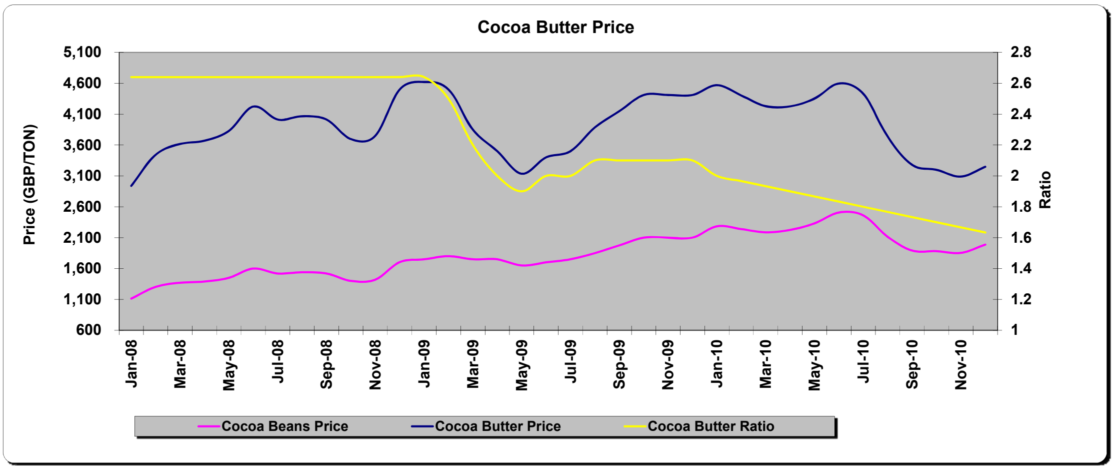
The prices of cocoa beans rose in the first half of 2010 and fell in the second half of the year. The drop in prices was mainly the result of increased supply due to improved crops. The reduction in the price of cocoa butter is relatively greater than the reduction in the price of cocoa liquor due to the increase in the price of cocoa powder, which is a supplementary product. Additionally, commencing in the third quarter of 2010 world prices of flour and oils began to rise.

The first of the two following diagrams presents the changes in the price of cocoa beans (in British Pounds per tonne), in the price of cocoa liquor and in the ratio between cocoa bean prices and cocoa liquor prices (cocoa liquor ratio) in the years 2010, 2009 and 2008. The second diagram shows the changes in cocoa bean prices (in British Pounds per tonne), in cocoa butter prices and in the ratio between cocoa butter and cocoa bean prices (cocoa butter ratio) in the years 2010, 2009 and 2008; the cocoa bean prices are according to Reuters figures, and the remaining data are the cocoa supplier's data.

<u>Cocoa Liquor</u>



Cocoa butter



The following diagram shows the changes in sugar prices (Dollar per tonne) in the years 2008 – 2010, according to Reuters' figures.

The price of sugar continued to rise considerably in the second half of 2010 following speculative activity and a reduction in production volumes, mainly in India.

In the relevant reported period there was no single supplier from which the volume of the Group's purchases exceeded 10% of total raw and packaging material purchases for Fun & Indulgence products.

11.11.3 The main packaging materials used by the Group in its activity in the Fun & Indulgence segment are laminates and plastic sheets, cartons and corrugated cardboard, which are purchased from various suppliers, mainly in Israel, and partly abroad (principally in Europe). In 2009 there was a significant drop in the prices of packaging materials following the decrease in world oil prices. In 2010 the trend changed and the prices of packaging materials increased considerably as a result of the reduction in the number of plants producing these materials during the economic crisis, and due to the reversal in the trend of energy prices, which again began to rise in 2010.

For a diagram presenting the changes in the price of oil per barrel in the years 2008-2010, see the diagram in section 10.11.3 in This Chapter.

The Group contends with 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 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.

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

As a rule, it is the Group's policy to have a number of suppliers for each of the raw materials (to the extent possible). Generally, most of the Group's agreements with its suppliers are framework agreements, usually for periods of up to 12 months, which include delivery dates, price, quality, supply quantities and credit terms. Purchases are usually made on the basis of continuous orders. In 2010 the Group began to initiate engagements with suppliers for periods of more than 12 months, mainly in commodities and packaging materials.

11.12 **Working capital**

11.12.1 The average balance of working capital in the Fun & Indulgence segment in 2010 was approximately NIS 168 million. The Company finances the working capital deficit through its current capital sources.

11.12.2 Raw material inventory policy – in the Fun & Indulgence segment, the Company held an average of raw and packaging material inventory which in 2010 served it for 64 days[14].

[14] The calculation is based on accounting data, by dividing the average yearly raw material inventory in the relevant year by the material usage included in the Company's (consolidated) cost of sales in that year, multiplied by 365 days.

11.12.3 Finished goods inventory policy – in the Fun & Indulgence segment, in 2010 the Company held an average of finished goods inventory for 41 days.

11.12.4 Returns policy – The Group enables the end consumer and customers to return defective or expired products and to receive the appropriate financial credit.

11.12.5 **Credit policy:**

A. <u>Customer credit</u>: The Company grants its customers credit for periods ranging from cash to up to 135 days, according to the type of customer and the engagement with it. The average customer credit period in 2010 in the Fun & Indulgence segment was 49 days. The average volume of customer credit in 2010 was NIS 142 million.

B. <u>Supplier credit</u>: The Company receives credit from its suppliers for periods ranging from 15 to 120 days, except for part of the commodities suppliers which are paid in cash. The average credit period received by the Group from its suppliers in 2010 in the Fun & Indulgence segment was 64 days. The average volume of supplier credit in 2010 was NIS 95 million. Supplier credit is managed according to criteria defined by the Credit Committee, which operates by virtue of procedures empowering the Committee to discuss exceptional requests.

11.13 **<u>Restrictions applying to and control of the segment</u>**

11.13.1 **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.

11.13.2 **Agreed injunction orders** – further to the announcement by the Antitrust Authority in December 2004 of its intention to recommend that criminal charges be brought against the Company, the CEO of the Israel activity framework and six other executives for offenses under the Antitrust Law relating to the introduction of Cadbury products to the markets, the Company reached an agreement with the Commissioner that no enforcement measures would be applied or a bill of indictment filed; instead, a motion would be filed with the Antitrust Court for the approval of 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 would adopt 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 will personally commit to acting 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. On January 10, 2007 the Antitrust Court approved the agreed injunction order and instructed that it take effect. For further information, see section 28.11 in This Chapter.

11.13.3 In regard to an agreed injunction order relating to commercial arrangements between suppliers and retail chains, see section 26.4.2 in This Chapter.

11.14 **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 through 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. 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 for the grant 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 2010, 2009 and 2008 the Group made payments to PepsiCo pursuant to the agreement in respect of royalties in the amounts of NIS 5,068 thousand, NIS 4,462 thousand and NIS 4,111 thousand, respectively.

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

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

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

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

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

The agreement further determines that annulment of the shareholders' agreement for any reason shall not affect the parties' commitments according to the licensing agreement set forth in par. 1 above and according to the agreements set forth below.

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

D. In the major services agreement between the Company and Strauss Frito-Lay, the Company undertook to provide Strauss Frito-Lay with management services and IT 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.

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

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

12. The Coffee Activity Framework

General information on the coffee activity framework

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

12.1 The structure of the activity framework and changes occurring therein

The Group is active in the coffee activity framework in and outside of Israel. The Group manufactures, markets and distributes a variety of coffee products (instant coffee and roast and ground coffee) in Israel, in Central and Eastern European countries and in Brazil, as well as other hot drink powders (such as chocolate and cappuccino powders). Additionally, as part of its business in Israel the Group is active in the retail sale of coffee products at points of sale. In the framework of its business in Brazil the Group also buys, processes and sells green coffee to exporters in Brazil and to customers outside of Brazil (mainly in Europe and the USA).

Alongside traditional consumption, a trend of consuming "indulgence" products is evident, expressed in gourmet consumption such as espresso or coffee from upscale machines, etc., as well as a consistent growth trend in the Away-From-Home (AFH) market.

Accordingly, the Group has built marketing, sales and distribution capabilities tailored to this dedicated AFH consumption market; among other things, it is active in hot beverage machines, including the sale of home coffee machines, the sale or loan of professional coffee machines (espresso), and the sale or rental of coffee vending machines. The Group has dedicated units which handle the AFH market and are active in the development of marketing and consumer solutions unique to this channel. In the framework of this sales channel, in some countries where the Company is active it distributes espresso under the Don Café brand.

Additionally, in the framework of the Israel Coffee segment, the Group is active (through "elite coffee") in the retail sale of coffee and bakery products and soft drinks at some 70 points of sale countrywide (public transport stations, public institutions, office buildings, shopping malls, cafés, etc.). Most of the points of sale are mobile espresso bars serving customers in public venues.

The Group conducts consumer research in order to closely monitor changes in consumer behavior to enable it to anticipate and respond to these changes in a timely manner. Coffee consumption in the retail market is relatively less affected by economic recessions.

For the Group's products in the coffee activity framework in the Israel Coffee segment and the International Coffee segment, see sections 13.2 and 14.2 below, respectively.

The world coffee market

According to Euromonitor[15] figures, the scale of the world retail coffee market (excluding cafés) in 2010 is estimated at $58.2 billion and 4.2 million tonnes in sales volume. In the years 2005 to 2010 the world coffee market (excluding cafés) CAGR was 7.3% in value and 2.3% in volume. The volume of the café market is 1.2 million tonnes and it has a higher CAGR of 3.2% in volume. The sales volume of the world coffee market including cafés is 5.4 million tonnes, with a CAGR of 2.5% in the years 2005 to 2010.

The largest segment in the world retail coffee market is roasted and ground (R&G) coffee, which includes fresh and ground coffee beans. The segment accounts for 61.5% of the world coffee market in value terms, and 78.5% in volume.

In 2010 the world R&G market amounted to $35.8 billion, with a CAGR of 7.5% in value between 2005 and 2010. The sales volume of the segment in 2010 was 3.3 million, with 1.8% CAGR between 2005 and 2010.

The world retail instant coffee segment accounts for 38.5% of the world coffee market in value terms, and 21.4% in volume.

In 2010 the world retail instant coffee market totaled $22.3 billion, with 6.9% CAGR between 2005 and 2010; the sales volume was 0.9 million tonnes, with 4.5% CAGR between 2005 and 2010.

According to Euromonitor data, the Strauss Group is the sixth-largest player in the world retail coffee market, with a value market share of 2.1% (identical to the market share of Lavazza, which shares sixth place with the Group). Nestle SA has a market share of 22.1%; Kraft Foods is in second place with a market share of 13.1%; Sara Lee is in third place with a market share of 5.5%; Tchibo holds fourth place with a market share of 3%; and JM Smucker is fifth, with a market share of 2.3%.

15 An international provider of market research and business intelligence reports.

The world R&G market is a decentralized market, characterized by the presence of a large number of companies with smaller market shares than those that are typical of the instant coffee market. As at 2010, the Strauss Group holds seventh place in the retail R&G market, with a value market share of 2.7%. The market is led by Kraft Foods with 10.9% market share; Sara Lee is second place with 7.7%; Nestle is third with 4.2%; fourth and fifth are Tchibo with 3.4% and Lavazza with an identical market share; and JM Smucker is in sixth place, with a market share of 3.2% in value terms.

In the world retail instant coffee market as at 2010, the Strauss Group is the fifth largest player with a value market share of 1%. Nestle SA dominates the world instant coffee market with a market share of 50.7%; Kraft Foods is in second place with 16.6% market share; Tchibo is third with 2.2%; and Sara Lee holds fourth place with a market share of 2.1%.

The Western European region accounts for the greatest share of world coffee sales in volume (31%), followed by Latin America with 21% of the world sales volume and North America with 18%.

In terms of value growth rates, Latin America leads the growth between 2005 and 2010 with 13.3% CAGR, followed by Asia-Pacific with 10.1% CAGR, the Middle East and Africa with 8.7% CAGR and Eastern Europe with 8.1% CAGR in this period.

According to the International Coffee Organization (ICO), the five leading countries in green coffee production are Brazil, Vietnam, Colombia, Indonesia and Ethiopia. Coffee, one of the world's most highly traded commodities, is purchased for hedging transactions in New York, where green coffee of the Arabica species is traded (New York Board of Trade) and in London, where the Robusta species is traded (Euronext LIFFE).

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

In recent years, the Group has focused on the development of its coffee businesses in Russia and in Brazil.

12.2 **Changes in the scale of the activity framework and in its profitability**

Changes in the scope of activity

Activity in the coffee activity framework has expanded and grown most significantly in recent years both in and outside of Israel, growth that is both organic and arising from the acquisition of businesses. These acquisitions include those made in 2005: acquisition of the partner's holding (60%) in Strauss Adriatic D.o.o. (formerly the Don Café Group), active in the R&G market in Serbia; acquisition of the premium brand MK in the R&G market in Poland; and the establishment of a jointly-held coffee company with Lima Brothers in Brazil. In 2008 Strauss Coffee acquired the business of **Cosant Enterprises Ltd.** (including machines for coffee production) and its instant and R&G brands, the main ones being **"Chornaya Karta"** and **"Kaffa"**, which are sold mainly in the CIS countries. The acquired business was merged in Strauss Coffee's existing operation in Russia and Ukraine. Additionally, Strauss Coffee acquired the coffee businesses of the Italian Don Café in Albania, Kosovo and Macedonia (including fixed assets, inventory and working capital), including the Don Café brand, which is registered in the EU countries and in CEE.

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

As part of realizing the Group's strategy of global expansion in the coffee business and in light of requirements to finance this strategy, on June 30, 2008 the Company engaged in a series of agreements in which framework the private equity investment fund TPG (through Robusta Coöperatief U.A., a corporation registered in the Netherlands) invested in the Company's subsidiary, Strauss Coffee B.V., which concentrates all of the Group's activities in coffee and is incorporated in the Netherlands (hereinafter: **"Strauss Coffee"**). For further information on the engagement, see the sections on material agreements, sections 13.13.1 and 14.13.1 in This Chapter.

On November 26, 2010 Strauss Coffee acquired the Le Café brand (instant coffee), which is sold in Russia and the CIS countries, in consideration for $37 million. Strauss Coffee also acquired 51% of the shares of the Le Café group in consideration for $6 million. Le Café owns real estate, including buildings and warehouses, which shall serve as a logistic center for the activity of Strauss Russia and for the construction of an R&G manufacturing site which will be wholly-owned by Strauss

Coffee. Le Café is also active in the sale of unbranded instant coffee in Russia and the CIS.

In the fourth quarter of 2010 the Group discontinued the activity of the subsidiary Strauss Bulgaria EOOD due to business considerations.

Changes in profitability

For information on the changes in the 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, 2010.

12.3 **Developments in the markets of the activity framework or changes in the characteristics of its customers**

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

In Brazil, the Group continued to expand its activities to additional regions in the country in 2010, mainly in southern and south-eastern Brazil.

12.4 **Critical success factors in the activity framework 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 in This Chapter, there are success factors that are unique to or such whose importance in the coffee activity framework is especially high, which include: (1) in R&G 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 recession year (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.

12.5 **Major entry barriers to the activity framework 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 in This Chapter, the major entry barriers in the coffee activity framework arise from the need for knowledge in 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 hot beverage vending machines.

12.6 **Substitutes for the products of the activity framework and changes occurring therein**

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

12.7 **Structure of the competition in the activity framework and changes occurring therein**

In the coffee activity framework, both in and outside of Israel, competition between manufacturers and importers of coffee selling similar products to those of the Group is fierce. In Israel, the Group has one material competitor.

In most of the countries outside of Israel where the Group is active, there are two to three major competitors to the Group's products, most of them international coffee manufacturers and a minority, local manufacturers. Additionally, in some of the developing countries there is also a market of unbranded, non-packaged products (in sacks), sold by weight. In Serbia competition in the R&G category is based on domestic brands only, particularly in the economy segment. In Brazil the market is characterized by great decentralization, which, in the Group's opinion, is indicative of the potential for consolidation among manufacturers.

13. The Israel Coffee Segment

13.1 **General information on the 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 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.

For further general information on the coffee activity framework, which comprises the Israel Coffee segment and the International Coffee segment, see section 12 in This Chapter.

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

13.2 **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 – R&G, instant coffee (the instant coffee products are sold under three sub-brands, **"Elite Instant Coffee"**, **"Coffee Origins"** and **"Aroma"**), and **"elite coffee"** for sale in cafés; chocolate drink powder under the **"Chocolite"** brand and hot drink powders. In June 2009 the Group executed a process of brand consolidation, in which framework the **"Elite"** brand was strengthened, the **"Platinum"** brand eliminated, and the "Coffee Origins" series launched in the freeze-dried segment. Commencing in January 2010 the Group discontinued marketing of the **"Jacobs"** brand.

In 2010 a consumer trend of shifting from agglomerated instant coffee to freeze-dried instant coffee, which is considered more upscale, developed.

Following the tough competition, there has been a trend of marketing coffee in large packs and in Douay packs, instead of glass jars.

13.3 **Segmentation of revenues and profitability of products and services**

In 2010, the income of the Israel Coffee segment accounted for less than 10% of the Group's total income.

13.4 **Competition**

13.4.1 All of the Group's coffee products in the segment have competing products. The major competitors to the Group's coffee products are Osem-Nestle (in instant coffee) and Landwer (in R&G). 2010 was characterized by a sharp increase in the competition; the Blue Square chain sells Turkish coffee as a private label product; Jacobs is marketed by Diplomat, Kraft has increased marketing effort and investments in the instant coffee market, and Lavazza is collaborating with the Yellow convenience store chain.

The Group leads in the various coffee product categories and in chocolate powders. In the AFH market, competition is posed by the café chains.

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

Similar product groups	Weighted Market Share (in Percent – Value)			
	For 2010		For 2009	
	The Group	Major Competitor	The Group	Major Competitor
Israel: Roasted coffee	77%	9%	78%	9%
Israel: Instant coffee	47%	42%	57%	40%

The drop in the market share of instant coffee is mainly due to the discontinuation of the marketing of the Jacobs brand by the Company since January 2010.

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

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

The Group contends continuously with the competition in the Israel 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.

13.5 **Seasonality**

Following are data for the years 2010 and 2009 on the Company's income in the Israel Coffee segment, by quarter, in NIS millions:

	2010		2009	
	Income (NIS millions)	**% of total income of segment**	**Income (NIS millions)**	**% of total income of segment**
Q1	176	29.8	175	29.3
Q2	124	20.9	138	23.0
Q3	145	24.5	148	24.7
Q4	147	24.8	137	23.0
Total	592	100%	598	100%

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

13.6 **Production capacity**

The production capacity of the Group's manufacturing plants in the Israel Coffee segment is measured by quantities manufactured per year. The maximum potential annual production capacity of the Group's plants in the Israel Coffee segment, operating in three shifts, in tonnes product per year for the years 2010 and 2009 was approximately 18 thousand tonnes. The average rate of actual utilization of production capacity in the years 2010 and 2009 was 69% and 63%, 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 2011.

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 Israel Coffee segment:

A. **The instant coffee production and packaging plants in Safed**

The instant coffee production plant – the plant is located in the old industrial zone in Safed on a 6,000 m² plot, and its built-up area is 5,300 m². The Company is the owner of the land.

The instant coffee packaging site – the plant is located in the new industrial zone in Safed on a 17,000 m² plot, and its built-up area is 3,200 m². The Company leases the land rights from the Israel Land Administration under capitalized lease agreements, ending in March 2031 (approximately 10,500 m²) and in January 2033 (approximately 6,400 m²). Each of the lease agreements includes an option to the lessee to extend the lease period for a further 49 years.

In addition to the foregoing, the Company owns a 2,814 m² plot adjacent to the instant coffee manufacturing plant, on which there are buildings rented to third parties for various rental periods, the last of which ends on May 31, 2013. Possession of the property has been delivered to the Company and a caution notice entered in its favor in the Land Registry.

B. **The R&G coffee plant in Lod** – a plant serving for the production of roast and ground coffee. The plant is located on a 5,600 m² plot and its built-up area is 4,441 m². The Company is the owner of 4,800 m² and has the right to lease 800 m² under a non-capitalized lease agreement ending in December 2033. The lease agreement includes an option to the lessee to extend the rental period for a further 49 years.

For information on the Company's policy for depreciating the machinery and equipment in its various manufacturing plants in its books, see Note 3.4 to the Consolidated Financial Statements of the Company as at December 31, 2010.

13.8 **Intangible assets**

Trademarks and samples

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

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

For an itemization of the costs and financial movements relating to intangible assets in the years 2010 and 2009, see Note 15 to the Consolidated Financial Statements of the Company as at December 31, 2010.

13.9 **Human capital**

13.9.1 For a description of the Group's organizational structure and additional information on the nature of employment agreements, investments in training, etc., see section 22 in This Chapter.

Following is information on the number of employees in the Group in the Israel Coffee segment (including 31 and 36 employees of personnel agencies), as at December 31, 2010 and December 31, 2009, respectively:

	Number of Employees as at	
	December 31, 2010	**December 31, 2009**
Management	7	5
Finance, Marketing, HR, IT and Administration	54	50
Sales and Distribution	448	448
Supply Chain (Procurement and Logistics)	32	27
Industry (Operations)	216	218
Total	756	748

The seven management members mentioned above are members of the Management of Strauss Coffee, which concentrates the Group's entire coffee activity framework. Strauss Coffee's corporate center is attributed to the Israel Coffee segment. For a description of the organization of the Group's coffee activity framework, see section 22.1 in the chapter "Description of the Corporation's Business.

For information on the number of employees in Israel HQ, Sales HQ and Supply Chain HQ, who serve the Group's entire activity in Israel, see section 22.2.3.

13.9.2 **Option plan**

The Board of Directors of Strauss Coffee has approved an international plan for the allotment of non-marketable options to its senior executives, which reflects (in full dilution) an allotment of 2.5% of Strauss Coffee's share capital. At this stage, the plan does not include the grant of options to the CEO of Strauss Coffee, which is to be discussed at a later stage. In the case of the sale of 65% or more of TPG's holdings to the Company, the plan enables to offeree to receive, in respect of options that have not yet matured, equal options of the Company. The plan is subject to the approval of the General Meeting of Strauss Coffee and consequently, also of the Board of Directors of the Company.

13.10 **Raw materials and suppliers**

13.10.1 **Major raw materials**

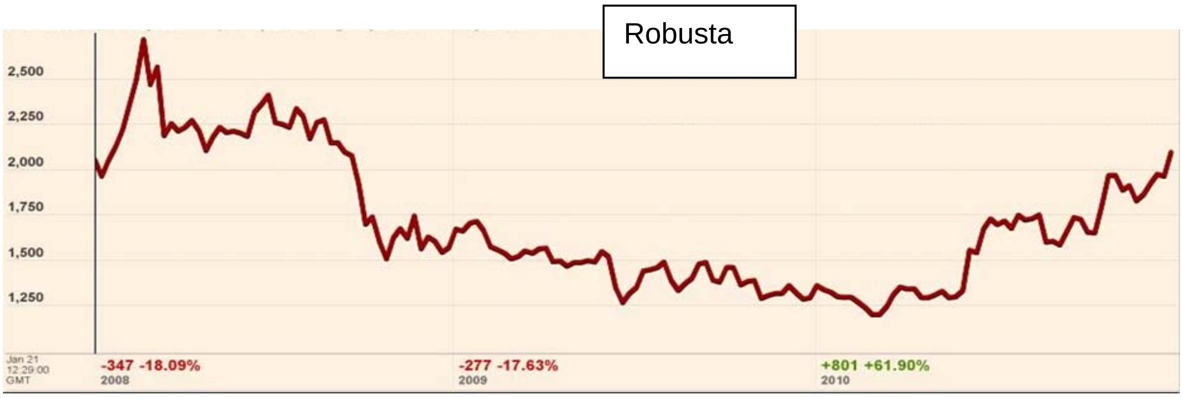
The major raw material used by the Group in the Israel Coffee segment, the cost whereof constitutes over 20% of total purchases of raw materials used in this segment, is green coffee (Arabica and Robusta). Additionally, the Group mainly uses cocoa powder and packaging materials, which are commodities. The Group engages from time to time in futures and options contracts for the purchase and sale of commodities, principally green coffee – see Note 30.3 to the Consolidated Financial Statements of the Company as at December 31, 2010, as well as the section "Exposure to Market Risks and the Means for Their Management" in the Board of Directors' Report to the Shareholders as at December 31, 2010. For the characteristics of the purchase of raw materials that are commodities, see the section "Raw Materials and Suppliers", section 11.11.2 in This Chapter.

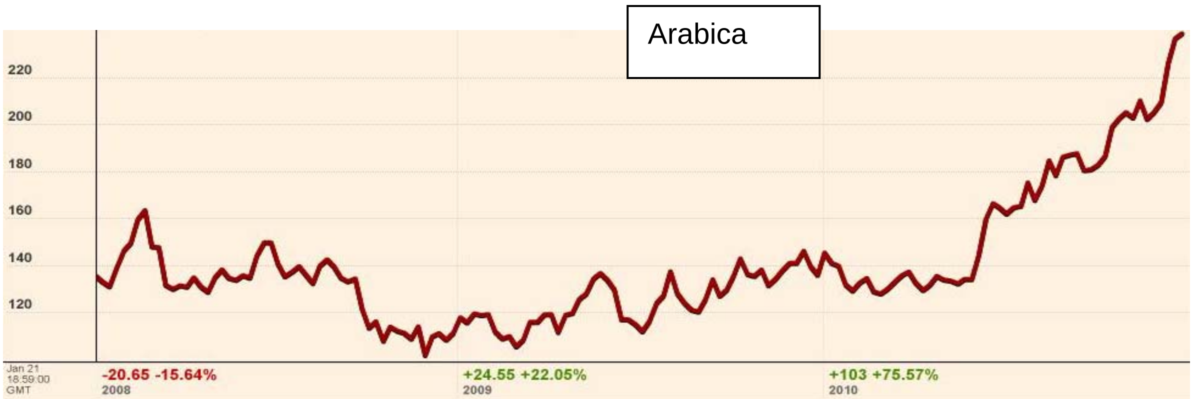
As a rule, green coffee procurement is carried out in a centralized fashion through Strauss Commodities (Switzerland), which buys the raw material for the companies in the Group, except for green coffee procurement in the jointly-held company in Brazil, which purchases the green coffee itself. Green 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. For information on a combined system for green coffee quality management, which is in the process of being assimilated in all countries where the Group operates in the coffee activity framework, see section 8 in This Chapter.

In the second half of 2010 a trend of significant increase in green coffee prices (both Arabica and Robusta) began; the increase in prices is apparently the result of activity by investment funds in the commodities exchanges. Arabica prices rose more sharply, as it is considered the more prestigious of the two species.

In most of the Company's markets, there is a trend of preference for green coffee of the Arabica species.

The following diagrams present the changes in the prices of the different green coffee species in the period 2008 to 2010 (inclusive), according to the data of the various exchanges (London and New York).





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

13.11 Working capital

13.11.1 The average balance of working capital in the Israel Coffee segment in 2010 was approximately NIS 83 million. The Company finances the working capital deficit through its current capital sources.

13.11.2 **Raw material inventory policy** – the average raw and packaging material inventory which served the companies in the Israel Coffee segment in 2010 was some 61 days[16].

13.11.3 **Finished goods inventory policy** – the average finished goods inventory which served the companies in the Israel Coffee segment in 2010 was some 22 days.

13.11.4 **Credit policy:**

A. Customer credit: In the Israel Coffee segment, the Group grants its customers credit for periods ranging from payment in cash to 90 days, according to the type of customer and the engagement with it. The average customer credit period in 2010 was 49 days. The average volume of customer credit in the Israel Coffee segment in 2010 was NIS 96 million.

B. Supplier credit: In the Israel Coffee segment the Group receives credit from its suppliers for periods ranging from 15 to 95 days, except for part of the commodities suppliers, which are paid in cash. The average credit period received by the Group from its suppliers in the Israel Coffee segment in 2010 was 47 days. The average volume of supplier credit was in 2010 was NIS 65 million.

13.12 Restrictions and control of the business segment

13.12.1 **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 10.13 in This Chapter.

13.12.1 **Antitrust approval**

In the framework of an agreement for the acquisition of the coffee machine business of the company "Douwe Egberts" of Holland, on October 6, 2005

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16 Calculated according to accounting data by dividing the average raw material inventory for the relevant year by the material usage included in the Company's cost of sales (consolidated) in that year, multiplied by 365 days.

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.

13.12.3 **Agreed injunction 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 injunction 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.

13.13 **Material agreements**

13.13.1 **Engagement with the private equity investment fund, TPG Capital**

A. 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 engaged 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"**).

B. 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 Investor was granted an option to purchase additional shares of Strauss Coffee at an exercise price of approximately €106 million plus 6% p.a. from January 1, 2008 until the exercise date, subject to adjustments as set forth in the agreement, so that if the option is exercised the Investor will hold 35% of the share capital of Strauss Coffee. The option will be exercisable with respect to all of the shares under option (and not part thereof), during a period of 2 years commencing from the Closing Date. On September 19, 2010 the parties signed an amendment to the investment agreement, extending the option received by TPG to acquire an additional 10% of the shares of Strauss Coffee until September 9, 2011. All other terms and conditions of the option remain unchanged.

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 argue 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.

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

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

Furthermore, the agreement includes mechanisms 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.

D. 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.

E. Limitations with respect to the change of structure – The transaction outline included the spin-off of the Group's coffee business in Israel and its merger with Strauss Coffee.

According to the approval from the Tax Authority, various limitations are imposed on the Company, the Investor and Strauss Coffee until December 31, 2010, and compliance with these limitations is a condition for the receipt of a tax exemption with respect to the restructuring move.

For an itemization of the limitations, see Note 37.4 to the Consolidated Financial Statements of the Company as at December 31, 2010.

14. The International Coffee Segment

14.1 General information on the International Coffee segment

In this segment the Group develops, manufactures, sells, markets and distributes a variety of coffee products bearing its brands in Central and Eastern European countries and in Brazil; in several countries the Group manufactures and sells chocolate powders and other drink powders; in a number of countries it sells and distributes espresso products; and in the framework of its activity in Brazil the Group buys, processes and sells green coffee to exporters in Brazil and to customers outside of Brazil (mainly in Europe and the USA).

For further general information on the coffee activity framework, which comprises the Israel Coffee segment and the International Coffee segment, see section 12 in This Chapter.

14.2 Products

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

The Group sells and distributes assorted coffee products (principally R&G) under the following main brands: in the former-Yugoslavia countries, Romania, Serbia and Albania the Group's major brand is **"Don Café"** (which includes R&G, instant coffee, espresso and specialty coffees). The Group is also active with the following brands: in Serbia, **"C-KAFA"** and **"Vivo"** (R&G); in Russia and Ukraine, **"Chornaya Karta"** (as the major master-brand) and **"Roberto Totti"** (a premium brand); in Poland – **"MK Café"** (premium), **"Pedro's"** and **"Fort"**; in Romania, **"Elita"** and **"Fort"**; in

Albania, **"Don Paky"** and **"Prince"**; and in Brazil – **"Café Tres Coracoes"** and **"Santa Clara"**. Additionally, in 2010 the Company distributed espresso in some countries under the Lavazza brand.

Strauss Coffee has focused on strengthening and positioning its brands and on providing a response to customers in the economy segments while maintaining the quality of its products.

In **Poland**, the Group sells R&G coffee manufactured in its local plant in Poland and instant coffee (imported from the manufacturing plant in Israel and manufactured by others). In December 2010, the agreement with Lavazza ended, and the Company began manufacturing and marketing espresso under the **MK Café** brand.

In **Romania**, the Group sells R&G manufactured in its local plant in Romania, instant coffee and other drink powders imported from its facilities in Israel, and Lavazza espresso. In early 2010 the agreement with Lavazza in Romania ended, and the Group began to manufacture and market espresso under the **Don Café** brand.

In **Brazil**, R&G coffee, cappuccino products and chocolate drink powders are sold, which are produced at the local manufacturing plants in Brazil, and instant coffee produced by an outside manufacturer. In 2009 the **Café Leticia** brand was acquired, which is dominant in the state of Belo Horizonte, as well as a production line for the drink powders **Frisco** and **Tornado**.

In the framework of its business in Brazil the Group buys, processes and sells green coffee to customers outside of Brazil (mainly in Europe and the USA). The Company has an operations system that includes offices from which procurement is managed, and warehouses, some owned by the Company and others leased, which are located in Bahia and in Minas Gerais. In processing the coffee beans the Company differentiates between the quality level destined for export and the level destined for local production.[17]

In **Ukraine**, R&G coffee products are sold, which are mainly manufactured by the Group's plant in Poland, instant coffee that is not produced by the Group is marketed, and commencing in 2008, freeze-dried instant coffee under the Chornaya Karta brand. In December 2010 the agreement with Lavazza ended, and the Company in Ukraine began marketing espresso under the **Totti Caffe** brand, as a premium brand for espresso products.

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

In **Russia**, mainly instant coffee that is not manufactured by the Group is marketed and sold, as well as R&G coffee, mostly under the Chornaya Karta brand, which has been manufactured since early 2009 at the Group's production site near the city of Moscow. In December 2010 the agreement with Lavazza ended, and the Company in Russia began marketing espresso under the **Totti Caffe** brand, as a premium brand for espresso products.

In **Serbia**, the Group mainly sells R&G coffee manufactured at its local site in Serbia. In September 2010 the agreement with Lavazza ended, and the Company in Serbia began marketing espresso under the **Don Café** and **Don Café Professional** brands.

In **Albania**, the Group markets only espresso and is active only in the AFH market.

14.3 **Segmentation of revenues and profitability of products and services**

14.3.1 Following is information on the International Coffee Segment's income from external parties (consolidated) according to the geographical regions where the Group is active, in NIS millions and as a percentage of the Group's total income, in the years 2010, 2009 and 2008:

Group of Similar Products	Income in NIS Millions			Percentage of Group's Total Income		
	2010	2009	2008	2010	2009	2008
In Brazil[18]	1,389	1,137	1,026	20.3%	17.8%	16.4%
In former Yugoslavia countries	221	255	299	3.2%	4.0%	4.8%
In former USSR countries	543	543	458	7.9%	8.6%	7.3%
In the Balkan States	247	391	378	3.6%	6.1%	6.1%
In Poland	394	425	500	5.8%	6.7%	8.0%
Total International Coffee segment	2,794	2,751	2,661	40.8%	43.2%	42.6%

For further information on the coffee products, see Financial Information on Geographical Regions – section 31 in This Chapter.

[18] Including the green coffee and corn businesses in an amount of NIS 345 million in 2010.

14.3.2 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 2010, 2009 and 2008:

	Income in NIS Millions			Percentage of Group's Total Income		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Roast & ground coffee	1,688	1,796	1,696	24.6%	28.2%	27.1%
Instant coffee	477	487	435	7.0%	7.6%	7.0%
Other	629	468	530	9.2%	7.4%	8.5%
Total International Coffee segment	2,794	2,751	2,661	40.8%	43.2%	42.6%

14.4 Competition

Activity in the Group's International Coffee segment is focused on the branded R&G coffee market. The Group focuses on activity in developing countries, where it identifies the ability to achieve a dominant position, including through acquisitions of local coffee companies.

In most of the CEE countries where the Group operates, it has succeeded in recent years in building a leading position in the R&G coffee category.

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

In **Romania**, the major competitor in roast and ground coffee is the international concern Kraft. The competition also includes Tchibo and a number of small manufacturers. In the instant coffee market the main competitor is Cia Iguacu, as well as Nestle.

In **Ukraine**, after Tchibo exited the market at the end of 2008, the major competitors are Kraft (in R&G) and Nestle (in instant coffee), as well as local manufacturers.

In **Russia**, following the acquisition of the brand "Chornaya Karta" in 2008, the Group's position in Russia grew stronger in the R&G and instant coffee markets.

Despite the short period that has elapsed, the Group has reached Number 2 status in terms of market share in the R&G market. The Group's main competitors in Russia are Orimi (in R&G), and Kraft and Nestle (in instant coffee).

In **Brazil**, the market is characterized by decentralization, a large number of coffee companies with relatively small market shares, with no single dominant player on the national level. The leading manufacturer in the country is Sara Lee, and the third-largest is Melita. Following the transaction in Brazil in 2005, the jointly-held company Tres Coracoes (formerly Santa Clara) became the second-largest coffee company in the country, with a countrywide market share of 18% in 2010.

Tres Coracoes (3C) is the leader in the R&G market in northern Brazil, and its major competitors in these regions are the international group Sara Lee and Melita; in the Rio de Janeiro region the main competitor is Sara Lee, and in northeastern Brazil and the state of Bahia – Café Marata and Café Sao Braz. 3C (Café Tres Coracoes S.A. – a wholly-owned subsidiary of Tres Coracoes Alimentos S.A.) is active mainly in the south, south-east and center-west of the country. In the state of Minas Gerais, 3C is the dominant player in the R&G market, with a number of other local companies also competing. In the state of Sao Paolo, which has the largest coffee market in Brazil, the Group initiated activities in 2006 under the 3C brand with the main and leading competitor in this state being Sara Lee, and the Group has since gained a significant competitive position in Sao Paolo.

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

Generally speaking, as the market in Brazil is regional, in each region there are one or two leading, major competitors, along with a number of medium-sized competitors and a large number of small local manufacturers.

In **Serbia**, in R&G the main competitor is Atlantic Group, which in 2010 acquired the previous competitor, Droga Kolinska Group. In instant coffee products there are three competitors, Nestle, KJS and Atlantic Group. In espresso products there are four competitors, Grand, Julius Meinal and Segafredo, and since the last quarter of 2010, also Lavazza (after the Group discontinued distribution of its products).

In **Bosnia**, in R&G the main competitors are Grand, Zlatna, Dzezva and Brazil. In instant coffee products the competitors are Nescafe, Jacobs and Grand Pleasure.

14.4.2 **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. In 2009, the data for Russia and Ukraine were based on the estimates of the Company's managers.

Similar product groups	Weighted Market Share (in Percent – Value)			
	For 2010		For 2009	
	The Group	Major Competitor	The Group	Major Competitor
Romania: Roasted coffee	30%	48%	34%	50%
Romania: Instant coffee	23%	32%	24%	30%
Poland: Roasted coffee	19%	25%	19%	25%
Serbia: Roasted coffee	30%	47%	28%	52%
Brazil: Roasted coffee	18%	21%	16%	21%
Ukraine: Roasted coffee	21%	35%	23%	37%
Russia: Roasted coffee	10%	22%	10%	20%
Russia: Instant coffee	8%	30%	8%	29%

14.4.3 Among the negative factors, which in the Group's opinion influence or are likely to influence its competitive position in the International 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 CEE countries, in addition to the factors set forth in section 7 in 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, which 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. Additionally, the trend of consolidation among coffee manufacturers and the exit of small price 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 contends continuously with the competition in the International 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 competitors.

14.5 **Seasonality**

Following are data for the years 2010 and 2009 on the Company's income in the International Coffee segment, by quarter, in NIS millions:

	2010		2009	
	Income (NIS millions)	% of total income of segment	Income (NIS millions)	% of total income of segment
Q1	651	23.3	595	21.6
Q2	646	23.1	673	24.5
Q3	723	25.9	711	25.8
Q4	773	27.7	772	28.1
Total	2,793	100%	2,751	100%

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

14.6 **Production capacity**

The production capacity of the Group's manufacturing plants in the International Coffee segment is measured by quantities manufactured per year. The maximum potential annual production capacity of the Group's plants in the International Coffee segment, operating in three shifts, in tonnes product per year for the years 2010 and 2009 was approximately 235 thousand tonnes and 241 thousand tonnes, respectively. The average rate of actual utilization of production capacity in the years 2010 and 2009 was 76% and 67%, respectively. In early 2010 production in Albania was discontinued.

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 exceptional material investments in equipment and machinery in the International Coffee segment in 2011.

14.7 **<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 International Coffee segment.

A. **Production plant in Poland** – a plant serving for the production of R&G coffee. The plant is located near Poznan on a 53,000 m² plot (following the expropriation of 17,000 m² in early 2008 in consideration for financial compensation, for the purpose of paving a road, which the Company estimates will not adversely effect the plant's activity), and has a built-up area of 9,600 m². Strauss Poland owns the land rights.

B. **Production plant in Romania** – a plant serving for the production of R&G coffee. The plant is located in Bucharest on a 5,000 m² plot, and has a built-up area of 4,000 m². Strauss Romania rents the production facility from a third party under a rental agreement ending in October 2015 and extended automatically if neither party has given early notice of its cancellation.

C. **Production plant in Minas Gerais, Brazil** – the plant serves mainly for the production of R&G coffee and cappuccino. The plant is located near Belo Horizonte in the state of Minas Gerais on a 53,000 m² plot, and has a built-up area of 12,800 m². 3C is the owner of the land.

D. **Production plant in Eusebio, Brazil** – the plant serves for the production of R&G coffee, and is located on a 10,000 m² plot with a built-up area of 4,650 m². SC Imoveis has equitable ownership of the land. For information on a fixed charge on the asset, see Note 26.2 to the Consolidated Financial Statements of the Company as at December 31, 2010.

E. **Production plant in RN, Natal, Brazil** – a plant serving for the production of R&G coffee, instant coffee, chocolate and cappuccino powders, on a 38,000 m² plot with a built-up area of 8,100 m². SC Imoveis has equitable ownership of the land.

F. **Production plant in RJ, Nova Iguacu, Brazil** – a plant serving for the production of R&G coffee as well as filter paper for filter coffee, on a 5,600 m² plot with a built-up area of 3,150 m². SC Imoveis has equitable ownership of the land. For information on a fixed charge on the asset, see Note 26.2 to the Consolidated Financial Statements of the Company as at December 31, 2010.

G. **Production plant in RN, Mossoro, Brazil** – a plant serving for the production of corn products, on a 54,000 m² plot with a built-up area of 5,800 m². SC Imoveis has equitable ownership of the land. In 2009 the building was enlarged by some 7,500 m² and in 2010 a new production line for juice powders was activated. For information on a fixed charge on the asset, see Note 26.2 to the Consolidated Financial Statements of the Company as at December 31, 2010.

H. **Facility in MG, Varginha, Brazil** – a facility serving for mapping and classifying green coffee on a 70,000 m² plot with a built-up area of 7,300 m². The building was built during 2008. SC Ind. has equitable ownership of the land.

I. **Production plant in Serbia** – a plant serving for the production of R&G, located in the area of Simanovci (near Belgrade) on a 29,484 m² plot, with a built-up area of 8,500 m². Strauss Adriatic has the right to lease the land for a period of 99 years.

J. **Production plant in Russia** – a plant serving for the production of R&G and packaging of instant coffee. The plant is located in the Odintsovo district near Moscow on a 5,700 m² plot with a built-up area of 2,600 m². Strauss Russia rents the plant from a third party under a three-year rental agreement until January 2012, which will be extended with the parties' agreement.

K. **Production plant in Russia** – in November 2010 the Company acquired the controlling interest in the company Le Café, which owns an instant coffee packaging plant. The plant is located in the area of Vladimirskaya on a 17,190 m² plot with a built-up area of 8,875 m².

For information on the Company's policy for depreciating the machinery and equipment in its various manufacturing plants in its books, see Note 3.4 to the Consolidated Financial Statements of the Company as at December 31, 2010.

14.8 **Intangible assets**

Trademarks and samples

In view of the Group's focus on branded products, the importance of the trademarks with respect to its brands is great. Trademarks are registered in the Group's name in 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 and 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 movements relating to intangible assets in the years 2010 and 2009, see Note 15 to the Consolidated Financial Statements of the Company as at December 31, 2010.

14.9 **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 22 in 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 797 and 705 employees of personnel agencies), as at December 31, 2010 and December 31, 2009, respectively:

	Number of Employees as at	
	December 31, 2010	**December 31, 2009**
Finance, Marketing, HR, IT and Administration	529	516
Sales and Distribution	3,199	3,026
Supply Chain (Procurement and Logistics)	323	356
Industry (Operations)	2,101	1,887
Total	6,152	5,785

The growth in the number of employees in the International Coffee segment in 2010 is mainly the result of the addition of some 400 employees in Brazil, expansion of a production line and increased deployment of salespeople in southern Brazil.

14.10 **Raw materials and suppliers**

The major raw material used by the Group in the International Coffee segment, the cost whereof constitutes over 20% of total purchases of raw materials used in this segment, is green coffee (Arabica and Robusta). Additionally, the Group mainly uses cocoa powder and packaging materials, which are commodities.

For further information on the purchase of raw materials and suppliers in the coffee activity framework, see section 13.10 in This Chapter.

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

14.11 **Working capital**

14.11.1 The average balance of working capital in the International Coffee segment in 2010 was approximately NIS 627 million. The Company finances the working capital deficit through its current capital sources.

14.11.2 **Raw material inventory policy** – the average raw and packaging material inventory which served the companies in the International Coffee segment in 2010 was 63 days[19].

14.11.3 **Finished goods inventory policy** – the average finished goods inventory which served the companies in the International Coffee segment in 2010 was 29 days.

14.11.4 **Credit policy:**

A. Customer credit: In the International Coffee segment, the Group grants its customers credit for periods ranging from payment in cash to 90 days, according to the type of customer and the engagement with it. The average customer credit period in 2010 was 55 days. The average volume of customer credit in the International Coffee segment in 2010 was NIS 426 million.

B. Supplier credit: In the International Coffee segment the Group receives credit from its suppliers for periods ranging from 15 to 95 days, except

[19] Calculated according to accounting data by dividing the average raw material inventory for the relevant year by the material usage included in the Company's cost of sales (consolidated) in that year, multiplied by 365 days.

for part of the commodities suppliers, which are paid in cash. The average credit period received by the Group from its suppliers in the International Coffee segment in 2010 was 26 days. The average volume of supplier credit was in 2010 was NIS 143 million.

14.12 **<u>Restrictions and control of the business segment</u>**

Antitrust approval

In the framework of an exclusive agreement for the transfer of the entire sales and distribution operation of the Group's products in Serbia to the companies Doncafe Direct D.o.o. and Direct Group D.o.o., an application was submitted on February 6, 2009 for approval of the agreement to the Commission for the Protection of Competition in Serbia, and the approval was granted.

14.13 **<u>Material agreements</u>**

14.13.1 **Joint venture in Brazil**

A. <u>Establishment of the joint venture</u> – 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 in clause 1.18 footnote 7, 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 section 14.13.1.C below.

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

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

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

The shareholders' agreement, <u>as amended from time to time</u>, 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 mechanism. 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 mechanism (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 mechanism 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 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, 2010, 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 mechanism was annulled, as well as the right of a Shareholder selling its shares to oblige the other Shareholder to joint the sale, and a restriction was added prohibiting a Shareholder to sell its shares to a competitor of the jointly-held company until January 1, 2020.

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

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

For a change made in 2007 in the structure of the holdings of the companies in Brazil, see footnote 7 to the Structure of Holdings diagram in section 1.18 in This Chapter. Following 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 SC Imoveis, and all rights and obligations thereunder which had been granted to EDBP as a Shareholder of SCP were assigned to Strauss Coffee as a shareholder of Tres Coracoes. It was further determined that all other documents and agreements relating to Tres Coracoes and SC 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.

14.14 Strategic collaboration agreements

Memorandum of understanding with Lavazza – in 2002 the Company and Strauss Coffee signed a memorandum of understanding for strategic collaboration with Lavazza, with the aim of enabling the Group to provide a response to the need for the sale of super-premium coffee products in some sectors of the AFH consumption channels (cafés, restaurants, workplaces) and a response to the growing trend of home consumption of super-premium products (espresso made with a machine).

In November 2009 the distribution agreement in Bulgaria expired, in February 2010 the distribution agreement in Romania expired, in September 2010 the agreement in Serbia expired, and at the end of 2010 the agreements in Poland, Russia and Ukraine expired.

The Company does not expect these agreements to be renewed. Termination of the agreements in the countries is in fact the end of the collaboration between the parties.

15. The International Dips and Spreads Segment

15.1 General information on the International Dips and Spreads segment – Sabra

Since August 2005 the Group has been active in the manufacture, marketing and sale of hummus and refrigerated salads, dips and spreads throughout the USA. Since March 2008 the activity has been carried out together with the international food concern PepsiCo, through the jointly-held (50%-50%) company, Sabra. For a description of the set of agreements between the Group and PepsiCo, see section 15.11 below.

Since the initiation of its activity in the second half of 2005 Sabra has progressed from being the fourth-largest salad company in North America to the leading company. In 2010 the significant growth in sales volumes of Sabra products in the USA continued, and according to the data of the Symphony IRI Group (hereinafter: **"IRI"**), the Group's market share (in value terms) of the packaged salads market in the USA this year was 47% (compared to 40% in 2009). Today, Sabra's products are distributed in all major food chains throughout the USA; see section 18.2.1 in This Chapter.

In view of Sabra's rapid growth in recent years and the need to increase production capacity to meet demand, a modern, state-of-the-art production site was constructed near the city of Richmond, VA with an investment of $68 million. On March 11, 2010, production in the new site commenced.

As part of Sabra's overall strategy to lead the fresh and refrigerated dips and salads category in the USA and North America, on October 13, 2010 Sabra signed an agreement for the acquisition of the salsa and fresh and refrigerated dips businesses of California Creative Foods (hereinafter: **"CCF"**), including brands, production assets, and means for the marketing and sale of these products. The consideration paid was $32.92 million. CCF is the largest company in the USA in the fresh salsa business and its brands include two well-known ones, Santa Barbara and Chachies. For further information on the acquisition, see the Immediate Reports of the Company of September 14, 2010 and October 13, 2010.

15.2 **<u>Products</u>**

Sabra manufactures and sells refrigerated dips and spreads in a variety of flavors, particularly hummus in a variety of flavors. Since October, following the acquisition of the salsa business, Sabra has also manufactured and sold CCF's fresh salsa products under two brands, Santa Barbara and Chachies.

The combination between the Sabra brand and the extensive know-how accumulated by the Group in the refrigerated dips and spreads business have allowed for the creation of a new consumption world of healthy and authentic food that is suitable for entertaining. Today, Sabra is considered the leading brand in the refrigerated dips and spreads category, and its hummus products lead the market in the USA.

15.3 **Competition**

In recent years the refrigerated dips and spreads market in the USA has grown considerably in light of the growing demand for ethnic, fresh, organic and natural foods. The Group's market share (in value terms) in the packaged salads market in the USA (based on IRI figures) was approximately 47% in 2010 (compared to 40% in 2009); the second-largest competitor in this market held a market share of 12%. The main brands competing with the Group's salad products in the USA are Athenos, Cedar's and Tribe. The business in the USA is characterized by local competition against large companies possessing extensive distribution capabilities in the American market, and against small local manufacturers which are active in the areas where they manufacture their products.

15.4 **Seasonality**

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. At the same time, this seasonality is not reflected in Sabra's sales figures in 2010, in view of the continuing growth in the company's activity throughout the year.

15.5 **Production capacity**

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

15.5.2 The maximum potential yearly production capacity of Sabra's manufacturing sites, operating in three shifts, in tonnes product per year in the years 2010 and 2009 was 72 thousand tonnes and 31 thousand tonnes, respectively. The actual average production capacity utilization rate in the years 2010 and 2009 was 39% and 85%, respectively. The increase in potential production capacity is mainly due to the new plant in Virginia, as well as the acquisition of the salsa business in the last quarter of 2010.

15.6 **Fixed assets and real estate**

Following is a description of the major real estate properties and other material fixed assets belonging to Sabra, which serve the International Dips and Spreads segment.

Plant in Astoria, New York – a plant serving for the production of hummus. Its built-up area is 2,320 m². The plant has been leased for a period ending on June 30, 2011.

Plant in Farmingdale, New York – a plant serving for the production of salads. Its built-up area is 2,040 m². The plant has been leased for a period ending on December 31, 2035.

Plant in Colonial Heights, Virginia – a plant serving for the production of refrigerated salads. The plant covers an area of 193,400 m² and its built-up area is 10,634 m².

Plant in Oceanside, California – a plant serving for the production of salsa. The plant covers an area of 8,680 m² and its built-up area is 3,720 m². The plant is owned by Sabra.

15.7 **Research and development**

For a description of research and development carried out in the Group, see section 21 in This Chapter. Refrigerated dips and spreads are developed, inter alia, by using the comprehensive know-how in PepsiCo's possession.

15.8 **Human capital**

Following is information on the number of employees in Sabra (including 2 and 5 employees of personnel agencies), as at December 31, 2010 and December 31, 2009, respectively:

	Number of Employees as at	
	December 31, 2010	**December 31, 2009**
Management	9	9
Finance, Marketing, HR, IT and Administration	39	23
Sales and Distribution	50	83
Procurement and Logistics	12	17
Operations	442	204
Total	552	336

The increase in the number of employees is mainly due to the acquisition of another production site in California in October 2010, and to the fact that the hummus plant in New York is still operating simultaneously with the new plant in Virginia.

15.9 **Raw materials and suppliers**

The major raw materials used by Sabra in the manufacture of its products are raw tehina, chickpeas and oils.

In 2010 raw material prices were generally stable, with no noteworthy trends. Tehina prices are determined in advance in yearly agreements.

There is no dependence on any single supplier in the International Dips and Spreads segment.

15.10 **Working capital**

15.10.1 The average balance of working capital in the International Dips and Spreads segment in 2010 was approximately NIS 27 million. The Company finances the working capital deficit through its current capital sources.

15.10.2 **Raw material inventory policy** – the average raw and packaging material inventory which served the companies in the International Dips and Spreads segment in 2010 was 53 days[20].

15.10.3 **Finished goods inventory policy** – the average finished goods inventory which served the companies in the International Dips and Spreads segment in 2010 was 6 days.

15.10.4 **Credit policy:**

A. Customer credit: The average credit period granted to customers in 2010 was 40 days. The average volume of customer credit in the International Dips and Spreads segment in 2010 was NIS 33 million.

B. Supplier credit: The average credit period that the Group received from its suppliers in the International Dips and Spreads segment in 2010 was 42 days. The average volume of supplier credit was in 2010 was NIS 23 million.

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20 Calculated according to accounting data by dividing the average raw material inventory for the relevant year by the material usage included in the Company's cost of sales (consolidated) in that year, multiplied by 365 days.

15.11 **Material agreements**

Joint transaction with PepsiCo

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

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

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

The relations between the owners of the "participation rights" in Sabra were regulated in an agreement (the **"Bylaws"**), 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 Bylaws determine a decision mechanism 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 Bylaws determine a mechanism 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 Bylaws), 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 Bylaws. Where an owner of "participation rights" to which the general manager is related refuses this request, the abovementioned dispute resolution mechanism will be activated.

The owners of the "participation rights" have undertaken, in accordance with the terms and conditions set forth in the Bylaws, that neither they nor their related company (as defined in the Bylaws) 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 Bylaws 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 Bylaws acquire over 20% of the holdings in PepsiCo.

After five years have elapsed from the date whereon the Bylaws 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 Bylaws 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 Bylaws 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 Bylaws) 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 Bylaws became effective. Additionally, the Bylaws 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 Bylaws.

The Bylaws 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 Bylaws 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 Bylaws. Notwithstanding the foregoing, insofar as the owners of the "participation rights" shall so choose and subject to the provisions of the Bylaws, 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 Bylaws determine that a related company (as defined in the Bylaws) to the Buyer shall be granted an option to distribute Sabra's products under market conditions, provided, however, that the terms and conditions of its offer shall be no inferior to similar offers.

Distribution agreement – a distribution agreement was signed between Sabra and B&W LLC, pursuant whereto B&W LLC shall serve as an independent distributor for part of Sabra's products (according to a list attached to the agreement) in consideration for a distribution commission, for a period of 24 months. 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.

16. Other Activities

The Group has various activities 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, 2010 in "Other" segment. These activities include:

16.1 Strauss Water

16.1.1 **General information:** After almost three years in which the Company invested in and managed the H2Q water venture as a startup alongside the other businesses of the Group, on 11 July 2009 the Company announced its intention of establishing Strauss's water company and the signing of an agreement for the acquisition of full ownership of Tana Water Industries Company Ltd. (hereinafter: **"Tami4"**), manufacturers and marketers of water filtration and purification devices under the Tami4 brand; the transaction was closed on October 1, 2009. Following the establishment of Strauss Water, a gradual process of integrating the activities of H2Q and Tami4 was initiated with the goal of integrating the technology developed by H2Q and Tami4's capabilities, to serve as the infrastructure for Strauss's activities in the drinking water industry in Israel and internationally. In August 2010 the name of the subsidiary was changed from H2Q to Strauss Water Ltd. (hereinafter: **"Strauss Water"**), and on December 12 Tami4 was merged with Strauss Water and became inactive.

On October 16, 2010, Strauss Water, through a subsidiary established in Hong Kong, Strauss Water HK Trading Company Ltd. (hereinafter: **"Strauss Water Hong Kong"**), signed an agreed with the Haier Group of China, through its subsidiary Haier Whole Set Distribution Co. Ltd. (**"Haier Consumer Goods"**) for the establishment of a joint venture in China. The joint venture will be 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%). Each of the parties undertook to invest $10 million for the purpose of establishing and operating the joint venture. The joint venture will purchase the products from Strauss Water and will receive distribution, sales and servicing services from subsidiaries of the Haier Group.

