Convenience Translation from Hebrew

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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

For information on the corporation's operations and a description of the development of its business – see section 1 in the chapter "Description of the Company's Business Affairs".
For information on the corporation's areas of activity – see section 2 in the chapter "Description of the Company's Business Affairs".
For information on seasonal effects on the results of the Company's business operations – see sections 9, 10, 12, 13, 14, 15 in the chapter "Description of the Company's Business Affairs".

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

CHANGES IN THE ECONOMIC ENVIRONMENT

For the past two years, Brazil has experienced an economic and political crisis arising, among other things, from a sharp drop in the prices of certain commodities and public corruption, which has led to a considerable devaluation of the Real against the US Dollar and the Shekel, the inflation and interest rates in the country have risen significantly, and Brazil's sovereign debt and credit rating (according to Standard & Poor's) were downgraded to BB Outlook Negative in early 2016, further to prior downgrading in 2015 and 2014.

Following the political crisis in Russia and Ukraine and the complexity of Russia's relations with the West, and as a result of the drop in oil prices, the Russian and Ukrainian currencies have devalued significantly against the major currencies (including the US Dollar and the Shekel) since the third quarter of 2014.

Exchange rate fluctuations – In 2015 most of the average currency rates (excluding the US Dollar and the Chinese Renminbi, which grew stronger) weakened versus the Shekel and compared to the average currency rates in the corresponding period last year. The significant revaluation of the Shekel in relation to most of the exchange rates of the Group's various functional currencies led to negative translation differences in the Group's financial statements and to a decrease in the shareholders' equity. Additionally, during the year the average currency rates in Strauss Coffee's countries of operations weakened against the US Dollar. This erosion had a negative impact on Strauss Coffee's cost of sales compared to the corresponding periods last year, since in all countries except for Brazil, green coffee is purchased in US Dollars. For an analysis of the foreign currency effect on the Group's sales, see the section on the analysis of financial results below.

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

Currency		Average exchange rate for the year		% change	Average exchange rate in the fourth quarter		% change
		2015	2014		2015	2014	
United States Dollar	USD	3.886	3.576	*8.7*	3.878	3.829	*1.3*
Ukrainian Hryvnia	UAH	0.177	0.313	*(43.3)*	0.170	0.274	*(38.0)*
Russian Ruble	RUB	0.064	0.095	*(32.2)*	0.059	0.082	*(28.0)*
Serbian Dinar	RSD	0.036	0.040	*(11.7)*	0.035	0.040	*(11.6)*
New Romanian Leu	RON	0.971	1.070	*(9.2)*	0.953	1.080	*(11.8)*
Polish Zloty	PLN	1.032	1.134	*(9.0)*	0.966	1.134	*(12.1)*
Brazilian Real	BRL	1.188	1.526	*(22.1)*	1.008	1.510	*(33.3)*
Renminbi (China)	CNY	0.624	0.581	*7.5*	0.607	0.623	*(2.5)*
Canadian Dollar	CAD	3.047	3.238	*(5.9)*	2.907	3.370	*(13.7)*
Australian Dollar	AUD	2.925	3.223	*(9.2)*	2.794	3.275	*(14.7)*
Mexican Peso	MXN	0.246	0.269	*(8.6)*	0.232	0.276	*(16.2)*

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

Currency		Average exchange rate for the year		% change	Average exchange rate in the fourth quarter		% change
		2015	2014		2015	2014	
New Israeli Shekel	ILS	0.257	0.280	*(8.1)*	0.258	0.261	*(1.3)*
Ukrainian Hryvnia	UAH	0.046	0.088	*(48.1)*	0.044	0.072	*(38.9)*
Russian Ruble	RUB	0.017	0.027	*(37.9)*	0.015	0.021	*(29.1)*
Serbian Dinar	RSD	0.009	0.011	*(19.0)*	0.009	0.010	*(12.8)*
New Romanian Leu	RON	0.250	0.300	*(16.6)*	0.246	0.282	*(12.9)*
Polish Zloty	PLN	0.266	0.318	*(16.4)*	0.257	0.296	*(13.3)*
Brazilian Real	BRL	0.306	0.428	*(28.5)*	0.260	0.395	*(34.2)*

Inflation – In 2015 inflation in Israel was negative at 0.9% (on the basis of the known Index), compared to 0.1% and 1.9% in 2014 and 2013, respectively. In Russia, the CPI rose by 12.9% in 2015, and in Brazil – by 10.7%, in light of the devaluation of their currencies. The Company has Index-linked liabilities on a significant scale (Series B Debentures, bank loans and loans from institutional corporations), and consequently, changes in the inflation rate have a significant influence on the Company's financing expenses. The Company hedges against inflation at partial rates and for varying periods. For further information, see also Note 28.5 to the financial statements as at December 31, 2015.

Interest – The Bank of Israel interest rate fell in recent years from 1.0% in December 2013 to 0.25% in September 2014. In March 2015 the interest rate dropped to 0.1%. The decrease in the rate of interest has a low impact on the Company's financing expenses, as they are mainly funded in the long term and at a fixed rate of interest. In Brazil, interest rose from 11.75% at the end of 2014 to 14.25% at the end of 2015 and on or about the date of publication of this report. In Russia, the rate of interest rose from 5.5% at the end of 2013 to 17% at the end of 2014 with the aim of stemming the significant devaluation of the Russian Ruble and as reflected by the rise in inflation. In 2015 and on or about the date of publication of the report, the interest rate in Russia dropped to 11%. In the other major countries where the Group operates, interest was single-digit and on a declining trend. In December 2015 the US Federal Reserve raised the interest rate on the Dollar by 0.25% to 0.5%, after it had remained at 0.25% since end December 2008.The Group has floating interest loans, particularly in the Real and Dollar. The Group has Shekel and other short-term bank deposits, and the decrease in Shekel interest has reduced financing income in their respect.

It is noted that the above factors are likely to continue to have a positive or negative influence the Group's business operations and financial results in the future as well, depending on their trend. The extent of this influence, if any, depends, among other things, on the intensity of events, their scale and duration, and on the Group's ability to contend with them. For further information, see also Note 28.2 to the financial statements as at December 31, 2015.

Energy prices – In prior years through to the first half of 2014 energy prices were relatively stable, reflecting a relatively high price level. Commencing in the second half of 2014 oil prices dropped dramatically. The decrease in energy prices has a favorable effect on the costs of production, transportation and raw materials, and also on packaging costs. However, the drop in energy prices has indirect impacts, such as a high correlation between the decrease in oil prices and the weakening of the Russian Ruble against the US Dollar.

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 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 raw milk (the "target price") and the prices of sugar, seeds and sesame. By contrast, green coffee prices in Brazil rose (in Brazilian Reals), as did the prices of cocoa, hazelnuts and almonds, coupled with increases in the minimum wage and other production inputs such as municipal rates and taxes. In the third quarter of the year the Group lowered its prices, mainly in a number of dairy product categories, such as white cheese, desserts, milk beverages and enriched milk, by 3%-7%. In the beginning of 2016 the Company made a further significant reduction in prices – 15%-20% - particularly those of enriched milk and Activia yogurt.

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

Regulatory developments in input prices – The Group is influenced by regulatory changes occurring from time to time with respect to wages, the price of raw milk and water quotas, which constitute a major part of its inputs.

In 2011 a general collective agreement was signed for the revision of the minimum wage in Israel. In accordance with the agreement, the Company raised the minimum wage twice (in October 2012 and July 2013). In January 2015 the Minimum Wage Law (Increase in the Minimum Wage – Temporary Order), 2015 (the "Temporary Order") received legislative approval in accordance with another agreement that was signed, pursuant whereto the minimum monthly wage would be increased in three installments between the years 2015 and 2017, from NIS 4,300 to NIS 5,000. According to this guideline, the minimum monthly wage will increase to NIS 4,650 on April 1, 2015; to NIS 4,825 on August 1, 2016; and on January 1, 2017 the monthly minimum wage will be NIS 5,000. The Temporary Order has no material impact on the Group.

Additionally, in February 2016 the Ministries of Agriculture and Finance announced that the formulation of principles for an agricultural reform had been completed. Initial reports indicate that the reform will apply to various agricultural branches and to agricultural products serving as raw materials for industry. The principles of the reform include the reduction of customs duties; elimination of the planning in the dairy and egg industries relating to quotas for growers and supervision of sales prices; elimination of the agricultural production boards that operate under a law requiring every farmer to be a member of these boards, and their transformation into voluntary organizations; and a transition from indirect subsidization of farmers to direct subsidization (on a scale and in a manner that have not yet been clarified). Some of the elements of the reform are most likely expected to be applied in the course of 2017, while others will be implemented gradually, over a number of years.

In light of the initial phases of the reform, including the lack of clarity as regards the guideline of the proposed reform and the probability of the implementation of its various components, the Company is unable, at the date of this report, to assess its impacts on the Company, if any. The Company is reviewing the subject and will examine its implications, if any, on the Company.

Regulation in the food industry

Following the public, political and economic debate in the past few years regarding the cost of living in Israel, various government bodies and committees appointed on their behalf began to examine the subject and to formulate legislative recommendations and arrangements relating, among other things, to the food industry.

In late December 2013 the Ministry of Finance and the Ministry of Agriculture announced the adoption of the recommendations of the Price Committee under section 3 of the Supervision of Essential Goods and Services Law, 1996 with respect to dairy products which are subject to control. At the recommendations of the Price Committee and according to the decisions of the Ministers of Finance and Agriculture, commencing in January 2014 white cheese (5% fat, 250 g) and sweet cream (38% fat, 250 ml) have been subjected to control under Chapter 5 of the Supervision of Essential Goods and Services Law, and their retail price was lowered by over 20%.

In late March 2014 the Knesset approved the Promotion of Competition in the Food Sector Law, 2014 (hereinafter: the "Food Law"), its goal being to increase competitiveness in the food and consumer goods market in order to lower the retail prices of products by imposing prohibitions and limitations on actions and arrangements between various parties operating in the market

On January 15, 2015 provisions regulating the relationship between suppliers and retailers entered into effect. These provisions apply special directives to the Company as a "large supplier" (i.e. a supplier whose sales turnover to retailers in the prior financial year was above NIS 300 million or a monopoly supplier). In May 2015 the Antitrust Commissioner published revised lists of large and very large suppliers, and the Company is included in both lists. To prepare for the changes arising as a result of the Food Law, the Company established a cross-divisional project for the management and assimilation of the Food Law, headed by a Strauss Group Management steering committee. In advance of the Food Law entering into effect the Company made the process and structural changes required, among other things by revising trade agreements with retailers, implementing an internal enforcement program and providing supplemental training to the relevant managers and employees. For further information, see sections 16 and 17 in the chapter "Description of the Company's Business Affairs".

In June 2016 the Protection of Public Health (Food) Law is scheduled to take effect. The law deals with the comprehensive regulation of the food industry in Israel and of all parties active in it (manufacturers, importers, marketers, and transportation and storage entities). Among other things, the law regulates the responsibility of a food manufacturer with regard to the food it manufactures, including supervision over food production, the responsibility of a food importer and supervision over food imports. The law also regulates the responsibility of a food marketer and its obligations in each of the phases of food transportation, from the time it is manufactured through its import to the point of its direct sale to the consumer. The law prescribes a number of alleviations, including the extension of licenses (production/storage and transportation), alleviation in the import of non-sensitive products, extension of the "best before" date of non-sensitive raw materials, and regulation in primary legislation of a contradiction that exists between the regulations and the official standards applying to food safety, which are likely to have a certain impact on the competition in the food and beverage industry, and at the same time, to create new business opportunities for the Company.

The information in this section with regard to a certain impact on the competition in the food and beverage industry and the possibility of the law creating new business opportunities for the Company is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated. In practice, at the present time the law has not yet taken effect and the Company is reviewing its implications and preparing for the implementation of its provisions through a committee that was established for this purpose.

For further information on the restrictions and supervision over the activities of the Group, see section 25 in the chapter "Description of the Company's Business Affairs".

Mega Retail Ltd.

