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

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

The center of the Group's activity is in Israel, where it is the second-largest company in the food and beverage market. In the first quarter of 2015 the Group held an 11.5% share of the domestic food and beverage market (in value terms[1]), and it has the highest sales turnover among Israeli food companies (according to the Company's non-GAAP sales turnover). The Group is also active mainly in Brazil (through Três Corações[2], a company jointly held by the Group (50%) and by the São Miguel Group (50%)), in the former USSR countries, in Central and Eastern European countries and in North America.

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

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

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

The Group's business is conducted in four major geographical regions: **Israel**, where operations include the activity of Strauss Israel (the sale of a broad variety of fresh and dry food products), the coffee operation in Israel, Strauss Water's activity in Israel and Max Brenner in Israel; **Brazil**, where operations are managed through the Três Corações joint venture and focus mainly on roast and ground (R&G) coffee in the domestic market; **Europe**, where activity mainly includes the coffee business in Russia, Ukraine and Central and Eastern Europe; and **the USA and Canada**, where activity includes Sabra's operations and part of the Max Brenner business (not including Israel). In 2012 the Group initiated operations in Australia and Mexico through the company Obela. The Group also operates in China and the UK through Strauss Water.

The Group has approximately 10,600 employees, excluding half of the employees of the jointly controlled companies (approximately 14,000 employees are employed in all of the companies in the Group, about half of them in Israel).

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

CHANGES IN THE ECONOMIC ENVIRONMENT

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. As opposed to the corresponding period last year, the first quarter of 2015 was characterized by increases in the average market prices of some of

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

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

the raw materials used by the Company such as green coffee in Brazil in Brazilian Reals, cocoa and raw milk, along with increases in some of the other production inputs such as municipal rates.

In green coffee (except for Brazil) there was a significant decreasing trend in prices in the current quarter compared to a substantial increasing trend in the corresponding quarter last year, while there was no significant change in average price in the current quarter compared to the corresponding quarter.

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

Energy prices – In the past few years through to the first half of 2014 energy prices were relatively stable, with a rise as a result of an increase in world demand as well as geopolitical changes. In mid-2014 oil prices dropped dramatically, with the decrease gaining momentum toward the end of the year; however, this trend was curbed in the first quarter of 2015 as oil prices reversed and rose during the quarter, and as at the date of this report, they have risen by 10%-15% compared to the end of 2014. The drop in energy prices has a direct impact on the costs of production, transport and raw materials, as well as on packaging costs. This impact was expressed to a minor degree in the financial statements of the Company as at March 31, 2015. Conversely, the drop in energy prices has indirect influences, such as a strong correlation between the decrease in oil prices and the weakening of the Russian Ruble against the Dollar (additional information on the subject is presented below).

Exchange rate fluctuations – In the first quarter of 2015 most of the Group's local currencies weakened in relation to the Shekel, principally the Brazilian Real. Conversely, the Ruble and Dollar strengthened versus the Shekel (compared to their exchange rates at the end of 2014). For an analysis of the foreign currency effect on the Group's sales, see further on in this report. The changes in the exchange rates of the various currencies, compared to the corresponding period last year, led to a decrease in Shekel value arising from the translation into Shekels of the Company's business results in some markets, and to a decrease in the shareholders' equity of the Group.

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

Currency		Average exchange rate in Q1		% change
		2015	2014	
United States Dollar	USD	3.944	3.496	*12.8*
Ukrainian Hryvnia	UAH	0.182	0.394	*-53.7*
Russian Ruble	RUB	0.063	0.100	*-37.0*
Serbian Dinar	RSD	0.037	0.041	*-11.5*
New Romanian Leu	RON	1.001	1.065	*-6.0*
Polish Zloty	PLN	1.061	1.144	*-7.3*
Brazilian Real	BRL	1.389	1.482	*-6.3*
Renminbi (China)	CNY	0.642	0.573	*12.1*
Canadian Dollar	CAD	3.185	3.171	*0.4*
Australian Dollar	AUD	3.102	3.134	*-1.0*
Mexican Peso	MXN	0.264	0.264	*-0.1*

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

Currency		Average exchange rate in Q1		% change
		2015	2014	
New Israeli Shekel	ILS	0.254	0.286	*-11.4*
Ukrainian Hryvnia	UAH	0.045	0.112	*-59.9*
Russian Ruble	RUB	0.016	0.029	*-44.1*
Serbian Dinar	RSD	0.009	0.012	*-21.6*
New Romanian Leu	RON	0.254	0.305	*-16.7*
Polish Zloty	PLN	0.269	0.327	*-17.8*
Brazilian Real	BRL	0.351	0.424	*-17.3*

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

Other than as described below, as at the end of the first quarter and compared to the end of 2014, there has been no material change in the market risk factors to which the Company is exposed, in the policy for managing these risks, in the persons responsible for their management and in the means for supervising and realizing the policy, as described in the Board of Directors' Report as at December 31, 2014.

ANALYSIS OF FINANCIAL RESULTS

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

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

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

In the reporting period Strauss Group has a number of jointly controlled companies: the Três Corações joint venture (coffee products in Brazil)[1], Sabra Dipping Company (an investee company in North America), Strauss Frito-Lay Ltd. (the salty snack operation in Israel), PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela), and Haier Strauss Water (a Strauss Water investee company in China).

