

# **STRAUSS-GROUP LTD.**

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**STRAUSS-GROUP LTD.**  
BOARD OF DIRECTORS' REPORT  
TO THE SHAREHOLDERS  
AS AT MARCH 31, 2011



**THE STRAUSS GROUP LTD.**  
**BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS**  
**FOR THE QUARTER ENDED MARCH 31, 2011**

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

**PRINCIPAL INFORMATION FROM THE DESCRIPTION OF THE COMPANY'S BUSINESS**

The Strauss Group Ltd. and the companies it controls (hereinafter: the "**Company**" or the "**Group**") are a group of industrial and commercial companies that operate in Israel and abroad, in Central and Eastern Europe, Brazil and the United States of America, in the manufacture, sale and marketing of a variety of branded food and beverage products. The controlling shareholders of the Company are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: the "**Parent Company**" or "**Strauss Holdings**") and Ms. Ofra Strauss, who is deemed to hold the shares of the Company together with him.

The Group manages and develops its business with the aim of providing the entire public with a broad variety of top-quality branded products for different consumption opportunities. The Group is dominant in most of the markets in which it operates. The products of the Group are generally sold through a variety of sales channels including large retail chains, private stores and supermarkets, kiosks, workplaces, hotels, vending machines, etc.

The Group's Corporate Headquarters is in Israel. Strauss Israel is the second-largest company in the Israeli food industry and as at the first quarter of 2011 held an 11.7% share of the domestic food and beverage market (on a quarterly average, in financial terms<sup>1</sup>). The Group is also active in some six countries in Central and Eastern Europe, in Brazil (in most of these countries the Group is among the leading companies dealing in roasted and ground coffee), in the USA, and in England and China, where the Company is active in the water industry.

The Group has five areas of activity that are reported separately as business sectors. See Note 29 to the Annual Consolidated Financial Statements of the Company (hereinafter: the "**Annual Financial Statements**"):

**The Business in Israel – Strauss Israel**, which includes a major part of the Group's activities in Israel and comprises two sectors of activity:

**Health & Wellness** – these products include: yogurts, dairy desserts, soft cheeses, fresh milk products, milk beverages, refrigerated Mediterranean salads (hummus, tehina, eggplant, etc.), cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil and jams, as well as other products exclusively distributed by the Company such as natural fruit juices manufactured by Ganir and long-life milk manufactured by Ramat Hagolan Dairies, both of which are sold and distributed by the Group.

**Fun & Indulgence** – these products include: sweet snack bars, chocolate tablets, sweet spreads, confectionery, chewing gum, cakes and cookies, biscuits, wafers and salty snacks.

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<sup>1</sup> According to StoreNext figures. StoreNext engages in the measurement of the regular everyday consumer goods market in the barcoded retail market.

Convenience Translation from Hebrew

Strauss Israel is active in two main business sectors that were established according to the product groups described above and are based on developing consumption trends worldwide and in Israel in particular, with the aim of developing leading products and solutions that provide a suitable response to the emerging consumer trends.

**The Coffee Business – Strauss Coffee:** In this sphere the Group develops, manufactures, sells, markets and distributes a variety of branded coffee products in Israel, in Eastern and Central European countries and in Brazil; chocolate and other drink powders. In the framework of its activity in Brazil the Group buys, processes and sells green coffee to exporters in Brazil and to customers outside of Brazil (mainly in Europe and the USA), and also manufactures and sells corn products in Brazil. The Company's products are sold through various channels including retail channels for home consumption and other channels directed to away-from-home consumption (cafés, restaurants, institutions, workplaces, etc.). This business area comprises two sectors of activity: Israel Coffee (which includes the Coffee Company's Corporate Headquarters), and the international coffee business.

**The International Dips and Spreads Activity:** The Group develops, manufactures, sells, markets and distributes dips and spreads, presently through the Sabra company, throughout North America. Sabra is jointly controlled by the Group and PepsiCo (each party holds 50%).

In addition to the areas of activity described above, the Group has other activities that are included in the Financial Statements as the **"Other Operations"** sector. The main activities among these operations are:

**Max Brenner:** The Group manufactures and sells chocolate products under the Max Brenner brand and operates a chain of "Chocolate Bars" in Israel and abroad. These are wholly-owned by the Company or operated under franchise and through partners, and deliver a novel consumption experience in the chocolate and chocolate beverage category.

**Strauss Water:** In 2007 the Company entered a partnership in a new venture in the water business (**H2Q**), and on October 1, 2009 H2Q acquired 100% of the shares of Tana Industries (Tami4). Today, the entire operation is merged under the Strauss Water area of activity.

The Company has some 14,000 employees, with about -half of them in Israel.

The Group's business is conducted in four major geographical regions: **Israel**, where activity includes the activity of Strauss Israel (the sale of a broad variety of fresh and dry food products, including coffee), the Max Brenner operation in Israel and Strauss Water in Israel; **Europe**, where activity includes the coffee business in Central and Eastern Europe, and Strauss Water business in the UK; **Brazil**, where the activity is managed through a 50% proportionately consolidated company (a joint venture), which is active primarily in roasted and ground coffee in the domestic market, the manufacture of corn products and the export of green coffee (the activity in Europe, the coffee business in Israel and the activity in Brazil are managed by Strauss Coffee B.V.); and the USA, where activity includes Sabra (a 50% proportionately consolidated joint venture since the second quarter of 2008) and the Max Brenner activity (excluding Max Brenner in Israel). The various activities are run by their own separate managements, while the Corporate Headquarters in Israel is responsible for exploiting synergies between them.

The Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The Company applied IFRS for the first time in 2005, with the date of changing to IFRS being January 1, 2003.

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

The Company's sales in some of its activities are characterized by seasonality. Income from sales of coffee products abroad is generally (relatively) higher in the fourth quarter and (relatively) lower in the first quarter. Seasonality is affected mainly by the timing of the Christian holidays and the end of the (Gregorian) year in the fourth quarter, a period that is characterized by increased purchases of coffee products. By contrast, in the first quarter purchase volumes are relatively low, mainly because people are still consuming the coffee products purchased in the previous quarter.

In Israel, seasonality is the result of two main factors: the first is the timing of the Jewish holidays with emphasis on Rosh Hashanah (the Jewish New Year) and Passover, when the Company's snack, chocolate and coffee sales increase considerably. The second factor is the seasons of the year, with winter and fall being characterized by greater consumption of confectionery (mainly chocolate and snack bars) than the hot seasons. Conversely, sales of cold beverages (milk drinks, juices) are higher in the summer, which falls in the second and third quarters of the year.

### **CHANGES IN THE ECONOMIC ENVIRONMENT**

In 2011 the slowdown in some of the global markets where the Company is active continued, coupled with an increase in raw material prices. Several factors in the Group's macroeconomic environment, including currency exchange rates, raw material prices and emerging inflation, simultaneous with the recession in the USA and in Europe in the wake of the financial crisis, influenced the Group's business operations.

As at the date this report was prepared and in continuation of the trend that began in the second half of 2010, we witnessed a trend of sharp increase in the prices of some raw materials (notably coffee, raw milk, sugar, cocoa, oil and chickpeas) and in energy prices. The increase in coffee prices had a material impact on the Company's results. This rising trend has continued and is also liable to continue to influence the Company's results later on this year as well. The Company is taking different steps to contend with this increase, and estimates that in the second half of the year we will witness a moderation of this impact on its financial results. Additionally, exchange rates between the Shekel and the currencies in the different countries where the Group operates have been volatile (mainly the strengthening of many currencies in relation to the Shekel). The increase in the prices of raw materials and energy has led to an increase in the costs of manufacturing the products, while the changes in the exchange rates of the various currencies has led to changes in the cost of products that are imported in the various businesses and to changes in the Shekel value arising from the translation into Shekels of the Company's business results in some markets. The Group is taking the necessary steps to be prepared for the different scenarios and to deal with them in the best manner possible.

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

Other than as described below, as at the end of the first quarter and compared to the end of 2010 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, 2010.

Convenience Translation from Hebrew

**ANALYSIS OF FINANCIAL RESULTS** \*

*Following are the condensed financial accounting statements of income for the quarters ended March 31, 2011 and 2010 (in NIS millions):*

	For the First Quarter		
	2011	2010	% Chg
<b>Sales</b>	<b>1,773</b>	<b>1,696</b>	<b>4.5</b>
Cost of sales not including impact of hedging transactions	1,093	1,012	7.9
Revaluation of the balance of hedging transactions on commodities as at end of period	16	1	
Cost of sales	1,109	1,013	9.4
<b>Gross Income</b>	<b>664</b>	<b>683</b>	<b>(2.8)</b>
Selling and marketing expenses	425	401	6.0
General and administrative expenses	106	105	0.8
<b>Operating income before other income (expenses)</b>	<b>133</b>	<b>177</b>	<b>(25.0)</b>
Other income (expenses), net	(2)	(7)	(79.0)
<b>Operating Income</b>	<b>131</b>	<b>170</b>	<b>(22.6)</b>
Financing expenses, net	(26)	(8)	221.0
<b>Income before taxes on income</b>	<b>105</b>	<b>162</b>	<b>(35.2)</b>
Taxes on income	(31)	(53)	(40.8)
Effective tax rate	29.9%	32.7%	
<b>Income for the period</b>	<b>74</b>	<b>109</b>	<b>(32.4)</b>
<b>Income attributed to the shareholders of the Company</b>	<b>55</b>	<b>84</b>	<b>(34.4)</b>
Income attributed to the holders of rights that do not confer control	19	25	(25.9)

*Following are the adjustments to the Company's pro-forma statements (NIS millions):*

	For the First Quarter		
	2011	2010	% Chg
<b>Operating income – financial accounting – after other income (expenses)</b>	<b>131</b>	<b>170</b>	<b>(22.6)</b>
Share-based payment and one-time bonus	5	3	
Revaluation of the balance of hedging transactions on commodities as at end of period	16	1	
	-	-	
Other expenses	2	7	
<b>Operating income – pro-forma</b>	<b>154</b>	<b>181</b>	<b>(14.9)</b>
Financing expenses, net	(26)	(8)	
Taxes on income	(31)	(53)	
Taxes in respect of adjustments to the above management operating income	(4)	(3)	
<b>Income for the period – pro-forma</b>	<b>93</b>	<b>117</b>	<b>(21.2)</b>