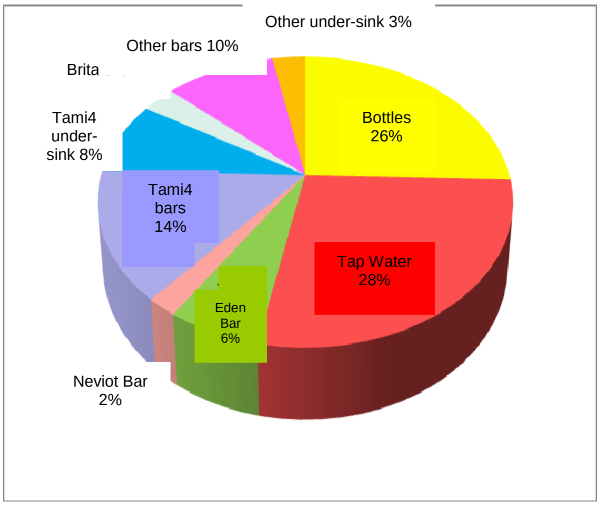
16.1.2 **Products:** The company has 3 brands: Strauss Water (in Hebrew), Tami4, and abroad the company uses the Strauss Water brand. In 2010 use of the brands Tana and Tana Water was discontinued. The company engages in the development, assembly, marketing and servicing of filtration and purification systems for drinking water. The company's products include a range of solutions for the home and outside of the home, such as a "water bar" that provides hot and cold high-quality water. In 2010 the company continued to lead the water solutions market in Israel with its Family and Primo models and an under-sink filtration and purification system. The company focuses on the promise of the high quality of the water and has a standard mark for a home and business hot and cold water bar issued by the Standards Institution of Israel. In the UK Strauss Water has launched the T6 model, a drinking water filtration and purification device for the small and medium office sector, and has also initiated sales to the home sector in the Greater London area.

16.1.3 **Competition:** The competition against Strauss Water's products is divided between competition by companies selling water in bottles and jugs and competition by companies offering water filtration devices.

The company's major competitors in Israel are Mey Eden, Neviot, Brita and Aquatal; additionally, there are some 100 small marketers importing Tam4 "clones". The Electra company has announced its intention to enter the water business. The competitors in China and the UK are various companies manufacturing similar products, using technology which in the Company's estimate is less developed.

In 2010 the "Premium Tami Bar" was launched, granting a significant competitive advantage versus imported devices.

According to the publication by the New Wave Institute in October 2010, following is a depiction of market shares:



16.1.4 **Seasonality:** Strauss Water's income is influenced by seasonality, with increased demand for cold water solutions occurring in summer. Accordingly, the third quarter of each year is characterized by a higher business turnover compared to other quarters.

16.1.5 **Customers, marketing and distribution:** The marketing and distribution of Strauss Water products to the private sector and small businesses in the business sector are carried out by direct marketing; following advertising in the different media customers contact the Group's incoming call center. Marketing in the business sector is in most cases performed through sales agents who accompany potential customers and are in constant touch with them, and in the minority of cases, through Requests for Proposals (RFPs) in which the Company competes. Sales to customers are characterized by great variance and dispersion.

Strauss Water has long-term service agreements with its customers for the sale of spare parts. The agreements are not binding on the customer, which may terminate the agreement at any and all times.

Strauss Water distributes its products internationally through its subsidiary in England as well as through sales from Israel to independent distributors abroad.

16.1.6 **Fixed assets and real estate:** A manufacturing site located in the new industrial zone near Kibbutz Netiv HaLamed Heh, which serves for the production, assembly and packaging of Tami4 products. The site covers a built-up area of 6,000 m² and is leased from a third party for a period ending in January 2020.

16.1.7 **Research and development:** Strauss Water (formerly H2Q) has developed an innovative water purification technology designed, in the first stage, for home use. The technology consists of the integration of breakthrough developments in the fields of engineering and physics, with innovative developments in chemistry and microbiology, supported by 8 patents. The device's compact size allows for an extremely broad range of applications such as bars, bottles, refrigerators, jugs, etc. Additionally, Strauss Water has developed innovative technologies for cooling and boiling drinking water. The processes of approval and standardization of the technology by standards institutions, which in the Company's opinion are considered the world's most rigid in the field of water standardization (the American EPA and NSF), have mostly been completed and will be entirely completed in the first half of 2011. In 2010 Strauss Water's total R&D costs were approximately NIS 6 million.

16.1.8 **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 22 in This Chapter.

Following is information on the number of employees of Strauss Water (including 68 and 102 employees of personnel agencies), as at December 31, 2010 and December 31, 2009, respectively:

	Number of Employees as at	
	December 31, 2010	December 31, 2009
Management	4	4
Finance, Marketing, HR, IT, R&D and Administration	139	110
Sales and Distribution	359	268
Procurement and Logistics	189	108
Operations	207	203
Total	898	693

Additionally, in the subsidiary in the UK 46 and 38 employees were employed in the years 2010 and 2009, respectively. The increase in the number of employees in 2010 is due to the expansion of Strauss Water's businesses in and outside of Israel.

For information on the options granted to the CEO of Strauss Water for the acquisition of 1.2% of the shares of Strauss Water, see section 1.18, footnote 13.

16.1.9 **Material agreements**

The acquisition agreement of Tana Industries Company Ltd.

On July 10, 2009 Strauss Water (formerly H2Q) engaged in an agreement with Tami4 and the shareholders of Tami4 (the "Sellers") for the acquisition of the entire issued share capital of Tami4 (100%). The transaction was closed on October 1, 2009 after the suspending conditions for the closing were fulfilled, including approval by the Antitrust Commissioner and receipt of the consent of Tami4's creditors.

On the closing date, Strauss Water paid a total amount of NIS 303 million. The agreement includes representations made by Tami4 to Strauss Water and by the Sellers to Strauss Water. Except for certain cases set forth in the agreement, the Sellers are liable for Strauss Water's indemnification in the case of breach of the representations by the Sellers, for a period of 18 months from the closing date and up to a total compensation ceiling in an amount equal to NIS 44 million.

16.2 Max Brenner

Since 2003 the Group has directed the activity of the Max Brenner brand to create a unique, novel cultural experience of premium chocolate and chocolate beverage consumption, and accordingly, developed a unique concept of "Chocolate Bars". As at the date of the Periodic Report the chain of "Chocolate Bars" comprises 33 branches in Israel and worldwide, eight of them owned by the Group[21] and twenty-five operated under franchise. In Israel, six "Chocolate Bars" are in operation. Outside of Israel there are twenty-seven branches in operation, of them one in New York, another in Philadelphia and a third in Las Vegas (opened in 2010), twenty-one in Australia (in 2010 three new branches were opened), and three in the Far East – in Singapore and the Philippines. A new branch is scheduled to open in the USA in 2011 – in Boston.

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. These products are manufactured at the Group's production site in Bet Shemesh. The site is located on a 5,500 m^2 plot and has a built-up area of 2,300 m^2. The Company leases the land rights from the Israel Land Administration (which itself has leased the rights from the Greek Patriarch until the year 2053) under a capitalized lease agreement ending in April 2043. As at December 31, 2010 the Group employs 683 employees in the "Chocolate Bar" business and in the manufacture of chocolate products under the Max Brenner brand, in Israel and abroad (compared to 582 in 2009). The growth in the number of employees is due to the increase in the number of branches.

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

17. Customers

17.1 Breakdown of sales to customers

17.1.1 The Group's customers in its areas of activity (both in Israel and in the countries where it is active outside of Israel) are divided into two main types: retail market customers and customers in the Away-From-Home (AFH) market.

For information on the customers of Strauss Water, see section 16.1.5 in This Chapter.

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[21] Eight are wholly-owned: five in Israel and three in the USA, of which the branch in New York is held together with a partner, Samba Chocolate LLC, which holds 10% of the holdings.

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, kibbutzim, coffee machines and vending machines) provide the consumer with consumption opportunities for food and beverage products while he is away from home. The AFH market (principally workplaces and hotels) is characterized by the end consumer, who actually consumes the product, having little influence on the choice of products purchased; the choice is usually made by the purchasing director or central buyer. As a result, branding is of less importance, and price, availability and service 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, and most of them define the quantity and price 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.

17.1.2 Following is the breakdown of the Group's total sales (in NIS millions) and their percentage of the Group's total revenues, divided by customer type, in the years 2010 and 2009:

Customer type	**Sales Channels – 2010**							
	Health & Wellness	**Fun & Indulgence**	**Israel Coffee**	**International Coffee**	**International Dips & Spreads**	**Other**	**Total Group**	**% of total**
Organized market	631	226	156	890	246	-	2,149	31.3%
Private market	967	459	227	1,426	48	-	3,127	45.6%
AFH	174	132	186	167	3	108[22]	770	11.2%
Other	39	55	23	311	-	381[23]	809	11.8%
Total	1,811	872	592	2,794	297	489	6,855	100%

[22] Including Max Brenner sales in Israel and abroad.
[23] Including Strauss Water sales.

Customer type	Sales Channels – 2009							
	Health & Wellness	**Fun & Indulgence**	**Israel Coffee**	**International Coffee**	**International Dips & Spreads**	**Other**	**Total Group (*)**	**% of total**
Organized market	625	229	178	863	179	-	2,074	32.6%
Private market	945	453	229	1,412	35	-	3,074	48.2%
AFH	164	123	169	251	2	108	817	12.8%
Other	35	50	22	225	-	76	408	6.4%
Total	1,769	855	598	2,751	216	184	6,373	100%

(*) A number of amounts in this item were reclassified to be aligned with presentation in the current period.

Sabra sales are included at 50% only;

Tami4 sales are included commencing in the fourth quarter of 2009.

17.1.3 It is the Group's practice to divide retail customers between the "organized market" and the "private market". Customers in the organized market include: in Israel – the two major large food chains (Shufersal and Blue Square); in Central and Eastern Europe organized market customers include national key accounts and cash & carry chains, which are characterized by discount prices. "Organized Market" customers in and outside of Israel are characterized by a large number of branches, centralized procurement on a large scale, and 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 26.4.2 in This Chapter.

17.1.4 The private market in and outside of Israel includes the rest of the customers in the retail sector, which are not included in the "organized market": private and regional food chains that own a smaller number of branches compared to the chains in the organized market (for example, in Israel: Hetzi Hinam, Tiv Taam, Rami Levy, Kimat Hinam, Yenot Bitan), mini-markets and grocery stores, and non-food chains (such as Super-Pharm, Office Depot, Home Center). The private market is characterized by a large number of customers, great variance between customer types and great diversity in the commercial terms and credit terms granted to them. The difference between the private and organized markets from the Group's aspect is mainly in different selling arrangements, customer credit volumes, collection processes and different compensation arrangements with distributors (in this context, see section 18.1 in This Chapter). In recent years the Group has been pressured by the organized 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.

17.1.5 **Geographical segmentation of customers** – for the revenue turnover breakdown according to geographical regions see Note 29.4 to the Consolidated Financial Statements of the Company as at December 31, 2010.

17.2 **Dependence on customers**

In 2010 the Group had no customers in which respect the Group's revenues from sales to these customers exceeded 10% of the Company's total revenues in its Consolidated Financial Statements. The loss of one of the customers mentioned below will have a material impact on the results of the Group's business operations.

The Group sells its product range in Israel to two major customers in the organized market. Since 2008 inclusive, the Company's revenues from each of them (in NIS millions) did not constitute more than 10% of the Company's total revenues in its Consolidated Financial Statements, as presented below:

	2010		2009 (*)		2008 (*)	
	Total income	**% of total income**	**Total income**	**% of total income**	**Total income**	**% of total income**
Customer A	599	8.7%	612	9.6%	628	10.0%
Customer B	413	6.0%	415	6.5%	429	6.9%

(*) Reclassified for comparison purposes (in respect of the sales of a proportionately consolidated company)

Each customer has different commercial terms and credit terms, as described in section 17.1.3 above. 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 takes care of distribution to the different branches in consideration for payment of a distribution commission.

The merger of Shufersal and Clubmarket in 2005 intensified Shufersal's purchasing power vis-à-vis the food manufacturers, and the latter's dependence on the merged chain increased. See also section Risk Factors, section 32.1.3 in This Chapter. In this context the Antitrust Commissioner, in the framework of his approval of the sale of Clubmarket to Shufersal, imposed limitations on Shufersal designed primarily to protect the competition, minimize and prevent abuse of Shufersal's purchasing power, including the prohibition of stipulating purchases from a supplier on the impairment of the terms and conditions of purchase applying to other chains, and the prohibition of interfering in the commercial terms granted to other chains.

18. Sales and Distribution

18.1 In Israel

18.1.1 The sales and distribution system for all of the Group's products in Israel (Health & Wellness products, Fun & Indulgence products and Coffee products) serves some 12,100 points of sale, including supermarkets, grocery stores, mini-markets, kiosks, hotels, kibbutzim, restaurants, cafés, workplaces, etc.

18.1.2 Finished products are transported from the finished 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.

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

18.1.3 Following the merger with Strauss, the Group's sales systems in Israel were combined under one Sales Division Headquarters. The Sales Division handles sales and distribution in Israel of the Group's food and beverage products using an in-house distribution system (drivers who are Company employees) and an external distribution system (independent distributors).

18.1.4 The internal distribution system handling the Group's products in Israel includes approximately 80 trucks, most of them leased and a small number of them owned by the Group, that serve for distribution (in both the presale and van-sale methods), in addition to the privately owned trucks belonging to the independent distributors (see section 18.1.5 below). Additionally, the Salty Snack "Sayeret" (patrol) distributes salty snacks (in the van-sale method) to the private market countrywide using some 60 trucks leased by the Group, and the Green "Sayarot" (patrols) distribute cut salads (in the telesales method) using 6 trucks leased by the Group.

18.1.5 The external distribution system mainly distributes the refrigerated Health & Wellness products (dairy products, milk beverages and fresh juices) and mainly consists of some 250 independent distributors. 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 26.1.2.6 to the Consolidated Financial Statements of the Company as at December 31,

2010. 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 organized 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 for 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 at no consideration to the Group. The distribution right is non-transferable by the distributor other than with the Group's consent.

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

18.1.7 The Group has exclusive distribution agreements with an external distributor in Israel who distributes the Group's food products (except for dairy products, milk beverages and salads) to the Israel Prison Service and Israel Police, and with an external distributor who distributes these products to army canteens. 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.

18.1.8 As at the date of the Periodic Report the Group operates a team of shelf-stockers in large stores, which handles the renewal of orders and arranges the Group's products on the shelves. Since the beginning of 2010 the Shufersal chain has gradually begun to itself operate the shelf-stocking system for dry products and refrigerated salad products, and in March 2010 an agreement on the subject was signed between the Company and Shufersal. The agreement determines that the Shufersal chain will provide the Company with management and shelf arrangement services, which include management of orders, arrangement of products on the shelves, arrangement of products in off-the-shelf displays, and price marking and signage. A second agreement was signed in June 2010 with the Co-Op Israel chain for the management of shelf-stocking by the chain of all of the Group's products. To the best of the Company's knowledge, in part of the other large chains pilots are being conducted regarding the change of the shelf-stocking system.

The Company estimates that the main impact of the operation of the shelf-stocking system by the chains is the gradual termination, over time, of the employment of the Company's shelf-stocking system. The Company estimates that most of its employees that belong to this team will be absorbed as employees by the chains or in other jobs in the Company. In the Company's estimate, the total anticipated impact of this move on the results of its business operations is immaterial.

For the Antitrust Commissioner's position of January 2005 regarding shelf-stocking and the agreed injunction order formulated between the Antitrust Commissioner and the dominant food suppliers, among others, in this matter, see section 26.4.2 in This Chapter.

18.1.9 The Company takes care of the management of the freshness of its products on the shelf, and of the 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 18.1.8 above), returns are handled as per the agreement.

18.1.10 In regard to the customers, marketing and sales of Tami4, see section 16.1.5 in This Chapter.

18.2 **<u>In countries outside of Israel</u>**

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

Poland – the retail market sales system serves some 12,000 points of sale in the presale method through independent distributors and drivers who deliver the goods to the logistic centers and central warehouses of the chains. Delivery is made within 48 hours. Strauss operates the shelf-stocking system in the chains. Defective or obsolete products may be returned.

The AFH sales system serves some 22,000 points of sale in the presale method through independent distributors. Delivery is made within 48 hours. Defective products may be returned.

Romania – the sales and distribution system serves some 22,000 points of sale in the presale method through independent distributors. Delivery is made within 48 hours from the time the order was placed. 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 are executed in the presale method and delivery is made within 48 hours. In 2009 a substantial change was made in the sales and distribution system in the retail market, switching from distribution by means of an internal transport system to distribution which is mainly external and performed by a third party. Pursuant to the agreement, the agent will exclusively sell and distribute the Company's products and will be responsible for the logistics involved and collection of payment from customers. In the AFH market the goods are partly delivered by independent distributors and partly by drivers who are Company employees.

In some of the points of sale in the retail market a shelf-stocking system is in place.

Product returns are regulated according to ISO and HACCP regulations, 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).

Russia – the sales and distribution system serves some 90,000 points of sale in the telesales and presale methods. Sales to the retail market are made by independent distributors, and the Company works on the basis of direct agreements with the national chains. In the AFH market, sales and distribution are performed by independent distributors. Bars, restaurants and cafés are served by drivers who are Company employees. Deliveries in the retail and AFH markets in Russia are made within 48 hours from the time the order was placed. The Group, in collaboration with a third party, operates a shelf-stocking system in stores of large customers (K.A.), which handles the renewal of orders and the arrangement of the products. Products may be returned if defective or of poor quality; in the organized market products that are not sold after promotional campaigns may be returned.

Ukraine – the sales and distribution system is performed by independent distributors and Company drivers in the presale and telesales methods. Delivery is made within 72 hours. 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.

Brazil – the sales and distribution system serves some 70,000 points of sale in the presale method. Most of the transportation in Belo Horizonte, Rio de Janeiro and in the northern and northeastern parts of the country is performed by 270 trucks owned by the Group. Delivery times range from 24 hours to 7 days, depending on the location of the point of sale (the long delivery times are relevant for points of sale located in remote rural regions). Strauss operates a shelf-stocking system which handles the renewal of orders and the arrangement of the products. The subject of product returns is regulated in the legislation, which determines the manner and terms and conditions of return. The law limits the quantity that may be returned.

Sabra – the refrigerated salad products in the USA are sold and distributed to club chains (huge warehouses specializing in the sale of a limited choice of brands in large packs and at discount prices), mass merchandisers (huge department stores such as Wal-Mart) and retail chains. The sales and distribution system serves some 50,000 points of sale in the USA. Approximately 92% of the products are sold in the presale method and are distributed directly to the chains' logistic centers by external transport companies, and the remaining 8% are distributed through the DSD (Direct Self Distribution) channel, which is based on Sabra employees who transport and arrange the products on customers' shelves, particularly in the New York area. Other than the DSD channel there is no shelf-stocking practice among customers. Sabra leases some 19 trucks. Deliveries are made within up to 10 days from the day the order was received; in the DSD channel delivery times are shorter. Products returns are customary only in the DSD channel.

19. Advertising and Marketing Communications

The Group supports its leading brands in Israel by extensive marketing communications. In general, marketing communications are conducted via three main channels – the advertising, public relations (PR) and experiential channels. (1) The advertising channel mainly consists of the mass advertising media such as television, Internet, billboards, cinema, printed press and radio. In 2010 the Group was the leading advertiser in Israel in terms of the total volume of investment in all advertising channels[24]. Most of the Group's advertising is directed to television. In 2010 the Company increased the presence of its brands in the digital arena and

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

executed substantial moves in the worlds of social networks, Internet video, etc.; (2) the public relations channel, which enables messages about the Group's brands to be communicated indirectly through the media; and (3) the experiential activity channel (such as product samplings at points of sale, sample giveaways etc.) consists of events and sales promotion campaigns, their goal being to enhance the brand experience, create awareness of campaigns being held at the various stores and food chains, and drive consumer preference for the Group's brands.

Marketing communications expenses include, among others, the costs of producing the advertising materials (such as the cost of producing television commercials, ads for the printed press, signs for points of sale, etc.), as well as the cost of using the media themselves, i.e. payment to the franchisees of the television channels for commercial airtime, and payment to the other media.

In determining the communications language of the Group's brands, the Group is assisted by advertising agencies, which are partners in building advertising strategy. Media planning (distribution among the media channels, spread of the budget across the various channels and media buying) is performed by an external media company on the basis of targets defined by the Company.

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

The Group continued to manage its product portfolio competitively and effectively in all countries where it is active. In 2010 the Company began implementing a uniform communications language for the Elite brand in the Fun & Indulgence categories, as the leading confectionery brand in Israel.

The Group's advertising expenses (including accessories, market surveys and packaging design) in NIS millions in the years 2010, 2009, and 2008 are as follows:

	2010	**2009**	**2008**
Israel activity framework	181	174	176
Coffee activity framework	156	173	201
Other	59	35	24
Total	396	382	401

20. 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 activity.

20.1 **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 Head Management of the Company. The office building covers an area of 11,675 m² (gross) and comprises a ground floor, 9 additional floors and basement areas, plus 350 underground parking places.

The building was acquired under an agreement of December 24, 2007 in consideration for the sum of approximately $19 million plus VAT. A caution notice has been registered with respect to the property in the Company's favor.

The agreement of sale determined that tax certificates would be delivered to the Company by no later than 12 months from the date possession of the premises was delivered. The agreement of sale further determined that out of the consideration, an amount equal to 15% would be deposited in trust until the tax certificates had been submitted by the sellers; these have not yet been received due to objections filed with the tax authorities. As at December 31, 2010 the trustee holds an amount of NIS 8.8 million, following the release of NIS 2.9 million out of the amount held by the trustee during 2008 upon submittal of certification that tax with respect to the transaction had been paid. The Company filed an appeal with respect to a supplement it was required to pay to purchase tax, in an amount of NIS 2.6 million.

The sellers undertook that within 18 months from the date of signing of the agreement the rights in the sold asset would be registered in their name (which will be possible only after the construction of the last two buildings in the Yanai Project has been completed), and that within seven years from the date of completion of the project, the project, including the office building, would be registered as a condominium. The agreement prescribes provisions that will ensure the registration of the condominium and the Company's rights, and among other things the Company was given by the sellers' individuals an irrevocable personal guarantee to ensure the sellers' undertaking to register the condominium. As at December 31, 2010, the rights in the asset have not yet been registered in the sellers' name.

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

20.2 **Property in Givatayim:** Subsidiaries of the Company (Pri-Elite Ltd. and Givat Rivka Ltd.) hold 66% of the land rights in an 8,300 m² plot in the "city" quarter of Givatayim, comprising ownership rights relating to approximately 20% of the land and lease rights from the Israel Land Administration relating to approximately 46% (partly under a capitalized lease agreement ending on October 31, 2048, and partly under a non-capitalized lease agreement ending on December 23, 2016, with an option to extend the agreement for 49 more years). The rights in the rest of the property (34% of the plot) are owned by the State of Israel and Keren Kayemet Le'Israel and are managed by the Israel Land Administration. In September 2001 the designation of the land was changed from industry and craftsmanship to residential, offices, hotels and services. In November 2009 the Israel Land Administration issued a public tender offer for the sale of its share of the property, and in early February 2010 the rights were sold to a third party. Givat Rivka Ltd. and Pri-Elite Ltd. (hereinafter: the "Plaintiffs") filed an eviction claim and a claim for monetary compensation against the Givatayim Municipality in respect of unpermitted use of part of the property. On February 23, 2009 a settlement agreement was signed between the Plaintiffs and the Givatayim Municipality, pursuant whereto the Municipality will credit the Plaintiffs for a total amount of NIS 1.8 million and will cancel municipal debts applying to another plot that is abandoned, retroactively and in the future, for as long as factual changes do not occur in the asset.

Property in Shoham: On December 9, 2009 the Company won an Israel Land Administration tender for a long-term lease relating to approximately 71 dunam (17.75 acres) in the business park complex in Shoham, at a total cost (lease fees, development levy and taxes) of NIS 65 million. As at the date of this Report, the complex is in advanced planning phases for the construction of a logistic center for the Group's use in Israel. On March 1, 2010 a lease contract was signed between the Company and the State of Israel Development Authority for a period of 49 years commencing on December 9, 2010, with an extension option for a further 49 years.

20.3 **Properties that have been sold**

Real estate in Nahariya – the Company, through its subsidiary Strauss Health Ltd. (80%), engaged in a transaction for the sale of a real estate property in its possession, which formerly served as the dairy plant in Nahariya.

The transaction includes agreements with three different parties:

One agreement with a third party was approved and signed on May 12, 2010; in consideration for the sale the subsidiary received an amount of approximately $2.5 million. The other two agreements are the sale of land rights to a third party and to a controlling shareholder of the Company. In consideration for the sale and the lease, the subsidiary received an amount of approximately $1.7 million (of which $0.7 million will be received in July 2011), and approximately $0.5 million, respectively. The agreements were approved in the meeting of the Audit Committee on May 23, 2010, in the meeting of the Board of Directors on May 23, 2010, and in the General Meeting of the Shareholders of the Company on July 4, 2010. For further information, see the Immediate Reports of the Company of May 24, 2010 and May 27, 2010.

21. Research and Development

In line with its business strategy, the Group engages continuously in the development of new products and their introduction to the market, as well as in refreshing existing products, inter alia, through packaging renewal and innovation in response to the demands and tastes of the target audience. Salty snacks and yogurt products are developed partly through using the comprehensive knowledge in the possession of the Company's strategic partners, PepsiCo and Danone, respectively. Additionally, the Group takes action to improve production processes, develop alternative energy consumption and protect the environment, including the development of new packaging that will improve the protection of product quality and freshness. The Group works continuously on the development of analytic and sensory methods with the aim of improving the quality of its coffee products. Product development work is performed at the initiative of the marketing departments of the various business units by development teams which operate laboratories at the production sites, on the basis of market research or following consultation on the subjects of marketing and public opinion, and also according to tests performed by in-house and external teams. The Group is in regular contact with academic institutions and people in Israel and internationally for the purpose of advancing innovation. The Group does not separate its development costs, which do not constitute material costs. For information on the development of a water purification device for Strauss Water's business, see section 16.1 in This Chapter.

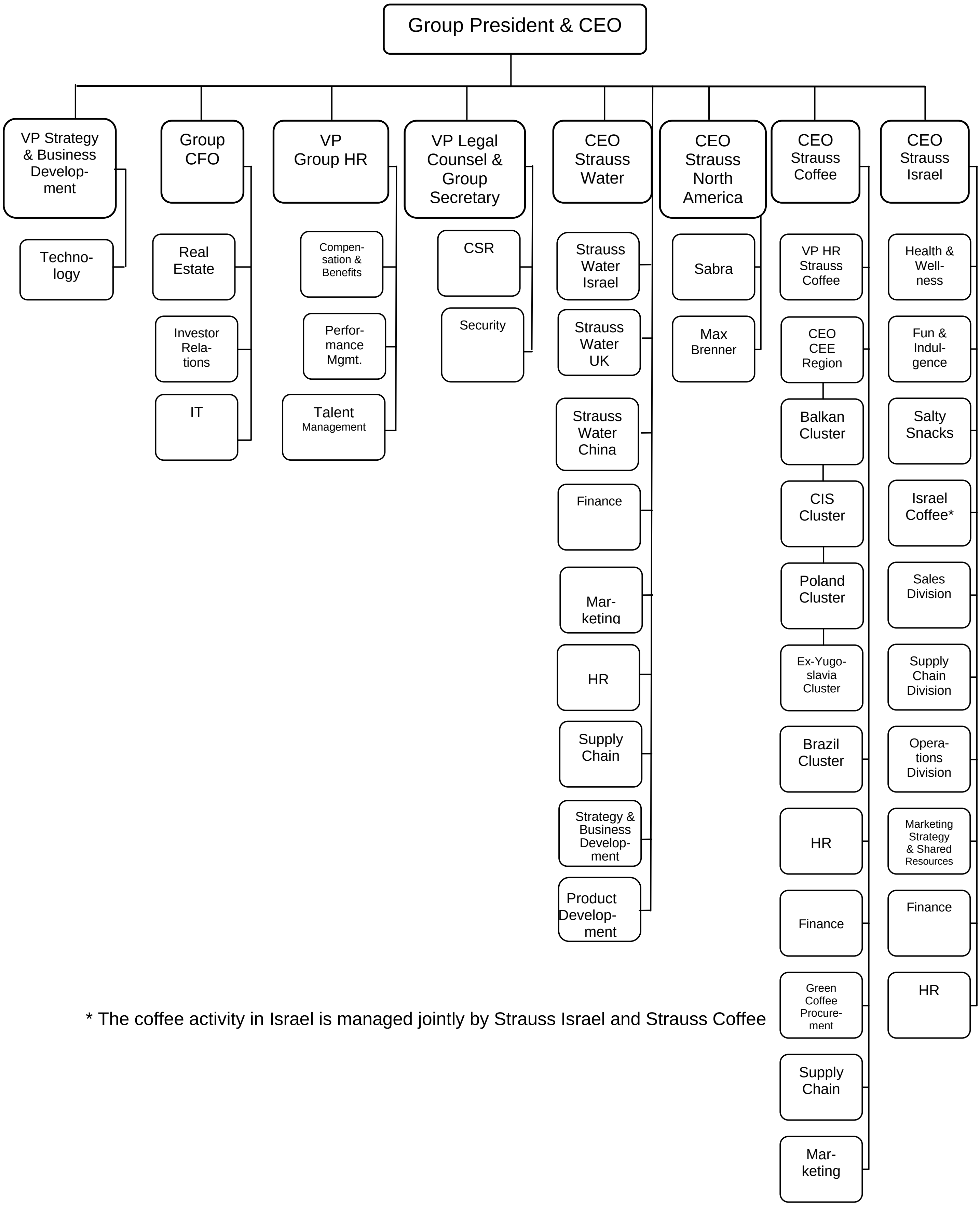
22. Human Capital

22.1 Organizational structure

22.1.1 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 activity framework, which manage core processes and supporting processes across the organization.

In July 2009 the Group reformulated its strategic management model. This model charts the method of the Group's management, the mission of Group Management and the work interface between Group Corporate Center and the companies. The model creates a balance between the needs of the Group and those of the companies and allows the majority of efforts to be focused on strategic issues on the Group level and on the subjects that are the most important to each company. The model allows the Group's businesses to be managed in a more controlled manner with quick and effective decision-making, allowing the companies to function independently in the everyday operational management of the business.

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



* The coffee activity in Israel is managed jointly by Strauss Israel and Strauss Coffee

Senior Management – the Group is led and managed by the GMT – Group Management Team (previously GET – Global Executive Team). GMT members manage the overall strategy of the Group and the companies and follow up the accomplishment of business results. They also serve as members of the Boards of Directors/Executive Committees of the companies and the Group's major units of activity, entities that chart the strategic directions in the Group.

Group Management includes the Group President & CEO, CEO of Strauss Israel, CEO of Strauss North America, CEO of Strauss Water, Legal Counsel and Group Secretary, Group VP Human Resources, Group CFO, and VP Strategy and Business Development; the CEO of Strauss Coffee is invited to GMT meetings but is not a member of the GMT.

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

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

For information on the number of employees in Group Corporate Center in the years 2010 and 2009, see section 22.2.2 in This Chapter.

22.1.4 **The Israel activity framework** – 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 GMT. 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, CEO of the Dairies Division and CEO of the Fresh Foods Division (divisions that belong to the Health & Wellness segment), CEO of the Fun & Indulgence Division, CEO of the Salty Snacks Division, CEO of the Israel Coffee Division, VP Supply Chain, VP Operations, VP Sales, VP Human Resources, VP Marketing Strategy and Shared Resources, and the CFO.

The business divisions (Health & Wellness, including Dairies and Fresh Foods, 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, 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 this country.

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

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

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

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

The Marketing Strategy unit devises and manages marketing strategy and the product portfolio. The unit serves as a center of expertise in the worlds of marketing communications, research and consumer insights, innovation, and manages the corporate brand. Additionally, the unit leads the Shared Resources unit that provides operational services to the Israel business divisions in the spheres of media planning and buying, consumer service, TV productions, production of events, public relations, packaging design, etc.

22.1.5 **The coffee activity framework** – the Group's coffee activity has its own separate management. Management is responsible for the end-to-end management of the business, for building strategy and for its approval vis-à-vis the GMT and the Board of Directors. Coffee Management is responsible for the realization of strategy, the accomplishment of goals derived from it, and for the development of people and brands. After the private equity investment fund TPG became a partner in Strauss Coffee the Group's coffee business in Israel (which also includes the activity of "elite coffee") was transferred to Strauss Coffee, which today concentrates all of the Group's activity in coffee. According to service agreements between the Company and Strauss Coffee, the Company continues to provide Strauss Coffee in Israel with certain head office services such as human capital, operations and logistics, sales and distribution, which are led by the Management of Strauss Israel. Strauss Coffee Management comprises the CEO, Deputy CEO, VP Marketing, VP Finance and Manager of the CEE Cluster. See section 13.9.1 above. Strauss Coffee Management is subordinate to the Board of Directors of Strauss Coffee, which comprises six directors – four representing the Company and two representing TPG. Strauss Coffee's head office is located in Holland and in Israel. The international coffee business is managed through three regional clusters: the CEE Cluster, the Brazil Cluster and the Israel Cluster. The CEE Cluster includes four sub-clusters: the Balkan States (Romania, Bulgaria and Moldavia) sub-cluster; the Poland sub-cluster; the ex-Yugoslavia and Albania sub-cluster; and the CIS sub-cluster (Ukraine, Russia, Belarus and Kazakhstan). Each cluster and regional sub-cluster is headed by a separate management which includes a Cluster Manager and Marketing, Finance, Supply Chain, Sales, AFH and Human Resources Managers. The CEE Cluster is headed by a Regional CEO and Marketing Manager.

22.1.6 The Sabra and Max Brenner activities in the USA are run by local managements, which are jointly managed by the CEO of Strauss North America.

Strauss Water has a separate management headed by the CEO of Strauss Water. See section 16.1 in This Chapter.

22.2 **Employee headcount**

22.2.1 As at December 31, 2010 and December 31, 2009 the total number of employees employed by the Group was 13,883 and 13,071, respectively (including 1,535 and 1,412 employment agency employees as at December 31, 2010 and December 31, 2009, respectively). The headcount includes all employees of the Group, even in cases where the activity is jointly controlled and proportionately consolidated. Most of the growth in 2010 is the result of the business expansion in Brazil, in Russia, in Strauss Water and in Sabra.

22.2.2 Following is a breakdown of the number of employees in Group Corporate Center in Petach Tikva, as at December 31, 2010 and December 31, 2009.

	Number of employees as at December 31, 2010	**Number of employees as at December 31, 2009**
Corporate Center employees	175	165

In 2010 a Strategy and Business Development unit was established.

22.2.3 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.

	Number of employees as at December 31, 2010	**Number of employees as at December 31, 2009**
Employees of Group HQs, Sales Division HQ and Supply Chain Division HQ	1,043	978

The increase is due to the statutory mobility of employees from the business units to the Corporate Center; i.e. correction of the registered attribution of a number of employees from one company to another within the Group;

22.3 **Benefits and the features of employment agreements**

22.3.1 **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, 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; the juice, jams and preserves industry; or the chocolate and confectionery 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 site 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 2008 new work agreements were signed in two of the Group's production sites, which for the first time include the introduction of a differential wage revision based on an assessment of the employees' performance; and in 2010 a new work agreement was signed at an additional production site, which among other things regulated the subject of a seniority increment for employees.

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

All employees of the Sales Division are employed under personal employment contracts. Salesmen receive varying commissions on sales from time to time or on a regular basis, in addition to their base salary.

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

In Israel, the Group's obligations relating to provisions for employees' pension rights are anchored 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, anchoring 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 "manager's insurance") and the insuring entity. In 2010, the Company signed an agreement with an additional pension fund, which expands the options open to the employees' choice.

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

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

22.3.2 **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** there is no general collective agreement applying to the Group's employees. However, each state has regional trade unions organized on the basis of occupation (drivers, production workers, etc.).

In **Ukraine** labor and employment law covers all aspects of work relations and in practice precludes negotiations and special provisions in employment contracts between the employer and employee.

In **Romania** the Group is currently negotiating in preparation for an internal collective agreement which is based on a national collective agreement. Additionally, employment is subject to a collective agreement applying to the food and beverage industry.

In **Serbia** employment is subject to a general collective agreement signed by the Serbian government, which is binding upon all employers.

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

The countries differ in regard to the nature and conditions of employment agreements, which are influenced, among other things, by the provisions of the local law and accepted work culture in that country. At the same time, Group

Management's approach in the human resources field is to apply a uniform policy insofar as possible, in all countries where it is active.

17.4 **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. Among other things, 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. In Brazil the Company incentivizes employees with academic degrees. Furthermore, the Group has developed a model that defines the core competencies required of managers in order to achieve the Group's business objectives. The management levels in the Group are trained on the model and 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.). As part of training managers for optimum work in the Group's complex matrix structure, in 2009 some 300 mid-level managers in Israel attended three-day training seminars to improve their ability to manage the interfaces, and in 2010 some 200 managers participated in continuation workshops dealing in process management in a complex organizational environment to improve the Group's performance excellence.

In some countries outside of Israel all employees are given the opportunity to participate in development programs for mid-level managers, according to the Company's requirements.

In 2010 senior executives received dedicated training designed to improve their understanding of the business environment and organizational complexity in which the Group operates, including the competitive arena, the retail world, the world of consumerism, the value chain and the importance of planning. Hundreds of training hours were provided to employees in all fields. Operations people deepened their knowledge in the worlds of operational excellence to create standardization in the order of activities on the production floor. In 2010 Code of Ethics trustees attended an enrichment program on the subject of ethics, on the perception of their role and on coping with dilemmas in the life of the Company. During 2010 most of the managers participated in workshops on the prevention of sexual harassment.

In early 2010 the Group began to use the training module in the SAP system, which enables employee training to be documented and accreditation entered in the employees' files. A training portal is available to Company employees, providing access to information on the various training options, their contents, training aids, dates and locations of training sessions, etc.

To cultivate an effective learning environment that is compatible with the spirit of the Company, suitable training rooms were prepared.

22.5 **Compensation plans for employees in the entire Group** – the Group incentivizes its employees 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.

22.6 **Employee loans** – the Company enables employees 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, with a repayment period of 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, 2010 is NIS 9 million.

22.7 **Contractor's employees** – in Israel, the Group has engaged in agreements with a number of employee placement firms 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 personnel 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. Pursuant to the agreements, the Group will be indemnified and compensated by the personnel 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 placement agencies were prepared in accordance with the provisions of the extension order in the personnel staffing industry, with the goal of ensuring that the agencies will comply with the provisions of the extension order. The Group has formulated tools and control mechanisms for the enforcement of the performance of the provisions of the extension order by the personnel agencies. It is noted that pursuant to an amendment to the Hire of Employees by Personnel Contractors Law, 1996, commencing on January 1, 2008 a contractor's employee employed by an employer for over nine consecutive months (including in the case of an interval in the continuity of work for a period that does not exceed nine months) shall be deemed to be an employee of the employer. In some of the Group companies abroad there are no limitations on the duration of employment, and in others there are limitations of between 6 to 12 months.

22.8 **The group of senior officers and members of Senior Management in the Group**

22.8.1 Following is a breakdown of the number of employees in the group of senior officers and members of Senior Management in the Group:

	Number of employees as at	
	December 31, 2010	**December 31, 2009**
Group President & CEO	1	1
Members of the Group's Senior Management (not including the CEO)	8	7
Members of the Management of the Group's activity in Israel (not including the CEO, who is included in the Group's Senior Management)	11	10
Members of the Management of the Group's coffee activity (including the CEO, who is not included in the Group's Senior Management)	6	4

22.8.2 **Option Plan** – according to option plans for senior employees of December 1996, June 2001 and May 2003 (revised in June 2004, August 2006 and April 2010), which were approved by the Audit Committee and the Board of Directors of the Company, the Company allotted warrants to senior employees in the Group free of charge, which upon exercise thereof will enable the purchase of Ordinary Shares of NIS 1 par value of the Company, to be allotted by the Company in consideration for their par value, in an amount equal to the difference between the share price on the Stock Exchange on the exercise date (**"Market Price"**) and the base exercise price (**"Base Price"**), it being linked to the Consumer Price Index, multiplied by the number of warrants and divided by the Market Price (commencing in 2004 – plus an amount of shares at the value of the total par value of the shares issued). The Base Price is different in each plan and as a rule reflects the Market Price on or about the date of approval of the plan. The Base Price or the conversion ratio of each warrant into the shares resulting from the exercise, as the case may be, will be proportionately adjusted for the allotment of bonus shares, consolidation and re-division of the Company's share capital into shares of a different par value, a rights issue to the holders of Ordinary Shares of the Company, and due to the distribution of a cash dividend. See Note 25.1 to the Consolidated Financial Statements of the Company as at December 31, 2010.

According to the terms and conditions of the plans, the warrants are exercisable in three equal portions, commencing at the end of 2, 3 and 4 years from the date of entitlement thereto (until the beginning of March 2008 – at the end of 3, 4 and 5 years from the date of entitlement thereto), with each exercise being permissible during a 4-year period (according to the Board resolution of June 24, 2010, which changed the exercise period from 3 to 4 years) since the employee's entitlement to exercise that amount of warrants was first created. Warrants that are not exercised until that date will expire. With respect to employees in Israel the plans were approved pursuant to Article 102 of the Income Tax Ordinance, and accordingly, were deposited with a trustee. Commencing in May 2003 warrants were allotted to employees in Israel in a capital route. The listing for trading of the shares resulting from the exercise of the warrants requires approval by the Stock Exchange. According to IFRS 2 the Company enters, as a wage expense with a corresponding increase in the shareholders' equity, the benefit created upon the grant of warrants to employees and a non-recourse loan for the purchase of its shares, in accordance with the fair value of the warrants on the date of their award, using the Black and Scholes Model.

<u>Following is information on the allotment of options during 2010 according to the abovementioned option plan</u>:

On March 7, 2010, at the recommendation of the Human Resources and Compensation Committee, the Board of Directors of the Company adopted a resolution for the allotment of options to a senior manager in the Group. Entitlement to their receipt will be created in three equal portions on March 7 of each of the years 2012-2014 (inclusive). See the Company's Immediate Reports of March 11, 2010, March 16, 2010, March 21, 2010 and March 22, 2010.

On June 14, 2010, at the recommendation of the Human Resources and Compensation Committee, the Board of Directors of the Company adopted a resolution for the allotment of options to a senior manager in the Group. Entitlement to their receipt will be created in three equal portions on June 14 of each of the years 2012-2014 (inclusive); the options were actually allotted on July 19, 2010. See the Company's Immediate Reports of June 17, 2010, July 19, 2010 and July 26, 2010.

On June 14, 2010, the Human Resources and Compensation Committee of the Board of Directors of the Company (pursuant to the power delegated to it by the Board of Directors of the Company) approved the allotment of options to a manager in the Group. Entitlement to their receipt will be created in three equal portions on June 14 of each of the years 2012-2014 (inclusive). See the Company's Immediate Reports of June 17, 2010 and June 23, 2010.

On August 31, 2010, the Human Resources and Compensation Committee of the Board of Directors of the Company approved the allotment of options to 4 managers in the Group. Entitlement to their receipt will be created in three equal portions on August 31 of each of the years 2012-2014 (inclusive). In regard to one of the managers, the options were actually allotted on October 3, 2010. See the Company's Immediate Reports of September 1, 2010, September 15, 2010 and October 3, 2010.

On November 21, 2010, the Human Resources and Compensation Committee of the Board of Directors of the Company approved the allotment of options to 3 managers in the Group. Entitlement to their receipt will be created in three equal portions on November 21 of each of the years 2012-2014 (inclusive). See the Company's Immediate Reports of November 23, 2010, December 6, 2010 and December 8, 2010.

22.8.3 For information on an international plan for the allotment of non-marketable 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 section 13.9.2 in This Chapter. The plan requires the approval of the General Meeting of Strauss Coffee and consequently, also the approval of the Board of Directors of the Company.

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

22.8.5 **Loans for the acquisition of Company shares** – loans extended by Strauss Holdings to the Chairperson of the Board of Directors of the Company were repaid in full in December 2010, and loans extended by Strauss Holdings to the Company CEO, whose term in office ended on June 30, 2009, were repaid in full in March 2010.

22.8.6 **Benefits and features 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 29.A in the Chapter, "Additional Information on the Corporation".

22.8.7 **Engagement in personal employment contracts with the Chairperson of the Board and the Company CEO** – on January 7, 2008, following approval by the Audit Committee and Board of Directors of the Company, the Special General Meeting of the Shareholders of the Company approved the Company's engagement in personal employment contracts with the Chairperson of the Board and the CEO at the time. The employment agreement with the Chairperson of the Board is subject to approval, as mentioned, every five years by the Audit Committee, the Board of Directors and the General Meeting of the Company. Each year, the Audit Committee and the Board of Directors of the Company will review the fairness and reasonableness of the Chairperson's employment agreement, and whether the consideration paid to her is commensurate with her contribution to the Company. For details on the heads of the agreements, see the Company's Immediate Report of November 20, 2007.

On July 1, 2009, the incumbent CEO assumed his role and on July 6, 2009, following approval by the Audit Committee and at the recommendation of the Compensation Committee of the Company, the Board of Directors of the Company approved the terms and conditions of employment of the incoming Group CEO, which include, inter alia, monthly salary, yearly bonus based on the accomplishment of targets, and the allotment of warrants. For details on the heads of the employment agreement, including the allotment of the warrants see the Company's Immediate Report of July 7, 2009.

23. Financing

23.1 Following are the average interest rates on bank and non-bank loans, which are not designated for a special purpose by the Group, that were effective during 2010:

	Average interest rates* on loans not designated for specific use for the year 2010		
	Short-term loans	**Long-term loans**	**Average rate**
Group Corporate Center			
Bank loans		2.34%	2.34%
Non-bank loans (Debentures Series A, B, C)		3.09%	3.09%
Average rate		3.06%	3.06%
Health & Wellness			
Bank loans	3.05%		3.05%
International Coffee			
Bank loans	5.06%	7.63%	5.48%
Other			
Bank loans		4.34%	4.34%
Non-bank loans		3.75%	3.75%
Average rate		4.02%	4.02%

* The average interest rate is similar to the effective interest rate, except for the Debentures Series A, which were issued at a discount, and the effective interest rate in their respect on the issue date was 3.4%. The average interest rate in respect of Debentures Series A and B is Index-linked.

23.2 Under a prospectus published by the Company on March 10, 2005, the Company issued the following securities:

23.2.1 NIS 500,000,000 par value Debentures (Series A), registered, of NIS 1 par value each, at a total par value of NIS 500,000,000, repayable in six equal yearly installments on December 31 of each of the years 2006-2011 (inclusive), linked (principal and interest) to the Consumer Price Index (CPI) published on February 15, 2005, and bearing annual interest of 0.7% determined in a tender.

The Debentures (Series A) are not secured by any collateral.

The main causes granting the holders of the Debentures (Series A) the right to put up the outstanding unpaid balance of Debentures (Series A) for immediate payment, under the terms and conditions set forth in the debenture documents, are: non-payment of any amount owed by the Company with respect to the Debentures (Series A); appointment of a temporary liquidator by the court or adoption of a resolution regarding the winding-up of the Company (other than winding-up for the purpose of a merger with another company and/or the restructuring of the Company); imposition of a lien on material assets of the Company; foreclosure of liens held on material assets of the Company (other than encumbrances granted to secure specific credit); appointment of a receiver over all of the Company's assets or material assets of the Company.

23.2.2 Under a prospectus published by the Company on March 10, 2005, on March 17, 2009 the outstanding balance of Warrants (Series 1) in circulation expired (9,582,799 Warrants).

23.3 On February 25, 2007 the Company completed a capital raising of NIS 770 million by way of a private placement to institutional investors of a series of NIS 770,000,000 par value Debentures (Series B), registered, of NIS 1 par value each, repayable in five equal yearly installments on February 1 of each of the years 2014-2018 (inclusive). The unpaid balance of the principal shall bear interest paid twice yearly, on August 1 and February 1 of each year. The Debentures are linked (principal and interest) to the CPI in respect of the month of January 2007. On May 21, 2007 the Company listed the Debentures (Series B) for trading on the Stock Exchange through a prospectus for admission to listing and trading published by the Company on May 10, 2007. In respect of the period commencing on February 25, 2007 and ending on July 31, 2007, on August 1, 2007 the Company paid 4.7% annual interest. Commencing on February 1, 2008 until February 1, 2018 (inclusive) the Debentures shall bear annual interest at a rate of 4.1% p.a. The main causes granting the holders of the Debentures (Series B) the right to put up the outstanding unpaid balance of Debentures (Series B) for immediate payment, under the terms and conditions set forth in the debenture documents, are: payment in arrears of any amounts or breach of another fundamental undertaking; a winding-up order, appointment of a liquidator for the Company or a resolution by the Company for its winding-up; seizure (or action by the execution office) of a material part of the Company's assets; appointment of a receiver over a material part of the Company's assets; a motion for suspension of proceedings against the Company – all if the abovementioned causes are not cancelled within the dates set forth in the debenture documents; foreclosure of liens on a material part of the Company's assets; should the Company cease to pay its debts, announce such intention, or permanently discontinue its business.

On August 30, 2007 the Board of Directors of the Company approved a framework for the purchase of Debentures (Series B) of the Company, by the Company and/or by a subsidiary, from time to time, in the course of trading on the Stock Exchange or outside the Stock Exchange, for a total amount that shall not exceed NIS 50 million. The manner of purchase and/or sale of the Debentures (Series B), including prices and dates, shall be determined by Company Management at its discretion. The Debentures (Series B) that shall be bought by the Company as aforesaid shall be delisted from trading on the Stock Exchange, and the Company shall not be permitted to reissue them. Debentures (Series B) bought by a subsidiary of the Company shall not be delisted, and the Company shall also be entitled to sell them. However, for as long as they have not been sold, their votes shall not be counted in a vote in a meeting of the holders of Debentures (Series B). It is noted that the aforesaid Board resolution shall not oblige the Company to purchase Debentures (Series B) as mentioned. The self-acquisition plan as approved by the Board of Directors of the Company is unlimited in time. In 2010 the Company did not buy back debentures. For further information, see Note 20.5 to the Consolidated Financial Statements of the Company as at December 31, 2010.

23.4 On May 5, 2009 the Company published a shelf offer report to the public, pursuant whereto the Company issued NIS 500 million par value Debentures Series C. The principal of the Debentures is to be repaid in three equal yearly installments on June 1 of each of the years 2011-2013 (inclusive). The interest rate interval of the Debentures (Series C) above the varying interest rate borne by "Government Bonds 817" (except for the first interest) was determined in a tender at 0.7%. The interest on the Debentures is payable every three months, from September 1, 2009 through to June 1, 2013 (inclusive). Payments of principal and interest are not linked to any linkage base. See the Company's Immediate Report of May 6, 2009.

In 2010 the range of quarterly interest rates paid by the Company was between 0.6625% and 3.08%. The quarterly interest rate on or about the time this Report was published is 0.9%. For further information on the debentures issued by the Company, see Note 20 to the Consolidated Financial Statements of the Company as at December 31, 2010.

In regard to the Company's exposure to interest risks in respect of Debentures (Series C), see Note 30.2 to the Consolidated Financial Statements of the Company as at December 31, 2010.

23.5 On January 30, 2011 the Company received a loan in the amount of NIS 300 million from several companies of the Harel Insurance Company Group. For information, see the Immediate Report published on January 27, 2011. It is noted that the loan agreement determines that one of the causes for immediate repayment is any case where the Strauss family, directly or indirectly, shall cease to be the controlling shareholder of the Company. It is further understood that the Company's right to early repayment commencing five years after the date the loan was received is conditional on giving early notice and also, under certain terms and conditions, on the payment of an early repayment commission calculated according to the formula determined in the agreement.

23.6 **Financial covenants**

The Company has undertakings to banks not to encumber and not to attach assets without receiving the banks' consent, in advance and in writing (except for the possibility of extending specific sureties to assure certain loans), and pursuant whereto it is required to meet two financial stipulations: the ratio of the shareholders' equity (not including the minority interest) to the total Statement of Financial Condition shall be no less than 20%, and the net financial debt to EBITDA ratio shall be no more than 3. As at the date of this Report the Company is in compliance with these undertakings. For further information, see also section 27.2 in This Chapter.

The subsidiary in Brazil has received short and long-term bank credit, which, as at the date of this Report, amounts to approximately NIS 290 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.

In the framework of an agreement for the receipt of a loan in an amount of NIS 300 million (see section 23.5 above), there is an undertaking to a negative pledge and an undertaking to comply with financial ratios similar to the undertaking to comply with financial stipulations in relation to the banks, as described above.

23.7 **<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, 2010 until on or about the date of the Periodic Report, credit in an amount of NIS 365 million was received.

23.8 **<u>Credit facilities</u>** – the Group has unsecured credit facilities, which on or about the date of the Report amounted to NIS 2,468 million. Of these facilities, as at the aforesaid date the Group has utilized an amount of NIS 810 million. Most of the credit facilities granted are for a period of up to one year and were granted to benefit the activity of the Company and of Strauss Coffee.

23.9 **<u>Credit at varying interest rates</u>** – following is an itemization of credit at varying interest rates received by the Group in 2010:

	Change mechanism	**Interest range**	**Amount of credit as at December 31, 2010 (NIS millions)**	**Interest rate on or about date of Report**
<u>Group Corporate Center</u>	**Dollar – LIBOR**	2.25% - 2.3%	64	2.34%
<u>Group Corporate Center</u>	**NIS – government bonds**	2.39% - 3.08%	497	3.6%
<u>Health & Wellness</u>	**NIS – prime / on call**	2.7% - 3.45%	8	3.95%
<u>International Coffee</u>	**Dollar – LIBOR**	1.39% - 1.65%	96	1.39% - 3.7%
<u>International Coffee</u>	**Real – TJLP/TR/CDI**	7.62% - 13.54%	40	6% - 14.5%
<u>International Dips and Spreads</u>	**Dollar – LIBOR**	1.95% - 2%	59	2%
<u>Other</u> (Strauss Water)	**NIS – prime / on call**	3.93% - 4.68%	50	4.4% - 5.2%
<u>Other</u> (Max Brenner)	**Dollar – LIBOR**	1.25% - 2%	20	2%

23.10 **Credit rating**

On June 20, 2010 Maalot published confirmation of the ilAA+ rating of Debentures Series A, B and C in circulation. See the Company's Immediate Report of June 21, 2010.

On October 12, 2010 Midroog published confirmation of the Aa1 rating of Debentures Series A, B and C in circulation. See the Company's Immediate Report of October 12,, 2010.

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

24. Taxation

24.1 **Tax laws applying to the companies in the Group**

24.1.1 **The Company and companies in Israel**

The income of the Company, the companies consolidated in the Financial Statements and the jointly-held companies in Israel (not including the income of an "Approved Enterprise") are taxable at the ordinary tax rate.

A. Amendments to the Income Tax Ordinance

1. On July 25, 2005, the Knesset passed a law for the amendment of the Income Tax Ordinance (No. 147), 2005, which determined, inter alia, a gradual reduction of the company tax rate to a level of 25% in the 2010 tax year and thereafter.

   On July 14, 2009, the Knesset passed the Economic Efficiency Improvement Law (Legislative Amendments for the Implementation of the Economic Program for the Years 2009 and 2010), 2009, which determined, inter alia, a further gradual reduction of the company tax rate to a level of 18% in the 2016 tax year and thereafter.

   According to the abovementioned amendments the company tax rates applying in the 2009 tax year and thereafter are as follows: in the 2009 tax year – 26%; in the 2010 tax year – 25%; in the 2011 tax year – 24%; in the 2012 tax year – 23%; in the 2013 tax year – 22%; in the 2014 tax year – 21%; in the 2015 tax year – 20%; and in the 2016 tax year and thereafter, a company tax rate of 18% will apply.

   Current taxes and deferred tax balances for the reported periods in the Financial Statements of the Company as at December 31, 2010 are calculated according to the new tax rates as aforesaid, as determined in the Economic Efficiency Improvement Law.

2. On February 4, 2010, Law No. 174 for the Amendment of the Income Tax Ordinance – Ordinances for the Tax Years 2007, 2008 and 2009, was published in the records. According to the amendment, Israel Accounting Standard No. 29 regarding the adoption of IFRS will not apply for the purpose of determining taxable income in those years, even if applied for the purpose of preparing the financial statements.

   The law disposition in relation to the issue of the non-applicability of IFRS in determining the taxable income in the year 2010 has not yet been determined. The amendment to the Ordinance had no impact on the Financial Statements.

3. On September 17, 2009 the Income Tax Regulations (Interest Rate Determination with Respect to Article 3(i)) (Amendment), 2009 were published; in their framework, the provisions of the Income Tax Regulations (Interest Rate Determination with Respect to Article 3(i)), 1986 were comprehensively modified.

   The amendment applies to a loan granted commencing on October 1, 2009, and also includes transitional provisions with respect to loans granted before the date the amendment became effective.

   Commencing on October 1, 2009, the annual interest rate for the purposes of Article 3(i) of the Ordinance with respect to assessees subject to it granting a loan in Shekels is 3.3% (unlinked). This interest rate applies in the period from October 1, 2009 to December 31, 2009. The annual interest rate for the purposes of Article 3(i) of the Ordinance, commencing on January 1, 2010, is 3% (unlinked). This rate is likely to change from time to time commencing in the 2011 tax year as a function of the rate of the average total cost of unlinked credit granted to the public by banks, and publication in the records of the revised interest rate for the purposes of Article 3(i) of the Ordinance by the Minister of Finance.