In June 2015, one of the Company's major customers in Israel, Mega Retail Ltd. (hereinafter: "Mega"), filed a motion with the Lod Central Region District Court for a debt settlement under section 350 of the Companies Law, 1999. In July 2015 the court approved the composition with creditors, which included the rescheduling of debts to banks and suppliers, and an undertaking by Mega's owners to the injection of funds and guarantees. As part of the settlement, the parties agreed to a deferment of 30% of the debt for two years as at the date of filing of the motion, with the balance being repaid in 36 equal installments, plus interest, commencing on July 15, 2017. Accordingly, the amount of the deferred debt was classified under non-current assets. In 2015 the Company included a provision for doubtful debts in respect of the customer's debt, net of income in respect of insurance compensation and VAT refunds, in the amount of approximately NIS 13 million before tax (approximately NIS 11 million before tax in Strauss Israel), and NIS 9 million after the tax effect.

As at the reporting date and to the best of the Company's knowledge, the court has approved a stay of proceedings for Mega until May 2016. Mega's debt on the Company's books as at the date of the order is approximately NIS 42 million. As at the date of this report, Company Management is of the opinion that should Mega default on its debt to the Group, this shall not have a material impact on the results of the Company's business operations, among other things since the Company has credit insurance and in light of the provisions made for doubtful debts as mentioned above.

The continued supply of the Group's products to Mega during the stay of proceedings is made, at present, against a weekly payment in cash. Accordingly, Company Management is of the view that continued supply to Mega does not create material exposure for the Company.

The information in this section with regard to the impact of the filing of the motion for a stay of proceedings on the Company is forward-looking information as this term is defined in the Securities Law, 1968 (hereinafter: the "Securities Law"), which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of different developments in the stay of proceedings procedure.

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

Other than as described below, as at December 31, 2015 and compared to December 31, 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. For further information, see also Note 30 to the financial statements and section 28 in the chapter "Description of the Company's Business Affairs", in the discussion of risk factors.

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 information contained in this report and its presentation were examined from the Company's perspective in order to provide a comprehensive picture and presentation 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 method 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 before the standard was applied. The next pages present the non-GAAP reports, the GAAP reports and the various adjustments made by the Company in making the transition between the Company's GAAP reports and its non-GAAP reports.

Strauss Group has a number of jointly controlled companies: the Três Corações joint venture (in Brazil)[1], 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 restructuring process was completed in the reporting period and is reflected in the non-GAAP reports commencing in the third quarter of 2015. For further information, see Note 12.6 to the financial statements as at December 31, 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.

[1] Três Corações (3C) – " Três Corações 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).

Following are the condensed results of business operations (based on the Company's non-GAAP management reports) for the years and quarters ended December 31, 2015 and 2014 (in NIS millions)*:

	Year			Fourth Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Sales	**7,642**	**8,140**	***(6.1)***	**1,899**	**2,080**	***(8.7)***
Organic growth excluding currency effect and classification of costs following the Food Law	2.5%	4.2%		4.2%	2.8%	
Cost of sales	4,813	5,021	*(4.1)*	1,199	1,330	*(9.8)*
Gross profit – non-GAAP	**2,829**	**3,119**	***(9.3)***	**700**	**750**	***(6.7)***
% of sales	37.0%	38.3%		36.8%	36.1%	
Selling and marketing expenses	1,751	1,939	*(9.7)*	430	503	*(14.5)*
General and administrative expenses[(1)]	419	434	*(3.8)*	112	104	*3.3*
Operating profit – non-GAAP	**659**	**746**	***(11.6)***	**158**	**143**	***11.3***
% of sales	8.6%	9.2%		8.3%	6.8%	
Financing expenses, net	(126)	(83)	*51.4*	(27)	(13)	*106.3*
Income before taxes on income	**533**	**663**	***(19.5)***	**131**	**130**	***1.7***
Taxes on income	(148)	(174)	*(14.4)*	(33)	(20)	*70.3*
Effective tax rate	27.9%	26.2%		25.2%	15.1%	
Income for the period	**385**	**489**	***(21.2)***	***98***	***110***	***(10.5)***
Attributable to: The Company's shareholders	**293**	**371**	***(21.1)***	**74**	**84**	***(12.0)***
Non-controlling interests	92	118	*(21.8)*	24	26	*(5.5)*

(1) In 2015 and in the fourth quarter, including the Company's share of the profits of equity-accounted investees in an immaterial amount.

Following are the condensed results of business operations (based on non-GAAP management reports) of the major business sectors for the years and quarters ended December 31, 2015 and 2014 (in NIS millions)*:

	Year			Fourth Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Israel						
Net sales	2,866	2,972	*(3.6)*	688	683	*0.9*
Operating profit	281	315	*(10.9)*	59	64	*(7.9)*
Coffee						
Net sales	3,432	3,825	*(10.3)*	875	1,032	*(15.3)*
Operating profit	268	348	*(22.8)*	69	56	*23.1*
International Dips & Spreads						
Net sales	752	683	*10.0*	187	192	*(3.2)*
Operating profit	80	75	*7.3*	28	18	*61.4*
Other						
Net sales	592	660	*(10.3)*	149	173	*(13.3)*
Operating profit	30	8	*288.6*	2	5	*(56.1)*
Total						
Net sales	**7,642**	**8,140**	***(6.1)***	**1,899**	**2,080**	***(8.7)***
Operating profit	**659**	**746**	***(11.6)***	**158**	**143**	***11.3***

**** Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.***

Following are the condensed financial accounting statements of income (GAAP) for the years and quarters ended December 31, 2015 and 2014 (in NIS millions)*:

	Year			Fourth Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Sales	**5,183**	**5,415**	***(4.3)***	**1,302**	**1,364**	***(4.5)***
Cost of sales excluding impact of hedging transactions as at end of period	3,250	3,296	*(1.4)*	816	869	*(6.1)*
Valuation of balance of commodity hedging transactions as at end of period**	(22)	22		(25)	27	
Cost of sales	3,228	3,318	*(2.7)*	791	896	*(11.7)*
Gross profit	**1,955**	**2,097**	***(6.8)***	**511**	**468**	***9.3***
% of sales	37.7%	38.7%		39.2%	34.3%	
Selling and marketing expenses	1,198	1,318	*(9.2)*	306	327	*(6.8)*
General and administrative expenses	329	339	*(3.0)*	92	83	*10.9*
Total expenses	**1,527**	**1,657**		**398**	**410**	
Share of profit of equity-accounted investees	198	219	*(9.7)*	64	49	*32.1*
Operating profit before other expenses	**626**	**659**	***(4.8)***	**177**	**107**	***68.0***
% of sales	12.1%	12.2%		13.7%	7.8%	
Other expenses, net	(41)	(114)	*(63.9)*	(21)	(55)	*(62.0)*
Operating profit after other expenses	**585**	**545**	***7.6***	**156**	**52**	***208.8***
Financing expenses, net	(101)	(67)	*51.6*	(23)	(8)	*214.6*
Income before taxes on income	**484**	**478**	***1.5***	**133**	**44**	***207.8%***
Taxes on income	(139)	(144)	*(3.0)*	(45)	(11)	*329.4*
Effective tax rate	28.8%	30.1%		34.1%	24.5%	
Income for the period	**345**	**334**	***3.4***	**88**	**33**	***168.4***
Attributable to: The Company's shareholders	**257**	**235**	***9.7***	**65**	**20**	***224.9***
Non-controlling interests	88	99	*(11.3)*	23	13	*77.8*

**** Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.***

***** Reflects mark-to-market as at December 31 of open positions in the Group in respect of financial derivatives used to hedge commodity prices.***

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

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

	2015			2014			Fourth Quarter 2015			Fourth 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	**5,183**	**2,459**	**7,642**	**5,415**	**2,725**	**8,140**	**1,302**	**597**	**1,899**	**1,364**	**716**	**2,080**
Cost of sales excluding impact of balance of hedging transactions as at end of period	3,250	1,563	4,813	3,296	1,725	5,021	816	383	1,199	869	461	1,330
Valuation of balance of commodity hedging transactions as at end of period	(22)	-	(22)	22	-	22	(25)	-	(25)	27	1	28
Cost of sales	3,228	1,563	4,791	3,318	1,725	5,043	791	383	1,174	896	462	1,358
Gross profit	**1,955**	**896**	**2,851**	**2,097**	**1,000**	**3,097**	**511**	**214**	**725**	**468**	**254**	**722**
% of sales	37.7%		37.3%	38.7%		38.0%	39.2%		38.2%	34.3%		34.7%
Selling and marketing expenses	1,198	553	1,751	1,318	621	1,939	306	124	430	327	176	503
General and administrative expenses and Company's share of profit of equity-accounted investees(1)	131	303	434	120	335	455	28	87	115	34	75	109
Operating profit before other expenses	**626**	**40**	**666**	**659**	**44**	**703**	**177**	**3**	**180**	**107**	**3**	**110**
% of sales	12.1%		8.7%	12.2%		8.6%	13.7%		9.5%	7.8%		5.3%
Other expenses, net	(41)	(1)	(42)	(114)	(7)	(121)	(21)	(1)	(22)	(55)	(3)	(58)
Operating profit after other expenses	**585**	**39**	**624**	**545**	**37**	**582**	**156**	**2**	**158**	**52**	**-**	**52**
Financing expenses, net	(101)	(25)	(126)	(67)	(16)	(83)	(23)	(4)	(27)	(8)	(5)	(13)
Income before taxes on income	**484**	**14**	**498**	**478**	**21**	**499**	**133**	**(2)**	**131**	**44**	**(5)**	**39**
Taxes on income	(139)	(14)	(153)	(144)	(21)	(165)	(45)	2	(43)	(11)	5	(6)
Effective tax rate	28.8%		30.8%	30.1%		33.1%	34.1%		32.8%	24.5%		14.2%
Income for the period	**345**	**-**	**345**	**334**	**-**	**334**	**88**	**-**	**88**	**33**	**-**	**33**
Attributable to: **The Company's shareholders**	**257**	**-**	**257**	**235**	**-**	**235**	**65**	**-**	**65**	**20**	**-**	**20**
Non-controlling interests	88	-	88	99	-	99	23	-	23	13	-	13

(1) For further information, see the above GAAP statements of income for the quarter and the year ended December 31, 2015 and 2014.

**** Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.***

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

	Year			Fourth Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Operating profit – according to the proportionate consolidation method – after other expenses	**624**	**582**	***7.3***	**158**	**52**	***208.1***
Share-based payment and liability plan	15	21		3	5	
Valuation of balance of commodity hedging transactions as at end of period	(22)	22		(25)	28	
Other expenses, net	42	121		22	58	
Operating profit – non-GAAP	**659**	**746**	***(11.6)***	**158**	**143**	***11.3***
Financing expenses, net	(126)	(83)		(27)	(13)	
Taxes on income	(153)	(165)		(43)	(6)	
Taxes in respect of adjustments to the above non-GAAP operating profit	5	(9)		10	(14)	
Income for the period – non-GAAP	**385**	**489**	***(21.2)***	**98**	**110**	***(10.5)***
Attributable to: The Company's shareholders	**293**	**371**	***(21.1)***	**74**	**84**	***(12.0)***
Non-controlling interests	92	118	*(21.8)*	24	26	*(5.5)*

**** Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.***

ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

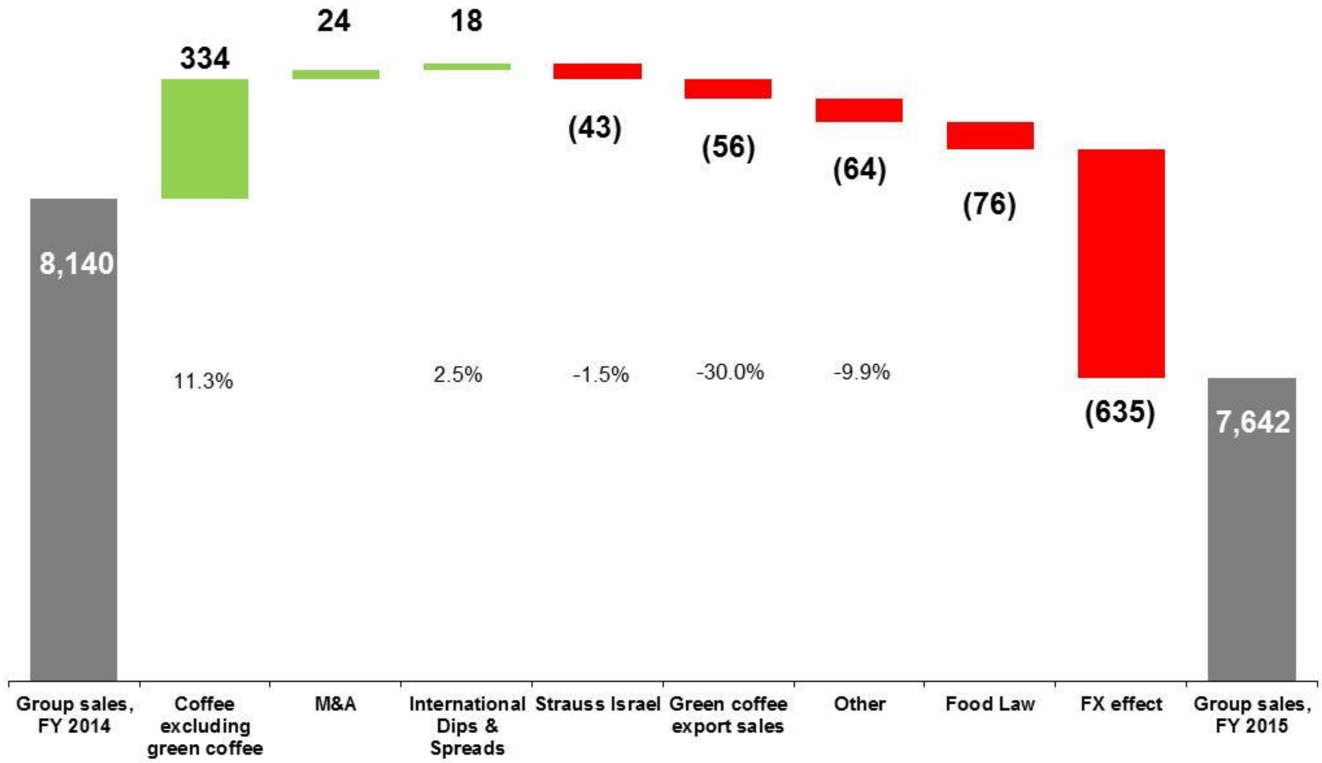
Sales – non-GAAP

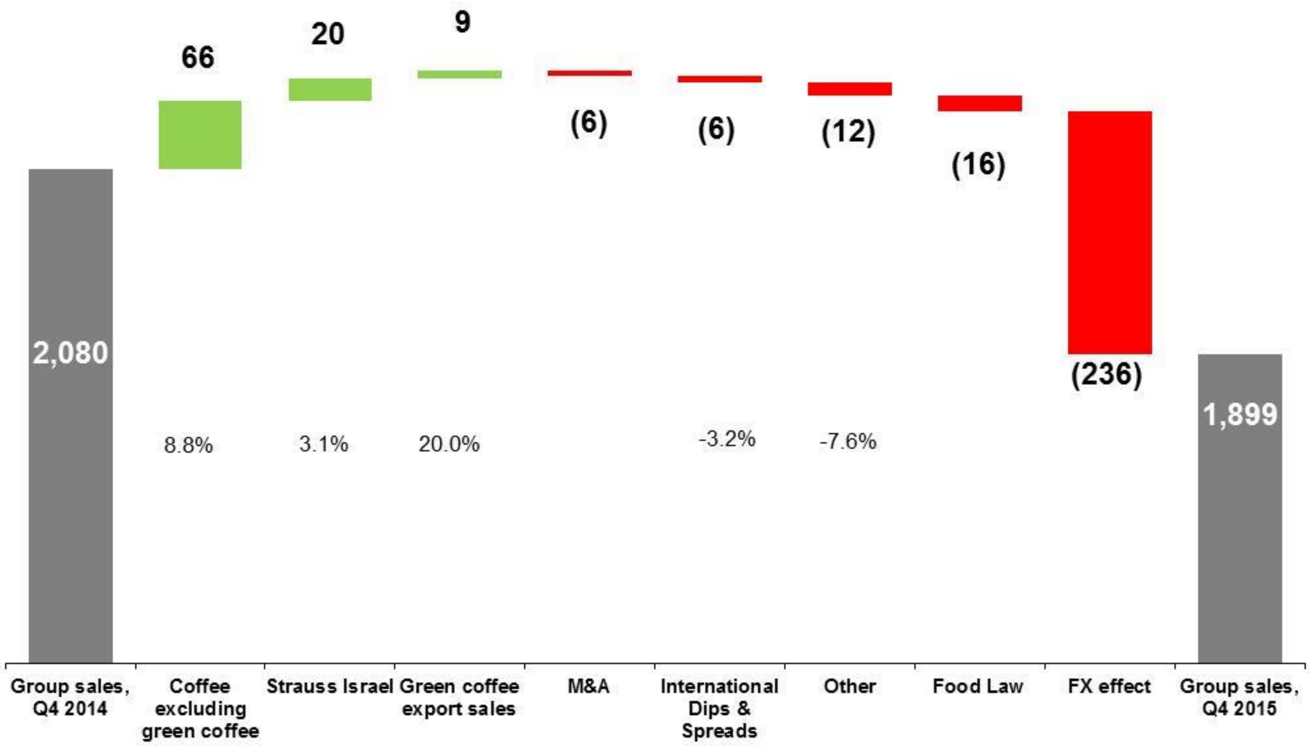
	Year		Fourth Quarter	
	2015	**2014**	**2015**	**2014**
Sales	7,642	8,140	1,899	2,080
Growth	(6.1%)	0.0%	(8.7%)	0.3%
Organic growth excluding currency effect and classification of costs following the Food Law	2.5%	4.2%	4.2%	2.8%

Organic growth in the Group's sales in the year and in the fourth quarter of 2015, excluding the foreign currency effect and the impact of the classification of costs following the introduction of the Food Law in Israel (as described in this report below), amounted to 2.5% and 4.2%, respectively, compared to the corresponding periods last year.

In 2015 and in the fourth quarter the Group's sales decreased by approximately NIS 498 million and NIS 181 million (down 6.1% and 8.7%, respectively, compared to the corresponding periods last year).

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 (the "translation differences effect"), inorganic growth and the impact of the Food Law on the Group's sales:





(*) The translation differences effect is calculated according to the average exchange rates in the relevant period.

The Group's sales in 2015 and in the fourth quarter of the year, and particularly sales by Strauss Coffee, were impacted by translation differences into Shekels, which amounted to approximately NIS 635 million and NIS 236 million, respectively, for the Group, of which approximately NIS 412 million and NIS 154 million are due to the erosion of the average exchange rate of the Brazilian Real versus the Shekel in the year and in the fourth quarter, respectively (see also the foreign exchange rate table in the section "Changes in the Economic Environment").

The change in the Group's sales **in local currency** was the result of the following factors:

- Organic growth in sales by the coffee business, excluding green coffee (an increase of approximately NIS 334 million and NIS 66 million in the year and in the fourth quarter, respectively) mainly reflected price increases implemented in most countries of operations (in Israel prices were reduced) in light of the rising cost of green coffee to the Company and the erosion of the functional currencies versus the US Dollar compared to the corresponding periods last year (the US Dollar is the currency in which green coffee is purchased in all countries except for Brazil).

- Green coffee export sales by the Três Corações joint venture in Brazil[1, 2], reflecting Strauss Coffee's share (50%), decreased in 2015 by approximately NIS 56 million. The decrease in 2015 reflects a substantial drop in volumes, which was partly offset by an increase in green coffee prices compared to the corresponding period last year. Conversely, export sales of green coffee from Brazil increased in the fourth quarter by NIS 9 million, with no significant change in the volume of these sales compared to the fourth quarter last year.

- Organic growth in sales by the International Dips & Spreads operation (in the year up approximately NIS 18 million alongside a decrease of NIS 6 million in the fourth quarter of 2015), mainly reflecting the negative impact of the recall of a Sabra hummus product at the beginning of the second quarter. The drop in sales by the category in the fourth quarter mainly reflects lower growth of the dips and spreads category in the US in the current quarter compared to the corresponding quarter in 2014, as well as a slight decrease in Sabra's market share in hummus in the US this quarter versus last year (according to IRI, 62.0% value market share in the current quarter compared to 62.7% in the corresponding quarter last year).

- Inorganic growth (M&A) of the Group's sales (approximately NIS 24 million in 2015), mainly reflecting the acquisition of the Amigo coffee brand in Romania (which was completed in September 2014) and the acquisition of the Itamaraty coffee operation by the Três Corações[2] joint venture in Brazil. By contrast, sales in the fourth quarter dropped by NIS 6 million, which mainly reflects the discontinuation of proportionate consolidation and the change to the equity method in the Haier Strauss Water joint venture in China as a result of the restructuring process described above; the decrease was offset in part by sales arising from the acquisition of the Itamaraty coffee businesses by the Três Corações joint venture in Brazil.

- Organic decrease in sales by the "Other Operations" segment (in 2015 and in the fourth quarter, a decrease of approximately NIS 64 million and NIS 12 million, respectively), mainly arising from the change of the structure of the international operation in China, including a decrease in sales by Strauss Water to the Haier Strauss Water joint venture in light of the restructuring process, following which water purifiers based on the Maze technology are gradually being developed and sold by the Chinese joint venture in lieu of purchasing the devices from Strauss Water (the restructuring process included the grant of an exclusive license to use the Maze technology to Haier Strauss Water with respect to the China territory), as well as a decrease in sales by Max Brenner.

- Impact of the Food Law: After the Food Law was introduced at the beginning of 2015 certain costs were classified as discounts deducted from sales, as opposed to prior periods in which similar costs were classified as part of selling and marketing expenses (approximately NIS 76 million – NIS 63 million in Strauss Israel and NIS 13 million in Israel Coffee; and NIS 16 million in the fourth quarter – NIS 15 million in Strauss Israel and NIS 1 million in Israel Coffee).

- An organic decrease in sales by Strauss Israel (in 2015, a drop of approximately NIS 43 million) against the backdrop of an increasingly intense competitive environment and effective price decreases. In the fourth quarter

[1] Três Corações (3C) – " Três Corações 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).

[2] As part of its activities in Brazil, the Três Corações joint venture exports green coffee, mainly to Europe and the US. The amount of green coffee sales is presented further on this report in the framework of sales by the coffee segment according to geographical regions.

sales grew by approximately NIS 20 million, reflecting volume growth, which was offset in part by price reductions in various categories.

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

Gross Profit – Non-GAAP

	Year				Fourth Quarter			
	2015	**2014**	**% Chg**	**% chg less translation differences impact**	**2015**	**2014**	**% Chg**	**% chg less translation differences impact**
Gross profit	2,829	3,119	*(9.3)*	*(4.5)*	700	750	*(6.7)*	*(0.3)*
Gross profit margin	37.0%	38.3%			36.8%	36.1%		

The Group's non-GAAP gross profit in the year and in the fourth quarter of 2015 was negatively influenced by translation differences into Shekels, which amounted to approximately NIS 155 million and NIS 48 million, respectively. Most of the translation differences originated in Strauss Coffee (see also the table of exchange rates in the chapter "Changes in the Economic Environment").

The Group's non-GAAP gross profit in 2015 and in the fourth quarter of the year decreased by approximately NIS 290 million and NIS 50 million, respectively, compared to the corresponding periods last year:

- In Strauss Coffee the gross profit decreased by approximately NIS 227 million and NIS 48 million in 2015 and in the fourth quarter of the year, respectively. The decrease mainly reflects negative translation differences. The drop in the gross profit in 2015 (as well as a slight drop in the fourth quarter of the year) is explained by the negative impact of the cost of green coffee to the Company in local currency, as well as the erosion of the Group's functional currencies versus the US Dollar compared to the corresponding periods last year, since the currency in which green coffee is purchased in all countries of operations, except for Brazil, is the US Dollar. 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 used to economically hedge those commodities. Most of this decrease was offset by price increases implemented in most countries where the Company is active (in Israel prices were reduced).