\* The 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 results of business operations (based on the Company's pro-forma statements) for the quarters ended March 31, 2011 and 2010 (in NIS millions):*

	For the First Quarter		
	2011	2010	% Chg
<b>Sales</b>	<b>1,773</b>	<b>1,696</b>	<b>4.5</b>
Cost of sales	1,093	1,012	7.9
<b>Gross Income</b>	<b>680</b>	<b>684</b>	<b>(0.5)</b>
Selling and marketing expenses	425	401	6.0
General and administrative expenses	101	102	-0.9
<b>Operating income – pro-forma</b>	<b>154</b>	<b>181</b>	<b>(14.9)</b>
Financing expenses, net	(26)	(8)	221.0
<b>Income before taxes on income</b>	<b>128</b>	<b>173</b>	<b>(26.2)</b>
Taxes on income	(35)	(56)	(36.8)
<b>Income for the period – pro-forma</b>	<b>93</b>	<b>117</b>	<b>(21.2)</b>
<b>Income attributed to the shareholders of the Company</b>	<b>70</b>	<b>92</b>	<b>(24.6)</b>
Income attributed to the holders of rights that do not confer control	23	25	(8.4)

*Following are the condensed results of business operations (based on the Company's pro-forma statements) of the major business sectors for the quarters ended March 31, 2011 and 2010 (in NIS millions):*

	For the First Quarter		
	2011	2010	% Chg
<b>Israel</b>			
Net sales	728	697	4.4
Operating income	90	89	1.2
<b>Coffee</b>			
Net sales	831	827	0.4
Operating income	67	78	(14.1)
<b>International Dips and Spreads</b>			
Net sales	86	63	35.8
Operating income	2	8	(70.2)
<b>Other</b>			
Net sales	128	109	18.5
Operating income (loss)	(5)	6	(170.8)
<b>Total</b>			
<b>Net sales</b>	<b>1,773</b>	<b>1,696</b>	<b>4.5</b>
<b>Operating income</b>	<b>154</b>	<b>181</b>	<b>(14.9)</b>

For information on the adjustments to the Company's pro-forma statements see Note 3 of the Consolidated Statements as at March 31, 2011

## **ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP**

### **General**

Strauss Group began 2011 with a growth in sales, a decrease in gross profit and profitability and a decrease in operating profit and profitability.

Several factors in the Group's macroeconomic environment, including the sharp rise in raw material prices, currency exchange rates and inflation, simultaneous with the slow recovery from the financial crisis in some of the markets where the Group is active, influenced the Group's business operations.

The sharp increase in raw material prices and volatile exchange rates in the countries where Strauss Coffee is active, coupled with the difficulty in raising prices in the prevailing macroeconomic conditions, impacted the Group's growth and its profit.

The Group has maintained its focus on strengthening the foundations for future growth, long-term investments and building infrastructure for a global company, improving its competitive position and increasing its market shares as well as improving the operating profit, while continuing to invest in its strong assets – people and brands – and investing in future growth drivers.

In the first quarter the Company reported that Strauss Group and PepsiCo had concluded an agreement in principle for the establishment of a jointly-held global company which will manufacture and market fresh salads, dips and spreads in major international markets. Each of the partners will hold 50% of the new company (the final agreement has not yet been signed).

In the framework of the joint venture, in the next few years the companies will invest in the development of new categories, advanced technologies, establishment of new production sites, various acquisitions and entry into new countries and continents in addition to those where Strauss is presently active.

The global company will be based on the successful model of the dips and spreads company, Sabra, in which Strauss and PepsiCo have been partners since 2007.

### **Sales**

The Group's sales in the first quarter totaled NIS 1,773 million compared to NIS 1,696 million in the corresponding period last year, an increase of 4.5%. After neutralizing the currency impact, growth amounted to 4.8%. **Organic growth after neutralizing the impact of changes in exchange rates in the first quarter amounted to 3.5%.** Growth was evident mainly in the Company's activity in Israel, which grew by some 4.4% in the quarter, in Sabra's activity in North America, where growth amounted to 35.8%, and in the water business, which grew by 19.0% in the quarter.

### **Gross Profit**

Gross profit in the first quarter decreased by 2.8% and amounted to NIS 664 million compared to NIS 683 million in the corresponding period last year; the gross profit dropped from 40.3% last year to 37.5% this year. The pro-forma gross profit decreased in the quarter by 0.5% and amounted to NIS 680 million compared to NIS 684 million last year, down from 40.3% to 38.4%.

The gross profit in the quarter was positively influenced by the improvement in Israel, and by contrast was negatively influenced by the decrease in gross profit in the coffee business due to the continuing sharp rise in raw material prices and the impact of currency exchange rates.

Convenience Translation from Hebrew

### **Operating Profit before Other Income (Expenses)**

The financial accounting operating profit (before other income and expenses) totaled NIS 133 million (7.5% of sales) in the first quarter compared to NIS 177 million (10.4%) last year, a decrease of 25.0%.

The pro-forma (pro-forma) operating profit totaled NIS 154 million (8.7% of sales) in the first quarter compared to NIS 181 million (10.7%) last year, a decrease of 14.9%.

The quarterly operating profit was negatively influenced by the growth in expenses relating to the establishment of Strauss Water's activity in China and in England, and by the simultaneous operation of two production sites in the USA (the total impact on profit amounted to a decrease of approximately NIS 10 million), as well as by the decrease in profit in the coffee business, further to the decrease in gross profit in this activity.

### **Other Expenses, Net**

Other expenses, net totaled NIS 2 million in the first quarter compared to other expenses, net amounting to NIS 7 million in the corresponding period last year.

### **Operating Profit after Other Expenses**

The Company's consolidated operating profit in the first quarter totaled NIS 131 million, compared to NIS 170 million in the corresponding period last year, a decrease of approximately 23%.

### **Financing Expenses, Net**

Net financing expenses in the first quarter totaled NIS 26 million compared to expenses of NIS 8 million in the corresponding quarter last year.

The factors that contributed to the increase in financing expenses compared to last year were the revaluation of Index-linked liabilities in respect of Debentures Series A and B on the basis of the known Index (an increase of 0.9% in the quarter versus a decrease of 1% last year); expenses in respect of the revaluation of foreign currency positions due to the strengthening of the Group's operating currencies in the quarter in relation to the US Dollar, versus income from the revaluation of foreign currency balances in the corresponding period last year; and an increase in net credit volumes compared to the corresponding period last year.

By contrast, the increase in financing expenses was offset against expenses in respect of the revaluation of Index contracts last year versus a profit in respect of Index contracts this year, and against a profit from hedging transactions on Shekel interest.

The net credit volume as at March 31, 2011 totaled NIS 1,481 million compared to NIS 973 million on March 31, 2010 and NIS 1,156 million on December 31, 2010.

Convenience Translation from Hebrew

### **Income before Taxes on Income**

In the first quarter the Group's consolidated income before taxes on income amounted to NIS 105 million (5.9% of sales) compared to income of NIS 162 million (9.6% of sales) in the corresponding quarter last year, a decrease of 35.2%.

### **Taxes on Income**

In the first quarter taxes on income amounted to NIS 31 million, reflecting an effective tax rate of 29.9%, compared to NIS 53 million and an effective tax rate of 32.7% in the corresponding quarter last year. The decrease in the effective tax rate in the current quarter compared to the corresponding quarter last year is mainly the result of differences in pre-tax profit and the varying, weighted tax rates in those foreign countries where the company operates, as well as a decrease (1%) in the Israeli corporate tax rate compared to last year (from 25% to 24%).

### **Income for the Period**

Income for the period in the first quarter totaled NIS 74 million compared to NIS 109 million last year. The pro-forma income for the period in the first quarter amounted to NIS 93 million compared to NIS 117 million last year, a decrease of 21.2%.

### **Income for the Period for Shareholders of the Company**

The financial accounting income for the period for the shareholders of the Company in the first quarter totaled NIS 55 million compared to NIS 84 million last year, a decrease of 34.4%. The decrease is mainly the result of the decrease in the operating profit and of the increase in financing expenses compared to last year.

The pro-forma income for the shareholders of the Company in the first quarter totaled NIS 70 million (3.9% of sales) compared to NIS 92 million last year (5.4%), a decrease of 24.6%. The decrease in the first quarter this year is mainly the result of the decrease in the operating profit and the increase in financing expenses compared to last year.

### **Financial Accounting Income for the Period for Minority Shareholders**

In the first quarter the share of Minority Shareholders in the income of subsidiaries totaled NIS 19 million compared to NIS 25 million in the corresponding quarter last year, a decrease of 25.9%.

### **Other Comprehensive Income for the Period**

The other comprehensive income for the period includes profit or loss items credited directly to equity, particularly the revaluation of securities available for sale and differences arising from the translation of foreign currency in respect of an investment in overseas subsidiaries. The other comprehensive income for the first quarter amounted to NIS 72 million compared to other comprehensive income of NIS 117 million last year.

In the reported period profits in respect of translation differentials, which are the main component of the other comprehensive income, amounted to NIS 72 million compared to losses of NIS 122 million in the corresponding period last year. The translation differentials are the result of a material strengthening of the operating currencies of the Group companies abroad in relation to the Shekel,

## **LIQUIDITY, SOURCES OF FINANCING AND FINANCIAL POSITION**

Cash flows provided by operating activity in the first quarter of 2011 totaled NIS -59 million, compared to NIS 73 million last year . The decrease in operating cash flow in the quarter is due mainly to increased inventory balances and the decrease in the income for the period.

Cash flows provided by investment activity in the first quarter totaled NIS 194 million compared to NIS 96 million in the corresponding period last year. The increase results from the purchase of negotiable bonds and deposits, net.

Cash flows provided by financing activity in the first quarter of 2011 totaled NIS 157 million compared to NIS 103 million in the corresponding period last year. The increase is primarily a result of the receipt of long-term loans in Q1 2011 (mainly due to the expansion of the Group's activity).