   By contrast, when the loan is granted in foreign currency (as defined in the Regulations), the interest rate for the purposes of Article 3(i) is determined as the rate of change in the exchange rate of that currency, plus 3%.

Additionally, a special provision was determined in regard to interest rate determination for the purpose of a loan in Shekels or foreign currency granted in a period of up to 14 days before or after a loan was received under identical terms and conditions, other than from a related party.

B. Taxation under inflationary conditions

The Income Tax Law (Adjustments for Inflation), 1985 (hereinafter: the **"Law"**) introduced measurement of results for tax purposes on a real basis. On February 26, 2008 the Knesset passed the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Limitation of the Period of Applicability), 2008 (hereinafter: the **"Amendment"**). Pursuant to the Amendment, the applicability of the Adjustments Law will end in the 2007 tax year, and from the 2008 tax year the provisions of the Law will no longer apply other than the transitional provisions, designed to prevent distortions in tax calculations.

Under the Amendment, commencing in the 2008 tax year and thereafter, adjustment of income for tax purposes to a real measurement base is not calculated. Additionally, linkage to the Index of depreciation amounts on fixed assets and of losses carried forward for tax purposes was discontinued, in such manner that these amounts are linked to the Index until the end of the 2007 tax year, and from this date on their linkage is discontinued. The impact of the Amendment to the Adjustments Law was expressed in the calculation of current taxes and deferred taxes commencing in 2008.

The Income Tax Regulations, Adjustments for Inflation (Depreciation Rates, 1986), which permit depreciation at higher rates than those in Article 21 of the Ordinance, will continue to apply also after the Adjustments Law is no longer applicable. Accordingly, the Company will be able to demand accelerated depreciation pursuant to the aforesaid regulations in coming periods as well.

C. Encouragement of Industry (Taxes) Law, 1969

The Company and part of the companies in the Group (including Strauss Health, Strauss Frito-Lay, Yotvata, Strauss Fresh Foods and Strauss Water) are "industrial companies", as this term is defined in the Encouragement of Industry (Taxes) Law, 1969. In accordance with this status they are entitled to benefits, the main ones being:

1. Increased depreciation rates;
2. Deduction of expenses of the issue of shares listed for trading on the Stock Exchange in three equal yearly installments;
3. Amortization of patents and know-how serving for the development of the enterprise over an 8-year period;
4. The possibility of filing consolidated financial statements of industrial companies.

D. The Encouragement of Capital Investments Law, 1959 and the Encouragement of Capital Investments in Agriculture Law, 1980 (hereinafter: the **"Encouragement of Capital Investments Laws"**)

Under the Encouragement of Capital Investments Laws part of the Group's production sites were awarded "Approved Enterprise" status, entitling them to investment grants ("Grants Route") or tax benefits ("Alternative Benefits Route"). The benefits are conditional on the fulfillment of conditions determined in the Encouragement of Capital Investments Laws and in the regulations enacted by virtue thereof, and in the letters of approval given to the Approved Enterprises. The major conditions that are customary in the letters of approval are: a minimum percentage of the investments in fixed assets through paid-up share capital; proper management of proper accounting ledgers in the double-entry bookkeeping method; execution of the plan on the date prescribed in the letter of approval; operation of the assets of the Approved Enterprise for a period that is no less than 7 years from the date of their acquisition by the company; increase of the employee headcount or increased exports. Failure to comply with the conditions is liable to lead to the cancellation of the tax benefits and to repayment of the amounts of the grants, plus arrears interest or plus linkage differentials, whichever is the higher.

For information on benefits granted to part of the Group's manufacturing sites under the Encouragement of Capital Investments Laws, see section 24.3 in This Chapter.

24.1.2 **Companies incorporated outside of Israel**

Companies incorporated outside of Israel are assessed according to the tax laws in their countries of domicile. The main tax rates applying to the business activity of these companies are:

Romania – 16%; Poland – 19%; Brazil – 34%; Serbia – 10%; Holland – 25.5% (commencing on January 1, 2011 – 25%); Switzerland – approximately 11%; Ukraine – 25%; Russia – 20%; UK – 28%; USA – approximately 42%.

The Group companies that are active in coffee are held by Strauss Coffee, a company incorporated in the Netherlands. Strauss Coffee has losses for tax purposes. There is a double taxation prevention treaty between Israel and the Netherlands. Additionally, there are double taxation prevention treaties between the other countries where the Group is active and the Netherlands. The treaties determine the rules pursuant whereto the tax obligation will be divided between each country and the Netherlands. In respect of tax withheld in the Netherlands, taxes applying in Israel are credited. Furthermore, company tax paid in the foreign countries can be credited versus the Israeli tax using the "under line tax credit" mechanism pursuant to the rules and limitations set forth in the law.

Following are the tax withholding rates applying to income derived by the Netherlands in the various countries of activity according to the treaties which it has signed, the internal laws of those countries and the relevant European directives:

Country	Royalties	Interest	Dividend
Romania	0%	0%	0%
Poland[25]	5%	5%	0%
Brazil	15%	15%	0%
Serbia	10%	0%	5%
Switzerland	0%	0%	0%
Ukraine	0%	10%	0%
Russia	0%	0%	5%

[25] As Poland does not apply the provisions of EC Interest and Royalties Directive in full, the tax withholding rates on interest / royalties paid from Poland to the Netherlands until 2013 are in accordance with the withholding rates set forth in the treaty between the two countries, as presented in the table. From 2013 and thereafter, Poland is expected to apply the provisions of the directive in full, so that the tax withholding rate applying to interest / royalties will be 0%.

Following are the tax withholding rates applying to income paid from the Netherlands to Israel according to the double taxation prevention treaty between the two countries:

Royalties	Interest	Dividend
0%	0%	5%

Following are the tax withholding rates applying to income paid from the USA to Israel according to the double taxation prevention treaty between the two countries:

Royalties	Interest	Dividend
15%	17.5%	12.5%

24.2 **Tax assessments**

Group companies incorporated in Israel: The Company and part of the subsidiaries in Israel have been issued with final tax assessments up to and including the 2005 tax year. Strauss Health has been issued with final tax assessments up to and including the 2002 tax year. Strauss Fresh Foods has been issued with final tax assessments up to and including the 2008 tax year. Yotvata Dairies have been issued with final tax assessments up to and including the 2006 tax year. Yativ has been issued with final tax assessments up to and including the 2007 tax year. Strauss Health Fresh Vegetables has been issued with final tax assessments up to and including the 2005 tax year.

As a rule, according to the provisions of the law self assessments filed by the Company and the subsidiaries in Israel up to and including the 2006 tax year are considered final (subject to the dates on which the reports were submitted and extension of the obsolescence period by law

Additionally, the Company and part of the subsidiaries in Israel have been issued with best judgment assessments for the 2006-2007 tax years in excess of the amount of current tax expenses in respect of those years. Based on the opinion of its tax consultants, the Company has rejected the demand of the tax authorities and has filed an opposition to these assessments.

Group companies incorporated outside Israel: The companies of the Group outside Israel were issued with final tax assessments as follows: Strauss Poland – up to and including the 2002 tax year; Santa Clara and Café Principal in Brazil – up to and including the 2002 tax year, and 3C in Brazil – up to and including the 2000 tax year; Strauss Coffee in the Netherlands – up to and including the 2004 tax year; Strauss Romania – up to and including the 2004 tax year; Strauss Ukraine – up to and including June 2007; Strauss Commodities in Switzerland – up to and including the 2005 tax year; the companies in the Strauss Adriatic Group, Max Brenner USA Inc. and Strauss Bulgaria have not yet been issued with final tax assessments.

For further information, see Note 37.7 to the Consolidated Financial Statements of the Company as at December 31, 2010.

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

24.3.1 **The "Alternative Benefits Route"**

A. Investment plan for the production site in the Bar Lev Industrial Park – the plan for the expansion of the site in the Bar Lev Industrial Park received Approved Enterprise status in the Alternative Benefits Route in respect of an investment in fixed assets for the purpose of relocating the site in Nahariya to the Bar Lev Industrial Park. The benefits period ended in the 2009 tax year. Receipt of the benefits under the approval is conditional on executing the marketing plan, which is a fundamental condition in the letter of approval. On April 6, 2006 Strauss Health received an amendment to the final execution approval from the Investment Center, which determines that in the years 1998-2001 the Company was in compliance with the terms and conditions of the marketing plan. On February 18, 2007 the Company received the Investment Center's approval for the modification of the marketing plan; the approval is valid from the 2002 tax year and thereafter. See also Note 37.1.3.A (1) to the Consolidated Financial Statements of the Company as at December 31, 2010.

B. Investment plan for the Max Brenner production site in Bet Shemesh – the plan for the expansion of the factory in Bet Shemesh by the Company for the Max Brenner activity received Approved Enterprise status in the Alternative Benefits Route. The benefits period is 7 years from the first year in which the Company derived taxable income from the plan. The Company is not entitled to tax benefits according to the plan.

C. Investment plan for the production site in Sde Nitzan – Strauss Fresh Vegetables is entitled to tax exemption in respect of investment plans which received Approved Enterprise status under the Encouragement of Capital Investments in Agriculture Law, 1980. See also Note 37.1.3.A (2) to the Consolidated Financial Statements of the Company as at December 31, 2010.

D. Investment plan for Strauss Water's manufacturing site in Netiv HaLamed Heh – the plan for the expansion of the site in Netiv HaLamed Heh by Strauss Water received Approved Enterprise status in the Alternative Benefits Route. The benefits period is 7 years from the first year in which Tana Industries derived taxable income from the plan. As at the date of this Report the tax benefits granted under the plan have not yet been used, as Tana Industries did not comply with all of the terms and conditions for the receipt of the aforesaid benefits.

24.3.2 **The "Grants Route"**

A. The candy factory in Nazareth – in early 2004 an expansion plan was approved for the Company in the Grants Route, in which framework the Company undertook to comply with various terms and conditions and targets. The Company has not yet begun to utilize the tax benefits owed to it under the plan, as it is not in compliance with all of the terms and conditions of the approval. To secure its obligations with respect to the receipt of the grants, the Company entered a floating charge on all of its assets and their insurance rights in favor of the State of Israel.

B. The salty snack factory in Sderot – Strauss Frito-Lay's manufacturing site was awarded Approved Enterprise status in the Grants Route. In 2003 a new expansion plan was approved for Strauss Frito-Lay in the Grants Route, in which framework Strauss Frito-Lay undertook to comply with various terms and conditions and targets. Strauss Frito-Lay has not yet sought to utilize the tax benefits owed to it under the plan. Strauss Frito-Lay has filed a final execution report and has not yet received execution approval. To secure its obligations with respect to the receipt of the grants, Strauss Frito-Lay entered a floating charge on all if its assets and their insurance rights in favor of the State of Israel. See also Note 37.1.3.B to the Consolidated Financial Statements of the Company as at December 31, 2010.

C. Investment plan for the production site in Yotvata – Yotvata's plant was granted Approved Enterprise status in the Grants Route. In respect of the approved plan, which ended in 2007, and in respect of an approved plan which ended in 2009, execution approval was received. In regard to a plan in which framework investments began in 2002, the Company completed the entire investment plan and is to submit a summarizing report to the Investment Center. To secure its obligations with respect to the receipt of the grants, Yotvata entered a floating charge on all of its assets and their insurance rights in favor of the State of Israel. See also Note 37.1.3.B to the Consolidated Financial Statements of the Company as at December 31, 2010.

D. Strauss Aviv Dairy in Netivot – the Dairy was granted Approved Enterprise status in the Grants Route in the framework of a letter of approval for the expansion of the site for the production of dairy desserts, which was received in December 2002. The Company has not yet submitted a final execution report. In the framework of the letter of approval Aviv Dairy undertook to comply with various terms and conditions and targets. To secure its obligations with respect to the receipt of the grants, Aviv Dairy entered a floating charge on all of its assets in favor of the State of Israel. See also Note 37.1.3.B to the Consolidated Financial Statements of the Company as at December 31, 2010.

24.3.3 **Benefits in the countries where the Group is active outside of Israel**

Brazil – in respect of its activity in northeastern Brazil, the Group is entitled to a reduced corporate tax rate on part of its taxable income (up to a certain ceiling); and also to a VAT refund at a rate of 56% to 74%, a benefit which ends in 2018.

Serbia – the Group is entitled to a reduced corporate tax rate (2% instead of 10%) by virtue of its investments in production assets in its production site in Serbia, and by virtue of the employment of employees on a certain scale.

For further information on the tax environment in which the Group is active in and outside of Israel, see Notes 37.1 and 37.2 to the Consolidated Financial Statements of the Company as at December 31, 2010.

24.4 **The main tax rate compared to the Company's effective tax rate** – the main tax rate applying to the Company's income in 2010 is 25%, as opposed to the effective tax rate, which in 2010 reaches 32.7%. See also Note 37.12 to the Consolidate Financial Statements of the Company as at December 31, 2010.

24.5 **Approval of the merger by the Income Tax Commissioner** – on January 26, 2004 approval was given by the Income Tax Deputy Commissioner pursuant whereto, by virtue of his powers under Articles 103.T and 103.I(d) of the Income Tax Ordinance and subject to the terms and conditions in the regulations and the terms and conditions in the approval, the merger with Strauss was approved. For information on the terms and conditions of the approval, see Note 37.3 to the Consolidate Financial Statements of the Company as at December 31, 2010.

24.6 **Approval by the Director of the Israel Tax Authority of the split of the Coffee Company** – on August 24, 2008 approval was given by the Director of the Tax Authority, pursuant whereto by virtue of his powers under Articles 103.I(d), 105.H(b) and 105.I of the Income Tax Ordinance and subject to the terms and conditions in the regulations and the terms and conditions in the approval (itemized in section 13.13.1), the merger transaction between the coffee companies in Israel and the Company was approved, as well as the split of the coffee business from the Company to Strauss Coffee as at June 30, 2008. For information on the terms and conditions and provisions of the approval, see Note 37.4 to the Consolidated Financial Statements of the Company as at December 31, 2010.

24.7 **Approval by the Tax Authority – merger of Elite Confectionery of the Strauss Group Ltd. and the Company** – on March 19, 2009 approval was given by the Tax Authority under Article 103 of the Income Tax Ordinance, subject to the terms and conditions in the regulations and the terms and conditions in the approval (itemized in Note 37.5 to the Consolidated Financial Statements of the Company as at December 31, 2010), of the merger transaction between Elite Confectionery and the Company as at June 30, 2008.

24.8 **Approval by the Tax Authority – merger of H2Q and Tami4** – on September 19, 2010 approval was given by the Tax Authority under Article 103 of the Income Tax Ordinance, subject to the terms and conditions in the regulations and the terms and conditions in the approval (itemized in Note 37.6 to the Consolidated Financial Statements of the Company as at December 31, 2010), of the merger transaction as at December 31, 2009.

24.9 **Losses for tax purposes not yet utilized and tax credits not yet utilized** – for deferred taxes in respect of losses, see Note 37.8 to the Consolidated Financial Statements of the Company as at December 31, 2010. For losses in which respect no deferred taxes were credited, see Note 37.8 to the Consolidated Financial Statements as at December 31, 2010.

25. Environmental Quality

25.1 General environmental risks involved in the activity of the Group

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

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

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

25.1.4 **Waste of natural resources (energy and water resources)** – uncontrolled industrial activity causes excess use of energy and water resources which leads to damage to the ecological balance, the waste of natural resources and the emission of greenhouse gases. Failure to save water is liable to intensify the situation of Israel's water status 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).

25.1.5 **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.

25.2 **Legal provisions relating to environmental quality which apply to the Group**

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

25.2.1 **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. Additionally, the business licenses and poison permits awarded to each manufacturing site may contain instructions on wastewater treatment.

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

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

25.2.4 **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.

25.2.5 **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 Packaging Law, which is to become effective in July 2011, defines the manufacturers' responsibility for handling waste created by packaging distributed to the market.

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

25.3 **Major environmental incidents**

25.3.1 **The confectionery production site in Nazareth** – the wastewater quality required of the plant is determined in a contract between the plant and the Nazareth Municipality. This contract defines the plant's financial participation in upgrading the regional wastewater treatment plant, as well as payment pro rata to the quality of wastewater sent to the regional plant. There are occasional deviations from the wastewater quality required by the contract. In 2010 the site reduced the quantity of waste per tonne product by 4.3% and increased the percentage of recycled waste out of total waste by 7.4% versus the figures for 2009.

25.3.2 **The instant coffee production site in Safed** – there is a slight deviation in the values of organic substances in wastewater from the plant in relation to the business license requirements. The Company has taken action to reduce these emissions by improving the quality of the wastewater that reaches the purification plant. An innovative steam boiler is in operation in the plant, fuelled by burning coffee waste, which fulfills advanced air quality requirements in accordance with the German air quality standard (TA Luft). In 2010 the plant reduced the emission of greenhouse gases by some 14%

(approximately 2% is due to streamlining by the Israel Electric Corporation and 12% to streamlining by the plant) compared to the figures for 2009.

25.3.3 **The Yad Mordechai Apiary** – construction works of a regional wastewater treatment plant in Kibbutz Yad Mordechai, including the Apiary, are progressing.

25.3.4 **Yotvata Dairies** – there is a deviation in the level of floating solids in the wastewater treatment plant; the Dairy is in the process of finding a solution and the treatment plan has been approved by the Ministry of Health. In 2010 the Dairy reduced its water consumption per tonne product by some 5% and the emission of greenhouse gases per tonne product by 11.5% (approximately 2.7% is due to streamlining by the Israel Electric Corporation and 8.8% to streamlining by the plant) compared to the figures for 2009.

25.3.5 **Achihud Dairy** – in April 2010 a modern anaerobic wastewater treatment plant, constructed at a cost of NIS 12 million, for the Dairy's wastewater, became operational. The plant reduces the organic load in wastewater to a level that is approximately 80% lower than the level required by law, while producing clean energy from the gas created in the facility. The plant occasionally deviates in sodium concentrations in wastewater and is taking action to reduce these concentrations through prevention at source. In 2010 the Dairy reduced its water consumption per tonne product by some 11%, and emissions of greenhouse gases by some 11.5% (approximately 3.6% is due to streamlining by the Israel Electric Corporation and 7.9% to streamlining by the plant) compared to the figures for 2009.

25.3.6 **The Frito-Lay production site** – the plant has a number of deviations in the quality of wastewater transferred to the regional treatment plant. In 2010 the plant invested some NIS 200,000 in upgrading the sewage system; the results are expected in early 2011. In 2010 the site reduced its water consumption per tonne product by some 15% compared to the figures for 2009. This improvement is further to the improvement in 2009, when the plant reduced its water consumption per tonne product by 38% compared to 2008. Additionally, in 2010 the site reduced emissions of greenhouse gases by some 21% (approximately 3% is due to streamlining by the Israel Electric Corporation and 18% to streamlining by the plant) compared to the figures for 2009.

25.3.7 **Strauss Water (Tami4)** – the site is repairing faults in the treatment of hazardous materials and is in the process of receiving a permit from the firefighting authorities, which it still lacks.

25.3.8 **Brazil** – some of the plants have not monitored the air and wastewater as per the requirements, and have not taken action to address deviations in these spheres. All plants in Brazil are in possession of the required approvals, except for the site in Santa Luzia.

25.3.9 **Romania** – the plant does not have a permit from the firefighting authorities.

25.3.10 **The Company's production sites in Poland, Serbia, Bosnia and Russia** – no substantial violations in terms of the environment were found.

The environmental violations and occurrences described in this section do not create any exposure for the Company in terms of its image (such as irreversible damage to its image, the risk of shutdown of one of its plants, boycott of the Company by green groups, material costs incurred by the Company in curing the violations, etc.); possible implications on the Company are the temporary loss of the business license of one plant or another until the faults mentioned have been remedied; as well as exposure to legal action by the environmental authorities in that country.

25.4 **Group policy for the management of environmental risks**

25.4.1The Group's environmental management system defines the Group's commitment to improving its environmental performance, to the 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 stakeholders.

25.4.2 **Environmental management system** – in early 2009 the Group's Quality System initiated activities in Israel. The purpose of the System is to coordinate the activity of the units in Israel in areas of integrated quality (quality, food safety, employee safety and quality of the environment). Israel's Environmental Quality Manager, appointed in 2008, is responsible for identifying and handling legislative environmental requirements vis-à-vis the various units, assimilating methodologies for the performance of environmental surveys and addressing results, and for the professional management of the people responsible for environmental quality in each of the Group's sites in Israel. Additionally, in 2009 a representative was appointed in Strauss Coffee to handle environmental issues in the Group's coffee plants all over the world, and in each country there is a representative who participates in the Environmental Quality Forum for the coffee sites.

25.4.3 **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. In 2010 the new methodology was applied in the Group's production sites in Israel. In the Company's production sites in Brazil the subject of identifying and mapping the requirements of the law is still in its initial phases.

25.4.4 **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.

25.4.5 **Environmental survey** – the Company has retained the services of a professional outside company to perform periodic environmental surveys of its sites in Israel and abroad, with the aim of locating and remedying areas requiring improvement and ensuring maximum protection of the quality of the environment and compliance with the requirements of the law.

25.4.6 **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.

25.4.7 **Prevention of land 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 2010 the process of testing and improving the hazardous materials management system in the plants and in the distribution system continued, and containment pallets were installed and upgraded.

25.4.8 **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. In 2010 a target was defined for a 5% reduction compared to emissions of greenhouse gases in 2009. The Company was in compliance with this goal.

In 2010 the Group in Israel received the Environmental Protection Minister's Prize for Environmental Excellence for the Group's greenhouse gas emissions management policy. The major projects that support this policy are the steam boiler fuelled by coffee waste in the coffee plant in Safed; the wastewater treatment plants in operation in the dairies in Yotvata and Achihud, which produce methane gas for energy production; projects to increase the efficiency of electricity consumption; and the strict management of fuel consumption by the Company's trucks. At sites where complaints of smell nuisances have been received, the Group is working to reduce them by including the site's neighbors. Use of Freon still exists, but there is a plan to reduce this and to switch to coolants that are more environmentally friendly.

25.4.9 **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 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.

25.4.10 **Saving electricity and energy** – the Group is taking action to increase savings of electricity at its production 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 production processes, utilization of energy produced in one process for heating and operating a different process, increasing the efficiency of cooling systems, insulation of piping, etc. Thus, for example, a steam boiler that is operated on the basis of burning coffee bean waste instead of the use of mazut was built at the coffee plant in Safed.

25.4.11 **Saving water** – in Israel, the Group has defined a strategic goal to reduce water consumption per tonne product by 20% by the year 2015, on the basis of the figures for 2008. The Group is taking action to save on water consumption in its production sites by reclaiming water, improving machine performance and increasing the efficiency of cleaning processes, and addressing the identification and repair of leaks. In 2010 there was an average reduction of 5.5% in water consumption per tonne product at the Group's production sites in Israel compared to water consumption in 2009.

25.4.12 **Environmental Management System (EMS)** – six units in the Group have an EMS in place certified to the international standard ISO 14001, five of them in Israel and one abroad. In these units legal requirements applying to the plant are identified, environmental surveys are carried out, goals and objectives prescribed and systems improved accordingly. Another unit is in the process of being awarded the ISO 14001 certification.

25.5 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 2010 the Group invested approximately NIS 10.6 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 10.9 million are being invested in regular ongoing management in overhead and current expenses in this sphere.

It is not the Group's practice to separate the costs invested by the companies in the Group with respect to protecting the environment, and these costs are immaterial. On the basis of information in the Company's possession as at the date of this Periodic Report relating to its sites and to environmental requirements, the Group plans to invest approximately NIS 2 million in activity to improve the quality of treated effluent in 2011. 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 substantive investments, or in the event that the requirements should change.

In 2010 there were no costs in respect of legal actions relating to environmental issues.

26. Limitations on and Supervision of the Group's Activity

26.1 Legislation in the food and beverage industry and consumer legislation

26.1.1 **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 by third-party and product liability insurance.

26.1.2 **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.

26.2 **Price control**

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 10.13.4 in This Chapter. In late 2010 the Knesset Economic Affairs Committee approved for second and third reading a bill designed to comprehensively anchor the existing planning and regulation of the dairy industry through legislation. According to the proposed law, definition of the target price will be anchored in the law. As at the date of this Periodic Report, the Knesset has not yet approved the bill in the second and third reading. For further information, see section 10.13.2 in This Chapter.

26.3 **Operating licenses**

26.3.1 **In Israel** – the Group's production sites and distribution centers operate under business licenses, which are awarded under the Licensing of Businesses Law, 1968, and as at the date of the Periodic Report they are valid, except for part of the points of sale of "elite coffee", in which respect the Group is handling the receipt of business licenses. The validity of the business licenses is permanent or for defined periods, in which case they must be renewed on expiry.

Additionally, the Group companies operate under manufacturer's licenses awarded by the Ministry of Health pursuant to the Regulation of Prices of Goods and Services Order (Trading, Production and Storage of Food), 1960, which are awarded for a period of one year. As at the date of the Periodic Report these licenses are valid, except for the manufacturer's license for the salty snack plant in Sderot, which has not yet been renewed due to the Ministry of Health's requirement regarding the level of pollution in wastewater – see section 25.2.1 in This Chapter; and manufacturer's licenses for three other sites of the Company, which recently expired, and the Group, as it does each year, is handling their renewal.

Moreover, 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.

26.3.2 **Sites outside of Israel** – generally, in the countries where the Group operates licenses and permits are required according to the legislation in each country, and as at the date of the Periodic Report they are valid, or the Group is taking action for their renewal.

26.4 **<u>Antitrust</u>**

26.4.2 **Monopoly declarations**

The Company has been declared a monopoly in Israel with respect to a number of products. The Antitrust Law determines that a monopoly holder will not abuse its position in the market in a manner that is liable to reduce business competition or harm the public. The Antitrust Law further determines that if the Antitrust Commissioner has noted that as a result of the existence of a monopoly or of the conduct of the monopoly holder, business competition is impaired or the public is harmed, the Commissioner is entitled to issue instructions regarding steps that the monopoly holder must take to prevent this damage; and also that if the Commissioner has noted that as a result of the conduct of the monopoly holder there is concern of significant damage to the competition or of significant harm to the public, he is entitled to instruct the monopoly holder to take steps to prevent the damage.

For monopoly declarations relating to the Company and for the Antitrust Commissioner's instructions in this regard with respect to dairy desserts (see section 10.13.1), chocolate tablets (see section 11.13.1), and instant coffee and cocoa powder for home consumption (see section 13.12.1).

26.4.2 **Consent decrees under the Antitrust Law**

Consent decree regarding commercial arrangements between suppliers and retail chains – 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 paper presents the Commissioner's position that 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 decree was formulated between the Commissioner and the dominant food suppliers, including the Company. The decree was approved by the Antitrust Court on August 2, 2006. In the decree 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 decree. The decree 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 decree; 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 decree; 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 decree that the Commissioner will not take any enforcement steps in regard to the shelf-stocking arrangements for a period of 30 months (the **"Interim Period"**), provided, however, that they will be performed under the limitations set forth in the decree. At the end of the Interim Period the 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 decree. It is made clear in the decree that the suppliers' signatures on the decree 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 Court has extended the Interim Period for a further 36 months, until February 2, 2012.

As necessitated by the provisions of the decree, 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 decree would apply to the shelf-stocking arrangements in the retail chains, including that stocking by dominant suppliers would be done according to the planogram published by the retail chain and in its absence, according to the allocation of display space as determined by the chain; a dominant supplier shall not compensate a stocker in a manner that is liable to materially impair the provisions of the decree 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 decree.

<u>For consent decrees with respect to Cadbury's products and with respect to the announcement of the merger with "elite coffee"</u>, see sections 28.11 and 13.12.3 in This Chapter, respectively.

26.5 **<u>Kashrut</u>** – the Group's products that are manufactured or marketed in Israel are under the supervision of the relevant local rabbinate, and if necessary, also under the supervision or approval of the Chief Rabbinate of Israel. The salty snacks, a considerable part of the confectionery and bakery products ("Megadim"), most of the ready salads and part of the dairy products ("Strauss Mehadrin") are Kosher LeMehadrin and also marketed to the ultra-Orthodox market. The certificates of Kashrut are given for defined periods, and at the end of each period the Group handles their renewal. For information on a suit and a motion for approval of a class action with respect to claims of the existence of gelatin in dairy desserts manufactured by the Group, see section 28.1 in This Chapter.

26.6 **<u>Approved Supplier to the Ministry of Defense</u>** – the Company and part of its subsidiaries in Israel are an Approved Supplier to the Ministry of Defense.

26.7 **<u>Standardization</u>** – 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 Point) 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.

26.8 **Quality management** – the Group performs routine quality control tests in its plants.

26.9 **Insurance** – in the estimate of Company Management, on the basis of advice 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. In the Company's estimate, it is not underinsured and its insurance coverage is reasonable and proper considering its scope and various terms and conditions.

27. Material Agreements

In addition to the material agreements described in each segment of activity, following are material agreements outside the ordinary course of business:

27.1 **Provisions regarding the use of the name and brand "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 closing 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 an obsolescence 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). In regard to suits pending against the Company in respect of which the Company is entitled under the agreement to indemnification by Strauss Holdings for part of their amounts, see section 28.15 in This Chapter. 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.

27.2 **Liabilities to banks (negative lien).** The Company has undertaken to a number of banking corporations (Mizrahi Bank Ltd. – an undertaking of March 15, 2010; Bank Leumi Le'Israel Ltd. – an undertaking of March 22, 2010; Bank Leumi New York – an undertaking of March 23, 2010; Discount Bank Ltd. – an undertaking of March 15, 2010; Bank Hapoalim Ltd. – an undertaking of March 11, 2010; and Citibank N.A. – an undertaking of December 10, 2000) 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) to the total Statement of Financial Condition shall be no less than 20%, and the net financial debt to EBITDA ratio shall be no more than 3. As at December 31, 2010 the ratio of the shareholders' equity (not including the minority interest) to the total Statement of Financial Condition was 29%, and the net financial debt to EBITDA ratio was 1.4.

On January 27, 2011 the Company signed a loan agreement with several companies of the Harel Insurance Group for the receipt of a loan of NIS 300 million. In the framework of the loan agreement there is an undertaking to a negative lien as well as an undertaking to comply with financial ratios, similar to the undertaking to comply with financial stipulations in relation to the banks as described in sections 23.5 and 23.6 in This Chapter.

27.3 **Undertaking to indemnification by virtue of an underwriting agreement** – on March 10, 2005 an underwriting agreement was signed between the Company and a consortium of underwriters of a prospectus for a public offering published by the Company on that date. In the framework of the underwriting agreement the Company undertook, among other things, to indemnify the underwriters or each of them following an obligation imposed on them, insofar as it would be imposed, by judgment, due to a misleading detail having been included in the Company prospectus, and also in respect of reasonable litigation expenses, including attorney's fees, sustained by or imposed on any of the underwriters by a court in such proceedings, or in connection with a criminal charge of which the underwriter was acquitted or in which he was convicted of an offense that does not require proof of criminal intent, due to the prospectus having containing a misleading detail. The Company's undertaking to indemnification as described above was set at an amount of NIS 250 million, linked to increases in the Consumer Price Index. In this context, it was agreed that the aforesaid indemnification obligation would not apply to any underwriter in respect of any amount he would be charged following the existence of a misleading detail in the prospectus, which was based on information given to the Company by that underwriter in writing for the purpose of using this information in the preparation of the prospectus.

27.4 **Trust deed and Debentures (Series A), trust deed and Debentures (Series B) and trust deed and Debentures (Series C)** – see sections 23.2.1, 23.3 and 23.4 in This Chapter.

28. Legal Proceedings

28.1 For a class action alleging misleading practices regarding the kashrut of products containing gelatin, see Note 26.1.1.1 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.2 For a class action alleging misleading practices regarding the marking of the content of Danone yogurt products, see Note 26.1.1.2 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.3 For a class action alleging misleading practices regarding covert advertising in children's cassettes, see Note 26.1.1.3 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.4 For a class action alleging misleading practices regarding the marking of a product as "Kosher for Passover", see Note 26.1.1.4 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.5 For a class action alleging misleading practices due to a reduction in the packaging content of the "Yotvata Chocolate Milkshake" product, see Note 26.1.1.5 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.6 For a class action alleging misleading practices regarding the marking of the production location of olive oil, see Note 26.1.1.6 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.7 For a class action alleging misleading practices regarding the marking of the packaging of the "Mimrahit" product, see Note 26.1.1.7 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.8 For a class action alleging misleading practices regarding the marking of chocolate products with no added sugar, see Note 26.1.1.8 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.9 For a class action alleging misleading practices regarding the marking of the packaging of the "Danone Bar Pecan" product, see Note 26.1.1.9 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.10 For a class action arguing the alleged addition of a substance to the "Extra Virgin Olive Oil" product, see Note 26.1.1.10 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.11 For a consent decree between the Company and the Antitrust Commissioner following an investigation by the Antitrust Authority of the launch of Cadbury products in the markets and an application to inspect the investigation materials, see Note 26.1.2.5 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.12 For civil suits and suits in the labor courts filed by former distributors against the Company, see Note 26.1.2.6 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.13 For a suit against the Company regarding prevention of the entrance of Cadbury products, see Note 26.1.2.7 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.14 For other suits against the companies in the Group that are not mentioned above, for amounts whereto the Company is entitled as indemnification in respect of these suits, for amounts in which Company is obligated to indemnify others and for a provision made in the financial statements in respect of these suits, see Note 26.1.2.8 to the Consolidated Financial Statements of the Company as at December 31, 2010.

28.15 With respect to the suits mentioned in sections 28.1 (**"Gelatin"**) and 28.2 (**"Marking of Danone Yogurt"**) in This Chapter, according to the merger agreement between the Company and Strauss Holdings of January 27, 2003, the Company has the right to indemnification by Strauss Holdings subject to the terms and conditions set forth in the merger agreement with respect to part of the amounts of the claims, insofar as their cause preceded the closing date of the merger transaction (March 22, 2004). See also section 27.1 in This Chapter.

29. 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 and the strategy of part of its business units. In this framework Group Management defined the directions of business development for the next few years, as well as key strategic directions for the continued business development of its business units.

In the context of the strategic review it was decided that the Company would in the next few years aspire to achieve a significant position in the world coffee market, aspire to expand its other businesses outside of Israel, and focus on the development of unique business concepts while improving its competitive position in the Israeli food market.

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, will improve sustainability in its business units, and will continue to maximize synergies between the business units.

29.1 **Strauss Israel**

Among the major goals the Group has set for coming years are leadership of the Israeli food market in existing business areas, while achieving growth and improving profitability.

In the next few years the Group intends to improve its competitive position in Israel through the development of products and solutions with unique added value for the consumer, the development of operational excellence in the various systems in the Company, 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 and profitability targets 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, and serving as a major source of groundbreaking innovation with clear competitive advantages, which the Group will be able to implement in international markets.

29.2 **Strauss Coffee**

In the global coffee business the Group focuses on the development, manufacture, marketing and sale of branded coffee products in Israel and in various emerging markets – CEE and Brazil. The world coffee market is especially large, with yearly sales totaling tens of billions of dollars, and the roast and ground (R&G) coffee market accounts for most of it. See also section 12.1 in This Chapter.

The R&G market is particularly decentralized. The two leading global players in this market are the American corporations Sara Lee and Kraft, which account for some 19% of the entire world R&G market. The R&G market is characterized by its localized nature and in most countries there are unique flavors, local brands and different traditions of coffee consumption.

In recent years there has been a clear, prominent trend of creating a coffee culture and premiumization of the category following the expansion of branded cafés in Israel and worldwide, a significant increase in the consumption of premium coffee, the accelerated development of "single portion" consumption (coffee capsules for use in home machines), a substantial rise in sales of coffee machines for home use, rapid development of the "maximization market" (3 in 1 – combination of a number of components in a single pack) in the Far East, development of the freeze-dried market, etc.

The growth of the world coffee market has undergone changes in recent years. Emerging markets, including Brazil, Russia (where the Company is active) and others have become the fastest growing markets in coffee in the past few years, while in the developed markets growth in the traditional retail market has been moderate. In developed markets rapid growth was prominent in the away-from-home coffee consumption market.

The Group specializes in the development and acquisition of local brands in the countries where it operates.

The Company focuses on locating expansion opportunities in three main directions:

1. Continued deepening of consolidation processes in different markets and regions in the world where the Company is presently active, Russia and Brazil.
2. Focus on developing the equity of the Company's brands.

3. A review of other attractive regions for possible penetration in the future.

The Company invests efforts in all of the above spheres with a clear preference for emerging markets, which enjoy higher growth rates, and with focus on the development and acquisition of competencies in the coffee world.

Simultaneously with the realization of the M&A 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, developing new products and developing the AFH consumption market.

The Company gives great weight to preserving its capabilities and the solutions it offers in the AFH market, and is also active in the home consumption market. The Company will continue to develop solutions in coffee services for workplaces, hotels, restaurants and cafés, will develop commercial concepts for the sale of coffee in the on-the-go (OTG) channel such as "elite coffee" in Israel, and more.

29.3 **Refrigerated dips and spreads – Sabra, USA**

In August 2005 the Group completed the acquisition of 51% of the Sabra Mediterranean salads business in the USA. This acquisition is the result of the Group having identified an additional business area in which it has a clear relative advantage in terms of technology, manufacturing and marketing, which also has significant growth potential in international markets, the USA market in particular.

The Mediterranean salads market, particularly hummus, is characterized by accelerated growth in the USA and has interesting market potential. The Group's activity in North America is one of its major growth drivers, and in this market Sabra is a major business channel in the refrigerated dips and spreads category. Until the Group's entry, this market was characterized mainly as a canned products market.

Through Sabra, the Group has led the freshness revolution in this market thanks to its know-how and experience in fresh foods, which are compatible with key consumption trends today in the food world in general and in the USA in particular.

In early 2008 the Company signed a 50-50 partnership agreement with the international PepsiCo corporation for the development, production and sale of refrigerated dips and spreads in the USA and Canada, through Sabra in the USA. The partnership with PepsiCo in Sabra in North America and is a highly important strategic step in the development of the Group's business outside of Israel in general and in the USA in particular. The connection between the Group's capabilities in innovation and product development and its expertise in fresh foods; coupled with PepsiCo's capabilities, infrastructure and excellence in general and in the North American market in particular, have enabled the partnership to continue to develop and lead the market and category, and to realize the great potential inherent in this activity. Additionally, possibilities for expanding the refrigerated dips and spreads business through acquisitions are being explored. Thus, in 2010 the salsa and fresh and refrigerated dips businesses of California Creative Foods were acquired in consideration for $33 million.

Against the backdrop of Sabra's rapid growth in the past few years and the need to increase production capacity to meet demand, the Group built a state-of-the-art salad production facility with an investment of $68 million. The plant (in the state of Virginia, which became operational in the first half of 2010) is among the most advanced of its kind in the world and is based on the most innovative production technologies.

29.4 **<u>Other activities</u>**

29.4.1 **Strauss Water**

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.

In early 2007 the Company signed an agreement with H2Q, which had 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.

In 2009 the processes of approval and standardization of the technology by the WQA in the USA according to the standards of the American NSF and EPA, considered the world's most rigid in the field of water standardization, were completed.

In July 2009 the Company acquired Tami4 through H2Q. Tami4 leads the Israeli market and is one of the world's leading companies in the development, manufacture and marketing of systems for the filtration, heating and cooling of drinking water for the home and institutional markets.

The combination of Tami4's capabilities in the development of home water purification systems and the Strauss Group's experience in the management of international businesses and penetration of developing markets, coupled with H2Q's technology, will enable the Company to offer an integrated solution to markets in and outside of Israel.

Strauss Water views the development of a suitable technology for the creation of quality drinking water solutions in and away from home as a way to improve the quality of life of hundreds of millions of people, all over the world.

In 2010 Strauss Water and the international Haier Group established a joint venture in China (Strauss Haier Water), the goal of which is to manufacture and market water purification devices in China. The joint venture plans to initiate its business activity in the course of 2011 with the marketing of the Watermaker product, developed by Strauss Water, by local electric and electronic appliance chains in China.

29.4.2 **Max Brenner**

In the framework of exploring possibilities for leveraging its capabilities in additional business areas, the Group decided to use the prestige chocolate brand Max Brenner as a vehicle for the creation of a novel consumption experience in the chocolate and chocolate beverage category and to establish, independently and through franchises, a chain of "Chocolate Bars" in Israel and abroad.

In 2006 the Group opened the first Max Brenner Chocolate Bars in New York, which were received enthusiastically by consumers as well as by restaurant critics.

In 2007 the Company invested in the development of key infrastructure for the Max Brenner business in Israel and abroad. In this framework the Company focused on recruiting managers and employees with experience in the restaurant trade in Israel and in the USA, on the development of optimum work processes for the proper operation of the stores, on improving service and quality, etc.

As at the date of the Report thirty five Max Brenner Chocolate Bars are in operation around the world. In 2009 a new store was opened in Philadelphia, and in 2010 – another in Las Vegas. The Company plans to open a new Chocolate Bar in Boston in 2011, and to continue to identify new locations in the USA for the opening of additional Max Brenner branches.

29.5 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, the international Max Brenner business, and to review entry to other areas of activity.

29.6 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.

29.7 The Group's strategic plans, as described above, reflect its policy as at the date of the Periodic Report and are based on current evaluations of its areas of activity. The Group's plans may change, in whole or in part, from time to time. There is no certainty as regards the realization of the Group's intentions or of this strategy. It is possible that the objectives described above will not be accomplished in the future, or that the Group will decide not to implement the abovementioned strategy, in whole or in part, for the following reasons among others: changes in the macroeconomic trends that affect the economic situation; the situation in the food and beverage industry in Israel and worldwide; capital market conditions in Israel and worldwide; changes in economic feasibility; changes in competitive conditions in the market and changes in the markets themselves; regulatory changes; as well as due to other risk factors affecting the Group's activity, as set forth in section 32 in This Chapter.

30. Forecasts for Development in the Next Year

In the coming year, in the ordinary course of business, the Group plans to focus on continued growth while simultaneously deepening streamlining processes and improving its coping capabilities with volatility in input prices. The Group will continue to examine possible acquisitions of local coffee companies in different parts of the world, to build the international water business, and to expand the refrigerated dips and spreads business.

31. Information on Geographical Regions

31.1 For information on the geographical regions where the Group is active, see Note 29.4 to the Consolidated Financial Statements of the Company as at December 31, 2010.

31.2 For explanations on developments, see the explanations of the Board of Directors of the Company in the Board of Directors' Report as at December 31, 2010.

31.3 Exposure to risks due to the activity outside of Israel

Activity in the emerging markets in CEE 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 volatility in exchange rates.

At the same time, the Group's activity outside of Israel contributes to spreading its risk and creates diminished dependence on Israel.

32. Discussion of Risk Factors

32.1 The Group operates in business areas that are by nature basic and stable; however, there are several risk factors arising from its general environment, from the industry and from the unique characteristics of its activity, as described below:

32.1.1 **Macroeconomic risk factors**

A. 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.

B. Absence of customs duties in Israel – generally, imports of food and beverages that compete with the Group's products are subject to negligible customs duties. In the absence of entry barriers the Group is exposed to increasing competition by international firms, which in recent years have expanded their activities in Israel.

C. Customs duties in countries outside of Israel – in most countries outside of Israel where the Group is active, imported food and beverages are subject to customs duties that are higher on finished goods than on imports of raw materials. A decrease in customs duties on finished goods is likely to facilitate the entry of additional competitors to these countries and thus damage the Group's competitive position. Furthermore, a change in customs rates in countries where the Group imports the products it sells is likely to affect its competitive position. When 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.

D. Political risk – the Group is exposed to the risk of boycott of Israeli produce in foreign countries for political reasons, and to the risk of anti-Israel policy or policy against business with Israeli firms.

E. 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 Consolidated Financial Statements are presented is the New Israeli Shekel (see Note 2.3 to the Consolidated Financial Statements of the Company as at December 31, 2010). 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.

F. Economic and political instability in the emerging markets of Central and Eastern Europe and in Brazil – activity in developing countries in CEE 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.

G. Market emergence – the emergence of the markets in CEE and Brazil increases the potential for entry by international competitors to these markets and the acceleration of consolidation processes by large competitors, and consequently is likely to increase the competition in the countries where the Group is active.

H. 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.

I. Exposure to interest and the Index – the Company is liable to sustain economic damage as a result of an increase in the interest rate and the Index. 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.

32.1.2 **Industry risk factors**

J. Exposure to changes in countries of origin of raw materials – cocoa, the raw material that serves in two of the Company's main ingredients, cocoa liquor and cocoa butter, grows mainly in West Africa. The Group is exposed to political and economic changes and to economic uncertainty in these regions, which are liable to limit or disrupt the supply of cocoa or raise the prices of cocoa product inputs.

K. Exposure to fluctuations in raw material prices on the commodities markets – raw materials form a substantial component in the production inputs of the Group's products. A large part of these raw materials are highly traded commodities and are consequently subject to (occasionally volatile) market price fluctuations. Volatile price fluctuations in the commodities markets may have a fundamental impact on the prices of the commodities and erode the profitability of the Group's products and its competitive capabilities. Additionally, the Group's subsidiary in Brazil is commercially active in green coffee trading, in which framework it buys financial derivatives on green coffee. Price fluctuations in the green coffee markets are liable to generate unexpected profits or losses on these transactions.

L. 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 organized 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 organized 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.

M. Defective product quality – the Group's business is exposed to damage in the case of a defect in the quality of the raw materials used in the manufacture of its products or in the quality of the products manufactured by (or for) the Group, including coffee machines and water filters and purifiers, also as a result of concerns of illness or other injuries to health that are liable to be caused in the event of a defect of this kind. Following such defects the Group may be forced to recall defective products (removal from the shelf or collection from consumers' homes) and will be exposed to legal action by consumers harmed by them (if and insofar as there are any). Defects in the Group's products are also liable to be damaging to its reputation and adversely impact its business results. Additionally, publications regarding impaired quality of products similar to those of the Group, produced by other manufacturers, are likely to be damaging to sales of the Group's products.

N. Agricultural raw materials – part of the Group's raw materials are agricultural products whose price and availability are impacted by a great many factors such as weather conditions. Fluctuations in the prices of the raw materials or problems in their availability are liable to be damaging to the Group's profitability or to its sales.

O. 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.

P. The price of unprocessed milk and control of product prices – the price of unprocessed milk, a major raw material in the manufacture of dairy products and milk drinks, and business in the dairy market, are determined according to various arrangements. Any change in the price of unprocessed milk without adjusting the prices of controlled dairy products and milk beverages may impair the Group’s profitability. Liquid milk is purchased from various dairy farmers, and the Group is obliged to accept the full milk quota produced by the manufacturer from which it purchases the milk.

Q. Private label brands – the growing strength of retail chains in Israel and globally has led to the development of private label 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.

R. Regulatory developments – changes in legislation or standardization in Israel and other countries with respect to food and beverage products or other products sold by the Group (e.g. coffee machines and water filtration and purification devices) are liable to influence the Group's production costs and profitability. Reference is to changes relating to the market in general, to food engineering, to compliance with food standards, to environmental quality and other spheres. Changes of this kind, if indeed anchored in the legislation, are liable to affect both the product offering and the costs involved in production. Assigning these burden costs to the consumers is liable to reduce the Company's income as a result of price increases.

S. Lawsuits in respect of "unhealthy" food – various publications relating to suits filed abroad in respect of the production and marketing of various products that are harmful to health are liable to lead to the filing of similar suits against various manufacturers, including the Group.

T. Changes in consumption habits and the ability to anticipate changes – the Group's success is conditional on forecasting new tastes, new consumption habits and changes in consumption preferences, and the success of new product development. Thus, for example, in recent years there has been a trend of change in consumption habits, expressed in the shift to consumption of natural, health and indulgence products. This trend has an effect on the consumption of existing products of the Group, which do not necessary comply with these tendencies. On the strategic level, the Group takes action to adapt its product range in order to respond to changing consumption trends. Failure in this regard means the insufficient growth of trade volumes and income in order to accomplish objectives. The Group's success also depends on its ability to foresee the tastes and consumption habits of its consumer public, and to provide its target public with products that are aligned with its preferences and develop new products accordingly. By nature, consumption trends are subject to changes, and the inability to foresee, identify or respond to these changes accurately is liable to lead to a drop in demand for the Group's products and consequently, to cause a negative effect on sales turnovers and revenues.

U. Dependence on population growth – the growth capacity of the food and beverage industry is limited, among other things, by the growth rate of the population. In this context, the Group's success depends on its ability to grow its business faster than the rate of growth of the population in the markets where it operates. Failure in this context means a slowdown in trade volumes, which is liable to have a negative effect on profitability.

V. 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 sections 28.1 to 28.10 in This Chapter.

W. 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.

X. The Company is liable to be limited in its ability to maintain or raise the prices of its products – the prices of some of the Group's products are liable to be subject to pressure to reduce them. Thus, for example, coffee, one of the Group's staple products, is characterized by price competition between the retail food chains. Consequently, the Group's ability to raise the prices of its products in response to an increase in raw material prices may be limited. Although the Group takes action to maintain or increase its gross profitability, among other things by lowering its production costs and by marketing branded premium products, there is no certainty that it will succeed.

Y. 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.

32.1.3 **Unique risk factors**

Z. Brand dependence – 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 otherwise 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 other things by being especially meticulous about the quality of the raw materials used in manufacturing the products, production processes, finished goods and advertising messages.

Aa. 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.

Ab. Licenses and franchises – The Group is engaged in licensing agreements with the owners of main brands, including the Danone brands and the PepsiCo brands, of which, as a rule, use is conditional on certain terms and conditions whose breach is liable to damage the rights of usage. 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.

Ac. Declaration as a monopoly – the Company has been declared a monopoly in chocolate tablets, instant coffee and chocolate powders for home 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%.

Ad. Concentration of production in a number of plants – a considerable part of the Group's activity is concentrated at a limited number of sites. Damage by natural hazards or any other damage that is caused to these sites is liable to have a material impact on the Group's activity. Thus, for example, most of the Company's production sites in Israel are located in areas that are exposed to damage by missiles. As an example, in the Second Lebanon War in the third quarter of 2006, the Group's sites in northern Israel (the instant coffee plant in Safed, the salad factory in Carmiel, the Achihud Dairy and the distribution centers in Acre and Haifa) were frequently shut down. In the past few years and in late 2008 in particular, 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 Strauss Aviv Dairy were exposed to the continuous firing of missiles from the Gaza Strip.

Ae. Change of control of the Company – if there is 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 2010 and 2009 was NIS 1,532 million and NIS 1,274 million. The extent of the impact of this risk factor on the activity of the Company as a whole is minor.

Af. Control of product prices – the prices of part of the Group's products are controlled under the Regulation of Prices of Goods and Services Law. Changes in these prices in a manner in which the maximum price is reduced or the possibility of raising the price of the product is limited will impair the possibility of the Group revising prices in accordance with increasing input prices and is liable to be damaging to the Group's competitive capability with respect to those products. Moreover, the possibility of imposing control on the prices of additional products is liable to damage the Group's profitability as well.

Ag. Successful assimilation of acquired businesses – the Group's expansion strategy through M&A 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. The 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.

Ah. Drop in share price – the price of the Company's shares, which temporarily dropped significantly due to the economic crisis in the second half of 2008 and beginning of 2009, is liable to again fall as a result of a recurring crisis in financial markets, of the volatility that is typical of stock markets in Israel and worldwide, and as a result of economic conditions, market conditions or political conditions, notwithstanding the Company's actual performance. Additionally, the results of the Company's business operations may not meet the expectations of analysts and investors, and for this reason as well the share price may drop. A drop in the Company's share price may impair its ability to raise capital.

Ai. Quality of the environment – the activity of the Group's production sites may lead to its exposure to environmental legal action and the risk of a polluting plant being shut down.

Aj. Failure to comply with the conditions of the letters of approval granting "Approved Enterprise" status and of other tax incentives – a number of the Group's plants have received benefits (tax or grants) under the Encouragement of Capital Investments Laws and relevant laws in the countries where the Group is active. Failure to comply with the terms and conditions of the letters of approval and the laws is liable to lead to the cancellation of the benefits.

Ak. Computer system crash – a computer system crash is liable to paralyze the Company. An incident of this kind that continues for a significant time will damage the Company's ability to supply its products to the market.

Al. ERP system – in the past few years the Group implemented a number of new systems in and outside of Israel based on the existing ERP system; a new global system for the consolidation of financial statements and a new ERP system in Romania and in Sabra USA. Difficulties in the processes of assimilating these systems are likely to expose the Company's proper orderly activity to various risks.

Am. 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, on 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 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.

An. Subordination to limitations in agreements signed with strategic partners – in the framework of the Company's agreements with strategic partners, the Company agreed to limitations 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 limitations are liable to prevent the Company from developing its business in the desired directions.

Ao. Deterioration in the Group's relations with one of its partners – differences in strategic vision between the shareholders and major partners, as well as differences in tactical approach, are liable to lead to delays and complex decision-making processes to the point of paralyzing the business and a partnership being dissolved in an unplanned manner.

Ap. Subordination to limitations 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 tagalong 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.

Aq. Disaster befalling a group of managers – the simultaneous loss of a group of senior managers as a result of an aviation disaster, accident, terrorist attack, etc.

Ar. Damage to the preservation of the cultural DNA – the Company believes that one of its strengths is its cultural and moral DNA. Activity in regions distant from Israel through local managers is liable to weaken the ability to preserve the required elements in the corporate culture and values.

32.2 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 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			
A. Financial crisis and/or economic slowdown in the world market	+		
B. Absence of customs duties in Israel			+
C. Customs duties in countries outside of Israel			+
D. Political risks		+	
E. Exposure to fluctuations in currency exchange rates	+		
F. Lack of economic and political stability	+		
G. Market emergence			+
H. Security risk		+	
I. Exposure to interest rates and the CPI		+	
Industry risks			
J. Exposure to changes in the countries of origin of raw materials		+	
K. Fluctuations in raw material prices	+		
L. Customer credit		+	

	Extent of the risk factor's impact on the activity of the Group as a whole		
	Major impact	**Medium impact**	**Minor impact**
M. Defective product quality	+		
N. Agricultural raw materials		+	
O. Kashrut		+	
P. Price of unprocessed milk			+
Q. Private label brands		+	
R. Regulatory developments		+	
S. Claims of unhealthy foods		+	
T. Changes in consumption habits		+	
U. Dependence on population growth			+
V. Exposure to class actions	+		
W. Activity in a competitive market		+	
X. Limited ability to raise product prices			+
Y. 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			
Z. Brand dependence	+		
Aa. Dependence on customers		+	
Ab. Licenses and franchises	+		
Ac. Declaration as a monopoly		+	
Ad. Concentration of production in a number of sites	+		
Ae. Change of control of the Company			+

	Extent of the risk factor's impact on the activity of the Group as a whole		
	Major impact	**Medium impact**	**Minor impact**
Af. Control of product prices		+	
Ag. Successful assimilation of acquired businesses		+	
Ah. Drop in the share price			+
Ai. Quality of the environment		+	
Aj. Non-compliance with letters of approval			+
Ak. Computer system crash	+		
Al. ERP system	+		
Am. Protection of information		+	
An. Subordination to limitations in agreements signed with strategic partners			+
Ao. Deterioration of relations with one of the partners		+	
Ap. Subordination to limitations on the transfer or sale of the Company's holding in joint ventures and subsidiaries			+
Aq. Loss of a group of senior managers due to an aviation disaster, accident, etc.	+		
Ar. Damage to the preservation of the cultural DNA			+

STRAUSS-GROUP LTD.

BOARD OF DIRECTORS' REPORT

TO THE SHAREHOLDERS

AS AT DECEMBER 31, 2010

Convenience Translation from Hebrew

THE STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2010

EXPLANATIONS BY THE BOARD OF DIRECTORS REGARDING THE COMPANY'S BUSINESS CONDITION, THE RESULTS OF ITS OPERATIONS, ITS SHAREHOLDERS' EQUITY AND CASH FLOWS

PRINCIPAL INFORMATION FROM THE DESCRIPTION OF THE COMPANY'S BUSINESS

The Strauss Group Ltd. and the companies it controls (hereinafter: the **"Company"** or the **"Group"**) are a group of industrial and commercial companies that operate in Israel and abroad, in Central and Eastern Europe, Brazil and the United States of America, in the manufacture, sale and marketing of a variety of branded food and beverage products. The controlling shareholders of the Company are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: the **"Parent Company"** or **"Strauss Holdings"**) and Ms. Ofra Strauss, who is deemed to hold the shares of the Company together with him.

The Group manages and develops its business with the aim of providing the general public with a broad variety of top-quality branded products for different consumption opportunities. The Group is dominant in most of the markets in which it operates. The products of the Group are generally sold through a variety of sales channels including large retail chains, private stores and supermarkets, kiosks, workplaces, hotels, vending machines, etc.

The Group's Corporate Headquarters is in Israel. Strauss Israel is the second-largest company in the Israeli food industry and in 2010 held an 11.2% share of the domestic food and beverage market (on a yearly average, in financial terms[1]). The Group is also active in some ten countries in Central and Eastern Europe, in Brazil (in most of these countries the Group is among the leading companies dealing in roasted and ground coffee), in the USA and in the UK and China, where the Company is active in the water industry.

The Group has five areas of activity that are reported separately as business sectors. See Note 29 to the Annual Consolidated Financial Statements of the Company (hereinafter: the **"Annual Financial Statements"**):

The Business in Israel – Strauss Israel, which includes a major part of the Group's activities in Israel and comprises two sectors of activity:

Health & Wellness – these products include: yogurts, dairy desserts, soft cheeses, fresh milk products, milk beverages, refrigerated Mediterranean salads (hummus, tehina, eggplant, etc.), cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil and jams, as well as other products exclusively distributed by the Company such as natural fruit juices manufactured by Ganir and long-life milk manufactured by Ramat Hagolan Dairies, both of which are sold and distributed by the Group.