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

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

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

	First Quarter		
	2015	**2014**	**% Chg**
Sales	**1,930**	**1,973**	***(2.1)***
Cost of sales	1,201	1,183	*1.5*
Gross profit	**729**	**790**	***(7.6)***
% of sales	37.8%	40.0%	
Selling and marketing expenses	423	474	*(10.7)*
% of sales	21.9%	24.0%	
General and administrative expenses	109	112	*(3.0)*
% of sales	5.7%	5.7%	
Operating profit – non-GAAP	**197**	**204**	***(3.1)***
% of sales	10.2%	10.3%	
Financing expenses, net	(18)	(18)	*0.2*
Income before taxes on income	**179**	**186**	***(3.5)***
Taxes on income	(50)	(61)	*(15.6)*
Effective tax rate	28.2%	32.2%	
Income for the period – non-GAAP	**129**	**125**	***2.3***
Attributable to: **The Company's shareholders**	**102**	**99**	***2.4***
Non-controlling interests	27	26	*2.1*

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

	First Quarter		
	2015	**2014**	**% Chg**
Israel			
Net sales	753	790	*(4.6)*
Operating profit	92	98	*(6.2)*
Coffee			
Net sales	846	866	*(2.4)*
Operating profit	86	90	*(4.6)*
International Dips & Spreads			
Net sales	182	150	*22.2*
Operating profit	14	14	*0.1*
Other			
Net sales	149	167	*(10.9)*
Operating profit (loss)	5	2	*292.2*
Total			
Net sales	**1,930**	**1,973**	***(2.1)***
Operating profit	**197**	**204**	***(3.1)***

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

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

	First Quarter		
	2015	**2014**	**% Chg**
Sales	**1,308**	**1,370**	***(4.5)***
Cost of sales excluding impact of valuation of balance of commodity hedging transactions	812	809	*0.2*
Valuation of balance of commodity hedging transactions as at end of period	37	(35)	
Cost of sales	849	774	*9.6*
Gross profit	**459**	**596**	***(22.9)***
% of sales	35.1%	43.5%	
Selling and marketing expenses	284	336	*(15.3)*
General and administrative expenses	83	91	*(7.9)*
Total expenses	**367**	**427**	
Share of profit of equity-accounted investees	49	56	
Operating profit before other expenses	**141**	**225**	***(37.3)***
% of sales	10.8%	16.4%	
Other expenses, net	(3)	(12)	*(71.6)*
Operating profit after other expenses	**138**	**213**	***(35.5)***
Financing expenses, net	(11)	(16)	*(35.6)*
Income before taxes on income	**127**	**197**	***(35.4)***
Taxes on income	(36)	(54)	*(32.8)*
Effective tax rate	28.4%	27.2%	
Income for the period	**91**	**143**	***(36.4)***
Attributable to: The Company's shareholders	**72**	**111**	***(34.9)***
Non-controlling interests	19	32	*(41.6)*

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

<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):

	First Quarter 2015			**First Quarter 2014**		
	Equity method	**Change**	**Proportionate consolidation method (formerly applied)**	**Equity method**	**Change**	**Proportionate consolidation method (formerly applied)**
Sales	**1,308**	**622**	**1,930**	**1,370**	**603**	**1,973**
Cost of sales excluding impact of valuation of balance of commodity hedging transactions	812	389	1,201	809	374	1,183
Valuation of balance of commodity hedging transactions as at end of period	37	2	39	(35)	(3)	(38)
Cost of sales	849	391	1,240	774	371	1,145
Gross profit	**459**	**231**	**690**	**596**	**232**	**828**
% of sales	35.1%		35.8%	43.5%		42.0%
Selling and marketing expenses	284	139	423	336	138	474
General and administrative expenses	83	30	113	91	25	116
Share of profit of equity-accounted investees	49	(49)	-	56	(56)	-
Operating profit before other expenses	**141**	**13**	**154**	**225**	**13**	**238**
% of sales	10.8%		8.0%	16.4%		12.1%
Other expenses, net	(3)	-	(3)	(12)	-	(12)
Operating profit after other expenses	**138**	**13**	**151**	**213**	**13**	**226**
Financing expenses, net	(11)	(7)	(18)	(16)	(2)	(18)
Income before taxes on income	**127**	**6**	**133**	**197**	**11**	**208**
Taxes on income	(36)	(6)	(42)	(54)	(11)	(65)
Effective tax rate	28.4%		31.6%	27.2%		31.0%
Income for the period	**91**	**-**	**91**	**143**	**-**	**143**
Attributable to: **The Company's shareholders**	**72**	**-**	**72**	**111**	**-**	**111**
Non-controlling interests	19	-	19	32	-	32
Income for the period	91	-	91	143	-	143

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

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

	First Quarter		
	2015	**2014**	**% Chg**
Operating profit – according to proportionate consolidation method – after other expenses	**151**	**226**	***(32.9)***
Share-based payment	4	4	
Valuation of balance of commodity hedging transactions as at end of period	39	(38)	
Other expenses, net	3	12	
Operating profit – non-GAAP	**197**	**204**	***(3.1)***
Financing expenses, net	(18)	(18)	
Taxes on income	(42)	(65)	
Taxes in respect of adjustments to the above non-GAAP operating profit	(8)	4	
Income for the period – non-GAAP	**129**	**125**	***2.3***
Attributable to: **The Company's shareholders**	**102**	**99**	***2.4***
Non-controlling interests	27	26	*2.1*

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

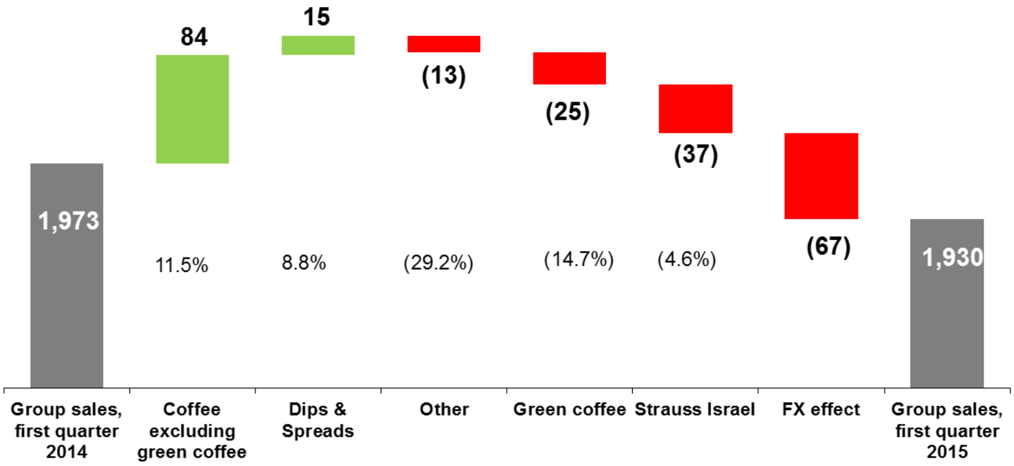
ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