The Company's cash and cash equivalents as at March 31, 2011 totaled NIS 649 million, compared to NIS 729 million on December 31, 2010. In accordance with Company policy, these assets are held mainly in deposits (most of them in Euros, Shekels and Dollars). Additionally, the Company has short-term investments in securities (mainly linked to the Consumer Price Index in Israel).

The Company's liquidity ratio as at March 31, 2011 is 1.58 compared to 1.47 on December 31, 2010. As at March 31, 2011 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,123 million compared to NIS 1,780 million on December 31, 2010. As at March 31, 2011 short-term credit (excluding current maturities) amounted to NIS 186 million compared to NIS 170 million on December 31, 2010. As at March 31, 2011 supplier credit totaled NIS 784 million compared to NIS 793 million on December 31, 2010.

As at March 31, 2011 total assets in the Company's Consolidated Statement of Financial Condition amounted to NIS 6,516 million, compared to NIS 6,257 million as at December 31, 2010.

As at March 31, 2011 the ratio of equity attributed to the shareholders of the Company to the total assets in the Company's Consolidated Statement of Financial Condition was 26.8%, compared to 29.4% as at December 31, 2010.

The Company's activities outside of Israel are conducted in various foreign currencies and through autonomous subsidiaries. Any weakening in relation to the Shekel of the currencies in the countries in which the Company operates reduces the shareholders' equity of the Company, and vice versa.

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

### **The Group's Activity in Israel**

Strauss Group is the second-largest company in the Israeli food industry and in the first quarter of 2011 held according to Storenext 11.7% of the domestic retail food and beverage market (on a quarterly average, in financial terms). The Israeli market is the Group's home market, in which it is active in various categories.

The sales of the entire business of Strauss Group in Israel include the Health & Wellness and Fun & Indulgence Divisions, the coffee business in Israel, Max Brenner in Israel and Strauss Water Israel (Tami4).

In the first quarter, Israel sales totaled NIS 1,016 million compared to NIS 969 million in the corresponding quarter last year, an increase of 4.8%. Growth was evident in all business divisions, Health & Wellness, Fun & Indulgence, Strauss Water Israel and Israel Coffee.

### **The Coffee Business**

In the global coffee business the Group develops, manufactures, markets and sells branded coffee products in Israel and in various emerging markets – Central and Eastern Europe and Brazil. This business area comprises two segments of activity – Israel Coffee and International Coffee.

In 2010, the Strauss Group was the sixth-largest company in the world retail coffee market, with a market share of 2.1% in value terms (according to the market research firm, Euromonitor).

*Following is the scope of sales of the coffee business in the major geographical regions, and growth rates for the years and quarters ended March 31, 2011 and 2010 (in NIS millions):*

Geographical region	First Quarter			% change in local currency*
	2011	2010	% chg	
<b>Israel Coffee</b>	180	176	1.7	1.7
<b>International Coffee</b>				
Brazil <sup>1</sup>	309	301	2.8	(1.3)
Former Yugoslavia countries	52	52	0.5	9.4
Former USSR countries	149	128	16.3	18.6
Balkan states	50	68	(27.0)	(22.1)
Poland	91	102	(10.5)	(7.0)
<b>Total International Coffee</b>	<b>651</b>	<b>651</b>	<b>0.1</b>	<b>0.4</b>
<b>Total Coffee</b>	<b>831</b>	<b>827</b>	<b>0.4</b>	<b>0.7</b>

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

(1) Brazil sales in Q1 of 2011 include sales amounting to NIS 62.6 million of green coffee and NIS 18.3 million of corn. In Q1 of 2010 sales of green coffee amounting to NIS 61.3 million and corn amounting to NIS 15.7 million were included.

Convenience Translation from Hebrew

*Following are the condensed results of business operations (based on the pro-forma statements) of the Coffee Company by reported sectors for the quarters ended March 31, 2011 and 2010 (in NIS millions):*

	First Quarter		
	2011	2010	% Chg
<b>Israel Coffee segment</b>			
Net sales	180	176	1.9
Operating income	24	38	(38.0)
% profit	13.2%	21.6%	
<b>International Coffee segment</b>			
Net sales	651	651	0.1
Operating income	43	40	9.0
% profit	6.6%	6.1%	
<b>Total Coffee</b>			
<b>Net sales</b>	<b>831</b>	<b>827</b>	<b>0.4</b>
<b>Operating income</b>	<b>67</b>	<b>78</b>	<b>(14.1)</b>
<b>% profit</b>	<b>8.0%</b>	<b>9.4%</b>	

### Sales

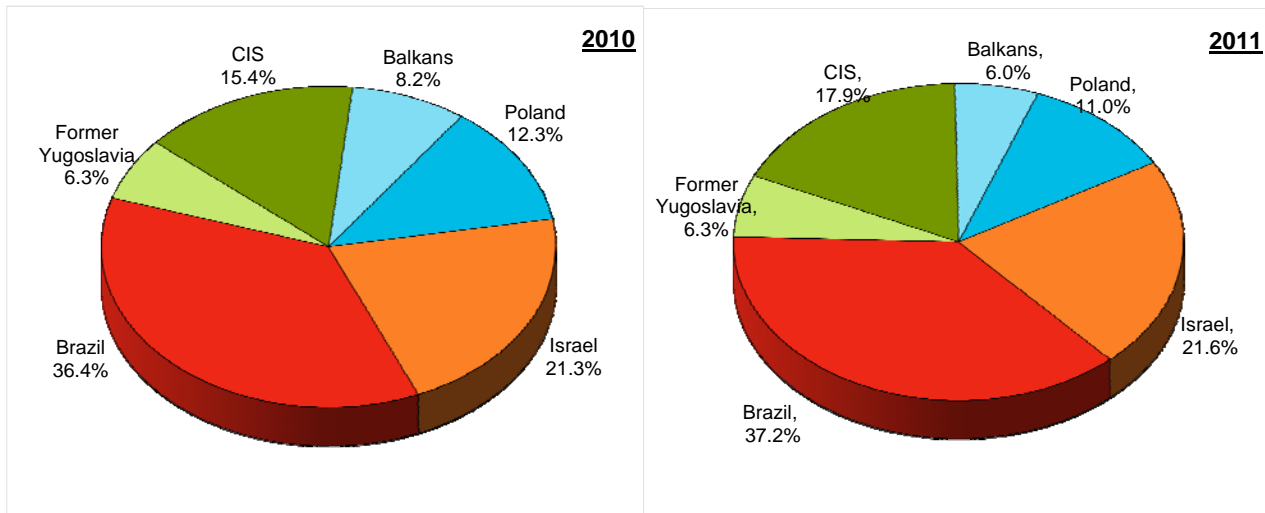
Sales by Strauss's coffee business in the first quarter of 2011 totaled NIS 831 million compared to NIS 827 million in the corresponding period last year, an increase of 0.4%. After neutralizing the impact of currency exchange rates, growth amounted to 0.7%. Organic growth (after neutralizing the acquisition of businesses and the impact of exchange rate differentials) in the first quarter of 2011 was negative and amounted to a decrease of 0.6%.

Coffee sales were positively influenced by the growth in activity in Russia and in Israel, but were negatively influenced by the weakness in most of the markets in Eastern Europe, by changes in the exchange rates of the various operating currencies, by the sharp rise in raw material prices coupled with the difficulty in raising prices in the prevailing macroeconomic conditions in some of the countries, and by the growing competition.

The gross profit in the coffee business totaled NIS 278 million in the first quarter (33.5% of sales) compared to NIS 298 million (36.0%) last year, a decrease of 6.6%. The decrease in gross profit is the result of the sharp rise in raw material prices and the difficulty in transferring the entire increase in these prices to the consumer.

The operating profit of the coffee business totaled NIS 67 million in the first quarter (8.0% of sales) compared to NIS 78 million (9.4% of sales) last year, a decrease of 14.1%. The decrease in the operating profit was influenced mainly by the decrease in the gross profit.

**Distribution of coffee sales by geographical region in the first quarter of 2011 and 2010:**



Brazil

In the first quarter of 2011 the Company's coffee sales in Brazil grew by 2.8%, and according to A.C.Nielsen figures the average market share in the quarter reached 18.5% compared to 17.5% in the corresponding period last year.

The former Yugoslavia countries

The Company continues to contend with the challenging market conditions in the former Yugoslavia countries. In the first quarter sales totaled NIS 52 million, similar to the figure for the corresponding quarter last year.

Sales were affected by the slowdown in the coffee market following the recession, and by the material erosion in local currency rates in relation to the Shekel and the shift to the consumption of more basic coffee in the region.

The Balkan states

In the first quarter sales totaled NIS 50 million, a decrease of 27.0%. Sales in the quarter were impacted by the erosion in the exchange rate of the Euro and the Shekel in relation to the Romanian currency, and by the discontinuation of the Company's operation in Bulgaria in view of the low growth potential in relation to the resources invested in that country.

The former USSR countries

Growth in activity of the Coffee Company in the region continues and is the result of the continuing expansion in instant coffee and roasted and ground coffee and the acquisition of the Le Café brand, as well as the expansion of AFH activities in Russia with the Totti Café by Roberto Totti brand for the HoReCa sector (coffee services for hotels, restaurants and cafés).

## Convenience Translation from Hebrew

The Company's sales in the region in the first quarter grew by 16.3%, and after neutralizing the currency impact, sales grew by 18.6%. The Company's sales in the region were positively influenced by the volume growth in sales in Russia and by the consolidation of Le Café for the first time, but were adversely influenced by the strong impact of the currency erosion and financial weakness in some of region's countries.

The Coffee Company continues to strengthen its competitive position in the Russian coffee market, which is considered one of the biggest coffee markets in the world, while continuing to grow and expand in the region.

## Poland

The Company's sales in the region decreased by 10.5% in the quarter, and after neutralizing the currency impact, sales decreased by 7.0%. Sales in Poland were influenced by the challenging environmental conditions, growing competition and the currency erosion

## Israel

In the first quarter coffee sales in Israel grew by 1.7%. Growth in Israel sales was evident in all coffee categories (Turkish, instant) and in all channels (retail, AFH).