Fun & Indulgence – these products include: sweet snack bars, chocolate tablets, sweet spreads, confectionery, chewing gum, cakes and cookies, biscuits, wafers and salty snacks.

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[1] According to StoreNext figures. StoreNext engages in the measurement of the regular everyday consumer goods market in the barcoded retail market.

Strauss Israel is active in two main business sectors that were established according to the product groups described above and are based on developing consumption trends worldwide, and in Israel in particular, with the aim of developing leading products and solutions that provide a suitable response to the emerging consumer trends.

The Coffee Business – Strauss Coffee: In this sphere the Group develops, manufactures, sells, markets and distributes a variety of branded coffee products in Israel, in Eastern and Central European countries and in Brazil; chocolate and other drink powders. In the framework of its activity in Brazil, the Group buys, processes and sells green coffee to exporters in Brazil and to customers outside of Brazil (mainly in Europe and the USA), and also manufactures and sells corn products in Brazil. The Company's products are sold through various channels including retail channels for home consumption and other channels directed at away-from-home consumption (cafés, restaurants, institutions, workplaces, etc.). This business area comprises two sectors of activity: Israel Coffee (which includes the Coffee Company's corporate headquarters), and the international coffee business.

The international dips and spreads activity: The Group develops, manufactures, sells, markets and distributes throughout North America dips and spreads, currently through the Sabra Dipping Company,. Sabra is jointly controlled by the Group and PepsiCo (each party holds 50%).

In addition to the areas of activity described above, the Group has other activities that are included in the Financial Statements as the **“Other Operations"** sector. The main activities among these operations are:

Max Brenner: 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 under franchise and through partners, and deliver a novel consumption experience in the chocolate and chocolate beverage category.

Strauss Water: In 2007 the Company entered a partnership in a new venture in the water business (**H2Q**), and on October 1, 2009 H2Q acquired 100% of the shares of Tana Industries (Tami4). Currently all the water activity is organized under “Strauss Water”.

The Company has some 14 thousands employees, about one-half of them in Israel.

The Group's business is conducted in four major geographical regions: **Israel**, where activity includes the activity of Strauss Israel (the sale of a broad variety of fresh and dry food products, including coffee), the Max Brenner operation in Israel and Strauss Water in Israel; **Europe**, where activity includes the coffee business in Central and Eastern Europe; **Brazil**, where the activity is managed through a 50% proportionately consolidated company (a joint venture), which is active primarily in roasted and ground coffee in the domestic market, the manufacture of corn products and the export of green coffee (the activity in Europe, the coffee business in Israel and the activity in Brazil are managed by Strauss Coffee B.V.); and the USA, where activity includes Sabra (50% proportionately consolidated since the second quarter of 2008) and the Max Brenner activity (excluding Max Brenner in Israel). The various activities are run by their own separate managements, while the Corporate Headquarters in Israel is responsible for exploiting synergies between them.

The Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The Company applied IFRS for the first time in 2005, with the date of changing to IFRS being January 1, 2003.

SEASONAL EFFECTS ON THE RESULTS OF THE COMPANY'S BUSINESS OPERATIONS

The Company's sales in some of its activities are characterized by seasonality. Income from sales of coffee products abroad is generally (relatively) higher in the fourth quarter and (relatively) lower in the first quarter. Seasonality is affected mainly by the timing of the Christian holidays and the end of the (Gregorian) year in the fourth quarter, a period that is characterized by increased purchases of coffee products. By contrast, in the first quarter purchase volumes are relatively low, mainly because people are still consuming the coffee products purchased in the previous quarter.

In Israel, seasonality is the result of two main factors: the first is the timing of the Jewish holidays with emphasis on Rosh Hashanah (the Jewish New Year) and Passover, when the Company’s snack, chocolate and coffee sales increase considerably. The second factor is the seasons of the year, with winter and fall being characterized by greater consumption of confectionery (mainly chocolate and snack bars) than the hot seasons. Conversely, sales of cold beverages (milk drinks, juices) are higher in the summer, which falls in the second and third quarters of the year.

CHANGES IN THE ECONOMIC ENVIRONMENT

In 2010 the slowdown in some of the global markets where the Company is active continued. Several factors in the Group's macroeconomic environment, including currency exchange rates, raw material prices and emerging inflation, simultaneous to the recession in the USA and in Europe in the wake of the financial crisis, influenced the Group's business operations.

Group Management believes that the Group entered this period of crisis in a condition of financial and business robustness thanks to the processes it executed over the past few years.

In the second half of the year and as at the date this report was prepared, we witnessed a trend of sharp increase in the prices of some raw materials (notably coffee, sugar, cocoa and energy). The increase in coffee prices had a material impact on the Company's results, particularly in the fourth quarter. This rising trend has continued and will influence the Company's results in the first quarter of 2011 as well. The Company is taking various steps to contend with this increase, and estimates that in the second half of the year we will witness a moderation of this impact on the Group's financial results. Additionally, exchange rates between the Shekel and the currencies in the different countries where the Group operates have been volatile (mainly the weakening of many currencies in relation to the Shekel). The increase in the prices of raw materials and energy has led to an increase in the costs of manufacturing the products, while the changes in the exchange rates of the various currencies have led to changes in the cost of products that are imported in the various businesses and to changes in the Shekel value arising from the translation into Shekels of the Company's business results in some markets. The Group is taking the necessary steps to be prepared for the different scenarios and to deal with them in the best manner possible.

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 2009, 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, 2009.

ANALYSIS OF FINANCIAL RESULTS *

Following are the condensed financial accounting statements of income for the years and quarters ended December 31, 2010 and 2009 (in NIS millions):

	For the Years			For the Fourth Quarter		
	2010	**2009**	**% change**	**2010**	**2009**	**% change**
Sales	**6,855**	**6,373**	***7.5***	**1,807**	**1,715**	***5.4***
Cost of sales not including impact of hedging transactions	4,267	4,002	*6.6*	1,160	1,070	*8.5*
Revaluation of the balance of hedging transactions on commodities as at the end of the period	(5)	(4)		(4)	2	
Cost of sales	4,262	3,998	*6.6*	1,156	1,072	*7.8*
Gross income	**2,593**	**2,375**	***9.2***	**651**	**643**	***1.3***
Selling and marketing expenses	1,597	1,442	*10.7*	420	393	*6.9*
General and administrative expenses	410	374	*9.6*	116	116	-
Operating income before other income (expenses)	**586**	**559**	***4.9***	**115**	**134**	***-13.6***
Other income (expenses), net	(45)	(35)	*26.7*	(12)	(8)	*50.0*
Operating income	**541**	**524**	***3.4***	**103**	**126**	***-18.4***
Financing expenses, net	(92)	(87)	*7.3*	(22)	(17)	*28.0*
Income before taxes on income	**449**	**437**	***2.6***	**81**	**109**	***-25.6***
Taxes on income	(147)	(119)	*24.0*	(29)	(28)	*5.4*
Effective tax rate	32.7%	27.1%		36.0%	25.4%	
Income for the period	**302**	**318**	***-5.3***	**52**	**81**	***-36.1***
Income attributed to shareholders of the Company	**211**	**233**	***-9.8***	**33**	**59**	***-44.6***
Income attributed to non-controlling interest	91	85	*6.9*	19	22	*-13.3*

Following are the adjustments to the Company's pro-forma statements (NIS millions):

	For the Years			For the Fourth Quarter		
	2010	**2009**	**% change**	**2010**	**2009**	**% change**
Operating income – financial accounting – after other income (expenses)	**541**	**524**	***3.4***	**103**	**126**	***-18.4***
Share-based payment and one-time bonus	20	15		12	5	
Revaluation of the balance of hedging transactions on commodities as at the end of the period	(5)	(4)		(4)	2	
Other expenses (income)	45	35		12	8	
Operating income – pro-forma	**601**	**570**	***5.4***	**123**	**141**	***-13.2***
Financing expenses, net	(92)	(87)		(22)	(17)	
Taxes on income	(147)	(119)		(29)	(28)	
Taxes in respect of adjustments to the above management operating income	(4)	(4)		1	(1)	
Income for the period – management	**358**	**360**	***-0.8***	**73**	**95**	***-24.3***
Income attributed to shareholders of the Company	**258**	**268**	***-3.9***	**50**	**70**	***-28.4***
Income attributed to non-controlling interest	100	92	*8.0*	23	25	*-9.9*

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

Following are the condensed results of business operations (based on the Company's pro-forma statements) for the years and quarters ended December 31, 2010 and 2009 (in NIS millions):

	For the Years			For the Fourth Quarter		
	2010	2009	% change	2010	2009	% change
Sales	**6,855**	**6,373**	***7.5***	**1,807**	**1,715**	***5.4***
Cost of sales	4,267	4,002	*6.6*	1,160	1,070	*8.5*
Gross income	**2,588**	**2,371**	***9.1***	**647**	**645**	***0.2***
Selling and marketing expenses	1,597	1,442	*10.7*	420	393	*6.9*
General and administrative expenses	390	359	*8.7*	104	111	*-6.4*
Operating income – pro-forma	**601**	**570**	***5.4***	**123**	**141**	***-13.2***
Financing expenses, net	(92)	(87)	*7.3*	(22)	(17)	*28.0*
Income before taxes on income	**509**	**483**	***5.0***	**101**	**124**	***-18.8***
Taxes on income	(151)	(123)	*22.3*	(28)	(29)	*-0.4*
Income for the period – management	**358**	**360**	***-0.8***	**73**	**95**	***-24.3***
Income attributed to shareholders of the Company	**258**	**268**	***-3.9***	**50**	**70**	***-28.4***
Income attributed to non-controlling interest	100	92	*8.0*	23	25	*-9.9*

Following are the condensed results of business operations (based on the Company's pro-forma statements) of the major areas of business activity for the years and quarters ended December 31, 2010 and 2009 (in NIS millions):

	For the Years			For the Fourth Quarter		
	2010	2009	%	2010	2009	%
Israel						
Net sales	2,683	2,624	*2.2*	671	634	*5.8*
Operating income	305	288	*5.8*	62	53	*16.8*
Coffee						
Net sales	3,386	3,349	*1.1*	920	909	*1.2*
Operating income	257	270	*-5.0*	52	78	*-33.8*
Dips and spreads (international)						
Net sales	297	215	*38.0*	82	61	*36.7*
Operating income	26	30	*-14.6*	7	9	*-22.2*
Other						
Net sales	489	185	*163.9*	134	111	*20.2*
Operating income (loss)	13	(18)	-	2	1	*186.2*
Total						
Total net sales	**6,855**	**6,373**	***7.5***	**1,807**	**1,715**	***5.4***
Total operating income	**601**	**570**	***5.4***	**123**	**141**	***-13.2***

For information on the adjustments to the Company's pro-forma statements, see Note 29.2 to the Financial Statements.

For information on the consolidated results of business operations of the geographical regions, see Note 29.4 to the Financial Statements.

ANALYSIS OF THE BUSINESSS RESULTS OF THE GROUP

General

Strauss Group concluded the year 2010 with a growth in sales, an improvement in gross profit and profitability and an improvement in the operating profit (accounting and pro-forma), despite the fact that 2010 was characterized by continuing global weakness in the wake of the financial crisis that began in 2008.

Several factors in the Group's macroeconomic environment, including currency exchange rates, raw material prices and inflation, simultaneous to the slow recovery from the financial crisis in some of the markets where the Group is active, influenced the Group's business operations.

The volatility in currency exchange rates in the countries where Strauss Coffee is active, coupled with the difficulty in raising prices in the current macroeconomic conditions, mainly in Poland, Romania, Ukraine and Serbia, impacted the growth and profit of the coffee business. During the year the food market in Israel experienced growth and competition in the retail market increased. The Group has contended with the changing economic conditions by implementing streamlining processes, using substitutes, and raising the prices of its products from time to time.

In 2010 the Company focused on strengthening the foundations for future growth, long-term investments and building infrastructure for a global company, improving its competitive position and increasing its market shares as well as improving the operating profit, while continuing to invest in its strong assets – people and brands – and investing in future growth drivers.

During the fourth quarter the subsidiary Sabra Dipping Company, owned (50%) by the Strauss Group, had acquired the refrigerated salsa and dips business of California Creative Foods ("CCF") including the production, marketing and sale of these products.

Additionally, during the quarter the Company signed a partnership agreement between Strauss Water and the Chinese consumer electronic appliances giant, Haier Group, for the establishment of a joint venture in home water solutions in China. The venture is jointly owned by Strauss Water (50%) and Haier Consumer Goods (50%) and will be established with an initial investment of $20 million (each of the parties is to invest $10 million).

Strauss Group's entry into China is an additional step in the realization of the Group's global expansion strategy. The partnership will leverage the combined know-how and capabilities of Strauss Water in the areas of technology and expertise in the development of solutions for the purification of safe drinking water, together with Haier's leadership and reliability in the spheres of marketing, distribution and service in China.

In November the Company announced a move in the framework of Strauss Coffee's continued expansion in Russia, the acquisition of the Le Café brand, and entry into a partnership in Le Café's business in that country. The transaction includes complete ownership (100%) of the Le Café brand and partnership (51%) in the Le Café group, with its real estate assets that include a logistic center, offices and space where Strauss Coffee plans to establish a roasted and ground coffee manufacturing site, that will be wholly-owned by Strauss Coffee. The investment in the transaction amounts to approximately $43 million.

In October Strauss Coffee B.V. ("Strauss Coffee") and Robusta Cooperative (controlled by TPG Capital) had signed an amendment to the investment agreement, extending the option granted to TPG to acquire an additional 10% of the shares of Strauss Coffee until September 9, 2011. All other terms and conditions of the option remain unchanged.

Simultaneously, Strauss Coffee and San Miguel (controlled by Lima Brothers) signed an amendment to the shareholders' agreement in the joint venture in Brazil, pursuant whereto the shareholders and their related companies were released from the obligation to offer all new food businesses to the joint venture, other than businesses in the same categories in which the joint venture is active.

After the end of the quarter the Company had signed a loan agreement with several companies of the Harel Insurance Company group for the receipt of a loan of NIS 300 million. The loan bears 5.821% fixed annual interest and the duration is approximately 6.55 years. The principal and interest will be repaid in 22 consecutive semi-annual installments, commencing on July 1, 2011. The Company has the right, under certain conditions, to make early repayment of the loan, commencing five years after the date of its receipt. The Company has undertaken a negative pledge and compliance with financial stipulations, similar to the financial stipulations relating to banks described in Section 27.2 of the Periodic Report for the Year 2010. The loan is designated for the recycling of the Company's debts and for current requirements. Receipt of the loan had no impact on the rating of the Company's debentures.

Sales

In 2010 Strauss Group's sales amounted to NIS 6,855 million compared to NIS 6,373 million last year, an increase of 7.5%. After neutralizing the currency impact, growth amounted to 8.0%. **Organic growth after neutralizing the impact of changes in exchange rates in 2010 amounted to 4.0%.** Growth was evident in all of the Company's activities – Israel, coffee, Sabra and water.

The Group's sales in the fourth quarter totaled NIS 1,807 million compared to NIS 1,715 million in the corresponding period last year, an increase of 5.4%. After neutralizing the currency impact, growth amounted to 8.8%. **Organic growth after neutralizing the impact of changes in exchange rates in the fourth quarter amounted to 9.2%.** Growth was evident mainly in the Company's activity in Israel, which grew by some 5.8% in the quarter, in Sabra in North America, where growth amounted to 36.7%, and in the water business, which grew by 32.4% in the quarter.

Gross Profit

The financial accounting gross profit in 2010 totaled NIS 2,593 million (37.8% of sales) compared to NIS 2,375 million last year (37.3% of sales), an increase of 9.2%. The pro-forma gross profit in 2010 increased by 9.1% compared to the corresponding period last year, rising from 37.2% to 37.8%.

The gross profit was positively impacted by the improvement in most of the Group's businesses, notably Israel, Strauss Coffee and Sabra, by the consolidation of the Tami4 activity for the first time and by the continuing streamlining measures applied, and was adversely affected by the impact of currency exchange rates.

The financial accounting gross profit in the fourth quarter increased by 1.3% and dropped from 37.5% last year to 36.0% this year. The pro-forma gross profit increased in the quarter by 0.2%, down from 37.6% in 2009 to 35.8% this year.

The gross profit in the quarter was positively influenced by the improvement in Israel, and by contrast was negatively influenced by the decrease in gross profit in the coffee business further to the sharp rise in raw material prices and the impact of currency exchange rates.

Operating Profit before Other Income (Expenses)

The financial accounting operating profit (before other income and expenses) totaled NIS 586 million (8.5% of sales) in 2010 compared to NIS 559 million (8.8%) last year, an increase of 4.9%. The growth in the Group's operating profit is mainly due to the increase in the operating profit in all of the Company's activities and to the consolidation of Tami4's activity for the first time (starting from the fourth quarter 2009).

The pro-forma (pro-forma) operating profit totaled NIS 601 million (8.8% of sales) in 2010 compared to NIS 570 million (8.9% of sales) last year, an increase of 5.4%.

The increase in the group operating profit is evident mainly in the activity in Israel and was positively influenced by the consolidation of Tami4 for the first time (in the first three quarters) and by contrast, the decrease in the coffee business operating profit due to the decrease in gross profit and from the increased expenses related to Strauss Water's increased activity in China and England and the concurrent operation of two factories in the U.S. (total impact on profit amounted to a reduction of about NIS 41 million and from expenditure of NIS 9 million in respect of option plan at Strauss Coffee (see Note 25.7 annual financial statements.)

The financial accounting operating profit (before other income and expenses) totaled NIS 115 million (6.4% of sales) in the fourth quarter compared to NIS 134 million (7.8% of sales) in the corresponding period last year, a decrease of 13.6%.

The pro-forma operating profit totaled NIS 123 million (6.8% of sales) in the fourth quarter compared to NIS 141 million (8.2% of sales) last year, a decrease of 13.2%.

The decrease in operating profit is mainly due to the decreased gross profit of the coffee business and was also affected by increased expenses related to Strauss Water activity in China and England and the concurrent operation of two factories in the U.S. (total impact on profit amounted to a reduction of about 14 million).

Other Income (Expenses), Net

Other expenses, net totaled NIS 45 million in 2010 compared to other expenses, net of NIS 35 million last year. Most of the expenses this year are attributed, among other things, to the discontinued operation in Bulgaria further to the decision by Strauss Coffee to exit this market, following which the subsidiary recognized expenses amounting to NIS 15 million; and to the costs of building the new production site for the subsidiary, Sabra; establishment of the Company's activity in China, and the costs of structural changes. Most of the other expenses in 2009 were attributed to the impairment of goodwill in Strauss Coffee's subsidiary in Serbia in an amount of NIS 22 million, and the costs of the establishment of Strauss Water.

In the fourth quarter of 2010, other expenses, net totaled NIS 12 million (most of the expenses are in respect of the costs of establishing the activity in China and the costs of structural changes), compared to NIS 8 million in expenses, net in the corresponding quarter last year (mainly the costs of the establishment of Strauss Water).

Operating Profit after Other Income (Expenses)

The Company's consolidated operating profit in 2010 totaled NIS 541 million, compared to NIS 524 million last year. The Company's consolidated operating profit in the fourth quarter totaled NIS 103 compared to NIS 126 million in the corresponding quarter last year.

Financing, Net

Net financing expenses in 2010 totaled NIS 92 million compared to expenses of NIS 87 million last year.

The factors that contributed to the increase in financing expenses compared to last year were the inclusion of the results of Tami4 for the first time (in the first three quarters) and an increase in the net credit volume in relation to 2009. A decrease in financing expenses this year from the revaluation of foreign currency transactions, interest and foreign currency differentials, compared to the corresponding period last year, contributed to offsetting the increase. Revaluation of Index-linked liabilities in respect of Debentures Series A and B on the basis of the known Index (2.3% versus 3.8% last year) contributed to reducing financing expenses, which were offset against income from the revaluation of Index hedges last year compared to expenses from the revaluation of Index hedges this year.

Net financing expenses in the fourth quarter of 2010 totaled NIS 22 million compared to expenses of NIS 17 million in the corresponding quarter last year.

Revaluation of Index-linked liabilities in respect of Debentures Series A and B on the basis of the known Index (0.7% versus 0.2% last year) and an increase in net credit volumes compared to the corresponding period last year contributed to the increase in financing expenses this year. By contrast, income from the revaluation of interest transactions contributed to offsetting the increase.

The net credit volume as at December 31, 2010 totaled NIS 1,156 million compared to NIS 707 million on December 31, 2009.

Income before Taxes on Income

In 2010 the Group's consolidated income before taxes on income amounted to NIS 449 million (6.5% of sales) compared to NIS 437 million (6.8% of sales) last year, an increase of 2.6%.

In the fourth quarter the Group's consolidated income before taxes on income amounted to NIS 81 million (4.5% of sales) compared to income of NIS 109 million (6.3% of sales) in the corresponding quarter last year, a decrease of 25.6%.

Taxes on Income

In 2010 taxes on income amounted to NIS 147million, reflecting an effective tax rate of 32.7%, whereas last year taxes on income amounted to NIS 119 million and the effective tax rate was 27.1%. Tax expenses in 2010 increased as a result of the increase in the pretax profit and in losses in which respect there are no deferred tax assets. Tax expenses last year included one-time income amounting to NIS 11 million as a result of a decrease in the balance of deferred tax assets and liabilities following the change in corporate tax rates in Israel. Additionally, an increase in tax expenses was entered this year as a result of high effective tax rates outside of Israel (mainly in the USA).

In the fourth quarter taxes on income amounted to NIS 29 million, reflecting an effective tax rate of 36.0%, compared to NIS 28 million and an effective tax rate of 25.4% in the corresponding quarter last year. The increase in the effective tax rate in the current quarter compared to the corresponding quarter last year is mainly the result of an increase in losses in which respect there are no deferred tax assets, and of permanent differences in different countries in the Group.

Income for the Period

The financial accounting income for the period in 2010 amounted to NIS 302 million compared to NIS 318 million last year. The pro-forma income for the period in 2010 amounted to NIS 358 million compared to NIS 360 million last year, a decrease of 0.8%.

Income for the period in the fourth quarter totaled NIS 52 million compared to NIS 81 million last year. The pro-forma income for the period in the fourth quarter amounted to NIS 73 million compared to NIS 95 million last year, a decrease of 24.3%.

Income for the Period for the Shareholders of the Company

The financial accounting income for the period for the shareholders of the Company in 2010 totaled NIS 211 million compared to NIS 233 million last year, a decrease of 9.8%. The net income was positively impacted by the growth in operating profit, which was fully offset by the increase in tax expenses compared to last year and the growth in other expenses further to the discontinued operation in Bulgaria.

The pro-forma income for the shareholders of the Company in 2010 totaled NIS 258 million compared to NIS 268 million last year, a decrease of 3.7%.

The net income was positively impacted by the growth in operating profit, which was offset by the increase in tax and financial expenses compared to last year.

The financial accounting income for the period for the shareholders of the Company in the fourth quarter totaled NIS 33 million compared to NIS 59 million last year, a decrease of 44.6%. The income in the fourth quarter was impacted by the decrease in the operating profit and the increase in financing expenses compared to last year.

The pro-forma income for the shareholders of the Company in the fourth quarter totaled NIS 50 million (2.8% of sales) compared to NIS 70 million last year (4.1% of sales), a decrease of 28.4%. The income in the fourth quarter was impacted by the decrease in the operating profit and the increase in financing expenses compared to last year.

Income for the Period for Non-controlling interest

In 2010 the Non-controlling interest share in the income of subsidiaries totaled NIS 91 million compared to NIS 85 million last year, an increase of 6.9%. In the fourth quarter the Non-controlling interest share in the income of subsidiaries totaled NIS 19 million compared to NIS 22 million in the corresponding quarter last year, a decrease of 13.3%.

Other comprehensive income for the period

The other comprehensive income for the period includes profit or loss items credited directly to equity, particularly the revaluation of securities available for sale and differentials arising from the translation of foreign currency in respect of an investment in overseas subsidiaries. The other comprehensive income for 2010 amounted to NIS 81 million compared to other comprehensive income of NIS 441 million last year. In the reported period losses in respect of translation differentials, which are the main component of the other comprehensive income, amounted to NIS 227 million, compared to a profit of NIS 120 million in respect of translations differentials last year. The translation differentials are the result of a material weakening of most of the operating currencies of the Group companies abroad in relation to the Shekel, which was expressed in the quarterly movement in the foreign currency translation reserve.

The other comprehensive loss in the fourth quarter of 2010 amounted to NIS 20 million, compared to other comprehensive income of NIS 73 million in the corresponding period last year.

LIQUIDITY, SOURCES OF FINANCING AND FINANCIAL POSITION

Cash flows provided by ordinary operations in 2010 totaled NIS 501 million, compared to cash flows provided by ordinary operations totaling NIS 793 million last year. The decrease in cash flows provided by ordinary operations in 2010 is due mainly to an increase in accounts receivable balances compared to a decrease in accounts receivable last year, an increase in inventory balances in the reported period compared to a significant decrease last year, and to the increase in income tax paid in the reported period compared to last year.

Cash flows provided by ordinary operations in the fourth quarter amounted to NIS 301 million, compared to NIS 334 million in the corresponding period last year.

Cash flows used in investment activity in 2010 totaled NIS 558 million compared to NIS 616 million in the corresponding period last year. Total net cash investments in securities, in fixed and other assets during the year amounted to NIS 326 million, compared to NIS 323 million last year. In 2010 the Company invested NIS 215 million in the acquisition of subsidiaries and businesses (acquisition of businesses by the subsidiaries in Russia and by Sabra), compared to NIS 284 million last year (acquisition of the Tami4 activity).

In the fourth quarter cash flows used in investment activity totaled NIS 284 million, compared to NIS 346 million in cash flows used in investment activity in the corresponding period last year.

Cash flows used in financing activity in 2010 totaled NIS 92 million compared to NIS 88 million provided by financing activity in 2009. In 2010 an increase of NIS 206 million was entered versus the previous year due to the receipt of long-term loans (mainly in respect of the expansion of the Group's activity), as well as an increase of NIS 127 million due to the growth in short-term net bank credit compared to the previous year, as compared to the issue of Debentures (Series C) for a net consideration of NIS 494 million last year.

In the fourth quarter cash flows used in financing activity totaled NIS 71 million compared to NIS 161 million last year. Most of the change is due to the receipt of long-term loans in the quarter compared to the corresponding period.

The Company’s cash and cash equivalents as at December 31, 2010 totaled NIS 729 million, compared to NIS 957 million on December 31, 2009. In accordance with Company policy, these assets are invested mainly in deposits (most of them in Euros, Shekels and Dollars). Additionally, the Company has short-term investments in securities (mainly linked to the Consumer Price Index in Israel).

The Company's liquidity ratio as at December 31, 2010 is 1.47, compared to 1.85 on December 31, 2009. As at December 31, 2010 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 1,780 million compared to NIS 1,620 million on December 31, 2009. As at December 31, 2010 short-term credit (excluding current maturities) amounted to NIS 170 million compared to NIS 130 million on December 31, 2009. As at December 31, 2010 supplier credit totaled NIS 793 million, compared to NIS 757 million on December 31, 2009.

As at December 31, 2010 total assets in the Company's Consolidated Statement of Financial Condition amounted to NIS 6,270 million, compared to NIS 6,158 million at the end of 2009.

As at December 31, 2010 the ratio of equity attributed to the shareholders of the Company to the total assets in the Company's Consolidated Statement of Financial Condition was 29.4%, compared to 32.2% at the end of 2009.

The Company's activities outside of Israel are conducted in various foreign currencies and through autonomous holding companies. Any weakening in relation to the Shekel of the currencies in the countries in which the Company operates reduces the shareholders' equity of the Company, and vice versa.

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

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry and in 2010 held 11.2% of the domestic food and beverage market (on a yearly average, in financial terms). The Israeli market is the Group's home market, in which it is active in various categories.

The sales for the entire business of the Strauss Group in Israel include the Health & Wellness and Fun & Indulgence Divisions, the coffee business in Israel, Max Brenner in Israel and the Strauss Water Israel (Tami4) activity. In 2010, Strauss Group's sales in Israel totaled NIS 3,701 million compared to NIS 3,355 million in 2009, an increase of 10.3%. In the fourth quarter, Israel sales totaled NIS 931 million compared to NIS 862 million in the corresponding quarter last year, an increase of 8.0%.

A a result of the acquisition of Tami4 the Group has increased its touch points with the Israeli consumer and has expanded beyond retail and away-from-home (AFH) sales into a direct interface with the consumer.

The Coffee Business

In the global coffee business the Group develops, manufactures, markets and sells branded coffee products in Israel and in various emerging markets – Central and Eastern Europe and Brazil. This business area comprises two sectors of activity – Israel Coffee and International Coffee.

In 2010 Strauss Group was the sixth largest company in the world retail coffee market, with a market share of 2.1% in value terms (according to the market research firm Euromonitor).

Following is the scope of sales of the coffee business in the major geographical regions, and growth rates for the years and quarters ended December 31, 2010 and 2009 (in NIS millions):

	Years				**Fourth Quarter**			
Geographical region	**2010**	**2009**	**%**	**% change in local currency***	**2010**	**2009**	**%**	**% change in local currency***
Israel Coffee Sector	**592**	**598**	**-1.0**	**-1.0**	**147**	**137**	**7.0**	**7.0**
International Coffee Sector								
Brazil (1), (2)	1,388	1,137	22	14.0	402	319	26.0	28.0
Former Yugoslavia countries	221	255	-13.0	4.0	56	76	-27.0	-8.0
Former USSR countries	543	543	-	2.0	151	150	1.0	9.0
Balkan states	247	391	-37.0	-31.0	63	120	-47.0	-41.0
Poland	395	425	-7.0	-6.0	101	107	-5.0	2
Total International Coffee	**2,794**	**2,751**	**1.6**	**2.7**	**773**	**772**	**0.1**	**7.3**
Total Coffee	**3,386**	**3,349**	**1.1**	**1.6**	**920**	**909**	**1.2**	**7.3**

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

(1) Brazil sales in Q4 of 2010 include sales amounting to NIS 94 million of green coffee and NIS 18 million of corn. In Q4 of 2009 sales of green coffee amounting to NIS 59 million and corn amounting to NIS 16 million were included.

(2) Brazil sales in 2010 include sales amounting to NIS 276 million of green coffee and NIS 69 million of corn. In 2009 sales of green coffee amounting to NIS 212 million and corn amounting to NIS 60 million were included.

Following are the condensed results of business operations (based on the pro-forma statements) of the Coffee Company by reported sectors for the years and quarters ended December 31, 2010 and 2009 (in NIS millions):

	Years			**Fourth Quarter**		
	2010	**2009**	**%**	**2010**	**2009**	**%**
Israel Coffee Sector						
Net sales	592	598	*-1.0*	147	137	*7.0*
Operating profit	75	78	*-4.4*	10	13	*-20.9*
% profit	12.6%	13.0%		7.1%	9.6%	
International Coffee Sector						
Net sales	2,794	2,751	*1.6*	773	772	*0.1*
Operating profit	182	192	*-5.4*	42	65	*-36.9*
% profit	6.5%	7.0%		5.3%	8.5%	
Total Coffee						
Net sales	**3,386**	**3,349**	***1.1***	**920**	**909**	***1.2***
Operating profit	**257**	**270**	***-5.0***	**52**	**78**	***-33.8***
% profit	**7.6%**	**8.1%**		**5.6%**	**8.6%**	

Sales

Sales by Strauss's coffee business in 2010 totaled NIS 3,386 million compared to NIS 3,349 million in 2009, an increase of 1.1%. After neutralizing the impact of currency exchange rates, growth amounted to 1.6%. Organic growth in 2010 amounted to 1.6% after neutralizing the acquisition of businesses and the impact of exchange rate differentials.

Coffee sales in 2010 were positively influenced by the growth in activity in Brazil and in Russia, but were negatively influenced by the weakness in most of the markets in Eastern Europe due to the slow recovery from the crisis in these markets, by changes in the exchange rates of the various operating currencies, by the sharp rise in raw material prices coupled with the difficulty in raising prices in the prevailing macroeconomic conditions in some of the countries, as well as growing competition.

The growth in local currency is evident mainly in the Company's activity in Brazil, where the Company continues to grow at an accelerated pace, while increasing its market shares and expanding into additional geographical regions there, and in the former USSR countries and in Serbia.

Sales by the coffee business totaled NIS 920 million in the fourth quarter of 2010 compared to NIS 909 million in the corresponding period last year, an increase of 1.2%. After neutralizing the acquisition of businesses and the impact of exchange rate differentials, growth in the quarter amounted to 9.3%.

During the quarter the Company Strauss Coffee B.V. ("Strauss Coffee") and Robusta Cooperative (controlled by TPG Capital) had signed an amendment to the investment agreement, extending the option granted to TPG to acquire an additional 10% of the shares of Strauss Coffee until September 9, 2011. All other terms and conditions of the option remain unchanged.

Simultaneously, Strauss Coffee and San Miguel (controlled by Lima Brothers) signed an amendment to the shareholders' agreement in the joint venture in Brazil, pursuant whereto the shareholders and their related companies were released from the obligation to offer all new food businesses to the joint venture, other than businesses in the same categories in which the joint venture is active.

<u>The gross profit</u> in the coffee business totaled NIS 1,082 million in 2010 (32.0% of sales) compared to NIS 1,067 million (31.9% of sales) last year, an increase of 1.4%. The gross profit in the coffee business was influenced by the sharp rise in raw material prices (particularly in the second half of the year), as well as by the significant growth in the volume of activity in Brazil, which is characterized by below-average profit rates.

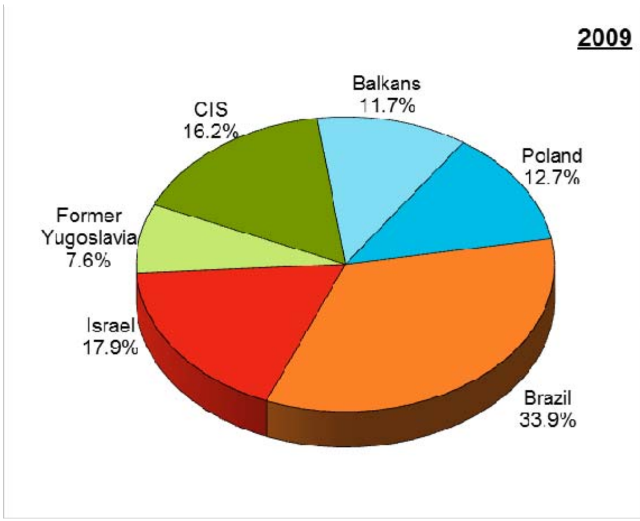
The gross profit in the fourth quarter totaled NIS 268 million (29.2% of sales) compared to NIS 299 million (32.9% of sales) last year, a decrease of 10.2%. The decrease in the gross profit is the result of the sharp increase in raw material prices and the difficulty in transferring the full increase in raw material prices to the consumer.

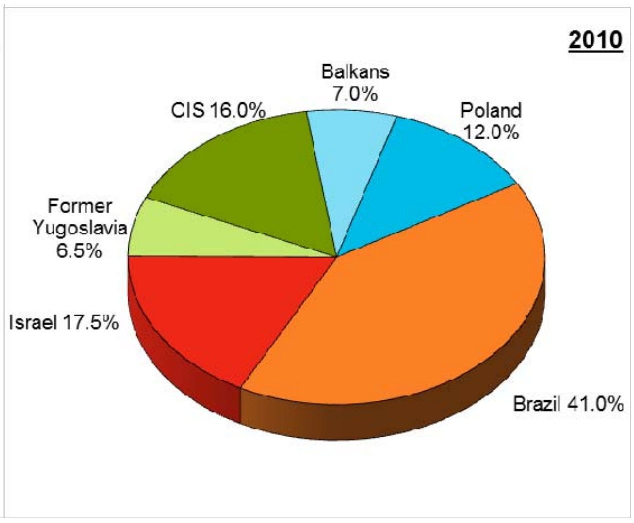
<u>The operating profit</u> of the coffee business totaled NIS 257 million (7.6% of sales) in 2010 compared to NIS 270 million (8.1% of sales) last year, a decrease of 5.0%. The operating profit was influenced by the growth in sales and in the gross profit.

In the fourth quarter, the operating profit totaled NIS 52 million (5.6% of sales) compared to NIS 78 million (8.6% of sales) in the corresponding quarter last year, a decrease of 33.8%. The decrease in the operating profit was influenced mainly by the decrease in the gross profit.

Convenience Translation from Hebrew

Distribution of coffee sales by geographical region in the years 2010 and 2009:





Brazil

During 2010 the Company continued to grow at an accelerated pace in Brazil, while continuing to expand into additional geographical regions in the country and growing its market shares. The average market share of the Brazilian operation in 2010 according to A.C. Nielsen was 17.7% compared to 16.1% in 2009. The Company's growth in Brazil is higher than the growth of the coffee market in the country.

Coffee sales in Brazil grew by 14.6% (7.3% in local currency) in 2010 (after neutralizing the green coffee export business and the corn business). Growth is evident in most regions, especially in Sao Paolo, where the Company continues to increase its market share.

In the fourth quarter of 2010 coffee sales in Brazil increased by 14.9% (16.7% in local currency) (after neutralizing the green coffee export business and the corn business).

In 2010 the Company refreshed the corporate identity in Brazil. In this framework, after half a century under the name Santa Clara, the name of the company in Brazil was changed to 3 Corações. The new corporate identity allows for optimization in the allocation of resources towards the development of brands in the present and in the future, and will enable the costs involved in managing a broad brand portfolio to be reduced by identifying synergy and consistency in communications and marketing management.

The new logo of the company in Brazil is a visual representation of three intertwined hearts ("corações" is Portuguese for hearts). The three hearts symbolize three intense pleasures: taste, knowledge and life.

The former Yugoslavia countries

The Company continues to contend with the challenging market conditions in the former Yugoslavia countries. In 2010 the Company's sales decreased by 13.0%. After neutralizing the currency impact sales increased by 4.0%. In the fourth quarter sales decreased by 27.0%, and after neutralizing the currency impact, sales decreased by 8.0%.

Sales in 2010 and in the fourth quarter were adversely impacted by the slowdown in the coffee market following the recession, and by the material erosion in local currency rates in relation to the Shekel and the shift to the consumption of more basic coffee in the region.

The Balkan states

Sales in 2010 decreased by 37.0%, and after neutralizing the currency impact, sales decreased by 31.0%.

In the fourth quarter sales decreased by 47.0%, and after neutralizing the currency impact, sales decreased by 41.0%. Sales in the quarter and in the entire year were impacted by the material erosion in the exchange rate of the Romanian currency in relation to the Euro and the Shekel, and by the discontinuation of the Company's operation in Bulgaria in view of the low growth potential relative to the resources invested in that country.

The former USSR countries

Growth in the region continues as a result of the continuing expansion in instant coffee and roasted and ground coffee, as well the expansion of AFH activities in Russia with the Totti Café by Roberto Totti brand for the HoReCa sector (coffee services for hotels, restaurants and cafés).

In the fourth quarter the the Company announced a move in the framework of Strauss Coffee's continued expansion in Russia, the acquisition of the Le Café brand, and entry into a partnership in Le Café's business in that country. The transaction includes complete ownership (100%) of the Le Café brand and partnership (51%) in the Le Café group, with its real estate assets that include a logistic center, offices and space where Strauss Coffee plans to establish a roasted and ground coffee manufacturing site, that will be wholly-owned by Strauss Coffee. The investment in the transaction amounts to approximately $43 million.

The move is an additional step in the continued expansion and strengthening of the Coffee Company's competitive position in the Russian coffee market, which is considered one of the largest coffee markets in the world, and the acquisition forms an additional layer in Strauss Coffee's growth strategy in Russia, where the company has grown significantly in the past four years.

The Company's sales in the region in 2010 remained unchanged, and after neutralizing the currency impact, sales grew by 2.0%. In the fourth quarter sales grew by 1.0%, and after neutralizing the currency impact, sales grew by 9.0%. The Company's sales were positively influenced by the volume growth in sales in Russia, but were adversely influenced by the strong impact of the currency erosion and the weakness in some of the countries.

Poland

The Company's sales in the region decreased by 7.0% in 2010, and after neutralizing the currency impact, sales decreased by 6.0%. Sales in Poland were influenced by the challenging environmental conditions, growing competition and currency erosion. This year as well, growth in the premium segment with the MK brand continued.

In the fourth quarter sales decreased by 5.0%, and after neutralizing the currency impact, sales grew by 2.0%.

Israel

In 2010 coffee sales in Israel decreased by 1.0%, and in the fourth quarter coffee sales in Israel grew by 7.0%. Growth in Israel sales was prominent in all coffee categories (Turkish, instant) and in all channels (retail, AFH).

The Company's sales were positively influenced by the growth in the large channels and in all segments, but were negatively influenced by the discontinued distribution of the Jacobs coffee brand in 2010. The Company succeeded in maintaining its competitive position in Israel, while continuing to apply operational streamlining measures.

The Business in Israel

The Group develops, manufactures, sells, markets and distributes a broad variety of branded food and beverage products in Israel. In line with the Group's focus on the development of products and solutions preferred by the consumer, the Group's products in Israel center on providing a response to two leading consumption trends, **Health & Wellness** and **Fun & Indulgence**. This structure supports the Company in contending with the challenges in the business environment.

Following are the condensed results of business operations based on the pro-forma statements of Strauss Israel by business activity, for the years and quarters ended December 31, 2010 and 2009 (in NIS millions):

	Years			Fourth Quarter		
	2010	**2009**	***% Chg***	**2010**	**2009**	***% Chg***
Health & Wellness Sector						
Net sales	1,811	1,769	*2.3*	463	434	*6.7*
Operating profit	228	217	*5.1*	58	42	*37.8*
% profit	12.6%	12.3%		12.5%	9.7%	
Fun & Indulgence Sector						
Net sales	872	855	*2.1*	208	200	*3.9*
Operating profit	77	71	*7.8*	4	11	*-62.2*
% profit	8.8%	8.3%		2.0%	5.5%	
Total Israel						
Net sales	**2,683**	**2,624**	***2.2***	**671**	**634**	***5.8***
Operating profit	**305**	**288**	***5.8***	**62**	**53**	***16.8***
% profit	**11.4%**	**11.0%**		**9.2%**	**8.4%**	

Sales

In 2010 Israel sales were NIS 2,683 million compared to NIS 2,624 million in 2009, an increase of 2.2%. In the fourth quarter sales by the business in Israel totaled NIS 671 million compared to NIS 634 million in the corresponding quarter last year, an increase of 5.8%.

According to StoreNext figures, in 2010 the Israeli food market grew by 3.0% in financial terms. Despite the many challenges posed in 2010, in Israel the Company concluded a year of sales growth coupled with an increase in operating profit and profitability. Strauss Group succeeded in maintaining its competitive position in Israel, mainly due to the continued investment in its brands, in innovation and in marketing moves.

During the year the Company continued to invest in innovation in various categories, including chewing gum, sweet snack bars, chocolate, desserts, cheeses and salty snacks and for the third year in a row was named Israel’s most innovative food company.

In 2010 the Strauss Israel completed the process of adapting its structure to meet future challenges, as well as formulating the new strategy for the next few years.

The gross profit for the business in Israel totaled NIS 1,111 million in 2010, compared to NIS 1,080 million last year. The gross profit rate rose from 41.2% to 41.4% this year. In the fourth quarter the gross profit for Israel increased by 9.3% and totaled NIS 273 million (40.7% of sales), compared to NIS 250 million in the corresponding period last year (39.4% of sales)

Most of the improvement is due to the continued implementation of streamlining processes in the cost of sales, and the currency impact (weakening of the Dollar and the Euro in relation to the Shekel).

The pro-forma operating profit in Israel increased in 2010 by 5.8%. The growth in the operating profit in Israel is due to the growth in gross profit and to the continued improvement in the cost structure. The operating profit rate in Israel improved in 2010 and amounted to 11.4%, compared to 11.0% in the corresponding period last year.

In the fourth quarter the operating profit in Israel increased by 16.8%, with operating profitability in the quarter rising from 8.4% last year to 9.2% this year.

The International Dips Activity (Presently Executed by Sabra Dipping Company)

In this activity the Group develops, manufactures, sells, markets and distributes hummus and chilled Mediterranean salads, presently through Sabra, throughout North America. Sabra is jointly controlled by the Group and PepsiCo (each party holds 50%). Sabra's activity has been proportionately consolidated (50%) since the closing of the transaction with PepsiCo, beginning in the second quarter of 2008.

This area of activity includes the expenses of Strauss North America's head office.

In 2010 Sabra's sales continued to grow, as did its market shares, and it maintained a leading position in the refrigerated flavored spreads category.

In September 2010 the Company announced that Sabra had signed an agreement for the acquisition of the refrigerated salsa and dips business of California Creative Foods ("CCF") including the production, marketing and sale of these products. The acquisition of CCF will enable Sabra to expand its presence in North America by entering the refrigerated salsa category. Entry into this category will allow Sabra to continue its rapid growth and enable it to acquire a special place in the hearts of American consumers.

This acquisition forms another layer in the realization of Sabra's overall strategy to lead the refrigerated dips and salads category in the USA and permits it to enlarge its product portfolio, which will strengthen the Group's leadership in this product category in the USA.

Sabra paid an amount of US$33 million in consideration for CCF’s refrigerated dips business. The transaction was closed in October 2010. In 2009 CCF's sales totaled $35 million. The company is ranked the largest in the USA in its category.

In the second quarter Sabra's new salad factory opened in Virginia. The new plant, which is the product of Strauss's partnership with PepsiCo – Frito-Lay in North America, is considered the largest and most advanced facility of its kind in the world and is a model of innovation that includes a variety of developments in the fresh food business.

The new site will enable Sabra to significantly increase production capacity, continue to improve its product variety and quality, provide a response to growing demand for its products, and develop a broad range of categories and products while continuing to grow the market in which Sabra is active.

Sabra's average market share in 2010 was 47.0% compared to an average market share of 39.4% in 2009. In the fourth quarter Sabra's average market share was 48.6% (according to IRI data published on December 26, 2010).

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

Sales – In 2010 Sabra's sales totaled NIS 593 million compared to NIS 430 million last year, an increase of 38.0%. After neutralizing the currency impact, growth amounted to 44.7%. Organic growth excluding the currency impact was 37.8%.

Sabra's sales in the fourth quarter totaled NIS 165 million compared to NIS 121 million in the corresponding period last year, an increase of 36.7%. After neutralizing the currency impact, growth amounted to 42.3%. Organic growth excluding the currency impact was 21.4%

The operating profit in 2010 totaled NIS 62 million (10.4% of sales) compared to NIS 73 million last year (17.0% of sales), a decrease of 15.3%

The operating profit in the fourth quarter totaled NIS 15 million (9.3% of sales) compared to NIS 21 million in the corresponding quarter last year (17.6% of sales), a decrease of 27.7%.

Other Operations

In addition to the areas of activity described above the Group has other businesses, which are included in the Financial Statements as the "Other Operations" sector. Following is a brief description of developments in these activities in 2010:

Strauss Water

Strauss Water engages in the development, manufacturing and marketing of systems for the purification, filtration, heating and cooling of drinking water for the home market and away-from-home consumption, on the basis of a long-term commitment to its customers. Strauss Water developed a breakthrough in the purification and treatment of water in the form of its patented Maze technology.. Strauss Water is presently active in Israel (through the Tami4 brand) and in the UK (through the T6 brand).

During the fourth quarter the Group announced that a partnership agreement had been signed with Haier Group, the Chinese consumer electronic appliances giant, for the establishment of a joint venture in home water solutions in China. The venture is jointly owned by Strauss Water (50%) and Haier Consumer Goods (50%) and will be established with an initial investment of $20 million (each of the parties is to invest $10 million). The Strauss Group's entry into China is an additional step in the realization of the Group's global expansion strategy. This partnership will leverage the combined know-how and capabilities of Strauss Water in the areas of technology and expertise in the development of solutions for the purification of safe drinking water, and Haier's leadership and reliability in the spheres of marketing, distribution and service in China.

Strauss Water plans to expand into additional geographical regions in the future while continuing to develop innovative technologies for the purification and treatment of water, based on a long-term commitment to its customers and care for people, water and the environment.

Strauss Water's pro-forma sales amounted to NIS 382 million in 2010, compared to NIS 316 million last year (assuming the full consolidation of the Tami4 business from the beginning of the year), an increase of 20.8%.

In the fourth quarter Strauss Water's pro-forma sales totaled NIS 103 million compared to NIS 78 million in the corresponding period last year, an increase of 32.4%.

Max Brenner

In 2010 the Group's biggest Chocolate Bar opened in Las Vegas, and as at the date of the report, 35 Max Brenner Chocolate Bars were in operation around the world: 6 in Israel, 3 in the US, 2 in the Philippines, 1 in Singapore and 23 in Australia. Eight branches are owned by the Company, and all other branches are operated under franchise.

In 2010 Max Brenner's sales totaled NIS 109 million compared to NIS 108 million last year, an increase of 0.2%. After neutralizing the impact of the erosion of the Dollar in relation to the Shekel, growth in 2010 totaled 2.4%.

In the fourth quarter Max Brenner's sales totaled NIS 31 million compared to NIS 35 million last year, a decrease of 11.1%. After neutralizing the impact of the erosion of the Dollar in relation to the Shekel, sales in the fourth quarter decreased by 8.9%.

The Company continues to invest in the development of core infrastructure for the Max Brenner business in Israel and abroad, and in 2011 the Company plans to open additional stores, while continuing to invest in major infrastructure and Max Brenner.

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:

Economic slowdown and uncertainty in the global and Israeli markets – An economic slowdown in the global and Israeli markets may lead to a decrease in private consumption and therefore, in the Company's sales. Furthermore, during times of economic uncertainty consumers tend to increasingly consume private label products and other cheaper brands instead of the Company’s products. This tendency could adversely affect the scope of the Company business, which focuses on branded products.

Exposure to changes in exchange rates – The Company is exposed to risks arising from changes in exchange rates since most purchases of raw materials (including commodities) are made in foreign currencies (principally the Dollar), or are affected by them. Changes in the various currency rates in relation to the Shekel are liable to erode the Company’s profits and its cash flow. A devaluation of the Shekel in relation to the foreign currencies used by the Group is liable to lead to erosion of the Company’s profitability in Israel. Revaluation of the Shekel in relation to the foreign currencies used by the Company is liable to lead to a reduction in the Shekel value of the Company's sales and the profits in its foreign businesses abroad.

The measurement currency in the Consolidated Financial Statements of the Company is the reported NIS. The reporting currency of Strauss Coffee B.V. is the Euro, the reporting currency of the business in America is the US Dollar, while the reporting currencies of Strauss Coffee B.V.’s subsidiaries are local currencies – the Euro, the US Dollar, the Polish Zloty, Brazilian Real, Russian Ruble, etc. Any change in the real exchange rates of the Shekel against the Euro and against the US Dollar, and of the Euro against the local currencies and the US dollar, influences the Company’s reported results and shareholders’ equity.

In addition to the foregoing, the lack of economic stability and risk of bankruptcy of certain countries in Eastern Europe where the Company is active are liable to intensify the exposure to changes in the exchange rates of the currencies in those countries.

Exposure to changes in the Consumer Price Index (CPI) in Israel – The Company is exposed to changes in the CPI in respect of liabilities arising from the Debentures Series A and B. See the section on the Debentures in circulation in the Board of Directors' Report and Note 30 to the Financial Statements.

Exposure to fluctuations in prices of raw materials on the international commodities markets – Raw materials (mainly coffee, sugar and cocoa) form a substantial component in the production inputs of the Company's products. A large part of these raw materials are highly traded commodities and are consequently subject to (occasionally volatile) market price fluctuations. Additionally, the subsidiary in Brazil conducts a green coffee export business, which includes engagements with various customers abroad for the sale of green coffee of different species. Volatile price fluctuations on the commodities markets may have a fundamental impact on the prices of the commodities and erode the profitability of the Company's products.

Exposure to the price of raw milk and to control of product prices – The price of unprocessed milk, the major raw material in the manufacture of dairy products and milk drinks, and business in the dairy market, are determined according to various arrangements. Some of the Company's products are subject to control of their sales price, and therefore any increase in the price of raw milk without adjusting the prices of controlled products may impair the Group's profitability. The Group is obliged to accept the full milk quota marketed by the dairy farms assigned to the Company.

In a period of economic slowdown the Company may accumulate surplus milk (which is sent for drying), which will lead to an increase in inventory balances in the Company and to impairment of the cash flows provided by ordinary operations.

Exposure to changes in interest rates – The Company has long-term liabilities, primarily in respect of the Debentures Series C, at varying interest rates (see the section on the Debentures in circulation in the Board of Directors' Report and Note 30 to the Financial Statements). A rise in interest rates is liable to lead to the erosion of the Company's profits and impairment of its cash flows.

Exposure to customer credit (including distributors) – The Group's sales to its customers, in Israel and abroad, are usually made on credit, as is the customary practice in the market. Part of the credit to customers in the Israeli private market and AFH market (that are not part of the organized retail market) is guaranteed by liquid collateral (principally deposits and bank guarantees) and by credit insurance (including a deductible), whereas the balance of the credit that is not covered by guarantees is at risk. Nevertheless, the broad dispersal of the Group's customers in the private and AFH markets in Israel mitigates this risk. Credit to customers in the organized retail market in Israel 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 organized market customers may have a material impact on the Group's cash flow and its business results. In most of the countries where the Group is active abroad, the percentage of customer credit secured by liquid collateral and/or credit insurance is low.

The Company's policy for managing market risks, those responsible for their management, supervision and realization of policy

Green coffee procurement (commodities)

The Company’s green coffee procurement center in Switzerland provides for all companies in the Group except for the company in Brazil. In order to manage exposure to market risks, the Company uses transactions in derivatives and in securities traded on the financial markets in New York and London. The use of these instruments is the responsibility of the manager of the procurement office in Switzerland in the framework of guidelines defined from time to time by the corporate green coffee procurement committee, which is managed by the CFO of Strauss Coffee and convenes 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.

Sugar and Cocoa procurement
In addition the group operates a committee that manages the sugar and cocoa exposures. The committee is managed by the Strauss Israel CFO.

Financial liabilities, financial investments, currency exposures, the Index and interest

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 makes hedging transactions for partial coverage using forward contracts, future contracts on the Index rates, and future 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 its operating results 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 manager (treasurer) 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.

Convenience Translation from Hebrew

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 follows up on the implementation of these recommendations. These credit committees are managed by the CFO of Strauss Israel and the Group's Credit Risk Manager. With respect to the coffee business, credit control is carried out by the financial managers 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.

For information on the Company's positions in derivatives as at December 31, 2010, see Note 30 to the Financial Statements.

For information on the sensitivity analysis of the fair value of financial instruments in relation to the various market factors, see below and also Note 30 to the Financial Statements. All sensitivity analyses were performed in relation to the fair value of the financial instruments as at December 31, 2010. The sensitivity analysis was performed with respect to financial instruments whose sensitivity to changes in the various market factors is material.

Sensitivity to changes in exchange prices of green coffee inventory in the Company's warehouses

The fair value of green coffee inventory includes only the exchange trading price component and not the species and quality components (differential).

	December 31, 2010						
	Profit (loss) from Changes				**Profit (loss) from Changes**		
	(1)	**10%**	**5%**	**Fair Value**	**-5%**	**-10%**	**(2)**
	NIS '000						
Arabica inventory, New York	10,815	4,916	2,458	49,159	(2,458)	(4,916)	(6,391)
Arabica inventory, Brazil	10,034	4,561	2,281	45,610	(2,281)	(4,561)	(5,929)
Robusta inventory, London	2,923	1,949	974	19,488	(974)	(1,949)	(2,631)
Robust inventory Brazil	347	231	116	2,312	(116)	(231)	(312)

	December 31, 2009						
	Profit (loss) from Changes				**Profit (loss) from Changes**		
	(1)	**10%**	**5%**	**Fair Value**	**-5%**	**-10%**	**(2)**
	NIS '000						
Arabica inventory, New York	6,310	2,868	1,434	28,683	(1,434)	(2,868)	(3,729)
Arabica inventory, Brazil	13,077	5,944	2,972	59,439	(2,972)	(5,944)	(7,727)
Robusta inventory, London	2,361	1,574	787	15,745	(787)	(1,574)	(2,126)
Robusta inventory, Brazil	945	630	315	6,297	(315)	(630)	(850)

(1) In the past ten years the maximum daily increase in prices for Arabica was 22% and for Robusta, 15% (based on closing prices).

(2) In the past ten years the maximum daily decrease in prices for Arabica was 13% and for Robusta, 13.5% (based on closing prices).

Sensitivity to changes in exchange prices of green coffee in relation to procurement engagements with suppliers net

	Profit (loss) from changes			Profit (loss) from changes	
	10%	5%	Fair value	-5%	-10%
	NIS '000				
As at December 31, 2010	16,491	8,246	21,406	(8,246)	(16,491)

Sensitivity to changes in exchange prices of cocoa in relation to procurement engagements with suppliers

	Profit (loss) from changes			Profit (loss) from changes		
	10%	5%	Fair value	-5%	-10%	(3)
	NIS '000					
As at December 31, 2010	1,133	566	357	(566)	(1,133)	(1,778)
As at December 31, 2009	1,029	514	883	(514)	(1,029)	(1,615)

Sensitivity to changes in exchange prices of cocoa of the value of cocoa inventory in the Company's warehouses

	Profit (loss) from changes			Profit (loss) from changes		
	10%	5%	Fair value	-5%	-10%	(3)
	NIS '000					
As at December 31, 2010	298	149	2,977	(149)	(298)	(467)
As at December 31, 2009	995	498	9,951	(498)	(995)	(1,562)

(3) In the past ten years the maximum daily decrease in prices was 15.7% (based on closing prices).