Sales – non-GAAP

	First Quarter	
	2015	**2014**
Sales	1,930	1,973
Growth	(2.1%)	(2.0%)
Organic growth excluding currency impact and impact of classification of costs	1.8%	4.8%

Organic growth of the Group's sales in the first quarter of 2015 excluding the foreign currency effect, and also excluding the impact of classification of costs following the introduction of the Food Law in Strauss Israel and Israel Coffee, as described in this report below, amounted to 1.8% compared to the corresponding quarter last year. In the quarter the Group's sales decreased by approximately NIS 43 million (down by 2.1% compared to the corresponding quarter last year), of which NIS 20 million are the result of the classification of costs as mentioned.

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



The Group's sales in the first quarter of 2015, and particularly sales by Strauss Coffee, were impacted by translation differences into Shekels, which amounted to approximately NIS 67 million for the Group; of this sum, NIS 35 million are due to the erosion of the average rate of the Ruble versus the Shekel (see also the foreign exchange rate table in the section "Changes in the Economic Environment").

Excluding the currency impact, the Group's sales grew by approximately NIS 24 million in the quarter compared to the corresponding period last year. Sales growth in local currency was the result of the following factors:

- Growth in sales by the coffee business excluding green coffee (an increase of approximately NIS 84 million) thanks to sales growth in local currency in all countries where the coffee company is active, except for Israel and Serbia. Growth mainly reflects price increases that were implemented in all countries of operations excluding Israel and Serbia, following the increase in the cost of green coffee to the Company and the erosion of the local currencies versus the US Dollar (the currency in which green coffee is bought in all countries except for Brazil). Additionally, following the implementation of the Food Law in the beginning of 2015 certain costs were classified in Israel Coffee as discounts deducted from sales (approximately NIS 4 million), as opposed to prior years in which similar costs were classified as part of selling and marketing expenses;

- Growth in sales by the International Dips & Spreads operation (up by approximately NIS 15 million), which is mainly the result of growth in sales by Sabra, reflecting continuing volume growth in hummus sales as well as strong growth in sales of guacamole and yogurt-based dips;

- Green coffee export sales by the Três Corações joint venture in Brazil[(1)] decreased by NIS 13 million, reflecting Strauss Coffee's share (50%), mainly as a result of the increase in green coffee prices coupled with a drop in volumes compared to the corresponding period last year;

- Sales by the "Other" segment decreased (down by approximately NIS 25 million), mainly following the drop in sales by Strauss Water in its international operations as a result of placing focus on the products based on the Maze technology.

- A decrease in sales by Strauss Israel (approximately NIS 37 million) against the backdrop of a more intense competitive environment, and also, as a result of the implementation of the Food Law in the beginning of 2015 certain costs were classified as discounts deducted from sales (approximately NIS 16 million), as opposed to prior years when similar costs were classified as part of selling and marketing expenses. Excluding the abovementioned classification, sales in the first quarter would have decreased by 2.6%, the gross profit would have been 39.0% and the operating profit would have been 12.0%.

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

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

Gross Profit – Non-GAAP

	First Quarter		
	2015	2014	% Chg
Gross profit	729	790	*(7.6)*
Gross profit margin	37.8%	40.0%	

The Group's non-GAAP gross profit in the first quarter of 2015 decreased by approximately NIS 61 million compared to the corresponding quarter last year. In the Strauss Israel segment the gross profit dropped by NIS 43 million. Approximately NIS 16 million were the result of the classification of Strauss Israel's costs following the implementation of the Food Law in the current quarter, as described in the section on sales above. In addition, the reduction in the gross profit of Strauss Israel reflects a drop in sales, a certain increase in the cost of raw materials (cocoa, raw milk, 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 the corresponding quarter in 2014. These were partly offset by streamlining processes applied in production and packaging processes in a number of plants, a beneficial impact of the drop in energy prices, and a certain decrease in the cost of some of the Company's raw materials (potatoes and tahini). In the coffee business, the gross profit decreased by NIS 27 million, mainly as a result of the negative effect of the cost of green coffee to the Company in local currency and the erosion of the Group's local currencies versus the Dollar (the currency in which green coffee is purchased in all countries of operations except for Brazil), compared to the corresponding quarter last year. Most of this decrease was offset by price increases implemented in almost all countries where the Company is active (except for Israel and Serbia). By contrast, the gross profit of the International Dips & Spreads and Other Operations segments grew by approximately NIS 9 million.

