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STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE HALF AND THE QUARTER ENDED JUNE 30, 2015

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

The Board of Directors of Strauss Group Ltd. (hereinafter: the **"Company"** or the **"Group"**) hereby respectfully presents the Board of Directors' Report for the first half and second quarter of 2015 in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (the **"Regulations"**).

The review presented below is limited in scope and refers to events and changes that occurred in the state of the Company's affairs in the reporting period, which have a material impact, and should be read together with the chapter Description of the Corporation's Business in the Periodic Report as at December 31, 2014, the Financial Statements and Board of Directors' Report on the State of Company's Affairs for the year then ended (the "2014 Periodic Report"), as well as the update of the chapter Description of the Corporation's Business, the Board of Directors' Report and the Financial Statements as at March 31, 2015 and the update of the chapter Description of the Corporation's Affairs and the Financial Statements as at June 30, 2015.

Strauss Group Ltd. and the companies it controls are a group of industrial and commercial companies engaged mainly in the development, manufacture, sale and marketing of a variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration, purification and carbonation systems.

The center of the Group's activity is in Israel, where it is the second-largest company in the food and beverage market. In the first half of 2015 the Group held an 11.3% share of the domestic food and beverage market (in value terms[1]), and it has the highest sales turnover among Israeli food companies (according to the Company's non-GAAP sales turnover). The Group is also active mainly in Brazil (through Três Corações[2], a company jointly held by the Group (50%) and by the Brazilian São Miguel Group (50%)), in the former USSR countries, in Central and Eastern European countries and in North America.

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

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

The Group is active in six segments, as follows: **Strauss Israel**, which comprises two activity segments (Health & Wellness and Fun & Indulgence); **Strauss Coffee**, which comprises two segments (Israel Coffee (which includes the coffee company's corporate center) and the International Coffee operation); the **International Dips & Spreads** segment; and other activities that are included in the financial statements as the **"Other Operations"** segment (the major operations being those of Strauss Water and Max Brenner).

The Group's business is conducted in four major geographical regions: **Israel**, where operations include the activity of Strauss Israel (the sale of a broad variety of refrigerated and dry food products), the coffee operation in Israel, Strauss Water's activity in Israel and Max Brenner in Israel; **Brazil**, where operations are managed through the Três Corações joint venture and focus mainly on roast and ground (R&G) coffee in the domestic market; **Europe**, where activity mainly includes the coffee business in Russia, Ukraine and Central and Eastern Europe; and **the USA and Canada**, where activity includes Sabra's operations and part of the Max Brenner business (not including Israel). The

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

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

Group is also active in Australia and in Mexico through the company Obela, and in China and the UK through Strauss Water.

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

CHANGES IN THE ECONOMIC ENVIRONMENT

In the reporting period, one of the Company's major customers in Israel, Mega Retail Ltd., filed a motion with the court for a debt settlement which took effect after the reporting date, on July 27, 2015. Accordingly, the Company recorded a provision for doubtful debts in respect of the customer's debt as well as in respect of other customers, in the amount of approximately NIS 13 million before tax, and NIS 9 million after the tax effect.

Prices of raw materials and other production inputs – The commodities markets account for a substantive component of the materials used in the manufacture of the Group's products. In the first half of 2015 the average market prices of some of the Company's raw materials decreased, while the average market prices of other raw materials increased compared to the corresponding period last year. On the one hand, green coffee prices dropped (except in Brazil), as did the price of sugar and seeds, and the target price of raw milk paid to the dairy farmers was reduced in the beginning of July 2015 by approximately 6.5%. On the other hand, green coffee prices in Brazil rose (in Brazilian Reals), as did the price of cocoa, coupled with increases in the minimum wage and other production inputs such as municipal rates and taxes. The cost of raw materials to the Company (including green coffee) in the Group's non-GAAP reports includes profits and losses that were realized in respect of financial derivatives that served to economically hedge those commodities.

The Group is taking steps to reduce the impacts arising as a result of commodity price volatility, including hedges, changes in the materials mix in its products, and operational streamlining.

Energy prices – In the past few years through to the first half of 2014 energy prices were relatively stable, with a rise as a result of an increase in world demand as well as geopolitical changes. In the second half of 2014 oil prices dropped dramatically, with the decrease gaining momentum toward the end of the year; however, this trend was curbed in the first quarter of 2015 as oil prices reversed and rose during the half, subsequently returning to their level at the end of 2014 on or about the date of this report. The drop in energy prices has a favorable impact on the costs of production, transport and raw materials, as well as on packaging costs. However, the drop in energy prices has indirect influences, such as a strong correlation between the decrease in oil prices and the weakening of the Russian Ruble against the Dollar (additional information on the subject is presented below).

Exchange rate fluctuations – In and after the first half of 2015 most of the average currency rates, according to which profit and loss items in which the Group operates are translated, weakened versus the Shekel, except for the Dollar, as well as compared to the average currency rates in the corresponding period last year. For an analysis of the foreign currency effect on the Group's sales, see the section on the analysis of financial results. The significant revaluation of the Shekel in the first half of the year in relation to the exchange rates of the Group's various functional currencies other than the Ruble led to a decrease in the shareholders' equity of the Group.

The following table presents the average exchange rates **versus the Shekel** in the first half and second quarter of 2015 compared to the corresponding periods last year:

Currency		Average exchange rate in H1		% change	Average exchange rate in Q2		% change
		2015	2014		2015	2014	
United States Dollar	USD	3.910	3.480	*12.3*	3.876	3.464	*11.9*
Ukrainian Hryvnia	UAH	0.181	0.346	*-47.7*	0.179	0.298	*-39.8*
Russian Ruble	RUB	0.068	0.100	*-31.5*	0.073	0.099	*-26.0*
Serbian Dinar	RSD	0.036	0.041	*-12.5*	0.036	0.041	*-13.4*
New Romanian Leu	RON	0.983	1.071	*-8.2*	0.965	1.076	*-10.3*
Polish Zloty	PLN	1.055	1.143	*-7.7*	1.049	1.141	*-8.1*
Brazilian Real	BRL	1.325	1.520	*-12.8*	1.261	1.559	*-19.1*
Renminbi (China)	CNY	0.638	0.565	*13.0*	0.633	0.556	*13.9*
Canadian Dollar	CAD	3.169	3.174	*-0.2*	3.152	3.177	*-0.8*
Australian Dollar	AUD	3.058	3.183	*-3.9*	3.014	3.233	*-6.8*
Mexican Peso	MXN	0.258	0.265	*-2.6*	0.253	0.267	*-5.1*

The following table presents the average exchange rates **versus the Dollar** in the first half and second quarter of 2015 compared to the corresponding periods last year:

Currency		Average exchange rate in H1		% change	Average exchange rate in Q2		% change
		2015	2014		2015	2014	
New Israeli Shekel	ILS	0.256	0.287	*-11.0*	0.258	0.289	*-10.6*
Ukrainian Hryvnia	UAH	0.046	0.099	*-53.4*	0.046	0.086	*-46.1*
Russian Ruble	RUB	0.017	0.029	*-39.0*	0.019	0.029	*-33.9*
Serbian Dinar	RSD	0.009	0.012	*-22.1*	0.009	0.012	*-22.6*
New Romanian Leu	RON	0.251	0.308	*-18.3*	0.249	0.311	*-19.8*
Polish Zloty	PLN	0.270	0.328	*-17.8*	0.271	0.329	*-17.8*
Brazilian Real	BRL	0.339	0.437	*-22.4*	0.325	0.450	*-27.7*

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 half and compared to the end of 2014, 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, 2014.

ANALYSIS OF FINANCIAL RESULTS

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

It is noted that this is a change in reporting method only and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. There has been no managerial change in the jointly held businesses.

The materiality of the information contained in this report was examined from the Company's perspective in order to provide a comprehensive picture of the manner in which the Company manages its businesses, which, in the Company's opinion, is material for the purposes of this report.

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

Strauss Group has a number of jointly controlled companies: the Três Corações joint venture (in Brazil)[3], Sabra Dipping Company (an investee company in North America), Strauss Frito-Lay Ltd. (the salty snack operation in Israel) and PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela).

In the reporting period the subsidiary Strauss Water signed a series of share exchange and transfer agreements with companies of Haier Group, as well as a joint venture agreement, with the aim of restructuring the Haier Strauss Water joint venture in China. The change in respect of the above agreements will be reflected in the non-GAAP

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

reports commencing in the third quarter of 2015. For further information, see Note 4.3 to the Consolidated Interim Financial Statements as at June 30, 2015.

