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

EXPLANATIONS BY THE BOARD OF DIRECTORS REGARDING THE COMPANY'S BUSINESS CONDITION, THE RESULTS OF ITS OPERATIONS, ITS SHAREHOLDERS' EQUITY AND CASH FLOWS

PRINCIPAL INFORMATION FROM THE DESCRIPTION OF THE CORPORATION'S BUSINESS

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

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

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

SEASONAL EFFECTS ON THE RESULTS OF THE COMPANY'S BUSINESS OPERATIONS

Sales of Fun & Indulgence and coffee products in Israel are characterized by seasonality, and are generally higher in the first quarter of the year. Seasonality is affected mainly by the winter months, when greater consumption of chocolate products and hot beverages is typical, and by increased consumption of Fun & Indulgence products as Passover approaches.

In Health & Wellness products there is no distinct trend of seasonality, but income is generally relatively higher in the third quarter of the year – the hot summer months, which are characterized by greater consumption of dairy products.

International coffee sales are usually higher in the fourth quarter of the year, a period that is characterized by increased purchases of coffee products due to the timing of the Christian holidays and the end of the (Gregorian) year.

Income in the water business is also influenced by seasonality, as the demand for cold water solutions increases in the summer. Accordingly, the third quarter each year is characterized by greater activity volumes than the other quarters.

CHANGES IN THE ECONOMIC ENVIRONMENT

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

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

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

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

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

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

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

Price control

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

Convenience Translation from Hebrew

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

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

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

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

Other than as described below, as at the end of the fourth quarter and compared to the end of 2012, there has been no material change in the market risk factors to which the Company is exposed, in the policy for managing these risks, in the persons responsible for their management and in the means for supervising and realizing the policy, as described in the Board of Directors' Report as at December 31, 2012. For further information, see also Note 30 to the financial statements and section 30 in the chapter "Description of the Corporation's Business", in the discussion of risk factors.

ANALYSIS OF FINANCIAL RESULTS

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

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

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

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

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

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

Convenience Translation from Hebrew

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

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

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

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

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

Convenience Translation from Hebrew

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

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

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

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

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

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

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

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

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

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

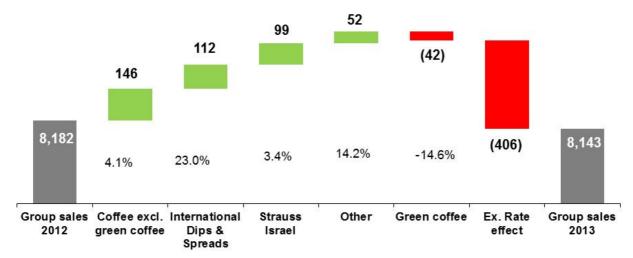
ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

Sales - non-GAAP

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

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

2013



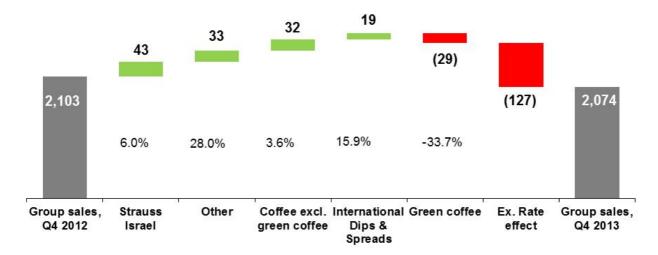
The Group's sales in 2013, and particularly sales by Strauss Coffee, were impacted by differences arising from translation into Shekels, which amounted to approximately NIS 406 million for the Group. Most of these differences are due to the erosion of average rate of the Brazilian Real versus the Shekel (approximately 14.9% compared to the average rate of the Real last year). The erosion led to a decrease of approximately NIS 265 million in the Group's share of the sales of Três Corações¹ in 2013, which are presented by the Group in Shekels.

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

- Growth in sales by the coffee business, excluding green coffee (an increase of approximately NIS 146 million), which is mainly due to the growth in sales by Três Corações and reflect Strauss Coffee's share (50%) (see also the consolidated financial statements of Três Corações, which are attached to the financial statements of the Group). The sales growth achieved by Três Corações mainly reflects price increases and growth in sales volumes and was offset in part by effective price decreases in Russia, in CEE countries and in Israel;
- Growth in sales by the International Dips and Spreads Activity (an increase of approximately NIS 112 million), which is mainly the result of growth in sales by Sabra and primarily reflects a significant volume growth in hummus sales as well as growth in quacamole sales:
- Growth in sales by Strauss Israel (an increase of approximately NIS 99 million), which is mainly
 due to growth in sales volumes in most business units and to an improvement in the Company's
 product mix;
- Growth in sales by the "Other" segment (an increase of approximately NIS 52 million), which is
 mainly due to growth in Strauss Water as a result of international sales growth, as well as to the
 continuing growth trend in the customer base in the local market;
- With the setoff of a decrease of approximately NIS 42 million in green coffee export sales by Três Corações in Brazil, reflecting Strauss Coffee's share (50%). This decrease was impacted by a drop in green coffee prices compared to the corresponding period last year, which was offset in part by growth in sales volumes.

