STRAUSS GROUP LTD.

ANNUAL REPORT

AS AT DECEMBER 31, 2016

Board of directors	Ofra Strauss, Chairperson Adi Strauss Dr. Michael Anghel Ronit Haimovitch Dalia Narkys David Mosevics Prof. Arie Ovadia Meir Shanie Prof. Dafna Schwartz Dalya Lev Akiva Moses Galia Maor
President & CEO	Gadi Lesin
EVP, CLO & Company Secretary	Michael Avner
Auditor	Somekh Chaikin KPMG
Registered office	Hasivim St. 49 P.O.B 194 Petach Tikva 49517, Israel

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STRAUSS GROUP LTD.

DESCRIPTION OF THE CORPORATION'S BUSINESS

Description of the Company's Business Affairs

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Description of the Company's Business Affairs

Part I – Description of the General Development of the Company's Business

1. The Company's Activities and Description of Its Business Development

The Company's Activities

1.1 Strauss Group Ltd. (formerly Strauss-Elite Ltd., hereinafter: the "**Company**") and the companies it controls, including jointly controlled companies (for the sake of convenience, the Company and said companies shall hereinafter be called the "**Group**") are a group of industrial and commercial companies that operate in Israel and abroad, primarily engaged in the development, manufacture, marketing and sale of a variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration and purification products.

1.2 The Company was incorporated and registered in Israel in 1933, becoming a public company in 1973, and its shares are listed for trade on the Tel Aviv Stock Exchange Ltd. (hereinafter: "**TASE**").

1.3 The controlling shareholders of the Company are Mr. Michael Strauss, through his (indirect) holdings in Strauss Holdings Ltd. (hereinafter: "**Strauss Holdings**")[1] and a direct holding in the Company, and Ms. Ofra Strauss, who is deemed holder of the Company's shares together with Mr. Strauss (hereinafter: the "**Controlling Shareholders**").

The Group is a food and beverage company with manufacturing, marketing and sales operations in some 20 countries worldwide and a strong home base in Israel, which focuses on high value-added branded products. According to StoreNext[2], the Company is the second-largest food group in Israel, and the subsidiary, Strauss Coffee B.V.

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[1] Strauss Holdings is a private company registered in Israel. To the best of the Company's knowledge, the holders of the ordinary shares of Strauss Holdings are: (1) Michael Strauss Assets Company Ltd. [a company held by Mr. Michael Strauss (approximately 54.7%), Ofra Strauss (approximately 20.1%), Irit Strauss and Adi Strauss (approximately 12.6% each)] (hereinafter: "**Michael's Assets**"); (2) Raya Strauss Ben Dror Assets Ltd. [a company held by Raya Strauss Ben Dror's sons, Gil Midyan (approximately 50%) and Ran Midyan (approximately 50%)] (hereinafter: "**Raya's Assets**"); (3) Strauss Holdings (approximately 29%). The effective holding of Michael's Assets and Raya's Assets in Strauss Holdings, excluding the shares held by Strauss Holdings itself, is 73.4% by Michael's Assets and 26.6% by Raya's Assets. The voting shares in Strauss Holdings are held by Mr. Michael Strauss (99%) and Raya Strauss Ben Dror (1%).
To the best of the Company's knowledge, the voting shares in Strauss Holdings confer upon their holders the right to be invited, to participate and to vote in general meetings; the holders of the majority of the voting shares have the right to appoint the majority (half plus one) of the directors on the board of Strauss Holdings.
To the best of Company's knowledge, the ordinary shares in Strauss Holdings confer upon their holders full proprietary rights (dividend and receipt of the Company's residual value upon dissolution); the right to be invited and to participate without a voting right in general meetings, and to vote in general meetings only on resolutions regarding a change in any provision in Strauss Holdings' Articles of Association; and also the right to appoint one director for each 15% holding of ordinary shares of Strauss Holdings.

[2] StoreNext measures the everyday consumer goods segment in the barcoded retail market (hereinafter: "**StoreNext**").

(hereinafter: "**Strauss Coffee**"), according to Euromonitor[3], is one of the world's leading companies in terms of market share.

In 2016, the Company held 11.5% of the total food and beverage market in Israel (in value terms[4]), excluding the market share of Strauss Water Ltd. (hereinafter: "**Strauss Water**") and Max Brenner USA LLC (hereinafter: "**Max Brenner**"), and it is the food group with the second-highest sales turnover among Israeli food companies[5]. The Group is also active in the coffee markets of Brazil[6], Russia and the CEE countries. In the US, Canada, Australia, Mexico and Western Europe the Group is active in the development, manufacture, marketing and sale of refrigerated dips and spreads. In Israel, China and the UK, the Group is engaged in the marketing, sale and servicing of water filtration and purification products. The Group is also active in a number of other countries through franchisees, as described in section 15.1.a below. Additionally, Strauss Water has a material investment (34%) in an associate which is a joint venture established by Strauss Water with the Haier Group of China (hereinafter: "**Haier**"), active in the purification and filtration of drinking water in China. In the US, Australia, Japan, Russia, South Korea and Israel, the Group operates "Chocolate Bars", directly or through franchisers.

1.4 The Group has five operating segments: Health & Wellness, Fun & Indulgence, Israel Coffee, International Coffee, International Dips & Spreads, and Other Operations (the "other" operating segment includes the activities of Strauss Water and Max Brenner, as well as other immaterial operations). For further information on the segments, see section 2 below.

1.5 The Group collaborates with four multinational corporations – the French concern Danone (Compagnie Gervais Danone S.A.) (hereinafter: "**Danone**"), the American corporation PepsiCo, Inc. (hereinafter: "**PepsiCo**"), the Haier Group, and the Virgin Group through its subsidiary, Virgin Enterprises Ltd. (hereinafter: "**Virgin**").

<u>Development of the Company's business</u>

1.1 The Group began operating in 1934 with the production of chocolate bars and assorted sweet snack bars. In the mid-1950s, the Group began to manufacture instant coffee in Israel. In subsequent years, the Group expanded its snacks and coffee businesses by building new plants and acquiring companies active in these areas. In 1990, the Group began collaborating with PepsiCo in salty snack food.

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[3] Euromonitor is a provider of strategic market research. The company produces data and analyses of products and services worldwide (hereinafter: "**Euromonitor**").

[4] According to StoreNext data.

[5] According to StoreNext data.

[6] Through the Três Corações joint venture. 50% of the Três Corações joint venture's shares are held by São Miguel Holding e Investimentos S.A. ("**São Miguel**").

1.2 In the early 1990s, the Group launched its international coffee business in Europe, principally in the roast and ground (R&G) coffee market. The Group expanded its global operation through the acquisition of companies active in this field, as well as through the establishment of new businesses. In early 2000, the Group began operating in South America following the acquisition of a coffee company in Brazil.

1.3 In 2004 the Company acquired, by way of a share swap, the companies Strauss Health Ltd. (formerly Strauss Dairies Ltd.) and Strauss Fresh Foods Ltd. (formerly Strauss Salads Ltd.) (hereinafter: the "**Merger Transaction with Strauss**"), and the Group initiated operations in dairy products and salads. For additional information on the Merger Transaction with Strauss, see section 25.1 below. On February 5, 2017 the merger of Strauss Fresh Foods with the Company was completed. For further information, see the Immediate Report of February 12, 2017 (reference no. 2017-01-012925). It is noted that the dairy business was initiated in the 1930s by Hilde and Dr. Richard Strauss, who built a family dairy in Nahariya, which was subsequently incorporated as a private company in March 1947. In 1969, the dairy became active in yogurt and dairy desserts, and in 1996, the French concern Danone acquired 20% of the dairy's shares.

1.4 In 2005, the Group significantly expanded the international coffee operation through a series of acquisitions in Poland and Serbia, including the engagement in the Três Corações Joint Venture in Brazil (the "**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%)). The expansion of the international coffee operation continued in the following years – in Russia, additional brands were acquired and a leading coffee company was purchased in the years 2010-2013; in Brazil, via the Três Corações Joint Venture, additional brands in were acquired in 2009, 2011, 2014 and 2016; in Romania - additional brands were acquired in 2014. In March 2017 Strauss Coffee completed the acquisition of the plant in Germany (which it has leased since 2012), which produces freeze-dried instant coffee and mainly serves the operation in Russia and the CIS countries. For further information, see the Immediate Report of March 23, 2017 (reference no. 2017-01-024067) and Note 24.4.7 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

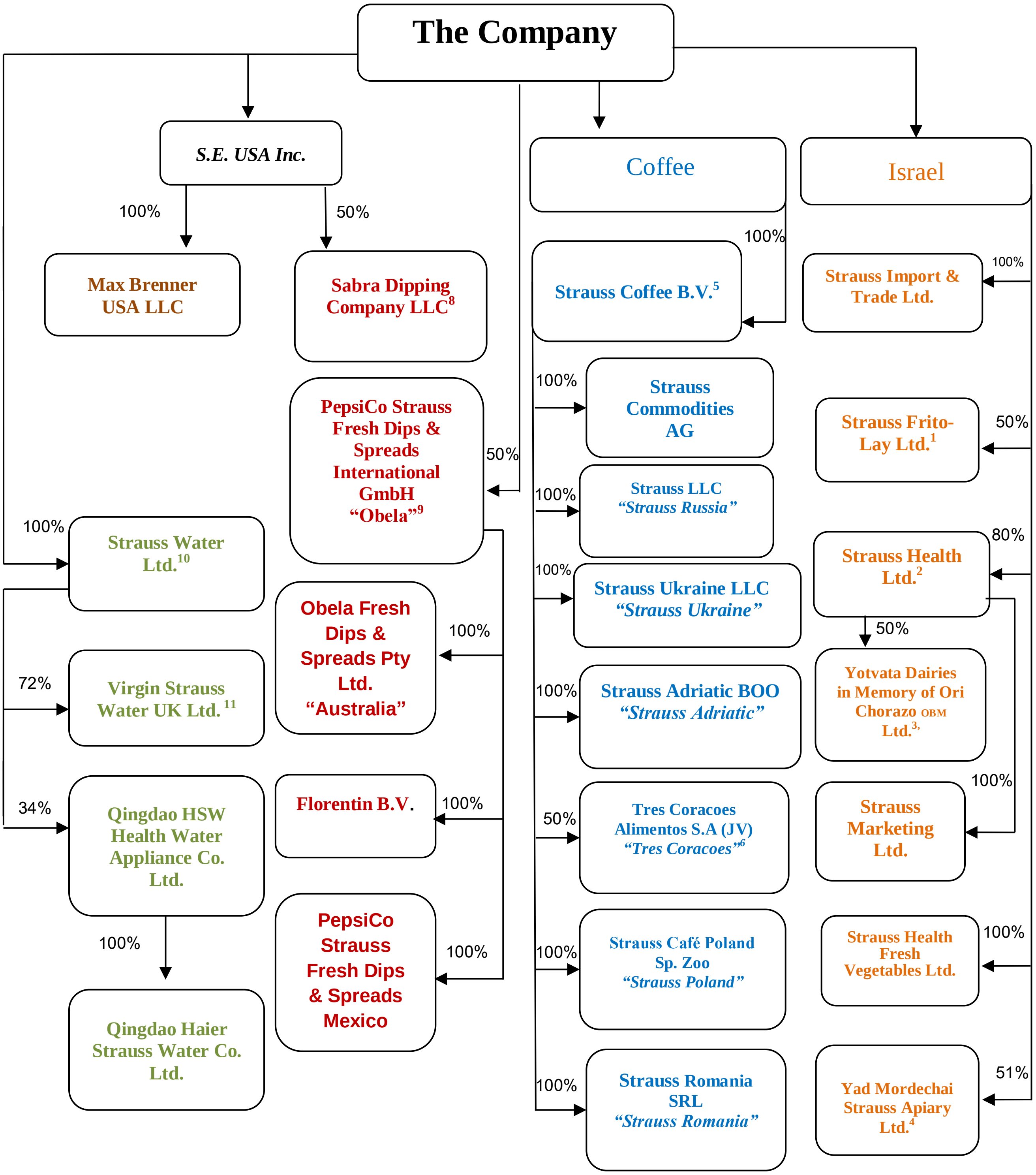
1.5 In 2008, the private investment firm TPG (through Robusta Coöperatief U.A.) invested in the subsidiary Strauss Coffee B.V. in consideration for the allotment of 25.1% of the shares of Strauss Coffee. On March 27, 2017 Strauss Coffee effectuated a buyback of TPG's entire holding. For additional information, see section 12.13 below.