Sensitivity to changes in exchange prices of sugar in relation to procurement engagements with suppliers

	Profit (loss) from changes			Profit (loss) from changes		
	10%	5%	Fair value	-5%	-10%	(4)
	NIS '000					
As at December 31, 2010	611	306	1,255	(306)	(611)	(794)
As at December 31, 2009	1,987	994	8,864	(994)	(1,987)	(2,584)

Sensitivity to changes in exchange prices of sugar of the value of sugar inventory in the Company's warehouses

	Profit (loss) from changes			Profit (loss) from changes		
	10%	5%	Fair value	-5%	-10%	(4)
	NIS '000					
As at December 31, 2010	20	10	195	(10)	(20)	(25)
As at December 31, 2009	54	27	539	(27)	(54)	(70)

(4) In the past ten years the maximum daily decrease in prices was 13% (based on closing prices).

Sensitivity of the liability value in the books of Debentures Series A and Debentures Series B to changes in the Consumer Price Index

The Debentures are linked to the Consumer Price Index (CPI) known on the date of the Statement of Financial Condition. In 2010 the Known Index rose by 2.3%.

Sensitivity of the liability value in the books of Debentures Series C to changes in the interest rate

The Debentures pay varying interest linked to the interest paid on Government Bonds 817 plus an interval of 0.7%. The interest paid in respect of Debentures Series C in 2010 rose by 0.69%.

For information on the sensitivity analysis, see Note 30 to the Annual Financial Statements. For further information on sensitivity analyses to market risks, see Note 30 to the Financial Statements.

Reporting according to linkage bases

For information on reporting according to linkage bases, see Note 30 to the Financial Statements.

Valuations

During the reported period the Company performed valuations to determine the recoverable amount of cash yielding units to which goodwill balances are attributed. Following are the data required in connection with these valuations according to Article 8.B (i) of the Securities Regulations (Periodic and Immediate Reports) – 1970 (financial data in NIS millions as at the valuation date) for the reported period:

Valuation						Assumptions serving in valuation			
Subject	Timing	Subject Value prior to valuation date	Subject Value according to valuation	Identity of valuator	Model used by valuator	Capitalization rate	Growth rate	Terminal value	Standard deviation
Goodwill and intangible assets with an indefinite life attributed Subsidiary in Brazil	12/2010	292	292	Internal	DCF	8.58%	3.0%	1,017	0.62

ASPECTS OF CORPORATE GOVERNANCE

General

The Board of Directors of the Company has adopted the recommendations in the Goshen Committee Report and acts in accordance with these recommendations. For further information, see the Annual Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure pursuant to Regulation 9.B.

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 Company. Since June 2008 the Board of Directors has comprised 11 members who possess different backgrounds and areas of expertise, including four independent directors, of whom two are outside directors. There are no Board members who are officers of the Company. Ofra Strauss, Chairperson of the Board, is not an officer-member of Company Management. The Board has three standing committees: the Audit Committee; the Balance Sheet and Finance Committee; and the Human Resources and Compensation Committee. There is a Strategy Committee which is not a standing committee and convenes as necessary, mainly for the purpose of reviewing and following up the execution of M&A transactions.

Compensation of Senior Managers

The compensation of senior managers is based on their position and personal contribution to the management of the Company, its activity and advancement. The yearly compensation policy applying to senior executives is based on a mechanism that ties compensation to the Group's financial performance based on defined objectives and measurements, as well as to personal qualitative objectives and measurements, and comprises three major parameters that are considered and taken into account when determining compensation: (a) Position – an external comparison to parallel positions in the labor market in terms of size and complexity, and creation of a suitable salary range for the position in the Company; (b) Performance – the business performance of the Company and the personal performance of the manager; (c) Person – the manager's personal competencies, experience and potential. These parameters influence the location of the manager's base salary in relation to the pay scale defined for the position, as well as the yearly incentive, accompanying benefits and the value of equity-based compensation.

The Company CEO determines the personal qualitative targets for each of the members of Group Management, the Chairperson of the Board determines the targets for the CEO, and the Compensation Committee approves the prescribed objectives. In the opinion of the Board of Directors of the Group, the compensation paid to senior officers is fair and reasonable compared to companies similar in size and complexity in Israel and taking into account the parameters described above. Further information on the compensation of senior managers can be found in the notes to the Periodic Report pursuant to Regulation 21.

Risk Management

Risk management in all areas of the Group's activity is addressed in a number of different frameworks, including the Internal Auditor, the Finance Committee and the Group's Risk Management Manager. The Internal Auditor performs risk surveys of the Group's activities from time to time. Additionally, committees are in place in all relevant business units, which analyze and assess the risks and propose appropriate cautionary measures. These issues are handled by the managements of the business units. In 2009 the Company began to define the Group's ERM policy and to map the major risks in the Group, a process which continued in 2010. The Group's Risk Management Manager is leading this process. In the course of 2010 the Company discussed the findings and built a work plan for 2011. The committees of the Board of Directors receive regular reports relating to their areas of responsibility for the purpose of ongoing supervision and assessment of issues relating to risk management.

CORPORATE RESPONSIBILITY, COMMUNITY ACTIVITY AND DONATIONS

In 2010 the Group's activities in the area of corporate responsibility focused on three major levels:

A. Continued development of the infrastructure for methodical and professional management of the subject of corporate responsibility in the Group.

B. Implementation of corporate responsibility in Strauss – activities vis-à-vis the Group's various stakeholder groups.

C. Social-environmental reporting.

A. Infrastructural activity

1. Continued assimilation of the Ethics Program and Code of Ethics

In 2010 refresher training for employees and the integration of the ethics issue in the regular everyday business routine and in various mechanisms in place in the Group, such as induction and orientation days for new employees and managers, continued. The Group is also continuing to deepen the professional tools provided to the Group CSR and Ethics Trustees, who are in place in all units in the Company and are responsible for the actual implementation of the Ethics Program. The Code of Ethics serves as a public statement that Strauss Group is involved, caring and moral, and attentive to the changing social, environmental and ethical needs and attitudes of all stakeholders of the Group, and is willing to undertake limitations and rules of conduct in order to comply with moral criteria that are above those required by law.

2. Compliance and enforcement

In 2010 the Group continued to apply a compliance and enforcement program covering the following areas: ethics, prevention of sexual harassment, the work environment and employees' rights, quality of the environment, safety and hygiene in the workplace, information security and anti-trust. The program requires half-yearly reporting by all managers of the Group's plants and sites to the Group Internal Enforcement Supervisor. The goal of the program is to ensure compliance with the provisions of the law and Company procedure in these areas.

B. Implementation of corporate responsibility in the Group – activities vis-à-vis the Group's stakeholders

1. Corporate responsibility in the supply chain – activities in the framework of the Common Code for the Coffee Community (4C)

The Group is committed to inspecting its suppliers' social-environmental performance in the various stages of its value chain and to influencing this performance as much as possible. Accordingly, as a manufacturer and marketer of coffee products, Strauss has joined the global effort for "Fair Trade Coffee", expressed in the improvement of commercial and employment conditions among coffee producers throughout the world. In 2010 the Company also increased its purchases from this organization in line with the objective for coming years to increase purchases from the organization by 50% each year.

2. Environmental quality

In 2010 Strauss persevered in assimilating its environmental 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. For more information on the subject of environmental quality, see section 25 in the Description of the Company's Business.

3. Workplace safety

The Strauss Group has made it its goal to improve safety performance and address issues relating to health and safety in the workplace, with a trend of continuing improvement in all aspects relating to the reduction of work accidents and injuries, raising employee awareness of health and safety procedures and their implementation, drawing conclusions and continuously learning for the purpose of improvement.

4. Promotion of good nutrition and a healthy lifestyle

The Group acts continuously to expand the variety of products and activities that support a healthy lifestyle. As part of its commitment to improve consumers' quality of life and based on its perceived responsibility, Strauss acts to provide a response to consumer needs by using the healthiest and best quality alternatives as product ingredients in line with its worldview, which places the consumer at center stage and aspires to provide product alternatives that enable consumers to choose to maintain a healthier lifestyle. Strauss has invested in the development of unique tools and methodologies that will help the Group to develop products that are aligned with the policy of improving the consumer's health and wellness.

5. Social involvement and investment in the community

As part of the Company's commitment to contribute its share to improving the quality of life in the communities in which it operates and to retain the trust of their members, Strauss Group has a long tradition of active community involvement by Company employees, in Israel and worldwide. Strauss espouses its social responsibility and moral obligation to act for the development of the communities in which it works and to create the infrastructure for a healthier, better society. Strauss develops significant, long-term social initiatives and collaborations and includes as many employees as possible in voluntary activities.

Strauss Group has defined its social focus and has chosen the subject of diversity and inclusion as the flagship of its social investment policy, which will also be expressed as the guiding principle in the award of financial and product donations, as well as in the volunteer activities sponsored by the Group.

Diversity and inclusion are part of the Group's responsibility as a factor of influence on society and the community. Our diversity and inclusion policy is presently expressed in the creation of equal opportunities for all sectors and populations, and as such the Group aspires to focus its assistance on diverse organizations, nonprofit groups and projects that are active in the advancement of these subjects. It is our desire to help different groups and communities experiencing cultural, educational, social and other obstacles and to assist in lowering these barriers.

Additionally, as a food company, Strauss donates products on a regular basis throughout the year to two large food charities in Israel that provide food to dozens of nonprofit organizations and to the needy throughout the country.

In 2010 Strauss invested NIS 10.5 million globally through community investment, donations in cash and in kind, and through volunteer hours, of this NIS 3.5 million was given as financial support, NIS 5.5 million was donated in the form of food products (at cost price to the Group), NIS 1 million was spent on community activities and NIS 0.5 million was donated in the form of employees' volunteer hours.

C. Social-environmental reporting

In June 2010 the Group published its third Corporate Responsibility Report, which encompasses 98% of its activity and includes detailed information on the Group's social-environmental and corporate governance activities. Strauss attributes great importance to the measurement, reporting and control of its performance in these areas.

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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 person in the organization responsible for the internal auditor
The Chairman of the Board of Directors

The work plan
The internal audit's yearly and multi-year (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 Headquarters and subsidiaries operating in Israel and abroad. In 2010 the internal audit performed a number of risk surveys in Strauss Group (in Israel and abroad). Additionally, in 2010 the Strauss Group executed a risk mapping process for the purpose of building an ERM plan. The internal audit plans are based on these risk surveys in order to build a risk-based plan.

The internal audit in Strauss Group acts on a regular basis to revise the yearly and multi-year 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 regular and dynamic basis, the structural changes in the Strauss Group and to monitor the level of control and risk in the various units under audit, and in this manner, to examine, on a regular basis, the alignment of the internal audit's work plan with the Group's needs.

Considerations in determining the subjects in the audit plan:
- The results of risk surveys performed in the Strauss Group;
- 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 Securities Law and the Regulations enacted thereunder;
- 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 multi-year and yearly work plans are prepared by the Auditor and forwarded to the CEO, and are also submitted for approval by the Audit Committee. After receiving the recommendations of the Audit Committee, the work plan is submitted to the Board of Directors of the Company for approval.

Audits abroad or audits of held companies
The audit plan encompasses the corporations that constitute material holdings of the Company.

Scope of engagement
Following is an itemization of the hours spent on the internal audit of the Group:
- In the Company itself and in held corporations in Israel – 4,317
- In held corporations abroad – 3,251

Total: 7,568 (compared to 7,143 hours in 2009)

Performing the audit
The internal audit work is performed according to the accepted professional standards in Israel for internal audits, and professional guidelines and briefings that were approved and published by the Israeli Institute of Internal Auditors. According to these guidelines, the Auditor performs quality control in order to review the audit work processes applied by the auditors in the Internal Audit unit, and also executes a quality assurance plan by the Internal Audit unit.

In the Board of Directors' view, based on the Auditor's report, the internal audit work has been performed in accordance with accepted professional standards for internal audits.

Access to information
The internal auditor has free, continuous and direct access to the information systems of the Company, including financial and other data, in Israel and abroad. The internal auditing work of the overseas business units is performed by the Auditor and his team of employees abroad.

Auditor's report
The Auditor's reports are submitted in writing on a regular basis throughout the year. In 2010 twenty-nine reports were submitted. The reports are submitted to the Chairman 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 Headquarters, and to the units being audited.

In 2010 eleven 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 Chairman of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, and with senior Group Management.

The Board's evaluation of the Internal Auditor's activity
In the opinion of the Board of Directors, the scope of the internal auditing work, its continuous performance and the Auditor's work plan are satisfactory in the circumstances and sufficient in order to accomplish the internal auditing goals in the Group. The Audit Committee, in conjunction with Group Management and the Auditor, examines the proper scope of the Group’s internal audit on an annual basis.

Compensation
The total financial compensation paid for the work of the Auditor and his staff is based on an agreed tariff per work hour. In 2010 the Auditor was paid an amount of 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 the Board of Directors, the directors Dr. Michael Angel, Prof. Dafna Schwartz, Dalia Lev, Akiva Moses, Prof. Arieh Ovadia, Ronit Haimowitz and Meir Shani possess the required skills.

In the Company's opinion, a minimum of three directors with the necessary skills are required.

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 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, four independent directors (two of whom are outside directors) serve on the Board of Directors of the Company and form over one-third of the members of the Board. For more information on the directors, see the notes to the chapter "Additional Information on the Company".

MASTER CONTROL OF THE PROCESS OF PREPARING AND APPROVING THE FINANCIAL STATEMENTS

The Company organ responsible for master control is the Balance Sheet Committee (reviewing the Financial Statements) established by the Board of Directors of the Company and has five members. The members of the Balance Sheet Committee are Prof. Dafna Schwartz (Chairperson), Dalia Lev, CPA, Dr. Arieh Ovadia, Meir Shani and Dr. Michael Angel. All possess accounting and financial skills. With respect to the particulars of the directors serving in office on the date of the Report, see Regulation 26 in the chapter "Additional Information on the Company".

The Board of Directors and its Balance Sheet Committee have a series of control processes in place for the Financial Statements before they are approved. These controls include, among others:

- In the months of February and March 2011, during the preparation of the Financial Statements, discussions were held with respect to the Financial Statements for the Year 2010.

- On February 21, 2010 the Balance Sheet Committee discussed the following matters: (a) the estimates and evaluations made in connection with the Financial Statements; (b) the internal controls relating to financial reporting; (c) the completeness and propriety of the disclosure in the Financial Statements; (d) the accounting policy adopted and accounting treatment applied in the Company's material affairs; (e) valuations, including their underlying assumptions and estimates, which support data in the Financial Statements; (f) a review of transactions and engagements with interested parties in 2010; (g) the Group's tax status for the year 2010. At this meeting, a discussion was also held on the effectiveness of internal control over financial reporting and disclosure in the Company. These discussions were attended by the members of the Balance Sheet and Finance Committee (Prof. Dafna Schwartz (Chairperson), Dalia Lev, CPA, Meir Shani and Ofra Strauss and Ronit Haimowitz), the Group CEO, the Group VP Finance, the Group Controller, representatives of the Company's Accounting Department, the Internal Auditor of the Company and the Company Auditor[2].

- On March 13, 2011 the Balance Sheet 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 regarding the 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 2010. The meeting was attended by all members of the Balance Sheet Committee, the Group VP Finance, the Group Controller and representatives of the Company Auditor and the Internal Auditor.

- At the Board meeting on March 15, 2011 the Board discussed the Balance Sheet Committee's recommendation to approve the Financial Statements of the Company as at December 31, 2010. In the opinion of the Board of Directors, the Committee's recommendations were forwarded to the members of the Board a reasonable time before the abovementioned meeting. All members of the Board were present at the meeting, as well as the Company CEO, the VP Finance, the Company Controller and the Company Auditor.

- The VP Finance and the Group Controller hold meetings from time to time with the Chairperson of the Balance Sheet Committee on matters relating to financial and accounting issues that are relevant to the Company. Before the Financial Statements were approved several such meetings were held to discuss material issues that arose during the preparation of the Financial Statements for 2010.

- The Company Auditor also holds conversations with the Balance Sheet and Finance Committees on subjects that arose during the audit of the Financial Statements. Before the Financial Statements were approved a conversation was held between the Company Auditor and the Balance Sheet and Finance Committees to discuss material issues that arose during the process of auditing the Financial Statements for 2010.

- Before the Financial Statements are approved the draft Financial Statements (and the Periodic Report in its entirety) are forwarded to the Committee members for their inspection seven business days prior to the approval. The recommendations of the committee are forwarded to the Board two business days prior to the approval.

- The Financial Statements are presented for discussion by the Board's Balance Sheet and Finance Committees. In this discussion the VP Finance presents an extensive review of business activities and the Company's business results for the reported period. The VP Finance also reviews the critical estimates applied and material issues that arose in the process of preparing the Financial Statements. The Company Auditor is also present at this meeting, as well as the Internal Auditor. The Financial Statements are presented for further discussion and approval by the Board of Directors.

Negligible Transactions

After the date of the Statement of Financial Condition the Board of Directors of the Company prescribed guidelines and rules for the classification of a transaction between the Company or a consolidated company or a proportionately consolidated company and an interested party in the Company as a negligible transaction, as set forth in Regulation 41(A)(6)(a) of the Securities Regulations (Preparation of Annual Financial Statements) – 2010. For further information, see Regulation 22 in the chapter "Additional Information on the Company".

REGULATIONS WITH RESPECT TO FINANCIAL REPORTING BY THE CORPORATION

Critical Accounting Estimates

For information on critical accounting policy and Management considerations, see Note 4 to the Financial Statements.

Auditors' Fees

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

		For the year ended December 31, 2010					
		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 held companies (1)	KPMG (Tel Aviv)	2,666	10,609	297	1,014	2,962	11,623
Strauss Health, Strauss Fresh Foods and related companies (2)	KPMG (Haifa)	832	3,393	75	287	907	3,680
Max Brenner NY	Arik Eshel, CPA & Assoc., pc	156	751	-	-	156	751
SE USA Inc.	Arik Eshel, CPA & Assoc., pc	106	537	-	-	106	537
Sabra Dipping Company LLC (50%)	KPMG & JH Cohn	358	700	-	-	358	700
Strauss Romania SRL	KPMG Romania	347	1,551	-	-	347	1,551
Strauss Adriatic Group Cluster	KPMG Bosnia, Albania, Serbia	336	1,144	-	-	336	1,144
Strauss Ukraine LLC	KPMG Ukraine	198	873	-	-	198	873
Strauss Café Poland Sp.z.o.o	KPMG Poland	263	920	-	-	263	920
Santa Clara Industria e Comercio Ltda (50%)	KPMG Brazil	429	1,626	-	-	429	1,626
Strauss Coffee BV	Mazars & KPMG & Delloitte	1,723	6,853	2,383	3,616	4,106	10,469
Strauss Commodities AG	KPMG Switzerland	238	282	69	-	307	282
Strauss Russia LLC	KPMG Russia	892	1,539	-	-	892	1,539

Company	Auditor	For the year ended December 31, 2009					
		Audit services, audit-related services and tax services		Other services		Total	
		NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and held companies (1)	KPMG (Tel Aviv)	1,914	7,511	274	1,537	2,188	9,048
Strauss Health, Strauss Fresh Foods and related companies (2)	KPMG (Haifa)	845	3,619	54	228	899	3,847
Max Brenner NY	Arik Eshel, CPA & Assoc., pc	87	420	64	400	151	820
SE USA Inc.	Arik Eshel, CPA & Assoc., pc	76	570	-	-	76	570
Sabra Dipping Company LLC (50%)	KPMG & JH Cohn	467	1,540	-	-	467	1,540
Strauss Romania SRL	KPMG Romania	454	984	-	-	454	984
Strauss Adriatic Group (formerly Doncafe International Doo)	KPMG Bosnia KPMG Doo	201	830	-	-	201	830
Strauss Ukraine LLC	KPMG Ukraine	125	757	-	-	125	757
Strauss Café Poland Sp.z.o.o	KPMG Poland	252	960	-	-	252	960
Santa Clara Industria e Comercio Ltda (50%)	KPMG Brazil	428	1,578	-	-	428	1,578
Strauss Coffee BV	Mazars & KPMG	2,343	7,080	1,401	1,381	3,744	8,461
Strauss Commodities AG	KPMG Switzerland	242	274	-	-	242	274
Strauss Russia LLC	KPMG Russia	585	1,103	-	-	585	1,103

* The figures referring to proportionately consolidated companies are presented according to the Group's share of those companies.

(1) The Company receives auditing services together with other held companies, the main ones being Yad Mordechai Strauss Apiary Ltd., Strauss Frito-Lay Ltd., Chocolate Bar Ltd., Strauss Water Israel Ltd.

(2) Includes the Health & Wellness Group, including Yotvata Dairies.

The mechanism for determining the Company Auditors' 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, discussions, etc.) are determined according to the number of hours invested. In 2010 the Company received other services from its Auditors, which consisted mainly of due diligence procedures and inspections incidental to the shelf prospectus published by the Company in February 2011.

The mechanism for determining the Company Auditors' fees was approved by Company Management. In regard to the held companies, the mechanism for determining the Auditors' fees was approved by the local managements of these companies.

EVENTS DURING THE REPORTED PERIOD

1. Accounting changes

For information on the first-time implementation of accounting standards, see Note 3.23 to the Financial Statements; for information on new standards and interpretations not yet adopted, see Note 3.24 to the Financial Statements as at December 31, 2010.

2. Grant of options to senior executives

For information on the grant of options to senior officers and senior executives in the Group pursuant to the approval of the Board of Directors, see Note 25.3 to the Financial Statements as at December 31, 2010.

3. Option plan

For information on a change in the option plan for senior employees, approved by the Board of Directors of the Company on April 25, 2010, see Note 25.4 to the Financial Statements as at December 31, 2010.

4. Payment of a dividend

For information on the distribution of a dividend declared on January 19, 2010 and paid on February 17, 2010, see Note 28.3 to the Financial Statements as at December 31, 2010.

5. Real estate transaction

- For information on the Company's engagement on March 1, 2010 with the Israel Land Administration in an agreement for the leasing of a real estate property, see Note 14.7 to the Financial Statements as at December 31, 2010.
- For information on the engagement of the subsidiary Strauss Health Ltd. (80%), during the reported period, in three transactions for the sale of real estate, including the sale of land rights to a controlling shareholder of the Company, see Note 16.5 to the Financial Statements as at December 31, 2010.

6. Shelf-stocking

For information on changes in the Company's shelf-stocking system, see Note 35 to the Financial Statements as at December 31, 2010.

7. Acquisition of companies and establishment of activity

For information on the acquisition of companies and establishment of activity, see Notes 6.5, 6.6 and 6.7 to the Financial Statements as at December 31, 2010.

8. Legal proceedings

For information on legal proceedings in the reported period, see Note 26.1 to the Financial Statements as at December 31, 2010.

9. Transactions with controlling shareholders

For information on a transaction with controlling shareholders, see section 5 above.

10. Affirmation of the rating of debentures

For information on the affirmation of the rating of Debentures Series A, B and C in circulation by Midroog Ltd. and Maalot the Israel Securities Rating Co. Ltd., see section 23 in the chapter "Revision of the Description of the Company's Business" as at December 31, 2010.

11. Acquisition of a business in the USA

For information on the acquisition of a refrigerated spreads and dips business by Sabra, 50% held indirectly by the Company; see Note 6.5 to the Financial Statements as at December 31, 2010.

12. Acquisition of a business in Russia

For information on the acquisition of the Le Café brand and 51% of the shares of the Le Café group, see Note 6.7 to the Financial Statements as at December 31, 2010.

13. The Coffee Operation

For information on the amendment of the investment agreement with TPG and the amendment of the shareholders' agreement in the joint venture in Brazil, see Note 26.4 to the Financial Statements as at December 31, 2010.

14. Strauss Water

For information on a joint venture with the Haier Group in China, see Note 6.6 to the Financial Statements as at December 31, 2010.

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 Financial Statements as at December 31, 2010.

SELF-ACQUISITION

For information on treasury shares and the resolution of October 2002 regarding a framework for the acquisition of Company shares by the Company, see Note 28.2 to the Financial Statements as at December 31, 2010. For information on the approval of the Board of Directors regarding a framework for the acquisition of Debentures (Series B) by the Company and/or a subsidiary, see Note 20.5 to the Financial Statements as at December 31, 2010.

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DEDICATED DISCLOSURE TO DEBENTURE HOLDERS

The following table presents information on debentures issued by the Company:

	Series A	Series B	Series C
Date issued	March 17, 2005	February 25, 2007	May 7, 2009
Listed for trading	March 17, 2005	May 21, 2007	May 10, 2009
Type of interest	Fixed	Fixed	Varying
Yearly interest rate	0.7%	4.1% (until the listing for trading, the interest rate was 4.7%)	The interest rate borne by "Government Bonds 817" plus an interval of 0.7%*
Par value on issue date	NIS 500 million	NIS 770 million	NIS 500 million
Nominal par value as at December 31, 2010	NIS 83 million	NIS 744 million	NIS 500 million
Index-linked par value as at December 31, 2010	NIS 98 million	NIS 849 million	
Book value of Debentures as at December 31, 2010	NIS 95 million	NIS 845 million	NIS 497 million
Book value of interest payable as at December 31, 2010	-	NIS 15 million	NIS 1 million
Market value as at December 31, 2010	NIS 98 million	NIS 951 million	NIS 504 million
Linkage conditions	Principal and interest are linked to the Consumer Price Index in respect of January 2005	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	6 equal yearly payments on December 31 of each year from 2006 to 2011	5 equal yearly payments on February 1 of each of the years from 2014 to 2018	3 equal yearly payments on June 1 of each of the years from 2011 to 2013
Interest payment dates	Yearly interest on December 31 from 2005 to 2011	Half-yearly interest on February 1 and August 1, from 2007 to 2018	Quarterly interest on June 1, September 1, December 1 and March 1, commencing on September 1, 2009
Securities or charges	None	None	None
Name of rating company	Midroog; Maalot	Midroog, Maalot	Midroog, Maalot
Rating at issue date and reporting date**	Aa1; AA+	Aa1; AA+	Aa1; AA+

* For information regarding the annual yield see note 20.4 for the financial statements.

** The existing rating of Debentures Series A and Debentures Series B was maintained also after the issue of the Debentures Series C.

Additional information

Debentures (Series A)

- The Debenture Trustee is the Trust Company of Bank Leumi le-Israel Ltd.
- The Trustee's offices are located at 8 Rothschild Boulevard, Tel Aviv.
- The supervisor on behalf of the Bank Leumi Trust Company is Adv. Idit Toyser (tel. 03-5170777).
- As at the reporting date, the Company is in compliance with the terms and conditions of the trust deed.

<u>Debentures (Series B)</u>

- The Debenture Trustee is Hermetic Trust (1975) Ltd.
- The Trustee's offices are located at 113 Hayarkon Street, Tel Aviv.
- The supervisor on behalf Hermetic Trust (1975) Ltd. is Adv. Dan Avnun / Adv. Merav Ofer-Oren (tel. 03-5274867).
- As at the reporting date, the Company is in compliance with the terms and conditions of the trust deed.

<u>Debentures (Series C)</u>

- The Debenture Trustee is Clal Finance Trusts 2007 Ltd.
- The Trustee's offices are located at 37 Derech Menachem Begin, Tel Aviv.
- The supervisor on behalf of Clal Finance Trusts is Adv. Tsili Naveh (tel. 03-6274848).
- As at the reporting date, the Company is in compliance with the terms and conditions of the trust deed.

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

Ofra Strauss Chairperson of the Board	Gadi Lesin CEO

March 15, 2011

STRAUSS GROUP LTD.
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Convenience translation from Hebrew

Strauss Group Ltd.

Financial Statements as at December 31, 2010

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Auditors' Report to the Shareholders of Strauss-Group Ltd
Regarding the Audit of Internal Control Components over Financial Reporting in accordance with paragraph 9b(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited internal control components over financial reporting of Strauss-Group Ltd and its subsidiaries (hereinafter “the Company”) as of December 31, 2010. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company’s internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company’s internal control components over financial reporting based on our audit.

Internal control components over financial reporting audited by us were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel “Audit of Internal Control Components over Financial Reporting” (hereinafter “Auditing Standard 104”). These components are: (1) Entity level controls, including controls over the preparation and closure of the financial reporting process and information technology general controls; (2) controls over the sales process with an emphasis on the issuance of invoices; (3) controls over the procurement process with an emphasis on payments to suppliers; (4) the inventory process with an emphasis on its measurement and pricing (all these are named together “audited control components”).

We conducted our audit in accordance with Auditing Standard 104. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Our audit also did not refer to mutual effects between audited control components and non-audited control components, therefore our opinion does not take into account these possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as whole and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2010.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company’s consolidated financial statements as of December 31, 2010 and 2009 and the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the three years, the last of which ended December 31, 2010 and our report dated March 15, 2011 expressed an unqualified opinion on those financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 15, 2011

Convenience translation from Hebrew

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, 2010 and 2009 and the consolidated statements of income, consolidated statements of comprehensive income, statements of changes in equity, and consolidated statements of cash flows, for each of the three years, the last of which ended December 31, 2010. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries and companies consolidated by the proportionate consolidation method whose assets constitute 15.3% and 14.8% of the total consolidated assets as at December 31, 2010 and 2009, respectively and whose revenues constitute 2.3%, 2.7% and 6.9% of the total consolidated revenues for the years ended December 31, 2010, 2009 and 2008, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the said reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of the abovementioned other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the company and its subsidiaries as at December 31, 2010 and 2009 and the consolidated results of operations, changes in equity, and the consolidated cash flows for each of the three years, the last of which ended December 31, 2010, in conformity with International Financial Reporting Standards and in accordance with the Securities Regulations (Preparation of Annual Financial Statements) - 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting", the components of the Company's internal control over financial reporting as of December 31, 2010, and our report dated March 15, 2011 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)
March 15, 2011

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Strauss Group Ltd.

Consolidated Statements of Financial Position

	Note	December 31 2010	December 31 2009
		NIS millions	
Current assets			
Cash and cash equivalents	7	729	957
Securities and deposits	8	66	86
Trade receivables	9	1,017	998
Income tax receivables		79	55
Receivables and debit balances	10	226	176
Inventory	11	682	664
Total current assets		2,799	2,936
Investments and non-current assets			
Other investments and long-term debit balances	13	167	158
Assets designated for the payment of employee benefits, net	24	6	7
Fixed assets	14	1,532	*1,381
Intangible assets	15	1,696	**1,619
Deferred expenses		27	*31
Investment property	16	24	*21
Deferred tax assets	37	19	5
Total investments and non-current assets		3,471	3,222
Total assets		6,270	6,158

Ofra Strauss	Gadi Lesin	Shahar Florence
Chairwoman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Date of approval of the financial statements: March 15, 2011

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

Consolidated Statements of Financial Position (cont'd)

	Note	December 31 2010	December 31 2009
		NIS millions	
Current liabilities			
Current maturities of debentures	20	260	94
Short-term credit and current maturities of long term credit and loans	20,21	246	167
Trade payables	17	793	757
Income tax payables		36	50
Other payables and credit balances	18	534	480
Provisions	19	36	36
Total current liabilities		1,905	1,584
Non-current liabilities			
Debenture	20	1,177	1,410
Long-term loans and credit	20,22	268	*79
Long-term payables and credit balances	23	27	38
Employee benefits, net	24	28	32
Deferred tax liabilities	37	143	(**)(*)129
Total non-current liabilities		1,643	1,688
Equity and reserves	28		
Share capital		243	243
Share premium		622	622
Translation reserve		(239)	(71)
Treasury shares		(20)	(20)
Reserve in respect of available for sale financial assets		4	1
Retained earnings		1,231	1,210
Total equity attributable to the Company’s shareholders		1,841	1,985
Non-controlling interests		881	901
Total equity		2,722	2,886
Total liabilities and equity		6,270	6,158

* Retroactive implementation of a new accounting standard, see Note 3.23
** Reclassified, see Note 6.4

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

Consolidated Statements of Income

	Note	For the year ended December 31 2010	2009	2008
		NIS millions		
Sales	31	6,855	6,373	6,246
Cost of sales				
Valuation of balance of commodities hedging transactions as at end of year		(5)	(4)	10
Other costs	32	4,267	4,002	3,959
Total cost of sales		4,262	3,998	3,969
Gross profit		2,593	2,375	2,277
Selling and marketing expenses	33	1,597	1,442	1,424
General and administrative expenses	34	410	374	372
		2,007	1,816	1,796
Operating profit before other income (expenses)		586	559	481
Other income		3	4	294
Other expenses		(48)	(39)	(86)
Other income (expenses), net	35	(45)	(35)	208
Operating profit		541	524	689
Financing income		30	38	75
Financing expenses		(122)	(125)	(147)
Financing expenses, net	36	(92)	(87)	(72)
Income before taxes on income		449	437	617
Taxes on income	37	(147)	(119)	(110)
Income for the year		302	318	507
Attributable to:				
The Company's shareholders		211	233	461
Non-controlling interests		91	85	46
Income for the year		302	318	507
Earnings per share	38			
Basic earnings per share (in NIS)		1.99	2.21	4.38
Diluted earnings per share (in NIS)		1.98	2.20	4.37

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

Consolidated Statements of Comprehensive Income

		For the year ended December 31		
		2010	2009	2008
	Note	NIS millions		
Profit for the year		302	318	507
Other comprehensive income:				
Foreign currency translation differences	28.5	(227)	120	(301)
Foreign currency translation differences recognized in the statement of income	28.5			42
Changes in fair value of available for sale financial assets, net of tax		6	2	(6)
Net change in fair value of available for sale financial assets transferred to the statement of income, net of tax		-	1	4
Other comprehensive income (loss), net of tax		(221)	123	(261)
Comprehensive income for the year		81	441	246
Attributable to:				
The Company's shareholders		46	321	242
Non-controlling interests		35	120	4
Comprehensive income for the year		81	441	246

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders								
	Share capital	**Share premium**	**Translation reserve**	**Treasury shares**	**Reserve in respect of available for sale financial assets**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	NIS millions								
Balance as at January 1, 2010	243	622	(71)	(20)	1	1,210	1,985	901	2,886
Changes in 2010 :									
Total Comprehensive Income for the year									
Income for the year	-	-	-	-	-	211	211	91	302
Components of other comprehensive income:									
Differences related to translation of foreign exchange, net of tax	-	-	(168)	-	-	-	(168)	(59)	(227)
Changes in fair value of available for sale assets, net of tax	-	-	-	-	3	-	3	3	6
Other comprehensive Income for the year, net of tax	-	-	(168)	-	3	-	(165)	(56)	(221)
Total Comprehensive Income for the year	-	-	(168)	-	3	211	46	35	81
Share-based payment	-	-	-	-	-	10	10	-	10
Share-based payment to Non-controlling interests	-	-	-	-	-	-	-	9	9
Dividend paid	-	-	-	-	-	(200)	(200)	-	(200)
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	-	(80)	(80)
Non-controlling interests result from business combination	-	-	-	-	-	-	-	16	16
Balance as at December 31, 2010	243	622	(239)	(20)	4	1,231	1,841	881	2,722

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, 2009	242	622	(158)	(20)	-	1,171	1,857	842	2,699
Changes in 2009:									
Total Comprehensive Income for the year									
Income for the year	-	-	-	-	-	233	233	85	318
Components of other comprehensive income:									
Differences related to translation of foreign exchange, net of tax	-	-	87	-	-	-	87	33	120
Changes in fair value of available for sale assets, net of tax	-	-	-	-	1	-	1	2	3
Other comprehensive Income for the year, net of tax	-	-	87	-	1	-	88	35	123
Total Comprehensive Income for the year	-	-	87	-	1	233	321	120	441
Exercise of options granted to employees	1	-	-	-	-	-	1	-	1
Share-based payment	-	-	-	-	-	6	6	-	6
Benefits of capital note to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	(2)	(2)
Dividend paid	-	-	-	-	-	(200)	(200)	-	(200)
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	-	(63)	(63)
Issuance of interests and investment in subsidiary	-	-	-	-	-	-	-	4	4
Balance as at December 31, 2009	243	622	(71)	(20)	1	1,210	1,985	901	2,886

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, 2008	242	600	60	(20)	1	883	1,766	202	1,968
Changes in 2008:									
Total Comprehensive Income for the year									
Income for the year	-	-	-	-	-	462	462	45	507
Components of other comprehensive income:									
Differences related to translation of foreign exchange, net of tax	-	-	(218)	-	-	-	(218)	(41)	(259)
Changes in fair value of available for sale assets, net of tax	-	-	-	-	(1)	-	(1)	(1)	(2)
Other comprehensive Income for the year, net of tax	-	-	(218)	-	(1)	-	(219)	(42)	(261)
Total Comprehensive Income for the year	-	-	(218)	-	(1)	462	243	3	246
Exercise of options (series A)	-	22	-	-	-	-	22	-	22
Share-based payment	-	-	-	-	-	26	26	-	26
Dividend paid	-	-	-	-	-	(200)	(200)	-	(200)
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	-	(32)	(32)
Investment in subsidiary	-	-	-	-	-			6	6
Issuance of options to non-controlling interests	-	-	-	-	-	-	-	37	37
Issuance of shares to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	626	626
Balance as at December 31, 2008	242	622	(158)	(20)	-	1,171	1,857	842	2,699

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

Consolidated Statements of Cash Flows

	Note	2010	2009	2008
		For the year ended December 31		
		NIS millions		
Cash flows from operating activities				
Income for the year		**302**	**318**	**507**
Adjustments:				
Depreciation		164	158	160
Amortization of intangible assets and deferred expenses		52	39	36
Impairment loss of fixed assets, intangible assets and investment property	14.1	10	23	57
Other expenses, net		5	4	6
Expenses in respect of share-based payment	25.8	20	8	26
Gain from disposal and partial disposal of subsidiaries		-	-	(277)
Financing expenses, net		92	87	72
Income tax expense		147	119	110
Change in inventory		(57)	197	(252)
Change in trade and other receivables		(95)	48	(169)
Change in long-term receivables		17	2	4
Change in trade and other payables		83	(90)	157
Change in employee benefits		(1)	9	-
Interest paid		(70)	(62)	(74)
Interest received		19	18	20
Income tax paid, net		(187)	(85)	(155)
Net cash flows from operating activities		**501**	**793**	**228**
Cash flows from investing activities				
Sale (purchase) of marketable securities, net		19	(47)	23
Proceeds from sale of fixed and intangible assets and investment property		14	18	13
Sale of subsidiary and transition to jointly controlled Company		-	-	(2)
Disposal of subsidiary		-	-	(2)
Acquisition of subsidiaries and operations, net of cash acquired	6.5,6.7	(215)	(284)	(404)
Acquisition of fixed assets		(310)	(241)	(268)
Investment grants received		2	4	-
Investment in intangible assets and deferred expenses		(37)	(39)	(32)
Repayment of deposits and long-term loans granted		15	20	34
Long-term loans granted		(46)	(47)	(23)
Net cash flows used in investing activities		**(558)**	**(616)**	**(661)**

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

Consolidated Statements of Cash Flows (cont'd)

	Note	2010	2009	2008
		For the year ended December 31		
		NIS millions		
Cash flows from financing activities				
Short-term bank credit, net		48	(79)	27
Receipt of long-term loans		269	63	47
Repayment of long-term loans and debentures		(129)	(140)	(137)
Early repayment of debentures		-	-	(28)
Issuance of shares in subsidiary		-	-	966
Issuance of redeemable preferred shares to non-controlling interests in subsidiary		-	13	-
Issuance of debentures, net		-	494	-
Proceeds from exercise of share options		-	-	22
Acquisition of shares from non-controlling interests in a subsidiary		-	-	*(3)
Repayment of capital note		-	-	(24)
Repayment of liability to purchase non-controlling interests		-	-	(29)
Dividends paid	28.3	(200)	(200)	(200)
Dividend paid to non-controlling interests holders in subsidiary		(80)	(63)	(32)
Net cash flows from (used in) financing activities		**(92)**	**88**	**609**
Net increase (decrease) in cash and cash equivalents		**(149)**	**265**	**176**
Cash and cash equivalents as at January 1		957	680	490
Effect of exchange rate fluctuations on cash balances		(79)	12	14
Cash and cash equivalents as at December 31		**729**	**957**	**680**

For investing and financing activities not involving cash flows see:
- Note 14.5 with respect to purchase of fixed assets on credit
- Note 15.4 with respect to purchase of intangible assets on credit

* Reclassified from investing activity - see Note 3.1.3

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, 2010 comprise the Company, its subsidiaries and jointly controlled companies. The financial statements have been approved by the company's board of directors on March 15, 2011.

Definitions

1.1 The financial statements – The consolidated financial statements for December 31, 2010.

1.2 The Group – The Company and its investee companies.

1.3 Investee companies – Subsidiaries and jointly controlled companies.

1.4 Other companies – Companies that are not investee companies.

1.5 Interested parties – Within their meaning in paragraph (1) of the definition of an “Interested Party” in a corporation in Section 1 of the Securities Law - 1968.

1.6 Related parties – As defined in International Accounting Standard (IAS) No. 24.

1.7 Controlling parties – As defined in International Accounting Standard (IAS) No. 27.

1.8 CPI – The Consumer Price Index as published by the Central Bureau of Statistics of Israel.

1.9 International Financial Reporting Standards (hereinafter – IFRS) – Standards and interpretations that were adopted by the International Accounting Standards Board (IASB and which include international financial reporting standards and international accounting standards (IAS) along with the interpretations to these standards of the International Financial Reporting Interpretations Committee (IFRIC) or interpretations of the Standing Interpretations Committee (SIC), respectively.

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”).
Furthermore, the financial statements have been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements) - 2010.

Note 2 - Basis of Preparation (cont'd)

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

- Derivative financial instruments
- Financial instruments at fair value through profit or loss
- Inventory
- 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.

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 have been rounded to the nearest million.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. The estimates and their relevant assumptions are based on past experience and on other factors management considers reasonable under the circumstances. Actual results may differ from the estimates that were made.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future period affected. The judgments made by management when implementing IFRS and determining the estimates are discussed in Note 4.

2.5 Operating Cycle

The operating cycle of the Group's is one year. As a result, current assets and current liabilities include items the realization of which is intended and anticipated to take place within one year.

2.6 Classification of expenses recognized in the statement of income

The classification of expenses recognized in the statement of income is based on the function of the expense. Additional information regarding the nature of the expense is included 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. For further details see Note 28.6 and 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, and have been applied consistently by all Group companies.

With respect to the initial implementation in the current period of accounting standards or their amendments, see Note 3.23.

3.1 Basis of consolidation

As a result of the initial implementation of IFRS 3 (2008) and IAS 27 (2008) the Group has changed its accounting policy with respect to accounting for business combinations and transactions with non-controlling interests, as detailed below.

3.1.1 Business Combination

The Group implements the acquisition method to all business combinations.
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 Company exercises discretion in determining the acquisition date and whether control has been obtained.

Accounting treatment of business combinations after January 1, 2010

For acquisitions on or after January 1, 2010, the Group recognizes goodwill at 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 acquiree, less the net amount of the identifiable assets acquired and the liabilities assumed.

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.

Furthermore, as from January 1, 2010 goodwill is not adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination, also with respect to previous business combinations from before that date.

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 a step acquisition, the difference between the acquisition date fair value of the Group's pre-existing equity rights in the acquiree and the 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. Changes in liabilities for contingent consideration in business combinations that occurred before January 1, 2010 will continue to be recognized in goodwill and will not be recognized in profit or loss.

If a business combination settles a pre-existing relationship between the acquirer and the acquiree, the Group deducts/adds to the consideration transferred in the business combination the lower of any stated settlement provisions in the contract and the amount by which the contract is favorable or unfavorable for the acquirer, as compared to the terms of current market transactions in identical or similar items, and it recognizes this amount in profit or loss under other income or expenses.

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 Company recognizes costs related to business combinations to other income or expenses.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.1 **Business Combination (cont'd)**

Business combinations between January 1, 2003 and January 1, 2010

For acquisitions between January 1, 2003 (the date of transition to IFRSs) and January 1, 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Transaction costs, other than those associated with an issue of debt or equity instruments, that the Group incurred in connection with the business combination were capitalized as part of the cost of the acquisition.

Business combinations prior to January 1, 2003 (the date of transition to IFRSs)

On the date of transition to IFRSs, the Group adopted the relief provided in IFRS 1 and elected not to retrospectively implement the provisions of IFRS 3 (2004) with respect to business combinations, acquisitions of affiliates, acquisitions of jointly controlled entities and acquisition of non-controlling interests prior to the date of transition. Therefore, in respect of acquisitions prior to January 1, 2003 the goodwill recognized and the excess cost created represent the amounts recognized by the Group under Israeli GAAP.

3.1.2 **Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3.1.3 **Non-controlling interests**

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company and they include additional components such as: the equity component of convertible debentures of subsidiaries, share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

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.

For acquisitions between January 1, 2003 and January 1, 2010, non-controlling interests were measured on the date of the business combination at their proportionate interest in the identifiable assets and liabilities of the acquiree.
For acquisitions after the date of transition, the Group adopted the relief provided in IFRS 1 and elected not to retrospectively implement the provisions of IFRS 3 (2004), as described above.

Allocation of comprehensive income to the shareholders

As from January 1, 2010, profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests, even when the result is a negative balance of the non-controlling interests. Until that date, profits or losses and parts of other comprehensive income were not allocated to the non-controlling interests if the result was a negative balance, unless the non-controlling interests holders had a contractual obligation and the ability to make an additional investment in order to cover the losses.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.3 **Non-controlling interests (cont'd)**

Transactions with non-controlling interests while remaining control

Prior to January 1, 2010 purchases of non-controlling interests were recognized as additional goodwill and the results of selling of non-controlling interests were charged to the statement of income. As from January 1, 2010, 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.

The cash flows deriving from transactions with non-controlling interests while retaining control, which were in the past classified in the statement of cash flows under investing activities, are classified under financing activities.

3.1.4 **Business combinations under same control**

The acquisition of rights in entities controlled by the parent company is accounted for as a transaction with the controlling shareholder. Accordingly, the assets and liabilities acquired are recognized at the carrying amounts recognized previously in the parent company’s consolidated financial statements. The difference between the amount paid and the assets and liabilities acquired is recorded as a premium.

3.1.5 **Jointly controlled companies**

Jointly controlled companies are entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Jointly controlled companies are accounted for using the proportionate consolidation method. Accordingly, the consolidated financial statements include the proportionate part of the asset, liability, income and expenses items of jointly controlled companies according to the rates of holding therein. The accounting policies of jointly controlled entities have been changed when necessary to align them with the policies adopted by the Group.

3.1.6 **Transactions eliminated on consolidation**

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in the framework of preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Note 3 - Significant Accounting Policies (cont'd)

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.).

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. For this purpose, assets and liabilities of foreign operations include loans between the Group companies the settlement of which is neither planned nor likely in the foreseeable future.

Exchange rate differences in respect of the translation that were created as from January 1, 2003 (the transition date) were recognized directly in other comprehensive income as a separate item of equity. Assets and liabilities of foreign operations include inter-company loans, which their settlements is not planned and it is unlikely that they will be settled in the foreseeable future.

When a foreign operation is disposed of such that control, significant influence 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.

As of January 1, 2010, 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.

When the Group disposes of only part of its investment in a jointly controlled entity that includes a foreign operation, while retaining joint control, the proportionate part of the cumulative amount of the translation difference is reclassified to the statement of income.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and are presented within equity in the translation reserve.

3.3 Financial instruments

3.3.1 **Non-derivative financial instruments**

Non-derivative financial instruments include investments in shares and debentures, deposits, 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. The transaction costs of instruments measured at fair value through profit or loss are recognized as income or expense as described below. 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 assumes upon itself the contractual conditions of the instrument. Financial instruments are derecognized when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers to others the financial assets without retaining control over the asset or actually transfers all the risks and rewards deriving from the asset. Regular way purchase or sale of financial assets are recognized on the trade date, meaning on the date the Group undertook to purchase or sell the asset. Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is settled or cancelled.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and deposits that can be withdrawn immediately. Furthermore, cash equivalents comprise short-term highly liquid investments having an original maturity of up to three months.

Available-for-sale financial assets
The Group's investments in certain shares are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized directly in other comprehensive income and presented in equity. When an investment is sold, the cumulative gain or loss in equity is recognized in the statement of income.

Amounts recognized in the statement of income in respect of available-for-sale securities (including an impairment losses and income from dividends) are recognized as other income or expenses since the Company's investments in these securities are strategic investments.

Investments at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments 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 instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in the statement of income. Financial assets at fair value through profit or loss include capital investments, which otherwise would have been classified as available for sale.

Loans and receivables
Loans and receivables are non-derivative financial assets, including trade and other receivables, with fixed or determinable payments, and non-traded in active market. The loans and receivables are measured at amortized cost using the effective interest method less any impairment losses (see Note 3.10.2).

Non-current receivables are 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 debt, plus the specific risk component of each customer. Income in respect of interest is recorded over the period of the debt as financing income.

Non-derivative financial liabilities
Non-derivative financial liabilities include trade and other payables, debentures and loans received, with fixed or determinable payments. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

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 accounted for as financial assets and are presented at fair value through profit or loss as follows:

Derivatives are recognized initially at fair value. Attributable transaction costs are recognized in the statement of income when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in the statement of income (gains and losses on commodity forward transactions are presented under cost of sales whereas other gains and losses are presented under financing costs).

Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not closely related, (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (c) the combined instrument is not measured at fair value through profit or loss.

Embedded derivatives that can be separated are recognized initially at fair value. Changes in the fair value of these derivatives are immediately recognized in the statement of income.

3.3.3 **CPI-linked assets and liabilities that are not measured at fair value**

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase or decrease in the CPI.

3.3.4 **Share capital**

Ordinary shares
Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity.

Treasury shares
When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

3.3.5 **Issuance of parcel of securities**

(1) The consideration received from the issuance of the parcel was attributed to the various components of the parcel as described in Note 20.2.

(2) Issuance costs of a parcel of securities are attributed to each of the issued securities according to the proportion of the issuance proceeds, other than identified expenses that are specifically attributed.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.6 **Put options granted to non-controlling interests shareholders**

The Group granted to the non-controlling interests holders put options, which enable them to sell their investments in the Group. The liability to purchase the non-controlling interests is presented in the consolidated statement of financial position as a financial liability. This financial liability is measured according to the present value of the option's exercise price except when the option can be exercised immediately. The difference between the financial liability and the carrying amount of the non-controlling interests which was purchased before January 1, 2010 is presented as additional goodwill.

Adjustment of the financial liability in respect of the time value is included in financing expenses, whereas adjustment of the financial liability in respect of changes in forecasts regarding the exercise price of the option are included in goodwill, similar to the method of accounting for a contingent consideration.

Dividends distributed to the non-controlling interests holders are included as a financing expense in this case.

Mutual options at similar terms – a put option to the non-controlling interests and a call option to the Group – that are not settled by equity instruments are accounted for in the same manner as a Forward contract for the purchase of additional investments in the group.

3.3.7 **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

Recognition and measurement
Fixed asset items are measured at cost less investment grants, accumulated depreciation (see below) and impairment losses (see Note 3.10.1). The cost of self-constructed assets includes the costs of materials and direct labor. The Group capitalizes borrowing costs to fixed assets that require a considerable period of time to prepare for their intended use.

The cost of fixed assets includes advance payments and assets under construction.

Government grants
Government grants related to fixed asset items are presented as a deduction from such items.

Spare parts and tools
Spare parts and tools are presented as fixed assets as they are mostly not intended for current consumption during the forthcoming year. The cost of spare parts and tools is determined according to the moving average method.

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.

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.

Depreciation
Depreciation is recognized as an expense on a straight-line basis over the estimated useful lives of each part of a fixed asset item, other than land that is not depreciated, and other than that specified hereunder.

Note 3 - Significant Accounting Policies (cont'd)

3.4 Fixed assets (cont'd)

The principal depreciation rates for the years 2008-2010 are as follows:

	%	
Buildings	2.5-5	
Machinery, equipment	5-20	(2008: 6.67-10)
Motor vehicles	15-20	
Airplane	10	(Only the body of the airplane. The engine is depreciated according to the actual number of flight hours compared to the expected number of hours)
Furniture and other equipment	6.67-33	
Leasehold improvements	5-20	(Over the shorter of the lease period or the estimated useful life of the asset)

Depreciation methods, useful lives and residual values are reviewed on every reporting date.

3.5 Intangible assets

3.5.1 **Goodwill**

Goodwill arises on the acquisition of subsidiaries and jointly controlled companies, included in intangible assets.
At Subsequent periods, Goodwill is measured at cost less accumulated impairment losses.

3.5.2 **Software for self-use**

The development costs of software for self-use are capitalized only if the development costs can be reliably measured, the product is technically feasible, future economic benefits from the product are probable and the Group intends to and has sufficient resources to complete development and to use the asset.

Capitalized costs include the costs of direct labor and other direct expenses that were accumulated until the date the software is available for use.

3.5.3 **Research and development**

Expenditure on research activities is recognized in the statement of income when incurred. Development expenditure is capitalized only if it is possible to demonstrate the technological feasibility of completing the intangible asset so that it will be available for use or sale; the intention of the Group to complete the intangible asset and to use or sell the asset; the ability to use the intangible asset or sell it; the manner in which the intangible asset will create future economic benefits; the existence of sufficient resources, technical and other, to complete the intangible asset and the ability to reliably measure the expense required for its development.

The asset is tested for impairment once a year during the development period, and also during the period in which the asset is not available for use. Subsequent to initial recognition the asset is measured at cost less accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development has been completed and the asset is available for use.

3.5.4 **Other intangible assets**

Other intangible assets include brands, professional know-how, customer contacts and non-competition agreements that were acquired. See Note 5 regarding measurement of these assets on acquisition.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

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 as an expense on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use. Capitalized development asset is amortized over the period of expected future sales from the asset developed.
The annual rates of amortization for the years 2008-2010 are as follows:

	%	
Brands	10	
Computer software	10-33	(mainly 25)
Other*	10-20	

Goodwill and assets having an indefinite useful life are not amortized. Intangible assets that are not amortized include certain brands and trademarks.

* Customers' relations are amortized using the undiscounted cash flows method.

3.5.7 See Note 3.10.1 hereunder regarding impairment.

3.6 Deferred expenses

This item includes prepaid expenses in respect of long-term leases of land from the Israel Lands Administration. These prepaid expenses are amortized over the lease period (49-98 years) on a straight-line basis. Furthermore, this item includes deferred expenses in respect of installment sales of coffee machines (see Note 3.14.1.4). The amortization rates of deferred expenses are 12%-30%.

3.7 Investment property

Investment property is property (land or building – or part of a building – or both) held (by the Company 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.

The principal depreciation rates are as follows:

	%	
Buildings	2.5	(Most of the buildings included in the investment property assets have been fully depreciated)
Land	-	

3.8 Leased assets

Leases, including land leases from the Israel Lands Administration or other third parties, in which the Group assumed substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset 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.

Note 3 - Significant Accounting Policies (cont'd)

3.8 Leased assets (cont'd)

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.
Prepayments to the Israel Lands Administration in respect of leased lands are presented as deferred expenses (see Note 3.6). For further information regarding retroactive implementation of new accounting standards in respect to reclassification of land and buildings, see Note 3.23.

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, employee benefits assets and deferred tax assets – see accounting policy 3.9 and 3.18) 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 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. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

The goodwill acquired in a 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. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and does not exceed the level of an operating segment.

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.

(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 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, which reflects current market assessments of the time value of money and the risks specific to the asset.

Note 3 - Significant Accounting Policies (cont'd)

3.10 Impairment (cont'd)

3.10.1 **Non-financial assets (cont'd)**

(2) Reversal of impairment
Impairment losses in respect of goodwill in subsidiaries and jointly controlled companies are not reversed. As regards other assets, impairment losses recognized in previous periods are reexamined every reporting period in order to determine whether there are any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only if the asset's carrying amount after the reversal of the impairment loss does not exceed the carrying amount net of depreciation or amortization, that would have been determined if no impairment loss had been recognized. Reversals of impairment losses are included in the statement of income.

3.10.2 **Trade and other receivables**

Trade and other receivables measured at amortized cost are tested for impairment when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The provisions for doubtful debts adequately reflect in the opinion of Management the loss included in those debts the collection of which is doubtful. Management's determination of the adequacy of the provision is based, inter alia, on an evaluation of the risk, by considering the available information on the financial position of the debtors, the volume of their business and an evaluation of the security received from them. Doubtful debts, which according to Company management opinion are unlikely to be collected, are written-off the Company's books.

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.

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.

All impairment losses are 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. For financial assets measured at amortized cost the reversal is recognized in the statement of income.

3.10.3 **Available for sale financial assets**

When testing for impairment available-for-sale financial assets that are equity instruments, the Group also examines the difference between the fair value of the asset and its original cost while taking into consideration the standard deviation of the instrument's price, the length of time the fair value of the asset is lower than its original cost and changes in the technological, economic or legal environment or in the market environment in which the issuer of the instrument operates. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

An impairment loss of available-for-sale financial instruments is recognized as other expense in accordance with the Group's accounting policy (see Note 3.3.1).