The Company's sales were positively influenced by the growth in the large channels and in all segments. The Company succeeded in maintaining its competitive position in the Israeli coffee market.

## **The Business in Israel**

The Group develops, manufactures, sells, markets and distributes a broad variety of branded food and beverage products in Israel. In line with the Group's focus on the development of products and solutions preferred by the consumer, the Group's products in Israel center on providing a response to two leading consumption trends, "**Health & Wellness**" and "**Fun & Indulgence**". This structure supports the Company in contending with the challenges in the business environment.

*Following are the condensed results of business operations based on the pro-forma statements of Strauss Israel by activity segments, for the quarters ended March 31, 2011 and 2010 (in NIS millions):*

	First Quarter		
	2011	2010	% Chg
<b>Health &amp; Wellness segment</b>			
Net sales	441	425	3.7
Operating income	42	42	(1.2)
% profit	9.5%	10.0%	
<b>Fun &amp; Indulgence segment</b>			
Net sales	287	272	5.4
Operating income	48	47	3.4
% profit	16.8%	17.1%	
<b>Total Israel</b>			
<b>Net sales</b>	<b>728</b>	<b>697</b>	<b>4.4</b>
<b>Operating income</b>	<b>90</b>	<b>89</b>	<b>1.2</b>
<b>% profit</b>	<b>12.4%</b>	<b>12.8%</b>	

## Sales

The Company in Israel concluded a quarter of growth in sales coupled with an increase in the operating profit. Sales by the Israel area of activity in the first quarter totaled NIS 728 million compared to NIS 697 million in the corresponding quarter last year, an increase of 4.4%. Growth was expressed in the sales of both units, Health & Wellness and Fun & Indulgence, and is evident in most categories.

According to StoreNext figures, in the first quarter of 2011 the Israeli food market grew by 2.5% in financial terms. Strauss Group succeeded in strengthening its competitive position in Israel in the quarter, mainly thanks to the continuing investment in its brands, innovation and marketing moves.

The gross profit in the business in Israel totaled NIS 301 million in the first quarter (41.4% of sales) compared to NIS 291 million in the corresponding period last year (41.8%), an increase of 3.4%.

The gross profit was positively influenced by the growth in sales, and was negatively influenced by the increase in the prices of most raw materials and energy.

The pro-forma operating profit in Israel increased in the quarter by approximately 1.2% and amounted to NIS 90 million compared to NIS 89 million in the corresponding period last year, with slight erosion in the operating profit in the quarter, down from 12.8% last year to 12.4% in the first quarter of 2011.

## **The International Dips and Spreads Activity (Presently Executed by Sabra)**

In this activity the Group develops, manufactures, sells, markets and distributes hummus and refrigerated Mediterranean salads, presently through the Sabra company, throughout North America. Sabra is jointly controlled by the Group and PepsiCo (each party holds 50%). Sabra's activity has been proportionately consolidated (50%) since the closing of the transaction with PepsiCo, beginning in the second quarter of 2008.

This area of activity includes the expenses of Strauss North America's head office.

In the first quarter Sabra's sales continued to grow, as did its market shares, and it maintained a leading position in the refrigerated flavored spreads category. In the quarter, Sabra's market share reached 51%.

During the quarter the Company reported that the Strauss Group and PepsiCo had announced the conclusion of principles for the establishment of a jointly-held global company which will manufacture and market fresh salads, dips and spreads in major international markets. Each of the partners will hold 50% of the new company (the final paper has not yet been signed).

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

Sales – In the first quarter Sabra's sales totaled NIS 172 million compared to NIS 127 million last year, an increase of 35.8%. After neutralizing the currency impact, growth amounted to 41.0%. Organic growth excluding the currency impact was 19.0%.

The operating profit in the first quarter totaled NIS 9 million (5.4% of sales) compared to NIS 20 million in the corresponding quarter last year (15.9%), a decrease of 54.2%. The decrease in the operating profit is the result of the simultaneous operation of two production sites.

Convenience Translation from Hebrew

## **Other Operations**

In addition to the areas of activity described above the Group has other businesses, which are included in the Financial Statements as the "Other Operations" sector. Following is a brief description of developments in these activities in the first quarter of 2011:

### **Strauss Water**

Strauss Water engages in the development, manufacture and marketing of systems for the purification, filtration, heating and cooling of drinking water for the home market and away-from-home consumption, on the basis of a long-term commitment to its customers. Strauss Water developed the Maze technology, a breakthrough in the purification and treatment of water. Strauss Water is presently active in Israel (through the Tami4 brand) and in the UK (through the T6 brand).

Strauss Water's sales continue to grow, and in the first quarter totaled NIS 99 million compared to NIS 83 million in the corresponding quarter last year, an increase of 19.0%.

During the quarter preparations for the launch of the water business in China continued, further to the establishment of the joint venture in home water solutions in China between Strauss Water and Haier Group, the Chinese home appliances and electronics giant.

Strauss Water plans to expand into additional geographical regions in the future, while continuing to develop innovative technologies for the purification and treatment of water and a long-term commitment to its customers and care for people, water and the environment.

### **Max Brenner**

In the first quarter Max Brenner's sales totaled NIS 30 million compared to NIS 26 million last year, an increase of 15.6%; after neutralizing the impact of the erosion of the Dollar in relation to the Shekel, sales in the quarter increased by 17.3%.

In the first quarter of 2011 a new Chocolate Bar was opened in Boston, and as at the date of the report, 36 Max Brenner Chocolate Bars are in operation around the world: 6 in Israel, 4 in the US, 2 in the Philippines, 1 in Singapore and 23 in Australia. Eight branches are owned by the Company, and all other branches are operated under franchise.

The Company continues to invest in the development of core infrastructure for the Max Brenner business in Israel and abroad, and in 2011 the Company plans to open additional stores while continuing to invest in core infrastructure for Max Brenner.

## **ASPECTS OF CORPORATE GOVERNANCE**

### **General**

The Board of Directors adopted the recommendations detailed in the Goshen Committee report and operate based on those recommendations. For more information see the Quarterly Report on the effectiveness of internal control over financial reporting and disclosure under Regulation 38 C (a).

### **Compensation of Senior Executives**

For information on approval by the Board of Directors on April 11, 2011 to grant the Chairperson of the Board of Directors of the Company and the CEO a yearly bonus for 2010, see the Company's Immediate Reports of April 12, 2011 (references 2011-01-118188 and 2011-01-188194). As mentioned in these reports, the Board of Directors reexamined the total compensation for 2010 for the Chairperson of the Board and the CEO individually, noting the annual bonus and other compensation conditions, and determined that the abovementioned compensation is fair and reasonable and reflects the Chairperson's and CEO's contribution.

### **Master Control of the Process of Preparing and Approving the Financial Statements**

The Company organ responsible for master control is the Balance Sheet Committee (Financial Statements Review Committee) (henceforth the "Balance Sheet Committee") established by the Board of Directors of the Company, which comprises five members. The members of the Balance Sheet Committee are Professor Dafna Dafna Schwartz (Chairperson) (External Director), Dalia Lev (Independent director), CPA, Meir Shani and Dr. Michael Angel (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 information regarding Directors serving at the time of the report, see Regulation 26; additional information about the Group's Annual Financial Report for 2010

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

- The Financial Statements for the period are presented for discussion by the Board's Balance Sheet Committee. In this discussion the EVP Finance presents an extensive review of business activities and the Company's business results for the reported period. The EVP Finance also reviews the critical estimates applied, material issues that arose and accounting policies adopted in the process of preparing the Financial Statements. On May 15, 2011 the Balance Sheet Committee held a discussion on the Financial Statements of the Company, making reference to accounting issues that arose during their preparation. After completing the discussion the Committee forwarded its recommendations to the Board of Directors to approve the Financial Statements for the first quarter of 2011. The meeting was attended by all members of the Balance Sheet Committee, the Company EVP Finance, the Company Controller, the representatives of the Company Auditor and the Internal Auditor.
- At the meeting of the Board of Directors on May 17, 2011 the Board discussed the recommendations of the Balance Sheet Committee to approve the Financial Statements of the Company as at March 31, 2011. In the opinion of the Board of Directors, the Committee's recommendations were forwarded to the members of the Board a reasonable time before the abovementioned meeting. Most of the members of the Board were present at the meeting, as well as the EVP Finance, the Company Controller and the Company Auditor.

## Convenience Translation from Hebrew

- The EVP Finance and the Company Controller hold meetings from time to time with the Chairperson of the Balance Sheet Committee on subjects relating to financial and accounting issues that are relevant to the Company. Before the Financial Statements as at March 31, 2011 were approved several such meetings were held to discuss material issues that arose during the preparation of the Quarterly Financial Statements.
- The Company Auditor also holds conversations with the Balance Sheet Committee on subjects that arose during the review of the Financial Statements. Before the Financial Statements were approved a conversation was held between the Company Auditor and the Balance Sheet Committee (Financial Statements Review Committee) and Finance Committee to discuss material issues that arose during the process of reviewing the Financial Statements as at March 31, 2011.
- Before the Financial Statements are approved the draft Quarterly Financial Statements are forwarded to the Committee members and the rest of the members of the Board for their inspection. The draft Financial Statements were forwarded to the members of the Board for their inspection approximately five business days before the date of approval of the Financial Statements, and the recommendations of the Financial Statements Review Committee were forwarded to the members of the Board approximately two business days before the date of approval of the Quarterly Financial Statements of the Company.

## Critical Accounting Estimates

For information on critical accounting policy and Management's considerations, see Note 4 to the Consolidated Financial Statements as at December 31, 2010.

## Information to Debentures Holders

The following table presents information on debentures as at March 31, 2011:

	<b>Series A</b>	<b>Series B</b>	<b>Series C</b>
Nominal par value	83	744	500
Index-linked par value	99	857	500
Book value	97	852	497
Book value of interest payable	*-	6	2
Market value	99	926	505

\* Less than 1 million NIS

## Report on Current Liabilities by Settlement Date

See Note 126 as reported in the corresponding Financial Report.