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

Following are the condensed results of business operations (based on the Company's non-GAAP management reports) for the quarter and half ended June 30, 2015 and 2014 (in NIS millions)*:

	First Half			Second Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Sales	**3,769**	**3,922**	***(3.9)***	**1,839**	**1,949**	***(5.7)***
Cost of sales	2,351	2,364	*(0.5)*	1,150	1,181	*(2.6)*
Gross profit – non-GAAP	**1,418**	**1,558**	***(9.0)***	**689**	**768**	***(10.5)***
% of sales	37.6%	39.7%		37.4%	39.4%	
Selling and marketing expenses	897	959	*(6.4)*	474	485	*(2.3)*
General and administrative expenses	212	223	*(5.3)*	103	111	*(7.8)*
Operating profit – non-GAAP	**309**	**376**	***(17.9)***	**112**	**172**	***(35.3)***
% of sales	8.2%	9.6%		6.1%	8.9%	
Financing expenses, net	(64)	(56)	*14.5*	(46)	(38)	*21.5*
Income before taxes on income	**245**	**320**	***(23.5)***	**66**	**134**	***(50.9)***
Taxes on income	(69)	(99)	*(30.0)*	(19)	(38)	*(51.5)*
Effective tax rate	28.4%	31.0%		29.1%	29.4%	
Income for the period – non-GAAP	**176**	**221**	***(20.6)***	**47**	**96**	***(50.7)***
Attributable to:						
The Company's shareholders	**133**	**168**	***(20.6)***	**31**	**69**	***(54.0)***
Non-controlling interests	43	53	*(20.4)*	16	27	*(42.2)*

Following are the condensed results of business operations (based on non-GAAP management reports) of the major business sectors for the quarter and half ended June 30, 2015 and 2014 (in NIS millions)*:

	First Half			Second Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Israel						
Net sales	1,431	1,503	*(4.8)*	678	713	*(5.0)*
Operating profit	136	166	*(17.6)*	44	68	*(34.2)*
Coffee						
Net sales	1,681	1,774	*(5.2)*	835	908	*(8.0)*
Operating profit	136	179	*(24.1)*	50	89	*(43.8)*
International Dips & Spreads						
Net sales	364	320	*13.7*	182	170	*6.3*
Operating profit	23	32	*(28.3)*	9	18	*(50.8)*
Other						
Net sales	293	325	*(9.8)*	144	158	*(8.7)*
Operating profit (loss)	14	(1)		9	(3)	
Total						
Net sales	**3,769**	**3,922**	***(3.9)***	**1,839**	**1,949**	***(5.7)***
Operating profit	**309**	**376**	***(17.9)***	**112**	**172**	***(35.3)***

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

Following are the condensed financial accounting statements of income (GAAP) for the quarter and half ended June 30, 2015 and 2014 (in NIS millions)*:

	First Half			Second Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Sales	**2,516**	**2,636**	***(4.5)***	**1,208**	**1,266**	***(4.6)***
Cost of sales excluding impact of valuation of balance of commodity hedging transactions as at end of period	1,554	1,560	*(0.3)*	742	751	*(0.9)*
Valuation of balance of commodity hedging transactions as at end of period**	(5)	(9)		(42)	26	
Cost of sales	1,549	1,551	*(0.1)*	700	777	*(9.8)*
Gross profit	**967**	**1,085**	***(10.9)***	**508**	**489**	***3.7***
% of sales	38.4%	41.2%		42.0%	38.7%	
Selling and marketing expenses	607	664	*(8.6)*	323	328	*(1.7)*
General and administrative expenses	162	173	*(6.7)*	79	82	*(5.3)*
Total expenses	**769**	**837**		**402**	**410**	
Share of profit of equity-accounted investees	83	104	*(20.1)*	34	48	*(30.0)*
Operating profit before other expenses	**281**	**352**	***(20.0)***	**140**	**127**	**10.7**
% of sales	11.2%	13.4%		11.7%	10.1%	
Other expenses, net	(6)	(18)	*(67.9)*	(3)	(6)	*(61.5)*
Operating profit after other expenses	**275**	**334**	***(17.3)***	**137**	**121**	***14.8***
Financing expenses, net	(53)	(52)	*2.3*	(42)	(36)	*20.0*
Income before taxes on income	**222**	**282**	***(21.0)***	**95**	**85**	***12.6***
Taxes on income	(55)	(88)	*(36.0)*	(19)	(34)	*(41.1)*
Effective tax rate	25.2%	31.2%		21.0%	40.2%	
Income for the period	**167**	**194**	***(14.1)***	**76**	**51**	***48.7***
Attributable to:						
The Company's shareholders	**124**	**140**	***(12.0)***	**52**	**29**	***63.7***
Non-controlling interests	43	54	*(19.7)*	24	22	*13.1*

**** Financial data were rounded to NIS millions. The percentages change were calculated on the basis of the exact figures in NIS thousands***
***** Reflects mark-to-market as at the reporting date of open positions in the Group in respect of financial derivatives used to hedge commodity prices***

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

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

	First Half 2015			First Half 2014			Second Quarter 2015			Second Quarter 2014		
	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)
Sales	**2,516**	**1,253**	**3,769**	**2,636**	**1,286**	**3,922**	**1,208**	**631**	**1,839**	**1,266**	**683**	**1,949**
Cost of sales excluding impact of valuation of balance of commodity hedging transactions as at end of period	1,554	797	2,351	1,560	804	2,364	742	408	1,150	751	430	1,181
Valuation of balance of commodity hedging transactions as at end of period	(5)	-	(5)	(9)	-	(9)	(42)	(2)	(44)	26	3	29
Cost of sales	1,549	797	2,346	1,551	804	2,355	700	406	1,106	777	433	1,210
Gross profit	**967**	**456**	**1,423**	**1,085**	**482**	**1,567**	**508**	**225**	**733**	**489**	**250**	**739**
% of sales	38.4%		37.8%	41.2%		40.0%	42.0%		39.8%	38.7%		37.9%
Selling and marketing expenses	607	290	897	664	295	959	323	151	474	328	157	485
General and administrative expenses	162	59	221	173	60	233	79	29	108	82	35	117
Share of profit of equity-accounted investees	83	(83)	-	104	(104)	-	34	(34)	-	48	(48)	-
Operating profit before other expenses	**281**	**24**	**305**	**352**	**23**	**375**	**140**	**11**	**151**	**127**	**10**	**137**
% of sales	11.2%		8.1%	13.4%		9.6%	11.7%		8.2%	10.1%		7.1%
Other expenses, net	(6)	-	(6)	(18)	(1)	(19)	(3)	-	(3)	(6)	(1)	(7)
Operating profit after other expenses	**275**	**23**	**299**	**334**	**22**	**356**	**137**	**11**	**148**	**121**	**9**	**130**
Financing expenses, net	(53)	(11)	(64)	(52)	(4)	(56)	(42)	(4)	(46)	(36)	(2)	(38)
Income before taxes on income	**222**	**13**	**235**	**282**	**18**	**300**	**95**	**7**	**102**	**85**	**7**	**92**
Taxes on income	(55)	(13)	(68)	(88)	(18)	(106)	(19)	(7)	(26)	(34)	(7)	(41)
Effective tax rate	25.2%		29.3%	31.2%		35.4%	21.0%		26.2%	40.2%		45.2%
Income for the period	**167**	**-**	**167**	**194**	**-**	**194**	**76**	**-**	**76**	**51**	**-**	**51**
Attributable to:												
The Company's shareholders	**124**	**-**	**124**	**140**	**-**	**140**	**52**	**-**	**52**	**29**	**-**	**29**
Non-controlling interests	43	-	43	54	-	54	24	-	24	22	-	22

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

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

	First Half			Second Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Operating profit – according to proportionate consolidation method – after other expenses	**299**	**356**	***(15.9)***	**148**	**130**	***13.6***
Share-based payment and liability plan	9	10		5	6	
Valuation of balance of commodity hedging transactions as at end of period	(5)	(9)		(44)	29	
Other expenses, net	6	19		3	7	
Operating profit – non-GAAP	**309**	**376**	***(17.9)***	**112**	**172**	***(35.3)***
Financing expenses, net	(64)	(56)		(46)	(38)	
Taxes on income	(68)	(106)		(26)	(41)	
Taxes in respect of adjustments to the above non-GAAP operating profit	(1)	7		7	**3	
Income for the period – non-GAAP	**176**	**221**	***(20.6)***	**47**	**96**	***(50.7)***
Attributable to: **The Company's shareholders**	**133**	**168**	***(20.6)***	**31**	**69**	***(54.0)***
Non-controlling interests	43	53	*(20.4)*	16	27	*(42.2)*

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

*** In 2014 includes tax expenses arising from the impact of a possible change in the capital structure of Strauss Coffee as a result of the review of TPG's exit options.*

ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

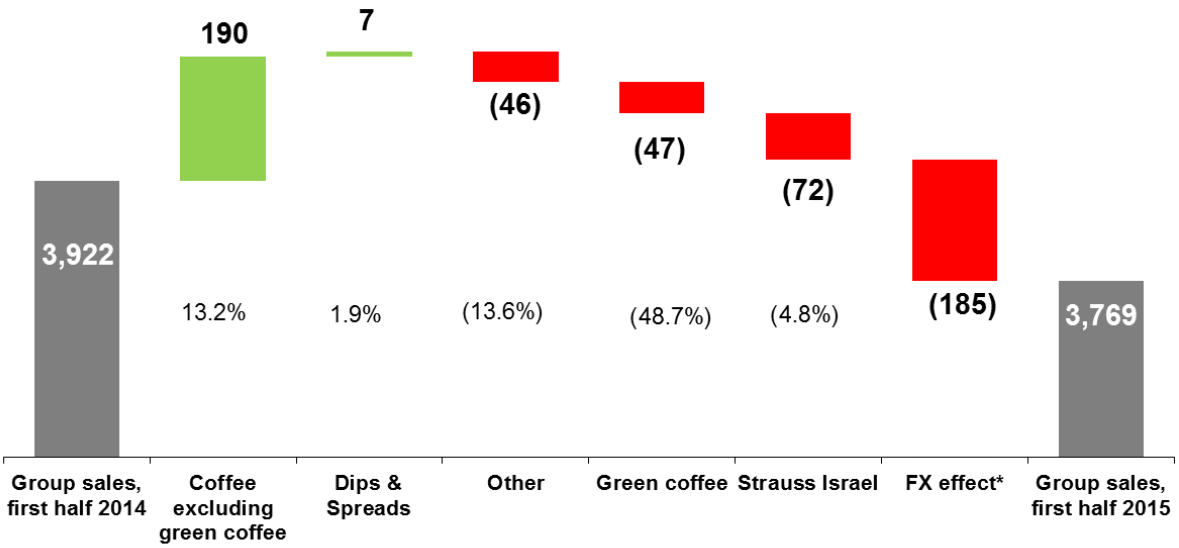
Sales – non-GAAP

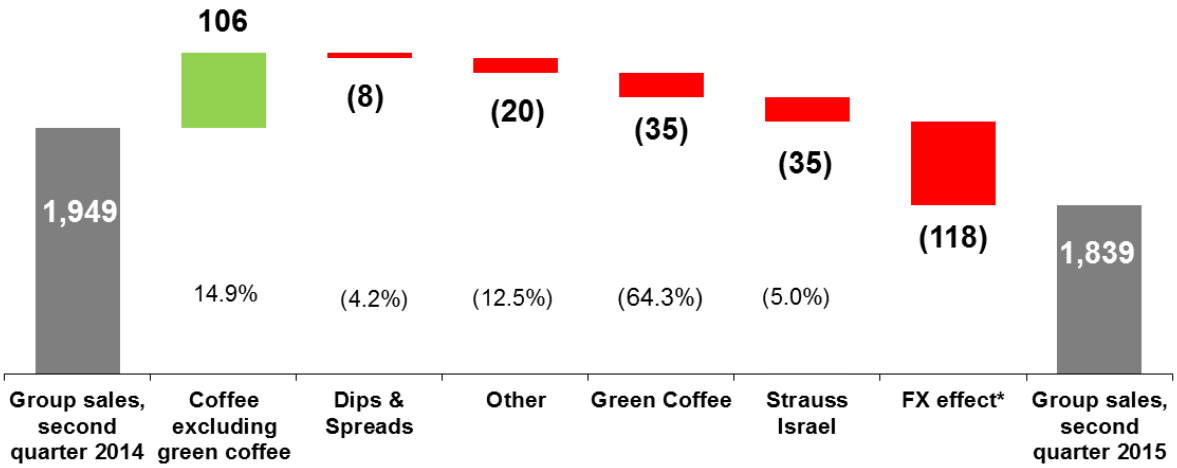
	First Half		Second Quarter	
	2015	**2014**	**2015**	**2014**
Sales	3,769	3,922	1,839	1,949
Growth	(3.9%)	(2.7%)	(5.7%)	(3.3%)
Organic growth excluding currency effect and impact of classification of costs following the Food Law	1.3%	3.3%	0.6%	1.7%

Organic growth of the Group's sales in the first half and second quarter of 2015 excluding the foreign currency effect, and also excluding the impact of classification of costs following the introduction of the Food Law in Strauss Israel and Israel Coffee, as described in this report below, amounted to 1.3% and 0.6% compared to the corresponding periods last year, respectively.

In the first half and second quarter the Group's sales decreased by approximately NIS 153 million and NIS 110 million (down by 3.9% and 5.7% compared to the corresponding periods last year), of which NIS 41 million and NIS 21 million are the result of the classification of costs following the Food Law.

Following are the components of the change in sales in these periods in local currency and the rates of increase according to the Company's major activity sectors in local currency, together with the overall impact of translation differences (foreign currency effect) on the Group's sales:





* The foreign currency effect is calculated according to the average exchange rates in the relevant period

Similar to prior periods, the Group's sales in the first half and second quarter quarter of 2015, and particularly sales by Strauss Coffee, were impacted by translation differences into Shekels, which amounted to approximately NIS 185 million and NIS 118 million, respectively, for the Group, of which approximately NIS 110 million are due to the erosion of the average rate of the Brazilian Real versus the Shekel (see also the foreign exchange rate table in the section Changes in the Economic Environment). Excluding the currency impact, the Group's sales grew by approximately NIS 32 million and NIS 8 million in the half and in the quarter, respectively, compared to the corresponding periods last year. Sales growth in local currency was the result of the following factors:

- Growth in sales by the coffee business, excluding green coffee and overlooking the foreign currency effect (in the first half and second quarter, an increase of approximately NIS 190 million and NIS 106 million, respectively). The growth in coffee sales in the half and quarter is mainly due to an increase in sales by the Três Corações joint venture in Brazil[4], reflecting Strauss Coffee's share (50%). These sales (excluding sales of green coffee) grew in local currency in the half and quarter by approximately 17.9% and 23.2%, respectively, compared to the corresponding periods last year, in light of price increases and volume growth in roast and ground (R&G) coffee (Três Corações' sales in local currency, including green coffee, grew by 8.8% and 10.0% in the first half and second quarter, respectively). Additionally, growth in the functional currencies in other countries where the coffee company does business reflects price increases that were implemented in all countries (except for Israel), following the rising cost of green coffee to the Company and

[4] Três Corações joint venture in Brazil – A company jointly held by the Group (50%) and by São Miguel Holding e Investimentos S.A. (50%) (data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

the erosion of the functional currencies versus the US Dollar (the currency in which green coffee is bought in all countries except for Brazil).

- Growth in sales by the International Dips & Spreads operation (in the first half up by approximately NIS 7 million, and in the second quarter – down by NIS 8 million). The decrease in Sabra's sales in the second quarter of the year reflected the negative impact of a recall of a hummus product at the beginning of the quarter.

- Sales by the "Other" segment decreased (in the first half and second quarter, a decrease of approximately NIS 46 million and NIS 20 million, respectively), mainly as a result of a restructuring process in the Haier Strauss Water joint venture in China.

- A decrease in sales by Strauss Israel (in the first half and second quarter, a decrease of approximately NIS 72 million and NIS 35 million, respectively) against the backdrop of effective price decreases and a more intense competitive environment. Additionally, as a result of the implementation of the Food Law in the beginning of 2015 certain costs were classified as discounts deducted from sales (approximately NIS 32 million in the first half and NIS 16 million in the second quarter), as opposed to prior years when similar costs were classified as part of selling and marketing expenses. Excluding the abovementioned classification, sales in the first half and second quarter would have decreased by 2.7% and 2.9%, respectively.

- Coffee export sales from Brazil by the Três Corações joint venture, reflecting Strauss Coffee's share (50%), decreased in the half and quarter by approximately NIS 47 million and NIS 35 million, respectively. This decrease reflected a significant drop in volumes, which was partly offset by an increase in green coffee prices compared to the corresponding periods last year.

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

Gross Profit – Non-GAAP

	First Half			Second Quarter		
	2015	**2014**	**% Chg**	**2015**	**2015**	**% Chg**
Gross profit	1,418	1,558	*(9.0)*	689	768	*(10.5)*
Gross profit margin	37.6%	39.7%		37.4%	39.4%	

The Group's non-GAAP gross profit in the first half and second quarter of 2015 decreased by approximately NIS 140 million and NIS 79 million, respectively, compared to the corresponding periods last year. In Strauss Coffee the decrease amounted to approximately NIS 91 million and NIS 64 million, respectively. The decrease is mainly explained by the negative effect of the cost of green coffee to the Company in local currency and the erosion of the Group's functional currencies versus the US Dollar (the currency in which green coffee is purchased in all countries of operations except for Brazil), compared to the corresponding periods last year. The cost of raw materials to the Company (including green coffee) in the Group's non-GAAP reports includes profits and losses realized in respect of financial derivatives used to economically hedge those commodities. Most of this decrease was offset by price increases implemented in the countries where the Company is active (except for Israel). In the Strauss Israel segment the gross profit dropped by approximately NIS 64 million and NIS 21 million, respectively. Approximately NIS 32 million and 16 million, respectively, were the result of the classification of Strauss Israel's costs following the implementation of the Food Law in the current period, as described in the explanation on sales presented above. In addition, the reduction in gross profit in the half and quarter reflects a drop in sales, a certain increase in the cost of raw materials (cocoa, hazelnuts and almonds and raw milk (the price of raw milk rose in the first quarter of the year and overall in the first half, while in the second quarter the price decreased slightly compared to the corresponding period last year)), and the strengthening of the US Dollar and the Pound Sterling (the currencies in which some raw materials are bought) against the Shekel, compared to the corresponding periods in 2014. These effects were partly offset by streamlining measures applied in production and packaging processes in a number of plants, by a beneficial impact of the drop in energy prices, and by a certain decrease in the cost of some of the Company's raw materials (potatoes and tahini).

By contrast, the gross profit of the International Dips & Spreads and Other Operations segments grew by approximately NIS 15 million and NIS 6 million, respectively. The growth in the gross profit in the half and in the quarter mainly originated in the International Dips & Spreads operation as a result of the beneficial effect of the strengthening of the US Dollar, despite the recall of cases of one of the company's hummus products as

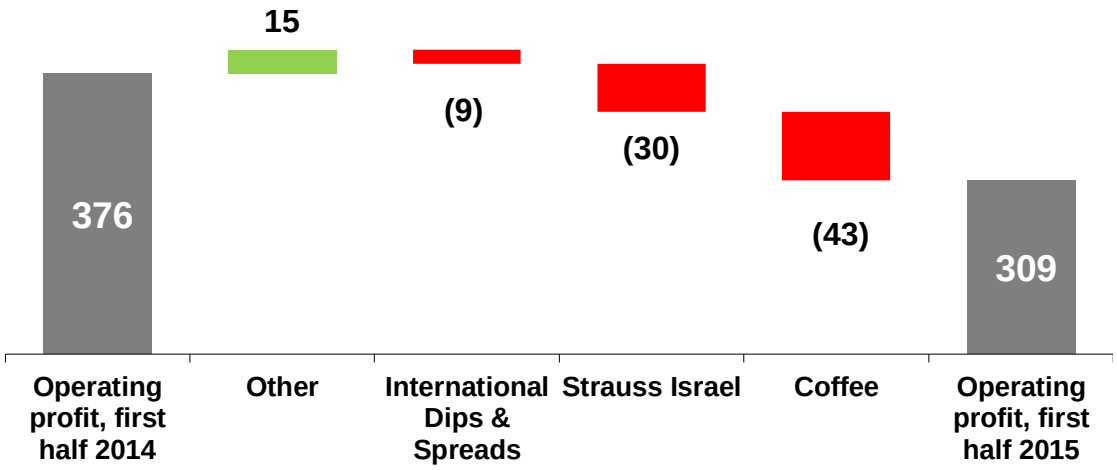
mentioned above. Additionally, in the second quarter the gross profit of the Other Operations segment improved slightly.