Note 3 - Significant Accounting Policies (cont'd)

3.11 Non-current assets held for sale

Non-current assets that are expected to be recovered within one year 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**

The Group's obligations for contributions to defined contribution post retirement plans are recognized as an expense in the statement of income when they are due.

3.12.2 **Defined benefit plans**

The Group's net obligation in respect of defined benefit post retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on Government debentures denominated, that have maturity dates 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.

As at January 1, 2003, the transition date, the Group has recognized all the actuarial gains and losses. Actuarial gains and losses created after January 1, 2003 in amounts exceeding the higher of 10% of the value of the plan's assets and 10% of the defined benefit obligation are included in the statement of income over the average remaining period of employment of the employees. The rest of the actuarial gains and losses are deferred.

When the calculation results in a benefit to the Group, the recognized asset is limited to the net total of any unrecognized actuarial losses and past service costs and the present value of any future economic benefits from the plan or reductions in future contributions to the plan.

The Group offsets an asset relating to one benefit plan from the liability relating to 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.

3.12.3 **Paid vacation and employee vacation allowance**

In accordance with the law in Israel and other countries in which the Company operates, every employee is entitled to a paid vacation and to an employee vacation allowance that are calculated on an annual basis. The eligibility is based on the period of employment.

The Group recognizes the liability and the expense for the payment of vacation and employee vacation 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 and non-recourse loans to purchase its shares, in accordance with the grant date fair value of the options on the basis of the Black & Scholes model.

According to this policy, the benfeit is recognized over the vesting period of the share options based on the Company's estimates regarding the number of options that are expected to vest.

A share-based payment that can be settled in cash at the choice of the holder is initially measured on the grant date and on every reporting date until its settlement, according to the fair value of the benefit, parallel to recording a liability. The fair value of the benefit is calculated according to the Company's forecasts regarding the redemption value of the liability. Changes in this fair value are included in the statement of income.

3.12.5 **Termination benefits**

Termination expenses are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

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.

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. Future operating costs are not included in the provision for restructuring.

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. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

3.14.1.2 Sales on long-term credit are recorded according to the present value of the consideration. Interest income derive from these transactions are recorded as financing income. See Note 3.3.1 with respect to the interest rate used to calculate the present value of loans and receivables.

3.14.1.3 When it is possible to identify the separate components of a transaction such as: the sale of a product and service, the revenue is measured in respect of each separate component.

Note 3 - Significant Accounting Policies (cont'd)

3.14 Revenue

3.14.1 **Products sold**

3.14.1.4 Installment sales of coffee machines

Revenue from installment sales of coffee machines, in which the Company supplies additional goods and services over the period of the contract, is deferred and recognized over the period of the contract, concurrently with recognizing the cost of the machines. Financing income from these transactions is recognized over the period of the contract under financing income.

3.14.2 **Revenue from services**

Revenue from services provided is credited to profit and loss relative to the stage of completion of the transaction as of the date of the report. The estimate of the stage of completion is calculated based on the amount of service already performed. When the outcome of a transaction involving the providing of services can be reliably estimated, and the transaction involves a particular action that is much more significant than any other actions, the revenues due to it will be recognized upon performance of the significant action.

3.14.3 **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.

3.14.4 **Participation in 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

Government grants that compensate the Group for expenses incurred are recognized in the statement of income on a systematic basis in the same periods in which the expenses are recognized. Government grants that received from the government for the purpose of acquisition of assets are presented as a deduction from the relevant assets, as mentioned in Note 3.4 above.

Grants from the Chief Scientist in respect of research and development projects are accounted for as forgivable loans according to IAS 20. Grants received from the Chief Scientist are recognized as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The amount of the liability is reexamined each period, and any changes in the present value of the cash flows discounted at the original interest rate of the grant are recognized in profit or loss. The difference between the amount received and the fair value on the date of receiving the grant is recognized as a deduction of development expenses.

3.16 Lease payments

3.16.1 Operating lease payments

Minimum lease payments made under operating leases are recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense on a straight-line basis, over the term of the lease.

3.16.2 Finance lease payments

Minimum lease payments made under finance leases are apportioned between the financing expense and the reduction of the outstanding liability. The financing expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Note 3 - Significant Accounting Policies (cont'd)

3.17 Financing income and expenses

Financing income comprises interest income on funds invested, dividend income from equity securities measured at fair value through profit or loss, net gains on changes in the fair value of financial assets at fair value through profit or loss, net foreign currency gains, and gains on derivative instruments that are recognized in the statement of income, excluding derivatives for commodities. Interest income is recognized as it accrues, using the effective interest method. Interest income of sales in long term credit, which are measured at present value of the relative consideration, are recorded as financing income.

Dividend income is recognized on the date the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. The net gain from changes in the fair value of financial assets at fair value through profit or loss includes also income from the interest and dividends deriving from such assets.

Financing expenses comprise interest expenses on loans received, changes in the time value of a liability in respect of a put option to non-controlling interests holding, changes in the fair value of contingent consideration, dividends paid to the non-controlling interests holders holding a put option, net losses from changes in the fair value of financial assets at fair value through profit or loss, net foreign currency losses, financing expenses paid under a finance lease and losses on derivative instruments that are recognized in the statement of income. All borrowing costs are recognized in the statement of income using the effective interest method except for borrowing costs that were capitalized to fixed assets (see Notes 3.4).

3.18 Income tax expense

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in the statement of income unless it relates to business combination or items recognized directly in equity or in other comprehensive income, in which case it is recognized in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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 following temporary differences: the initial recognition of goodwill, and differences relating to investments in subsidiaries and jointly controlled companies to the extent that 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.

Foreign currency gains and losses are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.

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)

3.19 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.

Discounts from suppliers that the Group is entitled to receive only after meeting certain targets such as a minimum annual amount of purchases (quantitative or monetary), an increase in the volume of purchases compared to prior periods, etc., are included in the financial statements proportionately on the basis of the volume of the Group's purchases from the suppliers in the reported period that advance the Group towards meeting the targets, but only if it is anticipated that the targets will be obtained and the amounts of the discounts can be reliably estimated. The estimate of compliance with the targets is based, inter alia, on past experience and the Group's relationship with the suppliers and on the anticipated volume of purchases from the suppliers during the rest of the period.

3.20 Advertising expenses

Advertising expenses are expensed as incurred.

3.21 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings is calculated by dividing the earnings or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise option warrants and share options granted to employees.

3.22 Segment reporting

The Company reports operating segments in accordance with IFRS 8, *Operating Segments*. A segment is a component of the Group that meets the following:

(1) It engages in business activity that generates (or may generate) income and expenses,
(2) The operating results of each segment are reviewed regularly by the chief operating decision maker, and
(3) Separate financial information is available in its respect.

3.23 Implementation of new Accounting Standards

3.23.1 Amendment to IAS 17, Leases-

As at January 1, 2010 the Company has implemented the revised IAS 17 with respect to classification of land and building leases.

In accordance with the Amendment, a lease of land does not have to be classified as an operating lease in every case that ownership is not expected to pass to the lessee at the end of the lease period; rather, a land lease is to be examined according to the regular criteria for classifying a lease as a finance lease or as an operating lease.

It was also provided that when a lease includes both a land component and a buildings component, the classification of each component should be based on the criteria of the standard.

The Group examined the classification of land leases on the basis of the information available on the date of the lease agreements.

The Group has capitalized land lease agreements with the Israel Lands Administration and others for a period of 49-98 years. Before adopting the Amendment the Group classified these leases as operating leases. As a result of adopting the Amendment, the Group classified the lands as being leased under a finance lease and presented them under fixed assets or investment property, according to the nature of the asset.

Note 3 - Significant Accounting Policies (cont'd)

3.23 Implementation of new Accounting Standards (cont'd)

3.23.1 Amendment to IAS 17, Leases- (cont'd)

The Amendment was adopted on a retrospective basis, and the following amounts were reclassified as a result:

	December 31, 2009		
	NIS Millions		
	As reported previously	Reclassification	As reported in these financial statements
Fixed assets	1,354	27	1,381
Deferred expenses	59	(28)	31
Investment property	20	1	21
Short-term loans and credit	(167)	*-	(167)
Long-term loans and credit	(78)	(1)	(79)
Deferred tax liabilities	(138)	1	(137)
Net effect on retained earnings		*-	

* Less than NIS 1 million.

The retrospective adoption has not influenced on earnings for the years 2009 and 2008.

3.23.2 Amendment to IAS 1, Presentation of Financial Statements, regarding presentation of statement of changes in equity-

As at January 1, 2010 the Company implements the Amendment to IAS 1, Presentation of Financial Statements, regarding presentation of statement of changes in equity. In accordance with the Amendment, the Company presented reconciliation between the carrying amount at the beginning of the period and the carrying amount at its end for each component of equity in the statement of changes in equity, while separately disclosing changes arising from profit and the components of other comprehensive income.

3.24 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretation are not yet effective for the year ended December 31, 2010, and have therefore not been applied in preparing these consolidated financial statements:

3.24.1 In the framework of Improvements to IFRSs 2010, in May 2010 the IASB published and approved 11 amendments to IFRS and to one interpretation on various accounting issues. Most of the amendments shall apply to periods beginning on or after January 1, 2011 and permit early adoption, subject to the specific conditions of each amendment.

Presented hereunder are the amendments that have not been early adopted and may be relevant to the Group, and which are expected to have an effect on the financial statements:

Note 3 - Significant Accounting Policies (cont'd)

3.24 New standards and interpretations not yet adopted (cont'd)

- Amendment to IAS 34- Interim Financial Reporting – Significant events and transactions – The Amendment expanded the list of events and transactions that require disclosure in interim financial statements, such as the recognition of a loss from the impairment of financial assets and changes in the classification of assets as a result of changes in their purpose or use. In addition, the materiality threshold was removed from the minimum disclosure requirements included in the Standard before its amendment. The Amendment is effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

- Amendment to IFRS 7- Financial Instruments: Disclosures – Clarification of disclosures - The Amendment requires adding an explicit declaration that the interaction between the qualitative and quantitative disclosures enables the users of the financial statements to better assess the company's exposure to risks arising from financial instruments. Furthermore, the clause stating that quantitative disclosures are not required when the risk is immaterial was removed, and certain disclosure requirements regarding credit risk were amended while others were removed. The Amendment is effective for annual periods beginning on or after January 1, 2011. Early implementation is permitted with disclosure.

- IAS 24- Related Party Disclosures - The new standard includes changes in the definition of a related party. The Standard is to be applied retrospectively for annual periods beginning on or after January 1, 2011. The Group is in the process of reassessing its relationships with related parties for the purpose of examining the effects of adopting the Standard on its financial statements.

3.24.2 IFRS 9, Financial Instruments –

The Standard is part of the wider project to replace IAS 39 Financial Instruments: Recognition and Measurement, and replaces IAS 39 with respect to classification and measurement of financial assets.

The standard requires financial assets to be measured at amortized cost or fair value. An investment in a debt investment is measured at amortized cost if the objective of the business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

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

The standard applies to financial liabilities as presented in IAS 39. Nevertheless, unlike IAS 39, the standard 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 standard is effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted, under certain conditions. The standard generally requires retrospective application, except for several exceptions. In particular, if an entity adopts the standard for reporting periods beginning before 1 January 2012 it is not required to restate prior periods. The Company examines the effect of the standard over the financial statements, with no intent for early adoption.

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.

Deferred tax assets

The Company recognizes deferred tax assets and liabilities in respect of difference between the carrying amount of assets and liabilities and their value for tax purposes. The Group regularly examines the ability to recover the deferred tax assets on the basis of past taxable income, anticipated taxable income, anticipated reversal dates of the temporary differences and tax planning. If the Group is unable to create sufficient taxable income in certain tax jurisdictions, or if there is a significant change in the effective tax rate or the expected date of reversal of the temporary difference, the Group may write-off part of the deferred tax assets. Such a write-off will lead to an increase in the effective tax rate and have an adverse effect on operating results.

Employee benefits

The present value of employee post-employment benefits depends on a number of elements that are determined on an actuarial basis while applying various assumptions. The assumptions used in order to determine the net expense (income) in respect of these benefits include the long-term rate of return on the plan assets and the discount rate. Any change in these assumptions affects the carrying amount of the liability for employee benefits.

The Group determines the discount rate at the end of each year. The discount rate is used to discount the future cash flows anticipated in order to settle the liability. When determining the discount rate, the Group takes into account interest rates of debentures of the Government of Israel that bear a fixed rate of interest and have maturity dates similar to the maturity dates of the Group's liability.

Other assumptions made in the calculation of the liability are partly based on present market conditions. Additional information is provided in Note 24.

Asset impairment

In accordance with IAS 36 the Group examines on every reporting date the existence of any events or circumstances that may indicate an impairment in the value of non-financial assets included in its scope. When there are signs indicating impairment in value, the Group examines whether the carrying amount of the asset exceeds its recoverable amount. If necessary, the Company writes down the asset to its recoverable amount and recognizes an impairment loss. The assumptions regarding future cash flows are based on past experience with the specific asset or similar assets, and on the anticipations of the Group regarding the economic conditions that will exist over the remaining useful life of the asset. The Group uses estimates of appraisers when determining the net sale price of assets. With respect to real estate, the estimates take into account the market situation of real estate at a similar location. The competition in the retail market and in the real estate market may have a significant effect on the Group's forecasts regarding future cash flows, the estimated remaining useful life and the sale price of the asset. See also Note 15.3 regarding the assumptions and the risk factors related to goodwill impairment.

Valuation of intangible assets and goodwill

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, trade marks 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)

Share-based payment

The Group has several employee compensation plans that are settled by means of equity instruments or cash. The fair value of share options are based on certain assumptions, including, inter alia, the excepted volatility of the share price. In addition, the Group is required to estimate the number of options that will vest for the purpose of recording expenses in respect of share-based payments. These estimates are related to forecasts regarding sales and earnings per share. Material differences between the anticipated and actual market performance of the share, the exercise behavior of employees, the sales of the Group and the earnings per share may have a material effect on future expenses.

Provision for doubtful debts

The Company applies the guidance provided in IAS 39 when determining whether there has been impairment in the value of the trade payables' balance. This decision requires exercising significant discretion. When exercising this discretion the Group takes into account, inter alia, the aging analysis of the trade payables, the doubtful debts history, debt collection patterns, financial strength and a short-term analysis of the trade payables' business and industry trends.

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 probability of the claim being accepted is not remote. 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.

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 asset or liability.

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.

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.
- Know-how – based on the cost approach method.
- Customer relationships – In accordance with the present value of excess profits (the multi-period excess earning method), which reflects the pre-tax flow expected to be derived from the asset, after deducting from it charges in respect of other assets that contribute to the activity.
- The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

5.4 Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale and a reasonable profit allowance for the selling effort.

5.5 Investments in shares and debentures

The fair value of financial assets measured at fair value through profit or loss and the fair value of financial assets classified as available-for-sale is determined by reference to their quoted market sale price as at the reporting date.

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.

Note 5 - Determination of Fair Value (cont'd)

5.7 Derivatives

The fair value of future contracts on exchange and CPI is based on their quoted market prices. The fair value of commodity forward transactions is the stated market price on the reporting date, which is the present value of the stated price of the forward transaction. In the lack of the quoted price as aforementioned, the fair value of the Futures was estimated on the basis of discounting the difference between the Forward price, as determined in the contract, and the current Forward price for the remaining period of the contract until the redemption, while using the risk free interest (based on the government bonds), whereas for the options, the value was determined according to the Black & Scholes model.
The fair value of the SWAP contracts is based on the banks/brokers quotes. The quotes reasonability is examined by discounting the estimated future cash flows on the basis of the terms and period duration until the redemption of each contract while using the market interest rates of a similar instrument as at the measurement date.
For further information regarding the fair value hierarchy, see note 30 on financial instruments.

5.8 Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is based on quoted market price.

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 2010	December 31 2009	December 31 2008	Country of association
Strauss Group Elite Confectionery Ltd. (1)	-	-	100	Israel
Strauss Health Ltd.	80	80	80	Israel
Strauss Fresh Foods Ltd.	100	100	100	Israel
Strauss Salads Trade Ltd. (2)	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. (3)	100	100	100	Israel
Uri Horazo Yotvata Dairies Ltd. (4)	50	50	50	Israel
Chocolate Bar (M.B.) Herzliya Ltd. (5)	100	100	100	Israel
Strauss Water (formerly H2Q Water Industries Ltd.) (6)	87	87	51	Israel
Strauss Aviv Ltd. (formerly Aviv Netivot Dairies Ltd.) (7)	100	100	100	Israel
SE USA Inc.	100	100	100	USA
Max Brenner Int'l Inc. (9)	100	100	100	USA
Strauss Coffee B.V.	74.9	74.9	74.9	Holland
Strauss Café Poland Sp.z.o.o. (8)	100	100	100	Poland
Strauss Commodities AG (8)	100	100	100	Switzerland
Strauss Romania SRL (8)	100	100	100	Rumania
Strauss Ukraine LLC (8)	100	100	100	Ukrain
Elite CIS B.V. (8)	100	100	100	Holland
Strauss Bulgaria Eood (formerly Elite Bulgaria Eood) (8)	100	100	100	Bulgaria
Strauss Adriatic Group (8)	100	100	100	Serbia
Doncafe International Doo (8)	100	100	100	Bosnia
Strauss LLC (8)	100	100	100	Russia
Doncafe Albania Shpk (8)	100	100	100	Albania
Max Brenner NY, LLC (9)	100	100	100	USA
Max Brenner USA Inc. (5)	100	100	100	USA
Max Brenner Samba Holdings, LLC (10)	90	90	90	USA
Max Brenner Second Avenue, LLC (11)	100	100	100	USA
Max Brenner Union Square, LLC (11)	100	100	100	USA
Max Brenner Walnut, LLC (12)	100	100	-	USA
Max Brenner Boylston, LLC (9)	100	100	100	USA
Max Brenner Las Vegas, LLC (12)	100	100	-	USA
Max Brenner Holding 17, LLC (12)	100	100	-	USA
Elite do Brazil Participacoes Ltda. (13)	-	-	100	Brazil
Le café Soluvel Rus ,LLc (14)	51	-	-	Russia

Note 6- Subsidiaries (cont'd)

6.1 Information on principal subsidiaries:

(1) In 2009, Elite Confectionery was merged into the Company, see Note 37.5.
(2) Held by Strauss Fresh Foods Ltd.
(3) Held by Strauss Salads Trade Ltd.
(4) Held by Strauss Health Ltd. Strauss Health Ltd. has a controlling share.
(5) The company was held by Strauss Group Elite Confectionery Ltd. Due to the merger described in Note 37.5, held directly by the Company.
(6) See Note 37.6 in respect to the approval of the Israeli tax authority of the merger of H2Q and Tana.
(7) Held by Strauss Health Ltd.
(8) Held by Strauss Coffee B.V.
(9) Held by Max Brenner USA, Inc.
(10) Held 90% by Max Brenner NY, LLC and 10% by Samba chocolate LLC.
(11) Held by Max Brenner Samba Holdings, LLC.
(12) Held by Max Brenner NY, LLC.
(13) Was held by Strauss Coffee B.V. , Dissolved on August 2009.
(14) See Note 6.7.

6.2 Information on investment in directly held subsidiaries

Information on the amount of the Company's investment in subsidiaries is provided with respect to directly held companies. The Company's investment is calculated as the share of the Group in the equity of the investee companies base on their consolidated financial statements, with the addition of adjustments for fair value on acquisition (goodwill in particular).

	Investments		Loans		Guarantees	
	2010	2009	2010	2009	2010	2009
	NIS millions					
Strauss Health Ltd.	368	431	-	-	-	-
Strauss Fresh Foods Ltd.	135	125	-	-	-	-
Yad Mordechai – Strauss Apiary Ltd.	14	13	-	-	3	3
Chocolate Bar (M.B.) Herzliya Ltd.	4	4	-	-	-	-
Strauss Water (formerly H2Q Water Industries Ltd.)	22	19	276	276	-	-
SE USA Inc.	100	105	146	134	59	38
Strauss Coffee B.V.	1,791	1,894	-	-	-	-
Max Brenner USA Inc.	(29)	(21)	35	35	26	-

6.3 Dividend distributed by subsidiaries

In 2010 the Company received a dividend in the amount of NIS 244 million distributed by subsidiaries.

Note 6- Subsidiaries (cont'd)

6.4 Completion of Allocation of Cost Excesses Due to Acquisition of a Subsidiary - Tana Industries Co. Ltd.

Over the course of 2010, the process was completed of allocating cost excesses due to the acquisition, to identifiable assets that were acquired, and to identifiable liabilities that were assumed. The impact of the allocation led to the classification in these financial reports for comparative figures relating to December 31, 2009, as follows:

	Tana Industries Ltd		
	Initial Allocation	**Adjustments to PPA**	**Final Allocation**
		NIS millions	
Intangible assets	207	(46)	(1) 161
Goodwill	109	38	147
Deferred tax assets	(37)	8	(29)
		-	

(1) Including mainly 102 million NIS for a brand with an indefinite lifespan, 39 million NIS for private customer relations with a lifespan of approximately 10 years, and 9 million NIS for business client contacts with a lifespan of approximately 8 years.
(2) As mentioned in Note 37.6, Tana Industries was merged with Strauss Water commencing December 31, 2010.

6.5 On September 14, 2010, Sabra Dipping Company (hereinafter – "Sabra"), a company jointly controlled by the Group, signed an agreement for the purchase of the chilled salsa and dips operations of California Creative Foods, including the assets for manufacturing, marketing and selling these dips.

The transaction was closed on October 13, 2010. Sabra paid an amount of $ 33 million for the chilled dips operations. The acquisition was financed by loans from the Company and another shareholder in Sabra.

The following amounts were recognized following the agreement (50%):

	California Creative Foods (CCF)		
	Carrying amount before the acquisition	**Fair value adjustments**	**Carrying amount after the acquisition**
		NIS millions	
Trade and other receivables	3	-	3
Inventory	2	-	2
Fixed assets	11	(1)	10
Intangible assets	-	15	(1)15
Trade and other payables	(3)	-	(3)
Identifiable assets and liabilities, net	13	14	27
Goodwill	-	33	33
Consideration paid in cash			60

(1) Including mainly NIS 11 miliion customer relations with a lifespan of approximately 15 years.

Disclosure was not made for the sum of revenues in the consolidated profit and loss report, and in the joint total profit periodic report, as if the acquisition were already executed on January 1, 2010, since such a disclosure is not reliable.

Note 6- Subsidiaries (cont'd)

6.6 On October 16, 2010 the subsidiary Strauss Water Ltd. (hereinafter - "Strauss Water", formerly H2Q Water Industries Ltd.) signed an agreement with the Haier Group of China through a subsidiary established in Hong Kong, for the establishment of a joint venture in China.

The venture is jointly owned by Strauss Water (50%) and Haier Whole Set Distribution Co. Ltd. (50%). Each of the parties has undertaken to invest the sum of $10 million in the establishment and operation of the joint venture. The venture will purchase the products from Strauss Water and will receive distribution, sale and servicing services from a subsidiary of the Haier Group.

6.7 As part of continuing the strategic expansion into developing markets, in November 2010 the subsidiary Strauss Coffee B.V. (hereinafter – Strauss Coffee) purchased the LeCafe Soluvel Rus brand (hereinafter – LeCafe) that is sold in Russia and in the Commonwealth of Independent States for the price of US$ 37 million.

In addition, Strauss Coffee acquired 51% of the shares of the LeCafe Group for the price of US$ 6 million. LeCafe owns real estate including buildings and warehouses that will be used as a logistics center for the operations of Strauss in Russia, and for the construction of a plant for the manufacture of roasted and ground coffee that will be wholly owned by Strauss Coffee. LeCafe also engages in the sale of unbranded instant coffee in Russia and in the Commonwealth of Independent States.

Strauss Coffee is in the process of allocating the purchase price to the identifiable assets acquired and the identifiable liabilities assumed, as required in IFRS 3 Business Combinations.

Presented hereunder are the amounts that were recognized on the acquisition date before fair value adjustments:

	Carrying amount before fair value adjustments
Fixed assets	38
Deferred tax liabilities	(5)
Identifiable assets and liabilities, net	33
Non-controlling interests	(16)
Goodwill (1)	138
Consideration paid in cash	155

(1) The initial amount that was allocated to goodwill was not amortized

The profit for the period arising from this activity between the acquisition date and December 31, 2010 is immaterial.

Disclosure was not made for the sum of revenues in the consolidated profit and loss report, and in the joint total profit periodic report, as if the acquisition were already executed on January 1, 2010, since such a disclosure is not reliable.

Note 7 - Cash and Cash Equivalents

	December 31	
	2010	2009
	NIS millions	
Cash and balances in banks	175	282
Deposits	554	675
	729	957

Note 8 - Securities and Deposits

	December 31	
	2010	2009
	NIS millions	
Deposits and non-traded securities (1) –		
Corporate debentures	8	10
Deposit in Dollars	17	18
Deposit in NIS (2)	11	10
Deposit in other currency	2	-
	38	38
Marketable securities (3) –		
Government debentures	6	6
Corporate debentures	22	42
	28	48
	66	86

(1) Deposits and non-traded securities (debentures) are classified as loans and receivables, and are measured at amortized cost.

(2) An amount of NIS 10 million bear interest at the prime rate and are deposited with purchasing organizations of Negev farms (2009 - NIS 10 million).

(3) These marketable securities are held for trading and are accounted for as financial assets measured at fair value through profit or loss.

Note 9 - Trade Receivables

9.1 Composition

	December 31	
	2010	2009
	NIS millions	
Open debts	905	893
Checks receivable	136	141
Interested and related parties	6	3
Credit cards companies with respect to trade receivables	25	20
Less provision for doubtful debts	(55)	(59)
	1,017	998

Note 9 - Trade Receivables (cont'd)

9.2 Analysis of customer aging:

	December 31, 2010		December 31, 2009	
	Gross	Provision for doubtful debts	Gross	Provision for doubtful debts
	NIS millions			
Not past due	938	1	834	-
Past due 1-30 days	43	-	109	-
Past due 31-60 days	16	-	31	1
Past due 61-90 days	6	-	9	-
Past due 91-120 days	2	-	20	17
Past due more than 120 days	67	54	54	41
	1,072	55	1,057	59

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

	For the year ended December 31	
	2010	2009
	NIS millions	
Balance as at January 1	59	48
Impairment loss recognized during the period, net	7	30
Business combination	-	1
Doubtful debts that became bad debts	(6)	(20)
Effect of foreign currency changes	(5)	-
Balance as at December 31	55	59

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

	December 31	
	2010	*2009
	NIS millions	
Organized market	441	386
Private market	282	322
Away from home	156	209
Other	138	81
Total	1,017	998

* Reclassified in order to correspond with the presentation in the current period.

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 an “organized market”, which comprises the principal retail chains, and a “private market”, which comprises all the other customers of the retail segment.

Note 10 - Receivables and Debit Balances

	December 31	
	2010	2009
	NIS millions	
Advances to trade payables	28	26
Government institutions	33	14
Employees	2	2
Investment grants receivable	-	1
Interested parties	-	3
Sundry debtors	13	10
Loans granted, including current maturities	14	16
Accrued income	25	12
Derivatives (1)	73	34
Jointly controlled companies	6	18
Prepaid expenses	32	40
	226	176

(1) These derivatives are accounted for as financial assets measured at fair value through profit or loss. The balance includes deposit in a subsidiary which is not measured at fair value.

Note 11 - Inventory

	December 31	
	2010	2009
	NIS millions	
Raw materials	297	*278
Packaging materials	74	71
Unfinished goods	26	19
Finished goods (including purchased products)	272	*290
Spare parts	13	6
	682	664
Carrying amount of inventory under floating lien	102	102

* Reclassified in order to correspond with the presentation in the current period.

Note 12 - Proportionate Consolidation of Jointly Controlled Companies

12.1 Principal jointly controlled companies

	Percentage of total equity and control as at December 31			Country
	2010	2009	2008	of association
Strauss Frito-Lay Ltd.	50%	50%	50%	Israel
Tres Coracoes Alimentos S.A (1)	50%	50%	50%	Brazil
Santa Clara Imoveis Ltda (2)	50%	50%	50%	Brazil
Sabra Dipping Company (3)	50%	50%	50%	USA

(1) Held by Strauss Coffee B.V.
(2) Previously held by Elite Do Brazil. As of 31 December, 2009 and 2010 is held by Strauss Coffee B.V.
(3) Held by S.E. USA Inc.

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

12.2 The Group's share in financial statement items of jointly controlled companies

	December 31	
	2010	2009
	NIS millions	
Current assets	545	477
Long-term assets	454	364
Current liabilities	(380)	(320)
Long-term liabilities	(171)	(99)
The Group's share in equity as at the end of the year	448	422

	For the year ended December 31		
	2010	2009	2008
	NIS millions		
Revenues	1,872	1,519	1,317
Costs and expenses	1,793	1,421	1,295
Income for the period	79	98	22

12.3 Information on investment in directly held jointly controlled company

Information on the amount of the Company's investment in a jointly controlled company is provided with respect to a directly held company. The Company's investment is calculated as the share of the Group in the equity of the investee company, with the addition of adjustments for fair value on acquisition.

	Investments		Loans		Guarantees	
	2010	2009	2010	2009	2010	2009
	NIS millions					
Strauss Frito-Lay Ltd.	71	63	-	-	-	-

Note 13 - Other Investments and Long-Term Debit Balances

13.1 Classification according to classification of investment

	December 31	
	2010	2009
	NIS millions	
Non-current receivables (1)	2	-
Government institutions	2	8
Derivatives (2)	2	6
Credit card companies with respect to trade receivables	1	1
Long term deposit (1)	10	9
Investment in shares of other company (3)	19	13
Non-current trade receivables (see 13.4 hereunder) (1)	49	65
Less current maturities	(17)	(23)
Less provision for doubtful debts	(4)	(1)
	28	41
Non-current loans To others (1) – (see 13.2 and 13.3 hereunder)	116	91
Less current maturities	(13)	(11)
	103	80
	167	158

(1) Deposits and long term receivables are accounted for as loans and receivables measured at amortized cost.
(2) Derivatives are accounted for as financial assets measured at fair value through profit or loss.
(3) This investment is accounted for as an available for sale financial asset. See Note 30.8.1 for details on sensitivity analysis to changes in fair value of the investment.

13.2 Details of long-term loans and their terms:

	December 31 2010	
	NIS millions	
Capital note issued to Kibbutz Yotvata	18	Unlinked and non-interest bearing
Loans to employees	8	Linked to CPI and bearing interest of 4%
Loans to employees	1	Linked to Dollar and bearing interest of 2%
Loans to dairy farmers	10	Not linked to CPI and bearing interest of 2.6%- 7.25%
Loans to dairy farmers	2	Linked to CPI and bearing interest of 4.6%-6%
Loan to non-controlling interests holders in a subsidiary	2	Linked to CPI and bearing interest of 7.37%
Loan to jointly controlled company	61	Linked to Dollar and bearing interest of 5.16% -6.5%
Loan to shareholders of jointly controlled company	11	Linked to Real and bearing interest of 5.78%
Other	1	Not linked to CPI and bearing interest of 5%-7.2%
Other	2	Linked to Dollar and bearing interest of 5%
	116	

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

13.3 Repayment schedule of long-term loans:

	December 31	
	2010	2009
	NIS millions	
First year	13	11
Second year	10	13
Third year	31	10
Forth year	10	27
Fifth year and thereafter	52	30
	116	91

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 3.74%-8%. The repayment schedule of long-term receivables is as follows:

	December 31					
	2010			2009		
	Minimum lease payments	Interest component	Principal component	Minimum lease payments	Interest component	Principal component
	NIS millions					
First year (current maturity)	17	-	17	23	-	23
One to five years	32	1	31	37	1	36
Fifth year	1	-	1	6	-	6
	50	1	49	66	1	65

Note 14 - Fixed Assets

14.1 Changes in fixed assets

	Land and buildings	Machinery and equipment	Motor vehicles	Airplane*	Furniture and other equipment	Leasehold improvements	Total
				NIS millions			
Cost							
Balance as at January 1, 2010	788	1,895	79	10	287	195	3,254
Reclassification between types of fixed assets	(32)	31	-	-	1	-	-
Acquisition of operations and business combination	47	1	-	-	-	-	48
Additions	101	144	8	-	30	36	319
Disposals	(19)	(28)	(13)	-	(34)	(4)	(98)
Classification from inventory	-	14	-	-	-	-	14
Effect of changes in exchange rates	(16)	(44)	(3)	(1)	(5)	(3)	(72)
Balance as at December 31, 2010	869	2,013	71	9	279	224	3,465
Accumulated depreciation							
Balance as at January 1, 2010	284	1,243	53	-	222	107	1,909
Depreciation for the year	27	96	7	-	17	17	164
Disposals	(19)	(18)	(12)	-	(33)	(3)	(85)
Effect of changes in exchange rates	(2)	(20)	(1)	-	(2)	(1)	(26)
Balance as at December 31, 2010	290	1,301	47	-	204	120	1,962
Provision for impairment							
Balance as at January 1, 2010	-	-	-	-	-	-	-
Loss recognized	-	(8)	-	-	(2)	-	(10)
Balance as at December 31, 2010	-	(8)	-	-	(2)	-	(10)
Spare parts							39
Balance as at December 31, 2010	579	704	24	9	73	104	1,532

Note 14 - Fixed Assets (cont'd)

14.1 Changes in fixed assets (cont'd)

	Land and buildings	Machinery and equipment	Motor vehicles	Airplane*	Furniture and other equipment	Leasehold improvements	Total
				NIS millions			
Cost							
Balance as at January 1, 2009	**667	1,754	78	10	249	193	2,951
Acquisition through business combination	-	16	1	-	20	14	51
Acquisition of leased assets during the year	28	-	-	-	-	(28)	-
Additions	88	125	9	-	17	21	260
Disposals	(1)	(40)	(14)	-	(3)	(5)	(63)
Classification from inventory	-	12	-	-	-	-	12
Effect of changes in exchange rates	6	28	5	-	4	-	43
Balance as at December 31, 2009	788	1,895	79	10	287	195	3,254
Accumulated depreciation							
Balance as at January 1, 2009	**245	1,135	51	-	191	95	1,717
Acquisition through business combination	-	14	1	-	16	8	39
Acquisition of leased assets during the year	14	-	-	-	-	(14)	-
Depreciation for the year	23	107	8	-	15	20	173
Disposals	(1)	(22)	(10)	-	(2)	(2)	(37)
Effect of changes in exchange rates	3	9	3	-	2	-	17
Balance as at December 31, 2009	284	1,243	53	-	222	107	1,909
Provision for impairment							
Balance as at January 1, 2009	2	10	-	-	-	3	15
Amortization for the year	(2)	(10)	-	-	-	(3)	(15)
Balance as at December 31, 2009	-	-	-	-	-	-	-
Spare parts							36
Balance as at December 31, 2009	504	652	26	10	65	88	1,381

* Depreciation of the airplane is lower than NIS 1 million.

** Retroactive implementation of a new accounting standard- see Note 3.23.

Note 14 - Fixed Assets (cont'd)

14.2 Fixed assets under finance lease

The Group leases machines under finance lease agreements. The net carrying amount of machines as at December 31, 2010 is NIS 12 million (2009: NIS 15 million).

14.3 Investment grants

Investment grants in the amount of NIS 2 million were received during the year ended December 31, 2010 (2009: NIS 4 million). See also Note 37.1.3

14.4 Capitalized borrowing costs

During 2009, Sabra Dipping Company LLC, a jointly controlled company, began the construction of a new plant for the manufacture of Sabra products in Virginia, USA. The Group's consolidated financial statements include capitalized borrowing costs in the amount of NIS 4 million (2009: NIS 2 million) that were capitalized according to a rate of 6.5%. Furthermore, 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 2010 include capitalized borrowing costs in the amount of NIS 1.5 million that were capitalized according to a rate of 2.67% for the period from August 1 to December 31, 2010. See also Note 14.7.

14.5 Fixed assets purchased on credit

Fixed assets in the amount of NIS 60 million were purchased on credit as at December 31, 2010 (2009: NIS 39 million).

14.6 Real estate rights presented in the consolidated statement of financial position as at December 31, 2010

As at December 31, 2010, the Company has freehold real estate rights classified as fixed assets in the amount of NIS 579 million (2009: NIS 504 million). Real estate rights in the amount of NIS 194 million have not yet been registered in the name of the Company or the subsidiaries (since land parcellation has not yet been executed under the Planning & Construction Law).

For additional information regarding real estate rights, see Note 16 (investment property).

14.7 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. The lease was classified as finance lease. In addition, as at February 21, 2010 the Company engaged Shoham municipal council in an agreement regarding construction operations in the amount of NIS 32 million. The construction operations are expected to be completed during 2011. During 2010 the Company paid NIS 24 million for construction operations, and the remainder will be paid during 2011 in three additional payments.

14.8 Liens – see Note 26.2.

14.9 In respect to purchases of real estate interests subsequent to the date of statement of financial position, see Note 40.1.

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, 2010	620	215	982	9	111	1,937
Acquisition through business combination (6.5, 6.7)	2	-	171	-	13	186
Additions	-	14	-	-	2	16
Additions- Self development	-	4	-	10	-	14
Effect of changes in exchange rates	(36)	(2)	(60)	-	(5)	(103)
Balance as a December 31, 2010	586	231	1,093	19	121	2,050
Accumulated amortization						
Balance as at January 1, 2010	36	117	**127	3	35	318
Amortization for the year	7	27	-	1	17	52
Effect of changes in exchange rates	(3)	(2)	(9)	-	(2)	(16)
Balance as at December 31, 2010	40	142	118	4	50	354
Balance as at December 31, 2010	546	89	975	15	71	1,696

	Brands	Computer software	Goodwill	Research and development	Other	Total
	NIS millions					
Cost*						
Balance as at January 1, 2009	461	183	764	-	64	1,472
Acquisition through business combination	102	12	163	9	48	334
Additions	8	15	4	-	2	29
Additions- Self development	-	7	-	-	-	7
Disposals	-	(3)	-	-	(6)	(9)
Effect of changes in exchange rates	49	1	51	-	3	104
Balance as a December 31, 2009	620	215	982	9	111	1,937
Accumulated amortization*						
Balance as at January 1, 2009	32	91	93	-	30	246
Acquisition through business combination	-	6	1	3	-	10
Amortization for the year	4	22	-	-	12	38
Impairment	-	-	22	-	-	22
Disposals	-	(3)	-	-	(3)	(6)
Effect of changes in exchange rates	-	1	11	-	(4)	8
Balance as at December 31, 2009	36	117	127	3	35	318
Balance as at December 31, 2009	584	98	855	6	76	1,619

* See Note 6.4

** Includes NIS 86 million of impairment recognized in previous periods

Note 15 - Intangible Assets (cont'd)

15.2 Intangible assets with indefinite useful lives

As at December 31, 2010 intangible assets include an amount of NIS 541 million that is attributable to brands and trademarks having an indefinite useful life (December 31, 2009 – NIS 561 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	
	2010	*2009	2010	*2009
	NIS millions		NIS millions	
Israel	83	83	-	-
Water (1)	154	157	102	102
USA (Sabra)	121	94	13	13
Brazil	173	175	196	198
Serbia	59	75	35	43
Poland	76	84	74	82
Russia (2)	267	142	121	131
Romania	27	28	-	-
	960	838	541	561

* Several amounts in this note have been reclassified in order to correspond with the presentation in the current period.
(1) In respect to the completion of purchasing price allocation in Strauss Water see Note 6.4..
(2) In respect to the purchase of LeCafe see Note 6.7.

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 3-5 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, 2010		December 31, 2009	
	Long-term growth rate	Discount rate	Long-term growth rate	Discount rate
Israel				
Fun & Indulgence	2.5%	8.1%	2.5%	8.4%
Health & Wellness	2.5%	8.1%-8.7%	2.5%	8.4%-9.0%
Coffee				
Coffee - Israel	2.5%	11.3%	2.5%	11.6%
Coffee - Abroad	1.2%-4.0%	8.6%-12.3%	1.2%-4.0%	8.9%-12.7%
International Dips and Spreads	2.5%	7.8%	2.5%	7.9%
Other	1.5%-2.5%	11.3%	1.5%-2.5%	11.6%

Due to the financial crisis, in 2009 the Group recognized an impairment loss in the amount of NIS 22 million in respect of goodwill attributed to a subsidiary of Strauss Coffee B.V. in Serbia that constitutes a cash generating unit. The recoverable amount of the unit was calculated by discounting the future cash flows anticipated from the unit at a discount rate of approximately 12.7%. The long term growth rate was 1.5% .

15.4 Purchase of intangible assets on credit

Intangible assets in the amount of NIS 7 million were purchased on credit as at December 31, 2010 (December 31 2009: NIS 15 million).

Note 16 - Investment Property

16.1 Changes in investment property

	December 31	
	2010	2009
	NIS millions	
Balance as at January 1	21	*23
Additions	20	-
Depreciation	-	(1)
Impairment loss	-	(1)
Sales during the period (1)	(17)	-
Balance as at December 31	24	21

16.2 Composition of investment property balance

Total cost	26	23
Total depreciation	(2)	(2)
Balance as at December 31	24	21

(1) See Note 16.5

* Retroactive implementation of a new accounting standard- see Note 3.23.

Note 16 - Investment Property (cont'd)

16.3 Fair value

The investment property includes 5 real estate assets owned by the Group.

The fair value of the real estate assets as at December 31, 2010, in the amount of NIS 53 million (December 31, 2009 – the value of the real estate assets was NIS 58 million, including land which has been sold during the year, see note 16.5), was determined by a qualified independent appraiser having the appropriate professional authority and experience in the area and category of the real estate being valued.

16.4 Real estate rights

All real estate right has been registered in the name of the Company or its subsidiaries.

16.5 Real estate sale transaction

In the reporting period the Company, by means of its subsidiary Strauss Health Ltd., entered into a transaction for the sale of property it owns, which in the past served as the plant of the dairy in Nahariya and is classified as investment property. The transaction includes agreements with three different parties:
One agreement with a third party was approved and signed on May 12, 2010; the subsidiary received an amount of $ 0.6 million in consideration for the sale and an additional amount of $ 1.9 million was paid in January 2011. In accordance with the agreement also the Company's controlling shareholder sold property owned by it.
The other two agreements are for the sale of property rights to a third party and to the Company's controlling shareholder. These two agreements were approved by the Audit Committee and the Board of Directors in a meeting it held on May 23, 2010, and by the general meeting of shareholders on July 4, 2010. The subsidiary received $ 0.4 million and $ 0.5 million for the sale and lease, respectively. An additional amount of $ 0.6 million was paid in January 2011 and an amount of $ 0.7 million will be paid no later than July 2011.
The Company recognized a capital gain on the transaction in the amount of NIS 0.5 million.

Note 17 - Trade Payables

	December 31	
	2010	2009
	NIS millions	
Open debts	776	748
Interested and related parties	7	2
Notes payable	10	7
	793	757

Note 18 - Other Payables and Credit Balances

	December 31	
	2010	2009
	NIS millions	
Employees and other payroll related liabilities	171	175
Institutions	31	33
Jointly controlled companies	25	12
Other payables	34	30
Derivatives (1)	47	19
Accrued expenses	187	170
Redeemable preferred shares	13	13
Deferred income	19	23
Advances from customers	7	5
	534	480

(1) These derivatives reflect liabilities in respect of marketable futures transaction and are accounted for as financial liabilities measured at fair value through profit or loss.

Note 19 - Provisions

19.1 Changes during the period

	Restructuring	Legal claims	Warranty	Total
Balance as at January 1, 2010	3	26	7	**36**
Provisions made during the period	2	15	2	**26**
Provisions used during the period	(2)	(10)	-	**(19)**
Provisions reversed during the period	(1)	(6)	-	**(7)**
Balance as at December 31, 2010	2	25	9	**36**

19.2 Provisions in respect of legal claims

Provisions were made for legal claims as a result of legal proceedings held in the ordinary course of business of the group. These provisions are reversed when the proceedings have been concluded in favor of the Group. The timing of the cash flows anticipated in respect of these legal proceedings is uncertain since it depends on their results. Therefore, the provisions are not presented at their present value. The effect of their discounting is immaterial. See also Note 26 regarding legal claims.

Note 20 - Loans and Credit

20.1 The terms of the loans and their repayment dates are as follows:

				December 31, 2010	
		Nominal interest		Face value	Carrying amount
	Currency	%	Repayment	NIS millions	
Debentures Series A (see 20.2)	NIS	0.7	2011	83	95
Debentures Series B (see 20.3)	NIS	4.1	2014-2018	744	845
Debentures Series C (see 20.4)	NIS	variable	2011-2013	500	497
Bank credit	NIS	prime	2011	8	8
Bank loans	Dollar	libor +2	2011-2016	64	64
Bank loans	Real	1-13.5	2011-2019	124	126
Bank loans	Dollar	1.3-3.7	2011-2012	114	114
Others loans	Real	-	2016	8	8
Others loans	NIS	-	2011-2020	1	1
Bank loans	Dollar	Libor+1.7	2011-2014	17	17
Others loans	Dollar	6.5	2011-2016	32	32
Others loans	Dollar	5.16	2013-2017	29	29
Bank loans	Dollar	Libor+1.7	2013-2017	59	59
Bank loans	NIS	4.3-4.95	2011-2013	3	3
Others loans	Dollar	Libor+1	2011-2015	3	3
Bank loans	NIS	Prime+0.5-1.6	2011-2015	22	22
Credit cards factoring	NIS	Prime+0.65-0.95	2011-2013	28	28
					1,951

Note 20 - Loans and Credit (cont'd)

20.1 The terms of the loans and their repayment dates are as follows: (cont'd)

				December 31, 2009	
		Nominal interest		Face value	Carrying amount
	Currency	%	Repayment	NIS millions	
Debentures Series A (see 20.2)	NIS	0.7	2010-2011	166	184
Debentures Series B (see 20.3)	NIS	4.1	2014-2018	744	825
Debentures Series C (see 20.4)	NIS	variable	2011-2013	500	495
Bank credit	NIS	2.2-2.65	2010	1	1
Others loans	Dollar	Libor+1	2011-2012	2	2
Bank loans	NIS	4.3-5.5	2010-2013	5	5
Bank loans	NIS	Prime+0.5%-1.6%	2010-2013	9	9
Credit card factoring	NIS	Prime+0.65%-0.95%	2010-2012	15	15
Others loans	Real	-	2011	7	7
Bank loans	Real	5.2-14	2010-2014	97	98
Bank loans	Dollar	2.3-5.0	2010	73	73
Others loans	NIS	-	2010-2020	2	*2
Others loans	Dollar	6.5	2011-2016	34	34
Total					**1,750**

* Retroactive implementation- see Note 3.23 in respect with new accounting standards.

20.2 Series A debentures

On March 17, 2005, the Company issued 1,000,000 units in accordance with a prospectus for a total consideration of NIS 500 million. Each unit included NIS 500 par value of debentures (Series A) at the price of NIS 500 and 10 options (Series 1) at no cost. The value of the debentures was determined according to the yield of Series 5901 Galil debentures in the first three trading days after the issuance plus 0.5%. The value of the issued options is the difference between the proceeds that were received (NIS 500 million) and the value of the debentures.

The terms of the debentures are as follows:

- Debentures of a par value of NIS 500 million that are listed for trading on the Tel Aviv Stock Exchange.
- The debentures bear annual interest of 0.7% that is linked to the Israeli Consumer Price Index published on January 15, 2005.
- The principal of the debentures is linked to the Israeli Consumer Price Index that was published on January 15, 2005 and is repayable in six equal annual payments on December 31 of each of the years 2006 through 2011 (inclusive). Five of the installments have been paid as at the reporting date.
- The debentures are not secured by any liens.
- The carrying amount of the debentures on the issuance date is net of issuance expenses in the amount of NIS 4.6 million.
- The effective interest rate on the date of issuance, which takes into account allocation of value to the options and issuance costs, is 3.4%.
- Net issuance proceeds in the amount of NIS 447 million were attributed to the debentures by means of the mechanism described above.

Note 20 - Loans and Credit (cont'd)

20.3 Series B debentures

On February 25, 2007 the Company completing raising the amount of NIS 770 million from institutional investors by means of debentures (Series B). On May 21, 2007 the Company listed the debentures for trading on the Tel Aviv Stock Exchange, by publishing a prospectus on May 10, 2007.

The terms of the debentures are as follows:
- The debentures bear annual interest of 4.1%. Until the registration for trading the Company paid to the holders of the debentures annual interest of 4.7%. The interest shall be paid every six months.
- The principal of the debentures shall be repaid in five equal annual payments between the years 2014 and 2018 (inclusive).
- The debentures (principal and interest) are linked to the CPI that was published on February 15, 2007.
- The effective rate of interest on the date of listing for trading, which takes into account issuance costs, was 4.2%.
- The debentures are not secured by any liens.

20.4 Series C debentures

On May 5, 2009 the Company published a shelf prospectus report to the issuance and registration of Debentures (Series C). On May 7 the issuance was completed and the Company listed the debentures for trading on the Tel Aviv Stock Exchange. The gross issuance consideration amounted to NIS 500 million. Total issuance costs amounted to NIS 6.5 million.

The terms of the debentures are as follows:
- Debentures of a par value of NIS 500 million.
- The principal of the debentures is repayable in three equal annual payments on June 1 of each of the years 2011 through 2013 (inclusive).
- The debentures bear a variable annual interest rate, based on the interest rate of "Government Bonds 817" plus a margin of 0.7%. The interest will be paid every three months, as from September 1, 2009 up until June 1, 2013.
- The principal and the interest of the debentures are not linked to any index.
- The debentures are not secured by any liens.
- The effective interest rate on the date of issuance, which takes into account issuance costs, was 2.15%.
- Annual interest rates on the actual dates of payment were as follows:

Date of payment	Annual interest rate
September 1, 2009	1.80%
December 1, 2009	2.39%
March 1, 2010	2.39%
June 1, 2010	2.65%
September 1, 2010	2.83%
December 1, 2010	2.83%
March 1, 2011	3.08%

20.5 Early redemption of debentures

On September 2, 2007 the Company's Board of directors approved a principle purchase of the Company's debentures (series B) by the Company and/or by subsidiary, from time to time, in a maximum amount of NIS 50 million.

During 2008 the Company purchased in the stock exchange an amount of NIS 13,148 thousand face value of the Company's debentures (series B) and outside dealing additional NIS 13,200 thousand face value of the Company's debentures (series B). In addition, the Company purchased in the stock exchange approximately NIS 500 thousand face value of the Company's debentures (series A). As a result, the Company recognized in 2008 net loss from early redemption in the amount of NIS 481 thousand. The debentures which were purchased by the Company were delisted and the Company is prevented from re-issuing them again.

Note 20 - Loans and Credit (cont'd)

20.6 See Notes 26.2 and 26.3 regarding liens and guarantees.

Note 21 - Short-Term Credit and current maturities of long term loans

Composition of current liabilities

	December 31	
	2010	2009
	NIS millions	
Bank loans	171	130
Current maturities	75	37
	246	167

Note 22 - Long-Term Loans and Credit

22.1 Composition of non – current liabilities

	December 31	
	2010	2009
	NIS millions	
Liability in respect of finance lease	1	*2
Loans from shareholders of jointly controlled companies	69	41
Loans from others	3	2
Long term liability due to credit cards factoring	28	15
Bank loans	242	56
	343	116
Less current maturities	(75)	(37)
	268	79

See Note 40.2 for details regarding a loan received subsequent to the financial statements date.

22.2 Liability in respect of finance lease

Repayment schedule of the lease payments:

	2010			*2009		
	Minimum lease payments	Interest component	Principal component	Minimum lease payments	Interest component	Principal component
	NIS millions					
Less than one year (current maturity)*	-**	-	-	-	-	-
Between one and five years	1	-	1	2	-	2
	1	-	1	2	-	2

* Retroactive implementation of a new accounting standard- see Note 3.23.
** Less than 1 million.

Note 22 - Long-Term Loans and Credit (cont'd)

22.3 Covenants

The Company has to meet two conditions in favor of two banks in Israel: 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 3. As at the reporting date, the Company is in compliance with these conditions. The Company is not required to comply with external capital requirements.

After completion of the merger between Strauss Water Ltd. (hereinafter: “The subsidiary”), Tana Industries Co. Ltd., and Tami 4 Rental and Assemblies Ltd., the subsidiary contacted the banks from which it had borrowed money, or expected to borrow from, to arrange the company’s commitments with those banks. As a result of these meetings, new covenants were agreed upon with the banks.

Before the date of the signing of the reports, and after the date of the statement of financial position, the subsidiary signed agreements with the banks as mentioned. As of the date of the report on financial position, the subsidiary meets all financial standards as mentioned.

Note 23 - Long-Term Payables and Credit Balances

Composition –

	December 31	
	2010	2009
	NIS millions	
Accrued expenses	5	4
Institutions	5	5
Deferred income	14	25
Other payables	3	4
	27	38

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 Section 14 of the Severance Pay Law, which is accounted for as a defined contribution plan; and another plan for employees to whom Section 14 does not apply, which is accounted for as a defined benefit plan. The Group’s liability in Israel for the payment of severance pay to it employees is mostly covered by current deposits in the names of the employees in recognized pension and severance pay plans, and by the acquisition of insurance policies, which are accounted for as plan assets.

In addition to these plans, the Company has an obligation to pay an adaptation bonus to senior employees. The Group’s obligation for the payment of adaptation bonuses is not covered by the current deposits in the names of the employees.

24.2 As regards its international operations, employee benefits are accounted for in accordance with the requirements of the law in each country in which the Group operates. These requirements usually comprise of monthly deposits in government plans.

The Company has an obligation to pay benefits to certain employees in accordance with personal employment contracts. In addition, the Company has an obligation to pay benefits to employees who have retired in accordance with the labor laws in Germany. These benefits were accounted for as a defined benefit plan.

Note 24 - Employee Benefits (cont'd)

24.3 Composition

	December 31		
	2010	2009	2008
	NIS millions		
Defined benefit plan			
Present value of funded obligation	74	74	68
Present value of the un-funded obligation	35	33	23
	109	107	91
Fair value of the plan assets	(74)	(73)	(66)
Total present value of the obligation, net	35	34	25
Actuarial losses not yet recognized	(14)	(10)	(10)
Total liability in respect of defined benefit plans	21	24	15
Share-based payment liability	2	1	1
Less current maturity	(1)	-	-
Long-term share-based payment liability	1	1	1
Total employee benefits liability	22	25	16

24.4 Defined benefit plans

The Group separates defined benefit plans in accordance with the offsetting terms of the plans, as follows:

	December 31		
	2010	2009	2008
	NIS millions		
Presented as liabilities for the payment of employee benefits, net	27	31	22
Presented as assets designated for the payment of employee benefits, net	(6)	(7)	(7)
Total liability in respect of defined benefit plans, net	21	24	15
Long-term liabilities in respect of share-based payment	1	1	1
Total employee benefits, net	22	25	16

24.4.1 Changes in the liability for defined benefit plans

	For the year ended December 31		
	2010	2009	2008
	NIS millions		
Liability in respect of defined benefit plans as at January 1	107	91	81
Benefits paid by the plans	(11)	(12)	(8)
Current service costs and interest	10	18	10
Actuarial losses	5	9	6
Other adjustments	(2)	-	2
Business combination	-	1	-
Liability in respect of defined benefit plans as at December 31	109	107	91

Note 24 – Employee Benefits (cont'd)

24.4 Defined benefit plans (cont'd)

24.4.2 Changes in defined benefit plan assets

	For the year ended December 31		
	2010	2009	2008
		NIS millions	
Fair value of plan assets as at January 1	73	66	61
Contributions paid into the plan	6	7	7
Benefits paid by the plan	(9)	(10)	(8)
Expected return on plan assets	3	2	3
Other adjustments	-	-	2
Actuarial gains	1	8	1
Fair value of plan assets as at December 31	74	73	66

24.4.3 Expense recognized in the statement of income in respect of defined benefit plans

	For the year ended December 31		
	2010	2009	2008
		NIS millions	
Current services costs	5	14	6
Interest on obligation	5	4	4
Expected return on plan assets	(3)	(2)	(3)
Other adjustments	-	-	3
	7	16	10

The expense was included in the following statement of income items:

	For the year ended December 31		
	2010	2009	2008
		NIS millions	
Cost of sales	-	-	1
Selling and Marketing expenses	2	2	-
General and administrative expenses	5	14	9
	7	16	10

24.4.4 Actuarial assumptions

Principal actuarial assumptions as at the reporting date (weighted average) in nominal terms:

	For the year ended December 31		
	2010	2009	2008
		%	
Discount rate as at December 31 (1)	5.4%-5.6%	5.2%-5.3%	5.3%
Expected return on plan assets as at January 1 (2)	4.96%-8.52%	4.66%-8.22%	3.7%-7.26%
Future salary increases	5.68%-5.97%	5.68%-5.97%	0%-5.97%
Demographic assumptions (3)			

Note 24 - Employee Benefits (cont'd)

24.4 Defined benefit plans (cont'd)

24.4.4 Actuarial assumptions (cont'd)

(1) The discount rate is based on debentures of the Government of Israel that bear a fixed rate of interest.