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

Fourth quarter of 2013



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

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

- Growth in sales by Strauss Israel (an increase of approximately NIS 43 million), which is mainly
 due to growth in sales volumes in all business units and to an improvement in the Company's
 product mix;
- Growth in sales by the "Other" segment (an increase of approximately NIS 33 million), which is
 mainly due to growth in Strauss Water as a result of international sales growth, as well as to the
 continuing growth trend in the customer base in the local market;
- Growth in sales by the coffee business, excluding green coffee (an increase of approximately NIS 32 million), which is mainly due to the growth in sales volumes by Três Corações and reflect Strauss Coffee's share (50%), and to sales growth in Russia. Growth was offset in part by effective price decreases;
- Growth in sales by the International Dips and Spreads Activity (an increase of approximately NIS
 19 million), which is mainly the result of growth in sales by Sabra and primarily reflects continuing
 significant volume growth in hummus sales as well as strong growth in guacamole sales;
- With the setoff of a decrease of approximately NIS 29 million in green coffee export sales by Três Corações in Brazil, reflecting Strauss Coffee's share (50%). This decrease was impacted by a drop in green coffee prices compared to the corresponding period last year.

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

Gross Profit - Non-GAAP

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

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

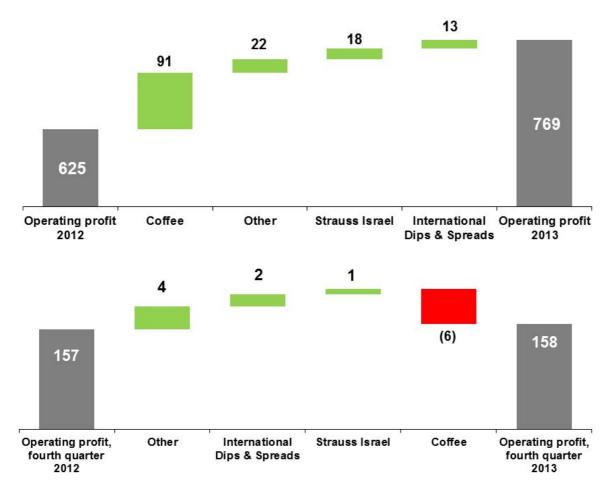
The Group's non-GAAP gross profit in the fourth quarter of 2013 grew by approximately NIS 60 million compared to the corresponding quarter last year. The change is the result of the growth in the gross profit of the coffee operation (approximately NIS 7 million), which is explained mainly by an improvement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

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

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

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

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



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

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

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

Financing Expenses, Net – Non-GAAP

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

the countries in which the Group is active in relation to the Dollar, and to an increase in the capitalization of the cost of credit for fixed assets and in income and revaluation from securities.

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

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

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

Taxes on Income - Non-GAAP

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

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

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

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

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

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

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

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

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

<u>LIQUIDITY, SOURCES OF FINANCE AND FINANCIAL CONDITION (ACCORDING TO THE GAAP REPORT)</u>

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

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

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

<u>The Company's cash and cash equivalents</u> as at December 31, 2013 totaled approximately NIS 772 million compared to NIS 735 million on December 31, 2012. In accordance with Company policy, these assets are invested mainly in deposits (most of them in Shekels and Dollars). Additionally, the Company has short-term investments in securities (financial funds, government bonds and highly rated corporate debentures).

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

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

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

Convenience Translation from Hebrew

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

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

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

Strauss Coffee

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

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

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

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

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

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

Sales

In 2013 Strauss Coffee's sales decreased by approximately NIS 262 million compared to last year. Differences arising from translation into Shekels amounted to NIS 367 million in the period, of which approximately NIS 265 million were the result of the erosion of the average exchange rate of the Brazilian Real versus the Shekel. Additionally, green coffee export sales from Brazil by Três Corações, reflecting Strauss Coffee's share (50%), decreased by approximately NIS 42 million excluding the currency impact, and by approximately NIS 93 including the currency impact. The

decrease in export sales of green coffee by Três Corações in Brazil was influenced by the drop in green coffee prices compared to the corresponding period last year and was partly offset by an increase in sales volumes. Excluding the currency impact and the decrease in green coffee sales as described above, Strauss Coffee's sales grew overall by 4.1%.

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

Gross profit

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

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

Operating profit

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

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

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

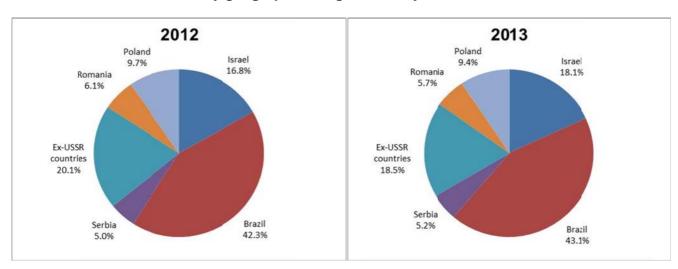
Strauss Coffee sales by major geographical regions