1.6 In 2005, the Group began operating in the US, in the refrigerated dips and spreads market. In late 2006, the Group expanded its business in the US and consolidated its products under the Sabra brand. At the end of 2007, the Group entered into a partnership agreement with PepsiCo to jointly operate in the US and Canada through Sabra. In October 2011, an additional partnership agreement was signed with PepsiCo for the establishment of a global joint venture in dips and spreads under the Obela brand, which operates in Mexico and in Australia. In June 2016 Obela entered into an agreement for the acquisition of 100% of the share capital of Florentin B.V. (hereinafter: "**Florentin**"). Florentin is a Dutch company engaged in the development and manufacture of organic hummus, falafel, spreads and pita bread, and markets its products in Western Europe, particularly in the Netherlands, Germany and France, under the Florentin brand.

1.7 In 2006, the Group expanded the Max Brenner business globally and entered the American market.

1.8 In 2009, the Company acquired Tana Industries Ltd. (hereinafter: "**Tami 4**"). In October 2010, an agreement was signed with Haier Group for the establishment of a joint venture in China, and in November 2011, an agreement was signed with Virgin for the establishment of a joint venture in the UK and Ireland. In May 2015 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. For further information, see section 15.1.l below. In December 2016 the Company acquired 12.44% of the issued and paid-up share capital of Strauss Water from the non-controlling interest in Strauss Water. Following the closing of the transaction, the Company holds 100% of the shares of Strauss Water. For further information, see the Immediate Report of December 8, 2016 (reference no. 2016-01-087096).

1.9 The following chart presents the structure of the Company's holdings in major companies on or about the date of the Periodic Report.



The Company
S.E. USA Inc.
100%
Max Brenner USA LLC
50%
Sabra Dipping Company LLC[8]
PepsiCo Strauss Fresh Dips & Spreads International GmbH "Obela"[9]
50%
Obela Fresh Dips & Spreads Pty Ltd. "Australia"
100%
Florentin B.V.
100%
PepsiCo Strauss Fresh Dips & Spreads Mexico
100%
100%
Strauss Water Ltd.[10]
72%
Virgin Strauss Water UK Ltd.[11]
34%
Qingdao HSW Health Water Appliance Co. Ltd.
100%
Qingdao Haier Strauss Water Co. Ltd.
Coffee
100%
Strauss Coffee B.V.[5]
100%
Strauss Commodities AG
100%
Strauss LLC "Strauss Russia"
100%
Strauss Ukraine LLC "Strauss Ukraine"
100%
Strauss Adriatic BOO "Strauss Adriatic"
50%
Tres Coracoes Alimentos S.A (JV) "Tres Coracoes"[6]
100%
Strauss Café Poland Sp. Zoo "Strauss Poland"
100%
Strauss Romania SRL "Strauss Romania"
Israel
100%
Strauss Import & Trade Ltd.
50%
Strauss Frito-Lay Ltd.[1]
80%
Strauss Health Ltd.[2]
50%
Yotvata Dairies in Memory of Ori Chorazo OBM Ltd.[3,]
100%
Strauss Marketing Ltd.
100%
Strauss Health Fresh Vegetables Ltd.
51%
Yad Mordechai Strauss Apiary Ltd.[4]

The Holding Structure Diagram

Where a 100% holding is noted, the holding is direct or indirect through wholly-owned subsidiaries.

[1] 50% of the shares of Strauss Frito-Lay are held (indirectly) by the American corporation, PepsiCo. For a description of the agreements with PepsiCo, see section 10.14 below.

[2] 20% of the shares of Strauss Health are held by the French corporation, Danone. For a description of the agreements with Danone, see section 9.14.a below.

[3] 50% of the shares of Yotvata are held by Kibbutz Yotvata. For a description of the agreements with Yotvata, see section 9.14.b below.

[4] 49% of the shares of Strauss Yad Mordechai are held by Kibbutz Yad Mordechai.

[5] 25.1% of the shares of Strauss Coffee are dormant shares.

[6] 50% of the shares of Três Corações Joint Venture are held by the São Miguel Group. For a description of the joint venture (50/50) with São Miguel, see section 13.13 below. To clarify, the Group's operations in Brazil described in this report refer to the Company's activity through the Três Corações Joint Venture in Brazil, which includes the production, marketing and sale of coffee and other products, including the export of green coffee. For further information see section 13 below.

[7] Strauss Poland was acquired over 20 years ago. After the acquisition date it transpired that the Company did not hold a state permit, which was formerly required for the transfer of the shares in the acquisition. This permit is no longer required in similar transactions. In the opinion of Strauss Poland's legal counsel, although in this situation the Company is liable to be exposed to legal action regarding the legal invalidity of the ownership of the acquired shares, according to the legal opinion the risk that suits will be filed in this issue by state authorities in Poland or by third parties, including the historic shareholders, is remote, particularly considering the time that has elapsed since the shares were transferred, and the fact that no suits have been filed against the Company during this considerable period. Additionally, pursuant to the aforementioned professional opinion, insofar as a lawsuit should be filed, the Company has legal arguments in its defense such as abuse of right and a basis for a monetary refund of the full market value of the shares of the investee company, including the value that accrued since the historic acquisition date.

[8] 50% of the shares of Sabra are held by the American PepsiCo corporation. For a description of the joint venture with PepsiCo, see section 14.13.a below.

[9] 50% of the shares of Obela are held by the American PepsiCo corporation. For a description of the joint venture with PepsiCo, see Section 14.13.b below.

[10] 34% of the shares of Qingdao Health Water Appliances Co. Ltd. are held by Strauss Water and 66% of the shares are held by the Chinese Haier Group. See section 15.l.l below.

[11] 28% of the shares of Virgin Strauss Water UK Ltd. are held by Virgin. See section 15.1.k below.

2. <u>Operating Segments</u>

The Group engages in five key business areas that are reported as segments, as described in Note 27 to the Financial Statements of the Company as at December 31, 2016, in Part C below. Four out of the business areas are concentrated under two key frameworks: the **Israel Operation** and the **Coffee Operation**, as described below:

The Israel Operation – in this framework the Group develops, manufactures, sells, markets and distributes in Israel a wide range of branded food and beverage products. In line with the Group's focus on consumer preferences, the Group's products in Israel respond to two leading consumption trends, "Health & Wellness" and "Fun & Indulgence". Accordingly, the Company's activities under this framework are divided into the two following operating segments:

a. **The Health & Wellness segment:** The Group's products in this segment respond to the growing health and wellness trend, and the main products are yogurts, dairy desserts, soft cheeses, flavored milk beverages, refrigerated salads (hummus, tahini, eggplant, etc.), cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil, jams, cooking sauces, lemon juices and natural maple syrup. Additionally, the Company sells and distributes natural juices manufactured by Ganir, Zhug Zehavi, HaNasich Tahini and long-life (UHT) milk manufactured by Ramat Hagolan Dairies. For more information, see section 9 below.

b. **The Fun & Indulgence segment:** The Group's products in this segment respond to the fun and indulgence trend; the main products include sweet snack bars, chocolate tablets, sweet spreads, candies, chewing gum, cakes and cookies, biscuits, wafers and salty snacks, which are sold and distributed by the Company. For further information, see section 10 below.

The Coffee Operation – the Group mainly develops, manufactures, sells, markets and distributes a range of Strauss branded coffee products. The Group's activity in this framework is divided into two segments, as follows:

a. **The Israel Coffee segment:** In this segment, the Group develops, manufactures, sells, markets and distributes a range of coffee products in Israel under its brands; in addition, the Group manufactures and sells in Israel chocolate powders and other drink powders.
The Group also engages in the retail sale of coffee products at points of sale in Israel. This segment includes **Strauss Coffee**'s corporate center (except for identified costs of different subsidiaries of Strauss Coffee, which are allocated to each subsidiary). For additional details, see section 12 below.

b. **The International Coffee segment:** In this segment the Group develops and manufactures a range of company-branded coffee products and drink powders in Brazil through the Três Corações Joint Venture, a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%), in Russia and in Eastern European countries, and also markets and distributes coffee machines. Additionally, as part of its activity in Brazil (through the Três Corações Joint Venture), the Group purchases and processes green coffee, corn products and juice powders. The Group markets and distributes its aforesaid product range in Brazil, Russia and in Eastern European countries. For additional information on this segment, see section 13 below.

The International Dips & Spreads segment - the Group develops, manufactures, markets and sells refrigerated dips and spreads through the Sabra brand in the US and Canada, and the Obela brand in Mexico, Australia and Western Europe (through the Florentin brand), in collaboration with the international food concern PepsiCo. For additional information on this segment, see section 14 below.

In addition to the segments described above, the Group has additional operations that are immaterial to its business, which do not meet the quantitative threshold for disclosure in the Financial Statements as reportable segments or as aggregation criteria for separate presentation as reportable segments. These operations are included in the Company's Financial Statements as at December 31, 2016 as the "**Other Operations**" segment. The main activities in this segment are:

(1) <u>Strauss Water</u> – the Group develops, manufactures, sells, markets and distributes drinking water filtration, purification and carbonation devices. In addition, Strauss Water has a material investment (34%) in an associate, which is a joint venture established by Strauss Water in partnership with Haier Group, active in the purification and filtering of drinking water in China. For further information, see section 15.1 below.

(2) <u>Max Brenner</u> – the Group manufactures and sells chocolate products under the Max Brenner brand and operates a chain of "Chocolate Bars" in Israel and abroad. These are wholly owned by the Company or operated through franchisees and partners, and deliver a novel consumption experience in the chocolate and chocolate beverage category. For further information, see section 15.2 below.

There is no demarcation of activities arrangement in place in the Company. To the best of the Company's knowledge, officers of the Company do not engage in additional businesses in the Company's business areas.

3. Investments in the Company's Equity and Transactions in its Shares

To the best of the Company's knowledge, in 2015 and 2016, until the date of publication of this report, there were no off-exchange transactions in the Company's shares.

4. Dividend Distribution

Decisions regarding the payment of dividends are made by the Company's Board of Directors. The frequency and amount of distributions depend on the Company's business results, and the decisions are made on the basis of business considerations relating to the Company's best interests.

For information on distributions of cash dividends by the Company in 2015 and 2016, see Note 26.3 to the Financial Statements of the Company as at December 31, 2016, in Part C below. The balance of retained earnings as at the date of the Statement of Financial Position is NIS 1,863 million.

For information on the Company's undertakings to external sources of finance to comply with financial covenants, which may influence the Company's ability to distribute dividends in the future, see section 21.4 below. According to the terms and conditions of the Series D Debentures, for as long as said Debentures are not repaid in full, should the Company dispose of most its assets to any third party, then for a three-year period from the date of sale the Company shall not distribute dividends, if, immediately after the dividend distribution, the Company fails to comply with its financial covenants.

Part II – Other Information

5. Financial Information on the Company's Operating Segments

The Company has a number of jointly controlled companies in which the Company and/or subsidiaries have a 50% holding: the Três Corações Joint Venture (3C) (in Brazil), Sabra Dipping Company (in the US), Strauss Frito-Lay Ltd. (the salty snacks operation in Israel) and PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela). To clarify, these companies are included in the Management (Non-GAAP) Reports according to the rate of the Company's and/or the subsidiaries' holding therein (50%).

Commencing in 2013, the Group has retrospectively applied IFRS 11 – Joint Arrangements. Pursuant to the standard, the income statement and the statements of financial position, comprehensive income, changes in shareholders' equity and cash flows of businesses which are jointly controlled by the Group and additional partners are no longer stated according to Strauss's relative share 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) (hereinafter: "**Financial Statements**"). The reporting method does not alter the Group's profit 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 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 operating segments in the same manner as they were presented prior to the implementation of IFRS 11, i.e. presentation of the Group's relative holding in the income and expenses, assets and liabilities of the jointly controlled companies (50%) (hereinafter: the "**Management (Non-GAAP) Reports**" or the "**Non-GAAP Reports**"). Presentation of the data in this manner is different to the manner of their presentation in the Financial Statements of the Company as described.

The chapter "Description of the Company's Business Affairs" in the Periodic Report is presented according to the Company's operating segments, and consequently all data presented in this chapter will be in accordance with the Company's Management (Non-GAAP) Reports, unless expressly otherwise indicated. For information on the Company's Management (Non-GAAP) Reports, see the section "Analysis of the Business Results of the Group" in the Report of the Board of Directors of the Company, in Part B below.

Following are the Company's financial data (consolidated, according to the Management (Non-GAAP) Reports), presented according to activity segments, in NIS millions.