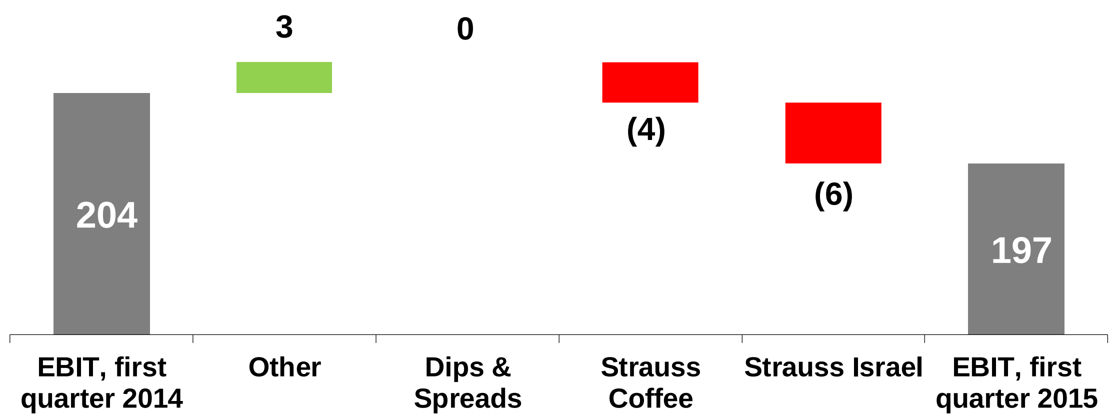
The cost of sales in the Group's non-GAAP financial statements includes profit and loss that were realized in respect of derivative financial instruments used to hedge raw material prices.

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 – Non-GAAP

	First Quarter		
	2015	20134	% Chg
Operating profit (EBIT)	197	204	*(3.1)*
Operating profit margin	10.2%	10.3%	

The non-GAAP operating profit (EBIT) in the first quarter of 2015 decreased by approximately NIS 7 million. Following are the components of the change in the operating profit compared to the corresponding period last year, according to the Company's major activity sectors:



The decrease in the Group's EBIT in the first quarter of 2015 was the result of a drop in the operating profit of Strauss Israel as a result of the decrease in gross profit, which was mostly offset by a decrease in operating expenses versus the corresponding quarter last year. In the coffee business the decrease in the operating profit reflects the decrease in gross profit, which was offset by a decrease in the Company's operating expenses.

Conversely, the operating profit of the Other Operations segment improved as a result of a decrease in Strauss Water's operating loss. Further explanations on the Group's operating profit in the reporting period are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

Financing Expenses, Net – Non-GAAP

Net financing expenses in the first quarter of 2015 totaled NIS 18 million compared to expenses of NIS 18 million in the corresponding quarter last year. On the one hand, expenses decreased due to the decrease in the (known) CPI, to which a substantive part of the Company's debt is linked (a decrease of 1.6% in the first quarter compared to a decrease of 0.7% in the corresponding quarter). On the other, the decrease was offset by net expenses deriving from exchange differences in the current quarter, lower income from currency derivatives in the current quarter compared to the corresponding quarter, capitalization of financing costs relating to the Shoham logistic center in the corresponding quarter, and an increase in the net debt.

Net credit according to the proportionate consolidation method as at March 31, 2015 totaled NIS 1,906 million compared to NIS 1,598 million on March 31, 2014 and NIS 1,688 million on December 31, 2014.

Net credit according to the equity method as at March 31, 2015 totaled NIS 1,716 million compared to NIS 1,425 million on March 31, 2014 and NIS 1,506 million on December 31, 2014.

Taxes on Income – Non-GAAP

In the first quarter taxes on income (non-GAAP) amounted to NIS 50 million, reflecting an effective tax rate of 28.2%, whereas in the corresponding period last year taxes on income amounted to NIS 61 million and the effective tax rate was 32.2%.

The decrease in the effective tax rate in the first quarter of 2015 is the result of the profit mix for tax purposes between the companies in the different countries.

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

	First Quarter		
	2015	**2014**	**% Chg**
Income attributable to the Company's shareholders	102	99	*2.4*
% of sales	5.3%	5.0%	

Non-GAAP income attributable to the Company's shareholders in the first quarter of 2015 rose by approximately NIS 3 million compared to the corresponding quarter last year. The increase in non-GAAP income attributable to the Company's shareholders was due to a decrease in tax expenses (NIS 11 million), which was offset in part by a decrease in operating profit (NIS 7 million), as described above.

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

In the first quarter the GAAP the comprehensive loss amounted to approximately NIS 54 million, compared to comprehensive income of NIS 129 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 151 million compared to losses of NIS 12 million arising from translation differences in the corresponding period last year. These translation differences are the result of the weakening of part of the Group's local currencies abroad in relation to the Shekel (principally the Brazilian Real), which was expressed in the quarterly movement in the foreign currency translation reserve.

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

In the first quarter of 2015

Cash flows from operating activities amounted to a negative cash flow of approximately NIS 153 million, compared to a positive cash flow of NIS 19 million in the corresponding period last year. The decrease in cash flows from operating activities is mainly due to the drop in the Group's operating profit and to changes in working capital in the reporting period compared to the corresponding quarter last year.

Cash flows from investing activities amounted to a negative cash flow of approximately NIS 35 million compared to a positive cash flow of NIS 99 million last year. The change is due to the sale of securities and deposits on a small scale in the period, compared to the corresponding period last year.

Cash flows from financing activities amounted to a negative cash flow of approximately NIS 174 million compared to a negative cash flow of NIS 207 million last year. The change is mainly due to a dividend paid to non-controlling interests last year.

The Company’s cash and cash equivalents as at March 31, 2015 totaled NIS 389 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). Additionally, the Company has short-term investments in securities (financial funds, government bonds and highly rated corporate debentures).

The Company’s liquidity ratio as at March 31, 2015 is 1.47 compared to 1.55 on December 31, 2014. On March 31, 2015 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,176 million compared to NIS 2,391 million on December 31, 2014. On March 31, 2015 short-term credit (excluding current maturities) totaled NIS 32 million compared to NIS 3 million on December 31, 2014. On March 31, 2015 supplier credit totaled NIS 717 million, compared to NIS 846 million on December 31, 2014.

Total assets in the Company's Consolidated Statement of Financial Position on March 31, 2015 amounted to NIS 6,413 million, compared to NIS 6,742 million on December 31, 2014.