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

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

- * The growth rate in the local currency neutralizes the impact of changes in exchange rates in the different countries versus the Shekel on the growth in the countries' sales.
 - (1) Três Corações sales in 2013 include sales amounting to NIS 249 million of green coffee and NIS 68 million of corn. In 2012 sales of green coffee amounting to NIS 342 million and corn amounting to NIS 70 million were included.
 - (2) Três Corações sales in the fourth quarter of 2013 include sales amounting to NIS 58 million of green coffee and NIS 15 million of corn. In the fourth quarter of 2012 sales of green coffee amounting to NIS 105 million and corn amounting to NIS 18 million were included.
 - (3) Três Corações (3C) Brazil a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (data reflect Strauss Coffee's share (50%))

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



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

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

In February 2013 Três Corações signed a distribution agreement and a joint venture agreement with Caffitaly S.p.A, following which Três Corações became active in the single portion coffee and other

beverages ("capsules") segment in Brazil. Sales by Três Corações in this segment were initiated in November 2013.

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

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

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

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

The former USSR countries

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

Poland

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

Romania

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

<u>Serbia</u>

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

year (3.4% and 5.1% erosion compared to the average exchange rate of the Serbian Dinar in 2012 and in the corresponding quarter last year, respectively).

Israel

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

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

The Group's Activity in Israel

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

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

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

Strauss Israel

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

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

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

Sales

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

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

Gross profit

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

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

Operating profit

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

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

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

The International Dips and Spreads Activity

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

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

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

According to IRI, Sabra's market share in the 52 weeks ended on December 29, 2013 was 27.5% of the total refrigerated flavored spreads category (Number 1 in the market), compared to 23.7% in the corresponding period last year. Sabra's value market share of the hummus category in the same

period was 63.7%, compared to 61.6% last year. In the third quarter of 2013 IRI changed its market share calculation method, and the comparative figures were amended accordingly.

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

Sales

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

Operating profit

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

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

Obela

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

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

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

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

Other Operations

The Group has activities which are included in the financial statements as the "Other Operations" segment. The main activities in this segment are Strauss Water and Max Brenner.

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

Strauss Water

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

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

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

Max Brenner

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

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

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

Reporting according to linkage bases

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

EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT

Description of the market risks to which the Company is exposed

The Company operates in areas that are by nature basic and stable; however, there are several factors and trends that are liable to influence both the scope and profitability of the Company's business. For a description of the market risks to which the Group is exposed, see section 30 in the Description of the Corporation's Business (Discussion on Risk Factors), and the section "Changes in the Economic Environment" in this chapter.

The Company's policy for managing market risks, those responsible for their management, supervision and realization of policy

Commodities procurement

The Company's green coffee procurement center in Switzerland provides for all companies in the Group except for the company in Brazil. In order to manage exposure to market risks, the Company uses transactions in derivatives and in securities traded on the financial markets in New York and London. The use of these instruments is the responsibility of the manager of the procurement office in Switzerland in the framework of guidelines defined from time to time by the corporate green coffee procurement committee, which is managed by the CFO of Strauss Coffee and convenes from time to time according to established procedures.

The procurement of green coffee in Brazil is carried out by the local management according to internal procedures determined by the board of directors of the Brazilian subsidiary, and is the responsibility of the procurement, export and financial managers in Brazil.

The Group also has a committee for the management of commodities exposure for its operation in Israel. The committee is managed by the EVP Finance, Israel.

Financial liabilities, financial investments, currency, Index and interest exposure

As mentioned, the Company has long-term liabilities, primarily in Shekels, partly Index-linked and partly at varying interest rates, and is exposed to future cash flows in currencies that differ from the operating currencies of the subsidiaries. To protect the Company from exposure to fluctuations in foreign currency exchange rates, the Index and interest rates, the Company occasionally executes hedging transactions for partial coverage using forward contracts, futures contracts on Index rates, and futures contracts and option contracts on interest rates and the various currency exchange rates.

The Company's policy is to match, to the greatest extent possible, assets and liabilities in the same currency, using financial derivatives when they are available and advantageous.

In its international activity the Company does not regularly hedge the measurement basis of the results of its operations or its Statement of Financial Condition against changes arising from the various currency exchange rates in relation to the Shekel.

The Company has committees that manage the risks relating to interest rates, currency exposures, financial investments etc., in which all the relevant professional people in the Company participate.

The hedging and investment activities are conducted by the Group's Financial Department in Group Corporate Center and are the responsibility of Strauss Coffee's CFO in all aspects relating to the coffee business, and of the Group EVP Finance in regard to the business of the Group as a whole.

Customer credit

With respect to its activity in Israel, the Company has credit committees that convene periodically to determine the amount of credit recommended for its various customers and the required level of their collateral, including the necessity of purchasing external credit insurance. The Company also

monitors the implementation of these recommendations. These credit committees are managed by the CFO of Strauss Israel and the Group's Credit Risk Manager. In the coffee business credit committees convene periodically, and credit control is carried out by the CFOs and CEOs in the various countries and is their responsibility, under the master control of Strauss Coffee's CFO and the Group's Credit Risk Manager, who sits on the credit committees of the coffee companies from time to time.