It is understood that the amounts of income, expenses, assets (including inventory, fixed assets and other assets) and liabilities of different activities that are attributable to those segments –

were attributed accordingly. Mixed operations were attributed to a single operating segment, according to the main activity carried out therein. Expenses and assets (including trade receivables) which cannot be attributed directly – were allocated according to the economic models implemented by the Group as at the date of the Periodic Report

For further information, see also Note 27 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

2016 (based on Management (Non-GAAP) Reports)		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Other	Adjustments for Consolidation (**)	Consolidated
Income	From external entities	1,957	1,006	2,963	673	3,000	3,673	717	590	-	7,943
	From other operating segments	7	11	18	2	1	3	-	1	(22)	-
	Total	1,964	1,017	2,981	675	3,001	3,676	717	591	(22)	7,943
Total attributable costs	Costs that do not constitute income in another segment: Fixed	493	268	761	151	808	959	210	183	65	2,178
	Variable (*)	1,253	644	1,897	432	1,921	2,353	459	377	-	5,086
	Costs that constitute income in other segments	5	4	9	5	-	5	-	8	(22)	-
	Total	1,751	916	2,667	588	2,729	3,317	669	568	43	7,264
Income from ordinary operations: Attributable to the controlling shareholders		144	101	245	65	204	269	48	22	(62)	522
Attributable to non-controlling interests		69	-	69	22	68	90	-	1	(3)	157
Total assets		1,051	1,372	2,423	838	2,084	2,922	745	851	-	6,941
Total liabilities		540	347	887	306	668	974	331	2,206	-	4,398

(*) Variable costs are costs that are directly and immediately affected by the volume of business activity, as opposed to a fixed cost, which does not change in the short term, and is therefore is not directly and immediately affected by the volume of business activity. For example, a variable cost includes the cost of materials and regular operation of the plant, as opposed to the cost of buildings and machinery, which is a fixed cost.
The Company's main variable costs are consumption of materials, most of the production and energy costs, and part of the wage costs. The Company's flexibility in changing the volume of these costs is closely related to its ability to control its production activities. The Company can decide to discontinue the operation of production lines, thus creating a decisive impact on the volume of these variable costs. A mechanism is in place between Group corporate center and the Group's subsidiaries and associates for the allocation of joint costs, adjusted so that each company bears its relative share of the joint expenses.

(**) The adjustment of income, costs and assets (including cash and other unidentifiable joint investments and assets) to the consolidated statement arises from inter-segmental sales of finished goods and goods in process, as well as non-recurring depreciation and amortization, revenue and expenses.

2015 (based on Management (Non-GAAP) Reports)		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Other	Adjustments for Consolidation (**)	Consolidated
Income	From external entities	1,898	968	2,866	647	2,785	3,432	752	592	-	7,642
	From other operating segments	8	9	17	1	-	1	-	-	(18)	-
	Total	1,906	977	2,883	648	2,785	3,433	752	592	(18)	7,642
Total attributable costs	Costs that do not constitute income in another segment: Fixed	473	249	722	134	779	913	180	169	35	2,019
	Variable (*)	1,242	633	1,875	423	1,822	2,245	492	387	-	4,999
	Costs that constitute income in other segments	3	2	5	7	-	7	-	6	(18)	-
	Total	1,718	884	2,602	564	2,601	3,165	672	562	17	7,018
Income from ordinary operations: Attributable to the controlling shareholders		125	93	218	63	138	201	80	30	(31)	498
Attributable to non-controlling interests		63	-	63	21	46	67	-	-	(4)	126
Total assets		1,088	1,400	2,488	704	1,790	2,494	690	993	-	6,665
Total liabilities		530	295	825	264	574	838	251	2,443	-	4,357

(*) and (**) – for an explanation see the 2016 table.

2014 (based on Management (Non-GAAP) Reports)											
		Health & Wellness	**Fun & Indulgence**	**Total Israel**	**Israel Coffee**	**International Coffee**	**Total Coffee**	**International Dips & Spreads**	**Other**	**Adjustments for Consolidation (**)**	**Consolidated**
Income	**From external parties**	1,974	998	2,972	689	3,136	3,825	683	660	-	8,140
	From other operating segments	7	16	23	2	-	2	-	1	(26)	-
	Total	1,981	1,014	2,995	691	3,136	3,827	683	661	(26)	8,140
Total attributable costs	**Costs that do not constitute income in another segment:** **Fixed:**	481	252	733	137	851	988	164	223	164	2,272
	Variable:	1,282	648	1,930	447	2,037	2,484	444	428	-	5,286
	Costs constituting income in other segments	15	2	17	6	1	7	-	2	(26)	-
	Total	1,778	902	2,680	590	2,889	3,479	608	653	138	7,558
Income from ordinary operations: Attributable to the controlling shareholders		143	112	255	76	185	261	75	10	(146)	455
Attributable to non-controlling interests		60	-	60	25	62	87	-	(2)	(18)	127
Total assets		1,045	1,322	2,367	929	2,150	3,079	687	1,305	-	7,438
Total liabilities		530	80	610	333	710	1,043	266	2,979	-	4,898

(*) and (**) – for an explanation see the 2016 table.

6. General Environment and Impact of External Factors on the Company's Activity

In addition to the trends and developments in the food and beverage industry and in the Group's business areas, there are macroeconomic factors which had or are expected to have a material impact on the Group's activities and its business results. For further information, see the section "Changes in the Economic Environment" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

Part III – Description of the Company's Business Affairs by Operating Segments

7. General – the Food and Beverage Industry

The Group operates in the food and beverage industry, which is the key industry in the Fast Moving Consumer Goods (FMCG) sector and among the most competitive and mature markets in Israel and globally. It is a dynamic industry that responds to the needs, demands and variety of changing tastes of hundreds of millions of consumers in Israel and worldwide. In recent years, the food market has been impacted by processes occurring in the world economy, including technological innovations as well as those in the production arena, changes in consumer awareness and knowledge arising, among other things, from the accessibility of information on the Internet in general and via the social networks in particular. These have had a considerable impact on numerous industries, including the global food industry.

In the food industry, these processes are characterized, among other things, by a change in consumer characteristics, expressed in the manner in which consumers make food buying choices in reliance on various sources of information such as friends, recommendations on the social networks, blogs, etc., as well as in consumer preferences for the products they consume and the features of these products. All of this has led to the formation of a number of trends in the product world, including product healthiness and emphasis on nutritional ingredients, food safety, sustainability issues and others. Another change is in the way consumers shop for food, with a drop in the power of traditional sales channels and a rise in the power of premium sales channels on the one hand and discount channels on the other (including the continued growing strength of private label products), as well as a rise in the power of new sales channels such as digital channels and new business models currently emerging all over the world. A further change is in the frequency of food consumption, with the number of meals consumed during the day increasing and their size decreasing as a result of today's lifestyle – this trend has led to the rapid growth of snack categories.

These trends are creating new growth opportunities for food companies that succeed in connecting to the new consumer and his various characteristics and desires, while improving and tailoring the product basket and business models. At the same time, growth in traditional food products in recent years has been stagnant, and many food companies are adding significant efficiency enhancement processes to their innovation efforts to support profits.

To provide a rapid, integrative solution to the changes and developments in consumer trends and changing markets, there is a growing trend of collaborations among food companies and between food companies and other players in the business environment, as well as extensive M&A activity. A major acquisition in the food world in 2016 was that of WhiteWave Foods by the French dairy product company, Danone, for $12.5 billion. WhiteWave specializes in the development of products in response to health trends (dairy-free, organic, etc.). For information on M&A activity in the coffee industry by JAB Holding Company, see section 11.3 below. A major acquisition from the Israeli perspective is the buyout of the public's holdings in the Israeli company Osem by Swiss food giant Nestle and Osem's delisting from TASE.

In the Group's operations in the food and beverage industry, there are several **critical success factors** that are common to all operating segments and also constitute a positive element that affects the Group's competitive position: dominance in markets; branded products delivering an experience and added value to the end consumer; a wide variety of products and a variety in each operating segment, designed for the general population and catering to various consumption opportunities. Other factors of major importance in today's changing markets are continuous product innovation based on a deep connection with the consumer, including in response to health issues; assurance of top quality; price reductions and connecting with the consumer; a broad-scale distribution system assuring high product availability at numerous points of sale; and partnerships with prominent international entities in the industry.

The main entry barriers that are common to all of the Group's operating segments arise from the need to maintain a brand that is relevant; the need for technological knowhow in the manufacture of the products and the extensive investments required to establish production sites; as well as the need for sales and distribution infrastructure to serve customers.

Following is a description of the Group's businesses presenting each operating segment individually, except for matters that relate to all segments, which are described in the fourth part of this chapter.

8. <u>The Israel Operation</u>

<u>General information on the Israel Operation</u>

Following is general information on the Israel Operation, which comprises the Health & Wellness and the Fun & Indulgence segments

8.1 Structure of the Israel Operation and changes occurring therein

The Group develops, manufactures, sells, markets and distributes a wide range of branded food and beverage products in Israel.

According to StoreNext, the Group is the second-largest food and beverage group in Israel. In 2016, the Group's operation in Israel focused on efforts to improve its products through high-value innovation, innovations in variety and flavors, reduction of product prices, improvement of the price/weight ratio, improvement of nutritional value including the reduction of sugar, sodium and preservatives, enlargement of the gluten-free product offering, improved ease of consumption and value for money, and also targeted the different – and new – population groups and provided a response to new needs and trends

.8.2 Changes in the scope of the activity framework and its profitability

The past few years were characterized by intensified competition in the food industry in Israel. The high density of retail stores contributed to the price-strategy-based competition. The aggressive competition between retail chains, coupled with consumer protests and increasing regulation in the last few years have eroded retailer profitability and placed downward pressure on manufacturers' profit margins. In addition, M&A transactions were executed in the past few years, which have changed the retail map. In September 2015 Tiv Taam acquired the business of Eden Teva Market. In addition, when Mega Retail Ltd. (hereinafter: "**Mega**") became financially distressed in 2015, the food chains Rami Levy Shivuk Hashikma, Yohananoff and Victory purchased part of the stores in the Mega chain, and in June 2016 the Antitrust Authority approved Mega's merger with Yenot Bitan. These moves have changed the competition in the industry and may potentially lead to further changes in the activity framework and in the competition in this sector and as a result, may also adversely impact profitability.

For further information, see section 29 below and also the section "Changes in the Economic Environment" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

The information in this section with regard to the potential of additional changes occurring in the activity framework and in the competition in the sector 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 Israeli economy.

In 2016, the Company avoided raising prices in Israel and continued to take various steps to reduce retail prices by means of campaigns across a broad variety of products with the aim of maintaining a competitive price level, as well as by making permanent reductions in the prices of dairy products such as enriched milk, yogurt and milk beverages. These moves impacted the Company's profit margins and were carried out in tandem with extensive operational efficiency enhancement measures. Profitability was also affected by volatility in the prices of raw materials in 2016. For additional information, see section 6 above.

For details on the impacts of the above trends and on changes in revenue and profitability in the Health & Wellness and the Fun & Indulgence segments, see the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

8.3 <u>Developments in the markets of the activity framework and changes in customer characteristics</u>

According to StoreNext, in 2016 sales value in the food and beverage sector decreased nominally by 0.5% compared to 1.8% growth in 2015. In 2016, the food and beverage industry in Israel is estimated at approximately NIS 34.9 billion in nominal terms, versus NIS 35.13 billion in 2015.

The drop in sales value in 2016 is evident in most of the major food segments (based on StoreNext figures):

Food & Beverages	
Ready salads (dips and spreads)	-8.6%
Cold cuts	-16.1%
Chocolate world	2.7%
Sauces, dressing and spreads	-0.3%
Sweet and savory bakery products	-0.1%
Bread and substitutes	-0.7%
Canned foods	-0.8%
Wine, beer and alcoholic beverages	1.3%
Cookery	-1.9%
Non-alcoholic beverages	2.0%
Fish and meat	-1.5%
Dairy world	0.9%

For further information, see the section "The Group's Activity in Israel" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

The main consumer trends in the food and beverage industry in 2016 include a search for products with components that are considered healthier, "clean" labels (a minimum of ingredients and preservatives), functionality and environmentally friendly packaging. In Health & Wellness, consumer trends are based on products that contain no lactose, gluten, sugar and preservatives, contain fewer calories and less sodium, and also products that are rich in protein and other ingredients that are considered beneficial (probiotics, vitamins). In Fun & Indulgence, the prominent consumer trends are of fun and flavor: appetizing ingredients, creamy textures, layers and varying flavors. In this sphere, the snack trend (a small, portion controlled meal) is developing, coupled with a global increase in the demand for premium products.

In 2016, the trend of expansion and growing strength of the large and small private chains persevered as they continued to open more stores in Israel, while the market share of the national retail chains simultaneously continued to shrink.

The following table presents market shares by sales channels in 2016 and 2015, respectively (StoreNext figures):

	2016	2015*
Large customers (national chains)	63.1%	64.8%
Large private market (retail chains that do not have a full national spread)	12.2%	11.6%
Minimarkets + grocery stores + convenience stores	24.7%	23.6%

* Reclassified; for information on changes in customer segmentation, see section 16.1.b below.