- In the Strauss Israel segment the gross profit dropped by approximately NIS 92 million and NIS 3 million in the year and in the fourth quarter of 2015, respectively. The reduction in the gross profit in 2015 reflects the negative impact of the classification of certain costs as discounts deducted from sales (due to the Food Law), as opposed to prior periods in which similar costs were classified as part of selling and marketing expenses (approximately NIS 63 million), a drop in sales, a certain increase in the cost of raw materials (cocoa, hazelnuts and almonds), and the strengthening of the US Dollar and Pound Sterling (the currencies in which some raw materials are bought) against the Shekel, compared to 2014. These effects were partly offset by a reduction in the price of raw milk and milk powders in the second half compared to the corresponding period last year (at the beginning of the third quarter the Company lowered its prices in a number of dairy product categories by 3% to 7%); by streamlining measures applied in production and packaging processes in a number of plants; and by the favorable impact of a drop in energy prices and in the prices of other raw materials serving the Company (tahini). The decrease in the gross profit in the fourth quarter of 2015 reflects the negative impact of the classification of certain costs as discounts deducted from sales (due to the Food Law), as opposed to prior periods in which similar costs were classified as part of selling and marketing expenses (approximately NIS 15 million), coupled with effective price decreases; and by contrast, the favorable effect of a drop in the prices of most raw materials (particularly raw milk) compared to the corresponding quarter last year, streamlining measures applied in production and packaging processes in a number of plants, and a drop in energy prices.

- By contrast, the aggregate gross profit of the International Dips & Spreads and Other Operations segments grew by approximately NIS 29 million and NIS 1 million in 2015 and in the fourth quarter of the year, respectively. The growth in the gross profit in the year mainly originated in the International Dips & Spreads operation, as well as in an improvement in Strauss Water's activities.

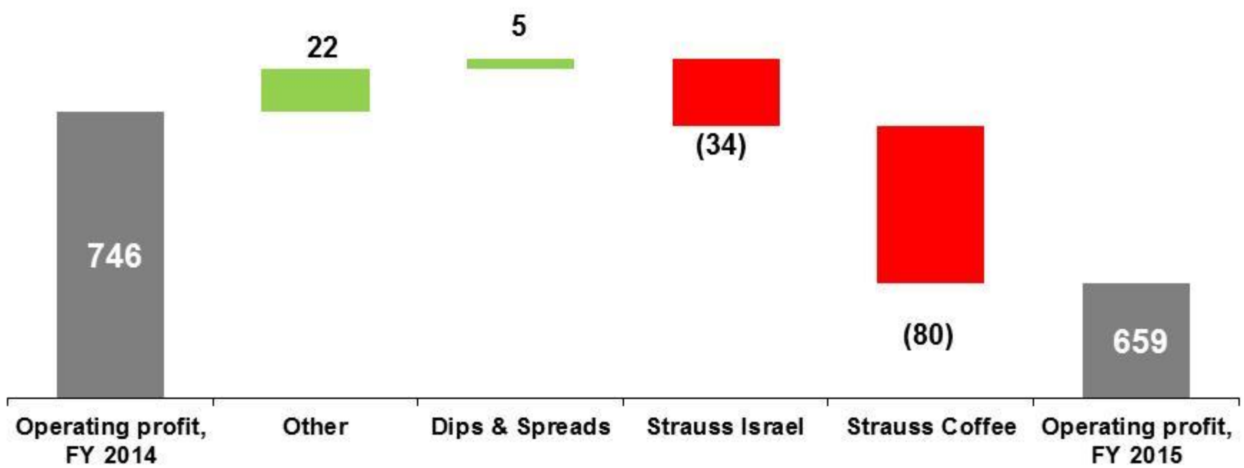
Further explanations on the Group's gross profit are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

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

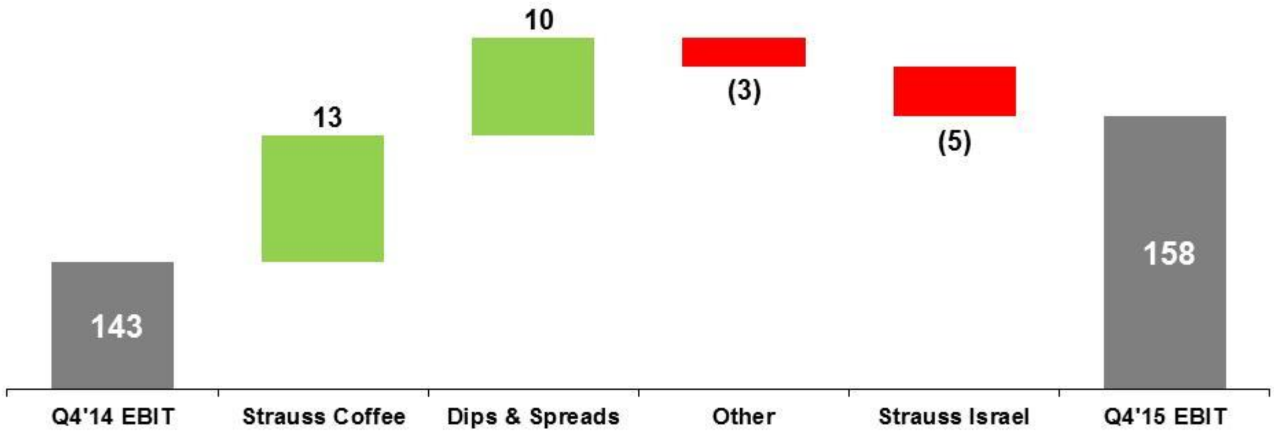
	Year				Fourth Quarter			
	2015	**2014**	**% Chg**	**% chg less translation differences impact**	**2015**	**2014**	**% Chg**	**% chg less translation differences impact**
Operating profit (EBIT)	659	746	*(11.6)*	*(6.1)*	158	143	*11.3*	*19.9*
EBIT margin	8.6%	9.2%			8.3%	6.8%		

The Group's non-GAAP operating profit (EBIT) in 2015 and in the fourth quarter was impacted by translation differences into Shekels, which amounted to approximately NIS 44 million and NIS 10 million, respectively. Most of the translation differences originated in Strauss Coffee (see also the table of exchange rates in the chapter "Changes in the Economic Environment").

In 2015 the non-GAAP operating profit decreased by approximately NIS 87 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 segments:



The non-GAAP EBIT in the fourth quarter of the year increased by approximately NIS 15 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 segments:



The change in the Group's EBIT in the year and in the fourth quarter of 2015 was the result of the following:

- A drop of approximately NIS 80 million in the operating profit of the coffee operation in 2015 and an increase of approximately NIS 13 million in the operating profit in the fourth quarter. The change in the operating profit of the coffee business in the reporting periods is the result of a decrease in the gross profit of the coffee operation, which was partly offset by a decrease in operating expenses in 2015. In the fourth quarter of the year, the decrease in operating expenses was greater than the decrease in the gross profit. The change in the EBIT of Strauss Coffee reflects:

- A decrease in the operating profit of the Três Corações joint venture in Brazil[1] arising from negative translation differences in respect of the Brazilian Real, despite an increase in Três Corações' EBIT in domestic currency. Três Corações' operating profit in local currency (before other expenses) grew by approximately 1.8% and 47.6% in the year and in the quarter, respectively (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group), despite the economic and political crisis in Brazil. The significant growth in Três Corações' EBIT in domestic currency in the fourth quarter of 2015 reflects an increase in the gross profit coupled with a decrease in selling and marketing expenses in the quarter, as well as an improvement in the TRES solution's results of operations;

- A decrease in the operating profit of the coffee business in the CEE countries in 2015, which is mainly the result of negative translation differences, a negative impact of the erosion of the functional currencies versus the US Dollar compared to the corresponding periods last year, and the competitive environment; In the fourth quarter of 2015 the operating profit in the CEE countries increased, mainly thanks to an improvement in the results of the former USSR countries (Russia and Ukraine) compared to the corresponding period last year.

- And a decrease in the operating profit of Israel Coffee in 2015, with stability in EBIT in the fourth quarter, mainly as a result of a drop in sales, an 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 year; on the other hand, an improvement in the instant coffee supply chain in Israel was achieved, as well as a decrease in operating expenses.

- A decrease of NIS 34 million and NIS 5 million in the operating profit of Strauss Israel in 2015 and in the fourth quarter, respectively, compared to the corresponding periods last year. The decrease in EBIT in the year and in the quarter is mainly the result of the decrease in the gross profit (pro forma for the Food Law) in 2015, a provision for doubtful debts, particularly in respect of Mega Retail, net of income in respect of insurance compensation and VAT refunds (approximately NIS 11 million before tax in Strauss Israel, recorded in the

[1] Três Corações (3C) – " Três Corações 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).

year), and the simultaneous operation of the new logistics center in Shoham and the old centers in Tzrifin, Petach Tikva and Bet Shemesh during the process of relocating to the new center. Relocation to Shoham was completed as planned, in December 2015. The drop in EBIT was partly offset by a decrease in operating expenses versus the corresponding periods last year. The decrease in selling and marketing expenses included in the operating expenses also partly reflects the classification of costs due to the Food Law, with no impact on the operating profit.

- The EBIT of the International Dips & Spreads operation increased by approximately NIS 5 million and NIS 10 million in the year and in the fourth quarter, respectively; this mainly reflects an increase in Sabra's operating profit. Sabra's results of operations reflect the favorable effect of positive translation differences following the strengthening of the US Dollar versus the Shekel in 2015 and slightly in the fourth quarter, compared to the average exchange rates of these currencies in the corresponding periods last year. Sabra's results also include an insurance payout due to the product recall, which amounted to approximately NIS 29 million and NIS 9 million in the year and in the quarter, respectively (approximately NIS 15 million and NIS 5 million reflect the Group's share (50%), respectively). This sum was accounted for as a reduction in selling and marketing expenses. The growth in EBIT in the fourth quarter reflects a positive impact by the product mix, the favorable effect of fuel prices and a decrease in marketing effort compared to the corresponding quarter last year (after an increase in marketing effort in the third quarter of 2015).

- An increase in the operating profit of the Other Operations segment – approximately NIS 22 million in the year, and a decrease of NIS 3 million in the fourth quarter. The increase in 2015 mainly reflects an improvement in Strauss Water's results.

Explanations regarding the fourth quarter of 2015 are included in those applying to the year as set forth above. Further explanations on the Group's non-GAAP 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 2015 totaled NIS 126 million compared to expenses of NIS 83 million in the corresponding period last year. Most of the increase in financing expenses is the result of the capitalization of financing costs relating to the Shoham logistics center project in 2014. In 2014 the Group derived substantive income from the valuation of foreign exchange derivatives as a result of the strengthening of the US dollar and the scale of FX positions, particularly versus the Shekel and the Ruble, and in 2015 the Group incurred net expenses from exchange differences in respect of financial assets and liabilities versus net income in the corresponding period last year. 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 0.9% compared to a decrease of 0.1% in the corresponding period, as well as the recording of lower expenses arising from the valuation of Index derivatives in 2015 compared to the corresponding period.

Net financing expenses in the fourth quarter of 2015 totaled NIS 27 million compared to expenses of NIS 13 million in the corresponding quarter last year. Most of the increase in financing expenses is due to substantive income from the valuation of foreign exchange derivatives in 2014 due to the strengthening of the US Dollar and the scale of FX positions, particularly versus the Shekel and the Ruble, in the corresponding period, and the capitalization of financing costs relating to the Shoham logistics center project in the corresponding quarter last year. 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 0.7% in the quarter, compared to a decrease of 0.2% in the corresponding quarter last year.

Net credit (according to the proportionate consolidation method) as at December 31, 2015 totaled NIS 1,655 million, compared to NIS 1,688 million on December 31, 2014.

Net credit (according to the equity method) as at December 31, 2015 totaled NIS 1,516 million compared to NIS 1,506 million on December 31, 2014.

Taxes on Income – Non-GAAP

In 2015 taxes on income (non-GAAP) amounted to NIS 148 million, reflecting an effective tax rate of 27.9%, whereas last year taxes on income amounted to NIS 174 million and the effective tax rate was 26.2%.