Valuations

In the reported period the Company performed valuations to determine the recoverable amount of cash-generating units to which residual goodwill and indefinite-life intangibles are attributed. Following are the necessary data relating to these valuations according to Section 8B(i) of the Securities Regulations (Periodic and Immediate Reports), 1970 (financial data are in NIS millions as at the valuation date) for the reported period:

						Assumptions used in performing the valuation					
Valuation subject	Timing of valuation	Value of valuation subject prior to valuation date	Value of valuation subject determined according to valuation	Identity of valuator	Valuation model used by valuator	Discount rate	Permanent growth rate	Terminal value as % of value defined	Prices used as basis for compa- rison	No. of bases of com- parison	
Goodwill and indefinite-life intangibles attributed to subsidiary in Russia	Dec. 2013	649	731	External (1) (2)	DCF	10.5%	0.0%	65%	N/A	N/A	

- (1) Assumptions regarding standard deviation are irrelevant to these valuations.
- (2) The valuation was performed by Einat Shperling, CPA, a partner in the Valuation Department of Ernst & Young Israel, who possesses a BA in Economics and Management from the Technion, Haifa and an MBA from Tel Aviv University, and thirteen years' experience in performing valuations. The Company undertook to indemnify the valuator with respect to any and all compensation the valuator may be charged to pay to a third party in connection with the opinion, including losses and expenses in respect of legal representation, other than if the valuator acted fraudulently. The valuator's total liability is limited to the amount of the fee paid to her.

ASPECTS OF CORPORATE GOVERNANCE

The Board of Directors and its Standing Committees

The Group's strategy and its business activity are subject to the supervision of the Board of Directors of the Group. As at the date of publication of the report the Board of Directors comprises 12 members who possess different backgrounds and areas of expertise, including four directors who fulfill the conditions for qualifying as independent directors, two of whom are outside directors. The directors do not fill other positions in the Company. The directors are not employed by the Company with the exception of Ms. Ofra Strauss, who actively serves as Chairperson of the Board. The Board has four standing committees which are active on a regular basis: the Audit Committee; the Financial Statements Review Committee; the Finance Committee; and the Remuneration Committee. Additionally, there is a Strategy Committee which is not a standing committee and convenes as necessary, mainly for the purpose of reviewing and following up the execution of M&A transactions.

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

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

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

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

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

Risk Management

Risk management in all areas of the Group's activity is addressed in a number of different frameworks, including the Internal Auditor, the Finance Committee and the Group's Risk Management Manager. The Internal Auditor performs risk surveys relating to activities in the Group from time to time. Additionally, teams are in place in all relevant business units, which analyze and assess the risks and propose appropriate cautionary measures. These issues are handled by the managements of the business units and controlled by Group Corporate Center, which also manages master risks on the Group level. Every three years the Company performs an internal risk survey and revises the risk maps of the Group's areas of activity. In 2013 a risk survey was performed in the Group. Additionally, last year the Company ratified the risk management policy. Further to the up-to-date risk survey the Company is building a risk mitigation plan for the new risks identified and continues to address the risks identified in prior years according to multiyear work plans. The Audit Committee (which also serves as a Risk Management Committee) receives periodic reports for the purpose of supervising and assessing issues relating to risk management in the Group. For information on risk factors in the Group, see the section "Discussion on Risk Factors" in the chapter "Description of the Corporation's Business" in this report.

Sustainability, Corporate Responsibility, Social Investment and Donations

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

- A. **Sustainability strategy:** Formulation of a cross-organizational six-year sustainability strategy, which includes measurable targets, focusing on the substantial impacts in the Group's business activity.
- B. **Work environment and investment in employees:** Continued assimilation of the intraorganizational social program coupled with an extended supportive welfare policy, with emphasis on tri-sector collaboration for the benefit of employees.
- C. **Refreshing the Code of Ethics in all Group companies:** The yearly refresher of the Code of Ethics and its principles in the companies in the Group.
- D. **Product responsibility:** Continued review of the product response to consumers.

- E. **Social investment and community relations:** Deepening Strauss's social investment, focusing on the flagship issue the promotion of employment among diverse populations in general and women's empowerment in particular.
- F. Implementation of sustainability principles in various core areas in Strauss's value chain: The supply chain, environmental quality, workplace safety, promotion of good nutrition and a healthy lifestyle.

Description

A. Sustainability strategy

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

- B. Work environment and investment in employees intra-organizational social program In 2013 the assimilation of the intra-organizational social program continued. The program focuses on the employees of Strauss Israel and includes supplementary compensation for low-earning employees, enlargement of the welfare basket and its adaptation to employee needs, award of academic scholarships to children of employees and a change in the policy for the employment of employees belonging to employment agencies. In 2013 additional elements were added in the form of broad healthcare plans offered to employees by the Company and the expansion of healthcare coverage for the benefit of employees, and the launch of a comprehensive information program on pension savings which makes clear professional information available to employees on their pension rights and on the savings options available to them, as well as on the importance of the issue to their future.
- C. Refreshing the Code of Ethics in all Group companies launch of new ethics courseware 2013 was devoted to a comprehensive refresher of the Code of Ethics, its principles, common ethical dilemmas encountered by employees in their jobs and the means and tools available them to solve these dilemmas. This year new computerized courseware was launched to facilitate learning and refreshing the knowledge of Strauss's Code of Ethics, which allowed for an efficient, in-depth learning process for computer users, along with the adaptation of the version for frontal training for employees who are not computer users. The lessons and learning aids were also revised with the goal of making the learning experience more experiential and effective. During the year the variety of means available to employees seeking help in solving an ethical dilemma or wishing to make a complaint regarding the violation or suspected violation of one or more principles of the Code were communicated to employees via the various internal communication platforms.