E-commerce sales continued to flourish in 2016, providing a quick and convenient shopping experience, and estimates predict that additional retailers will become active this sales channel.

Additionally, according to StoreNext, in recent years, large retail chains have promoted private label products. For further information, see section 8.7 below.

8.4 <u>Restrictions, legislation, standardization and special constraints applying to the corporation</u>

For further information, see the section "Changes in the Economic Environment" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

8.5 Critical success factors in the activity framework and changes therein

In addition to the critical success factors that are common to all of the Group’s operating segments as described in section 7 above, there are success factors that are unique to the Israel operation or such that are particularly significant, such as a strong and leading corporate brand and leading brands in the different products; strong product credibility among consumers, with emphasis on product quality and freshness; unique operational and logistic capabilities required in the production, distribution and storage of products requiring refrigerated conditions; rapid launching of new, experience-intensive products; product development and innovation; financial strength for substantial investments in branding; smart cost management in sales campaigns; the ability to adapt existing products to emerging consumption trends; the ability to develop unique products while adapting them to different population segments and their unique requirements; replacement and refreshment of products on store shelves; an extensive distribution system allowing for quick and efficient distribution of products to points of sale with high frequency; product availability at the point of sale.

8.6 Major entry barriers to the activity framework and changes therein

In addition to the major entry barriers that are common to all of the Group’s operating segments as described in section 7 above, the kosher requirements occasionally form an entry barrier to foreign manufacturers, which are required to adapt their products to kashrut requirements in Israel. Other major entry barriers with respect to the manufacture of dairy products are the need for large investments in the necessary production infrastructure; the need for relatively sophisticated production technology and for advanced quality control systems; the need to develop capabilities for addressing the freshness issue in mass production and in distribution; and a short shelf life.

8.7 Competition and substitutes for the products of the activity framework

The Israel Operation is characterized by intense competition between food manufacturers that sell similar and interchangeable products. There are rival products to all of the Group’s main product groups in Israel in the Health & Wellness and Fun & Indulgence segments.

Moreover, in recent years the large retail chains have promoted their “private label” products, which compete with the products of food manufacturers. This trend continued in 2016, as private label brands began to expand into additional categories such as frozen, refrigerated and fresh products (with emphasis on the dairy and meat markets) and into premium products, intensifying the competition. Sales of private label brands amounted to approximately NIS 2.36 billion in 2016, an increase of 2.3% in comparison with 2015. According to StoreNext figures, private label's market share of the FMCG market in 2016 was 5.8%, compared to 5.6% in 2015.

	2016	2015
January	5.9%	5.9%
February	5.6%	5.6%
March	5.5%	5.7%
April	5.7%	5.7%
May	5.6%	5.4%
June	5.7%	5.4%
July	5.5%	5.6%
August	5.6%	5.3%
September	6.1%	5.8%
October	6.0%	5.6%
November	6.1%	5.7%
December	6.3%	5.7%

YTD 2016: 5.8%
YTD 2015: 5.6%

The Group's products in the Israel Operation activity framework have interchangeable rival products, including imports and the private label products of the retail chains. In the past few years, as a result of the strengthening of the Israeli shekel, imports of cheap rival products increased, most of which are not subject to customs duties or quotas.

The Group continuously contends with the competition by developing and launching new products; entering new categories; investing in manufacturing facilities and the development of technological capabilities; concentrating marketing and advertising efforts; building and maintaining its brands; maintaining a comprehensive distribution network; and collaborations with international concerns (Danone and PepsiCo), enabling the Group to make use of knowhow and trademarks.

In the Company's opinion, the negative factors that impact or could impact the Group's competitive position in Israel include the following: actions taken by retail chains, such as the growing strength of private labels; increasing imports of inexpensive branded and non-branded products on a one-time basis; increasing regulation to the disadvantage of large food companies; development of brands and selling and marketing capabilities by competitors.

For information on positive factors influencing the Group's competitive position, see section 7 above.

8.8 Fixed assets, real estate and facilities

In 2015, the Group completed the construction of the logistics center in Shoham, which serves all categories of the Group in Israel. The logistics center includes warehouses for refrigerated products, warehouses for dry products and an office building. Following relocation to the logistics center in 2015, the Petach Tikva, Tzrifin and Beit Shemesh sites were closed in early 2016.

Nature and Location	Site Designation	Land Area	Built-Up Area	Rights in and to the Site	Liens
Logistics center, Shoham Business Park complex	Logistics center	71 dunam (~71,000 m^2)	40,000 m^2	From the State of Israel Development Authority for a period of 49 years, commencing December 9, 2009, with an option for an extension of an additional 49 years	--

8.9 Raw materials and suppliers

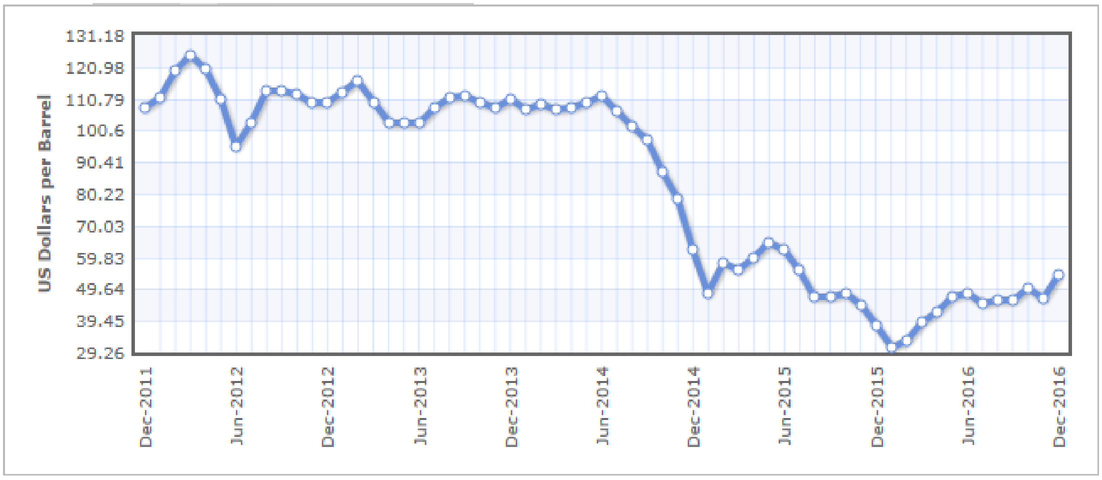
a. For a description of volatility in the prices of raw materials used by the Company in Israel, see section 6 above.

b. In the reporting period, there was no single supplier which accounted for more than 10% of the Group's total purchases of raw materials (including packaging) in the Israel Operation.

c. The main packaging materials used by the Group in the Israel Operation are laminates and plastic sheets, readymade cartons, cups and bottles, and test tubes for the manufacture of bottles (most of them for Health & Wellness), which are purchased from various manufacturers in Israel and overseas (mainly in Europe). Packaging material prices are influenced by global demand and oil prices, since oil is a key component in the manufacture of packaging materials. The trend of decline in oil prices which began in the third quarter of 2014 ended at the close of 2015, and 2016 ended with a rise of approximately 50% in prices compared to the end of 2015.

For further information, see the section "Changes in the Economic Environment" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

The following diagram presents the changes in the price of Brent Oil (US dollars per barrel) in 2012 – 2016 according to indexmundi.com:



The Group contends with the volatility in the prices of raw materials used for its products through efficiency enhancements in procurement, production, sales and marketing processes, use of substitutes and changes in its product mix accordingly; and also by hedging the prices of some of the raw materials.

Availability of raw materials purchased outside of Israel depends, among other things, on the ability to import them to Israel, on sea or air shipping schedules and on the regular activity of the ports in Israel.

d. It is the Group's practice to purchase raw and packaging materials from a wide variety of suppliers according to its requirements, and it chooses its suppliers on the basis of the quality of the goods they offer, their availability, credibility and stability, and the prices they offer.

As a rule, it is the Group's policy to have a number of suppliers for each of the raw materials (to the extent possible). Most of the Group's agreements with its suppliers are framework agreements, usually for periods of up to 12 months (in a few exceptional cases, also for periods of more than 12 months), which include delivery dates, price, quality, supply quantities and credit terms. Purchases are usually made on the basis of regular orders.

For further information on raw materials and suppliers in the Health & Wellness segment, see section 9.11 below, and in the Fun & Indulgence segment, see section 10.11 below.

9. The Health & Wellness Segment

9.1 General information on the Health & Wellness segment

Health & Wellness products are characterized by the emphasis of nutritional and functional aspects that are important to the consumer's diet. Features emphasized in the development of healthy products include raw material composition, the inclusion of functional health values, replacement of ingredients with healthier ones, reduction of fat levels, sugar, sodium, preservatives and calories, etc. A considerable part of Health & Wellness products are fresh products, characterized by a relatively short freshness period (usually between 5 to 45 days) and by the need for refrigerated storage, transportation and sale (4ºC).

9.2 Products

As a rule, the Group's major **Health & Wellness** products are marketed in Israel under the Company's brands, as follows: (1) the "'**Strauss**"' brand – "Milky", "Dany", "Daniela", "'Joy", "'Gamadim", "'Ski", "'Symphony", cottage cheese, "Danone PRO", "Splendid", "Limbo", fresh pasta products and cut vegetables; (2) the "**Achla**" brand and "**Ta'am HaTeva**" – ready-to-eat packaged salads, including hummus, eggplants, tahini, piquant salads, cut vegetables, etc.; (3) the "**Danone**" yogurt brand – "'Actimel", "Activia" and "Danacol"; (4) the "**Yotvata**" brand – flavored milk beverages, milk and enriched milk, liquid milk products (Eshel, Leben, sour cream and sweet cream, including cream sauces for quick preparation); (5) the "**Yad Mordechai**" brand - honey products, olive oil, fruit preserves, cooking sauces, balsamic vinegar, bottled lemon juice, natural maple syrup and Dijon mustard; (6) the Group also markets products manufactured by others, which are not marketed under the Group's brands, such as zhug (Yemenite hot sauce) manufactured by "**Zehavi**", natural juices manufactured by "**Ganir**", raw tahini manufactured by "**HaNasich**", long-life milk manufactured by "**Ramat Hagolan Dairies**", refrigerated yeast and margarine manufactured by "**Shimrit**" and goat milk yogurt manufactured by "**Tozeret Haaretz**".

The year 2016 was characterized by continuing variation and innovation in most products, targeting new audiences and providing a solution to new needs. Thus, for example, processes for decreasing the sugar content of dairy desserts and dairy products continued and the Danone Pro series, which contains more protein and less sugar, was developed and calorie controlled products launched. Yotvata decreased the sugar content in its Choco (chocolate milk) product and switched from producing enriched milk in cartons to bottles with a considerable reduction in price. Despite the crisis in the salads (refrigerated dips and spreads) category in 2016 following product recalls and thanks to Achla's quality standard, the brand's market share grew. Additionally, a preservative-free hummus and tahini series was launched (using breakthrough technology), and the trend of using high-quality, low-sodium raw materials continued.

9.3 <u>Distribution of income and product profitability (according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above)</u>

Following is information on the distribution of the Company's income from external parties (consolidated) (according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above), deriving from groups of similar products in the Health & Wellness segment: "dairy products" (mainly yogurt, dairy desserts, white cheeses, enriched milk and flavored milk beverages); "salads" (mainly readymade pre-packed salads and cut vegetables); and "other health and wellness products" (mainly cereal bars, granola, honey products, olive oil and fruit preserves).

Group of Similar Products	Income in NIS Millions			Percentage of Group's Total Income		
	2016	2015	2014	2016	2015	2014
Dairy products	1,394	1,342	1,402	17.5%	17.6%	17.2%
Salads	277	277	290	3.5%	3.6%	3.6%
Other Health & Wellness products	286	279	282	3.6%	3.6%	3.4%
Total Health & Wellness products	1,957	1,898	1,974	24.6%	24.8%	24.2%

9.4 <u>Competition</u>

The main competitors in Health & Wellness are Tnuva, Tara (of the Central Bottling Company) and Osem Nestle. Tnuva and Tara compete mainly in dairy products and Osem Nestle in salads. In 2016 private label brands continued to grow stronger, as evidenced by the expansion of the Shufersal private label. For further information, see section 8.3 above. In every product group in the segment there are other local competitors. The past few years have been characterized by the intensification of the competition in Israel's food sector, which was also expressed in Health & Wellness, 2016 being marked by aggressive competition in liquid milk in particular, with which the Company contended through innovation and by strengthening its existing brands.