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

Operating Profit before Other Expenses – Non-GAAP

	First Half			Second Quarter		
	2015	**2014**	**% Chg**	**2015**	**2015**	**% Chg**
Operating profit (EBIT)	309	376	*(17.9)*	112	172	*(35.3)*
Operating profit margin	8.2%	9.6%		6.1%	8.9%	

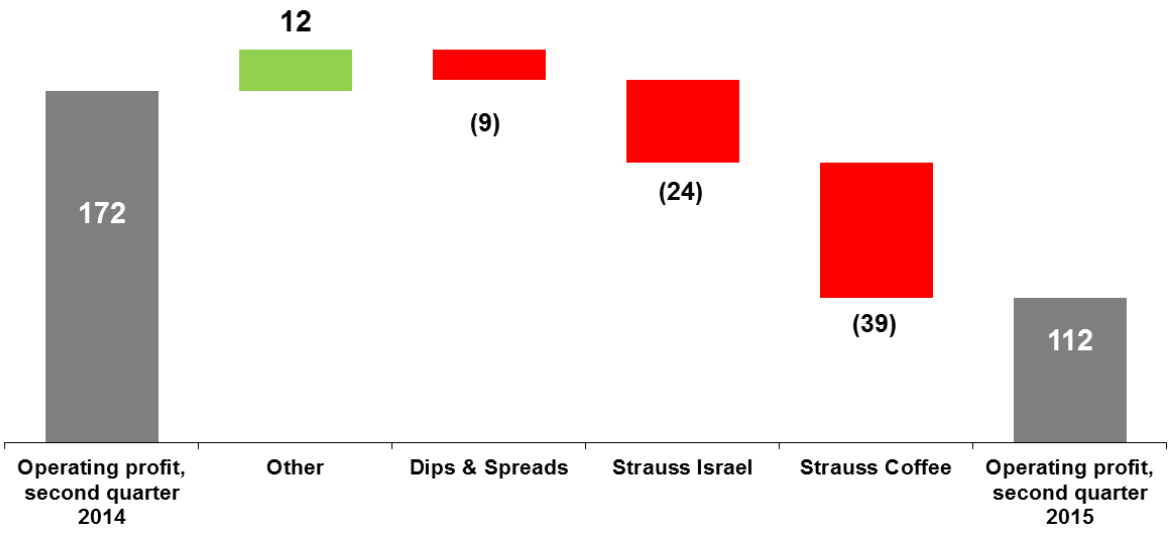
The non-GAAP operating profit (EBIT) in the first half of 2015 decreased by approximately NIS 67 million. Following are the components of the change in the operating profit compared to the corresponding period last year, according to the Company's major activity sectors:



The decrease in the Group's EBIT in the first half of 2015 was the result of a drop of approximately NIS 43 million in the operating profit of Strauss Coffee as a result of a decrease in the operating profit of Três Corações, arising from negative translation differences and a rise in green coffee prices in Brazil. These were offset by an improvement in the TRES brand's results of operations. In local currency and despite a challenging economic environment in Brazil, the Três Corações joint venture's operating profit before other expenses rose in the first half and second quarter by 2.4% and 10.0%, respectively (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

In addition, the EBIT of the coffee business in the CEE countries decreased due to the competitive environment and impairment recorded in respect of intangible assets in Serbia in an amount of approximately NIS 8 million in the second quarter. Furthermore, Israel Coffee's operating profit decreased following the increase in the cost of green coffee to the Company and the strengthening of the US Dollar (the currency in which green coffee is bought) against the NIS compared to the corresponding periods last years. These were mostly offset by an improvement in the instant coffee supply chain in Israel and a decrease in operating expenses. Strauss Israel's EBIT dropped by approximately NIS 30 million as a result of the decrease in the gross profit, a provision for doubtful debts, particularly in respect of Mega, and the simultaneous operation of the new logistic center in Shoham and the old center in Tzrifin (for dry products) during the process of relocating to the new center. These expenses were partly offset by a decrease in operating expenses versus the corresponding period last year. The operating profit of the International Dips & Spreads operation decreased by approximately NIS 9 million, mainly due to the product recall described above, including direct costs in respect of the recall, a further improvement in the strict quality controls in the hummus factory in Virginia, and increased marketing effort in the second quarter of 2015. With respect to the product recall, Sabra has a certain amount of insurance coverage. As at the reporting date no benefit was recorded in respect of this insurance. As at the date of publication of the report, the Company is unable to estimate whether an insurance payout will be received, and if received, the amount thereof. By contrast, the operating profit of the Other Operations segment grew by approximately NIS 15 million.

The non-GAAP operating profit in the second quarter of 2015 decreased by approximately NIS 60 million. The components of the change in EBIT compared to the corresponding quarter last year, according to the Company's major activity sectors, are as follows:



In light of the erosion of the Group's operating profit, the Company is taking steps on a number of levels to maintain its profit, which include streamlining measures in production and the supply chain, and savings in G&A expenses, including, among other things, suspension of the salary linkage mechanism and the gross-up in respect of the vehicles of the Company CEO and Chairperson of the Board.

Explanations with regard to the second quarter of 2015 are included in those applying to the first half of the year as set forth above. Further explanations on the Group's operating profit in the reporting period are included in the section Analysis of the Business Results of the Group's Major Business Units.

Financing Expenses, Net – Non-GAAP

Net financing expenses in the first half of 2015 totaled NIS 64 million compared to expenses of NIS 56 million in the corresponding period last year. Most of the increase in financing expenses is due to capitalization of the financing costs relating to the Shoham logistic center project in the first half last year, net expenses deriving from exchange differences in respect of financial assets and liabilities compared to net income in the corresponding half last year, and an increase in the net debt. However, the increase was offset by a decrease in the (known) CPI, to which a substantive part of the Company's debt is linked, by 0.5% in the period compared to 0.2% in the corresponding period, following the decrease in inflationary expectations.

Net financing expenses in the second quarter of 2015 totaled NIS 46 million compared to expenses of NIS 38 million in the corresponding quarter last year. Most of the increase in financing expenses is due to capitalization of the financing costs relating to the Shoham logistic center project in the second quarter last year, net expenses deriving from exchange differences in respect of financial assets and liabilities compared to net income in the corresponding period last year, other financing expenses and an increase in the net debt. By contrast, the increase in respect of lower net expenses of revaluing CPI-linked liabilities less derivatives compared to the corresponding quarter last year was offset due to increased inflationary expectations in the current quarter, compared to decreased expectations in the corresponding period last year.

Net credit (according to the proportionate consolidation method) as at June 30, 2015 totaled NIS 1,833 million compared to NIS 1,720 million on June 30, 2014 and NIS 1,688 million on December 31, 2014.

Net credit (according to the equity method) as at June 30, 2015 totaled NIS 1,637 million compared to NIS 1,545 million on June 30, 2014 and NIS 1,506 million on December 31, 2014.

Taxes on Income – Non-GAAP

In the first half taxes on income (non-GAAP) amounted to NIS 69 million, reflecting an effective tax rate of 28.4%, whereas in the corresponding period last year taxes on income amounted to NIS 99 million and the effective tax rate was 31.0%.

In the second quarter of the year taxes on income (non-GAAP) amounted to NIS 19 million, reflecting an effective tax rate of 29.1%, compared to taxes on income of NIS 38 million and an effective tax rate of 29.4% in the corresponding period last year.
The increase in the effective tax rate in the second quarter of 2015 is the result of the profit mix for tax purposes between the companies in the different countries and of an increase in the volume of expenses that are not recognized for tax purposes.

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

	First Half			Second Quarter		
	2015	**2014**	**% Chg**	**2015**	**2015**	**% Chg**
Income attributable to the Company's shareholders	133	168	*(20.6)*	31	69	*(54.0)*
% of sales	3.5%	4.3%		1.7%	3.5%	

Non-GAAP income attributable to the Company's shareholders in the first half of 2015 decreased by approximately NIS 35 million compared to the corresponding period last year. In the second quarter, income dropped by NIS 38 compared to the corresponding quarter in 2014. The decrease in non-GAAP income attributable to the Company's shareholders was mainly due to the decrease in operating profit, as described above.

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

In the first half of 2015 the GAAP comprehensive loss amounted to approximately NIS 28 million, compared to comprehensive income of NIS 181 million in the corresponding period last year. In the reporting period losses in respect of translation differences, which are the main component of the other comprehensive income, amounted to NIS 199 million compared to losses of NIS 16 million arising from translation differences in the corresponding period last year.

In the second quarter the GAAP comprehensive income amounted to approximately NIS 26 million, compared to comprehensive income of NIS 52 million in the corresponding quarter last year. In the reporting period losses in respect of translation differences, which are the main component of the other comprehensive income, totaled NIS 48 million compared to losses of NIS 4 million from translation differences in the corresponding period last year.

These translation differences are the result of the weakening of part of the Group's functional currencies abroad versus the Shekel, which was expressed in the quarterly movement in the foreign currency translation reserve.

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

In the first half of 2015

Cash flows used in operating activities amounted to a negative cash flow of approximately NIS 9 million, compared to a positive cash flow of NIS 77 million in the corresponding period last year. The decrease in cash flows from operating activities is due to a decrease in supplier credit and payables in the reporting period compared to the corresponding period last year.

Cash flows used in investing activities amounted to a negative cash flow of approximately NIS 27 million compared to a negative cash flow of NIS 161 million last year. The change is mainly due to the sale of securities and deposits on a large scale in the period, compared to the purchase of securities and deposits in the corresponding period last year, and to acquisitions of fixed assets on a smaller scale compared to last year.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 199 million compared to a negative cash flow of NIS 94 million last year. The change is mainly due to the issue of Series D Debentures in the corresponding half last year.