D. Product responsibility

In 2013 Strauss Group continued to review the expansion of its product response for unique populations with special nutritional needs. As a leading food company whose goal is to provide top-quality, safe products, the Company is also responsible for making sure that it provides a satisfactory product response to the broadest variety possible of groups with unique needs. As part of this process, Strauss's existing products that provide a response to the needs of unique groups such as diabetics, celiac sufferers, etc. were examined, and efforts to expand this product basket continued. The feasibility study process initiated in Strauss Israel in 2012 has continued into 2014 and is still to be completed. Strauss's consumer service channels were simultaneously expanded considerably in order to provide a comprehensive, quick and reliable response to all Strauss's consumers through the variety of existing communication channels in and outside the digital space.

E. Social investment and community relations

As a leading food company in Israel, Strauss considers it its duty to donate quality food products and provide nutritional security to the needy in Israel on a regular basis all year round. Strauss donates the products through the two largest food banks in Israel that provide food to dozens of nonprofits and to the needy throughout the country.

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

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

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

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

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

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

2. Environmental quality

In 2013 Strauss persevered in assimilating its environmental management policy in the Company, mapping and identifying the negative and positive influences of the Group's plants on the environment, mapping and evaluating the environmental requirements of the law applying to units in the Company, and providing tools for integrated work by the Group's units in the field of environmental management, with continuous reporting and transparency regarding our environmental performance metrics, which are described in detail in the annual Sustainability Report published in June each year as well as in our corporate website. Additionally, we continued to assimilate Strauss employees' environmental project, "Saving the Environment", designed to raise awareness of environmental issues while providing tools for financial savings in employees' homes by adopting a more environmentally conscious lifestyle. For more information on environmental quality, see section 24 in the chapter "Description of the Corporation's Business".

3. Workplace safety

Strauss has set goals for improving safety performance and addressing issues relating to health and safety in the workplace, with a trend of continuing improvement in all aspects relating to the reduction of work accidents and injuries, raising employee awareness of health and safety procedures and their implementation, drawing conclusions and accomplishing continuous learning for the purpose of improvement.

4. Promotion of good nutrition and a healthy lifestyle

Strauss acts continuously to expand its product and non-product response with the goal of helping and supporting the promotion of a healthy lifestyle among our consumers. As part of our commitment to improving the consumer's quality of life and based on our perceived responsibility, Strauss acts to provide a response to consumer needs by using the healthiest and best quality alternatives as product ingredients in line with the Company's worldview, which places the consumer in center stage and aspires to provide him with product alternatives that allow him to choose to maintain a healthier lifestyle. Additionally, in 2013 Strauss launched the Strauss Institute for the Promotion of a Healthy Lifestyle, which developed a suite of dedicated tools for adults and children; deepened the activity of the Alpha Strauss project for the food technology community, in which framework technology that supports a healthy lifestyle is located and assimilated in Strauss's business activities; expanded the digital channels that facilitate the accessibility of information and tools for the promotion of a healthy lifestyle among our consumers; and dedicated a major part of the sustainability strategy (section A above) to objectives focused on the promotion of a healthy lifestyle.

INFORMATION ON THE INTERNAL AUDITOR OF THE COMPANY

Internal Auditor of the Company: Shlomo Ben Shimol, CPA, CIA (Certified Internal Auditor) (hereinafter: the "Auditor"), has served as the Company's internal auditor since 1999. The Auditor does not hold securities of the Company. Furthermore, the Auditor or the entity on behalf of which the Auditor acts has no business relations with the Company that may create a conflict of interest. The Auditor provides internal auditing services as an outsourcer on behalf of Deloitte Brightman Almagor Zohar. The Auditor is a partner in the aforementioned firm.

<u>Manner of appointment</u>: The Board of Directors and its Audit Committee approved the Auditor's appointment, noting his professional qualifications, auditing experience, and his knowledge of the Strauss Group's business. Additionally, the Chairman of the Audit Committee and the Audit Committee receive reports on the members of the Auditor's team and their professional qualifications.

The Auditor's supervisor in the Company: The Chairperson of the Board.

The work plan: The internal audit's yearly and multiyear (generally, four years) work plans are based on the risk surveys and their revisions performed in the Group. Additionally, the framework of the

work plan includes the activity of the Group Corporate Center and subsidiaries operating in Israel and abroad. The internal audit plans are based on these risk surveys in order to build a risk-based plan.

The internal audit in the Strauss Group acts on a regular basis to revise the yearly and multiyear work plans. The internal audit's work plan is risk-focused and adapted to changes in the Group's business activity.