The following table presents information on the market shares of the Group and its major competitor in each group of similar products in the years 2016 and 2015 with regard to the Group's main Health & Wellness products, according to weighted data based on StoreNext figures for the barcoded retail market (which includes the large food chains, barcoded private minimarkets and independent food chains):

Similar product groups	**Weighted Market Share (in Percent – Value)**			
	For 2016		**For 2015(*)**	
	The Group	**Major Competitor**	**The Group**	**Major Competitor**
Yogurts[7]	44.4%	35.4%	44.4%	35.5%
Cheeses[8]	29.9%	57.5%	23.4%	59.1%
Dairy desserts[9]	59.6%	27.8%	56.6%	30.2%
Flavored milk	61.3%	29.6%	59.4%	29.5%
Fresh drinking milk[10]	11.6%	62.6%	10.9%	66.8%
Packaged salads[11]	35.1%	35.9%	32.9%	35.9%
Washed and packaged vegetables	40.0%	27.4%	41.3%	26.1%
Honey	59.5%	18.0%	58.5%	16.4%
Olive oil	24.7%	17.6%	24.3%	16.3%

(*) Figures for 2015 were adjusted to StoreNext's updated calculations.

9.5 <u>Seasonality</u>

Following are data for the years 2016 and 2015 with respect to the Company's income in the Health & Wellness segment, by quarter, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above:

	2016		**2015**	
	Income (NIS Millions)	**% of Total Segment Income**	**Income (NIS Millions)**	**% of Total Segment Income**
Q1	474	24.2%	454	23.9%
Q2	492	25.1%	474	25.0%
Q3	525	26.9%	507	26.7%
Q4	466	23.8%	463	24.4%
Total	1,957	100.0%	1,898	100.0%

There is no distinct trend of seasonality in Health & Wellness products; however, the volume of income is generally (relatively) higher in the third quarter of the year, when the hot summer months fall and consumption of dairy products increases.

7 Including probiotic beverages
8 Including cottage cheese, cream cheeses and soft cheeses
9 Including cheese desserts for toddlers – Gamadim, Daniela, etc.
10 Including fresh and enriched milk
11 Including the products under the Achla brand

9.6 Production capacity

The production capacity of the Group's plants in the Health & Wellness segment is measured in quantities of product per year. The production lines in the Group's sites in the Health & Wellness segment are automatic, and most of them are operated in three shifts a day.

The maximum potential yearly production capacity of the Group's manufacturing sites in the Health & Wellness segment, operating in three shifts, in tons product per year in 2016 and 2015 was approximately 348 thousand tons and 323 thousand tons, respectively. The actual average capacity utilization rate in 2016 and 2015 was approximately 49% and 51%, respectively. It is noted that a number of production lines in the activity segment are liable, at certain points in time and during holiday periods, to reach their maximum production capacity.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. The Company does not anticipate that it will be required to make any material investments in equipment and machinery in the Health & Wellness segment in 2017, beyond current annual investments.

The information in this section that the Company will not be required to make material investments in 2017 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, among other things as a result of different developments in the Israeli economy, in regulation and in market demand for the Company's products, etc

.9.7 Fixed assets, real estate and facilities

Following is a description of the major production plants, distribution and cross-docking centers, which are used by the Group for its activities in the Health & Wellness segment:

A. Plants

Nature and Location	Site Designation	Land Area	Built-Up Area	Rights in and to the Site	Liens
Dairy in the Bar-Lev industrial park	Production of dairy products	66,500 m²	21,000 m²	Leased from the Israel Land Authority under a capitalized lease agreement of 2003. The lease period is 49 years, from June 1997.	---
Dairy in Kibbutz Yotvata	Production of milk beverages and enriched milk	26,000 m^2	6,100 m²	Sublease from Kibbutz Yotvata. Part of the area of the dairy has been leased until 2026 (under a 1977 lease agreement) and another part until 2046. The sublease has not yet been approved by the Israel Land Administration; however, the Company is of the view that there is no prevention against the receipt of said approval, although the receipt thereof is likely to involve payment of capitalization fees to the ILA.	---
Carmiel	Production of salads	18,000 m²	9,000 m²	Ownership	
Sde Nitzan	Cutting, mixing and packaging of fresh refrigerated vegetables	2,800 m²	2,560 m²	Lease from Sde Nitzan for a period of 23 years ending in January 2031**.**	---
Yad Mordechai Apiary	Honey products, olive oil, fruit preserves, cooking sauces, bottled lemon juice and natural maple syrup	10,400 m²	4,300 m²	Lease from Kibbutz Yad Mordechai for a 10 year period commencing January 1, 2003, which was automatically renewed for a further 10 years. At the end of said period, the lease will be renewed automatically for an additional 10 years.	---

B. Distribution, logistics and cross-docking centers

Nature and Location	Site Designation	Land Area	Built-Up Area	Rights in and to the Site	Liens
Logistics center in Haifa Bay	Refrigerated distribution in northern Israel	8,865 m² (the Group holds 55% of this area)	4,735 m² (the Group holds 55% of this area)	Leased together with Strauss Ice Cream Ltd. (hereinafter: "**Strauss Ice Cream**")* from third parties for a 20 year period ending October 2018. The Group holds in ~55% of the site area, and Strauss Ice Cream – 45%. Rental costs and municipal rates and taxes are allocated according to the holding ratio; electricity costs are allocated according to a fixed index jointly determined by the engineers of the parties; the remaining costs are allocated according to actual use (according to separate suppliers' invoices).	---
Cross-docking site in Beersheba	Refrigerated distribution in the northern Negev and Lachish region	4,920 m²	---	Leased from the Israel Land Authority under a capitalized lease contract for a period of 49 years ending in 2029.	---

For information on the Group's logistics center in Shoham, see section 8.8 above.

For information on Company policy for depreciating the machinery and equipment in its various manufacturing plants, see note 3.4 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

* In January 2014, Strauss Holdings Ltd. sold its interests in Strauss Ice Cream.

9.8 Research and development

For a description of R&D carried out in the Group, see section 19 below. Dairy products are developed, *inter alia*, by using Danone's comprehensive knowhow.

9.9 Intangible assets

a. Licenses and franchises

Strauss Health has a licensing agreement with Danone for the use of knowhow and trademarks with respect to all of Danone's fresh dairy products and refrigerated baby food products, at present and in the future. For information on the licensing agreement and the payments paid in respect thereof, see section 9.14.a below.

b. **Trademarks**

Given the Group's focus on branded products, the importance of registering trademarks on its brand names is great. Trademarks are registered in the Group's name in Israel on most of the brand names serving it in the Health & Wellness segment, except for the trademarks that are registered in Danone's name, which are used by the Group under the licensing agreement with Danone as described in section 9.14 below.

The Group also uses the trademark "Strauss", registered in the name of Strauss Holdings. For information on the right granted by Strauss Holdings to the Company to use the name Strauss, see the description of the agreement between the Company and Strauss Holdings in section 26.1 below, Part A of the Company's Annual Report for 2013, published on March 26, 2014 (reference no. 2014-01-023988).

The registration of trademarks in Israel is valid for limited periods prescribed in the legislation and is renewable at the end of each such period. In view of the many years of use of these trademarks and their dominant status in the market, the Group estimates that the economic life of its major trademarks is indefinite.

For an itemization of costs and financial movement relating to intangible assets in the years 2016 and 2015, see Note 15.1 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

9.10 Human capital

For a description of the Group's organizational structure and additional information on employment agreements, see section 20 below.

Following is information on the number of employees in the Group in the Health & Wellness segment (including 57 and 73 employment agency workers), as at December 31, 2016 and December 31, 2015, respectively:

	Number of Employees as at	
	December 31, 2016	December 31, 2015
Administration	99	108
Sales and distribution (*)	53	18
Logistics	244	246
Operations	614	613
Total	1,010	985

(*) Most of the change is due to the reclassification of sales employees who were formerly classified as employees of the head offices of Israel, the Sales Division and the Supply Chain Division. For further information, see section 20.1.f below.

9.11 <u>Raw materials and suppliers</u>

For information on raw materials and suppliers that are common to both the Health & Wellness and Fun & Indulgence segments, see section 8.9 above.

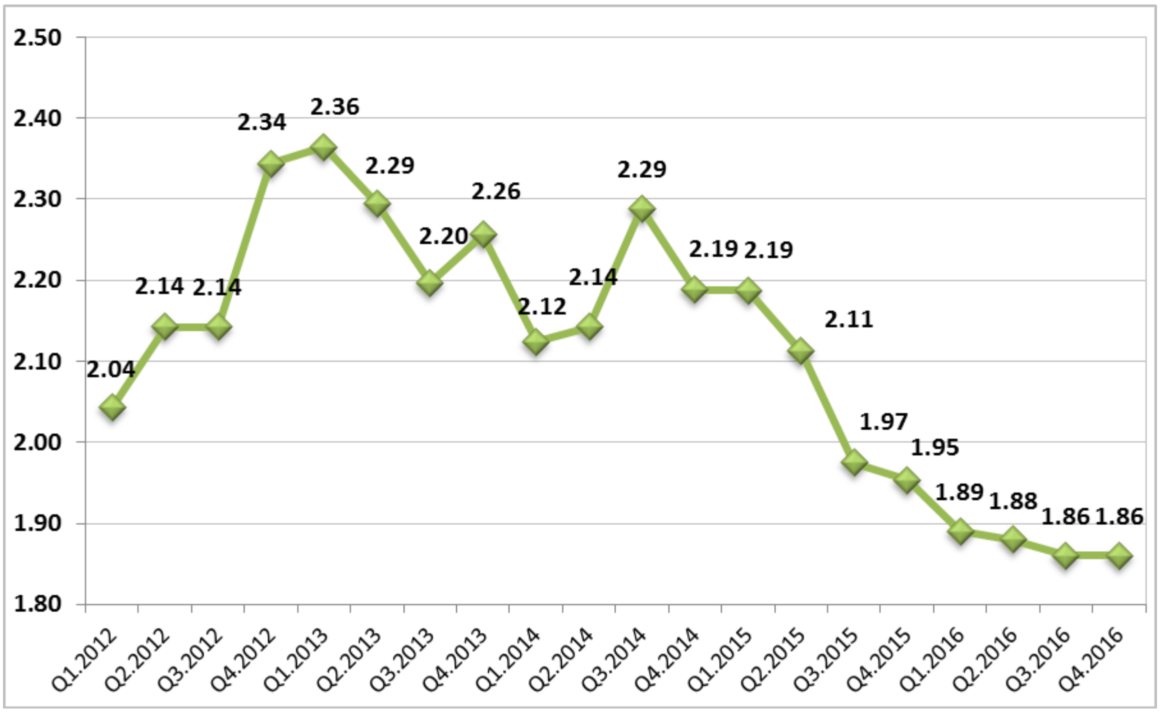
The major raw material used by the Group in the manufacture of Health & Wellness products, the cost of which forms over 20% of total purchases of the raw materials used in these products, is unprocessed (raw) milk. In addition, the Group primarily uses milk powders and proteins, sugar, cocoa powder, tahini, assorted vegetables and legumes, frozen and crushed fruit, olive oil, honey and packaging materials.

Liquid milk is purchased from various dairy farmers in the Western Galilee, Jezreel Valley, Zevulun region, Arava plain, northern Negev and Ramat Hanegev. Under the Milk Sector Planning Law, 2011, the Group is obliged to accept the entire quota of milk produced by the manufacturer from which it purchases milk. Notwithstanding this requirement, most of the quantity purchased is used to manufacture the products, and the surplus (particularly in the winter) is dried as milk powder and milk fat and used by the Company (especially in the summer) or sold to a third party at market prices.

It is noted that the Company also purchases milk from Kibbutz Yotvata, (which also holds Yotvata shares). The total quantity of milk supplied by Kibbutz Yotvata to the Company accounted for less than 5% of total milk purchases in 2016. The Company is not dependent on this supply. For information on a procurement services agreement between Strauss Health and a Danone subsidiary, see section 9.14.a below. It is noted that part of the Company's products in this segment are manufactured by external vendors with which the Company is engaged in agreements. In the Company's opinion, as at the present date the Company is not dependent on any of said vendors.

For information on the arrangements with respect to determining raw milk prices, see section 9.13c below.

The following diagram presents the changes occurring in the **price of raw milk** in the years 2010-2016 (the figures on the vertical axis represent the cost price ("target" price) in NIS per 1 liter, and the figures on the horizontal axis represent time:



The average price of raw milk in 2016 was lower than the average price in 2015. 2016 was characterized by a decreasing trend in milk prices, primarily due to a decrease in the prices of grains, which are imported as cattle feed. World prices of corn, wheat and grains were on a downward trend for most of the year as a result of high crop yields in the US, among other reasons.