In the fourth quarter taxes on income (non-GAAP) amounted to NIS 33 million, reflecting an effective tax rate of 25.2%, whereas in the corresponding period last year taxes on income amounted to NIS 20 million and the effective tax rate was 15.1%.

The increase in the effective tax rate in the fourth quarter and in 2015 is the result of the profit mix for tax purposes between the companies in the different countries as well as the recording of deferred tax revenues in subsidiaries in the corresponding period for the first time.

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

	Year			Fourth Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Income attributable to the Company's shareholders	293	371	*(21.1)*	74	84	*(12.0)*
% of sales	3.8%	4.6%		3.9%	4.0%	

Non-GAAP income attributable to the Company's shareholders in 2015 decreased by approximately NIS 78 million compared to the corresponding period. The decrease in non-GAAP income attributable to the Company's shareholders in 2015 was mainly due to a decrease in the operating profit as well as an increase in financing expenses, as described above. These were partly offset by a decrease in tax expenses and in the income attributable to non-controlling interests.

In the fourth quarter of the year the non-GAAP income attributable to the shareholders of the Company decreased by approximately NIS 10 million compared to the corresponding quarter in 2014. The decrease in non-GAAP income attributable to the Company's shareholders in the fourth quarter reflects growth in the operating profit coupled with a decrease in the income attributable to non-controlling interests. These were partly offset by an increase in financing expenses and tax expenses.

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

In 2015 the GAAP comprehensive loss amounted to approximately NIS 39 million, compared to comprehensive income of NIS 85 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 387 million compared to losses of NIS 233 million arising from translation differences last year. The losses from translation differences in the year were mainly the result of Strauss Coffee's operations, and of them, approximately NIS 217 million derive from the erosion of the average rate of the Brazilian Real versus the Shekel.

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

Cash flows from operating activities in 2015 amounted to a positive cash flow of approximately NIS 349 million, compared to a positive cash flow of NIS 374 million last year. The decrease in cash flows from operating activities is due to a decrease in supplier credit and payables and an increase in trade and other receivables balances in the reporting period compared to the corresponding period last year, mainly in light of changes in the supplier mix and the impact of the Food Law.

In December 2015 the Company received a rebate from the Assessing Officer in respect of advance tax in the amount of NIS 96 million. Of this amount, the sum of NIS 53 million was refunded to the Assessing Officer in January 2016. For further information see also Note 35.1.2.A to the Consolidated Financial Statements as at December 31, 2015.

Cash flows used in investing activities amounted to a negative cash flow of approximately NIS 81 million compared to a negative cash flow of NIS 210 million last year. The change is mainly due to investments in fixed assets on a smaller scale compared to the corresponding period and to the sale of securities and deposits on a smaller scale compared to the corresponding period last year.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 456 million compared to a negative cash flow from financing activities of NIS 164 million last year. The change is mainly due to the issue of Series D Debentures in the corresponding period last year.

The Company's cash and cash equivalents as at December 31, 2015 totaled approximately NIS 560 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 December 31, 2015 is 1.39, compared to 1.55 on December 31, 2014. On December 31, 2015 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,096 million compared to NIS 2,391 million on December 31, 2014. On December 31, 2015 short-term credit (excluding current maturities) totaled NIS 40 million compared to NIS 3 million on December 31, 2014. On December 31, 2015 supplier credit totaled NIS 713 million, compared to NIS 846 million on December 31, 2014.

Total assets in the Company's Consolidated Statement of Financial Position on December 31, 2015 amounted to NIS 6,147 million, compared to NIS 6,742 million on December 31, 2014.

Reportable credit – further to Note 20 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 December 31, 2105 is 27.7%, compared to 27.0% on December 31, 2014. The net financial debt-to-EBITDA ratio as at December 31, 2015 is 1.9, 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.

For further information on the Debenture series, see Note 20 to the Consolidated Financial Statements as at December 31, 2015.

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.

In NIS millions	**Year**		**Fourth Quarter**	
	2015	**2014**	**2015**	**2014**
Cash flow from operating activities (proportionate consolidation method)	516	561	426	287
Acquisition of fixed assets and investment in intangibles and deferred expenses (proportionate consolidation method)(1)	279	564	68	109
Net debt balance (proportionate consolidation method) as at the reporting date	1,655	1,688	1,655	1,688
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	232	218	62	56
Strauss Israel:				
Health & Wellness	54	49	16	12
Fun & Indulgence	32	27	10	7
Strauss Coffee:				
Israel Coffee	10	11	2	4
International Coffee	57	58	10	14
International Dips & Spreads	23	16	6	4
Other	56	57	18	15

The Group's EBITDA (non-GAAP) totaled approximately NIS 891 million in 2015 compared to NIS 964 million in the corresponding period last year, a decrease of 7.5%. EBITDA (non-GAAP) in the fourth quarter totaled approximately NIS 220 million compared to NIS 199 last year, an increase of 10.5%.

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 the Coffee Company by reported segments for the years and quarters ended December 31, 2015 and 2014 (in NIS millions):

	Year			Fourth Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Israel Coffee						
Net sales	647	689	*(6.1)*	153	168	*(9.2)*
Operating profit	84	101	*(16.4)*	20	20	*0.3*
% operating profit	13.1%	14.7%		13.1%	11.9%	
International Coffee						
Net sales	2,785	3,136	*(11.2)*	722	864	*(16.4)*
Operating profit	184	247	*(25.5)*	49	36	*35.4*
% operating profit	6.6%	7.9%		6.7%	4.2%	
Total Strauss Coffee						
Net sales	**3,432**	**3,825**	***(10.3)***	**875**	**1,032**	***(15.3)***
Organic growth excluding foreign currency effect and classification of costs as a result of the Food Law	**8.8%**	**5.3%**		**9.4%**	**9.4%**	
Gross profit	**1,075**	**1,302**	***(17.4)***	**260**	**308**	***(15.7)***
% gross profit	**31.3%**	**34.0%**		**29.7%**	**29.9%**	
Operating profit	**268**	**348**	***(22.8)***	**69**	**56**	***23.1***
% operating profit	**7.8%**	**9.1%**		**7.8%**	**5.4%**	

Sales

In 2015 and in the fourth quarter organic growth in the coffee business, excluding the foreign currency effect and the classification of costs in Israel Coffee following the introduction of the Food Law, amounted to 8.8% and 9.4%, respectively, compared to the corresponding periods last year. Organic growth of the coffee operation excluding the foreign currency effect and the classification of costs due to the Food Law, and excluding green coffee exports, amounted to 11.3% and 8.8%, respectively, compared to the corresponding periods in 2014.

Growth in coffee sales in local currency in the year and the fourth quarter mainly reflects price increases implemented in most countries (in Israel prices were reduced), in light of the rising cost of green coffee to the Company and the erosion of the functional currencies versus the US Dollar compared to the corresponding periods last year, since in all countries except for Brazil, green coffee is purchased in US Dollars. For further information, see the section "Strauss Coffee Sales by Major Geographical Regions".

In 2015 Strauss Coffee's sales decreased by approximately NIS 393 million. Translation differences into Shekels in the coffee operation amounted to NIS 701 million in the period, of which NIS 412 million were due to the erosion of the average exchange rate of the Brazilian Real against the Shekel, and NIS 219 million to the erosion of exchange rates in Russia and Ukraine. Additionally, following the introduction of the Food Law in the beginning of 2015 certain costs were classified in Israel Coffee as discounts deducted from sales, as opposed to prior years in which similar costs were classified as part of selling and marketing expenses (approximately NIS 13 million).

In the fourth quarter of 2015 Strauss Coffee's sales decreased by approximately NIS 157 million. Translation differences into Shekels in the coffee operation amounted to NIS 235 million in the period, of which NIS 154 million were due to the erosion of the average exchange rate of the Brazilian Real against the Shekel and NIS 57 million to the erosion of exchange rates in Russia and Ukraine. Additionally, following the introduction of the Food Law in the beginning of 2015 certain costs were classified in Israel Coffee as discounts deducted from sales, as opposed to prior years in which similar costs were classified as part of selling and marketing expenses (approximately NIS 1 million).

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 2015 the gross profit decreased by approximately NIS 227 million compared to the corresponding period last year. The gross profit margin dropped by 2.7% and amounted to 31.3% in the year.

In the fourth quarter of 2015 the gross profit decreased by NIS 48 million compared to the corresponding quarter last year. The gross profit margin dropped by 0.2% and amounted to 29.7% in the quarter.

The drop in the gross profit mainly reflects the drop in sales by the coffee business, which, as described above, was impacted by negative translation differences. Furthermore, the drop in the gross profit margin in 2015 (and to a small extent, also in the fourth quarter of the year) is explained by the negative impact of the cost of green coffee to the Company in local currency and the erosion of the functional currencies against the US Dollar compared to the corresponding periods last year, since the currency in which green coffee is purchased in all countries of operations except for Brazil is the US Dollar. 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. Most of the decrease was offset by the price increases implemented in most countries where the coffee company is active (in Israel, prices were reduced). .

Operating profit

In 2015 the operating profit of the coffee business decreased by NIS 80 million. The operating profit margin amounted to 7.8% (down 1.3%).

In the fourth quarter of the year the operating profit of the coffee company increased by approximately NIS 13 million. The operating profit margin amounted to 7.8% in the quarter (up 2.4%).

The change in Strauss Coffee's EBIT in the year and in the fourth quarter is the result of a decrease in the coffee company's gross profit, which was offset in part by a decrease in operating expenses in 2015. In the fourth quarter of the year, the decrease in operating expenses was greater than the decrease in the gross profit. The change in the operating profit of the coffee operation reflects:

- A decrease in the operating profit of the Três Corações joint venture in Brazil[1] arising from negative translation differences in respect of the Brazilian Real, despite an increase in Três Corações' EBIT in domestic currency. Três Corações' operating profit (before other expenses) grew by approximately 1.8% and 47.6% in the year and in the quarter, respectively (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group), despite the economic and political crisis in Brazil. The significant growth in Três Corações' EBIT in domestic currency in the fourth quarter of 2015 reflects an increase in the gross profit coupled with a decrease in selling and marketing expenses in the quarter, as well as an improvement in the TRES solution's results of operations;

- A decrease in the operating profit of the coffee business in the CEE countries in 2015 as a result of negative translation differences, a negative impact of the erosion of the functional currencies versus the US Dollar compared to the corresponding periods last year, and the competitive environment. In the fourth quarter of the year, EBIT in the CEE countries increased, mainly thanks to an improvement in the results of the former USSR countries (Russia and Ukraine) compared to the corresponding period last year;

- And a decrease in the operating profit of Israel Coffee in 2015, with stability in EBIT in the fourth quarter, mainly as a result of the drop in sales, an 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 year; on the other hand, an improvement in the instant coffee supply chain in Israel was achieved, as well a decrease in operating expenses.

[1] Três Corações (3C) – " Três Corações 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).

Strauss Coffee sales by major geographical regions

Following is the scope of sales of the coffee business in the major geographical regions (not including intercompany sales), and growth rates for the years and quarters ended December 31, 2015 and 2014 (in NIS millions):

	Year				Fourth Quarter			
Geographical region	**2015**	**2014**	**% chg**	**% change in local currency***	**2015**	**2014**	**% chg**	**% change in local currency***
Israel Coffee	**647**	**689**	***(6.1)***	***(6.1)***	**153**	**168**	***(9.2)***	***(9.2)***
International Coffee								
Três Corações joint venture (Brazil) (1) (2) (3) - 50%	1,488	1,781	*(16.5)*	*8.7*	360	464	*(22.5)*	*16.0*
Former USSR countries	602	635	*(5.3)*	*44.4*	188	188	*(0.4)*	*42.9*
Poland	275	297	*(7.3)*	*1.8*	64	84	*(23.4)*	*(12.8)*
Romania	263	244	*7.9*	*19.1*	67	76	*(11.2)*	*0.6*
Serbia	157	179	*(12.3)*	*(0.5)*	43	52	*(16.9)*	*(5.8)*
Total International Coffee	**2,785**	**3,136**	***(11.2)***	***14.4***	**722**	**864**	***(16.4)***	***15.0***
Total Coffee	**3,432**	**3,825**	***(10.3)***	***9.9***	**875**	**1,032**	***(15.3)***	***9.8***

* The growth rate in local currency neutralizes the effect of changes in foreign 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:

	Year		Fourth Quarter	
	2015	**2014**	**2015**	**2014**
Green coffee sales	131	244	53	66
Sales of corn-based products	59	64	13	16

(3) The Três Corações joint venture (Brazil) – Excluding intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee.