Reportable credit – further to Note 22.3 to the Periodic Report – Financial Criteria – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Position as at March 31, 2015 is 27.9%, compared to 27.0% on December 31, 2014. The net financial debt-to-EBITDA ratio as at March 31, 2015 is 2.3, compared to 1.8 on December 31, 2014. The Company is in compliance with the required financial criteria.

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

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

	First Quarter		**Year Ended December 31**
	2015	**2014**	**2014**
Cash flow from operating activities (proportionate consolidation method)	(150)	15	561
Acquisition of fixed assets and investment in intangibles and deferred expenses (proportionate consolidation method)	87	132	564
Net debt balance (proportionate consolidation method) as at the report date	1,906	1,598	1,688
Depreciation and amortization (excluding impairment):	55	54	218
Strauss Israel:			
Health & Wellness	12	12	49
Fun & Indulgence	7	7	27
Strauss Coffee:			
Israel Coffee	2	3	11
International Coffee	14	15	58
International Dips & Spreads	6	5	16
Other	14	12	57

The Group's EBITDA (non-GAAP) totaled approximately NIS 252 million in first quarter of the year compared to NIS 258 million in the corresponding period in 2014, a decrease of 2.5%.

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

Strauss Coffee

Following are the condensed results of business operations based on the non-GAAP management reports of Strauss Coffee by reported segments for the quarters ended March 31, 2015 and 2014 (in NIS millions):

	First Quarter		
	2015	**2014**	**% Chg**
Israel Coffee			
Net sales	196	205	*(4.3)*
Operating profit	39	41	*(4.6)*
% operating profit	19.8%	19.9%	
International Coffee			
Net sales	650	661	*(1.8)*
Operating profit	47	49	*(4.5)*
% operating profit	7.2%	7.5%	
Total Strauss Coffee			
Net sales	**846**	**866**	***(2.4)***
Organic growth excluding exchange rate impact and classification of costs as a result of the Food Law	**8.2%**	**(0.2%)**	
Gross profit	**293**	**320**	
% gross profit	**34.7%**	**36.9%**	
Operating profit	**86**	**90**	***(4.6)***
% operating profit	**10.2%**	**10.4%**	

Sales

In the first quarter of 2015 organic growth in the coffee business, excluding the foreign currency effect and the classification of costs in Israel Coffee following the implementation of the Food Law, amounted to 8.2% compared to the corresponding quarter last year. Growth mainly reflects the price increases implemented in all countries of operations, excluding Israel and Serbia, in light of the rising cost of green coffee to the Company and the erosion of the local currencies versus the US Dollar (the currency in which green coffee is purchased in all countries except for Brazil). The cost of green coffee in the Group's non-GAAP financial statements includes profit and loss that were realized in respect of derivative financial instruments used to hedge green coffee prices.

Strauss Coffee's sales decreased by approximately NIS 20 million in the first quarter of 2015 compared to the corresponding period last year. Translation differences into Shekels in the coffee operation amounted to NIS 92 million in the reporting period, of which NIS 35 million were due to the erosion of the average exchange rate of the Russian Ruble against the Shekel, NIS 26 million were due to the erosion of the average exchange rate of the Brazilian Real against the Shekel, and NIS 18 million – to the erosion of the average exchange rate of the Ukrainian Hryvnia against the Shekel (see also the foreign exchange rate table in the section "Changes in the Economic Environment"). Additionally, following the implementation of the Food Law in the beginning of 2015 certain costs were classified in Israel Coffee as discounts deducted from sales (approximately NIS 4 million), as opposed to prior years in which similar costs were classified as part of selling and marketing expenses.

Gross profit

In the first quarter of 2015 the gross profit decreased by approximately NIS 27 million compared to the corresponding quarter last year. The gross profit margin dropped by 2.2% and amounted to 34.7% in the quarter. The drop in the gross profit margin reflects a negative impact of the cost of green coffee to the Company in local currency, and erosion of the local currencies against the US Dollar (notably the Russian and Ukrainian currencies) compared to the corresponding period. Most of this decrease was offset by the price increases implemented in the majority of countries where the coffee company is active (except for Israel and Serbia).

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

Operating profit

In the first quarter of 2015 the operating profit of the coffee operation decreased by approximately NIS 4 million. The operating profit margin decreased by 0.2% and amounted to 10.2% in the quarter. The decrease in operating profit reflects the decrease in gross profit, which was almost completely offset by a reduction in the Company's operating expenses.

Strauss Coffee sales by major geographical regions

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

	First Quarter			
Geographical region	**2015**	**2014**	**% chg**	**% change in local currency***
Israel Coffee	**196**	**205**	***(4.3)***	***(4.3)***
International Coffee				
Três Corações joint venture (Brazil) [1] [2] [3] - 50%	379	379	*0.1*	*7.4*
Former USSR countries	105	131	*(20.6)*	*34.5*
Poland	72	67	*7.5*	*16.1*
Romania	63	48	*31*	*40.1*
Serbia	31	36	*(12.7)*	*(1.1)*
Total International Coffee	**650**	**661**	***(1.8)***	***13.9***
Total Coffee	**846**	**866**	***(2.4)***	***9.2***

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

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

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

	First Quarter	
	2015	**2014**
Green coffee sales	30	45
Corn sales	14	15

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

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

In February 2013 the Três Corações joint venture signed agreements with Caffitaly S.p.A, following which the Três Corações joint venture became active in the single portion multi-beverage machines and capsules segment in Brazil. Sales of the machines and capsules began in November 2013 under the TRES solution. The overall impact of the TRES solution on the Três Corações joint venture's operating profit in the first quarter of 2015 amounted to an operating loss of approximately NIS 3 million (approximately BRL 2 million), compared to an operating loss of NIS 6 million (BRL 4 million) in the corresponding quarter last year (data reflect Strauss Coffee's share (50%)).