(2) In 2010 the weighted rate of return was 5.43% (2009: 5.24%, 2008 :5.22%). The rate of return was calculated as follows: a 5.38% rate of return on insurance companies (2009: 5.21%, 2008: 5.3%); a 6.11% rate of return on new pension funds (2009: 5.9%, 2008: 5.68%); a 8.52% rate of return on balanced old pension funds (2009: 8.22% 2008: 7.26%); a 4.96% on unbalanced pension funds (2009: 4.66%, 2008: 3.7%); and a rate of return of 5.38% on provident funds (2009: 5.21%, 2008: 5.3%).

(3) The calculations are based on demographic assumptions as follows:

a) Mortality rates are based on the accepted mortality table of pension funds.

b) Rates of loss of ability to work are based on the document mentioned in item a above.

c) Employee turnover rates are based on an analysis of historic data. According to this analysis, the turnover rate of employees is between 6.64% in the first year and 5.72% for employees employed 9 years or more. For senior employees, the turnover rate is between 6.67% in the first year and 3.24% for employees employed 9 years or more.

24.4.5 Historical information

	December 31		
	2007	**2006**	**2005**
		NIS millions	
Present value of the liability	82	76	68
Fair value of the plan assets*	(61)	(52)	(48)
Total present value of the liability, net	21	24	20
Actuarial losses not yet recognized	(6)	(10)	(7)
Total liability in respect of defined benefit plans	15	14	13

* Including assets designated for the payment of employee benefits that were presented under assets designated for the payment of employee benefits.

24.5 Defined Contribution Plans

In the year ended December 31, 2010, the Group recorded an expense of NIS 31 million (2009: NIS 28 million) with respect to defined contribution plans.

Note 25 - Share-Based Payments

25.1 In accordance with the plans from May 2003 for the remuneration of senior executives (which was updated in June 2004 and August 2006), the Company granted share options to senior executives of the Group at no cost. Each share option is exercisable into one ordinary share of a par value of NIS 1 on a "net in shares" basis as described hereunder.

The shares will be granted to the employee, in consideration for their par value, in an amount equal to the difference between the fair value of the share, on the exercise date, and the exercise price, multiplied by the amount of the share options and divided by the fair value of the share (with the addition of an amount of shares equal to the total par value of the issued shares). The exercise price reflects the average share price on the stock exchange soon before approval of each option grant. The exercise price or conversion ratio of each share option will be adjusted proportionately in respect of an allotment of bonus shares, a split and consolidation of the Company's shares, an issuance of rights to the Company's shareholders or divided distribution.

Note 25 - Share-Based Payments (cont'd)

25.1 (cont'd)

According to the terms of the plans, the share options are exercisable in three equal portions commencing at the end of three, four and five years from the vesting date of the options. As regards share options granted from March 2008, the share options are exercisable in three equal portions commencing at the end of two, three and four years from the vesting date of the option. An employee entitled to exercise his options may do so during a further period of 3 years since the right to exercise such quantity of options was first created. Options that are not exercised by that date shall expire. In the case of termination of employer-employee relations, the employee will be entitled to exercise options the exercise date of which is 120/180 days from the date of termination of relations. After 120/180 days have elapsed from the date of termination of relations, any options not exercised shall expire.

With respect to employees in Israel, the above plans were approved under Section 102 of the Income Tax Ordinance (in "capital gain path"), and accordingly, the options were deposited with a trustee. Under the plan, the employees will bear any tax that applies to the plan.

On July 6, 2009, the Company's Board of Directors approved, after approval by the Company's Audit Committee on June 29, 2009, the change in terms of the conditions of the options granted to the Company's exiting CEO and Deputy CEO.

The essence of the change is an extension of the exercise period of the options, where the entitlement of these senior employees to exercise them vested or will vest up to the end of the period of their employment with the Company (including the adaptation period), to December 31, 2011. The Company recognized expenses in the amount of about NIS 1.6 million in respect of change in the terms of the options granted to these senior employees.

Concurrently, the Company recognized an elimination of expenses, in the amount of about NIS 10.4 million, in connection with share-based payment expenses recorded in prior periods. The expenses relate to options granted to the senior employees and that were forfeited upon discontinuance of their service.

25.2 Details of the fair values of the share options granted in previous periods and the data used to make this valuation:

Grant date	Number of options	Fair value NIS millions	Share price NIS	Nominal exercise price NIS	Expected life Years	Expected annual volatility %	Discount rate %
May 2003	128,544	4.2	*22.59	26.36	2.5-5.6	35	5.5
June 2004	1,287,036	16.4	42.39	33.42	3.9-5.3	31	3.9
December 2004	169,865	2.0	42.96	35.79	3.6-5.6	31	3.5
April 2005	40,866	0.3	40.43	33.22	4	31	3.2
February 2006	269,299	3.0	42.58	35.65	4.2-5.6	31	3.5
January 2007	69,106	1.2	43.91	36.58	4.86-6.48	30	3.41-3.56
November 2007	280,732	6.6	57.25	46.93	4.62-6.16	30	2.95-3.63
January 2008	2,310,748	37.8	59.30	47.43	1.98-4.98	27-29	2.7-3.2
March 2008	1,075,057	14.9	51.16	51.88	3.85-5.39	27	2.59-2.7
November 2008	231,158	1.8	32.5	37.83	3.80-5.34	28	3.61-3.76
July 2009	1,065,150	15.2	42.09	41.26	5.0-7.0	28.9-34	1.12-1.86
July 2009	269,660	4.0	47.1	42.92	4.0-5.6	29.63-29.96	0.64-1.69
July 2009	31,820	0.5	47.1	42.92	4.8-6.4	29.05-34.05	1.41-2.04

Note 25 - Share-Based Payments (cont'd)

25.2 (cont'd)
* After splitting the options into shares of a par value of NIS 5

In addition to these benefits, on August 28, 2006 the Company's Board of Directors approved an update to the option plan for senior employees. The update included adjustment of the exercise price indicated on the various options, so that upon each distribution of a dividend the exercise price of the options shall be reduced by an amount equal to 100% of the declared dividend per share.

The fair value of the benefit as at the date of grant is NIS 4 million calculated on the basis of the Black-Scholes model. The benefit is recorded as an expense in the financial statements of the Company for periods beginning on July 1, 2006 and ending on March 31, 2011.

25.3 Grants in the reported period

On March 7, 2010, the Company's Board of Directors approved the granting of 110,000 options to a Group's senior officer pursuant to the options' plan for senior employees in the Group. The entitlement of senior officers to exercise the options will vest in three equal portions, on March 7 of each of the years 2012–2014.

On June 14, 2010, the Company's Remuneration and Human Resources Committee of the Board of Directors approved the granting of 22,000 options to a Group's senior officer pursuant to the options' plan for senior employees in the Group. The entitlement of senior officer to exercise the options will vest in three equal portions, on June, 14 of each of the years 2012–2014.

On July 19, 2010, following the approval of the Company's Board of Directors from June, 14 2010, the Company granted 110,000 options to a Group's senior officer pursuant to the options' plan for senior employees in the Group. The entitlement of senior officer to exercise the options will vest in three equal portions, on June 14 of each of the years 2012–2014.

On August 31, 2010, the Company's Remuneration and Human Resources Committee of the Board of Directors approved the granting of 88,000 options to a Group's senior officers pursuant to the options' plan for senior employees in the Group. The entitlement of senior officer to exercise the options will vest in three equal portions, on August 31 of each of the years 2012–2014.

On November 21, 2010 the Remuneration and Human Resources Committee of the Company's Board of Directors approved the grant of 66,000 options to three executives of the Group in accordance with the options' plan for senior employees in the Group. The executives' entitlement to exercise the options will vest in three equal portions, on November 21 of each of the years 2012–2014. The fair value of the benefit embodied in this grant is NIS 1 million as at November 21.

Details of the fair value of the aforementioned share options, and the data used in this assessment:

Grant date	Number of options	Fair value NIS millions	Share price NIS	Nominal exercise price NIS	Expected life Years	Expected annual volatility %	Discount rate %
March 2010	110,000	1.9	58	54.07	3.2-5.9	28.2-28.6	1.05-1.71
June 2010	22,000	0.3	54.52	54.52	3.2-5.9	27.9-28.11	0.78-1.43
July 2010	110,000	1.7	54.73	53.55	3.2-5.9	27.9-28.1	0.62-1.32
August 2010	88,000	1.2	53.01	53.82-54.1	3.2-5.9	27.66-27.85	0.5-1.05
November 2010	66,000	1	56.12	56.91	3.2-5.9	27.13-27.46	0.6-1.25

Note 25 - Share-Based Payments (cont'd)

25.4 Changes to existing grants in the reported period

In April 2010, approval was obtained for an amendment to the senior employee benefit plan of May 2003. In accordance with the amendment, the period for exercising options was extended by an additional year, such that the options will be able to be exercised for a period of 4 years from the date of eligibility. The amendment will apply to new grants. The impact of the amendment on the financial reports of the Group, regarding future grants, is not material.

25.5 Changes in the number of share options:

	Number of share options (thousands)	
	2010	**2009**
Balance as at January 1	4,348	5,401
Additional allotment	396	1,367
Exercise of options (1)	(1,604)	(917)
Forfeiture of options	(179)	(1,503)
Balance as at December 31 (2)	2,961	4,348

(1) The weighted average share price on the exercise date of the options exercised in 2010 is NIS 57.44 (2009: NIS 51.11).

(2) Of the balance of options as at the date of statement of financial position , 483 thousand options have vested (2009: 1,606 thousand).

Note 25 - Share-Based Payments (cont'd)

25.6 Information on the share options outstanding as at December 31, 2010:

Number of options	Nominal exercise price (NIS)	Linked to CPI of	First third exercisable from
60,138	33.42	April 2004	2.1.2007
31,793	35.65	January 2006	2.1.2009
39,273	35.65	January 2006	2.3.2009
34,553	36.58	November 2006	2.3.2009
34,553	36.58	November 2006	2.1.2009
64,602	46.93	October 2007	1.10.2010
62,254	46.93	October 2007	12.9.2010
41,111	46.93	October 2007	1.9.2010
16,445	46.93	October 2007	1.6.2010
8,223	46.93	October 2007	19.8.2010
621,198	51.88	February 2008	30.3.2010
184,664	37.83	October 2008	1.11.2010
1,065,150	41.26	June 2009	1.7.2011
269,660	42.92	June 2009	21.7.2011
31,820	42.92	June 2009	21.7.2012
110,000	54.07	January 2010	7.3.2012
22,000	54.52	April 2010	14.6.2012
110,000	53.55	April 2010	14.6.2012
66,000	54.10	July 2010	31.8.2012
22,000	53.82	July 2010	31.8.2012
66,000	56.91	October 2010	21.11.2012
2,961,437			

Note 25 - Share-Based Payments (cont'd)

25.7 Share-based payments in subsidiaries

25.7.1 In accordance with agreements of the Company with managers of the Max Brenner activity, the Company shall take steps to concentrate the Max Brenner activity under a special company incorporated for this purpose. The managers will receive 5.8% of the capital of the new company in shares or in share options. The grants vest gradually. For as long as the new company is not registered for trading on the stock exchange, the managers have the right to sell their shares to the Company in accordance with a predetermined valuation mechanism. The Company's obligation to purchase the shares is limited to the shares that have vested. If the activity is not managed by a special company the Company shall compensate the managers on the basis of these economic understandings. The liability arising from these agreements is presented in liabilities to employee Benefits.

25.7.2 On June 2009 the subsidiary granted options to a senior executive. The options will vest gradually until March 20, 2011. The fair value of the benefit included in this grant as at grant date was about NIS 922 thousands.

25.7.3 On December 15, 2010, Strauss Coffee, a subsidiary, granted an equity incentive plan in respect to Strauss Coffee shares for senior executives. The options will vest in five equal portions. Out of a total of 3,283 options approximately 20% were vested as of the grant day and the remainder will vest in four equal tranches on January 1st on each of the years 2011-2014. The entitlement to the exercise of the options is subject to exit events as defined in the plan including changes in Company's ownership. The net fair value of the equity incentive plan as at the date of statement of financial position is NIS 22 million calculated on the basis of the Black-Scholes model.. The expenses recorded in 2010 are NIS 9 million.
The expected average life of the options is 6.5 years, the discount rate used is 3.36% and the annual standard deviation is 34.3%. The nominal exercise price used is € 3,759 per option
The plan, which have been approved by the Board of Directors of Strauss Coffee is subject to the approval of shareholders general meeting of Strauss Coffee and therefore also to the approval of the Board of Directors of the Company.

25.8 Salary expenses in respect of share-based payments

	For the year ended December 31		
	2010	2009	2008
		NIS millions	
Expenses in respect of equity-settled grant (see Notes 25.2, 25.3 and 25.7.2)	19	5	26
Change in terms of options (see Notes 25.2 and 25.4)	-	2	-
Expenses in respect of liability grant (see Note 25.7.1 and 25.7.3)*	1	1	-
Total expense included in salary expenses	20	8	26

* Expenses in respect with liability grant in Strauss Coffee (full dilution) which reflects 2.5% of the subsidiary's share capital.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments

26.1 Contingent liabilities

26.1.1 Class actions

26.1.1.1 On August 28, 2006 a claim was filed with the Tel Aviv District Court against the Company, the Chief Rabbinate of Israel and the Religious Council and Local Rabbinate of Nahariya, by a mother and her daughter, religious Jews, who contend that they are strict in buying and consuming only products that were proclaimed as being kosher by the Chief Rabbinate of Israel. The plaintiffs contend that like many other people who observe laws of Kashrut, they had for years (1999-2004) purchased large amounts of dairy puddings manufactured by the Company because these products were portrayed by it as being kosher and approved by the Chief Rabbinate, although in reality the products contained imported gelatin

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.2 Class actions (cont'd)

26.1.1.1 (cont'd)

produced from cattle bones, which as at the dates relevant to the claim did not receive the approval and a kosher certificate from the Chief Rabbinate in Israel.

The plaintiffs filed a request to certify the claim as a class action in the amount of NIS 12.3 billion in accordance with the Class Actions Law - 2006.

The Court was requested to dismiss the claim in limine and the request to certify it as a class action, inter alia, for the following reasons: the claim is not suitable for being heard in the framework of a class action since the Kashrut (Prohibition of Deceit) Law is not one of the types of claims included in the second addendum to the Class Actions Law and does not permit submitting class actions on its basis; the Company acted according to the law and therefore it is has a defense against liability; the Company received permits from the Chief Rabbinate on all the relevant dates to use gelatin and it acted in Transparency and with full cooperation; the cause of misleading does not exist in accordance with the Consumer Protection Law; the absence of damages; the non-existence of the conditions for certifying the claim as a class action (lack of personal cause of action for the plaintiffs against the Company, lack of basis regarding the existence of the group the plaintiffs contend they represent).

On January 10, 2011 the Court approved the compromise that was signed between the parties in the claim and in the request to certify the claim as a class action.

In accordance with the compromise that was approved by the Court as aforementioned, the Company has undertaken to provide consumer benefits to the public in a total amount it estimates at NIS 8.5 million. The benefit will be provided by the Company donating its products to the needy, by providing discounts on various dairy products of the Company and by donating money to children wards of hospitals in the periphery. Furthermore, the Company will pay to the plaintiffs and to their representatives compensation and fees in the amount of NIS 800 thousand.

26.1.1.2 On December 2, 2007 a claim was filed with the Haifa District Court under the Class Actions Law and the Consumer Protection Law against Strauss Dairies Ltd. (and in its present name Strauss Health Ltd.) and against the Company. A request was also submitted to have the claim certified as a class action.

According to the plaintiff, the provisions of the relevant standard require selling and marking the various "Danone" yogurt products of different types (the Yogurt) with its content being marked in units of volume according to the measures provided in the standard (150 ml., 200 ml., etc.), whereas in reality the yogurt is sold by the defendants seemingly according to the measures provided in the standard, but in units of weight (150 gr., 200 gr., etc.). The plaintiff set the amount of the class action at NIS 257 million. Furthermore, the plaintiff requested a declaratory order ordering the defendants to market the yogurt products according to the standard and to mark the content of their products according to measures of volume (ml.) and not as they presently do in measures of weight (gr.). on October 20, 2010 the District Court of Haifa approved the motion to approve the action with respect to part of the allegations. On December 9, 2010 an amended claim has been filed in the amount of NIS 33.8 million.

Management of the Company evaluates at this stage, on the basis of the opinion of its legal counsel, that the chances of the claim being accepted are low.

In accordance with the merger agreement of January 27, 2003 between the company and Strauss Holdings Ltd., the company holds a right to indemnity from Strauss Holdings, subject to the terms set in the merger agreement, for a portion of the amounts of the claims, as long as their cause preceded the date of completion of the merger transaction (March 22, 2004).

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.1 Class actions (cont'd)

26.1.1.3 On April 8, 2008 a claim was filed against the Company and others with the District Court of Central Region by four plaintiffs who allege that they purchased and viewed a videotape intended for children that contains subliminal advertising, following which they incurred pecuniary and non-pecuniary damages.

The plaintiffs allege that the subliminal advertising is contrary to the Consumer Protection Law, Communication Rules (Bezeq and Broadcasting) and impairs their autonomy, and also that they were caused mental anguish by being exposed to the subliminal advertising, which may have, inter alia, an effect on bad nutritional habits. The plaintiffs also allege that they may have "acted differently" had they been aware of the subliminal advertising.

In addition to the personal claim of NIS 1,000, the plaintiffs filed a request to certify the claim as a class action in the amount of NIS 100 million with respect to all the defendants. The Company intends to deny the allegations included in the claim and to act towards its dismissal.

On June 30, 2009, a monetary claim and request for certification thereof as a class action suit were filed against the Company and against additional defendants (including Hed Arzi, Classikaletet and Osem) in the District Court for the Central District, concerning publication of children's cassettes. The cause of action and the amount of this claim are identical to the claim filed on April 8, 2008. The plaintiff is requesting that the Court join the proceedings in the two actions.

Management of the Company evaluates at this stage, on the basis of the opinion of its legal counsel, that it is not likely that the claim will be certified as a class action.

26.1.1.4 On April 19, 2009 a claim and request to certify the claims as a class action suit were filed with the District Court of Jerusalem against the Company and other defendants regarding the labeling of the packaging of one of its products. The plaintiff claims that the marking "Kosher for Passover" was stamped on the product and not "Kosher for Passover only for legume eaters".
In addition to the personal claim of NIS 10 thousand the plaintiff filed a request for approval of the claim as a class action suit for the amount of NIS 50 million, relating to all of the respondents.
The plaintiff alleges that during "Hol Hamoed" of Passover he purchased 4 delicacies of "Cream Cheese with strawberries 0% Diet" manufactured by Strauss. The plaintiff contends that the bottom of the product was marked "Kosher for Passover" and the package was marked that the product is manufactured under Kashrut supervision of the Chief Rabbinate through the Rabbinate of Nahariya. He further alleges that after eating the product and from reading its ingredients, he realized that the product contained various types of starch, thereby, sinned by prohibited eating of legumes.

Management of the Company evaluates at this stage, on the basis of the opinion of its legal counsel, that it is not likely that the claim will be certified as a class action.

26.1.1.5 On July 8, 2009, a monetary claim and request for certification thereof as a class action suit were filed in the District Court for the Central Region against the subsidiary, Yotvata Dairies in memory of Uri Horazo Ltd. (50%) (hereinafter – "Yotvata Dairies") alleging reduction of the package of the "Yotvata Chocolate Milkshake" product. The amount of the claim is NIS 11 million.
The plaintiff alleges that the milkshake was previously sold, until 2006, in 500 ml, however on or about the beginning of 2006; Yotvata began selling the product in an amount of 400 ml without changing the price or the package capacity.
On July 29, 2010 the District Court of Central Region decided to deny the request to certify as a class action a claim that had been filed against the subsidiary (50%) Uri Horazo Yotvata Dairies Ltd., with respect to the packaging of the product "Yotvata Chocolate Milkshake". The plaintiff will be required to reimburse expenses in the amount of NIS 35 thousand plus VAT.
The plaintiff filed an appeal on the ruling with the Supreme Court and a hearing is scheduled for December 26, 2011. Management of the Company evaluates at this stage, on the basis of the opinion of its legal counsel, that the appeal will be denied.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.1 Class actions (cont'd)

26.1.1.6 On December 2, 2009, a monetary claim and a request for certification thereof were filed with the District Court for the Central Region against the subsidiary Yad Mordechai Apiary – Strauss Ltd. (51%) and others in the amount (for all defendants) of NIS 2,874 million. According to the plaintiff, the Company's portion is NIS 747 million. The plaintiff alleges that the labels issued by the Olive Council and stamped, inter alia, on the olive oil bottles made by Yad Mordechai, read "Quality label for Israeli Olive Oil" misleads consumers to believe that he purchases Israeli olive oil. As per the plaintiff, the defendants, among whom is Yad Mordechai, are used to sell imported olive oil, which is manufactured outside Israel and not in Israel, as the label issued by the Olive Council, proclaims.

Management of the Company evaluates at this stage, on the basis of the opinion of its legal counsel, that it is not likely that the claim will be certified as a class action.

26.1.1.7 On May 23, 2010 a monetary claim and a request to certify the claim as a class action were filed against the Company with respect to the package marking of the “Mimrahit” product manufactured by it. The personal claim and class action amount to NIS 178 million.

Management of the Company evaluates at this stage, on the basis of the opinion of its legal counsel, that it is not likely that the claim will be certified as a class action.

26.1.18 On July 13, 2010 a monetary claim and a request to certify the claim as a class action were filed against the Company to the District Court of Haifa with respect to the package marking of the “Danone Pecan Bar” product manufactured by it. The personal claim and class action amount to NIS 22 million. The Company denies the allegations included in the claim and will act towards its dismissal.

Based upon the opinion of its legal counsel, the company believes the chances of the claim to prevail are low.

26.1.1.9 On July 29, 2010 a monetary claim and a request to certify the claim as a class action were filed against the Company with the District Court of Central Region regarding the package marking of no added sugar chocolate products that are manufactured by it. The personal claim and class action amount to NIS 621 million. The Company denies the allegations included in the claim and will act towards its dismissal.

Based upon the opinion of its legal counsel, the company believes the chances of the claim to prevail are low.

26.1.10 On October 20, 2010 a monetary claim and a request to certify the claim as a class action were filed with the District Court of Tel Aviv against the subsidiary Yad Mordechai Apiary – Strauss Ltd. in an amount of NIS 30 million, relating to the alleged addition of a substance to its product, Extra Virgin Olive Oil. The Company rejects the allegations presented in the action and will take action for its withdrawal.

Management of the Company evaluates at this stage, on the basis of the opinion of its legal counsel, that it is not likely that the claim will be certified as a class action.

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 of indemnity the 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 26.4.5.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.2 Other claims and contingent liabilities (cont'd)

26.1.2.2 In 1998 Strauss Holdings (including any other corporation under its control that manufactures or markets dairy puddings) was declared a monopoly in dairy puddings. "Dairy puddings" were defined in the notice as a "non-fermented dairy product, sweetened with sugar or alternative sweetening agents, which contains, in addition to the dairy ingredients, typical flavoring ingredients (chocolate, vanilla, etc.), that is designed to be eaten with a spoon". The Company (including companies under its control) was declared to be a monopoly in the chocolate bar market, in the area of instant coffee and in the home cocoa powder area. Following the aforementioned declarations, the Commissioner of Restrictive Trade Practices issued instructions to the monopoly owners. Some of the Group's products are controlled by the virtue of the Commodities and Services Law – 1996.

26.1.2.3 On March 10, 2005 the Company and a consortium of underwriters signed an underwriting agreement regarding a prospectus for a public offer that was published by the Company on the same date. In the underwriting agreement the Company undertook to, inter alia, indemnify the underwriters or any one of them in respect of a liability imposed on them, if any, pursuant to a court ruling, which is due to the inclusion of a misleading detail in a prospectus, and in respect of reasonable legal expenses, including attorney fees, incurred by any of the underwriters or imposed by the court in proceedings that were held as specified in this item or with respect to a criminal proceeding from which the underwriter was acquitted or was found guilty of a violation that does not require the proof of criminal intent due to the inclusion of a misleading detail in a prospectus. The Company's indemnity undertaking described above is for a maximum of NIS 250 million, linked to the increase in the CPI. The aforementioned indemnity liability will not apply to any underwriter in respect of any amount imposed on the underwriter as a result of the inclusion of a misleading detail in a prospectus which was based on information that was provided to the Company in writing by the same underwriter, with the intention that it be used in the preparation of the prospectus.

26.1.2.4 In the framework of the agreement to sell shares of a company in Turkey from January 2005, the Company undertook to compensate the purchasers for tax demands relating to the period prior to the signing of the sale agreement, if such shall be made until January 14, 2010. The Company is not aware of tax demands filed until the date of publishing the financial statements.

26.1.2.5 On December 29, 2004 the Company received a notice from the legal advisor of the Restrictive Trade Practices Authority that the Restrictive Trade Practices Authority had recommended to file a criminal indictment against the Company, the CEO of the activity in Israel and six other managers for violations of the Restrictive Trade Practices Law. A draft indictment was attached to the notice. In the indictment, the Company, the officer and the six employees are charged of violating Sections 29 and 29A of the Restrictive Trade Practices Law in that they used the Company's status as a monopoly in the area of chocolate bars in order to place difficulties and barriers to the entrance of a competitor (Cadbury) on the markets. After a hearing and discussion were held with the Commissioner, the Company reached an agreement with the Commissioner that an indictment would not be filed and instead a request for an agreed order between the Company and the Commissioner would be submitted to the Restrictive Trade Practices Court. In accordance with the provisions of the order the Company and its managers undertook to honor certain undertakings, as detailed in the order, which mainly address sales by the Company to wholesalers and retailers in respect of competitive products. In addition, the Company undertook to pay the State NIS 5 million, a sum already provided for in the Company's financial statements published during 2005. The order did not involve an admission by the Company or any of its officers to their responsibility by law or to any breach by them of any provisions of the law. On January 10, 2007, the Restrictive Trade Practices Court confirmed the said order and on February 1, 2007 the amount the Company undertook to pay was paid. On February 20, 2008 the Commissioner of Restrictive Trade Practices announced that she intends to allow Carmit Candy Industries Ltd., the company that distributed Cadbury products in Israel, to read the material of the investigation that is in her possession regarding the "Elite – Cadbury" case. The Company objected to the disclosure of such documents to Carmit and on April 6, 2008 a temporary injunction preventing the transfer of the documents was issued. On July 18, 2010 a decision was rendered that cancels the temporary injunction and the Antitrust Authorities were allowed to transfer to Carmit documents of the investigation material in the file. The Company submitted a motion for permission to appeal on the 1st of August 2010 in which it was requested that the temporary order which was canceled shall continue to be in force. On the 5th of August 2010 the Court decided that

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.2 Other claims and contingent liabilities (cont'd)

26.1.5 (cont'd)

The temporary injunction shall remain in force. Carmit and the Commissioner submitted their response to the motion for permission to appeal. On the 10th of January 2011 the Court dismissed the company's motion to dismiss the claim in limine due to the law of limitations. On the 10th of February 2011 the Company submitted a motion for permission to appeal the decision to the Supreme Court. On February 27, 2011 the Supreme Court dismissed the appeal. A preliminary discussion was set for May 29, 2011.

26.1.2.6 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.

26.1.2.7 On January 31, 2010, Carmit Candy Industries Ltd. filed a claim with the District Court in the Central Region against the Company and three of its managers in the amount of NIS 22 million. The plaintiff alleges that in the early 2000's, it was appointed as an exclusive representative-distributor of Cadbury, an international candy company, and the company , allegedly, prevented the entry of competitive products to the Israeli market, as a result, the penetration of Cadbury products failed and in 2005, Cadbury discontinued its contacts with the plaintiff. The Company, based on its legal advisors, estimates that the chances of this claim to be accepted is low.

26.1.2.8 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 total NIS 111.8 million (including claims of distributors mentioned in Note 26.1.2.6). 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 18.2 million as a result of the above-mentioned claims, in respect of which a provision has been made in the financial statements.

26.1.2.9 See Note 37.1.3 regarding benefits received by Group companies under laws for the encouragement of capital investments.

26.2 Liens

26.2.1 The following liens have been provided as security for the liabilities of the Group companies:

	December 31	
	2010	**2009**
	NIS millions	
On current assets abroad in favor of foreign banks	20	24
On real estate assets in favor of foreign bank	11	12

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.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.2 Liens

26.2.3 Fixed and current liens on land, buildings, machinery, equipment, inventory, cash and cash equivalent and notes of a subsidiary operating in Israel have been registered in favor of the banks as security for credit.

26.2.4 The Company has undertaken in favor of banks in Israel not to mortgage or to otherwise encumber assets without receiving the prior written consent of the banks.

26.2.5 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.

26.2.6 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	
	2010	**2009**
	NIS millions	
In favor of subsidiaries in Israel and abroad	235	257
In favor of jointly controlled companies in Israel and abroad	64	65
In favor of others in Israel and abroad	310	249

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.

26.4 Material commitments

26.4.1 As at December 31, 2010, the Group companies are party to various agreements for the payment of royalties in a minimum annual amount of no less than US$2.1 million.

26.4.2 The Group companies have commitments under lease agreements, see Note 27.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.4 Material commitments

26.4.3 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.

26.4.4 See Note 30 regarding commitments with respect to derivatives.

26.4.5 The Company is engaged in an insurance policy for officers and directors of the Company and its subsidiaries with liability limits of US $ 75 million and the payment of an annual premium of US$ 100 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 June 30, 2013, providing that the insurance coverage limit does not exceed US$ 150 million, the annual premium does not exceed US$ 250,000.

26.4.6 An agreement between Strauss Health and its shareholders provides, inter alia, that for as long as there are directors representing Danone (a 20% shareholder of Strauss Health) on the board of directors of Strauss Health, Danone will have the right to veto certain board resolutions, including inter-company transactions and a resolution to distribute a dividend lower than 25% of the annual net income, an offer to the public or a change in share capital diluting Danone's holding. It was also provided that Strauss Health is to coordinate its export activity with Danone.

26.4.7 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.

26.4.8 Strauss Health, Yotvata and Strauss Aviv have agreements with dairy farmers to purchase the full milk produce quotas of the dairy farmers.

26.4.9 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, shareholder's right to join the sale of the other shareholder's shares, the right of the shareholder selling his shares to compel (as a rule, effective January 1, 2013) the other shareholder holding 50% or less of the joint company's share capital and did not exercise first refusal right, to join the sale; 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.

In addition, effective January 1, 2016, each shareholder in the joint company holding shares in excess of 25% of the share capital was granted a right to require the other shareholder to purchase all of his shares in a mutual purchase mechanism (BMBY), under the determined terms. 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.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.4 Material commitments (cont'd)

26.4.9 (cont'd)

On September 13, 2010 the parties signed an amendment to the shareholders agreement, according to which, among others, the BMBY right was cancelled. In addition, the right of the sell side to obligate the other party to sell shares was cancelled as well. The amendment includes an additional limitation, which prohibits a shareholder to sell its shares to a competitive party until January 1, 2020.

26.4.10 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 Strauss USA) 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 Strauss USA , as determined in the articles.

26.4.11 On December 24, 2007 the Company signed an agreement with third parties (hereinafter: the sellers) regarding the purchase of a building in “Park Yanai” on 49 Hasivim St. Petach Tikva that serves as the main offices of the Company for the price of US$ 19 million with the addition of VAT. A caveat was registered on the asset in favor of the Company. As at the date of the financial position, the amount of NIS 8.7 million is held by a trustee until all the tax approvals regarding the sale are provided by the sellers, after that during 2008, NIS 2.9 million was released from the amount held in trust upon providing approvals on tax payments in respect of the transaction.

The sellers undertook that within 7 years from completing the project (including the last two buildings of the Park Yanai project), the sold asset will be registered as a condominium. In accordance with the agreement the Company shall bear the relative part, according to the proportion between the area of the asset and the area of the other buildings in the project, of the registration expenses. If and to the extent the registration of the condominium takes more than seven years, or at any earlier date at the discretion of the Company, the Company will be entitled to request from the sellers to lease the building under a perpetual lease for 999 years without any lease payments and/or other payment and to register the lease with the Land Registrar until such time as the building is registered as a condominium.

The Company was granted by the individuals of the sellers an irrevocable personal guarantee as security for the commitment of the sellers to register the condominium. See Note 40.1 regarding an agreement for purchase of additional available land after the date of the financial position.

26.4.12 In September 2008 the Company signed a series of agreements following which the private investment fund TPG invested in Strauss Coffee B.V., a subsidiary of the Company that is domiciled in the Netherlands (hereinafter – Strauss Coffee). In the framework of the transaction, the coffee operation of the Group in Israel was transferred to Strauss Coffee, which presently manages the entire coffee operation of the Group. In the agreements the Company undertook to not invest in a company whose main business is coffee, other than coffee shops, for as long as TPG holds more than 10% of the capital of Strauss Coffee.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.4 Material commitments (cont'd)

26.4.12 (cont'd)

On the date the transaction was completed, a shareholders agreement in Strauss Coffee has been signed. The agreement includes a list of matters for which a decision regarding them or the exercise of them is subject to the approval of shareholders holding 90% of Strauss Coffee shares, as well as matters for which the approval of the Board of Directors is required, as long as at least one director, appointed by the investor, voted in favor. In the Company's opinion, these conditions enable the non-controlling interests holders to influence on transactions or events which are not in the normal course of business, and therefore act as protective rights, which cannot prevent the control of the Company in Strauss Coffee. On these matters, a mechanism for dissolving of disputes has been set, in case the above mentioned approvals have not been received.

On October 27, 2010, Strauss Coffee and TPG Capital have signed an Amendment to the Investment Agreement, which extends the option granted to TPG Capital to purchase additional 10% of the Company's shares by September 9, 2011. All other terms of the option remain unchanged. The extension of the options is not expected to have an impact on the financial statements of the Company.

26.4.13 See Note 39 regarding commitments with interested and related parties.

26.4.14 See Note 6.6 regarding engagement in respect to the establishment of a joint venture in China.

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	
	2010	2009
	NIS millions	
In the first year	62	60
Between one and five years	132	104
In the fifth year and thereafter	170	107
	364	271

The Group rents distribution and logistics centers in Zrifin, Acre, Haifa and Petach Tikva. The Group rents the distribution center in Zrifin from a third party for 25 years ending in November 2021. The Group rents the distribution center in Acre from a third party for a period of 10 years ending in February 2021. The Group has an option to extend the rental period for additional 5 years. The Group rents the distribution center in Haifa from third parties for a period of 20 years until October 2018 and the distribution center in Petach Tikva from a related company of the Group until March 2012.

In addition, the Group rents, through a subsidiary, offices, a store in New York, a store in Philadelphia, a store in Boston and a store in Las Vegas for the purpose of operating a chocolate bar. The rent period of these offices and stores ends in 2021. In Israel, the Group rents 5 stores for the purpose of operating a chocolate bar. The rent period of these stores ends in 2012-2013 and to some of them the Group has an option to extend the rental period for the years 2015-2016 and part of them for 2021.

Note 27 - Operating Leases (cont'd)

27.1 Leases in which the Group is the lessee (cont'd)

The Group also rents through its subsidiary 5 sites in New York that are used for manufacture, storage, distribution and offices until 2035. It also rents through its subsidiary in Romania 2 sites for manufacture, storage, distribution and offices until 2023, and through its subsidiary in Russia a plant until 2012.

The Group leases through a subsidiary a plant located in the industrial area near "Kibutz Nativ Halamed Hey", which is used for production, assembling, packaging and storing operations, as well as for offices to the plant management and other additional services for the period ended January 2018. The offices of the subsidiary's management and the call center, which are located in the new industrial area in Or Yehuda, are also leased from a third party until December 2013. Furthermore, the subsidiary leases additional areas in Or Yehuda and in the new industrial area in Lod for the periods ended in the years 2014-2015, and a building in Petah-Tikva used for research and development laboratories until December 2012. Outside of Israel the subsidiary leases, through another subsidiary in UK, a building of offices and a warehouse used for storing of the Company's productions delivered from Israel and for their distribution in UK. This lease agreement is valid until March 2014, with an option for an extension period of additional 5 years.

In the year ended December 31, 2010 an amount of NIS 78 million was recorded as an expense in the statement of income in respect of operating leases (2009 and 2008 – NIS 63 million and NIS 50 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	
	2010	2009
	NIS millions	
Up to one year	2	3
Between one and five years	1	1
	3	4

In the year ended December 31, 2010 an amount of NIS 2 million was recognized as rental revenue in the statement of income (2009 and 2008 - NIS 4 million and NIS 1 million, respectively).

Note 28 - Capital and Reserves

28.1 Share capital

28.1.1 Composition

	December 31	
	2010	2009
	Number of shares (in thousands)- 1 face value per share	
Authorized	150,000	150,000
Issued and paid-in	107,040	106,693

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.

Note 28 - Capital and Reserves (cont'd)

28.2 Treasury shares

28.2.1 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 0.82% of its shares. The investment in these shares is presented according to the “treasury shares” method as a part of shareholders’ equity.

28.2.2 In October 2002 the Company’s Board of Directors carried a resolution regarding a framework for the acquisition of Company shares by the Company and/or a subsidiary from time to time, in the course of trading on or outside of the Stock Exchange. At this stage, the framework is to be a total amount that does not exceed NIS 40 million, its source being Company profits available for distribution pursuant to the Companies Law. The manner of acquisition, prices and dates will be prescribed by Company Management at its discretion. Under the Companies Law, the shares acquired will become “dormant shares” until they are sold by the Company. The date of sale will be determined by Company Management at its discretion. In the course of 2008-2010 the Company did not purchase any shares.

28.3 Dividend distribution

Declaration date	Distribution date	Total dividend distributed NIS millions	Dividend per share NIS
January 19, 2010 (ex date: February 2, 2010)	February 17, 2010	200	1.889
March 25, 2009 (ex date: April 12, 2009)	April 27, 2009	200	1.897
September 14, 2008 (ex date: September 25, 2008)	October 12, 2008	200	1.90

As a result of the dividend distribution, the exercise price of the options that were granted to employees, as described in Note 25.2, was adjusted

For details regarding dividend declared after the statements' of financial position date, see Note 40.5.

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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.

28.5 Foreign exchange translation differences

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 operating segments was:

	December 31		
	2010	2009	2008
		NIS millions	
International Coffee	(209)	125	(267)
Sabra	(16)	(4)	8
Other	(2)	(1)	-
Total	(227)	120	(259)

Note 28 - Capital and Reserves (cont'd)

28.6 Capital management

The Company's policy is to preserve a strong capital base in order to maintain the Company's stability and support future development of the Group's business. Management of the Company monitors return on capital, defined as the total amount of equity attributable to the shareholders of the Company other than the non-controlling interests, and also the amount of dividends distributed to the ordinary shareholders. See Note 22.3 regarding the Company's requirements to meet condition in favor of bank in Israel.

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 in 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 before other income (expenses), which includes the allocation of selling expenses and general and administrative expenses, less certain items, as follows:

- One-time impairment of assets.
- Other expenses (income).
- Valuation results of commodities hedging transactions as at the end of the year that are reported in cost of sales.
- Expenses in respect of share-based payment and non-recurring grants.

Inter-segment pricing is determined on an arms' length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly financing income and expenses.

Note 29 - Segment Reporting (cont'd)

29.2 Details according to operating segments and reconciliation between the operating data of the segments and the consolidated report

	Year ended December 31		
	2010	2009	2008
	NIS millions		
Revenues			
Sales to external customers:			
Health & Wellness	1,811	1,769	1,805
Fun & Indulgence	872	855	866
Total Israel	2,683	2,624	2,671
Coffee Israel	592	598	582
Coffee Abroad	2,794	2,751	2,661
Total Coffee	3,386	3,349	3,243
International dips and spreads	297	215	237
Other	489	185	95
Sales to other segments:			
Health & Wellness	7	7	4
Fun & Indulgence	28	23	44
Total Israel	35	30	48
Coffee Israel	22	27	33
Coffee Abroad	-	-	1
Total Coffee	22	27	34
International dips and spreads	-	-	-
Other	1	1	-
Total revenues of the segments	6,913	6,431	6,328
Cancellation of inter-segment sales	(58)	(58)	(82)
Total consolidated revenues	6,855	6,373	6,246

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		
	2010	**2009**	**2008**
	NIS millions		
Profit			
Health & Wellness	228	217	199
Fun & Indulgence	77	71	75
Total Israel	305	288	274
Coffee Israel	75	78	69
Coffee Abroad	182	192	186
Total Coffee	257	270	255
International dips and spreads	26	30	12
Other	13	(18)	(19)
Total profit of the segments	601	570	522
Unallocated income (expenses):			
Valuation of commodities hedging transactions as at the end of the year	5	4	(10)
Non-recurring impairment of assets	-	-	(5)
Other income (expenses)	(45)	(35)	208
Share based payment and non recurring grant	(20)	(15)	(26)
Total operating profit	541	524	689
Financing expenses, net	(92)	(87)	(72)
Income before taxes on income	449	437	617

Note 29 - Segment Reporting (cont'd)

29.3 Additional information on operating segments

	Year ended December 31		
	2010	**2009**	**2008**
		NIS millions	
Depreciation and amortization (1)			
Health & Wellness	49	53	54
Fun & Indulgence	24	26	26
Total Israel	73	79	80
Coffee Israel	17	19	20
Coffee Abroad	67	79	98
Total Coffee	84	98	118
International dips and spreads	14	8	20
Other	26	15	4
Total depreciation and amortization attributed to segments	197	200	222
Adjustments:	29	20	27
Unallocated non-financial assets			
Total depreciation and amortization	226	220	249

(1) Includes impairment losses.

Note 29 - Segment Reporting (cont'd)

29.4 Information regarding geographical segments

Presented hereunder are the revenues of the Group from sales to external customers on the basis of the geographical location of the assets:

	Year ended December 31		
	2010	2009	2008
	NIS millions		
Israel	3,702	3,354	3,312
Europe	1,417	1,615	1,636
Brazil	1,388	1,137	1,025
USA	348	267	273
Total revenues	6,855	6,373	6,246

Presented hereunder are the non-current assets of the Group according to their geographical location:

	As at December 31	
	2010	*2009
	NIS millions	
Israel	1,516	1,442
Europe	940	887
Brazil	521	515
USA	302	208
Total assets	3,279	3,052

These assets include mainly fixed assets and intangible assets and do not include financial assets, deferred tax assets and assets designated for the payment of employee benefits.

* Reclassified in order to correspond with the presentation in the current period.

29.5 Information regarding products and services

Presented hereunder are the revenues of the Group from sales to external customers according to groups of similar products and services:

	Year ended December 31		
	2010	2009	2008
	NIS millions		
Revenues			
Dairy products	1,323	*1,289	*1,323
Salads	539	456	477
Other health and wellness	245	*238	*241
Sweets and baked products	729	717	729
Salted products	143	137	138
Coffee	3,386	3,349	3,243
Water refinery products (1)	381	78	-
Other	109	109	95
	6,855	6,373	6,246

(1) Revenues in the twelve months and the three months periods ended December 31, 2010 and 2009, respectively.

* Reclassified in order to correspond with the presentation in the current period.

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 models:

1. Options – Black & Scholes model, standard deviation and quotations of relevant underlying assets.
2. Forward transactions – According to the change in the price of the relevant underlying asset and interest differences deriving from interest rates and/or storage costs (for green coffee).
3. Debentures – According to the known interest curve and average duration of the debentures.

30.1 Credit risks

Credit risk is the risk of the Group incurring a monetary loss if a customer or counterparty does not meet its contractual obligations, and it derives mainly from debit balances of customers.

On the retail market the Group sells to two principal customers: Customer A (8.7% of sales) and Customer B (6.0% of sales). The balance of the Company's customers, other than the aforementioned two principal customers in Israel, is spread out and the risk deriving from the concentration of credit with a single customer or group of customers is immaterial.

The sales of the Group to its customers (in and outside of Israel) are mainly made on accepted market credit terms. The credit to retail customers of the private market in Israel (that are not included in the organized retail market) 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. The credit to customers on the organized 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 customers on the organized market may significantly impair the Group' cash flows and business results. Most of the credit to foreign customers is not guaranteed.

The Company's management constantly monitors customer debts and the financial statements include specific provisions for doubtful debts which properly reflect, according to the management's assessment, the loss inherent in debts the collection of which is doubtful.

Note 30 - Financial Instruments

30.1.1 Exposure to credit risks

The carrying amount of financial assets reflects maximum credit exposure. The maximum exposure to credit risk on the reporting date was:

	As at December 31	
	2010	2009
	NIS millions	
Cash and cash equivalents	729	957
Trade receivables (1)	1,017	998
Other receivables (2)	60	61
Deposits and non-trade securities	38	38
Marketable securities (excluding derivatives)	28	48
Derivatives	75	40
Investments and long-term loans	165	150
Total	2,112	2,292

(1) As at December 31, 2010 trade receivables in the amount of NIS 269 millions (2009 : Nis 210 millions) is guaranteed by credit insurance, as aforementioned.

(2) Other financial receivables comprise: employees, accrued income, interested parties, loans granted (including current maturities) and other receivables.

30.1.2 See Note 9 regarding exposure to credit risks in respect of customers. Furthermore, see Note 13 on loans granted and Note 8 on investments in marketable securities regarding classification of financial assets according to different credit risks.

30.2 Interest risks

The Company has floating interest loans and debentures (series c) and consequently its financial results (financing expenses) are exposed to risk due to interest changes.

30.2.1 Interest rate profile

The interest rate profile of the Group's interest bearing financial instruments as at the date of the report are as follows:

	As at December 31	
	2010	2009
	NIS millions	
Fixed interest financial instruments		
Financial assets (1)	179	344
Financial liabilities	(1,109)	(1,116)
	(930)	(772)
Floating interest financial instruments		
Financial assets	563	674
Financial liabilities (2)	(833)	(625)
	(270)	49

(1) Including debentures in the amount of NIS 10 million. In 2009 the annual NIS interest paid was 10.5%, for each day the NIS Telbor interest rate was lower than 7% or equal to it. The debentures were repaid in January 2010.

(2) Most of the Company's variable rate liabilities derive from debentures (Series C) in the amount of NIS 497 million (2009: NIS 495 million); other material liabilities are linked to the Real and Libor interest rates. See Note 20.

Note 30 - Financial Instruments (cont'd)

30.2 Interest risks

30.2.2 Fair value sensitivity analysis regarding fixed interest instruments

Most of the fixed interest assets and liabilities of the Group (such as deposits, loans granted and issued debentures) are not measured at fair value through profit or loss. Therefore, any change in the interest rate as at the reported date would not have a material effect on the statement of income.

30.2.3 The Company has an excess of liabilities over assets carrying variable interest (mainly due to the issuance of Series C debentures). The Company uses options on the Telbor interest rate (CAP) in order to fully hedge the variable interest risk. Presented hereunder are the Company's options to the date of statement of the financial position:

	Currency receivable	Date of expiration/ maturity/ sale	Weighted hedge rate	Carrying amount and fair value NIS millions
Options on interest (1)	NIS (Telbor)	Dec. 2012- June 2013	3.29%	2.3

(1) The amount of the contracts as at December 31, 2010 is NIS 600 million.

30.2.4 Cash flow sensitivity analysis regarding floating interest instruments

In respect of all the assets and liabilities other than the Series C debentures and the finance derivative (Notes 30.2.5 and 30.2.6, respectively), 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, 2010				
	Increase of 2%	Increase of 1%	Carrying amount and fair value	Decrease of 1%	Decrease of 2%
	NIS thousands*				
Total income (expense)	4,322	2,155	1,182	(2,155)	(4,322)

	December 31, 2009				
	Increase of 2%	Increase of 1%	Carrying amount and fair value	Decrease of 1%	Decrease of 2%
	NIS thousands*				
Total income (expense)	12,216	6,821	3,148	(6,821)	(12,216)

Additional details:
Most of the Company's variable rate revenues are linked to the euro interest rate and NIS interest rate. Most of the Company's variable rate liabilities are linked to the Real and Dollar interest rates.

* The amounts are presented in NIS thousands for convenience.

Note 30 - Financial Instruments (cont'd)

30.2 Interest risks

30.2.5 Changes in the interest rate paid on government debentures 817 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, 2010				
	Increase of 2%	Increase of 1%	Carrying amount and fair value	Decrease of 1%	Decrease of 2%
			NIS thousands*		
Total expense (Series C debentures)	(10,000)	(5,000)	(15,400)	5,000	10,000

	December 31, 2009				
	Increase of 2%	Increase of 1%	Carrying amount and fair value	Decrease of 1%	Decrease of 2%
			NIS thousands*		
Total expense (Series C debentures)	(10,000)	(5,000)	(11,950)	5,000	10,000

30.2.6 An increase (decrease) in the Telbor interest compared to the anticipated interest inherent in the fair value of each one of the future interest options (CAP) would have increased (decreased) the equity (the equity attributable to all the Company's shareholders) and the income for the period from these 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, 2010				
	Increase of 2%	Increase of 1%	Carrying amount and fair value	Decrease of 1%	Decrease of 2%
			NIS thousands*		
Total income (expense)	11,571	4,677	2,301	(1,666)	(1,900)

* The amounts are presented in NIS thousands for convenience.

30.3 Commodity risks

The Group companies use derivative financial instruments in order to reduce the exposure to risks arising from unusual changes in the prices of raw materials required for production purposes (green coffee, cocoa and sugar).

30.3.1 As at December 31, 2010 the derivative financial instruments of the Group (stock exchange derivatives) are as follows:

Note 30 - Financial Instruments (cont'd)

30.3 Commodity risks (cont'd)

	Exercise/expiry date	face value*	Carrying amount and fair value
		NIS thousands**	
Green Coffee			
Forward contracts purchased, net	March 2011- September 2011	(27,213)	(11,873)
Options purchased:			
Buy Call	March 2011- December 2011	103,998	23,658
Buy Put	March 2011 – December 2011	233,788	378
Options written:			
Sell Call	March 2011 – December 2011	149,051	(10,458)
Sell Put	March 2011 – December 2011	220,919	(3,712)
			(2,007)
Cocoa			
Forward contracts purchased	May 2011	2,405	157
Options purchased:			
Buy Call	March 2011	8,235	30
Options written:			
Sell Put	March 2011	6,599	(310)
			123
Sugar			
Forward contracts purchased	March 2011- December 2011	19,033	3,633

* The face value is referring to the exercise price of the instrument.

** The amounts are presented in NIS thousands for convenience.

30.3.2 Sensitivity analysis

An increase (decrease) in the prices of the following commodities will increase (decrease) shareholders' equity (the equity attributable to all the Company's shareholders) and income for the period, in respect of forward transactions and options, by the amounts presented below. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	December 31, 2010						
	Increase (1)	Increase of 10%	Increase of 5%	Fair value and carrying amount	Decrease of 5%	Decrease of 10%	Decrease (2)(3)(4)
	NIS thousands*						
Arabica	(9,997)	(3,223)	(1,206)		589	104	(668)
Robusta	4,281	2,855	1,429		(1,436)	(2,890)	(3,926)
Total	(5,716)	(368)	223	(2,007)	(847)	(2,786)	(4,594)
Cocoa	1,139	557	286	(123)	(319)	(679)	(1,139)
Sugar	2,947	2,267	1,133	3,633	(1,133)	(2,267)	(2,947)

Note 30 - Financial Instruments (cont'd)

30.3 Commodity risks (cont'd)

30.3.2 Sensitivity analysis (cont'd)

	December 31, 2009						
	Increase (1)	Increase of 10%	Increase of 5%	Fair value and carrying amount	Decrease of 5%	Decrease of 10%	Decrease (2)
	NIS thousands*						
Arabica	(6,125)	(1,103)	(125)		(359)	(1,471)	(2,383)
Robusta	6,415	4,343	2,215		(2,337)	(4,818)	(6,638)
Total	290	3,240	2,090	(7,835)	(2,696)	(6,289)	(9,021)
Cocoa	889	566	283	220	(283)	(566)	(889)
Sugar	1,776	1,366	683	1,645	(683)	(1,366)	(1,776)

* The amounts are presented in NIS thousands for convenience.

(1) In the last 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) In the last ten years, on the basis of closing rates, there was a maximum daily decrease of 13% in the price of Arabica and of 13.5% in the price of Robusta.
(3) In the last ten years, on the basis of closing rates, there was a maximum daily decrease of 15.7% in the price of Cocoa.
(4) In the last ten years, on the basis of closing rates, there was a maximum daily decrease of 13% in the price of Sugar.

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 US dollar and the Euro.