## **EVENTS DURING THE REPORTED PERIOD**

**1. Accounting changes**

For information on the first-time implementation of new accounting standards, see Note 1.2 to the Consolidated Interim Financial Statements as at March 31, 2011; for information on new standards and interpretations not yet adopted see Note 3.24 to the Consolidated Financial Statements as at December 31, 2010.

**2. Grant of warrants to employees**

For information on the grant of option warrants to senior officers pursuant to the approval of the Board of Directors, and to senior executives in the Group pursuant to the approval of the Compensation and Human Resources Committee of the Board of Directors, see Notes 5.1, 5.3 and 5.6 to the Consolidated Interim Financial Statements as at March 31, 2011.

**3. Option plan**

For information on an amendment to the option plan for employees, approved by the Board of Directors of the Company on April 11, 2011, see Note 5.5 to the Consolidated Interim Financial Statements as at March 31, 2011.

**4. Payment of a dividend**

For information on the distribution of a dividend declared on January 6, 2011 and paid on February 6, 2011, see Note 4.1 to the Consolidated Interim Financial Statements as at March 31, 2011.

**5. Real estate transaction**

For information on an agreement of January 24, 2011 for the acquisition of vacant areas in Park Yanai, an area adjacent to the Group's office building in Petach Tikva, see Note 4.2 to the Consolidated Interim Financial Statements as at March 31, 2011.

**6. Financing**

- For information on a loan agreement of January 27, 2011 with several companies of the Harel Group, see Note 4.3 to the Consolidated Interim Financial Statements as at March 31, 2011.
- For information on the publication of a shelf prospectus on February 22, 2011, see Note 4.4 to the Consolidated Interim Financial Statements as at March 31, 2011.

**7. Legal proceedings**

For information on legal proceedings in the reported period, see Note 6 to the Consolidated Interim Financial Statements as at March 31, 2011.

**8. The International Dips and Spreads operation**

For information on understandings in principle reached with PepsiCo for the establishment of a jointly-held global company for the manufacture and marketing of refrigerated salads and spreads, see Section 2, the updated description of corporate business, of the Consolidated Interim Financial Statements as at March 31, 2011.

**9. The Coffee operation**

- For information on a letter of intent of March 23, 2011 for the acquisition of the businesses of Café Fino Grao in Brazil, see Note 4.5 to the Consolidated Interim Financial Statements as at March 31, 2011.
- For information on an international option plan, see Note 5.2 to the Consolidated Interim Financial Statements as at March 31, 2011.

Convenience Translation from Hebrew

**POST STATEMENT OF FINANCIAL CONDITION DATE EVENTS**

For a review of events occurring after the date of the Statement of Financial Condition, see Note 8 to the Consolidated Interim Financial Statements as at March 31, 2011.

**SELF-ACQUISITION**

For information on treasury shares and the resolution of October 2002 regarding a framework for the acquisition of Company shares by the Company, see Note 28.2 to the Consolidated Financial Statements as at December 31, 2010. For information on the approval of the Board of Directors regarding a framework for the acquisition of Debentures (Series B) by the Company and/or a subsidiary, see Note 20.5 to the Consolidated Financial Statements as at December 31, 2010.

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

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Ofra Strauss  
Chairperson of the Board

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Gadi Lesin  
CEO

May 17, 2011



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**STRAUSS-GROUP LTD.**  
FINANCIAL STATEMENTS  
AS AT MARCH 31, 2011



**Financial Statements as at March 31, 2011**

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## **Review Report to the Shareholders of Strauss Group Ltd.**

### *Introduction*

We have reviewed the accompanying financial information of Strauss Group Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of March 31, 2011 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The board of directors and management are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”, in addition management is responsible for the financial information to be prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute 13.7% of the total consolidated assets as at March 31, 2011, and whose revenues constitute 1.9% of the total consolidated revenues for the three month period then ended. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

### *Scope of Review*

We conducted our review in accordance with Standard on Review Engagements 1, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to the mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not follow, in all material respects, the disclosure directives of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin  
Certified Public Accountants (Isr.)

May 17, 2011

**Consolidated Interim Statements of Financial Position**

	<b>March 31 2011 (Unaudited)</b>	<b>March 31 2010 (Unaudited)</b>	<b>December 31 2010 (Audited)</b>
	<b>NIS Millions</b>		
<b>Current assets</b>			
Cash and cash equivalents	649	790	729
Marketable securities and deposits	179	74	66
Trade receivables	1,099	1,068	1,017
Income tax receivables	78	56	79
Other receivables and debit balances	212	160	226
Inventory	776	621	682
Assets classified as held for sale	-	16	-
<b>Total current assets</b>	<b>2,993</b>	<b>2,785</b>	<b>2,799</b>
<b>Investments and non-current assets</b>			
Other investments and long-term debit balances	167	145	167
Assets designated for the payment of employee benefits, net	5	7	6
Fixed assets	1,567	1,418	**1,524
Intangible assets	1,728	***1,566	**1,700
Deferred expenses	26	29	27
Investment property	24	5	24
Deferred tax assets	6	4	*10
<b>Total investments and non-current assets</b>	<b>3,523</b>	<b>3,174</b>	<b>3,458</b>
<b>Total assets</b>	<b>6,516</b>	<b>5,959</b>	<b>6,257</b>

\_\_\_\_\_  
Ofra Strauss  
Chairperson of the Board of Directors

\_\_\_\_\_  
Gadi Lesin  
Chief Executive Officer

\_\_\_\_\_  
Shahar Florence  
Chief Financial Officer

Date of approval of the interim financial statements: May 17, 2011

**Consolidated Interim Statements of Financial Position**

	<b>March 31 2011 (Unaudited)</b>	<b>March 31 2010 (Unaudited)</b>	<b>December 31 2010 (Audited)</b>
	<b>NIS Millions</b>		
<b>Current liabilities</b>			
Current maturities of debentures	262	93	260
Short terms loans and credit	265	196	246
Trade payables	784	665	793
Income tax payables	36	47	36
Other payables and credit balances	514	492	534
Provisions	35	39	36
<b>Total current liabilities</b>	1,896	1,532	1,905
<b>Non-current liabilities</b>			
Debentures	1,184	1,403	1,177
Long-term loans and credit	598	145	268
Long-term payables and credit balances	25	32	27
Employee benefits, net	31	30	28
Deferred taxes	132	***136	*134
<b>Total non-current liabilities</b>	1,970	1,746	1,634
<b>Equity</b>			
Share capital	243	243	243
Share premium	622	622	622
Translation reserve	(189)	(161)	(239)
Treasury stock	(20)	(20)	(20)
Reserve for available for sale financial assets	4	3	4
Retained earnings	1,089	1,097	1,231
<b>Total equity attributable to the Company's shareholders</b>	1,749	1,784	1,841
<b>Non-Controlling interests</b>	901	897	**877
<b>Total equity</b>	2,650	2,681	2,718
<b>Total liabilities and equity</b>	6,516	5,959	6,257

\* Reclassified, see Note 1.4.

\*\* Retroactive adjustment, see Note 1.5.1.

\*\*\* Retroactive adjustment, see Note 1.5.2.

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

**Consolidated Interim Statements of Income**

	<b>For the three months ended</b>		<b>For the year ended</b>
	<b>March 31 2011 (Unaudited)</b>	<b>March 31 2010 (Unaudited)</b>	<b>December 31 2010 (Audited)</b>
	<b>NIS millions</b>		
Sales	1,773	1,696	6,855
Cost of sales			
Valuation of balance of commodities hedging transactions balance as at end of period	16	1	(5)
Other costs	1,093	1,012	4,267
Total cost of sales	1,109	1,013	4,262
<b>Gross profit</b>	664	683	2,593
Selling and marketing expenses	425	401	1,597
General and administrative expenses	106	105	410
	531	506	2,007
<b>Operating profit before other income (expenses)</b>	133	177	586
Other income	2	1	3
Other expenses	(4)	(8)	(48)
Other expenses, net	(2)	(7)	(45)
<b>Operating profit</b>	131	170	541
Financing income	13	12	30
Financing expenses	(39)	(20)	(122)
Financing expenses, net	(26)	(8)	(92)
<b>Profit before income taxes</b>	105	162	449
Income taxes	(31)	(53)	(147)
<b>Profit for the period</b>	74	109	302
<b>Attributable to:</b>			
The Company's shareholders	55	84	211
Non-Controlling interests	19	25	91
<b>Profit for the period</b>	74	109	302
<b>Earnings per share for the Company's shareholders</b>			
Basic earnings per share (in NIS)	0.52	0.79	1.99
Diluted earnings per share (in NIS)	0.51	0.79	1.98

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

**Consolidated Interim Statements of Comprehensive Income**

	<b>For the three months ended</b>		<b>For the year ended</b>
	<b>March 31 2011 (Unaudited)</b>	<b>March 31 2010 (Unaudited)</b>	<b>December 31 2010 (Audited)</b>
	<b>NIS millions</b>		
Profit for the period	74	109	302
Other comprehensive income:			
Foreign currency translation differences	72	(122)	(227)
Changes in fair value of available for sale financial assets, net of tax	-*	5	6
Other comprehensive income (loss), net of tax	72	(117)	(221)
<b>Comprehensive income (loss) for the period</b>	<b>146</b>	<b>(8)</b>	<b>81</b>
<b>Attributable to:</b>			
The Company's shareholders	105	(4)	46
Non-controlling interests	41	(4)	35
<b>Comprehensive income (loss) for the period</b>	<b>146</b>	<b>(8)</b>	<b>81</b>

\* Less than NIS 1 million

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

**Consolidated Interim Statements of Changes in Shareholders' Equity**

	Attributable to the Company's shareholders							Non-Controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total		
	NIS millions								
<b>Balance as at January 1, 2011 – audited</b>	243	622	(239)	(20)	4	1,231	1,841	**877	2,718
<b>Changes during the three-month period ended March 31, 2011 - unaudited:</b>									
<b>Comprehensive income for the period</b>									
<i>Profit for the period</i>	-	-	-	-	-	55	55	19	74
<i>Components of comprehensive income for the period:</i>									
Foreign currency translation differences	-	-	50	-	-	-	50	22	72
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	-*	-	-*	-*	-*
<i>Other comprehensive income for the period, net of tax</i>	-	-	50	-	-*	-	50	22	72
<b>Comprehensive income for the period</b>	-	-	50	-	-*	55	105	41	146
<b>Share-based payment</b>	-	-	-	-	-	3	3	-	3
<b>Dividend paid</b>	-	-	-	-	-	(200)	(200)	-	(200)
<b>Share-based payment to Non-Controlling interests in subsidiary</b>	-	-	-	-	-	-	-	2	2
<b>Dividend declared to Non-Controlling interests in a subsidiary</b>	-	-	-	-	-	-	-	(19)	(19)
<b>Balance as at March 31, 2011 – unaudited</b>	<u>243</u>	<u>622</u>	<u>(189)</u>	<u>(20)</u>	<u>4</u>	<u>1,089</u>	<u>1,749</u>	<u>901</u>	<u>2,650</u>

\* Less than NIS 1 million.