<u>The Três Corações joint venture (Brazil) – A company jointly held by the Group (50%) and the São Miguel Group (50%); (Data reflect Strauss Coffee's share (50%))</u>

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 (value market share according to A.C. Nielsen figures), with the goal of continuing to bolster the company's competitive position in this region. In March 2016 Três Corações acquired the operation attributed to the retail coffee brands of the coffee company Cia Iguaçu. The agreement between the companies includes the acquisition of the retail coffee brands (Iguaçu, Cruzeiro, Amigo), as well as accompanying Cia Iguaçu products, in South America, including Brazil. The agreement is subject to approval by the regulatory authorities in Brazil.

In 2015 the Três Corações joint venture's average value market share in R&G amounted to approximately 23.7%, compared to 23.2% 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 in both periods). Excluding the Itamarty acquisition, the Três Corações joint venture's value market share was 23.2% versus 22.7% in the corresponding period last year.

Despite the economic and political crisis in Brazil, in the year and in the fourth quarter of 2015 the Três Corações joint venture's sales in local currency grew by approximately 8.7% and 16.0%, respectively (approximately 8.0% and 15.0%, 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 14.8% and 15.3% in the year and in the 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 2015 in light of the rising cost of green coffee to Três Corações compared to the corresponding periods last year, as well as volume growth in sales. The sales growth also reflects sales of machines and capsules under the TRES brand. Itamaraty sales under the Três Corações joint venture began toward the end of the first quarter of the year, and their impact in the current period was immaterial.

Green coffee export sales from Brazil by the Três Corações joint venture, reflecting Strauss Coffee's share (50%), decreased in the year and in the fourth quarter by approximately NIS 113 million and NIS 13 million, respectively (excluding the foreign exchange effect – sales decreased by NIS 56 million in the year and increased by NIS 9 million in the fourth quarter). The decrease in the year reflects a significant drop in volumes, which was offset in part by an increase in green coffee prices compared to the corresponding periods in 2014. In the fourth quarter of 2015 there was no significant change in green coffee export sales volumes compared to the corresponding quarter last year.

Growth in the Três Corações joint venture's Shekel sales in the year and in the fourth 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 412 million and NIS 154 million, respectively.

The Três Corações joint venture's gross profit in domestic currency rose by 3.5% and 10.5% in the year and in the fourth quarter, respectively, amounting to approximately 740 million BRL in 2015 and 198 BRL in the fourth quarter. The Três Corações joint venture's gross profit margin decreased by 1.3% in the year and by 1.1% in the quarter, and in the year and quarter amounted to 29.1% and 27.8%, 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. The operating profit (before other expenses) rose in the year and in the quarter by 1.8% and 47.6%, respectively (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group). The significant growth in EBIT in the fourth quarter of the year reflects growth in the gross profit, coupled with a decrease in selling and marketing expenses in the quarter as well as an improvement in the TRES brand's operating results.

The overall impact of the TRES solution on the Três Corações joint venture's EBIT in 2015 and in the fourth quarter of the year amounted to an operating loss of approximately NIS 18 million (15 million BRL) and NIS 6 million (6 million BRL), respectively, compared to an operating loss of approximately NIS 53 million (35 million BRL) and NIS 17 million (11 million BRL) in the corresponding periods last year (figures reflect Strauss Coffee's share (50%)).

The former USSR countries

Following the political crisis in Russia and Ukraine and the complexity of Russia's relations with the West and as a result of the drop in oil prices, 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). Additionally, the competitive environment in the region has remained challenging.

The Company's sales in the region in local currency grew in the year and in the fourth quarter of 2015 by approximately 44.4% and 42.9%, respectively, compared to the corresponding periods last year. The Company's sales in local currency mainly reflect 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 33 million in the year and remained unchanged in the fourth 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 1.8% in the year and fell by 12.8% in the fourth quarter of 2015, compared to the corresponding periods last year. Sales reflected price increases due to 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, as well as a drop in volumes that intensified in the fourth quarter due to the challenging competitive environment.

The Company's Shekel sales in Poland decreased by approximately NIS 22 million and NIS 20 million in the year and the quarter, respectively, compared to the corresponding periods in 2014. Shekel sales were affected by the erosion of the Polish Zloty against the Shekel.

Romania

The Company's sales in Romania in local currency grew by approximately 19.1% and 0.6% in the year and in the fourth quarter of 2015, respectively, compared to the corresponding periods last year. Among other things, the growth in sales reflects new sales in respect of the Amigo brand, the acquisition of which was completed in September 2014. Excluding Amigo, the Company's sales in domestic currency grew by approximately 11.1%.

Sales growth in local currency in 2015 reflects 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 last year. The Company's sales in the fourth quarter reflect a drop in volumes, particularly against the backdrop of timing differences in commercial activity compared to the corresponding quarter in 2014.

Shekel sales in Romania grew by approximately NIS 19 million in the year and dropped by NIS 9 million in the fourth quarter of 2015 compared to the corresponding periods last year, reflecting 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%).

Serbia

The Company's sales in Serbia in local currency decreased by 0.5% and 5.8% in the year and in the fourth 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 moderation in growth of 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 recorded a provision for impairment in respect of intangible assets attributed to the operation in Serbia. Accordingly, in 2015 the Group included a provision of NIS 22 million (of which NIS 14 million were recorded in the fourth quarter of the year). For further information, see Note 15.3 to the financial statements as at December 31, 2015.

Shekel sales in Serbia dropped by approximately NIS 22 million and NIS 9 million in 2015 and in the fourth quarter of the year 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 42 million and NIS 15 million in 2015 and in the fourth quarter of the year, respectively, compared to the corresponding periods last year. The decrease is explained by a more intense competitive environment, effective price decreases and a negative effect of the sales mix. Additionally, after the Food Law was introduced 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 (approximately NIS 13 million and NIS 1 million, respectively). Pro forma for the classification of costs in respect of the Food Law, the drop in sales in the year would have amounted to 4.3% and to 8.6% in the quarter.

The operating profit of Israel Coffee dropped by NIS 17 million in 2015 and remained unchanged in the fourth quarter compared to the corresponding periods in 2014. The decrease in operating profit is the result of the drop 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. By contrast, an improvement in the instant coffee supply chain in Israel was achieved, as well as 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 2015 according to StoreNext figures held an 11.2% share of the total retail domestic food and beverage market in value terms (compared to 11.5% in 2014). The Israeli market is the Group's home market, where it is active in various categories. According to StoreNext, in 2015 the Israeli food and beverage market grew by 1.9% 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 2015 sales by Strauss Group's entire operation in Israel totaled approximately NIS 3,982 million compared to NIS 4,128 million last year, a decrease of 3.5%. In the fourth quarter of the year Israel sales totaled NIS 961 million versus NIS 971 million last year, a decrease of 1.0%. After the Food Law was introduced 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 following the Food Law, the decrease in sales by the Group's entire operation in Israel would have amounted to 1.7% in the year, whereas in the fourth quarter sales would have increased by 0.6%.

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 years and quarters ended December 31, 2015 and 2014 (in NIS millions):

	Year			Fourth Quarter		
	2015	**2014**	**% Chg**	**2015**	**2014**	**% Chg**
Health & Wellness segment						
Net sales	1,898	1,974	*(3.8)*	463	465	*(0.2)*
Operating profit	188	203	*(7.6)*	47	44	*5.8*
% operating profit	9.9%	10.3%		10.1%	9.5%	
Fun & Indulgence segment						
Net sales	968	998	*(3.0)*	225	218	*3.1*
Operating profit	93	112	*(16.8)*	12	20	*(38.1)*
% operating profit	9.6%	11.2%		5.5%	9.2%	
Total Strauss Israel						
Net sales	**2,866**	**2,972**	***(3.6)***	**688**	**683**	***0.9***
Gross profit	**1,104**	**1,196**	***(7.6)***	**271**	**274**	***(0.6)***
% gross profit	**38.5%**	**40.2%**		**39.5%**	**40.1%**	
Operating profit	**281**	**315**	***(10.9)***	**59**	**64**	***(7.9)***
% operating profit	**9.8%**	**10.6%**		**8.6%**	**9.4%**	

<u>Sales</u>

<u>In 2015</u> Strauss Israel's sales decreased by 3.6% (approximately NIS 106 million). In the Health & Wellness segment the decrease was approximately 3.8% (NIS 76 million), and in Fun & Indulgence, 3.0% (NIS 30 million). The decrease in sales was primarily the result of a more intense competitive environment and effective price reductions. Additionally, after the Food Law was introduced in the beginning of 2015 certain costs were classified as discounts deducted from sales, contrary to prior years when similar costs were classified as part of selling and marketing expenses (approximately NIS 63 million). Pro forma for the classification of costs the drop in sales in 2015 would have amounted to 1.5%. The gross profit rate in the corresponding period last year pro forma for the classification of costs in respect of the Food Law is 38.9%, and the pro forma operating profit rate in the corresponding period last year is 10.8% (with no impact on the operating profit).

<u>In the fourth quarter of 2015</u> Strauss Israel's sales increased by 0.9% (approximately NIS 5 million). In Fun & Indulgence sales increased by approximately 3.1% (NIS 7 million), whereas in Health & Wellness sales decreased by 0.2% (NIS 2 million).

The costs classified as discounts deducted from sales as described above amounted to approximately NIS 15 million in the quarter. Pro forma for the classification of costs as a result of the Food Law, sales growth in the fourth quarter would have amounted to 3.1%. The gross profit rate in the corresponding quarter last year pro forma for the classification of costs is 38.8%, and the pro forma operating profit rate in the corresponding period last year is 9.7% (with no impact on the operating profit). Sales growth in the fourth quarter reflects volume growth, which was partly offset by price reductions in various product categories.

Gross profit

In 2015 Strauss Israel's gross profit decreased by approximately NIS 92 million, with 1.7% erosion of the gross profit margin, compared to the corresponding period last year. Pro forma for the classification of costs due to the Food Law, the gross profit margin dropped by 0.4%.

The decrease in gross profit in the year reflects a drop in sales, a certain increase in raw material prices (cocoa, hazelnuts and almonds), 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 2014. These effects were partly offset by the reduction of the price of raw milk and milk powders in the second half of the year compared to the corresponding period last year (at the beginning of the third quarter the Company lowered its prices, mainly in a number of dairy product categories such as white cheeses, desserts, milk beverages and enriched milk by 3% to 7%); by streamlining measures applied in production and packaging processes in a number of plants; and by the favorable impact of the drop in energy prices and in the prices of other raw materials used by the Company (tahini).

In the fourth quarter of 2015 Strauss Israel's gross profit decreased by approximately NIS 3 million, with 0.6% 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 increased by approximately 0.7%.

The decrease in gross profit in the fourth quarter reflects the negative impact of the classification of costs as discounts deducted from sales (as a result of the Food Law), which amounted to approximately NIS 15 million in the quarter, coupled with effective price reductions, and by contrast, the beneficial effect of a decrease in the prices of most raw materials (notably raw milk) compared to the corresponding quarter last year, streamlining processes in production and packaging processes in a number of plants, and a drop in energy prices.

Operating profit

In 2015 Strauss Israel's operating profit decreased by approximately NIS 34 million, and the operating profit margin dropped by 0.8% and amounted to 9.8% of sales. Pro forma for the classification of costs in respect of the Food Law, the EBIT margin decreased by approximately 1.0%.

In the fourth quarter of 2015 Strauss Israel's operating profit decreased by approximately NIS 5 million, and the operating profit margin fell by 0.8% and amounted to 8.6% of sales. Pro forma for the classification of costs in respect of the Food Law, the EBIT margin decreased by 1.1%.