In the second quarter of 2015

Cash flows from operating activities amounted to a positive cash flow of approximately NIS 144 million, compared to NIS 58 million in the corresponding quarter last year. The increase in cash flows from operating activities is mainly the result of an increase in profit in the reporting period compared to the corresponding period last year, and to the payment of lower taxes compared to last year.

Cash flows from (used in) investing activities amounted to a positive cash flow of approximately NIS 8 million compared to a negative cash flow of NIS 240 million in the corresponding quarter last year. The change is mainly due to purchases of securities and deposits on a larger scale in the corresponding period last year.

Cash flows from (used in) financing activities amounted to a negative cash flow of approximately NIS 25 million compared to a positive cash flow from financing activities of NIS 113 million in the corresponding period last year. The change is mainly due the issue of Series D Debentures in the corresponding period last year.

The Company's cash and cash equivalents as at June 30, 2015 totaled NIS 512 million compared to NIS 767 million on December 31, 2014. In accordance with Company policy, these assets are invested mainly in deposits (most of them in Shekels and Dollars).

The Company's liquidity ratio as at June 30, 2015 is 1.49 compared to 1.55 on December 31, 2014. On June 30, 2015 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,171 million compared to NIS 2,391 million on December 31, 2014. On June 30, 2015 short-term credit (excluding current maturities) totaled NIS 37 million compared to NIS 3 million (excluding current maturities) on December 31, 2014. On June 30, 2015 supplier credit totaled NIS 675 million, compared to NIS 846 million on December 31, 2014.

Total assets in the Company's Consolidated Statement of Financial Position on June 30, 2015 amounted to NIS 6,335 million, compared to NIS 6,742 million on December 31, 2014.

Reportable credit – further to Note 22.3 to the Periodic Report – Financial Criteria – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Position as at June 30, 2105 is 28.4%, compared to 27.0% on December 31, 2014. The net financial debt-to-EBITDA ratio as at June 30, 2015 is 2.1, compared to 1.8 on December 31, 2014. The Company is in compliance with the required financial criteria.

In April 2015 Midroog downgraded the Debentures (Series B and D) issued by the Group from Aa1 to Aa2. The rating outlook is stable.

After IFRS 11 took effect on January 1, 2013 the Company elected to include a number of relevant data that correspond to the GAAP reporting method that was in practice prior thereto. The data below are in the proportionate consolidation method (as reported by the Company up to and including 2012). The Company reserves the right not to include this information in the future.

	First Half		**Second Quarter**		**Year Ended December 31**
	2015	**2014**	**2015**	**2014**	**2014**
Cash flows from operating activities (proportionate consolidation method)	30	128	180	113	561
Acquisition of fixed assets and investment in intangibles and deferred expenses (proportionate consolidation method)	157	257	70	125	564
Net debt balance (proportionate consolidation method) as at the reporting date	1,833	1,720	1,833	1,720	1,688
Depreciation and amortization (excluding impairment):	116	109	61	55	218
Strauss Israel:					
Health & Wellness	24	24	12	12	49
Fun & Indulgence	14	13	7	6	27
Strauss Coffee:					
Israel Coffee	5	5	3	2	11
International Coffee	34	30	20	15	58
International Dips & Spreads	12	9	6	4	16
Other	27	28	13	16	57

The Group's EBITDA (non-GAAP) totaled approximately NIS 425 million in first half of the year compared to NIS 485 million in the corresponding period in 2014, a decrease of 12.3%. In the second quarter the Group's EBITDA (non-GAAP) totaled approximately NIS 173 million compared to NIS 227 million in the corresponding quarter last year, a decrease of 23.5%.

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

Strauss Coffee

Following are the condensed results of business operations based on the non-GAAP management reports of Strauss Coffee by reported segments for the periods ended June 30, 2015 and 2014 (in NIS millions):

	First Half			Second Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Israel Coffee						
Net sales	333	356	*(6.4)*	137	151	*(9.3)*
Operating profit	46	54	*(12.8)*	7	13	*(39.1)*
% operating profit	14.0%	15.0%		5.6%	8.4%	
International Coffee						
Net sales	1,348	1,418	*(5.0)*	698	757	*(7.7)*
Operating profit	90	125	*(28.9)*	43	76	*(44.5)*
% operating profit	6.6%	8.9%		6.1%	10.1%	
Total Strauss Coffee						
Net sales	**1,681**	**1,774**	***(5.2)***	**835**	**908**	***(8.0)***
Organic growth excluding foreign exchange effect and classification of costs as a result of the Food Law	**7.9%**	**0.1%**		**7.6%**	**0.2%**	
Gross profit	**559**	**650**	***(13.9)***	**266**	**330**	***(19.3)***
% gross profit	**33.3%**	**36.6%**		**31.9%**	**36.3%**	
Operating profit	**(1)136**	**179**	***(24.1)***	**(1)50**	**89**	***(43.8)***
% operating profit	**8.1%**	**10.1%**		**6.0%**	**9.8%**	

(1) The operating profit of the coffee operation in the first half and second quarter of 2015 includes a provision for impairment with respect to intangible assets attributed to the Serbian operation, amounting to NIS 8 million.

Sales

In the first half and second quarter of 2015 organic growth in the coffee business, excluding the foreign currency effect and the classification of costs in Israel Coffee following the implementation of the Food Law, amounted to 7.9% and 7.6%, respectively, compared to the corresponding periods last year. The growth in coffee sales in the half and quarter is mainly the result of an increase in sales by the Três Corações joint venture [5], reflecting Strauss Coffee's share (50%). Additionally, growth in local currency in other countries in the international coffee operation reflects the price increases implemented in all countries (excluding Israel), in light of the rising cost of green coffee to the Company and the erosion of the functional currencies versus the US Dollar (the currency in which green coffee is purchased in all countries except for Brazil). For further information, see the section on Strauss Coffee Sales by Major Geographical Regions.

In the first half of 2015 Strauss Coffee's sales decreased by approximately NIS 93 million. Translation differences into Shekels in the coffee operation amounted to NIS 236 million, of which NIS 111 million were due to the erosion of the average exchange rate of the Brazilian Real against the Shekel and NIS 95 million to the erosion of exchange rates in Russia and Ukraine. Additionally, following the implementation of the Food Law in the beginning of 2015 certain costs were classified in Israel Coffee as discounts deducted from sales (approximately NIS 9 million), as opposed to prior years in which similar costs were classified as part of selling and marketing expenses.

In the second quarter of 2015 Strauss Coffee's sales decreased by approximately NIS 73 million. Translation differences into Shekels in the coffee operation in the period amounted to NIS 144 million, of which NIS 85 million were due to the erosion of the average exchange rate of the Brazilian Real against the Shekel and NIS 42 million to the erosion of exchange rates in Russia and Ukraine. Additionally, following the implementation of the Food Law in the beginning of 2015 certain costs were classified in Israel Coffee as discounts deducted from

[5] Três Corações joint venture (Brazil) – A company jointly held by the Group (50%) and by São Miguel Holding e Investimentos S.A. (50%) (data reflect Strauss Coffee's share (50%)).

sales (approximately NIS 5 million), as opposed to prior years in which similar costs were classified as part of selling and marketing expenses.

Further explanations on sales by Strauss Coffee in the reporting period are presented in the section Strauss Coffee Sales by Major Geographical Regions.

Gross profit

In the first half of 2015 the gross profit decreased by approximately NIS 91 million compared to the corresponding period last year. The gross profit margin dropped by 3.3% and amounted to 33.3% in the half.

In the second quarter of 2015 the gross profit decreased by NIS 64 million compared to the corresponding quarter last year. The gross profit margin dropped by 4.5% and amounted to 31.9% in the quarter.

The drop in the gross profit margin in the half and quarter mainly reflects a negative impact of the cost of green coffee to the Company in local currency, and erosion of the functional currencies against the US Dollar (the currency in which green coffee is purchased in all countries of operations except for Brazil), compared to the corresponding periods. Most of this decrease was offset by the price increases implemented in the countries where the coffee company is active (excluding Israel).

The decrease in gross profit also reflects the drop in sales by the coffee business, which was impacted by negative translation differences as described above.

The cost of raw materials to the Company (including green coffee) in the Group's non-GAAP reports includes profits and losses that were realized in respect of financial derivatives that served to economically hedge those commodities.

Operating profit

In the first half of 2015 the operating profit of the coffee operation decreased by approximately NIS 43 million. The operating profit margin amounted to 8.1% (down by 2.0%). The decrease in operating profit in Shekels is mainly due to translation differences as described above.

In the second quarter of 2015 the operating profit of the coffee company decreased by approximately NIS 39 million. The operating profit margin amounted to 6.0% in the quarter (a decrease of 3.8%).

The decrease in Strauss Coffee's EBIT in the first half is the result of a decrease in the operating profit of Três Corações due to negative translation differences and a rise in green coffee prices in Brazil. These were offset by an improvement in the TRES brand's operating results. In local currency and despite a challenging economic environment in Brazil, the Três Corações joint venture's operating profit before other expenses rose in the first half and second quarter by 2.4% and 10.0%, respectively (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

In addition, the EBIT of the coffee business in the CEE countries decreased due to the competitive environment and impairment recorded in respect of intangible assets in Serbia in an amount of NIS 8 million. Furthermore, Israel Coffee's operating profit decreased following the increase in the cost of green coffee to the Company and the strengthening of the US Dollar (the currency in which green coffee is bought) against the NIS compared to the corresponding periods last years. These were mostly offset by an improvement in the instant coffee supply chain in Israel and a decrease in operating expenses.