\*\* Retroactive adjustment, see Note 1.5.1.

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

**Consolidated Interim Statements of Changes in Shareholders' Equity**

	Attributable to the Company's shareholders							Non-Controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total		
	NIS millions								
<b>Balance as at January 1, 2010 – audited</b>	243	622	(71)	(20)	1	1,210	1,985	901	2,886
<b>Changes during the three-month period ended March 31, 2010 - unaudited:</b>									
<b>Comprehensive income for the period</b>									
<i>Profit for the period</i>	-	-	-	-	-	84	84	25	109
<i>Components of comprehensive income for the period:</i>									
Foreign currency translation differences	-	-	(90)	-	-	-	(90)	(32)	(122)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	2	-	2	3	5
<i>Other comprehensive income (loss) for the period, net of tax</i>	-	-	(90)	-	2	-	(88)	(29)	(117)
<b>Comprehensive income (loss) for the period</b>	-	-	(90)	-	2	84	(4)	(4)	(8)
<b>Share-based payment</b>	-	-	-	-	-	3	3	-	3
<b>Dividend paid</b>	-	-	-	-	-	(200)	(200)	-	(200)
<b>Balance as at March 31, 2010 – unaudited</b>	243	622	(161)	(20)	3	1,097	1,784	897	2,681

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

**Consolidated Interim Statements of Changes in Shareholders' Equity**

	Attributable to the Company's shareholders							Non-Controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total		
	NIS millions								
<b>Balance as at January 1, 2010 – audited</b>	243	622	(71)	(20)	1	1,210	1,985	901	2,886
<b>Changes in 2010 – audited:</b>									
<b>Comprehensive income for the period</b>									
<i>Profit for the period</i>	-	-	-	-	-	211	211	91	302
<i>Components of comprehensive income for the period:</i>									
Foreign currency translation differences	-	-	(168)	-	-	-	(168)	(59)	(227)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	3	-	3	3	6
<i>Other comprehensive Income for the period, net of tax</i>	-	-	(168)	-	3	-	(165)	(56)	(221)
<b>Comprehensive income for the period</b>	-	-	(168)	-	3	211	46	35	81
<b>Share-based payment</b>	-	-	-	-	-	10	10	-	10
<b>Share-based payment to Non-Controlling interests in a subsidiary</b>	-	-	-	-	-	-	-	9	9
<b>Dividend paid</b>	-	-	-	-	-	(200)	(200)	-	(200)
<b>Dividend paid to Non-Controlling interests in subsidiary</b>	-	-	-	-	-	-	-	(80)	(80)
<b>Non-Controlling interests in a business combination</b>	-	-	-	-	-	-	-	12*	12
<b>Balance as at December 31, 2010 – audited</b>	<u>243</u>	<u>622</u>	<u>(239)</u>	<u>(20)</u>	<u>4</u>	<u>1,231</u>	<u>1,841</u>	<u>877</u>	<u>2,718</u>

\* Retroactive adjustment, see note 1.5.1

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

**Consolidated Interim Statements of Cash Flows**

	<b>For the three months ended</b>		<b>For the year ended</b>
	<b>March 31</b>	<b>March 31</b>	<b>December 31</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS millions</b>		
<b>Cash flows from operating activities</b>			
Income for the period	<b>74</b>	<b>109</b>	<b>302</b>
Adjustments:			
Depreciation	40	40	164
Amortization of intangible assets and deferred expenses	14	17	52
Impairment provision of fixed assets, intangible assets and investment property	-	-	10
Other expenses, net	-	-	5
Expenses in respect of share based payment	5	3	20
Financing expenses, net	26	8	92
Income tax expenses	31	53	147
Change in inventory	(89)	26	(57)
Change in trade and other receivables	(70)	(88)	(95)
Change in long-term trade receivables	(2)	12	17
Change in trade and other payables	(57)	(48)	83
Change in provisions and employee benefits	3	-	(1)
Interest paid	(26)	(22)	(70)
Interest received	9	5	19
Income tax paid, net	(17)	(42)	(187)
<b>Net cash flows provided by (used in) operating activities</b>	<b>(59)</b>	<b>73</b>	<b>501</b>
<b>Cash flows from investing activities</b>			
Sale (purchase) of marketable securities, net	(108)	10	19
Proceeds from sale of fixed assets and intangible assets	12	3	14
Acquisition of subsidiary, net of cash acquired	-	-	(215)
Acquisition of fixed assets	(93)	(112)	(310)
Investment grants received	-	1	2
Investments in intangible assets and deferred expenses	(9)	(5)	(37)
Repayment of deposits and long-term loans granted	7	8	15
Long-term loans granted	(3)	(1)	(46)
<b>Net cash flows used in investing activities</b>	<b>(194)</b>	<b>(96)</b>	<b>(558)</b>

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

**Consolidated Interim Statements of Cash Flows (cont'd)**

	<b>For the three months ended</b>		<b>For the year ended</b>
	<b>March 31</b>	<b>March 31</b>	<b>December 31</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS millions</b>		
<b>Cash flows from financing activities</b>			
Short-term bank credit, net	19	28	48
Receipt of long-term loans	362	83	269
Repayment of long-term loans and debentures	(24)	(14)	(129)
Dividends paid	(200)	(200)	(200)
Dividend paid to non-controlling interests in subsidiary	-	-	(80)
<b>Net cash flows provided by (used in) financing activities</b>	<b>157</b>	<b>(103)</b>	<b>(92)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(96)</b>	<b>(126)</b>	<b>(149)</b>
Cash and cash equivalents as at beginning of period	729	957	957
Effect of exchange rate fluctuations on cash balances	16	(41)	(79)
<b>Cash and cash equivalents as at end of period</b>	<b>649</b>	<b>790</b>	<b>729</b>

For investing and financing activities not involving cash flows see Note 7.

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

**Notes to the Consolidated Interim Financial Statements**

Unaudited

**Note 1 - Reporting Principles and Accounting Policy****1.1 General**

- 1.1.1 The reporting entity, Strauss Group Ltd (hereinafter: "the Company" or "Strauss Group") is an Israeli resident company. The address of the Company's registered office is 49 Hasivim St. Petach Tikva.

The Company and its subsidiaries are a group of industrial and commercial companies, which operates in Israel and abroad, in developing, manufacturing, marketing and selling a broad variety of branded food products and beverages. The consolidated interim financial statements as at March 31, 2011 and for the three month period then ended (hereinafter - the "Interim Statements") comprise the Company and its subsidiaries and the Group's interest in jointly controlled companies.

The Company's controlling shareholders are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter – "the parent company" or "Strauss Holdings") and Ms. Ofra Strauss who is considered a joint-holder of the Company's shares together with him.

- 1.1.2 The consolidated Interim Statements have been prepared in accordance with IAS 34 regarding interim financial reporting and Section D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

These Interim Statements should be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as at December 31, 2010 and for the year then ended together with their accompanying notes (hereinafter – the "Annual Financial Statements"). The accounting principles applied in preparing these Interim Statements are consistent with the principles applied in preparing the Annual Financial Statements, except for that mentioned in Note 1.2 hereunder. In addition, certain comparative figures have been reclassified and retroactive adjusted, see Notes 1.4 and 1.5, respectively.

- 1.1.3 The consolidated financial statements are presented in NIS, which is the functional currency of the Company. The financial information is presented in NIS millions and has been rounded to the nearest million.

- 1.1.4 These Interim Statements have been approved by the Company's Board of Directors on May 17, 2011.

**1.2 Initial implementation of accounting standards**

- 1.2.1 Commencing on January 1, 2011 the Company implements the amendment to IAS 34, Interim Financial Reporting, Significant events and transactions, which expanded the list of events and transactions that require disclosure in interim financial statements, such as the recognition of a loss from the impairment of financial assets and changes in the classification of assets as a result of changes in their purpose or use. In addition, the materiality threshold was removed from the minimum disclosure requirements included in the Standard before its amendment. The amendment did not have an effect on these interim financial statements.

- 1.2.2 Commencing January 1, 2011 the Company implements the amendment to IAS 24, Related Party Disclosures. The new standard includes changes in the definition of a related party. The Group reassessed its relationships with related parties and consequently, no new related parties have been identified.

## Notes to the Consolidated Interim Financial Statements

Unaudited

### Note 1 - Reporting Principles and Accounting Policy (cont'd)

#### 1.3 New standards and interpretations not yet adopted

- 1.3.1 In May 2011 the IASB issued a new set of standards regarding consolidation of financial statements and related issues. This set of standard is part of the consolidation project of the IASB and FASB. It supersedes the existing standards of consolidation and joint ventures and includes amendments in respect to associates.