Balances in foreign currency or linked thereto are stated in the financial statements according to the exchange rates in effect at the date of the financial statements. Presented hereunder are data on the representative exchange rates of the main currencies in the financial statements:

	December 31			December 31		
	2010	2009	2008	2010	2009	2008
	NIS			%		
Polish Zloty	1.1919	1.3258	1.2754	(10.1)	3.95	(19.01)
Euro	4.7379	5.4417	5.2973	(12.93)	2.73	(6.39)
US dollar	3.5490	3.7750	3.8020	(5.99)	(0.71)	(1.14)
Pound Sterling	5.4928	6.1120	5.5481	(10.13)	10.15	(28.0)
Brazilian Real	2.1364	2.1669	1.6364	(1.41)	32.42	(24.6)

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks

30.4.1 The Group uses derivatives (OTC) in order to hedge part of its foreign currency risk. As at December 31, 2010 the derivative financial instruments of the Group (foreign currency) are as follows (presented in NIS thousands for convenience):

	Currency receivable	Currency payable	Date of expiration/ maturity/ sale	Carrying amount and Fair value
Forward currency contracts	Dollar	NIS	January 11	(804)
Call options purchased	Dollar	NIS	January 11-May11	68
Call options written	NIS	Dollar	April 11 – May 11	(9)
Put options written	Dollar	NIS	January 11-May 11	(304)
Put options purchased	NIS	Dollar	January 11	18
Call options purchased	Euro	NIS	May 11	45
Call options written	NIS	Euro	May 11	(9)
Put options purchased	NIS	Euro	May 11	77
Put options written	Euro	NIS	May 11	(161)
Call options purchased	Pound	NIS	June 11	80
Call options written	NIS	Pound	June 11	(18)
Put options written	Pound	NIS	June 11	(276)
Forward currency contracts	Dollar	Zloty	January 11 – March 11	5
Forward currency contracts	Dollar	Ron	January 11	(125)
Forward currency contracts	Dollar	Grivne	March 11	(66)
Put options purchased	Rouble	Dollar	March 11	241
Forward currency contracts	Dollar	Rouble	March 11	(172)
Call options purchased	Dollar	Rouble	April 11	211
Call options written	Rouble	Dollar	March 11-April 11	(84)
Put options written	Dollar	Ron	April 11	(22)
Call options purchased	Dollar	Ron	April 11	90
Call options written	Ron	Dollar	April 11	(30)
Forward currency contracts	Dollar	Real	February 11-October 11	(71)
				(1,316)

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.1 (cont'd)

As at December 31, 2009 the derivative financial instruments of the Group (foreign currency) are as follows (presented in NIS thousands for convenience):

	Currency receivable	Currency payable	Date of expiration/ maturity/ sale	Carrying amount and Fair value
Forward currency contracts	Dollar	NIS	February 2010	(2)
Put options purchased	NIS	Dollar	February 10- March 10	282
Call options written	NIS	Dollar	March 10	(78)
Forward currency contracts	NIS	Euro	March 10	200
Call options purchased	Dollar	NIS	March 10	20
Forward currency contracts	Euro	NIS	March 10	(29)
Call options purchased	Euro	NIS	February 10 – June 10	1,511
Call options written	NIS	Euro	March 10 – June 10	(512)
Call options purchased	Pound	NIS	September 10	987
Call options written	NIS	Pound	September 10	(188)
Put options written	Pound	NIS	September 10	(498)
Forward currency contracts	Dollar	Zloty	January 10	105
Forward currency contracts	Dollar	Ron	January 10	(26)
Forward currency contracts	Dollar	Rouble	January 10	(252)
Forward currency contracts	Dollar	Real	February 10 – January 11	1,472
Call options purchased	Rouble	Dollar	January 10	84
				3,076

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.2 Sensitivity analysis

Presented hereunder is a sensitivity analysis of the Group's derivative instruments (foreign currency) as at December 31, 2010 and December 31, 2009 (presented in NIS thousands for convenience). Any change in the exchange rates of the principal currencies as at December 31 would have increased (decreased) equity (the equity attributable to all the Company's shareholders) and income for the period by the amounts presented below. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	December 31, 2010 (NIS thousands)				
	10% increase	5% increase	Carrying amount and fair value	5% decrease	10% decrease
NIS/Euro exchange rate	5.2117	4.9748	4.7379	4.501	4.2641
Effect of call options	401	119	36	(30)	(34)
Effect of put options	73	54	(84)	(144)	(434)
Total	474	173	(48)	(174)	(468)
NIS/Pound exchange rate	6.0421	5.7674	5.4928	5.2182	4.9435
Effect of call options	268	93	62	(43)	(58)
Effect of put options	206	137	(276)	(277)	(696)
Total	474	230	(214)	(320)	(754)
NIS/Dollar exchange rate	3.9039	3.7265	3.549	3.3716	3.1941
Forward transactions	1,420	710	(804)	(710)	(1,420)
Effect of call options	2,136	575	59	(41)	(53)
Effect of put options	273	235	(286)	(812)	(2,147)
Total	3,829	1,520	(1,031)	(1,563)	(3,620)
Zloty/Dollar exchange rate	3.2753	3.1264	2.9775	2.8286	2.6797
Forward transactions	1,237	618	5	(619)	(1,237)
Total	1,237	618	5	(619)	(1,237)
Rouble/Dollar exchange rate	33.635	32.106	30.577	29.048	27.519
Forward transactions	2,305	1,152	(172)	(1,152)	(2,305)
Effect of put options	(226)	(192)	241	592	1,393
Effect of call options	744	290	127	(90)	(114)
Total	2,823	1,250	196	(650)	(1,026)
Ron/Dollar exchange rate	3.5118	3.3521	3.1925	3.0329	2.8733
Forward transactions	671	335	(125)	(335)	(670)
Effect of put options	12	6	(22)	(37)	(169)
Effect of call options	136	55	60	(30)	(47)
Total	819	396	(87)	(402)	(886)
Grivne/Dollar exchange rate	8.7579	8.3598	7.9617	7.5636	7.1655
Forward transactions	713	356	(66)	(356)	(713)
Total	713	356	(66)	(356)	(713)
Real/Dollar exchange rate	1.8273	1.7443	1.6612	1.5782	1.4951
Forward transactions	976	488	(71)	(488)	(976)
Total	976	488	(71)	(488)	(976)

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.2 Sensitivity analysis (cont'd)

	December 31, 2009 (NIS thousands)				
	10% increase	5% increase	Carrying amount and fair value	5% decrease	10% decrease
NIS/Euro exchange rate	5.986	5.714	5.442	5.170	4.898
Effect of call options	756	1,274	999	(937)	(1,067)
Forward transactions	-	-	171	-	-
Total	756	1,274	1,170	(937)	(1,067)
Real/Dollar exchange rate	1.915	1.828	1.741	1.654	1.567
Forward transactions	(142)	(71)	1,472	71	142
NIS/Dollar exchange rate	4.153	3.964	3.775	3.586	3.398
Effect of call options	(817)	(221)	(58)	41	44
Effect of put options	(265)	(242)	282	1,308	3,415
Forward transactions	566	283	(2)	(283)	(566)
Total	(516)	(180)	222	1,066	2,893
Zloty/Dollar exchange rate	3.132	2.990	2.847	2.705	2.563
Forward transactions	508	254	105	(254)	(508)
Rouble/Dollar exchange rate	32.930	31.434	29.937	28.440	26.943
Effect of put options	(84)	(78)	84	321	695
Forward transactions	1,158	579	(252)	(579)	(1,158)
Total	1,074	501	(168)	(258)	(463)
Ron/Dollar exchange rate	3.233	3.086	2.939	2.792	2.645
Forward transactions	753	376	(26)	(376)	(753)
NIS/Pound exchange rate	6.722	6.417	6.112	5.806	5.500
Effect of call options	834	398	799	(325)	(521)
Effect of put options	434	275	(498)	(444)	(1,098)
Total	1,268	673	301	(769)	(1,619)

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.3 Linkage balance

The currency risk of the Group, based on carrying amounts, is as follows:

	December 31, 2010							
	NIS linked	NIS unlinked	Dollar	Euro	Brazilian Real	Other	Non-financial (1)	Total
	NIS thousands							
Cash and cash equivalents	-	189	126	305	9	100	-	**729**
Securities and deposits	29	18	17	-	-	2	-	**66**
Trade receivables	-	483	84	22	159	269	-	**1,017**
Income tax receivables	-	-	-	-	-	-	79	**79**
Other receivables and debit balances	8	48	46	2	28	1	93	**226**
Inventory	-	-	-	-	-	-	682	**682**
Other investments and long-term debit balances	12	50	63	24	16	-	2	**167**
Assets designated for the payment of employee benefits	-	-	-	-	-	-	6	**6**
Fixed assets	-	-	-	-	-	-	1,532	**1,532**
Intangible assets	-	-	-	-	-	-	1,696	**1,696**
Deferred expenses	-	-	-	-	-	-	27	**27**
Investment property	-	-	-	-	-	-	24	**24**
Deferred tax assets	-	-	-	-	-	-	19	**19**

(1) Including financial assets that were excluded from the scope of IFRS 7.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.3 Linkage balance (cont'd)

	December 31, 2010							
	NIS linked	NIS unlinked	Dollar	Euro	Brazilian Real	Other	Non-financial (1)	Total
	NIS million							
Current maturities of debentures	(95)	(165)	-	-	-	-	-	**(260)**
Short term Credit and loans from banks	-	(32)	(117)	-	(97)	-	-	**(246)**
Trade payables	-	(523)	(123)	(22)	(49)	(76)	-	**(793)**
Income tax payables	-	-	-	-	-	-	(36)	**(36)**
Other payables and credit balances	(15)	(276)	(68)	(10)	(39)	(69)	(57)	**(534)**
Provisions	-	-	-	-	-	-	(36)	**(36)**
Debentures	(845)	(332)	-	-	-	-	-	**(1,177)**
Long term -Loans and credit	-	(32)	(198)	-	(38)	-	-	**(268)**
Long-term payables and credit balances	-	-	(1)	-	(2)	(1)	(23)	**(27)**
Employee benefits	-	-	-	-	-	-	(28)	**(28)**
Deferred taxes	-	-	-	-	-	-	(143)	**(143)**
Total	(906)	(572)	(171)	321	(13)	226	3,837	**2,722**

(1) Including financial assets that were excluded from the scope of IFRS 7.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.3 Linkage balance (cont'd)

	December 31, 2009							
	NIS linked	**NIS unlinked**	**Dollar**	**Euro**	**Brazilian Real**	**Other**	**Non-financial (1)**	**Total**
	NIS million							
Cash and cash equivalents	-	273	163	403	8	110	-	**957**
Securities and deposits	38	30	18	-	-	-	-	**86**
Trade receivables	-	438	98	31	121	310	-	**998**
Income tax receivables	-	-	-	-	-	-	55	**55**
Other receivables and debit balances	13	30	44	3	2	2	82	**176**
Inventory	-	-	-	-	-	-	664	**664**
Other investments and long-term debit balances	10	50	37	36	15	1	9	**158**
Assets designated for the payment of employee benefits	-	-	-	-	-	-	7	**7**
Fixed assets	-	-	-	-	-	-	1381	***1381**
Intangible assets	-	-	-	-	-	-	*1619	****1619**
Deferred expenses	-	-	-	-	-	-	31	***31**
Investment property	-	-	-	-	-	-	21	***21**
Deferred tax assets	(94)	-	-	-	-	-	5	**5**

(1) Including financial assets that were excluded from the scope of IFRS 7.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.3 Linkage balance (cont'd)

	December 31, 2009							
	NIS linked	NIS unlinked	Dollar	Euro	Brazilian Real	Other	Non-financial (1)	Total
	NIS thousands							
Current maturities of debentures	(94)	-	-	-	-	-	-	**(94)**
Short term Credit and loans from banks	-	(15)	(73)	-	(79)	-	-	**(167)**
	-	(456)	(137)	(43)	(37)	(84)	-	**(757)**
Trade payables								
Income tax payables	-	-	-	-	-	-	(50)	**(50)**
Other payables and credit balances	(14)	(268)	(51)	(14)	(28)	(44)	(61)	**(480)**
Provisions	-	-	-	-	-	-	(36)	**(36)**
Debentures	(915)	(495)	-	-	-	-	-	**(1,410)**
Long term -Loans and credit	(3)	(11)	(36)	-	(29)	-	-	***(79)**
Long-term payables and credit balances	-	(1)	(1)	-	(2)	(1)	(33)	**(38)**
Employee benefits	-	-	-	-	-	-	(32)	**(32)**
Deferred taxes	-	-	-	-	-	-	(129)	**** *(129)**
Total	(965)	(425)	62	416	(29)	294	3,533	**2,886**

(1) Including financial assets that were excluded from the scope of IFRS 7.

* Retroactive classification of a new accounting standard, see Note 3.23.

** Reclassified, see Note 6.4.

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risks (cont'd)

30.4.4 Sensitivity analysis regarding financial assets (liabilities)

Any change in the exchange rates of the principal currencies as at December 31 would have increased (decreased) equity (the equity attributable to all the Company's shareholders) and income for the period by the amounts presented below. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.
The sensitivity analysis relates to foreign currency risk arising from financial items denominated in foreign currency that is not the functional currency of the Company and its investee companies. Therefore, the foreign currency risk arising from the translation of financial statements of foreign operations, which is reflected in a translation reserve, is not included in this sensitivity analysis.

	December 31, 2010				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/Dollar exchange rate	3.904	3.726	3.549	3.372	3.194
Effect in NIS thousands*	4,898	2,499	48,981	(2,449)	(4,898)
NIS/Euro exchange rate	5.212	4.975	4.738	4.501	4.264
Effect in NIS thousands*	1,320	660	13,200	(660)	(1,320)
Rouble/Dollar exchange rate	33.63	32.11	30.58	29.05	27.52
Effect in NIS thousands*	(1,176)	(588)	(11,755)	588	1,176
Ron/ Euro exchange rate	4.688	4.475	4.262	4.049	3.836
Effect in NIS Thousands*	3,597	1,799	35,973	(1,799)	(3,597)

*The amounts were presented in NIS thousands for convenience.

	December 31, 2009				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/Dollar exchange rate	4.153	3.964	3.775	3.586	3.398
Effect in NIS thousands*	8,457	4,229	84,574	(4,229)	(8,457)
NIS/Euro exchange rate	5.986	5.714	5.442	5.170	4.898
Effect in NIS thousands*	(1,618)	(809)	(16,181)	809	1,618
Euro/Dollar exchange rate	0.763	0.728	0.694	0.659	0.624
Effect in NIS thousands*	3,662	1,831	36,621	(1,831)	(3,662)
Zloty/Euro exchange rate	4.515	4.310	4.105	3.899	3.694
Effect in NIS thousands*	(1,591)	(795)	(15,909)	795	1,591
Rouble/dollar exchange rate	32.93	31.43	29.94	28.44	26.94
Effect in NIS thousands*	(1,764)	(882)	(17,644)	882	1,764
Ron/ Euro exchange rate	4.660	4.448	4.236	4.024	3.813
Effect in NIS Thousands*	4,867	2,433	48,667	(2,433)	(4,867)

*The amounts were presented in NIS thousands for convenience.

Note 30 - Financial Instruments (cont'd)

30.5 CPI risks

The Company has an excess of CPI-linked liabilities over CPI-linked assets (mainly in respect of the issuance of debentures in March 2005 and in February 2007). 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 (2010 average basis):

	December 31			Annual rate of change		
	2010	2009	2008	2010	2009	2008
	Points			%		
Last published CPI	113.1	110.6	106.5	2.26	3.82	4.51

30.5.1 The Company uses futures contracts for one year in order to hedge part of the CPI risk arising from the excess of liabilities. As at December 31, 2010 the financial instruments (CPI) of the Group are as follows:

	Currency receivable	Currency payable	Date of expiration/ maturity/ sale	Carrying amount and fair value NIS million
Futures CPI contracts (1)	CPI	NIS	02/11-02/12	5.5

(1) As at December 31, 2010 there are contracts in the amount of NIS 250 million.

The Company uses futures contracts for one year in order to hedge part of the CPI risk arising from the excess of liabilities. As at December 31, 2009 the financial instruments (CPI) of the Group are as follows:

	Currency receivable	Currency payable	Date of expiration/ maturity/ sale	Carrying amount and fair value NIS million
Futures CPI contracts (1)	CPI	NIS	01/10-01/11	13.5

(1) As at December 31, 2009 there are contracts in the amount of NIS 291 million.

Note 30 - Financial Instruments (cont'd)

30.5 CPI risks (cont'd)

30.5.2 Sensitivity analysis

An increase (decrease) in the CPI compared to the index inherent in the liability value of the debentures would have increased (decreased) the equity (the equity attributable to all the Company's shareholders) and income for the period in respect of the debentures (Series A and Series B) by the amounts presented below. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	December 31, 2010				
	5% increase	2.5% increase	Carrying amount	2.5% decrease	5% decrease
	NIS million				
Series A	(4.8)	(2.4)	95.1	2.4	4.8
Series B*	(43.0)	(21.5)	859.1	21.5	43.0
Total	(47.8)	(23.9)	954.2	23.9	47.8

	December 31, 2009				
	5% increase	2.5% increase	Carrying amount	2.5% decrease	5% decrease
	NIS million				
Series A	(9.2)	(4.6)	183.5	4.6	9.2
Series B*	(42.0)	(21.0)	839.6	21.0	42.0
Total	(51.2)	(25.6)	1,023.1	25.6	51.2

* 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.

	December 31, 2010				
	1% increase	0.5% increase	Fair value and carrying amount	0.5% decrease	1% decrease
	NIS million				
Futures CPI contracts	2.5	1.3	5.5	(1.3)	(2.5)

	December 31, 2009				
	1% increase	0.5% increase	Fair value and carrying amount	0.5% decrease	1% decrease
	NIS million				
Futures CPI contracts	2.9	1.5	13.5	(1.5)	(2.9)

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 A, Series B and Series C). In addition to these liabilities, the Company has credit lines from banks that are not guaranteed. Over the years the Company's business operations have generated positive cash flows that enable it to meet the financial obligations it assumed upon itself. Nevertheless, if the Company should require any sources of financing, in addition to those generated by its business operations, the Company will be able to use the additional credit lines at its disposal.

Presented hereunder are the contractual repayment dates of financial liabilities, including interest payments, without the effect of setoff agreements. This analysis is based on indices known as at the reporting date, such as: the CPI, foreign currency exchange rates and interest rates.

	December 31, 2010								
	Note	Carrying amount	Contractual cash flow	2011	2012	2013	2014	2015	2016 and thereafter
		NIS million							
Trade payables	17	793	793	793	-	-	-	-	-
Derivatives	18	47	47	47	-	-	-	-	-
Redeemable preferred shares (1)	18	13	13	13	-	-	-	-	-
Other payables	18	433	433	433	-	-	-	-	-
Debentures Series A	20.1	95	99	99	-	-	-	-	-
Debentures Series B	20.1	845	1,046	35	35	35	202	195	544
Debentures Series C	20.1	497	525	180	175	170	-	-	-
Bank credit	20.1	8	8	8	-	-	-	-	-
Bank loans	20.1	64	70	6	8	10	11	15	20
Bank loans	20.1	59	64	1	1	13	13	12	24
Bank loans	20.1	17	17	4	7	6	-	-	-
Others loans	20.1	32	39	5	5	6	6	9	8
Others loans	20.1	29	37	2	2	7	7	7	12
Bank loans	20.1	25	28	10	9	6	2	1	-
Others loans	20.1	4	5	2	3	-	-	-	-
Credit cards factoring	20.1	28	28	15	11	2	-	-	-
Banks and others loans	20.1	38	44	-	19	12	1	12	
Bank credit	20.1	96	96	96	-	-	-	-	-
Bank loans	20.1	9	10	-	10	-	-	-	-
Bank credit	20.1	105	105	105	-	-	-	-	-
		3,237	3,507	1,854	285	267	242	251	608

(1) The preferred shares are redeemable immediately; however, the Company does not expect a redemption in the short term.

* Retroactive classification of a new accounting standard, see Note 3.23.

Note 30 - Financial Instruments (cont'd)

30.6 Liquidity risk (cont'd)

	December 31, 2009								
	Note	**Carrying amount**	**Contractual cash flow**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015 and thereafter**
		NIS million							
Trade payables	17	758	758	758	-	-	-	-	-
Derivatives	18,23	20	20	19	1	-	-	-	-
Redeemable preferred shares (1)	18	13	13	13	-	-	-	-	-
Other payables	18	372	372	372	-	-	-	-	-
Debentures Series A	20.1	184	193	97	96	-	-	-	-
Debentures Series B	20.1	825	1,052	34	34	34	34	200	716
Debentures Series C	20.1	495	530	12	176	172	170	-	-
Bank credit	20.1	1	1	1	-	-	-	-	-
Others loans*	20.1	3	3	-	1	2	-	-	-
Bank loans	20.1	5	4	2	1	1	-	-	-
Bank loans	20.1	8	8	3	3	1	1	-	-
Credit cards factoring	20.1	15	16	9	6	1	-	-	-
Bank loans	20.1	7	7	-	7	-	-	-	-
Bank loans	20.1	99	108	84	10	11	3	-	-
Bank loans	20.1	73	75	75	-	-	-	-	-
Others loans	20.1	34	41	2	7	7	9	9	7
		2,912	3,201	1,481	342	229	217	209	723

(1) The preferred shares are redeemable immediately; however, the Company does not expect a redemption in the short term.

* Retroactive implementation of a new accounting standard. See Note 3.23.

Note 30 - Financial Instruments (cont'd)

30.7 Fair value of financial instruments

30.7.1 Fair value

The carrying amount of the cash and cash equivalents, short-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 assets and liabilities that are not presented in the financial statements at fair value:

	December 31, 2010		December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS million			
Financial assets	*12	12	*14	14
Investments and long-term debit balances (1)	*8	8	10	9
Investment in non-traded debentures				
Financial liabilities				
Long-term loans	90	72	43	43
Series A Debentures including current maturity (2)	95	98	184	192
Series B Debentures (2)	859	951	840	901
Series C Debentures (2)	498	504	496	510

*Differences lower than NIS 1 million.

(1) The fair value of long-term loans granted is based on the present value of the cash flows calculated on the basis of a weighted interest rate for similar loans having similar characteristics of 4.5%-5.52% (last year: 3.5%-5%).

(2) 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, 2010 and December 31, 2009 – NIS 15 Million and NIS 14 million, respectively, and interest accrued on Series C debentures as at December 31, 2010 at the amount of NIS 1 million, similar to 2009).

See Note 5 regarding determination of the fair value of financial instruments.

30.7.2. Sensitivity analysis of fair value of debentures

Changes in the rates of return of debentures would have changed the fair value of the debentures (Series A, B and C) by the amounts presented below:

	December 31, 2010				
	10% increase	5% increase	Rate of return/ fair value	5% decrease	10% decrease
			NIS thousands		
Series A – yield	0.57%	0.55%	0.52%	0.49%	0.47%
Series A – fair value	(44)	(22)	97,936	22	44
Series B – yield	2.22%	2.12%	2.02%	1.92%	1.82%
Series B – fair value	(6,910)	(3,455)	950,610	3,455	6,910
Series C – yield	3.1%	2.95%	2.82%	2.68%	2.54%
Series C – fair value	(1,960)	(980)	504,050	980	1,960
Total	(8,914)	(4,457)	1,552,596	4,457	8,914

Note 30 - Financial Instruments (cont'd)

30.7 Fair value of financial instruments (cont'd)

30.7.2 Sensitivity analysis (cont'd)

	December 31, 2009				
	10% increase	5% increase	Rate of return/ fair value	5% decrease	10% decrease
			NIS thousands		
Series A – yield	0.43%	0.41%	0.39%	0.37%	0.35%
Series A – fair value	(100)	(50)	191,862	50	100
Series B – yield	3.18%	3.03%	2.89%	2.75%	2.60%
Series B – fair value	(13,534)	(6,767)	901,157	6,767	13,534
Series C – yield	2.08%	1.98%	1.89%	1.80%	1.70%
Series C – fair value	(2,100)	(1,050)	510,200	1,050	2,100
Total	(15,734)	(7,867)	1,603,219	7,867	15,734

30.7.3 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 which are observable for the assets or liabilities, either directly or indirectly.
- Level 3: inputs that are not based on observable market data (unobservable inputs).

		31 December 2010	
		Level 1	Level 2
	Note	NIS million	
Financial assets			
Marketable securities	8	28	-
Derivatives	10	28	9
Available for sale financial asset	13	19	-
Financial liabilities			
Derivatives	18	(26)	(2)
		49	7

		31 December 2009	
		Level 1	Level 2
	Note	NIS million	
Financial assets			
Marketable securities	8	48	-
Derivatives	10	11	17
Available for sale financial asset	13	13	-
Financial liabilities			
Derivatives	18	(15)	(2)
		57	15

As at December 31, 2009 and 2010, the Company does not have financial instruments classified as level 3.

Note 30 - Financial Instruments (cont'd)

30.8 Other price risk

The Group's investment in an available-for-sale financial asset is in shares listed for trading on the Tel Aviv Stock Exchange (see Note 13). In 2009 the Company recognized an impairment loss on the investment in the amount of NIS 1 million.

30.8.1 Sensitivity analysis of available-for-sale financial asset measured at fair value

Any change in the price of the share as at December 31, would have increased (decreased) the equity (the equity attributable to all the Company's shareholders) and income for the period by the amounts presented below. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	December 31, 2010				
	20% increase	10% increase	Fair value and carrying amount	10% decrease	20% decrease
			NIS million		
Available for sale financial asset	3.8	1.9	19.0	(1.9)	(3.8)

	December 31, 2009				
	20% increase	10% increase	Fair value and carrying amount	10% decrease	20% decrease
			NIS million		
Available for sale financial asset	2.5	1.3	12.7	(1.3)	(2.5)

An increase in the fair value of the financial asset subsequent to statements of financial position date shall be reflected in other comprehensive income and equity, whereas a decrease in fair value may be reflected in the statement of income if it is material or prolong. The Company's indirect share in the abovementioned changes is 40%.

Note 31 - Sales

	For the year ended December 31		
	2010	2009	2008
		NIS million	
Sales of manufactured products	5,838	5,387	5,512
Sales of other products	848	947	728
Other income (1)	169	39	6
	6,855	6,373	6,246

(1) Other income includes mainly income from royalties, from services rendered and from rental of coffee machines.

Note 32 - Cost of Sales

32.1 By components

	For the year ended December 31		
	2010	2009	2008
	NIS million		
Materials consumed	3,458	*3,240	3,311
Wages, salaries and related expenses	440	351	320
Depreciation and amortization	128	117	119
Other manufacturing expenses	228	224	238
Change in provision for warranty	2	(2)	-
Decrease (increase) in inventories of unfinished and finished goods (1)	11	*72	(29)
	4,267	4,002	3,959
Valuation of balance of commodities hedging transactions as at the end of the year	(5)	(4)	10
	4,262	3,998	3,969

(1) Including net loss of NIS 29 million (2009 and 2008: NIS 30 million and NIS 40 million, respectively) in respect of inventory impairment losses.

* Reclassified

32.2 By source of income

	For the year ended December 31		
	2010	2009	2008
	NIS million		
Manufactured products	3,514	3,360	3,344
Other products	670	622	614
Other income (1)	83	20	1
	4,267	4,002	3,959
Valuation of balance of commodities hedging transactions as at the end of the year	(5)	(4)	10
	4,262	3,998	3,969

(1) Costs in respect of other income include mainly maintenance expenses in respect of coffee machines and cost for services to water purification devices (commencing Q4 2009).

Note 33 - Selling and Marketing Expenses

	For the year ended December 31		
	2010	2009	2008
	NIS million		
Salaries and related expenses	637	541	513
Advertising	358	342	399
Doubtful and bad debts	7	30	8
Other	108	*94	*49
Transport expenses	263	237	259
Maintenance expenses	172	153	154
Depreciation and amortization	68	60	52
Impairment loss on assets	-	-	4
Reimbursement of expenses by jointly controlled companies	(16)	*(15)	*(14)
	1,597	1,442	1,424

* Reclassified in order to correspond with the presentation in the current period.

Note 34 - General and Administrative Expenses

	For the year ended December 31		
	2010	2009	2008
	NIS million		
Salaries and related expenses (1)	228	227	204
Depreciation and amortization	20	20	21
Donations	10	9	4
Consulting fees	84	51	66
Research and development	6	6	2
Other	64	*63	*77
Reimbursement of expenses by jointly controlled companies	(2)	*(2)	*(2)
	410	374	372
(1) Less:			
Salaries and related expenses capitalized to software for self-use	2	3	6
Salaries and related expenses included in research and development expenses.	4	4	2

* Several amounts in this note have been reclassified in order to correspond with the presentation in the current period.

Note 35 - Other Income (Expenses), Net

	For the year ended December 31		
	2010	2009	2008
	NIS million		
Other income			
Gain on sale of fixed assets, net	-	-	1
Gain on sale and partial disposal of subsidiaries	-	-	46
Gain on issuance of rights in subsidiary	-	-	231
Dividend income on available-for-sale financial assets	1	-	1
Other income	2	4	15
Total other income	3	4	294
Other expenses			
Loss on sale of fixed assets, net	(3)	(5)	-
Impairment loss on investment property	-	(1)	-
Restructuring expenses(2) (3)	(31)	(8)	(8)
Expenses of establishment and purchase of operations (4)	(9)	-	-
Impairment loss on intangible assets(1)	-	(22)	(53)
Loss on available-for-sale securities reclassified from P&L to other comprehensive income	-	-	(3)
Loss on available-for-sale securities recognized in the statement of income	-	(2)	(5)
Loss from sale of operation	-	-	-
Cost of purchase transactions that were not realized	(1)	(1)	(12)
Other expenses	(4)	-	(5)
Total other expenses	(48)	(39)	(86)
Other income (expenses), net	(45)	(35)	208

(1) In 2009 includes a loss of NIS 22 million related to impairment of goodwill in the coffee segment.
(2) In 2010 includes costs of restructuring in Strauss Bulgaria EOOD in the amount of NIS 15 million.

Note 35 - Other Income (Expenses), Net (cont'd)

(3) As of the date of the financial statements the group operates a set up of ushers the large stores that deal with renewing the orders and arranging the group's products on the shelves. Towards the end of 2009 the large food chains announced their intention to operate themselves, in a gradual manner the set up of ushers of the products and in the month of March 2010 an agreement was signed in this matter between the company and the Shufersal chain. An additional agreement was signed on June 2010 with "Co-Op Israel" chain. As a result the company recognized a provision for restructuring. The balance of the provision as of December 31, 2010 is approximately NIS 1.2 million. The total costs of the restructuring during the period of the statement including the said provision, totaled the amount of approximately NIS 4.5 million.

(4) See Notes 6.5, 6.6 and 6.7.

Note 36 - Financing Expenses, net

	For the year ended December 31		
	2010	**2009**	**2008**
		NIS million	
Financing income:			
Interest income	25	24	33
Net gain on financial assets measured at fair value through profit and loss	-	14	-
Net gain from foreign currency rates	5	-	42
Total financing income	30	38	75
Financing expenses:			
Net loss on financial assets measured at fair value through profit or loss	(11)	-	(1)
Interest expenses	(88)	(76)	(86)
Net loss from foreign currency rates	-	(8)	(7)
Differences from linkage to the Israeli CPI	(23)	(41)	(49)
Financing expenses in respect of liability from	-	-	(3)
writing put option for the non-controlling interests	-	-	-
Loss from early redemption of debentures			(1)
Total financing expenses	(122)	(125)	(147)
Financing expenses, net	(92)	(87)	(72)

Additional information:

(1) A loss from impairment in trade receivables in the amount of NIS 7 million (2009 – NIS 30 million, 2008 – NIS 8 million) was presented under selling and marketing expenses.

(2) In 2010 a gain in the amount of NIS 6 million from the revaluation of available-for-sale securities and NIS 2 million were recognized directly in equity;

(3) An income in respect of hedging transactions on commodities in the amount of NIS 5 million (2009 – NIS 4 million, 2008 – expense of NIS 10 million) was presented under cost of sales.

(4) Other exchange rate differences were included in the specific items to which the differences relate (income, cost of sales, etc.). Furthermore, a net loss from translation differences in the amount of NIS 168 million in respect of the translation of foreign operations (2009 – a gain of NIS 87 million; 2008 – a loss of NIS 218 million) was included directly in equity attributable to the controlling interests holders.

Note 37 - Taxes on Income

37.1 Information about the tax environment of the Company in Israel

The income of the Company, the subsidiaries and the jointly controlled companies in Israel (other than the income of an approved enterprise, see Note 37.1.3) are subject to the ordinary tax rate.

Note 37 - Taxes on Income

37.1 Information about the tax environment of the Company in Israel

37.1.1 Amendments to the Income Tax Ordinance

- On July 25, 2005 the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147 and Temporary Order) – 2005. The Amendment provides, among other things, for a gradual reduction in the company tax rate to 25% as from 2010.

- On July 14, 2009, the Law for Economic Efficiency (Legislative Amendments for Implementation of the Economic Plan for the years 2009 and 2010)-2009, was passed by the Israel Knesset, which provided, among other things, an additional gradual reduction in the Companies Tax rate to 18% in 2016 and thereafter. Pursuant to the said Amendments, the Companies Tax rates applicable in the 2009 tax year and thereafter are as follows: in the 2009 tax year – 26%, in the 2010 tax year – 25%, in the 2011 tax year – 24%, in the 2012 tax year – 23%, in the 2013 tax year – 22%, in the 2014 tax year – 21%, in the 2015 tax year – 20% and in the 2016 tax year and thereafter the applicable Companies Tax rate will be 18%.

- Current and deferred tax balances for the years 2009-2010 are calculated in accordance with the new tax rates specified above.

- On February 4, 2010, the Law for Amendment of Income Tax Ordinance No.174 – Temporary Order for Tax Years 2007, 2008, and 2009, was officially published. In accordance with the amendment of the ordinance, Israeli Accounting Standard Number 29, regarding adoption of international financial reporting standards (IFRS), will not apply for the purpose of determining taxable income in the specified years, even if it is applied for the purpose of financial statements.
  A legal directive has not yet been set for the issue of the non-applicability of international reporting standards (IFRS) to the determination of taxable income in 2010.
  The amendment to the ordinance had no impact on the financial statements.

- On September 17, 2009 Income Tax Regulations (Determination of Interest Rate with respect to Section 3(j)) (Amendment) – 2010 were published following which there was an extensive change in Income Tax Regulations (Determination of Interest Rate with respect to Section 3(j)) – 1986.
  The Amendment applies to loans granted as from October 1, 2009, and also includes transitional provisions regarding loans granted before the effective date of the Amendment.

  Starting from October 1, 2009, the annual interest rate for section 3(j) of the ordinance, regarding the taxpayers subject to it who provide loans in NIS, is 3.3% (nominal). This interest rate applies in the period from October 1, .2009 until December 31, 2009. The annual interest rate for section 3(j) of the ordinance, starting from January 1, 2010 is 3% (nominal). This rate may change as of the 2011 tax year as a result of the rate of total average nominal credit cost provided to the public by the banks, and official publication by the Finance Minister of the updated interest rate for section 3(j) of the ordinance.

  Conversely, when the loan is in foreign currency (as defined in the regulations) the interest rate with respect to Section 3(j) is according to the rate of change in the exchange rate of the relevant foreign currency plus 3%.

  In addition, a special provision was included with respect to determination of the interest rate on a loan in NIS or in foreign currency that was granted in the 14 days before or after a loan with the same terms was received from a non-related party.

37.1.2 Adjustments for inflation

The Income Tax Law (Adjustments for Inflation) – 1985 (hereinafter – the Adjustments Law) introduced the concept of measurement of results for tax purposes on a real (net of inflation) basis.

On February 26, 2008 the Knesset enacted the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Restriction of Effective Period) – 2008 (hereinafter – the Amendment). In accordance with the Amendment, the effective period of the Adjustments Law will cease at the end of the 2007 tax year and as from the 2008 tax year the provisions of the law shall no longer apply, other than the transitional provisions intended at preventing distortions in the tax calculations.

Note 37 - Taxes on Income

37.1 Information about the tax environment of the Company in Israel

37.1.2 Adjustments for inflation

In accordance with the Amendment, as from the 2008 tax year, income for tax purposes will no longer be adjusted to a real (net of inflation) measurement basis. Furthermore, the depreciation of inflation immune assets and carried forward tax losses will no longer be linked to the CPI, so that these amounts will be adjusted until the end of the 2007 tax year after which they will cease to be linked to the CPI. The effect of the Amendment to the Adjustments Law is reflected in the calculation of current and deferred taxes as from 2008.

Income Tax Regulations, Adjustments for Inflation (Depreciation Rates) – 1996, which allow higher rates of depreciation than in Section 21 of the Ordinance, will continue to apply also after the Adjustments Law is no longer effective. Therefore, also in the forthcoming periods the Company will be able to claim higher rates of depreciation in accordance with the aforementioned regulations.

37.1.3 Benefits under laws for the encouragement of capital investments

In accordance with the Law for the Encouragement of Capital Investments – 1959 and the Law for the Encouragement of Agricultural Capital Investments – 1980 (hereinafter – the Capital Investments Encouragement Laws) some of the Group's enterprises were granted the status of an "approved enterprise" which entitles them to investment grants or tax benefits ("alternative benefits route"). The benefits are contingent upon fulfillment of the terms provided in the Capital Investments Encouragement Laws and their related regulations, and in the letters of approval by which the investments in the approved enterprises were executed. The non-fulfillment of such terms could lead to the benefits being revoked and a refunding of the benefits with the addition of interest.

A. Alternative benefits route

Income deriving from the "approved enterprise" under the alternative benefits route is exempt from tax for a period of up to 10 years from the year in which the Company first had taxable income from the plan.

Details of the Group's plans as at the reporting date –

The company	Benefit period
Strauss Health	Until the end of 2009 (1)
Strauss Health Fresh Vegetables	Until the end of 2009 (2)
Strauss Water (formerly Tana Industrial Company Ltd.)	Has not yet commenced
Strauss Group Ltd. (the confectionary factory)	Has not yet commenced

(1) In accordance with the approval received on February 18, 2007 from the Investment Center to the change in the marketing plan that was requested by it on February 12, 2007 and is in effect as from the 2002 tax year. The company made the request following its non-compliance with the marketing plan in 1998-2001.

(2) The standing of "approved enterprise" was granted to the manufacturing facilities of Strauss Health Fresh Vegetables Ltd. In accordance to the Law of Encouragement of Capital Investments in Agriculture. Income derive from the "approved enterprise" are tax exempt for a period up to five years from the first year the company incurred taxable income. The tax benefit period ended during the year 2009. the benefits are subject to fulfilling the approved certificate conditions. In the opinion of Strauss Health Fresh Vegetables Ltd., the company has met these conditions.

B. 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 a reduced company tax rate of 25% for a period of seven years from the year in which the Company first had taxable income from the plan.

Note 37 - Taxes on Income (cont'd)

37.1 Information about the tax environment of the Company in Israel (cont'd)

37.1.3 Benefits under laws for the encouragement of capital investments (cont'd)

B. Grant route

Details of the Group's plans as at the reporting date –

The company	Benefit period
Strauss Group (the confectionary factory)	Has not yet commenced since the Company has not fully met yet the relevant conditions.
Strauss Frito-Lay	Until the end of 2017. Has not yet received final performance approval.
Yotvata Dairies in memory of Uri Horazo	Until the end of 2009. Has received final performance approval.
Yotvata Dairies in memory of Uri Horazo	Has not yet commenced.
Strauss Aviv Ltd	Has not yet commenced since the Company has not fully met yet the relevant conditions.

Income deriving from the other two plans is exempt from company tax in the first two benefit years and of 25% in the remaining five benefit years. In accordance with the aforementioned law the distribution of a dividend from the exempt income above will lead to a requirement to pay company tax of 25% from the amount of the distributed dividend.

As of present the companies that took advantage of the tax benefits as aforementioned are in compliance with the terms of the approvals.

C. Amendment to the Law for Encouragement of Capital Investments, 1959

On December 29, 2010, the Knesset approved the economic policy law for the years 2011-2012, in which was amended the Law for Encouragement of Capital Investments, 1959 (below: "The amendment"). The amendment was published in the Book of Laws on January 6, 2011. The amendment is valid from January 1, 2011 and its directives apply in relation to preferred income that was produced or was raised by a preferred company, according to the definitions in the amendment, in the year 2011 or later. A company is permitted not to transfer to the application of the amendment to the Law for Encouragement, and to remain under the law before its amendment, until the period of benefits ends. The final year of choice which the company can choose is the 2012 tax year, on condition that the minimum eligible investment took place in 2010.

In the framework of the amendment, it was established that only companies in Development Area A only would be eligible for the grant track, and that they would be eligible to simultaneously benefit both from this track and from the tax benefits track. Also, the existing tax benefit tracks were cancelled (the tax-exempt track, the "Ireland" track, and the "Strategic" track), and in their place were established two new tax tracks, preferred enterprise and special preferred enterprise. The essence of these tracks was a reduced, uniform tax rate on all company revenues eligible for benefits, as follows: regarding a preferred enterprise – 10% in tax years 2011-2012 in Development Area A, and 15% in the rest of Israel; in tax years 2013-2014 – 7% in Development Area A and 12.5% in the rest of Israel; and in tax year 2015 and on – 6% in Development Area A and 12% in the rest of Israel. Additionally, an enterprise meeting the definition of special preferred enterprise is eligible for a benefit period of 10 consecutive years for a reduced tax rate of 5%, if it is located in Development Area A, or a reduced tax rate of 8% if it is not in Development Area A.

It was further established in the amendment that taxes would not be applicable on a dividend distributed from preferred income to a shareholder that is a company, whether on the level of the distributing company, or on the level of the shareholders. A tax rate of 15% will still apply on a dividend distributed from preferred income to an individual stockholder or a foreign resident, subject to treaties for prevention of double taxation, in other words, there is no change in relation to the existing law. Also, in the amendment an attenuation was established (below: "the attenuation") regarding the tax paid on a dividend received by an Israeli company from profits of an approved/alternative/beneficiary enterprise, that accrued in the benefit period according to the pre-amendment law, if the company distributing the dividend notifies the tax authorities by June 30, 2015 regarding the application of the amendment directives, and the dividend shall be distributed after the date of notification.

The Company is examining the consequences of the amendment. As of the date of the reports, there is no impact on its reports due to the amendment.

Note 37 - Taxes on Income (cont'd)

37.1 Information about the tax environment of the Company in Israel (cont'd)

37.1.4 The Law for the Encouragement of Industry (Taxes) – 1969 and other laws

The Company and part of the Group's companies (including Strauss Health Ltd., Strauss Frito-Lay Ltd., Yotvata Dairies, Strauss Fresh Foods Ltd) are “industrial companies” as defined in the Law for the Encouragement of Industry (Taxes) – 1969. In accordance with this status they are entitled to benefits, the principal ones being as follows:

a. Higher rates of depreciation.
b. Amortization of issuance expenses in three equal annual portions when registering the shares of the company 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.

37.2 Details regarding tax rates of Group's companies abroad

The companies incorporated outside of Israel are subject to tax according to the tax laws in their countries of domicile.

The principal tax rates applicable to the business operations of these companies are as follows:

Romania – a tax rate of 16%; Poland – a tax rate of 19%; Brazil – a tax rate of 34%; Serbia – a tax rate of 10%; Netherlands – a tax rate of 25.5% (as from January 1, 2011 the tax rate changed to 25%); Switzerland – a tax rate of 11%; Ukraine – a tax rate of 25%; Russia – a tax rate of 20%, Bulgaria – a tax rate of 10%; UK- a tax rate of 28%; USA – a tax rate of 42%.

In respect of its operations in northeast Brazil, the Company is eligible for the following tax benefits:
(1) A reduced corporate tax rate for a portion of taxable income, up to a maximum sum.
(2) A VAT refund at a rate of 56%-74% of the collected VAT. For some of these benefits the benefit period will end in 2018.

In respect of its operations in Serbia, the Company is eligible for a reduced corporate tax rate of 2% (instead of a rate of 10%) due to its investments in productive assets at the plant, and for employment of workers at the required levels.

Company's tax reports for years in which it claimed the tax benefits have not yet been checked by the tax authorities. In the opinion of the subsidiary, based on the opinion of its consultants, it fully meets the conditions for receiving the benefits.

37.3 Approval of the Income Tax Commissioner to the merger of Strauss and the Company according to Section 103T of the Income Tax Ordinance

The merger agreement between the Company, Strauss Health and Strauss Fresh Foods (hereinafter: the merger agreement) provides that the parties undertake to strictly comply with all the conditions in order to preserve all tax benefits to which the parties and their shareholders are entitled, including the provisions of Part E2 of the Income Tax Ordinance and principally the conditions of Sections 103C and 103T, and the provisions and terms of the Income Tax Commissioner’s approval as agreed by the parties and described below.

For purposes of the Ordinance and the Inflationary Adjustments Law, the original price of the rights in the transferred companies, the balance of the original price, the value of the acquisition and the acquisition date will remain as they would have been in the transferring company if the rights had not been transferred. The foregoing is conditional on compliance with various conditions, as specified in the Income Tax Ordinance and the regulations thereunder.

Note 37 - Taxes on Income (cont'd)

37.4 Approval of the Tax Authority – split of the coffee operation in Israel and its merger with Strauss Coffee B.V. according to Section 105 of the Income Tax Ordinance

During 2008, the private equity fund TPG invested in the Company's subsidiary Strauss Coffee B.V. (hereinafter – "Strauss Coffee"). The structure of the transaction included splitting the coffee operation of the Group in Israel and merging it with Strauss Coffee so that it manages all the coffee operation of the Group, by means of restructuring the group.

In accordance with the pre-ruling on the agreement that was received from the Tax Authority on August 24, 2008 with respect to the aforementioned restructuring, the Company, the investor and Strauss Coffee are subject to various restrictions until the end of the specified period (two years from the end of the tax year in which the restructuring was executed – December 31, 2010), of which the principal ones are noted hereunder. In accordance with the pre-ruling, the date of the restructuring is June 30, 2008.

Below restrictions and conditions on interests holders in Strauss Coffee (Company and investor) according to the pre-ruling valid as at the reporting date and afterwards:

A. Restrictions and conditions applicable to the Company:

- The losses of the merging companies as well as expenses or deductions accumulated by the transferring companies shall be spread over a period of five years from the date of the merger and be limited to half of the amount of each year's current taxable income.

- For the transfer of the Israeli coffee activity the Company issued additional shares in the value of the excess assets transferred. In calculation of capital gains from sales of Strauss Coffee shares by the company, regarding the day of purchase and the original price, the shares shall be seen as sold pro rata.

- On the sale of shares of Strauss Coffee, all or part, by the Company, that were allocated to the Company in respect of the coffee activity transfer, the entire amount of required tax shall be paid in Israel, and no tax credit and/or exemption shall be granted. As regards this matter, the allocated shares include also shares that are allocated because of them.

- The taxable income of the Company shall not include dividends received from the earnings of the coffee activity in Israel. In this respect – dividends paid from the taxable income of the coffee activity in Israel in respect of which company tax was paid in Israel. Furthermore, the Company shall not be granted a credit in respect of the foreign tax paid on the said dividend in the Netherlands.

B. Restrictions applicable to Strauss Coffee:

- Regarding the assets transferred to Strauss Coffee, the original cost and acquisition date will continue to apply, and no additional amount will be attributed to them beyond the original price for the subsidiaries and the Company.

- The coffee activity in Israel being transferred to Strauss Coffee in the split shall be considered a permanent establishment in Israel. The permanent establishment shall be subject to the provisions of the Income Tax Ordinance and its related regulations as if it was an Israeli resident body of persons.

- In respect of the sale of an asset by the permanent establishment or the sale of the entire permanent establishment by Strauss Coffee, the full amount of required tax shall be paid in Israel, and the asset will be considered as having been sold by an Israeli resident company and the sale will be subject to capital gains tax in Israel in accordance with the provisions of Chapter E of the Income Tax Ordinance.

37.5 Approval of the Tax Authority – merger of Elite Confectionary from Strauss Group Ltd. with the Company in accordance with Section 103 of the Ordinance

In 2008 the Company decided to merge the confectionary activity of the Group in Israel with the Company, so that it will concentrate all the confectionary manufacturing activity of the Group, by means of restructuring the Group.

Note 37 - Taxes on Income (cont'd)

37.5 Approval of the Tax Authority – merger of Elite Confectionary from Strauss Group Ltd. with the Company in accordance with Section 103 of the Ordinance (cont'd)

In accordance with an agreed tax ruling, which was received from the Israeli Tax Authority on March 19, 2009 with respect to the said restructuring, the Company and its controlling shareholders are subject to various restrictions until the end of the required period (two years from the end of the tax year in which the restructuring was executed – December 31, 2010). In accordance with the agreed tax ruling the date of the restructuring is June 30, 2008.

37.6 Approval of the Tax Authority – Merger of Strauss Water (formerly: H2Q Water Industries Ltd.) and Tana Industries Company Ltd.

In December 2009 H2Q Water Industries Ltd. requested an approval from the Tax Authorities to merge with Tana Industries Company Ltd., a wholly 100% owned subsidiary and Tami 4 and Leases Ltd. a grandchild company 100% wholly owned. According to the taxation decision in respect to the agreement which was received from the Tax Authorities on the 19th of September 2010, in respect to the change of structure as mentioned, the company and its shareholders have different restrictions until the end of the required period (two years from the end of the tax year in which the change of structure was performed – December 31, 2011). The change of structure in accordance with the taxation decision in the agreement is the December 31, 2009.

37.7 Tax assessments

Final tax assessments for periods between 2005 and 2008 have been issued to the Company and its principal local subsidiaries. For the principal overseas subsidiaries, final tax assessments for periods between 2002 and 2007 have been issued. Seven overseas subsidiaries have not yet been issued tax assessments since their incorporation.

In principle, according to the law, self assessments submitted by the Company and its Israeli subsidiaries up to and including the 2006 tax year are considered final (subject to the dates of filing the reports and extension of the period of limitation by law).

In addition, the Company and the local subsidiaries received assessments for the 2006-2007 tax years pursuant to which they are required to pay an amount of NIS 39.5 million (including interest, linkage differences accrued until December 31, 2010) above that included in the current taxes in respect of these years. The Company and the subsidiaries disagree with the demand of the tax authorities and filed an objection on these assessments through its tax advisors. In the opinion of the Company the provisions on its books are sufficient.

37.8 Carried-forward tax losses

The Group has tax losses and an inflationary deduction carry-forward in the amount of NIS 392 million (2009: NIS 334 million). Deferred taxes were not recorded in respect of losses in the amount of NIS 326 million (2009: NIS 264 million).

37.9 Taxes on income recognized directly in equity

As at December 31, 2009 deferred taxes on income in the amount of NIS 8 million were included directly in other comprehensive income in respect of income that was recognized directly in other comprehensive income. In addition, the effect of the translation of deferred taxes in respect of foreign operations was also included in equity.

37.10 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.

Note 37 - Taxes on Income (cont'd)

37.11 Income tax expense in the statement of income

	For the year ended December 31		
	2010	2009	2008
		NIS million	
Current taxes	157	125	112
Deferred taxes	(5)	6	(2)
Previous years taxes	(5)	-	-
The effect of changes in tax rates	-	(12)	-
	147	119	110

37.12 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		
	2010	2009	2008
		NIS million	
Income before taxes on income	449	437	617
Principal tax rate	25%	26%	27%
Taxes on income at the principal tax rate	112	114	167
Amendment of deferred taxes due to future tax rates	-	(12)	-
Tax expenses on foreign dividend	3	4	-
Permanent differences, net	25	5	20
Temporary differences (losses utilized) where deferred taxes were not recorded in the past	5	2	10
Non-controlling interests share in income of a joint venture	-	-	3
Net differences resulting from the differences in tax rates abroad	10	7	(5)
Previous years taxes	(5)	-	-
Differences resulting from benefits and reduced tax Rates	(3)	(1)	(2)
Gain on partial disposal of subsidiaries	-	-	(83)
Taxes on income in the statement of income	147	119	110
Effective tax rate	32.74%	27.23%	17.83%

Note 37 - Taxes on Income (cont'd)

37.13 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2009	Initial Consolidation of company	Decrease (increase) in deferred tax the statement of income	Effect of changes in tax rates included in the statement of income	Changes in deferred taxes recognized directly in equity	Balance as at December 31,2009	Decrease (increase) in deferred tax the statement of income	Changes in deferred taxes recognized directly in equity	Initial Consolidation of company	Balance as at December 31,2010
						NIS millions				
Deferred taxes in respect of:										
Provision for doubtful debts	12	-	-	-	(4)	8	-	-	-	8
Provision for vacation and convalescence	10	-	(1)	-	-	9	1	-	-	10
Tax losses and deductions	10	-	14	-	-	24	3	-	-	27
Other temporary differences	10	-	(3)	-	(1)	6	-	(2)	-	4
Fixed assets, other assets and deferred expenses	(143)	(29)	(11)	12	(3)	(174)	-	2	(5)	(177)
Hedging transactions	3	-	(5)	-	2	-	(3)	-	-	(3)
Provision of employees	5	-	-	-	(2)	3	4	-	-	7
	(93)	(29)	(6)	12	(8)	(124)	5	-	(5)	(124)
	10%-42%					10%-42%				10%-42%

* Certain amounts in this note have been reclassified.

Note 38 - Basic and Diluted Earnings per Share

The basic earnings per share as at December 31, 2010 is calculated by dividing the income attributable to the ordinary shareholders in the amount of NIS 211 million (2009 and 2008: NIS 233 million thousand and NIS 461 million, respectively) by the weighted average number of ordinary shares, as follows:

Weighted average of ordinary shares:

	For the year ended December 31		
	2010	2009	2008
	NIS million		
Balance as at January 1	106.7	106.3	105.8
With the addition of weighted average of options exercised for shares during the period	0.2	-	0.4
Less treasury shares	(0.9)	(0.9)	(0.9)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	106.0	105.4	105.3

The diluted earnings per share as at December 31, 2010, 2009 and 2008 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		
	2010	2009	2008
	NIS million		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	106	105.4	105.3
Effect of share options	0.5	0.2	0.4
*Less than nis 1 million.			
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	106.5	105.6	105.7

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.

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, an annual bonus of 12 salaries in accordance with the annual bonus plan of the Company's management, which will be determined on the basis of compliance with financial targets and qualitative objectives that will be derived from the objectives of the Company's work plan and be determined every year. In addition, the Company's Board of Directors approved the grant of 1,065,150 options to the CEO at no considerations, pursuant to senior employee option plan of the Group.

39.2.2 In addition to salaries, the members of senior management participate in the options plan of the Company, see Note 25.43. With respect to share options granted to officers and senior managers in 2010, see Note 40.3.

The benefits to members of senior management are as follows:

	For the year ended December 31		
	2010	2009	2008
	NIS million		
Short-term employee benefits	20	21	18
Post-employment benefits	2	15	4
Share-based payment *	10	4	23
	32	40	45

* The decrease in 2009 is due to the employment termination of the Company's CEO and Deputy CEO.

39.2.3 The benefits to members of the board are as follows:

	For the year ended December 31					
	2010		2009		2008	
	Number of people	NIS million	Number of people	NIS million	Number of people	NIS million
Directors not employed	10	3	10	3	12	3
Employed Interested Parties	1	4	1	4	1	3
	11	7	11	7	13	6

39.2.4 See Notes 26.1.2.1 and 26.4.5 regarding a commitment to indemnify officers and a directors and officers insurance policy.

Note 39 - Balances and Transactions with Interested and Related Parties (cont'd)

39.3 Transactions with the parent company and its investees

39.3.1 In the framework of the merger transaction from March 22, 2004, in which Strauss Holdings sold to the Company its holdings in the Strauss Fresh Foods Group (hereinafter – the transferred companies) in consideration for an allotment of shares by the Company, Strauss Holdings has undertaken in the agreement to indemnify the Company in respect of any damage, expense or loss incurred by the Company or the transferred companies as a result of or in connection with discrepancies in the representations of Strauss Holdings. Discrepancies in representations are considered to be monetary obligations imposed on the transferred companies, with causes from before the closing date, which were not properly or sufficiently disclosed in the financial statements of the transferred companies and their subsidiaries; or various receivable items that were overestimated. The indemnity provision will apply only if the cumulative amount of the shortfall caused (after deductions and set-offs in favor of Strauss Holdings pursuant to the agreement) exceeds NIS 30 million, this sum being linked to the CPI from the date of signing of the agreement (hereinafter – the “minimum amount”). The right of action under the agreement will expire after three years have elapsed since March 22, 2004. This restriction will not apply in respect of claims with causes of action prior to March 22, 2004.

39.3.2 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 an associated party.

39.3.3 On June 24, 2009, the Company's Board of Directors approved an agreement with Strauss Ice Cream Ltd, (a company held by the parent company) for maintenance and repair of refrigerators. On November 25, 2009, the Board of Directors approved to extend the agreement with Strauss Ice Cream Ltd for rendering computer services for an additional two years and non competition agreement between the Company and Strauss Ice Cream Ltd.

39.3.4 Regarding the sale transaction of the land owned by the company and an interested party see Note 16.5.

39.3.5 On the April 26, 2010 an agreement was signed in which Strauss sold holdings of 39% of the share capital of Strauss Ice- Cream. 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.

39.4 The prices and credit terms in respect 4of 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 (2)	Total
	NIS million			
As at December 31, 2010:				
Current assets from interested parties that are presented under trade and other Receivables	6	6	-	12
Long-term assets from interested parties that are presented under investments and debit balances	-	58	-	58
Current liabilities to interested parties that are presented under trade and other payables	(4)	(28)	-	(32)
The highest balance of loans and debts of interested parties in the year	8	81	-	89
For the year ended December 31, 2010:				
Sales	25	-	-	25
Purchases	(13)	(44)	-	(57)
Selling, general and administrative expenses	(12)	18	(2)	4
Financing income, net	-	1	-	1
As at December 31, 2009:				
Current assets from interested parties that are presented under trade and other receivables	7	18	-	25
Long-term assets from interested parties that are presented under investments and debit balances	-	34	-	34
Current liabilities to interested parties that are presented under trade and other payables	(2)	(12)	-	(14)
The highest balance of loans and debts of interested parties in the year	16	52	3	71
For the year ended December 31, 2009:				
Sales	25	-	-	25
Purchases	(12)	(38)	-	(50)
Selling, general and administrative expenses	(21)	21	(3)	(3)
Financing income, net	-	1	-	1

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	Jointly controlled companies	Directors and members of senior management (2)	Total
	NIS thousands			
As at December 31, 2008:				
Current assets from interested parties that are presented under trade and other receivables	7	-	-	7
Current liabilities to interested parties that are presented under trade and other payables	(6)	(20)	-	(26)
The highest balance of loans and debts of interested parties in the year	10	-	-	10
For the year ended December 31, 2008 :				
Sales	22	-	-	22
Purchases	(12)	(39)	-	(51)
Selling, general and administrative Expenses	(18)	13	(2)	(7)
Financing income, net				

(1) Including purchases from Ramat Hagolan Dairies in the amount of NIS 9.7 million, the payment of rent to Rav Etgar Ltd. in the amount of NIS 4.6 million, sales of raw materials to Strauss Ice-cream Ltd in the amount of NIS 24.6 million and costs of advertising services from Reshet Noga Ltd of NIS 12.8 million.

(2) Not including fee and remuneration to senior management – see Note 39.2

Note 40 - Subsequent Events

40.1 On January 24, 2011 the Company signed an agreement for the purchase of available lands having an area of 3,000 square meters in Yanai Park, next to the Group's office building on 49 Hasivim St. in Petach Tikva, and for the construction of a building envelope for an office building. The Company will pay the seller an amount of NIS 101 million in consideration for the property rights and construction of the building envelope. 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 are intended, inter alia, for the use of the Group. The transaction will be financed by the Company's own resources. The consideration will be paid in accordance with the constructing progressing.

Note 40 - Subsequent Events (cont'd)

40.2 On January 27, 2011 the Company signed an agreement with a number of companies from the Harel Insurance Group regarding the receipt of a loan in the amount of NIS 300 million. The loan principal and the interest are payable in 22 consecutive semi-annual payments beginning from July 1, 2011. Under certain circumstances the Company has the right to early repay the loan five years from the date of its receipt. The loan bears fixed annual interest 5.82%. The Company is subject to a negative pledge requirement and to financial covenants similar to the financial covenants of banks described in Note 22.3. The receipt of the loan has no effect on the rating of the Company's debentures. The loan agreement provides that one of the causes for an early repayment is any event in which the Strauss family directly or indirectly ceases to be the Company's controlling shareholder. The Company's right to make an early repayment five years after the date the loan was received is contingent upon providing an advance notice and, under certain circumstances, the payment of an early repayment fee according to a calculation formula provided in the agreement.

40.3 On February 2, 2011 the Remuneration and Human Resources Committee of the Company's Board of Directors approved the grant of 44,000 options to two of the Group's executives pursuant to the options' plan for senior employees in the Group.
The entitlement of the executives to exercise the options will vest in three equal portions, on February 2 of each of the years 2013-2015. The fair value of the benefit included in this grant, calculated to February 2, is about NIS 0.6 million.
The main assumptions used in determination of the fair value are as follows: price per share – NIS 53.40; annual standard deviation – 26.49%–26.83%; risk-free interest rate – 1.07%–1.77%; exercise price – NIS 55.86; and life of the options – 3.2–5.9 years. The benefit deriving from this grant will be recorded as an expense in the financial statements for periods beginning on January 1, 2011 and ending on March 31, 2015.

40.4 For details regarding compromise agreement, approved by the court, subsequent to the date of the statement of financial position, see Notes 26.1.1.1.

40.5 On January 6, 2011 the Company declared a cash dividend distribution at the amount of NIS 1.88 per 1 face value share, totaled to NIS 200 million. The dividend was paid on February 6, 2011.

40.6 On February 22, 2011 the Group issued a prospectus, following the principal approval of the Stock Exchange, Israel Securities Authority and the Board of Directors of the Group.

40.7 Subsequent to the date of statement of financial position, the Board of Directors of Strauss Coffee approved an international non-traded option plan to its senior managers, which reflects (in full dilution) 2.5% of Strauss Coffee shares. This plan does not include, at this stage, a grant of options to the CEO of Strauss Coffee, which is supposed to be discussed in the future. In case of a sale of 65% or more of TPG shares to the Company, the plan enables the senior managers to receive, in place of unvested options, options of the Company in equal value. The plan, which has been approved by the Board of Directors of Strauss Coffee has also been approved by the Board of Directors of the Company and is subject to the approval of the shareholders general meeting of Strauss Coffee. For further details, see Note 25.7.3.