Strauss Coffee sales by major geographical regions

Following is the scope of sales of the coffee business in the major geographical regions (not including intercompany sales), and growth rates for the periods ended June 30, 2015 and 2014 (in NIS millions):

	First Half				Second Quarter			
Geographical region	**2015**	**2014**	**% chg**	**% change in local currency***	**2015**	**2014**	**% chg**	**% change in local currency***
Israel Coffee	**333**	**356**	***(6.4)***	***(6.4)***	**137**	**151**	***(9.3)***	***(9.3)***
International Coffee								
Três Corações joint venture (Brazil) (1) (2) (3) - 50%	773	822	*(5.9)*	*8.8*	394	443	(11.1)	*10.0*
Former USSR countries	240	271	*(11.5)*	*36.3*	135	140	*(2.8)*	*38.4*
Poland	138	135	*1.8*	*10.2*	66	68	*(3.8)*	*4.5*
Romania	124	107	*16.2*	*26.9*	61	59	*4.2*	*16.1*
Serbia	73	83	*(12.0)*	*0.8*	42	47	*(11.5)*	*2.3*
Total International Coffee	**1,348**	**1,418**	***(5.0)***	***14.1***	**698**	**757**	***(7.7)***	***14.0***
Total Coffee	**1,681**	**1,774**	***(5.2)***	***9.3***	**835**	**908**	***(8.0)***	***9.4***

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

(1) Três Corações joint venture (Brazil) – A company jointly held by the Group (50%) and by São Miguel Holding e Investimentos S.A. (50%) (data reflect Strauss Coffee's share (50%)).

(2) Sales by the Três Corações joint venture (Brazil) include:

	First Half		Second Quarter	
	2015	**2014**	**2015**	**2014**
Green coffee sales	49	112	19	67
Corn sales	32	35	18	20

(3) Sales by the Três Corações joint venture in Brazil exclude intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee.

Três Corações joint venture in Brazil – 3C – A company jointly held by the Group (50%) and the São Miguel Group (50%) (data reflect Strauss Coffee's share (50%))

In February 2013 the Três Corações joint venture signed agreements with Caffitaly S.p.A, following which the Três Corações joint venture became active in the single portion multi-beverage machines and capsules segment in Brazil. Sales of the machines and capsules began in November 2013 under the TRES solution. The overall impact of the TRES solution on the Três Corações joint venture's operating profit in the first half and second quarter of 2015 amounted to an operating loss of approximately NIS 11 million (approximately BRL 9 million) and NIS 8 million (BRL 6 million), respectively, compared to an operating loss of NIS 23 million (BRL 15 million) and NIS 16 million (BRL 10 million) in the corresponding periods last year (data reflect Strauss Coffee's share (50%)).

In December 2014 the Três Corações joint venture acquired the coffee business of the company Itamaraty, the fourth-largest player in south and southeast Brazil (market share according to A.C. Nielsen figures), with the goal of continuing to bolster the company's competitive position in this region.

In the first half of 2015 the Três Corações joint venture's average market share in R&G amounted to approximately 24.0%, compared to 22.4% in the corresponding period last year (value market share, reflecting 100% of the Três Corações joint venture's sales according to A.C. Nielsen figures and including the market share of Itamaraty's coffee business as mentioned above in both periods). Excluding the Itamarty acquisition, the Três Corações joint venture's market share was 23.5% versus 21.9% in the corresponding period last year.

In the first half and second quarter of 2015 the Três Corações joint venture's sales in local currency grew by approximately 8.8% and 10.0%, respectively (approximately 8.3% and 9.5%, respectively, before the exclusion of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee). Excluding green coffee sales, growth in local currency amounted to 17.9% and 23.2% in the first half and second quarter, respectively. Most of the growth originates in R&G sales. The increase in the Três Corações joint venture's local currency sales reflects price increases introduced in 2014 and in the first quarter of 2015 in light of the rising cost of green coffee prices to Três Corações compared to the corresponding periods last year. The sales growth also

reflects sales of machines and capsules under the TRES solution, which was launched in November 2013 as mentioned above. Itamaraty sales under the Três Corações joint venture began toward the end of the first quarter this year, and their impact in the current period was immaterial.

Growth in the Três Corações joint venture's Shekel sales in the first half and second quarter of 2015 compared to the corresponding periods last year was adversely affected by the erosion of the average exchange rate of the Brazilian Real against the Shekel, which amounted to NIS 111 million and NIS 85 million, respectively.

As a result of the sales growth in local currency, the gross profit in the Três Corações joint venture's functional currency increased in the half and in the quarter by 3.8% and 5.0%, respectively, compared to the corresponding periods last year. The gross profit margin decreased by 1.3% in both the half and the quarter, and in the first half and second quarter of 2015 amounted to 30.2% and 28.9%, respectively, primarily reflecting the increase in the cost of green coffee to the Três Corações joint venture; this was offset in part by the price increases introduced in 2014 and in the first quarter this year. The operating profit before other expenses rose in the first half and second quarter by 2.4% and 10.0%, respectively. (See the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

The former USSR countries

Following the political crisis in Russia and Ukraine and the complexity of Russia's relations with the West, the Ukrainian and Russian currencies devalued significantly against the major currencies, including the US Dollar (which adversely impacted the cost of sales in the region) and the Shekel (causing negative translation differences). These devaluations occurred in 2014 and were particularly sharp in the fourth quarter of the year. By contrast, in the first half and second quarter of 2015 the Ruble strengthened against the US Dollar and the Shekel (compared to exchange rates at the end of 2014); however, in the current period average exchange rates have remained approximately 34% and 26% lower than the average exchange rates against the US Dollar and the Shekel in the corresponding period last year, respectively. Moreover, the competitive environment in the region has remained challenging.

The Company's sales in the region in local currency grew in the first half and second quarter of 2015 by approximately 36.3% and 38.4%, respectively, compared to the corresponding periods last year. The Company's sales in local currency were mainly impacted by price increases introduced in light of the devaluation of the Russian and Ukrainian currencies against the US Dollar, as mentioned above.

The Company's Shekel sales in the region decreased by approximately NIS 31 million and NIS 5 million in the half and in the quarter compared to the corresponding periods last year, and were affected by negative translation differences against the Shekel as mentioned.

Poland

The Company's sales in Poland in local currency increased by approximately 10.2% and 4.5% in the first half and second quarter of 2015, respectively, compared to the corresponding periods last year. Sales were mainly influenced by price increases reflecting a rise in the cost of green coffee (particularly Arabica) to the Company, along with the strengthening of the US Dollar (the currency in which green coffee is purchased) against the Polish Zloty, compared to the corresponding periods last year. The Company's Shekel sales in Poland increased by approximately NIS 3 million in the half and decreased by NIS 2 million in the quarter compared to the corresponding periods in 2014. Shekel sales were affected by the erosion of the Polish Zloty against the Shekel.

Romania

In September 2014 Strauss Coffee completed the acquisition of the Amigo coffee brand, sold mainly in Romania, from Cia Iguacu De Café Soluvel for approximately $20 million. The transaction strengthens the coffee company's competitive position in Romania and has turned the Company into the largest player in instant coffee in the country.

The Company's sales in Romania in local currency grew by approximately 26.9% and 16.1% in the first half and second quarter of 2015, compared to the corresponding periods last year. Among other things, the growth in sales reflects new sales in respect of the Amigo brand. Excluding Amigo, the Company's sales in domestic currency grew by approximately 11.8% in the first half, while in the second quarter growth was negative (0.6%), compared to the corresponding periods last year.

The organic growth in sales in local currency in the first half reflected an improvement in the product mix, volume growth and price increases following an increase in the cost of green coffee to the Company, along with

the strengthening of the US Dollar (the currency in which green coffee is purchased) against the Romanian Leu, compared to the corresponding period last year. The decrease in organic sales in local currency in the second quarter mainly reflects timing differences in the distribution of sales between the first and second quarters in the first half of the year compared to the corresponding half last year in light of different timing of campaigns.

Shekel sales in Romania grew by approximately NIS 17 million and NIS 2 million in the first half and second quarter of 2015 compared to the corresponding periods last year, despite negative translation differences due to the erosion of the Romanian Leu against the Shekel.

On June 1, 2015 VAT on food products in Romania was lowered (from 24.0% to 9.0%). At this preliminary stage, the Company is unable to estimate the impact of the reduction in VAT on its sales. The effect of the reduction on the Company in the month of June was immaterial.

Serbia

The Company's sales in Serbia in local currency increased by 0.8% and 2.3% in the first half and second quarter of 2015 compared to the corresponding periods last year. Sales were influenced by a consumer trend of preferring cheaper coffee brands and by price erosion due to the harshening competitive environment. As a result of the declining growth in the sales turnover in Serbia and the erosion of the operation's profitability in view of the erosion of the local currency against the US Dollar and a limited ability to raise prices, the Company revised its forecasts for the next few years, and in the second quarter recorded a provision for impairment in respect of intangible assets attributed to the operation in Serbia in an amount of NIS 8 million before the tax effect. For further information, see Note 4.5 to the Consolidated Interim Financial Statements as at June 30, 2015.

Shekel sales in Serbia dropped by approximately NIS 10 million and NIS 5 million in the half and in the quarter compared to the corresponding periods last year, and were affected by negative translation differences as a result of the erosion of the Serbian Dinar against the Shekel.

Israel

The Company's sales in Israel decreased by approximately NIS 23 million and NIS 14 million in the first half and second quarter of the year compared to the corresponding periods last year. The decrease is explained by an intense competitive environment, effective price decreases and a negative effect of the sales mix. Additionally, after the Food Law took effect in the beginning of 2015 certain costs were classified as discounts deducted from sales (approximately NIS 9 million and NIS 5 million, respectively), as opposed to prior years in which similar costs were classified as part of selling and marketing expenses. Excluding the new classification the drop in sales in the first half and second quarter would have amounted to 3.5% and 6.7%, respectively.