Following are details regarding the new standards:

- 1.3.1.1 IFRS 10, Consolidated Financial Statements –  
The standard supersedes IAS 27, Consolidated and Separate Financial Statements, and SIC 12, Consolidation- Special Purpose Entities, regarding consolidation of financial statements, so that IAS 27 requirements will apply only for separate financial statements.  
The standard introduces a new approach to determining which investees should be consolidated. The standard provides a single model to be applied in the control analysis for all investees. According to the model, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Following are the main amendments:

- The standard introduces a new approach which requires consideration and an analysis of all relevant facts and circumstances in determining whether an entity controls the investee and which investees should be consolidated. Therefore, an entity should analyze the structure and goals of the investee as well as indicators to the existence of power. In addition, an entity should identify the relevant activities of the investee in order to assess whether it has control.
- The standard provides a single model to be applied in the control analysis for all investees, which are accounted for both under IAS 27 and SIC 12.
- De facto circumstances will be considered as part of control assessment- hence the standard includes a model of effective control and requires consolidation where effective control exists.
- Control assessment should take into account substantive potential voting rights, even if they are not currently exercisable. Their structure, reasons for their existence and the terms of these rights should be examined.
- The standard includes implementation guidance and a list of indicators to analyze whether a decision maker is acting as agent or principal when directing the activities of an investee.
- The standard provides guidance on when an investor would assess power over silos instead over a legal entity.
- The standard introduces a definition of protective rights.
- Control is determined in consideration with rights to variability in returns. Variability in returns is a much broader concept than ownership-type benefits and is not solely a risks and rewards analysis.

The standard is effective in annual periods beginning on or after January 1, 2013 in a retroactive implementation. Early adoption is permitted subject to disclosure and to early adoption of the two other standards, as detailed in Notes 1.3.1.2 and 1.3.1.3.

The Group examines the effect of the standard over the financial statements.

## Notes to the Consolidated Interim Financial Statements

Unaudited

### Note 1 - Reporting Principles and Accounting Policy (cont'd)

#### 1.3 New standards and interpretations not yet adopted (cont'd)

##### 1.3.1.2 IFRS 11, Joint Arrangements –

The standard supersedes IAS 31, Interests in Joint Ventures (hereinafter- "IAS 31") and revises some of the requirements of IAS 28, Investments in Associates.

The standard defines a joint arrangement as an arrangement of which two or more parties have joint control (as defined in IFRS 10), and classifies joint arrangements into two types- joint operations and joint ventures.

Following are the main amendments:

- Joint control- the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- Joint operations- joint arrangements whereby the parties that have joint control of the arrangements have rights to the assets and obligations for the liabilities relating to the arrangements.  
The accounting treatment in joint operations is similar to that required in IAS 31 regarding jointly controlled assets and joint ventures, i.e. recognition and measurement of the assets and liabilities in accordance with relevant IFRS standards.  
Joint operations include joint arrangements in which there is not a separate vehicle, as well as joint arrangements which are constituted as a separate entity but their legal or contractual structure, or other indicators, indicate that the parties that have joint control, have rights to the assets and obligations for the liabilities related to the arrangement.
- Joint Venture- the parties that have joint control of the arrangements have rights to the net assets of the joint arrangement.  
Joint ventures will be accounted for using solely the equity method, meaning that the proportionate consolidation is cancelled.
- Joint ventures are all arrangements which are constituted as a separate entity and are not joint operation. Therefore, joint ventures are joint arrangements which are constituted as a separate entity and their legal or contractual structure, or other indicators, indicate that the parties that have joint control, do not have rights to the assets related to the arrangement and obligations for the liabilities relating to the arrangements.
- Accounting treatment in loss of joint control, where significant influence is maintained- the standard cancels the requirement to measure the remaining investment in fair value after the loss of the joint control.

The standard is effective in annual periods beginning on or after January 1, 2013 in a retroactive implementation, but specific requirements are set as to the method of implementation in certain instances. Early adoption is permitted subject to disclosure and to early adoption of the two other standards, as detailed in Notes 1.3.1.1 and 1.3.1.3.

The Group examines the effect of the standard over the financial statements.

**Notes to the Consolidated Interim Financial Statements**

Unaudited

**Note 1 - Reporting Principles and Accounting Policy (cont'd)****1.3 New standards and interpretations not yet adopted (cont'd)****1.3.1.3 IFRS 12, Disclosure of Interests in Other Entities –**

The standard combines expanded disclosure requirements for subsidiaries, joint arrangements (joint control entities and joint ventures), as well as associates and structured entities.

Structured entities are entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The definition of rights in the standard is broad and includes contractual and/or non-contractual involvement which exposes the company to changes in yields due to the performance of the investee.

The new disclosure requirements include, inter alia, consideration and main assumptions used to determine the substance of the rights in entities and arrangements, subsidiaries, joint arrangements, associates and structured entities.

The standard is effective in annual periods beginning on or after January 1, 2013. Early adoption is permitted subject to early adoption of the two other standards as detailed in Notes 1.3.1.1 and 1.3.1.2. However, it is possible to include the disclosures in preceding periods without implementing the above mentioned standards.

The Group examines the effect of the standard over the financial statements.

**1.3.2 IFRS 13, Fair Value Measurement –**

The standard supersedes the requirements regarding fair value measurement which included in other IFRS standards, so that it will be the single source of guidance on fair value measurement under IFRS. The standard defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The standard does not state in which cases fair value measurement should be applied; therefore it will remain under the existing standards.

The standard applies to assets, liabilities and equity instruments which are required or permitted to be measured in fair value, or which a disclosure has been given regarding them under IFRS. However, share-based payments under IFRS 2 and leases under IAS 17 are out of scope, as is the determination of value in use for impairment testing and net realizable value for inventories.

The standard is effective in annual periods beginning on or after January 1, 2013. Early adoption is permitted subject to disclosure. The standard is applied prospectively and the disclosure requirements will not apply on comparison information for periods preceding the initial adoption of the standard.

The Group has not yet commenced to examine the effect of the standard over the financial statements.

## Notes to the Consolidated Interim Financial Statements

Unaudited

### Note 1 - Reporting Principles and Accounting Policy (cont'd)

#### 1.4 Reclassification

Reclassified an amount of NIS 9 millions as of 31 December, 2010, which reduces the deferred tax assets and deferred tax liabilities. This reclassification did not have an effect on equity and statement of income.

#### 1.5 Retroactive Adjustment

1.5.1 Further to Note 6.7 to the Annual Financial Statements in regard to the purchase of LeCafe, during the period the Company updated the PPA to the identified assets and liabilities purchased. The PPA has not been completed yet.

The impact of the PPA update on these interim statements is as follows:

	Le Café		Adjusted Allocation
	Initial Allocation	Adjustments to PPA NIS millions	
Fixed assets	38	(8)	30
Goodwill	138	4	142
Non-controlling interests	(16)	4	(12)
		-	

The update did not have an effect on statement of income.

1.5.2 Further to Note 6.4 to the Annual Financial Statements, regarding the PPA completion in respect to the purchase of Tana Industries Ltd, an amount of NIS 8 million was retroactive adjusted as of March 31, 2010, which reduced the intangible assets against deferred tax liabilities. This retroactive adjustment did not have an effect on equity and statement of income.

### Note 2 - Seasonality

The Company's snacks sales in Israel are characterized by seasonality. The snacks sales are usually higher in the first and third quarters of the year. The seasonality in the snacks activity is affected by two main factors: The first is the timing of the Jewish holidays with an emphasis on Rosh Hashanah (the Jewish New Year) and Passover, when the Company's sales increase considerably. The second factor is the seasons of the year, with winter and fall being characterized by a higher consumption of confectionery (mainly chocolate and snacks) than in the hot seasons. Conversely, sales of cold beverages (milk, juices) are higher in the summer meaning the second and third quarters of the year.

The foreign coffee sales are characterized by seasonality. Coffee sales are usually higher in the fourth quarter of the year and low in the first quarter of the year. The seasonality is mainly affected by the timing of the Christian holidays and the end of the calendar year in the fourth quarter of the year, a time characterized by higher purchases of coffee products. Conversely, in the first quarter of the year purchases are relatively low, mainly due to the continued consumption of the coffee products that were purchased in the previous quarter.

**Notes to the Consolidated Interim Financial Statements**

Unaudited

**Note 3 - Segments**

Details by operating segments and reconciliation to the consolidated report –

	For the three months ended		For the year ended
	March 31 2011 (Unaudited)	March 31 2010 (Unaudited)	December 31 2010 (Audited)
	NIS millions		
<b>Revenues</b>			
Sales to external customers:			
Health & Wellness	441	425	1,811
Fun & Indulgence	287	272	872
<b>Total Israel</b>	<b>728</b>	<b>697</b>	<b>2,683</b>
Coffee Israel	180	176	592
Coffee Abroad	651	651	2,794
<b>Total Coffee</b>	<b>831</b>	<b>827</b>	<b>3,386</b>
International dips and spreads	86	63	297
Other	128	109	489
Sales to other segments:			
Health & Wellness	1	1	7
Fun & Indulgence	8	9	28
<b>Total Israel</b>	<b>9</b>	<b>10</b>	<b>35</b>
Coffee Israel	6	6	22
Coffee Abroad	-	-	-
<b>Total Coffee</b>	<b>6</b>	<b>6</b>	<b>22</b>
International dips and spreads	-	-	-
Other	-	-	1
Total revenues of the segments	1,788	1712	6,913
Cancellation of inter-segment sales	(15)	(16)	(58)
<b>Total consolidated revenues</b>	<b>1,773</b>	<b>1,696</b>	<b>6,855</b>

**Notes to the Consolidated Interim Financial Statements**

Unaudited

**Note 3 – Segments (cont'd)**

	For the three months ended		For the year ended
	March 31 2011 (Unaudited)	March 31 2010 (Unaudited)	December 31 2010 (Audited)
	NIS millions		
<b>Profit</b>			
Health & Wellness	42	42	228
Fun & Indulgence	48	47	77
<b>Total Israel</b>	<u>90</u>	<u>89</u>	<u>305</u>
Coffee Israel	24	38	75
Coffee Abroad	43	40	182
<b>Total Coffee</b>	<u>67</u>	<u>78</u>	<u>257</u>
International dips and spreads	2	8	26
Other	(5)	6	13
Total profit of the segments	154	181	601
<u>Unallocated income (expenses):</u>			
Valuation of commodities hedging transactions as at the end of the year	(16)	(1)	5
Other expenses, net	(2)	(7)	(45)
Share based payment and non recurring grant	(5)	(3)	(20)
Total operating profit	131	170	541
Financing expenses, net	(26)	(8)	(92)
Income before taxes on income	<u>105</u>	<u>162</u>	<u>449</u>