Prices of milk powder and butter are derived from the price of raw milk, and in 2016 their prices dropped similarly to the price of unprocessed milk. In 2016 milk powder and butter prices fell by approximately 5.3% and 7.5%, respectively.

Vegetables are purchased from farmers in Israel. Legumes and frozen processed fruit are purchased both in and outside of Israel.

With regard to the price trends of sugar and cocoa, see information on the Fun & Indulgence segment in section 10.11 below.

9.12 Working capital

Following is the composition of working capital, in NIS millions, in the Health & Wellness segment in 2016, according to the Company's Non-GAAP Reports as defined in section 5 above:

	Carrying Amount (in the Non-GAAP Reports)
Operating current assets (*)	375
Operating current liabilities (**)	269
Excess of current assets over current liabilities	106

(*) Including net trade receivables, inventory, income receivable and prepaid expenses.
(**) Including net trade accounts payable and expenses payable.

9.13 Restrictions and supervision in the segment

a. **Declaration as a monopoly in dairy desserts** – by virtue of the 1998 declaration under the Antitrust Law, Strauss Holdings (including any other corporation that manufactures or markets dairy desserts which is controlled by Strauss Holdings, controls Strauss Holdings or is controlled by its controlling shareholders) was declared a monopoly in dairy desserts. The declaration defined "dairy desserts" as "an unfermented milk product, sweetened with sugar or alternative sweetening agents and containing, in addition to the dairy ingredients, typical flavoring ingredients (chocolate, vanilla, chocolate powder, etc.) and meant to be eaten with a spoon". For further information, see section 29.v below.

b. On December 31, 2014, the Company received a letter from the Antitrust Commissioner regarding a hearing prior to declaring the Company a monopoly in the following markets: (1) creamy texture cheese; (2) dairy products in cups for toddlers; (3) flavored milk products; and (4) yogurt drinks. On July 30, 2015, the Company filed its response to the Antitrust Commissioner, and as at the date of this report, a date for a hearing has not yet been set. For additional details see the Company's Immediate Report dated December 31, 2014 (reference no: 2014-01-048496).

c. **Arrangements relating to raw milk** – the dairy industry in Israel is highly structured in all aspects, including production according to prescribed quotas for milk producers (cowsheds), and government involvement in the regulation of quantities of raw materials and definition of the target price (the price paid by dairies to the dairy farmers for raw milk).

The Milk Sector Planning Law, 2011 (hereinafter: the "**Milk Law**") entered into effect in October 2011. This law comprehensively anchors, for the first time, the powers required for the planning and regulation of the milk sector, after years in which said planning and regulation were based mainly on partial legislation and many-year-long agreements between the various parties in the industry. According to the Milk Law, definition of policy in the industry, including definition of the total volume of raw milk produced, definition of raw milk quotas for farmers, regulation of the production and marketing of unprocessed milk and regulation of the quantities of unprocessed milk in the sector, will be performed by the government through the Ministers of Agriculture and/or Finance, as the case may be, by enacting regulations; while the policy will be implemented and executed by the Milk Council – a public benefit company whose members include representatives of the parties in the milk sector, including the government, the farmers' organizations and the dairies.

With regard to the target price – prior to the enactment of the Milk Law, determination of the target price and the dairies' obligation to purchase the raw milk at a price that is no lower than the target price were not regulated in the legislation and were based on voluntary agreements between the parties in the industry. The Milk Law and the regulations enacted by virtue thereof determine that during an eight-year transition period commencing on the day the law becomes effective, the target price will be determined according to the last target price determined prior to the law taking effect and revised from time to time according to the accepted updating procedure in place prior to the enactment of the law. At the end of said eight years, the target price will be determined in an order issued by the Ministers of Finance and Agriculture in accordance with the Supervision of Prices of Goods and Services Law, 1996.

Following the enactment of the law, the Milk Sector Planning Regulations (Mechanism for Updating Minimum Prices per Liter Milk) 2012, were enacted in April 2012, in which the manner of calculation, publication and revision of the target price were established (hereinafter: the "**Target Price Regulations**"). The Target Price Regulations introduced certain changes in the method of calculating the target price; however, in the Company's opinion, they do not materially affect the calculation of the target price.

As at the date of this report, the Company is unaware of any significant effect of the Milk Law or the Milk Regulations on its operations; however, it is impossible to assess the extent of its impact (and the impact of the regulations and orders which are still to be issued thereunder) on the Company's operations in the future. The information in this section that the Company is unaware of any significant effect of the Milk Law or the Milk Regulations on its operations 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, among other things as a result of different developments in the Israeli economy, etc.

In July 2012, the committee for examining competitiveness and prices in the food and consumer goods market, known as the Kedmi Commission, published its findings and recommendations, which also included recommendations to improve competitiveness and reduce prices in the dairy market. In light of the Kedmi Commission's recommendations, an agreement of principles was signed between the Prime Minister's Office, the Ministry of Finance, the Ministry of Agriculture and Rural Development, the Association of Israeli Farmers, the Association of Dairy Cattle Farmers and the Milk Council for the development a multiyear plan for efficiency enhancement in the dairy cattle sector (hereinafter: the "**Locker Outline**"). In the framework of the Locker Outline, which was adopted by a government resolution, it was agreed, among other things, on a fixed annual reduction in the target price over the next four years; to cancel two surveys for revision of the target price (and accordingly – a certain "stabilization" of the target price); to encourage the voluntary retirement of small dairy owners (thereby increasing production efficiency), etc. The Locker Outline may lead to volatility in raw milk prices.

Price control – for further information, see the section "Changes in the Economic Environment" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

9.14 Material agreements

a. **Agreements with Danone**

For details on the agreement for the purchase of 20% of Strauss Health's shares by Danone, see section 9.14.a in Part A of the 2013 Annual Report, as published on March 26, 2014 (reference no: 2014-01-023988).

It is noted that the total expenses paid in respect of license, knowhow and royalties pursuant to the above agreement with Danone in the years 2016, 2015 and 2014 were approximately NIS 13 million, NIS 12 million and NIS 12 million, respectively.

On December 28, 2016 the 2013 procurement services agreement between Strauss Health and Danone (hereinafter in this section: the "**Original Agreement**") was extended and amended. According to the new agreement, all rights and obligations under the Original Agreement were assigned to a wholly-owned Danone subsidiary (hereinafter in this section: the "**Agreement**" and the "**Danone Subsidiary**"). According to the Agreement and to the satisfaction of the conditions set forth therein, Strauss Health shall be granted access to the network of suppliers relevant to the production of Danone's fresh dairy products. Further, according to the Agreement the Danone Subsidiary shall be entitled to perform audits in order to ascertain that Strauss Health is in compliance with the undertakings to the Danone Subsidiary and its suppliers. In consideration for the engagement, Strauss Health shall pay the Danone Subsidiary a sum that is immaterial to the Company. The Agreement is in force through to the end of 2021.

b. **Agreement with Yotvata**

For details on the agreement for the purchase of 50% of the issued and paid-up ordinary share capital of Yotvata by Strauss Health, see section 9.14.b in Part A of the Company's 2013 Annual Report, as published on March 26, 2014 (reference no: 2014-01-023988), and Note 24.4.3 to the Financial Statements of the Company as at December 31, 2016, in Part C below).

10. The Fun & Indulgence Segment

10.1 General information on the Fun & Indulgence segment

For general information on the Israel Operation, which comprises the Health & Wellness and Fun & Indulgence segments, see section 8 above.

10.2 Products

The Group's major products in this segment are generally marketed in Israel under the following brands: (1) "**Elite**" - bakery products, including biscuits, cakes, single-serving cakes, wafers, cookies and sweet snack bars under the brands "Mekupelet", "Kif Kef", "Torteet", "Taami", "Egosi", "Pesek Zman"; (2) "**Para**" ("Cow") - chocolate tablets, chocolate fingers and sweet spreads; (3) "**Must**" - candies and chewing gum; (4) "**Energy**" - energy bars, rice cakes and granola; (5) Salty snacks – "Tapuchips", "Shoosh", "Doritos", "Sababa"**,** "Popcorn" "Cheetos"; (6) Quaker (oats) manufactured by PepsiCo; and (7) crackers under the Elite Crunch brand.

The Group's Fun & Indulgence products are manufactured at its sites in Israel, except for a number of products purchased from third parties in Israel and abroad such as candies, cookies, artificial sweetener, oats and sunflower seeds. The Group sells, markets and distributes the products in Israel, along with immaterial exports of products for the kosher market in Western European countries and the US.

Fun & Indulgence products focus on addressing the consumer trends of "fun and pleasure" and "indulgence". These products serve as an easy and immediate solution for between-meal snacks which are generally consumed on impulse, in many cases away from home and on the go. The general health trend in the food and beverage industry is also evident in Fun & Indulgence products and is expressed in the consumer's desire for a treat, while caring for his health at the same time. As part of enhancing the consumption experience and developing new solutions aligned with consumer trends, in 2016 the Group focused on products that deliver special added value to the consumer, products that meet the need for a little indulgence, products that are portion controlled (such as low weight wafers, mini snack bars, etc.), as well as assortments in bags and multipacks. In addition, the Company expanded the variety of bakery products to include new kinds of gluten-free wafers and a wide variety of indulgence biscuits under the Bakery brand. Gum and jelly candy products and chocolate snack bars under the Kif Kef brand were also launched.

In salty snacks, the Group mainly worked on reducing salt and saturated fat content, on keeping the production site gluten-free and on expanding the product range through limited editions and collaborations.

The Group's Fun & Indulgence products are characterized by a relatively long shelf life of 3 to 18 months (apart from oatmeal in a can, which has a shelf life of 36 months). Chocolate products are stored and transported in a temperature controlled environment (16º-18ºC), whereas the rest of the products do not require special storage and transportation conditions. Rival products in the Fun & Indulgence segment are import-intensive and include numerous rival international and domestic brands. Accordingly, the Group focuses on the branding and differentiation of its products, on the development and expansion of the existing product range, and on entry into new categories.

10.3 Distribution of income and product profitability (according to the Company's Management (Non-GAAP) Reports)

Following is information on the distribution of the Company's income from external parties (consolidated) (according to the Company's Non-GAAP Reports, as defined in section 5 above), deriving from groups of similar products in the Fun & Indulgence segment: "confectionery, bakery and cereals" (including chocolate tablet products, sweet snack bars, chewing gum, candy, sweet spreads, biscuits, wafers, cakes, cookies, energy bars, rice cakes, granola, chocolate assortments and gift packs), and "salty snacks" (including potato, corn and peanut butter based snacks and snacks based on corn flour and other flours).

Group of Similar Products	Income in NIS Thousands			Percentage of Group's Total Income		
	2016	2015	2014	2016	2015	2014
Confectionery and bakery	788	761	793	9.9%	9.9%	9.7%
Salty snacks[12]	218	207	205	2.8%	2.7%	2.5%
Total Fun & Indulgence products	1,006	968	998	12.7%	12.6%	12.2%

10.4 Competition

The major competitors of the Group's products are "Unilever", "Osem Nestle", "Diplomat", "Leiman Schlussel", "Frey", "Sides", "Ferrero Israel", "Wrigley Israel", "Mars Israel" and the private label products of various retailers. In addition, the Fun & Indulgence segment has numerous other, smaller competitors, including additional private label brands. As a result of the strengthening of the shekel and the absence of customs duties and quotas on most Fun & Indulgence products, additional competitors have joined the field, some of them importing familiar international branded products and others, unfamiliar products. 2016 was characterized, inter alia, by increased competition in chocolate tablets, chocolate snack bars and wafers, with competition in

[12] Income from the "salty snacks" product group is presented in accordance with the Company's holding in Strauss Frito-Lay (50%).

the wafer market arising, among other things, from the introduction of the Rami Levy private label wafers.

In 2016, the Company continued its marketing activities and campaigns, and increased the investment in commercial activity and consumer campaigns.

The following table presents information on the market shares of the Group and its major competitor in each group of similar products in the years 2016 and 2015 in reference to the Group's main products in the Fun & Indulgence segment, according to weighted data based on StoreNext's figures for the barcoded retail market (which includes the large food chains, barcoded private minimarkets and independent food chains):

Similar Product Groups	Weighted Market Share (in Percent – Value)			
	2016		2015 (*)	
	The Group	Major Competitor	The Group	Major Competitor
Chocolate for children and adults[13]	46.2%	12.9%	46.5%	14.4%
Chewing gum	28.0%	51.7%	28.3%	54.0%
Wafers	28.7%	27.6%	30.7%	23.4%
Sweet bakery products (excluding wafers)	13.3%	16.6%	10.9%	17.7%
Salty snacks	34.6%	51.5%	33.6%	51.2%

(*) Data for 2015 were adjusted to StoreNext's updated calculations.