The decrease in operating profit in the year and in the fourth quarter mainly reflects the drop in gross profit (pro forma for the Food Law) in 2015, a provision for doubtful debts, particularly in respect of Mega Retail Ltd., net of income in respect of insurance compensation and VAT refunds (NIS 11 million before tax in Strauss Israel, recorded in the year), and the simultaneous operation of the new logistics center in Shoham and the old logistics centers in Tzrifin, Petach Tikva and Bet Shemesh, during the process of relocating to the new center. The move to Shoham was completed as planned in December 2015; for further information, see section 8 in the chapter "Description of the Company's Business Affairs". The decrease in EBIT was partly offset by a reduction in operating expenses compared to the corresponding periods last year. The decrease in selling and marketing expenses included in the operating expenses also partly reflects the classification of costs as a result of the Food Law, with no impact on the amount of the operating profit.

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 52 weeks ended on December 27, 2015 was 27.8% (Number 1 in the market), compared to 28.5% in the corresponding period last year. Sabra's value market share of the hummus category in the same period was 60.7%, compared to 62.7% last year.

Sales volumes in Australia and Mexico are immaterial. Nevertheless, it is noted that the company leads the hummus market in Australia in terms of market share as well as in Mexico. In 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% ownership; NIS millions):

	Year		Fourth Quarter	
	2015	**2014**	**2015**	**2014**
Sales	1,422	1,288	344	357
Growth	10.4%	13.9%	(3.6%)	30.1%
Organic growth excluding foreign currency effect	1.7%	14.6%	(4.7%)	19.5%
Operating profit before other expenses	188	181	57	36
% operating profit	13.2%	14.0%	16.4%	10.1%

Sabra's sales in 2015 grew by approximately NIS 134 million compared to last year.

In the fourth quarter of the year Sabra's sales decreased by approximately NIS 13 million compared to the corresponding quarter last year.

In 2015, sales were favorably influenced by positive translation differences due to the strengthening of the US Dollar against the Shekel (see also the foreign exchange rate table in the section "Changes in the Economic Environment"). Sabra's sales in 2015 also reflect the negative influence of the recall of a hummus product manufactured by the company in the beginning of the second quarter of the year.

The drop in Sabra's sales in the fourth quarter of 2015 mainly reflects lower growth in the dips and spreads category in the US in the quarter compared to the corresponding quarter last year, as well as a slight drop in Sabra's market share in hummus in the US in the current quarter compared to 2014 (62.0% value market share in the current quarter compared to 62.7% in the corresponding quarter last year, based on IRI figures).

The operating profit in 2015 increased by NIS 7 million, with a decrease of 0.8% in the operating profit margin compared to last year. The results include an insurance payout of approximately NIS 29 million as a result of the product recall (NIS 15 million reflect the Group's share at 50%). This sum was included as a reduction in selling and marketing expenses in 2015.

The operating profit in the fourth quarter of the year increased by NIS 21 million, with an increase of 6.3% in the operating profit margin compared to the corresponding quarter last year. The results for the quarter include an insurance payout of approximately NIS 9 million as a result of the product recall (approximately NIS 5 million reflects the Group's share at 50%). This sum was included as a reduction in selling and marketing expenses in the fourth quarter. The increase in EBIT in the fourth quarter reflects a positive influence of the mix, the beneficial effect of fuel prices and a decrease in marketing effort compared to the corresponding quarter in 2014 (following an increase in marketing effort in the third quarter of the year).

Obela

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

Obela's sales in 2015 totaled approximately NIS 82 million, compared to NIS 79 million last year (4.4% growth). Excluding the foreign currency effect, growth in the year amounted to 16.5% compared to the corresponding period in 2014. Sales growth is primarily the result of increased sales in Australia.

Obela's sales in the fourth quarter of 2015 totaled approximately NIS 29 million, compared to NIS 28 million in the corresponding period last year (1.5% growth). Excluding the foreign currency effect, sales growth in the quarter amounted to 19.0% compared to the corresponding quarter in 2014.

The operating loss in 2015 totaled NIS 27 million, compared to NIS 31 million last year.

The operating loss in the fourth quarter of 2015 totaled less than NIS 1 million, similar to the corresponding quarter last year.

Other Operations

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

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 agreements with companies of Haier Group for the restructuring of operations in the Haier Strauss Water joint venture in China. The agreements include the exchange and transfer of shares and a joint venture agreement. As a result of these agreements, the Company's holding in the joint venture was reduced from 50% to 34%, with the remaining 66% held by Haier Group. The restructuring process was completed in the reporting period and is reflected in the non-GAAP reports commencing in the third quarter of 2015. For further information, see Note 12.6 to the financial statements as at December 31, 2015.

In 2015 Strauss Water's sales amounted to approximately NIS 482 million compared to NIS 548 million in 2014, a decrease of 11.9%.

In the fourth quarter of the year Strauss Water's sales amounted to approximately NIS 120 million compared to NIS 140 million in the corresponding quarter last year, a decrease of 13.7%.

The decrease in sales in the year and in the fourth quarter is mainly explained by the restructuring of the international operation in China. The change in structure reflects a drop in sales due to the discontinuation of the proportionate consolidation of the Haier Strauss Water joint venture in China and a transition to accounting in the equity method. The restructuring process included the grant of an exclusive license to use the Maze technology to Haier Strauss Water with respect to the China territory, following which water purifiers based on this technology are gradually being developed and sold by the Chinese joint venture in lieu of purchasing the devices from Strauss Water. Accordingly, sales of Maze technology-based water bars by Strauss Water to the joint venture in China have decreased.

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 located in Australia (40), Israel (8), the US (5), Japan (4), Russia (2), Singapore (2) and South Korea (1).

In 2015 Max Brenner's sales totaled approximately NIS 109 million compared to NIS 111 million last year, a decrease of 2.5%. Max Brenner's organic growth excluding the foreign currency effect amounted to a decrease of approximately 5.5% compared to the corresponding period last year.

In the fourth quarter of the year Max Brenner's sales totaled approximately NIS 29 million compared to NIS 32 million in the corresponding period last year, a decrease of 11.1%. Excluding the foreign currency effect, organic growth amounted to a decrease of approximately 11.7% compared to the corresponding quarter in 2014.

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

The cash flow from operating activities in the Company's separate financial statements ("solo report") for the year ended December 31, 2015 and for the year ended December 31, 2014 is negative (NIS 76 million and NIS 77 million, respectively). Notwithstanding the foregoing, on March 20, 2016 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 December 31, 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 finance 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 occurrence of the risk factors set forth in section 30 in Part A of the Company's 2015 Periodic Report.

EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT

Reporting according to linkage bases and sensitivity tests

For information on reporting according to linkage bases and sensitivity tests, see Note 28 to the financial statements as at December 31, 2015.

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 Company's Business Affairs" as at December 31, 2015 ("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 company in Brazil. In order to manage exposure to market risks, the Company uses transactions in derivatives and in securities traded on the financial markets in New York and London. The use of these instruments is the responsibility of the manager of the procurement office in Switzerland in the framework of guidelines defined from time to time by the corporate green coffee procurement committee, which is managed by the COO 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 conducted by the Group's Financial Department in Group Corporate Center and are the responsibility of Strauss Coffee's CFO in all aspects relating to the coffee business, of Strauss Water's CFO with respect to the water 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.

Valuations

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

						Assumptions applied in performing the valuation				
Identity of valuation subject	Timing of valuation	Value of valuation subject immediately preceding valuation	Value of valuation subject according to valuation	Identity of appraiser	Valuation model used by appraiser	Nominal discount rate	Nominal permanent growth rate	% terminal value	Prices serving as basis for comparison	Number of bases for comparison
Goodwill and indefinite-life intangibles attributed to the subsidiary in Russia	December 2015	312	322	External (1) (2)	DCF	15%-19%	3.0%	60%	N/A	N/A

1) Assumptions regarding standard deviation are irrelevant to these valuations.
2) The valuation was performed by Einat Shperling, CPA, a partner in EY Israel's Valuations Department, BA in Economics & Management from the Technion, Haifa, and MBA from Tel Aviv University, 14 years' experience in valuations. The Company undertook to indemnify the appraiser for any compensation imposed on her with respect to a

third party in connection with the opinion, including losses and expenses relating to legal representation, save and except if she had acted fraudulently. The appraiser's total liability is limited to three times the fee she was paid.

ASPECTS OF CORPORATE GOVERNANCE

The Board of Directors and its Standing Committees

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

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

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

The Board of Directors also reviewed the remuneration of Mr. Tomer Harpaz in his office as CEO of Strauss Coffee, who did not serve as an officer of the Company. For the purpose of this review the Board of Directors was presented with the relevant data in regard to Mr. Harpaz's employment conditions as CEO of Strauss Coffee, in good time. Discussions emphasized that the remuneration was derived from the position and from Mr. Harpaz's personal contribution to the management of the coffee company, to its operations and its advancement. The yearly bonus was determined on the basis of a mechanism that ties the bonus to the coffee company's financial performance, as well as to functional objectives set for the CEO in his specific area of occupation and in line with his responsibilities, all of which are based on Strauss Coffee's work plans and strategic objectives. The long-term remuneration was determined in accordance with the coffee company's option plan and was approved by Strauss Coffee's Board of Directors. The Board of Directors determined that considering the customary remuneration for executives in similar positions in Europe, the fact that the remuneration was calculated in accordance with the remuneration policy in place in the coffee company, which was approved by Strauss Coffee's Board of Directors, and considering Mr. Harpaz's contribution, the conditions of his remuneration are fair and reasonable and reflect the CEO's contribution.

Risk Management

Risk management in all areas of the Group's activity is addressed in a number of different frameworks, including the Internal Auditor, the Finance Committee and the Group EVP Finance, Shahar Florence. For further information, see Article 26A in this report. The Internal Auditor performs risk surveys relating to activities in the Group from time to time. Additionally, teams are in place in all relevant business units, which analyze and assess the risks and propose appropriate cautionary measures. These issues are handled by the managements of the business units and controlled by Group Corporate Center, which also manages master risks on the Group level. Every three years the Company performs an internal risk survey and revises the risk maps of the Group's areas of activity. In 2013 a risk survey was performed in the Group. Further to the up-to-date risk survey the Company is building a risk mitigation plan for the new risks identified and continues to address the risks identified in prior years according to multiyear work plans. The Audit Committee (which also serves as a Risk Management Committee) receives periodic reports for the purpose of supervising and assessing issues relating to risk management in the Group. For information on risk factors in the Group, see the section "Discussion on Risk Factors" in the chapter "Description of the Company's Business Affairs" in this report.

Sustainability, Corporate Responsibility, Social Investment and Donations

In 2015 the Group's sustainability and corporate social responsibility (CSR) activities focused on the following spheres:

A. **Development of a comprehensive management concept, "Social License to Operate",** its goal being to assimilate in the organization a concept based on the management of ongoing relationships with the various stakeholder groups (employees, customers, consumers, suppliers, communities, etc.), grounded in an understanding of their needs and connected to risks and opportunities.

B. **Strauss Group's sustainability strategy for 2020 – Improve people's lives by adopting sustainable business practices:** Continued assimilation of a group-wide sustainability strategy for 2020, including the assimilation of measurable targets in the work plans of the companies in the Group, while focusing on Strauss Group's substantive impacts in its business operations.

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

D. **Social investment and community relations:** Deepen Strauss's social investment, expanding social activity centered on the promotion of diversity, the promotion and economic empowerment of diverse populations and women's empowerment, and focusing on the advancement of a healthy lifestyle.

E. **Stakeholder dialogue:** Expand and deepen the dialogue with Strauss Group's various stakeholders in the different markets in which we operate.

Following is additional information on the areas of sustainability and corporate responsibility:

A. Development of a comprehensive management concept, "Social License to Operate"
In 2015 we focused on developing an overall management concept entitled "Social License to Operate", based on the recognition that our license to operate is given to us every hour, every day, by all our stakeholders and not merely by the competent authorities. The goal of this concept, which we developed and began to assimilate this year, is to impart a management concept within the organization that is based on managing ongoing relationships with our various stakeholders (employees, customers, consumers, suppliers, communities, etc.), grounded in an understanding of their needs and connected to risks and opportunities. The goal is that the many decisions made each day across the entire organization will be taken into account.