The goal of the process of revising the risk-focused work plan is to examine, on a continuous and dynamic basis, the structural changes in the Strauss Group and to monitor the level of control and risk level in the various units under audit, and in this manner, to examine, on a continuous basis, the alignment of the internal audit's work plan with the Group's needs.

Considerations in determining the subjects in the audit plan:

- The results of risk surveys performed in the Strauss Group;
- Interviews held with different managers in the Group;
- Analysis and mapping of the Group's organizational structure, attribution of the residual risk relating to each activity and determining the frequency of the internal audit according to the risk;
- Regulatory requirements arising from the provisions of the Securities Law and Regulations;
- Current audit findings;
- Resolutions of the Audit Committee and requests by the Group CEO.

The subjects under examination are tested in sub-processes from operational and financial reporting aspects and from aspects of compliance with the provisions of the law and Company procedure.

The multiyear and yearly work plans are prepared by the Internal Auditor and forwarded to the CEO, and are also submitted for approval by the Audit Committee. After receiving the recommendations of the Audit Committee, the work plan is submitted to the Board of Directors of the Company for approval.

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

<u>Scope of engagement</u>: Following is an itemization of the hours spent on the internal audit of the Group:

- In the Company itself and in investee companies in Israel 4,001 hours.
- In investee companies abroad 3,238 hours.

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

<u>Performing the audit</u>: The internal audit is performed according to the accepted professional standards in Israel for internal audits, and professional guidelines and briefings as approved and published by the international Institute of Internal Auditors (IIA). According to these guidelines, the Auditor performs quality control in order to review the audit work processes applied by the team of Internal Audit employees, and also executes a quality assurance plan by the Internal Audit unit in the Strauss Group.

In the Board of Directors' view, based on the Auditor's report, the internal audit work was performed in accordance with accepted professional standards for internal audits.

<u>Access to information</u>: The internal auditor has free, continuous and direct access to the information systems of the Company, including financial and other data, in Israel and abroad. The internal auditing work applying to the business units abroad is performed by the Auditor and his team of employees overseas.

<u>Auditor's report</u>: The Auditor's reports are submitted in writing on a regular basis throughout the year. In 2013 twenty-four reports were submitted. The reports are submitted to the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, the CEO of the Israeli or international business according to the circumstances, Management of the Group Corporate Center,

and to the units being audited. In 2013 eight meetings of the Audit Committee were held (including the Strauss Coffee Audit Committees). The meetings take place on a regular basis throughout the year. Furthermore, the Auditor holds regular and periodic meetings with the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, and senior Group Management.

<u>The Board of Directors' evaluation of the Internal Auditor's activity</u>: In the opinion of the Board of Directors, the scope of the internal auditing work, its continuous performance and the Auditor's work plan are satisfactory and sufficient in order to accomplish the purposes of internal audits in the Group. The Audit Committee, in conjunction with Group Management and the Auditor, examines the proper scope of the Group's internal audit on an annual basis.

<u>Compensation</u>: The total financial compensation paid for the work of the Auditor and his staff is based on an agreed tariff per work hour. In 2013 the Auditor was paid an amount of approximately NIS 1,640 thousand. In the opinion of the Board of Directors, the compensation paid to the Auditor is reasonable and has no influence on the application of his professional judgment.

DIRECTORS WITH ACCOUNTING AND FINANCIAL SKILLS

In the opinion of Board of Directors, the directors Dr. Michael Anghel, Professor Dafna Schwartz, Dalya Lev, Akiva Moses, Professor Arie Ovadia, Ronit Haimovitch, Meir Shanie and Galia Maor possess the required skills.

In the Company's opinion, the minimum number of directors with accounting and financial skills required is three. This assertion was made taking into consideration, among other things, the size of the Company, the scale of its activity, the number of members on its Board of Directors, and the complexity of financial reporting in the Company. In the Company's opinion, the appropriate minimum number determined as aforesaid will enable the Board of Directors to perform its duties according to the law and the Company's incorporation documents, particularly with respect to its responsibility for examining the financial condition of the Company, and for the preparation and approval of the financial statements. The names of the directors and the particulars for which they are considered directors possessing accounting and financial skills are set forth in the Periodic Report in the chapter "Additional Information on the Company" in the section pursuant to Regulation 26.

INDEPENDENT DIRECTORS

The Company has not adopted the provision regarding the percentage of independent directors in its Articles of Association.

In practice, two independent directors (who are also outside directors) serve on the Board of Directors as well as two other directors who fulfill the conditions for qualifying as independent directors, who together form about one-third of the members of the Board. For further information on the directors, see the chapter "Additional Information on the Company".

MASTER CONTROL IN THE PROCESS OF PREPARING AND APPROVING THE FINANCIAL STATEMENTS

The Company organ responsible for master control is the Financial Statements Review Committee established by the Board of Directors of the Company, which comprises four members. The members of the Financial Statements Review Committee (which does not serve as an audit committee) are Professor Dafna Schwartz (Chairperson) (external director), Dalya Lev, CPA (independent director), Meir Shanie and Dr. Michael Anghel (external director). All possess accounting and financial qualifications and the ability to read and understand financial statements in view of their many years' experience and academic education in the financial field. For additional information on the qualifications, experience and education of the Committee members, see Regulation 26 in the chapter "Additional Information on the Company".