The operating profit of Israel Coffee dropped by NIS 8 million and NIS 6 million in the first half and second quarter compared to the corresponding periods in 2014. The decrease in operating profit is the result of the decline in sales as mentioned, of the increase in the cost of green coffee to the Company, and of the strengthening of the US Dollar (in which green coffee is purchased) against the Shekel, compared to the corresponding periods last year. Most of the foregoing was offset by an improvement in the instant coffee supply chain in Israel and a reduction in operating expenses.

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in the first half of 2015 according to StoreNext figures held an 11.3% share of the total retail domestic food and beverage market in value terms (compared to 11.7% in the corresponding period last year). The Israeli market is the Group's home market, where it is active in various categories. According to StoreNext, in the first half of 2015 the Israeli food and beverage market grew by 1.3% in financial value.

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

In the first half Strauss Group's Israel sales totaled approximately NIS 1,987 million versus NIS 2,077 million last year, a decrease of 4.3%. In the second quarter Strauss Group's Israel sales totaled NIS 924 million compared to NIS 971 million in the corresponding quarter in 2014, a decrease of 4.7%. After the Food Law took effect in the beginning of 2015 certain costs were classified as discounts deducted from sales, as opposed to prior years in which similar costs were classified as part of selling and marketing expenses. Excluding the classification of costs due to the Food Law, the decrease in sales by the Group's entire operation in Israel in the first half and second quarter would have amounted to 2.4% and 2.8%, respectively.

In the reporting period, one of the Company's major customers in Israel, Mega Retail Ltd., filed a motion with the court for a debt settlement which took effect after the date of the report, on July 27, 2015. Accordingly, the Company recorded a provision for doubtful debts in respect of the customer's debt as well as in respect of other customers, in the amount of approximately NIS 13 million before tax (NIS 11 million in Strauss Israel and NIS 2 million in Israel Coffee), and NIS 9 million after the tax effect.

Strauss Israel

Following are the condensed results of business operations based on the non-GAAP management reports of Strauss Israel by activity segments for the periods ended June 30, 2015 and 2014 (in NIS millions):

	First Half			Second Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Health & Wellness segment						
Net sales	928	979	*(5.2)*	474	500	*(5.2)*
Operating profit	78	100	*(21.3)*	33	51	*(34.3)*
% operating profit	8.4%	10.1%		7.0%	10.1%	
Fun & Indulgence segment						
Net sales	503	524	*(4.2)*	204	213	*(4.7)*
Operating profit	58	66	*(12.0)*	11	17	*(33.8)*
% operating profit	11.6%	12.6%		5.5%	8.0%	
Total Strauss Israel						
Net sales	**1,431**	**1,503**	***(4.8)***	**678**	**713**	***(5.0)***
Gross profit	**549**	**613**	***(10.5)***	**265**	**286**	***(7.5)***
% gross profit	**38.4%**	**40.8%**		**39.1%**	**40.2%**	
Operating profit	**136**	**166**	***(17.6)***	**44**	**68**	***(34.2)***
% operating profit	**9.5%**	**11.0%**		**6.6%**	**9.5%**	

Sales

In the first half of 2015 Strauss Israel's sales decreased by 4.8% (approximately NIS 72 million). In the Health & Wellness segment the decrease was approximately 5.2% (NIS 51 million), and in Fun & Indulgence, 4.2% (NIS 21 million). The decrease in sales was primarily the result of effective price decreases and a more intense competitive environment. Additionally, after the Food Law took effect in the beginning of 2015 certain costs were classified as discounts deducted from sales (approximately NIS 32 million), contrary to prior years when similar costs were classified as part of selling and marketing expenses. Excluding the classification of costs the drop in sales in the first half would have amounted to 2.7%. The pro forma gross profit rate in the corresponding half last year for the classification of costs in respect of Food Law is 39.5%, and the pro forma operating profit rate in the corresponding half last year was 11.3% (with no impact on the operating profit).

In the second quarter of 2015 Strauss Israel's sales decreased by 5.0% (approximately NIS 35 million). In Health & Wellness the decrease was approximately 5.2% (NIS 26 million), and in Fun & Indulgence, 4.7% (NIS 9 million). The decrease in sales was mainly recorded in light of a more intense competitive environment.

The costs classified as discounts deducted from sales as described above amounted to approximately NIS 16 million in the quarter. Excluding the classification of costs the drop in sales in the second quarter would have amounted to 2.9%. The pro forma gross profit rate in the corresponding quarter last year for the classification of costs in respect of the Food Law is 38.8%, and the pro forma operating profit rate in the corresponding period last year was 9.7% (with no impact on the operating profit).

Gross profit

In the first half of 2015 Strauss Israel's gross profit decreased by approximately NIS 64 million, with 2.4% erosion of the gross profit margin, compared to the corresponding period last year. Pro forma for the classification of costs in respect of the Food Law, the gross profit margin decreased by 1.1%

In the second quarter of 2015 Strauss Israel's gross profit decreased by approximately NIS 21 million, with 1.1% reduction in the gross profit margin, compared to the corresponding quarter last year. Pro forma for the classification of costs in respect of the Food Law, the gross profit margin rose by approximately 0.4%.

The decrease in gross profit in the half and quarter reflects a drop in sales, a certain increase in raw material prices (cocoa, hazelnuts and almonds and raw milk (the price of raw milk rose in the first quarter of the year and

overall in the first half, while in the second quarter the price decreased slightly compared to the corresponding period last year)), and the strengthening of the US Dollar and the Pound Sterling (the currencies in which some raw materials are bought) against the Shekel, compared to the corresponding periods in 2014. These effects were partly offset by streamlining measures applied in production and packaging processes in a number of plants, by a beneficial impact of the drop in energy prices, and by a certain decrease in the cost of some of the Company's raw materials (potatoes and tahini).

Operating profit

In the first half of 2015 Strauss Israel's operating profit decreased by approximately NIS 30 million and the operating profit margin dropped by 1.5%, and amounted to 9.5% of sales. Pro forma for the classification of costs in respect of the Food Law, the operating profit margin decreased by approximately 1.8%.

In the second quarter of 2015 Strauss Israel's operating profit decreased by approximately NIS 24 million and the operating profit margin dropped by 2.9%, and amounted to 6.6% of sales. Pro forma for the classification of costs in respect of the Food Law, the EBIT margin decreased by approximately 3.1%.

The decrease in operating profit in the first half and second quarter reflects the drop in gross profit, a provision for doubtful debts, particularly in respect of Mega Retail Ltd., and the simultaneous operation of the new logistic center in Shoham and the old logistic center in Tzrifin (for dry products) during the process of relocating to the new center. The move to Shoham for refrigerated products is expected to be completed by the beginning of 2016. The decrease in EBIT in the half and quarter was partly offset by a reduction in operating expenses compared to the corresponding periods last year. The decrease in operating expenses also partly reflects the classification of costs as a result of the Food Law (approximately NIS 32 million and NIS 16 million in the first half and second quarter, respectively).

The International Dips & Spreads Activity

The Group develops, manufactures, sells, markets and distributes dips and spreads through Sabra in the US and Canada, and through Obela in Mexico and Australia. The activities of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (each party holds 50%). In the GAAP report, the Group's holdings in Sabra and Obela are accounted for in the equity method.

Sabra is the largest refrigerated flavored spreads company in the US. According to IRI, Sabra's value market share of the total refrigerated dips and spreads category in the 24 weeks ended on June 14, 2015 was 27.4% (Number 1 in the market), compared to 28.4% in the corresponding period last year. Sabra's value market share of the hummus category in the same period was 60.5%, compared to 63.4% last year (the method for calculating market share employed by IRI has changed; the comparative figures for the corresponding period were amended accordingly).

Sale volumes in Australia and Mexico are immaterial. Nevertheless, it is noted that the company leads the hummus market in Australia (with a value market share of 25.0% under the “Obela Hummus” brand) and in Mexico. In the first half of 2015, growth in the company's sales volumes was recorded in both countries.

Sabra

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

	First Half		Second Quarter	
	2015	2014	2015	2014
Sales	694	608	347	324
Growth	14.0%	9.9%	6.9%	6.1%
Organic growth excluding foreign currency effect	1.4%	15.7%	(4.3%)	11.1%
Operating profit before other expenses	67	84	27	46
% operating profit	9.7%	13.8%	7.9%	14.3%

Sabra's sales in the first half and second quarter of 2015 grew by approximately NIS 86 million and NIS 23 million, respectively, compared to the corresponding periods last year.

Sabra's Shekel sales in the half and the quarter were favorably influenced by positive translation differences in respect of the strengthening of the US Dollar against the Shekel (see also the foreign exchange rate table in the section Changes in the Economic Environment). In the second quarter of the year, sales decreased by 4.3% in local currency, reflecting the negative impact of the recall of a hummus product at the beginning of the quarter.

The operating profit in the first half of 2015 decreased by NIS 17 million, with a decrease of 4.1% in the operating profit margin compared to last year.

The operating profit in the second quarter decreased by NIS 19 million, with a decrease of 6.4% in the operating profit margin compared to the corresponding quarter last year.

The decrease in the operating profit margin in the first half and second quarter is mainly the result of a negative impact caused by the product recall as mentioned, including direct costs in respect of the recall, a further improvement in the strict quality controls in place at the hummus factory in Virginia, and increased marketing effort in the second quarter of 2015. As at the reporting date no benefit has been included in respect of insurance. As at the date of publication of the report, the Company is unable to estimate whether an insurance payout will be received, and if received, the amount thereof.

Obela

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

Obela's sales in the first half of 2015 totaled approximately NIS 34 million, compared to NIS 32 million in the corresponding period last year. Excluding the foreign currency effect, growth in the half amounted to 12.4% compared to the corresponding period in 2014. Sales growth is primarily the result of increased sales in Australia.