**Notes to the Consolidated Interim Financial Statements**

Unaudited

**Note 4 - Material Events during the Reported Period**

- 4.1 On January 6, 2011 the Company declared a cash dividend distribution at the amount of c. NIS 1.88 per 1 par value share, totaled to c. NIS 200 million. The dividend was paid on February 6, 2011.
- 4.2 On January 24, 2011 the Company signed an agreement for the purchase of available lands having an area of 3,000 square meters in Yanai Park, next to the Group's office building on 49 Hasivim St. in Petach Tikva, and for the construction of a building surround for an office building. The Company will pay the seller an amount of NIS 101 million in consideration for the property rights and construction of the building surround. The building's construction rights include 2,500 square meters of public areas and 10,000 square meters of offices. The office areas and part of the commercial areas are intended, inter alia, for the use of the Group. The transaction will be financed by the Company's own resources. The consideration is paid in accordance with the constructing progressing.
- 4.3 On January 30, 2011 the Company received a loan in the amount of NIS 300 million from Harel Insurance Group. The loan principal and the interest are payable in 22 consecutive semi-annual payments beginning from July 1, 2011. Under certain circumstances the Company has the right to early repay the loan five years from the date of its receipt. The loan bears fixed annual interest 5.82%. The Company is subject to a negative pledge requirement and to financial covenants similar to the financial covenants of banks described in Note 22.3 to the Annual Financial Statements. The receipt of the loan has no effect on the rating of the Company's debentures. The loan agreement provides that one of the causes for an early repayment is any event in which the Strauss family directly or indirectly ceases to be the Company's controlling shareholder. The Company's right to make an early repayment five years after the date the loan was received is contingent upon providing an advance notice and, under certain circumstances, the payment of an early repayment fee according to a calculation formula provided in the agreement.
- 4.4 On February 22, 2011 the Company issued a prospectus, following the principal approval of the Stock Exchange, Israel Securities Authority and the Board of Directors of the Company.
- 4.5 On March 23, 2011 Tres Coracoes Alimentos S.A. ("Tres Coracoes"), a joint venture equally held (50%) by Strauss Coffee BV (74.9%) and Sao Miguel, signed a letter of intent for the acquisition of the businesses of the coffee company Café Fino Grao, which is active mainly in the state of Minas Gerais and its capital, Belo Horizonte, in Brazil.
- Café Fino Grao's sales are specialized in roast and ground coffee, as well as cappuccino and espresso products. In consideration for Café Fino Grao's coffee businesses, including trademarks, fixed assets and customers, excluding liabilities, Tres Coracoes will pay approximately NIS 70 million.
- The transaction, which is planned to be closed by June 11, 2011, is conditional, inter alia, on the receipt of all approvals required from the authorities in Brazil. The transaction will be funded through independent sources and bank credit. No additional significant investments in the acquired activity will be required.
- 4.6 Further to Note 37.7 to the Annual Financial Statements, during March 2011 the Company and a number of subsidiaries in Israel were issued with final tax assessments for the years 2006-2007. The final tax assessments did not have an effect on the tax results in the reported period.

## Notes to the Consolidated Interim Financial Statements

Unaudited

### Note 5 – Share-based payment

- 5.1** On February 2, 2011, the Compensation and Human Resources Committee of the Board of Directors of the Company approved the grant of 44,000 options to two managers in the Group (22,000 options each), according to the terms and conditions of the compensation plan for senior employees in the Group, described in Note 25.1 to the Annual Financial Statements (hereinafter: "compensation plan"). Each of the options shall be exercisable into one Ordinary Share of NIS 1 par value of the Company.

The entitlement of each manager to exercise the warrants shall be created in three equal portions, on February 2 of each of the years 2013-2015. The fair value of the benefit in the framework of this grant, calculated as at February 2, 2011, is approximately NIS 0.6 million. The main assumptions that served in determining the fair value are the following: share price – NIS 53.4; annualized standard deviation – 26.49%-26.83%; risk-free interest rate – 1.07%-1.77%; exercise price – NIS 55.86; and life of the option – 3.2-5.9 years. The benefit arising from this grant is charged as an expense in the Financial Statements for the periods commencing on January 1, 2011 and ending on March 31, 2015.

- 5.2** Further to Notes 25.7.3 and 40.7 to the Annual Financial Statements, on February 2, 2011 and March 15, 2011 the Board of Directors of Strauss Coffee and the Board of Directors of the Company, subject to the approval of the general meeting of the shareholders of Strauss Coffee, which, as at the date of this Report, has not yet been received, approved a plan for the grant of non-marketable options to senior employees of Strauss Coffee (including the CEO of Strauss Coffee), which reflect (in full dilution) 3.5% of the share capital of Strauss Coffee. In case of a sale of 65% or more of the investments fund TPG shares (which holds 25.1% of Strauss Coffee shares) to the Company, the plan enables the offerees to receive, in place of unvested options, options of the Company in equal value.

As at the date of this Report, out of the total plan, the Company granted 3,283 options to senior managers. The options will vest in five equal portions. 20% of the options were vested as of the grant day and the remainder will vest in four equal tranches on January 1st on each of the years 2011-2014. For part of the offerees, immediate vesting of 40% of the options granted to them has been approved. The net fair value of the benefit is NIS 22 million calculated on the basis of the Black-Scholes model. The expected average life of the options is 6.5 years, the discount rate used is 3.36% and the annual standard deviation is 34.3%. The nominal exercise price used is € 3,759 per option.

- 5.3** On March 13, 2011 the Compensation and Human Resources Committee of the Board of Directors of the Company approved a grant of 66,000 options to three managers in the Group (22,000 options each), according to the terms and conditions of the compensation plan. Each of the options shall be exercisable into one Ordinary Share of NIS 1 par value of the Company.

The entitlement of each manager to exercise the warrants shall be created in three equal tranches, on March 13 of each of the years 2013-2015. The fair value of the benefit in the framework of this grant, calculated as at March 13, 2011, is approximately NIS 1 million. The main assumptions that served in determining the fair value are the following: share price – NIS 54.34; annualized standard deviation – 26.29%-26.61%; risk-free interest rate – 1.25%-1.92%; exercise price – NIS 52.85; and life of the option – 3.2-5.9 years. The benefit arising from this grant is charged as an expense in the Financial Statements for the periods commencing on January 1, 2011 and ending on March 31, 2015.

- 5.4** During the reported period, 91,555 share options that were granted to employees were exercised into 42,602 shares in consideration for their par value.

**Notes to the Consolidated Interim Financial Statements**

Unaudited

**Note 5 – Share-based payment (cont'd)**

- 5.5** On April 11, 2011 the Board of Directors of the Company, based on the recommendation of the Compensation and Human Resources Committee dated March 13, 2011, approved an amendment to the compensation plan. In accordance with the amendment, the vesting period of the options will be shortened to three years, so that the options will be exercisable in two equal portions commencing the grant date. The amendment will apply to new awards.
- 5.6** On April 11, 2011 the Board of Directors of the Company, based on the recommendation of the Compensation and Human Resources Committee, approved a grant of 330,000 options to three senior managers in the Group (110,000 options each), according to the terms and conditions of the compensation plan and according to the amendment described in Note 5.5 above. Each of the options shall be exercisable into one Ordinary Share of NIS 1 par value of the Company.

The entitlement of each manager to exercise the warrants shall be created in two equal portions, on April 11 of each of the years 2013-2014. The fair value of the benefit in the framework of this grant, calculated as at April 11, 2011, is approximately NIS 5.1 million. The main assumptions that served in determining the fair value are the following: share price – NIS 56.27; annualized standard deviation – 26.27%-26.68%; risk-free interest rate – 1.6%-1.85%; exercise price – NIS 54.52; and life of the option – 3.2-5.9 years. The benefit arising from this grant will be charged as an expense in the Financial Statements for the periods commencing on April 1, 2011 and ending on June 30, 2014.

**Note 6 – Contingent liabilities**

- 6.1** Further to Note 26.1.1.1 to the Annual Financial Statements, on January 10, 2011 the District Court in Tel Aviv – Yafo approved the settlement agreement signed by and between the parties to a suit and to a motion for approval of the suit as a class action, relating to the marking of dairy products containing raw gelatin which had been imported from abroad.

According to the settlement agreement approved by the court as aforesaid, the Company undertook to award the public consumer benefits estimated by the Company at a total amount of eight and a half million Shekels. The benefit will be awarded in donations of the Company's products to the needy, the grant of discounts on a variety of the Company's dairy products, and a monetary donation to children's wards in hospitals in the periphery.

Additionally, the Company compensated the plaintiffs and their legal representatives for legal fees in an amount of NIS 0.8 million.

- 6.2** Further to Note 26.1.1.6 to the Annual Financial Statements, on April 17, 2011 the District Court, Center District, approved the removal of the personal and class action claims, which were files against the subsidiary Yad Mordechai Apiary – Strauss Ltd, in respect to the labels of one of its products, without charging for expenses.

**Note 7 - Investing and Financing Activities not Involving Cash Flows**

The Company did not engage in any material non-cash investing and financing activities in the three month period ended March 31, 2011 and in the corresponding period of prior year, other than purchasing fixed and intangible assets on credit in the amount of NIS 50 millions and NIS 26 millions, respectively.

In the year ended December 31, 2010, the Company purchased fixed and intangible assets on credit in the amount of NIS 67 millions.

## **Notes to the Consolidated Interim Financial Statements**

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Unaudited

### **Note 8 - Subsequent Events**

- 8.1** For details regarding an amendment to the compensation plan, and regarding an options grant subsequent to the statement of financial position, see Notes 5.5 and 5.6 above.
- 8.2** For details regarding the removal of a class action subsequent to the date of statement of financial position, see Note 6.2 above.