The Board of Directors of the Company and its Financial Statements Review Committee have a series of control processes in place for the financial statements before they are approved. These controls include, among others:

- In March 2014, during the preparation of the financial statements, discussions were held in regard to the financial statements for the Year 2013.
- On March 20, 2014 the Financial Statements Review Committee discussed the following matters: (a) the estimates and evaluations made in connection with the financial statements; (b) the internal controls relating to financial reporting; (c) the completeness and fairness of the disclosure in the financial statements; (d) the accounting policy adopted and accounting treatment applied in the Company's material affairs; (e) valuations, including their underlying assumptions and estimates, which support data in the financial statements; (f) the Group's tax status for the year 2013; (g) review of the audit processes applied by the auditors. At this meeting, a discussion was also held on the effectiveness of internal control over financial reporting and disclosure in the Company. Discussions were attended by CPA Dalya Lev (temporary Committee Chairperson), Professor Dafna Schwartz, Meir Shanie, Micha Anghel, Arie Ovadia, Ronit Haimovitch and Adi Strauss as observers, the Group EVP Finance, the Group Corporate Center CFO, the Group Controller, the Internal Auditor of the Company and the Company Auditor.
- On March 20, 2014 the Financial Statements Review Committee held a discussion on the Group's financial statements, which included reference to accounting issues that arose incidentally to the Company's financial statements. Additionally, the Committee examined the effectiveness of internal control in the Company, and among other things examined the process of the Company's preparations on this subject, discussed the identification of material processes in the financial statements, and followed up the findings of the process. After completing the discussion the Committee forwarded its recommendation to the Board of Directors to approve the financial statements for the year 2013. The meeting was attended by CPA Dalya Lev (temporary Committee Chairperson), Professor Dafna Schwartz, Meir Shanie, Micha Anghel, Arie Ovadia, Ronit Haimovitch and Adi Strauss as observers, the Group EVP Finance, the Group Corporate Center CFO, the Group Controller, the Internal Auditor of the Company and the Company Auditor.
- The Committee's discussions were based on material presented to members by Company Management on subjects that were discussed by the Committee, and questions and answers that arose were discussed, including reference by the External Auditor to these issues. The Financial Statements Review Committee requested comprehensive reviews on matters of material influence as required.
- The EVP Finance and the Company Controller hold meetings from time to time with the Chairperson of the Financial Statements Review Committee on subjects related to the financial statements of the Company. Before the financial statements as at December 31, 2013 were approved, a meeting was held with the temporary Chairperson to discuss material issues that arose during the preparation of the Annual Financial Statements.
- The Company Auditor also holds conversations with the Financial Statements Review Committee
 on subjects that arose during the audit of the financial statements. Before the financial statements
 were approved a conversation was held between the Company Auditor and the Financial
 Statements Review Committee to discuss material issues that arose during the audit of the
 financial statements as at December 31, 2013.
- Before the financial statements are approved the draft Annual Financial Statements are forwarded
 to the Committee members and the rest of the members of the Board of Directors for their review.
 The draft financial statements of the Company were forwarded to the members of the Board
 approximately eight business days before the date of approval of the financial statements, and the
 recommendations of the Financial Statements Review Committee were forwarded to the members
 of the Board some three business days before the date of approval of the Annual Financial

Statements of the Company. The Periodic Report and the financial statements were revised, insofar as necessary, in accordance with the remarks of the members of the Committee and the Board of Directors.

- On March 25, 2014 the Board of Directors discussed the recommendation of the Financial Statements Review Committee to approve the financial statements of the Company as at December 31, 2013. In the opinion of the Board of Directors, in view of the scope and complexity of the recommendations, the Committee's recommendations were forwarded to the members of the Board a reasonable time before the abovementioned meeting. The meeting of the Board of Directors was attended by all members of the Board. Also present were the CEO, the EVP Finance, the CLO & Company Secretary, the Corporate Center CFO, the Company Controller and the Company Auditor.
- At the meeting the Board of Directors discussed the recommendations of the Financial Statements Review Committee and heard a detailed review and analysis of the financial statements by the CEO and EVP Finance, as well as of the Company's financial results and material financial reporting issues relating to the financial statements.
- After the Board of Directors was satisfied that the financial statements accurately reflect the Company's condition and the results of its operations, the Board of Directors resolved to approve the financial statements of the Company for the year 2013.

<u>UPDATE ON THE ASSIMILATION OF AN INTERNAL ENFORCEMENT PROGRAM RELATING TO SECURITIES</u>

Following the enactment of the new law for streamlining the Israeli Securities Authority enforcement procedures and further to the publication by the ISA of its Criteria for the Recognition of an Internal Enforcement Program in the Securities Field on August 11, 2011, the Company has completed the assimilation of an enforcement program.

NEGLIGIBLE TRANSACTIONS

The Board of Directors of the Company has prescribed guidelines and rules for the classification of a transaction between the Company or a consolidated company or an included company and an interested party in the Company as a negligible transaction, as set forth in Regulation 41(A)(6)(a) of the Securities Regulations (Annual Financial Statements) – 2010. For further information, see Regulation 22 in the chapter "Additional Information on the Company".