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

In the first quarter the Três Corações joint venture's average market share in R&G amounted to approximately 24.5%, compared to 22.8% in the corresponding period last year (value market share, reflecting 100% of the Três Corações joint venture's sales according to A.C. Nielsen figures and including the market share of Itamaraty's coffee business as mentioned above in both quarters). Excluding the Itamarty acquisition, the Três Corações joint venture's market share was 24.0% in the quarter versus 22.3% last year.

In the first quarter the Três Corações joint venture's sales in local currency grew by 7.4% (6.9% before the exclusion of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee). Most of the growth originates in R&G sales. The growth in the Três Corações joint venture's local currency sales mainly reflects price increases introduced in 2014 in light of rising green coffee prices in Brazil compared to the corresponding quarter last year. The sales growth also reflects sales of machines and capsules under the TRES solution, which was launched in November 2013 as mentioned above. Itamaraty sales under the Três Corações joint venture began toward the end of the quarter, and consequently were immaterial in the current quarter. Additionally, the Três Corações joint venture's sales in the corresponding period last year reflected a growth in volumes that was due in part to early purchases of coffee prior to the price increases that were introduced in March 2014.

Growth in the Três Corações joint venture's Shekel sales in the first quarter of 2015 compared to the corresponding period last year was adversely affected by the erosion of the average exchange rate of the Brazilian Real against the Shekel, which amounted to NIS 26 million.

As a result of the sales growth in local currency, the gross profit in the Três Corações joint venture's local currency increased in the first quarter of 2015 by 2.5% compared to the corresponding quarter last year. The gross profit margin decreased by 1.3% and amounted to 31.7% in the first quarter of 2015, and primarily reflects the increase in the cost of green coffee to the Três Corações joint venture; this was offset in part by the price increases introduced in 2014. The operating profit before other expenses decreased by 3.3% following an increase in operating expenses (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

<u>The former USSR countries</u>

Following the political crisis in Russia and Ukraine and the complexity of Russia's relations with the West, the Ukrainian and Russian currencies devalued significantly against the major currencies, including the US Dollar (which adversely impacted the cost of sales in the region) and the Shekel (causing negative translation differences). These devaluations occurred in 2014 and were particularly sharp in the fourth quarter of the year. By contrast, in the first quarter of 2015 the Ruble strengthened against the US Dollar and the Shekel (compared to the exchange rates at the end of 2014); however, in the current quarter average exchange rates have remained approximately 44% and 37% lower than the Ruble's average exchange rates against the US Dollar and the Shekel in the corresponding quarter last year, respectively. Moreover, the competitive environment in the region has remained challenging.

The Company's sales in the region in local currency grew by approximately 34.5% in the first quarter of 2015, compared to the corresponding period last year. Sales growth in local currency was mainly impacted by the 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 26 million in the first quarter compared to the corresponding period last year, and were affected by negative translation differences against the Shekel as mentioned.

<u>Poland</u>

The Company's sales in Poland in local currency increased by approximately 16.1% in the first quarter of 2015 compared to the corresponding quarter last year. Sales were mainly influenced by price increases reflecting a rise in the cost of green coffee (especially 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 period last year. Additionally, sales volumes increased.

The Company's Shekel sales in Poland increased by approximately NIS 5 million in the quarter compared to the corresponding period in 2014, despite negative translation differences due to the erosion of the Polish Zloty against the Shekel.

<u>Romania</u>

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

The Company's sales in Romania in local currency grew by approximately 40.1% in the first quarter of 2015, compared to the corresponding period last year. Sales growth in the first quarter was the result of significant volume growth that reflected, *inter alia,* the beneficial effect of the timing of the Easter holiday and new sales in respect of the Amigo brand (excluding Amigo, the Company's sales in local currency grew by approximately 27.0%). Sales growth also reflected an improvement in the product mix and price increases introduced following the increase in the cost of green coffee to the Company, along with the strengthening of the US Dollar (the currency in which green coffee is purchased) against the Romanian Leu compared to the corresponding quarter in 2014.

Shekel sales in Romania grew by approximately NIS 15 million in the first quarter of 2015 compared to the corresponding quarter last year, despite negative translation differences due to the erosion of the Romanian Leu against the Shekel.

Commencing on June 1, 2015 VAT on food products in Romania is expected to be lowered (from 24.0% to 9.0%). At this stage, the Company is unable to estimate the anticipated impact of the reduction in VAT on its sales.

<u>Serbia</u>

The Company's sales in Serbia in local currency decreased by 1.1% in the first quarter of 2015 compared to the corresponding period last year. Sales were influenced by a consumer trend of preferring cheaper coffee brands and by price erosion due to the harshening competitive environment.

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

<u>Israel</u>

The Company's sales in Israel decreased by approximately NIS 9 million in the first quarter of 2015 compared to the corresponding period last year. The decrease is explained by effective price decreases and a negative effect of the sales mix. Additionally, after the Food Law took effect in the beginning of 2015 certain costs were classified as discounts deducted from sales (approximately NIS 4 million), as opposed to prior years in which similar costs were classified as part of selling and marketing expenses. Excluding the new classification the drop in sales in the first quarter would have amounted to 1.7%.

The operating profit of Israel Coffee dropped by NIS 2 million in the first quarter of 2015 compared to the corresponding quarter in 2014. The decrease in operating profit is the result of the decline in sales as mentioned, of the increase in the cost of green coffee to the Company, and of the strengthening of the US Dollar (in which green coffee is purchased) against the Shekel, compared to the corresponding period last year. Most of the foregoing was offset by an improvement in the instant coffee supply chain in Israel and a reduction in operating expenses.