B. Strauss Group's sustainability strategy for 2020 – Improve people's lives by adopting sustainable business practices
In 2015 we continued to assimilate business targets in the companies in the Group toward the realization of our sustainability strategy for the year 2020. The group-wide strategy, which was formulated in alignment with Strauss's visionary goals, is managed and measured as part of the Group's business strategy. The six-year sustainability strategy for 2020 is in force and applies to all companies in the Group, and includes a series of measurable targets divided among three spheres: employees, products and the external environment (including suppliers, environmental quality and the community). Relevant targets were defined for each of these spheres, which were translated into operational work plans tailored to each of the companies in the Group. Every company has a degree of latitude, in which framework it may choose additional spheres of influence in the areas of sustainability that are relevant to it, while measuring and monitoring its performance.

C. Implementation of sustainability principles in various core areas in Strauss's value chain
In 2015 Strauss Group continued to map and implement work plans aimed at improving the management of its impacts along the entire value chain. Among other things, we continued to review the product response we provide for unique populations with special dietary needs. As part of this process, Strauss's existing products that meet the needs of unique consumer groups such as diabetics, celiac sufferers, etc. were examined, and efforts to expand this product basket continued. Additionally, Strauss's consumer service channels were significantly expanded and improved in order to provide a comprehensive, quick and reliable

response to all Strauss's consumers through the variety of existing communication channels in and outside the digital space.

In the environmental sphere improvements were made, reducing our environmental impact, which included sustainable water and energy utilization, reduction of emissions, effluents and waste. These improvements will continue in 2016.

Additionally, in the supply chain efforts continued to expand the number of women-owned suppliers engaged by the Group in procurement agreements, as well as to increase purchases from these vendors in the interest of advancing women-owned small businesses, which account for a significant share of all small businesses, and for the benefit of the economy.

In the field of workplace safety in-depth processes were implemented, designed to ensure employee safety, in all divisions in the organization, including field trips aimed at locating and remedying problems, the improvement of ergonomics, and the implementation of new safety procedures in Strauss Israel's sales division.

From the aspect of promoting good nutrition and a healthy lifestyle action was taken on the product level to improve our products by improving their nutritional ingredients, and also in our work vis-à-vis key opinion leaders in the health field, providing them with tools to make product solutions that promote a healthy lifestyle accessible to different population groups.

D. Social investment and community relations

In 2015 Strauss Group continued to deepen its social investment, which focused on promoting the employment of diverse populations and on women's empowerment, as well as on the encouragement of a healthy lifestyle in the community. Additionally, as a leading food company in Israel, Strauss considers it its duty to donate quality food products and contribute to the enhancement of nutritional security among the needy in Israel on a regular basis all year round. Strauss donates food products through the two largest food banks in Israel that provide food to dozens of nonprofits and to the needy throughout the country, Leket Israel and Latet.

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

In 2015 Strauss Group invested approximately NIS 11.7 million in community investment, donations in cash and in kind and volunteer hours, of which approximately NIS 3.2 million were in the form of financial support, NIS 5.8 million were donated in the form of food products (at cost prices to the Group), NIS 0.5 million were spent on the development of CSR, NIS 0.8 million on community activities and NIS 1.5 million on the value of employees' volunteer hours.

The following table presents an itemization of the Group's contributions, which have a value of over NIS 50,000, where a relationship exists between the recipient of the donation and the Company, a director, general manager, controlling shareholder of the Company or a controlling shareholder's relative:

Recipient	Value of contribution (NIS)	Nature of the relationship between the recipient and the Company, a director, general manager, controlling shareholder thereof or controlling shareholder's relative
Sheatufim – the Israel Center for Civil Society	250,000	• Gadi Lesin, CEO, serves as Chairman of the National Foundation for Social Change
Friends of Sheba Medical Center	67,000	• Ms. Galia Maor, director of the Company, heads the NPO • Mrs. Tzipi Strauss, wife of Adi Strauss, son of Michael Strauss and brother of Ms. Ofra Strauss, controlling shareholders of the Company, is a physician at Sheba • Meir Shanie, a director of the Company, is a member of the financial committees of foundations of the medical center, and his brother, Prof. Mordechai Shani, served as Director General of Sheba Medical Center and continues to be active at the hospital
Maala – Business for Social Responsibility	60,000	• Ms. Ofra Strauss, Chairperson of the Board of Directors and controlling shareholder, is a director of Maala • Meir Shanie, a director of the Company, was formerly a director of Maala

E. Stakeholder dialogue

In 2015 Strauss Group continued to deepen the dialogue with our various stakeholders in the different markets on issues of sustainability, CSR and social investment, in our belief that as a business firm that must receive a social license to operate each day anew, it is our obligation to maintain close, deep ties with all parties affected by our business operations. We deepened the dialogue by mapping new stakeholders and examining our business, social or environmental impact on these stakeholders; and also by creating effective channels for the ongoing, consistent maintenance of our relationship and dialogue with them, performing surveys and holding roundtables to generate dialogue and receive feedback, and assimilating an internal system for the management of stakeholder relationships.

INFORMATION ON THE INTERNAL AUDITOR OF THE COMPANY

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

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

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

The work plan: The internal audit's yearly and multiyear (generally, three years) work plans are based on the risk surveys and their revisions performed in the Group. Additionally, the framework of the work plan includes the activity of the Group Corporate Center and subsidiaries operating in Israel and abroad. The internal audit plans are based on these risk surveys in order to build a risk-based plan.

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

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

Considerations in determining the subjects in the audit plan:

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

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

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

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

Scope of engagement: Following is an itemization of the hours spent on the internal audit of the Group:
- In the Company itself and in investee companies in Israel - 4,269 hours.
- In investee companies abroad - 2,992 hours.

Total: 7,261 hours (compared to 6,912 hours in 2014).

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

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

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

Auditor's report: The Auditor's reports are submitted in writing on a regular basis throughout the year. In 2015 thirty-eight reports were submitted. The reports are submitted to the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, the CEO of the Israeli or international business according to the circumstances, Management of Group Corporate Center, and to the units under audit. In 2015 eight meetings of the Audit Committee were held (including the Strauss Coffee Audit Committees). The meetings take place on a regular basis throughout the year. Furthermore, the Auditor holds regular and periodic meetings with the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, and senior Group Management.

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

Compensation: The total financial compensation paid for the work of the Auditor and his staff is based on an agreed tariff per work hour. In 2015 the Auditor was paid an amount of approximately NIS 1,640 thousand. In the opinion of the Board of Directors, the compensation paid to the Auditor is reasonable and has no influence on the application of his professional judgment.

DIRECTORS WITH ACCOUNTING AND FINANCIAL SKILLS

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

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

INDEPENDENT DIRECTORS

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

In practice, two independent directors (who are also external directors) serve on the Board of Directors as well as two other directors who fulfill the conditions for qualifying as independent directors, who together form about one-third of the members of the Board. For further information on the directors holding office in the corporation, see the chapter "Additional Information on the Company" in Part D below, and the Company's corporate governance report in Part E below.

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 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 Part D below.

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 Annual Financial Statements are forwarded to the Committee members and the rest of the members of the Board of Directors for their review. The draft financial statements of the Company were forwarded to the members of the Board approximately 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 Annual 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 December 31, 2015 were approved, a meeting was held with the Chairperson to discuss material issues that arose during the preparation of the Annual 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 March 14, 2016 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, Ofra Strauss, Ronit Haimovitch and Adi Strauss as observers, the Company CEO, the EVP Finance, the CLO, the Company Controller, the Company Auditor and the Internal Auditor.
- At the meeting of the Board of Directors on March 20, 2016 the Board discussed the recommendation of the Financial Statements Review Committee to approve the financial statements of the Company as at December 31, 2015. The Board of Directors received an update from Company Management that no event or matter had occurred, which is 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 were present at the meeting (except for Adi Strauss), 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 year 2015.

UPDATE ON ASSIMILATION OF AN INTERNAL ENFORCEMENT PROGRAM RELATING TO SECURITIES

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

NEGLIGIBLE TRANSACTIONS

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

REGULATIONS WITH RESPECT TO FINANCIAL REPORTING BY THE CORPORATION

Critical Accounting Estimates

For information on critical accounting policy and Management considerations, see Note 4 to the financial statements as at December 31, 2015.

AUDITOR'S FEES

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

		For the year ended December 31, 2015					
		Audit services, audit-related services and tax services		Other services		Total	
Company	Auditor	NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies (1)	KPMG (Israel)	2,541	14,400	462	1,781	3,003	16,181
Max Brenner NY	Cohn Reznick LLP, Eshel & Partners LLP	272	480	17	20	289	500
SE USA Inc.	Eshel & Partners LLP	141	550	-	-	141	550
Sabra Dipping Company LLC (100%)	KPMG & Cohn Reznick LLP	1,589	2,300	-	-	1,589	2,300
PepsiCo Strauss Fresh Dips & Spreads (100%)	KPMG Switzerland, Mexico, Australia	817	552	-	-	817	552
Virgin Strauss Water UK Ltd.	KPMG LLP (UK)	149	276	-	-	149	276
Strauss Water companies in China	KPMG China	202	550	-	-	202	550
Strauss Romania SRL	KPMG Romania	315	1,194	-	-	315	1,194
Strauss Adriatic Group Cluster	KPMG Serbia	146	700	-	-	146	700
Strauss Ukraine LLC	KPMG Ukraine	86	641	56	215	142	856
Strauss Café Poland Sp.z.o.o	KPMG Poland	289	872	-	-	289	872
Três Corações Alimentos S.A (100%)	KPMG Brazil	696	1,932	-	-	696	1,932
Strauss Coffee B.V.	Mazars & KPMG (Israel)	2,222	8,591	-	-	2,222	8,591
Strauss Commodities AG	KPMG Switzerland	270	275	19	15	289	290
Strauss Russia LLC	KPMG Russia	557	3,680	-	-	557	3,680

		For the year ended December 31, 2014					
		Audit services, audit-related services and tax services		Other services		Total	
Company	**Auditor**	**NIS '000**	**Hours**	**NIS '000**	**Hours**	**NIS '000**	**Hours**
Strauss Group and investee companies (1)	KPMG (Israel)	2,570	15,074	864	2,353	3,434	17,427
Max Brenner NY	Eshel & Partners LLP	111	480	17	20	128	500
SE USA Inc.	Eshel & Partners LLP	130	520	-	-	130	520
Sabra Dipping Company LLC (100%)	KPMG & Cohn Reznick LLP	1,436	2,191	81	72	1,517	2,263
PepsiCo Strauss Fresh Dips & Spreads (100%)	KPMG Switzerland, Mexico, Australia	1,301	1,602	610	145	1,911	1,746
Virgin Strauss Water UK Ltd.	KPMG LLP (UK)	275	615	-	-	275	615
Strauss Water companies in China	KPMG China	186	483	-	-	186	483
Strauss Romania SRL	KPMG Romania	472	1,629	-	-	472	1,629
Strauss Adriatic Group Cluster	KPMG Serbia	142	650	71	120	213	770
Strauss Ukraine LLC	KPMG Ukraine	123	592*	52	83	175	675
Strauss Café Poland Sp.z.o.o	KPMG Poland	358	1,208	-	-	358	1,208
Três Corações Alimentos S.A (100%)	KPMG Brazil	598*	1,870*	-	-	598	1,870
Strauss Coffee B.V.	Mazars & KPMG (Israel)	6,768	21,006	650	1,591	7,418	22,597
Strauss Commodities AG	KPMG Switzerland	199	280	33	30	232	310
Strauss Russia LLC	KPMG Russia	522	4,643	-	-	522	4,643

* Restated.

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

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

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

LIABILITY REPORT ACCORDING TO PAYMENT DATES

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

POST STATEMENT OF FINANCIAL POSITION DATE EVENTS

For a review of events occurring after the Statement of Financial Position date, see Note 38 to the Consolidated Financial Statements as at December 31, 2015.

DEDICATED DISCLOSURE TO DEBENTURE HOLDERS

For information on the Company's debentures, see Note 20.4 to the Consolidated Financial Statements as at December 31, 2015.

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

Ofra Strauss	Gadi Lesin
Chairperson of the Board	Chief Executive Officer

March 20, 2016