REGULATIONS WITH RESPECT TO FINANCIAL REPORTING BY THE CORPORATION

Critical Accounting Estimates

For information on critical accounting policy and Management considerations, see Note 4 to the financial statements.

AUDITOR'S FEES

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

		For the year ended December 31, 2013						
		Audit services, audit-related services and tax						
		serv	services		services	Total		
		NIS		NIS		NIS		
Company	Auditor	'000	Hours	'000	Hours	'000	Hours	
Strauss Group and investee								
companies (1)	KPMG (Israel)	3,369	14,625	-	-	3,369	14,625	
Max Brenner NY	Eshel & Partners LLP	199	1,104	-	-	199	1,104	
SE USA Inc.	Eshel & Partners LLP	131	473	-	ı	131	473	
Sabra Dipping Company LLC (100%)	KPMG & JH Cohn	1,517	2,112	90	47	1,607	2,159	
PepsiCo Strauss Fresh Dips &	KPMG Switzerland,							
Spreads	Mexico, Australia	1,429	1,563	449	237	1,878	1,800	
Virgin Strauss Water UK Ltd.	KPMG LLP (UK)	147	329	43	122	190	451	
Strauss Water companies in China	KPMG China	344	970	-	•	344	970	
Strauss Romania SRL	KPMG Romania	283	1,220	-	•	283	1,220	
Strauss Adriatic Group Cluster	KPMG Serbia	158	600	29	100	187	700	
Strauss Ukraine LLC	KPMG Ukraine	106	421	-	ı	106	421	
Strauss Café Poland Sp.z.o.o	KPMG Poland	268	968	-	1	268	968	
Três Corações Alimentos S.A (100%)	KPMG Brazil	636	2,400	-	-	636	2,400	
	Mazars & KPMG							
Strauss Coffee B.V.	(Israel)	1,799	5,583	499	1,247	2,298	6,830	
Strauss Commodities AG	KPMG Switzerland	234	260	-	-	234	260	
Strauss Russia LLC	KPMG Russia	591	1,426	263	700	854	2,126	

		For the year ended December 31, 2012						
		Audit services, audit-related services and tax services		Other services			otal	
2	Auditan	NIS		NIS		NIS		
Company	Auditor	'000	Hours	'000	Hours	'000	Hours	
Strauss Group and investee companies (1)	KPMG (Israel)	2,648	11,341	492	1,660	3,140	13,001	
Max Brenner NY	Eshel & Partners LLP	193	1,012	-	-	193	1,012	
SE USA Inc.	Eshel & Partners LLP	127	452	-	-	127	452	
Sabra Dipping Company LLC (100%)	KPMG & JH Cohn	844	1,500	-	-	844	1,500	
PepsiCo Strauss Fresh Dips &	KPMG Switzerland,							
Spreads	Mexico, Australia	348	536	68	70	416	606	
Strauss Romania SRL	KPMG Romania	342	1,560	-	-	342	1,560	
	KPMG Bosnia,							
Strauss Adriatic Group Cluster	Albania, Serbia	123	669	-	-	123	669	
Strauss Ukraine LLC	KPMG Ukraine	133	539	20	8	153	547	
Strauss Café Poland Sp.z.o.o	KPMG Poland	268	912	ı	•	268	912	
Três Corações Alimentos S.A (100%)	KPMG Brazil	679	2,900	ı	•	679	2,900	
	Mazars & KPMG							
Strauss Coffee B.V.	(Israel)	1,801	5,548	727	979	2,528	6,527	
Strauss Commodities AG	KPMG Switzerland	273	213	45	35	318	248	
Strauss Russia LLC	KPMG Russia	668	1,415	-	ı	668	1,415	

⁽¹⁾ The Company receives audit services together with other investee companies, the main ones being Yad Mordechai Strauss Apiary Ltd., Strauss Fritolay Ltd. (100%), Strauss Water Israel Ltd., and also includes the Strauss Health & Wellness group, including Yotvata Dairies.

Convenience Translation from Hebrew

The mechanism for determining the Company Auditor's fees is defined according to the nature of the services rendered: Fees for auditing and review services are determined as a global amount. Fees for services accompanying the audit (special approvals, prospectuses, discussions, etc.) are determined according to the number of hours invested.

The mechanism for determining the Company Auditor's fees was approved by Company Management. In regard to the investee companies, the mechanism for determining the Auditor's fees was approved by the local managements of these companies.

LIABILITY REPORT ACCORDING TO PAYMENT DATES

See Form T-126, published simultaneously with the financial statements.

POST STATEMENT OF FINANCIAL CONDITION DATE EVENTS

For a review of events occurring after the date of the Statement of Financial Condition, see Note 40 to the consolidated financial statements as at December 31, 2013.

DEDICATED DISCLOSURE TO DEBENTURE HOLDERS

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

The Board of Directors and Managemer employees and managers of Strauss Grou	•	their	gratitude	and	appreciation	to	the
						_	
Ofra Strauss					Lesin		
Chairperson of the Board			Chier	Execu	ıtive Officer		

March 25, 2014