10.5 Seasonality

Following are data for the years 2016 and 2015 with respect to the Company's income in the Fun & Indulgence segment, by quarter, according to the Company's Non-GAAP Reports, as defined in section 5 above:

	2016		2015	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	302	30.0%	299	30.9%
Q2	221	22.0%	204	21.0%
Q3	260	25.8%	240	24.9%
Q4	223	22.2%	225	23.2%
Total	1,006	100.0%	968	100.0%

Income from the sale of products in the Fun & Indulgence segment is generally (relatively) higher in the first quarter of the year and generally (relatively) lower in the second quarter of the year. Seasonality is mainly influenced by the winter months, which fall in the first quarter and are characterized by increased consumption of

[13] Including chocolate tablets, sweet snack bars (excluding Kinder Delice) and cereal bars.

chocolate products as well as consumption of Fun & Indulgence products as Passover approaches.

10.6 Production capacity[14]

The production capacity of the Group's sites in the Fun & Indulgence segment is measured in quantities of product per year. The production lines in the Group's sites in the Fun & Indulgence segment are automatic, and most of them are operated in three shifts a day.

The maximum potential yearly production capacity of the Group's manufacturing sites in the Fun & Indulgence segment, operating in three shifts, in tons product per year in the years 2016 and 2015 was approximately 76 thousand tons and 75 thousand tons per year, respectively. The average capacity utilization rate in the years 2016 and 2015 was 52% and 53%, respectively. It is noted that a number of production lines in the segment are liable, at certain points in time and during holiday seasons, to reach maximum production capacity.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. Based on the information in the Company's possession as at the date of the Periodic Report, the Company does not anticipate that it will be required to make any material investments in Fun & Indulgence equipment and machinery in 2017 beyond current annual investments.

The information in this section that the Company will not be required to make material investments in 2017 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, among other things as a result of different developments in the Israeli economy, in regulation and in market demand for the Company's products, etc.

[14] The maximum potential yearly production capacity data include 100% of the figures for Strauss Frito-Lay, although financial data on Strauss Frito-Lay are provided according to the Company's relative holding, i.e. 50%.

10.7 Fixed assets, real estate and facilities

Following is a description of the Group's material fixed assets, which are used by the Company in the Fun & Indulgence segment.

Production sites

Production Sites					
Nature and Location	**Site Designation**	**Land Area**	**Built-Up Area**	**Rights in and to the Site**	**Liens**
Production plant in the Nazareth industrial zone (*)	Production of confectionery and bakery products	47,500 m²	35,000 m²	The Company owns about 32,000 m² of the area. The Company has the right to be registered as owner of 10,500 m² (the rights were acquired from the Israel Land Administration, but have not yet been fully registered in the Company's name and are in the process of being registered). The Company has lease rights in and to an additional 5,000 m² under non-capitalized lease agreements (**).	
Production plant in the Sha'ar Hanegev industrial zone	Production of salty snacks	26,400 m²	10,000 m²	Leased under a lease agreement ending in October 2058, including an option to extend the lease period for an additional 49 years.	

Logistics and cross-docking centers

Distribution, Logistics and Cross-Docking Centers					
Nature and Location	**Site Designation**	**Land Area**	**Built-Up Area**	**Rights in and to the Site**	**Liens**
Distribution and logistics center in Acre	For distribution of Company products that do not require refrigeration, in northern Israel	20,000 m²	8,695 m².	Leased from a third party (which has leased the land from the Israel Land Administration until January 2052) for a period of 10 years ending in February 2021. The Group has a 5-year extension option.	---
Distribution and logistics center in the Sha'ar Hanegev industrial zone	For distribution of products that do not require refrigeration, in southern Israel	27,700 m^2	6,500 m²	Leased from a third party. A lease agreement for five years commencing December 4, 2016 plus nine additional option periods for a total of 15 years.	---
Cross-docking sites	Most of the cross-docking sites serve the Health & Wellness segment, and a small number also serve the Fun & Indulgence segment. For information on the Group's main cross-docking sites in Israel, see section 9.7.b above.				

For information on the Group's logistics center in Shoham, see section 8.8 above.

(*) The plant in Nazareth does not have a valid Town Building Plan. As at the date of the report, the Company is addressing this issue. The Company estimates that the foregoing has no significant implications upon the Company.

(**) The lease agreements for 5,000 m^2 are not capitalized and end in August 2012 (about 500 m^2), in August 2013 (about 2,000 m^2) and July 2020 (about 2,500 m^2). The lease agreements (each) include an option to extend the lease period for an additional 49 years. The Company has submitted requests to extend the lease for the first two plots (ending in 2012 and 2013) and in line with the ILA's recommendation, there are negotiations under way regarding the possibility of acquiring ownership of the plots.
Furthermore, at the end of 2005, the Group entered into a set of agreements for the acquisition of lease rights in and to an additional 28,000 m^2 in Nazareth, adjacent to the plant, as a land reserve for the plant. With respect to said land, which is part of a plot, there is a partnership agreement with a third party. As at the date of the Periodic Report, possession of the land has been transferred to the Company, but the process of registering the lease in Group's name has not yet been completed.

For Company policy regarding the depreciation of machinery and equipment in its various plants, see Note 3.4 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

10.8 Research and development

For a description of R&D carried out by the Group, see section 19 below. Salty snacks are developed, *inter alia*, using PepsiCo's knowhow.

10.9 Intangible assets

a. **Licenses and franchises**

Strauss Frito-Lay has an agreement with PepsiCo for the use of PepsiCo's trademarks with respect to all salty snack products marketed by Strauss Frito-Lay, which are based on PepsiCo's knowhow. For information on the licensing agreement and the payments paid in its respect, see section 10.14 below. In addition, the Company has trademark licenses for its products from several third parties with which the Company is engaged, in consideration for the payment of royalties for such use in amounts that are immaterial to the Company.

b. **Trademarks and samples**

In view of the Group's focus on branded products, the importance of registering trademarks on its brand names is great. Trademarks are registered in the Group's name in Israel on most of the brand names serving it in the Fun & Indulgence segment, except for those that are registered in PepsiCo's name, for which the Group has a usage license.

Registration of trademarks in Israel is valid for limited periods prescribed in the legislation and is renewable at the end of each such period. In view of the many years of use of these trademarks and their dominant status in the market, the Group estimates that the economic life of its main trademarks is indefinite.

For an itemization of costs and financial movement in intangible assets in the years 2016 and 2015, see Note 15.1 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

10.10 <u>Human capital</u>

For a description of the Group's organizational structure and additional information on employment agreements, see section 20 below.

Following is information on the number of employees in the Group (including all employees of Strauss Frito-Lay, a joint venture in which the Company holds 50%) in the Fun & Indulgence segment (including 260 and 273 employment agency workers), as at December 31, 2016 and December 31, 2015, respectively:

	Number of Employees as at	
	December 31, 2016	**December 31, 2015**
Administration	108	100
Sales and distribution (*)	504	173
Logistics	210	216
Operations	1,013	992
Total	1,835	1,481

(*) Most of the change is due to the reclassification of supply chain employees, who were formerly classified as employees of the head offices of Israel, the Sales Division and the Supply Chain Division, to the activity segments. For further information, see section 20.1.f below.

10.11 <u>Raw materials and suppliers</u>

For information on the Group's raw materials and suppliers which are common to the Health & Wellness and Fun & Indulgence segments, see section 8.9 above.

The main raw material used by the Group in the manufacture of Fun & Indulgence products is cocoa and its by-products (cocoa butter, cocoa mass and cocoa powder), the cost of which accounts for 35% of total purchases of raw and packaging materials. The Group also mainly uses sugar, nuts and milk powder, as well as corn, flour, vegetable oils, potatoes and packaging materials.

A considerable part of the abovementioned raw materials are commodities that are bought and traded on the commodities exchanges in London and New York in foreign currency (the dollar, euro and pound sterling). Consequently, the cost of these raw materials is exposed to fluctuations in currency exchange rates and price volatility in commodity markets. Moreover, the cost of raw materials produced from agricultural crops (such as sugar, cocoa, nuts) is affected by fluctuations originating in the commodity markets, notably fluctuations in supply due to changes in weather, ripening periods, etc.

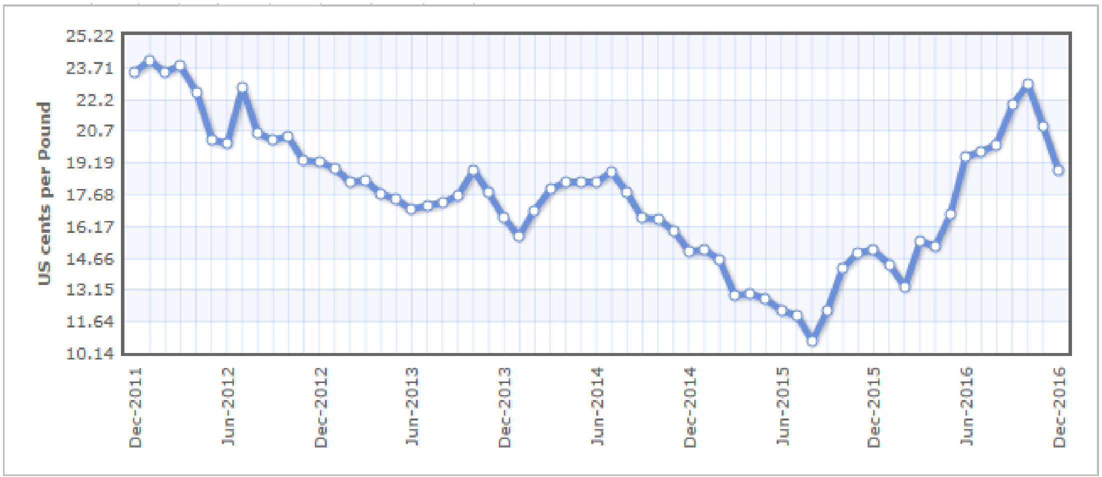
Cocoa prices continued on a rising trend in 2016, reaching a five-year high, but in the last quarter of the year prices dropped significantly and the year ended with an overall decrease of approximately 20% in prices. The price trend reversal is the result of an improvement in the world cocoa balance.

The cost prices of processing cocoa butter remained high during the year. The price of cocoa powders remained high due to the high market price of cocoa beans.

The following graph shows the changes in the price of cocoa beans (pound sterling per ton) in the years 2011 – 2016, according to indexmundi.com:

The rising trend in sugar prices, which began in 2015, continued in 2016, during which the price of sugar increased by approximately 2%. The rise in prices was the result of the gap between supply and demand and speculator involvement in market prices.

The following graph presents the changes in sugar prices (US cent per pound) in the years 2011 – 2016, according to the indexmundi.com website:



10.12 Working capital

Following is the composition of working capital, in NIS millions, in the Fun & Indulgence segment in 2016, according to the Management (Non-GAAP) Reports as defined in section 5 above:

	Carrying Amount in the Non-GAAP Reports
Operating current assets (*)	283
Operating current liabilities (**)	147
Excess of current assets over current liabilities	136

(*) Including net trade receivables, inventory, income receivable and prepaid expenses.
(**) Including net trade payables and expenses payable.

10.13 Restrictions and supervision in the segment

a. **Declaration as a monopoly in the chocolate tablet market** – in 1988 the Company was declared a monopoly, *inter alia*, in the chocolate tablet market. For further information, see section 29.v below.

10.14 Material agreements

The manufacture, marketing and sale of salty snacks are carried out by Strauss Frito-Lay (the Company holds 50% of the shares of Strauss Frito-Lay, and the remaining shares are held by the American food concern PepsiCo though its subsidiary, PepsiCo Investments Europe (I) B.V. (hereinafter: "**PepsiCo Europe**")). Strauss Frito-Lay and PepsiCo Europe are parties to a shareholders' agreement that regulates the relationship in all aspects relating to Strauss Frito-Lay; and several agreements relating to services provided to Strauss Frito-Lay by the Company. On November 30, 2016 a licensing agreement was signed between Strauss Frito-Lay and PepsiCo Inc. (hereinafter: "**PepsiCo**") for the use of knowhow and trademarks, which replaced the 1990 agreement as amended (hereinafter in this section: the "**Original Agreement**" and the "**New Agreement**", respectively). According to the New Agreement, Strauss Frito-Lay has stepped into the Company's shoes and PepsiCo – into the shoes of PepsiCo Food & Beverages International. The New Agreement shall remain in force for as long as the Company (or its wholly-owned subsidiary) is the shareholder of Strauss Frito-Lay, and for as long as the shareholders' agreement is in force. The remaining terms and conditions of the agreement remain unchanged. For further information regarding said agreements, see section 10.14 in Part A of the Company's Annual Report for 2013, as published on March 26, 2014 (reference no: 2014-01-023988) and Note 24.4.1 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

Pursuant to a licensing agreement for the use of knowhow and trademarks, in 2016, 2015 and 2014 the Group paid royalties to PepsiCo in the approximate amount of NIS 6 million annually.