Obela's sales in the second quarter of 2015 totaled approximately NIS 16 million, compared to NIS 18 million in the corresponding period last year. Excluding the foreign currency effect, growth in the quarter amounted to a drop of 0.9% compared to the corresponding quarter in 2014.

The operating loss in the first half totaled NIS 21 million, compared to NIS 20 million in the corresponding half last year.

The operating loss in the second quarter of 2015 totaled NIS 9 million, compared to NIS 10 million last year.

Other Operations

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

Strauss Water

Through Strauss Water the Group is active in the water market in the development, assembly, sale and servicing of systems for the filtration, purification and carbonation of drinking water, mainly in Israel, China and the UK.

In the reporting period the subsidiary Strauss Water signed a series of share exchange and transfer agreements with companies of Haier Group, as well as a joint venture agreement, with the aim of restructuring the Haier Strauss Water joint venture in China. The change in respect of the above agreements will be reflected in the non-GAAP reports commencing in the third quarter of 2015. For further information, see Note 4.3 to the Consolidated Interim Financial Statements as at June 30, 2015.

In the first half of 2015 Strauss Water's sales amounted to approximately NIS 240 million compared to NIS 273 million in the corresponding period in 2014, a decrease of 12.1%.

In the second quarter of the year Strauss Water's sales amounted to approximately NIS 120 million compared to NIS 135 million in the corresponding quarter last year, a decrease of 11.5%.

The decrease is mainly explained by the restructuring of the international operation in China, which the Company began to review last year and was implemented commencing in the fourth quarter last year, as reported for the first time in the financial statements as at June 30, 2014. Excluding this change, Strauss Water's sales increased by 2.3% and 2.9% in the first half and second quarter, respectively.

Max Brenner

On the date of publication of the report, the Max Brenner chain comprises sixty-two "Chocolate Bars" in Israel and around the world, fifty-seven under franchise and five owned by the Company (in the US: New York,

Philadelphia, New Jersey, Boston and Maryland). The Max Brenner branches are spread throughout Australia (41), Israel (8), the US (5), Japan (4), Singapore (2) and Russia (2).

In the first half of 2015 Max Brenner's sales totaled approximately NIS 53 million compared to NIS 52 million last year, an increase of 1.5%. Max Brenner's organic growth excluding the foreign currency effect amounted to a decrease of approximately 4.6% compared to the corresponding period last year.

In the second quarter of the year Max Brenner's sales totaled approximately NIS 25 million compared to NIS 23 million last year, an increase of 8.1%. Organic growth excluding the foreign currency effect amounted to a decrease of approximately 4.6% compared to the corresponding quarter last year.

EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT

Description of the market risks to which the Company is exposed

The Company operates in areas that are by nature basic and stable; however, there are several factors and trends that are liable to influence both the scope and profitability of the Company's business. For a description of the market risks to which the Group is exposed, see section 30 in the Description of the Corporation's Business as at December 31, 2014 (Discussion on Risk Factors), and the section Changes in the Economic Environment in this chapter.

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

Commodities procurement

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

The procurement of green coffee in Brazil is carried out by the local management of the Três Corações joint venture according to internal procedures determined by the Três Corações joint venture's board of directors, and is the responsibility of the procurement, export and financial managers of the Três Corações joint venture.

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

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

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

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

In its international activity the Company does not regularly hedge the measurement basis of the results of its operations or its statement of financial position against changes arising from the various currency exchange rates against the Shekel.

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

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

Customer credit

With respect to its activity in Israel, the Company has credit committees that convene periodically to determine the amount of credit recommended for its various customers and the required level of their collateral, including the necessity of purchasing external credit insurance. The Company also monitors the implementation of these recommendations. The credit committees are managed by the CFO and VP Sales of Strauss Israel and include the participation of the Group CFO and Group Treasurer. In the coffee business credit committees convene periodically, and credit control is carried out by the CFOs and CEOs in the various countries and is their responsibility, under the master control of Strauss Coffee's CFO and the Group Treasurer, who sits on the credit committees of the coffee companies from time to time. In Brazil the risks are controlled by the management of the Três Corações joint venture according to the policy approved by the company's board of directors. From time to time, the Company executes nonrecourse discount transactions with respect to customer debts.

EXAMINATION OF THE EXISTENCE OF A WARNING SIGN IN RESPECT OF A PERSISTENT NEGATIVE CASH FLOW FROM OPERATING ACTIVITIES PURSUANT TO REGULATION 10(B)(14)(a)(4)

The cash flow from operating activities in the Company's separate financial statements ("solo report") for the half ended June 30, 2015 and for the year ended December 31, 2014 is negative (NIS 34 million and NIS 77 million, respectively). Notwithstanding the foregoing, on August 19, 2015 the Board of Directors of the Company determined that the abovementioned negative cash flow is not indicative of a liquidity issue in the Company. This decision is based, *inter alia*, on a review of the Company's existing and anticipated liabilities in the two years commencing on the date of approval of the financial statements as at June 30, 2015, including the Company's liabilities to the holders of its debentures (Series B and Series D) and to banking corporations and their maturity dates, and on an inspection of existing and anticipated sources for the repayment of these liabilities, including the Company's ability to draw future dividends from the Company's major investees; receipt of regular dividends from the Company's major investees in the past; and the Company's ability to raise funds from banking corporations and/or other sources to the extent necessary; as well as on the financial strength of the major investees of the Company and their leading competitive position in the markets where these companies operate.

It is emphasized that the abovementioned information on the Company's sources of financing and income is forward-looking information, as this term is defined in the Securities Law, 1968, which is primarily based on the Company's forecasts. There can be no assurance that these assessments will, in fact, occur, or that they will not occur in a different form, including materially, than estimated, as a result of market behavior and the occurrence of the risk factors set forth in section 30 in Part A of the Company's 2014 Periodic Report.

ASPECTS OF CORPORATE GOVERNANCE

General

The Board of Directors of the Company has adopted the recommendations in the Goshen Committee Report and acts in accordance with these recommendations. For further information, see the Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure pursuant to Regulation 38 C(a).

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

The Company organ responsible for master control is the Financial Statements Review Committee established by the Board of Directors of the Company, which comprises five members. The members of the Financial Statements Review Committee (which does not serve as an audit committee) are Professor Dafna Schwartz (Chairperson) (external director), Dalya Lev, CPA (independent director), Prof. Arie Ovadia, Meir Shanie and Dr. Michael Anghel (external director). All directors possess accounting and financial qualifications and the ability to read and understand financial statements in view of their many years' experience and academic education in the financial field. For additional information on the qualifications, experience and education of the Committee members, see article 26 in the chapter Additional Information on the Company in the 2014 Annual Report.

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

- 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 of Directors for their review. The draft financial statements of the Company were forwarded to the members of the Board approximately seven 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 before the date of approval of the quarterly financial statements of the Company. The EVP Finance and the Company Controller hold meetings from time to time with the Chairperson of the Financial Statements Review Committee on subjects related to the financial statements of the Company. Before the financial statements as at June 30, 2015 were approved such a meeting was held with the Committee Chairperson to discuss material issues that arose during the preparation of the quarterly financial statements.

- The financial statements are presented for discussion by the Financial Statements Review Committee. In this discussion, the EVP Finance extensively reviews the business activity and business results of the Company for the reporting period. Additionally, the EVP Finance reviews the critical estimates applied, material issues that arose during the preparation of the financial statements, the internal controls relating to financial reporting, the completeness and fairness of the disclosure in the financial statements, holds a discussion on the effectiveness of internal control over financial reporting and disclosure in the Company, the accounting policy adopted and accounting treatment applied in the material affairs of the corporation. On August 12, 2015 the Financial Statements Review Committee held a discussion on the financial statements of the Company as described. The meeting was attended by all members of the Financial Statements Review Committee with the exception of Arie Ovadia. Ronit Haimovitch and Adi Strauss attended as observers, the Company CEO, EVP Finance, CLO, the Company Controller and the Company Auditor.

- At the meeting of the Board of Directors on August 19, 2015 the Board discussed the recommendation of the Financial Statements Review Committee to approve the financial statements of the Company as at June 30, 2015. The Board of Directors received an update from Company Management that no event or matter had occurred, which are able to alter the assessment of the effectiveness of internal control as presented in the latest Annual Report. In the opinion of the Board of Directors, the Committee's recommendations and the necessary materials were forwarded to the members of the Board a reasonable time before the abovementioned meeting. All members of the Board of Directors (except for Arie Ovadia, Ronit Haimovitch and Galia Maor) were present at the meeting, as well as the Company CEO, the Company EVP Finance, the CLO, the Company Controller and the Company Auditor.

- After the Board of Directors was satisfied that the financial statements accurately reflect the Company's position and the results of its operations, the Board of Directors resolved to approve the financial statements of the Company for the second quarter of 2015.

INFORMATION ON THE DEBENTURE SERIES

Following is information on the series of material capital notes with respect to the Company's liabilities as at June 30, 2015:

		Debentures Series B	**Debentures Series D**
A.	Nominal/par value	446	465
B.	Par value linked to the Consumer Price Index	537	465
C.	Book value of Debentures	537	479
D.	Book value of interest payable	9	5
E.	Market value	580	520

LIABILITY REPORT ACCORDING TO PAYMENT DATES

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

MATERIAL EVENTS IN THE REPORTING PERIOD

For a review of material events occurring in the reporting period, see the update of the chapter Description of the Corporation's Business and Notes 4, 5 and 6 to the Consolidated Interim Financial Statements as at June 30, 2015.

POST-STATEMENT OF FINANCIAL POSITION DATE EVENTS

For a review of events occurring after the statement of financial position date, see Note 9 to the Consolidated Interim Financial Statements as at June 30, 2015.

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

Ofra Strauss Chairperson of the Board	Gadi Lesin Chief Executive Officer

August 19, 2015