<u>The Group's Activity in Israel</u>

Strauss Group is the second-largest company in the Israeli food industry, and in the first quarter of 2015 according to StoreNext figures held an 11.5% share of the total retail domestic food and beverage market in value terms (compared to 12.1% in the corresponding period last year). The Israeli market is the Group's home market, where it is active in various categories. According to StoreNext, in the first quarter of 2015 the Israeli food and beverage market grew by 3.0% in financial value.

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

In the first quarter of the year Strauss Group's Israel sales totaled approximately NIS 1,063 million versus NIS 1,106 million last year, a decrease of 3.9%. After the Food Law took effect in the beginning of 2015 certain costs were classified as discounts deducted from sales, as opposed to prior years in which similar costs were classified as part of selling and marketing expenses. Excluding the classification of costs due to the Food Law, the decrease in sales by the Group's operation in Israel would have amounted to 2.2%.

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

	First Quarter		
	2015	**2014**	**% Chg**
Health & Wellness segment			
Net sales	454	479	*(5.2)*
Operating profit	45	49	*(8.0)*
% operating profit	9.9%	10.2%	
Fun & Indulgence segment			
Net sales	299	311	*(3.8)*
Operating profit	47	49	*(4.5)*
% operating profit	15.7%	15.8%	
Total Strauss Israel			
Net sales	**753**	**790**	***(4.6)***
Gross profit	**284**	**327**	***(13.1)***
% gross profit	**37.7%**	**41.4%**	
Operating profit	**92**	**98**	***(6.2)***
% operating profit	**12.2%**	**12.4%**	

Sales

In the first quarter of 2015 Strauss Israel's sales decreased by 4.6% (approximately NIS 37 million). In the Health & Wellness segment the decrease was approximately 5.2% (NIS 25 million), and in Fun & Indulgence, 3.8% (NIS 12 million). The decrease in sales in the quarter was primarily the result of a more intense competitive environment and effective price decreases. Additionally, after the Food Law took effect in the beginning of 2015 certain costs were classified as discounts deducted from sales (approximately NIS 16 million), as opposed to prior years in which similar costs were classified as part of selling and marketing expenses. Excluding the abovementioned classification of costs the drop in sales in the first quarter would have amounted to 2.6%, the gross profit would have been 39.0%, and the operating profit would have been 12.0% (no impact on the operating profit).

Gross profit

In the first quarter of 2015 Strauss Israel's gross profit decreased by approximately NIS 43 million, with 3.7% erosion of the gross profit margin, compared to the corresponding quarter last year. The decrease in gross profit in the quarter reflects a drop in sales, a certain increase in raw material prices (cocoa, raw milk, hazelnuts and almonds) and the strengthening of the US Dollar and Pound Sterling (the currencies in which some raw materials are purchased) against the Shekel, compared to the corresponding quarter last year. These were partly offset by streamlining measures applied in production and packaging processes in a number of plants, a beneficial impact of the drop in energy prices, and a certain decrease in the cost of some of the Company's raw materials (potatoes and tahini). Additionally, approximately 1.3% of the 3.7% decrease in the gross profit margin is the result of the reclassification of costs as described above.

Operating profit

In the first quarter of 2015 Strauss Israel's operating profit decreased by approximately NIS 6 million, and the operating profit margin dropped by 0.2% and amounted to 12.2% of sales. The decrease in operating profit was due to the drop in gross profit, and was mostly offset by a reduction in operating expenses compared to the corresponding period last year. Excluding the abovementioned classification the operating profit would have been approximately 12.0% (no impact on 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%). 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 12 weeks ended on March 22, 2015 was 28.7% (Number 1 in the market), compared to 28.1% in the corresponding period last year. Sabra's value market share of the hummus category in the same period was 62.6%, compared to 63.2% last year (the method for calculating market share employed by IRI has changed; the comparative figures for the corresponding quarter were amended accordingly).

Sale volumes in Australia and Mexico are immaterial. Nevertheless, it is noted that the Company leads the hummus market in Australia (with a value market share of 27.5% under the “Obela Hummus” brand) and in Mexico. In 2015, in both countries growth in the company's sales volumes was recorded.

Sabra

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

	First Quarter	
	2015	**2014**
Sales	347	284
Growth	22.1%	14.5%
Organic growth excluding currency impact	8.1%	21.4%
Operating profit	40	38
% operating profit	11.5%	13.3%

Sabra's sales in the first quarter of 2015 grew by approximately NIS 63 million compared to the corresponding quarter last year. Sabra's Shekel sales were favorably influenced by positive translation differentials in respect of the strengthening of the US Dollar against the Shekel (see also the foreign exchange rate table in the section "Changes in the Economic Environment").

Most of the growth in local currency was due to growth in hummus sales volumes, including "grab & go" packs. Strong growth was also recorded in sales of guacamole and yogurt-based dips, although these categories are still relatively small.

The operating profit in the first quarter of 2015 increased by NIS 2 million, with 1.8% erosion of the operating profit margin compared to last year. The decrease in the operating profit margin is mainly the result of a negative impact by the mix, an increase in cost of tahini to Sabra and an increase in marketing expenses compared to the corresponding quarter.

Following a random sampling of Sabra hummus by the Michigan Department of Agriculture on March 30, 2015 and after Listeria monocytogenes bacteria were found in a single package, Sabra announced a voluntary recall of approximately 30,000 cases of its Classic Hummus as a preventive measure. To the best of the Company's knowledge, to date there have been no reports indicating that these products have caused any illness. Neither has the source of the Listeria been identified by the Company or the authorities.

Obela

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

Obela's sales in the first quarter of 2015 totaled approximately NIS 18 million, compared to NIS 14 million in the corresponding quarter last year. Excluding the foreign currency effect, growth in the quarter amounted to 24.6% compared to the corresponding period in 2014. Sales growth is primarily the result of growth in the domestic market in Australia.

The non-GAAP operating loss in the first quarter totaled NIS 12 million, compared to NIS 10 million in the corresponding quarter last year.

Other Operations

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

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 first quarter of 2015 the Company focused on products based on the Maze technology, including two dedicated products for the Chinese market which were launched in the second half of 2014. These products expand the existing product line and offer a solution in the category of under-sink water filtration systems and floor standing systems, as distinctfrom countertop appliances.

In the first quarter of 2015 Strauss Water's sales amounted to approximately NIS 120 million compared to NIS 137 million in the corresponding quarter in 2014, a decrease of 12.6%. The decrease is mainly explained by the restructuring of the operation in China, which the Company began to review in 2014 and which was implemented commencing in the fourth quarter of the year, as initially reported in the financial statements as at June 30, 2014. Excluding this change, Strauss Water's sales grew by approximately 1.5%.

Max Brenner

On the date of publication of the report, the Max Brenner chain comprises sixty "Chocolate Bars" in Israel and around the world, fifty-five under franchise and five owned by the Company (in the US: New York, Philadelphia, New Jersey, Boston and Maryland). The Max Brenner branches are spread throughout Australia (41), Israel (6), the US (5), Japan (4), Singapore (2) and Russia (2).

In the first quarter of 2015 Max Brenner's sales totaled approximately NIS 28 million compared to NIS 29 million last year, a decrease of 3.7%. Max Brenner's organic growth excluding the foreign currency effect amounted to a decrease of approximately 4.7% compared to the corresponding quarter last year.

EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT

Description of the market risks to which the Company is exposed

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

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

Commodities procurement

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

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

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

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

As mentioned, the Company has long-term liabilities, primarily in Shekels, partly Index-linked and partly at fixed interest rates, loans denominated in foreign currency, part of which are at floating interest rates, and is exposed to future cash flows in currencies that differ from the local 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, and of the Group EVP Finance in regard to the business of the Group as a whole.

Customer credit

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

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

The cash flow from operating activities in the Company's separate financial statements ("solo report") for the period ended March 31, 2015 and for the year ended December 31, 2014 is negative (NIS 44 million and NIS 77 million, respectively). Notwithstanding the foregoing, on May 27, 2015 the Board of Directors of the Company determined that the abovementioned negative cash flow is not indicative of a liquidity issue in the Company. This decision is based, *inter alia*, on a review of the Company's existing and anticipated liabilities in the two years commencing on the date of approval of the financial statements as at March 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 financing and income is forward-looking information, as this term is defined in the Securities Law, 1968, which is primarily based on the Company's forecasts. There can be no assurance that these assessments will, in fact, occur, or that they will not occur in a different form, including materially, than estimated, as a result of market behavior and the occurrence of the risk factors set forth in section 30 in Part A of the Company's 2014 Periodic Report.

ASPECTS OF CORPORATE GOVERNANCE

General

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

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

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

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

- Before the financial statements are approved the draft quarterly financial statements are forwarded to the Committee members and the rest of the members of the Board of Directors for their review. The draft financial statements of the Company were forwarded to the members of the Board approximately eight business days before the date of approval of the financial statements, and the recommendations of the Financial Statements Review Committee were forwarded to the members of the Board some two business days before the date of approval of the quarterly financial statements of the Company.

- The EVP Finance and the Company Controller hold meetings from time to time with the Chairperson of the Financial Statements Review Committee on subjects related to the financial statements of the Company. Before the financial statements as at March 31, 2015 were approved, a meeting was held with the Committee Chairperson to discuss material issues that arose during the preparation of the quarterly financial statements.

- The financial statements are presented for discussion by the Financial Statements Review Committee. In this discussion, the EVP Finance extensively reviews the business activity and business results of the Company for the reported 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 May 20, 2015 the Financial Statements Review Committee held a discussion on the financial statements of the Company as described. The meeting was attended by all members of the Financial Statements Review Committee, Ronit Haimovitch and Adi Strauss as observers, Company CEO, Company EVP Finance, Company CLO, the Company controller and the Company Auditor.

- At the meeting of the Board of Directors on May 27, 2015 the Board discussed the recommendation of the Financial Statements Review Committee to approve the financial statements of the Company as at March 31, 2015. The Board of Directors received an update from Company Management that no event or matter had occurred, which are able to alter the assessment of the effectiveness of internal control as presented in the latest Annual Report. In the opinion of the Board of Directors, the Committee's recommendations and the necessary materials were forwarded to the members of the Board a reasonable time before the abovementioned meeting. In this respect, the Board of Directors has determined that a reasonable time for forwarding materials prior to a Board meeting in which quarterly or annual financial statements are to be approved is at least four days of which at least two business days. All members of the Board of Directors were present at the meeting with the exception of Ran Midyan, 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 first quarter of 2015.

INFORMATION ON THE DEBENTURE SERIES

Following is information on the series of material capital notes with respect to the Company's liabilities as at March 31, 2015:

		Debentures Series B	Debentures Series D
A.	Nominal/par value	446	465
B.	Par value linked to the Consumer Price Index	531	465
C.	Book value of Debentures	530	481
D.	Book value of interest payable	4	-
E.	Market value	578	546

LIABILITY REPORT ACCORDING TO PAYMENT DATES

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

MATERIAL EVENTS IN THE REPORTING PERIOD

For a review of material events occurring in the reporting period, see Notes 4, 5 and 6 to the consolidated interim financial statements as at March 31, 2015.

POST-STATEMENT OF FINANCIAL POSITION DATE EVENTS

For a review of events occurring after the statement of financial position date, see Note 9 to the consolidated financial statements as at March 31, 2015.

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

Ofra Strauss Chairperson of the Board	Gadi Lesin Chief Executive Officer

May 27, 2015