During 2014, the Group began marketing products under PepsiCo's Quaker brand, in accordance with an agreement between Strauss Frito-Lay and PepsiCo's subsidiaries Beverage, Foods & Services Industries, Inc. and Frito-Lay Trading Company GmbH, pursuant to which the Group was given a marketing and distribution license for said products in Israel. The distribution agreement is for an unlimited period and may be terminated, according to the provisions of the agreement, by advance notice given by any of the parties. According to the distribution agreement, Strauss Frito-Lay purchases the products and markets and distributes them in Israel. Strauss Frito-Lay has undertaken not to manufacture, sell or distribute in Israel products that compete with the aforementioned products (with the exception of the Energy products), without the consent of PepsiCo.

11. The Coffee Operation

General information on the Coffee Operation

Following is general information on the Coffee Operation, which comprises the Israel Coffee segment and the International Coffee segment.

11.1 Structure of the Coffee Operation and changes occurring therein

In Brazil (through the Três Corações Joint Venture (3C) - a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%)), Russia, Eastern European countries and Israel, the Group manufactures, markets and distributes a variety of coffee products (instant coffee, roast and ground (R&G) coffee, filter coffee and coffee capsules), coffee substitutes (in Israel and Russia), hot drink powders (such as chocolate and cappuccino powders) and cocoa powders for baking. The Group also markets and distributes coffee machines. As part of its activity in Israel, the Group is engaged (through the Elite Coffee café chain) in the retail sale of coffee products, bakery products and soft drinks at 64 points of sale throughout Israel, most of which cater to customers in public places. In addition, as part of its activity in Brazil (through the Três Corações Joint Venture) the Group purchases, processes and sells green coffee, corn products and juice powders.

According to Nielsen[15] and StoreNext figures, approximately 75% of sales by the Coffee Operation in 2016 originated in markets where the Company holds first or second place in terms of market share in retail coffee sales – Brazil, Israel, Romania and Serbia.

For an analysis of the foreign currency effect on the Group's sales, see the chapter "Analysis of Financial Results" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

In 2016, the Group focused on the implementation of its growth strategy while improving its competitive position in the markets where it operates, taking long-term industry trends into account and promoting the global coffee culture in target markets. Among other things, the Group strengthened its capabilities in the development and launch of new, high added value products and in direct-to-consumer e-commerce sales, in tandem with the management of operations and risk in a complex macroeconomic environment in some of the markets in which it operates.

11.2 <u>The global coffee market</u>

Following are data on the world coffee market according to Euromonitor reports –

	2016	2015(*)	2011-2016	2010-2015
World Retail Coffee Market (excluding cafés)				
Scope of sales in retail prices (excluding cafés)	US$ 79.1 billion	US$ 77.3 billion	---	---
Sales volumes	5.6 million tons	5.5 million tons		
Cumulative annual growth rate (CAGR) in value terms	---	---	3.1%	3.2%
CAGR in volume terms	---	---	2.6%	1.9%
World Retail Roast & Ground (R&G) Coffee Segment Including Fresh Coffee Beans, Ground Coffee Beans and Capsules				
Percentage of global coffee market in value terms	64.1%	63.8%	---	---
Percentage of global coffee market in volume terms	72.6%	72.9%	---	---
Sales value	US$ 51 billion	US$ 48 billion	---	---
Sales volumes	4.1 million tons	4.0 million tons	---	---
CAGR in value terms	---	---	3.5%	8.1%
CAGR in volume terms	---	---	2.0%	1.2%
World Retail Instant Coffee Segment				
Percentage of global coffee market in value terms	35.9%	35.3%	---	---
Percentage of global coffee market in volume terms	27.4%	27.1%	---	---
Sales value	US$ 28.4 billion	US$ 27.9 billion	---	---
Sales volume	1.5 million tons	1.5 million tons	---	---
CAGR in value terms	---	---	2.4%	7.5%
CAGR in volume terms	---	----	4.5%	3.9%

(*) Figures for 2015 were adjusted to Euromonitor's updated calculations.

[15] Nielsen is engaged in market research, data and market analysis. To the best of the Company's knowledge, Nielsen is active in 110 countries including Israel.

Following are data on the major players in the **global retail coffee market**, based on Euromonitor figures –

	Global Retail Coffee Market - Value Market Share	
	2016	**2015(*)**
Nestle	22.2%	22.1%
JAB(**)	12.1%	12.3%
Lavazza	3.3%	3.3%
Starbucks	2.5%	2.3%
JM Smucker	2.5%	2.6%
Kraft Heinz	2.4%	2.5%
Strauss Coffee(***)	2.4%	2.3%

(*) Figures for 2015 were adjusted to Euromonitor's updated calculations.
(**) Figures include all companies acquired by JAB Holdings in recent years.
(***) Figures include 100% of the business of the Três Corações Joint Venture according to Euromonitor data.

For additional information, see section 11.3 below.

The global R&G market is a decentralized market, which is characterized by the presence of numerous companies with smaller market shares than those in the instant coffee market. Following are data on the major players in the **global retail R&G market**, based on Euromonitor figures –

	Global Retail R&G Market, Including Fresh Beans, Ground Beans and Capsules - Value Market Share	
	2016	**2015(*)**
JAB(**)	12.5%	14.7%
Nestle	8.6%	8.1%
Lavazza	4.4%	4.4%
Starbucks	3.7%	3.5%
JM Smucker	3.4%	3.6%
Kraft Heinz	3.3%	3.4%
Strauss Coffee (***)	3.0%	3.0%

(*) Figures for 2015 were adjusted to Euromonitor's updated calculations.
(**) Figures include all companies acquired by JAB Holdings in recent years.
(***) Figures include 100% of the business of the Três Corações Joint Venture according to Euromonitor data.

For additional information, see section 11.3 below.

Following are data on the major players in the **global instant coffee market**, based on Euromonitor figures –

	Global Retail Instant Market - Value Market Share	
	2016	**2015(*)**
Nestle	46.5%	46.2%
JAB(**)	8.0%	7.9%
Dongsuh Foods	3.9%	3.6%
Tchibo	1.9%	1.9%
Strauss Coffee (***)	1.5%	1.3%

(*) Figures for 2015 were adjusted to Euromonitor's updated calculations.
(**) Figures include all companies acquired by JAB Holdings in recent years.
(***) Figures include 100% of the business of the Três Corações Joint Venture according to Euromonitor data.

For additional information, see section 11.3 below.

Global coffee sales by geographic breakdown:

	Volume Sales	
	2016	**2015(*)**
Western Europe	27%	27%
North America	19%	20%
Latin America	13%	13%
Australia Asia Pacific	21%	20%
Eastern Europe	9%	9%
Middle East and Africa	11%	11%

(*) Figures for 2015 were adjusted to Euromonitor's updated calculations.

11.3 Mergers and acquisitions in the global coffee industry

In 2016, the consolidation trend in the global coffee sector continued, mainly by JAB Holding Company, which holds JDE.

In May 2016 JAB Holding acquired the Krispy Kreme doughnut shop operator, active in the US, for US$ 1.35 billion. In November 2016 JAB acquired Krispy Kreme's UK franchisee for an undisclosed amount. In addition, in November 2016 JDE acquired Super Coffee, whose business focuses on Southeast Asia, for US$1 billion. In December 2016 JAB completed the acquisition of a New Zealand coffee brand for an undisclosed amount.

In January 2017 JDE announced its intention of purchasing a series of brands in Brazil from the company Cacique, including Pelé, Granissimo and Tropical. As part of the sale Cacique, Brazil's largest exporter of instant coffee, will retain its production sites and export operation. On completion of the transaction JDE is likely to increase its market share of the Brazilian coffee market to 18.9% in R&G, and to 5.6% in instant coffee, making it the second-largest player in R&G and the third-largest in instant coffee.

In January 2017 the French investment company FFP announced that it was to invest $50 million in JAB Holding to support further acquisitions.

In the past four years, JAB Holding has acquired coffee companies and café chains for a total of more than US$30 billion.

To the best of the Company's knowledge and based on publications in the media, JAB has begun to merge the operations of the two US café chains it acquired, and has announced a series of downsizing moves and the merging of production sites in Europe.

Other acquisitions in 2016 include the acquisition of Nutricafe, the Number 3 player in the Portuguese market, by Massimo Zanetti Beverage Group, for EUR 38 million, and Tchibo acquired Matthew Algie, a UK company specializing in premium coffee, in August for an undisclosed amount.

As at the date of this report, the Group is unable to assess the implications of the series of acquisitions by JAB and the other acquisitions mentioned above on the competition, if any.

11.4 <u>Consumer trends in the coffee market</u>

Generally, the coffee industry is an attractive, big and stable market, which is growing continuously in domestic currency terms within the food and beverage industry. According to Euromonitor figures, the global coffee industry generated approximately $79.1 billion in sales in 2016 (in retail selling prices), with Brazil being the second-largest national coffee market in the world with retail sales of $5.6 billion in 2016. According to Euromonitor, in 2016 Brazil, the Eastern European countries and Israel accounted for 7.1%, 6.3% and 0.4%, respectively, of world retail coffee sales.

2016 witnessed the continuation of the major consumer trend in the coffee arena in recent years - the development of a global coffee culture, characterized by a continuous increase in the level of sophistication of consumers and products.

The factors driving the global coffee culture are trends of consumer premiumization in food and beverages (also expressed in the wine, beer, cheese and other categories), the continuous growth of high-end café chains and the coffee capsules (single portion) segment, which deliver a more sophisticated coffee experience and products, knowledge of coffee, its sources of cultivation and methods of preparation. Additionally, there are new high-value categories and products, and in general, there is a wider variety of products. Another factor that is driving the coffee culture forward is the growing use of the Internet, which enables extensive dissemination and greater accessibility of knowledge and experiences in the world of coffee, as well as a direct connection with consumers. Consequently, coffee consumers have become more sophisticated, more knowledgeable, and demand higher standards. If, formerly, coffee consumers would stick to a single type of coffee, there is now a trend of product diversification as consumers vary between several kinds of coffee ((R&G, instant, espresso), sometimes even on the same day. For manufacturers, who are adapting to the global coffee culture through up-to-date brands, a strategic manufacturing and distribution chain and by leveraging food technologies, this is an opportunity to add consumer value, generate growth and bigger margins, and to mitigate risk and exposure to volatility and commoditization. In consequence of these trends, relatively new coffee categories such as single-portion capsules, ready-to-drink coffee, instant coffee combined with R&G, etc., are growing fast.

In light of said trends, in recent years the Group has expanded its activity in single-portion capsules: in Brazil (through the Três Corações Joint Venture, a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%)), as at the date of this report a manufacturing site for the production of coffee capsules is being built, and in Israel Strauss Coffee manufactures and markets capsules that are directly sold to consumers via e-commerce and retail. In addition, the Group launched specialty coffee in Romania and Poland, freshly roasted coffee beans from several regions sent directly to the consumer after roasting and delivering maximum freshness, personally tailored to the customer's taste (origin of the coffee, roasting method, grinding thickness, etc.) and sold directly to the consumer, in Romania at dedicated points of sale and in Poland – via e-commerce under the MK Fresh brand. Furthermore, the Company expanded its portfolio of single-origin products marketed in retail chains, i.e. coffee originating from one country only, such as Brazil, Colombia, India, etc. In Eastern European countries the Group launched R&G coffee products with green-coffee extract as part of the health trend. In addition, in 2016 the Group enhanced its capabilities in the development and launch of new high added value products. The Group intends to continue to develop new technology and products delivering high added value and to deepen collaboration with other technology entities in the Group.

The information in this section regarding the Group's intention to continue to develop new technology and products delivering high added value and to deepen collaboration with other technology entities in the Group 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, among other things as a result of market demand for the Company's products, market conditions, etc. To closely monitor changes in consumer behavior, the Group conducts research, *inter alia* in order to observe and respond to these changes in a timely manner.

11.5 Legislative restrictions, standards, and unique constraints applying to the activity framework

For further information, see the section "Changes in the Economic Environment" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

11.6 Changes in the scope of the activity framework and its profitability

Changes in the scope of activity

The Group's operation in the coffee business has expanded and grown in recent years both in and outside of Israel as a result of organic growth, building and developing existing and new brands, and launching new high added value products in alignment with consumption trends, first and foremost the birth of a global coffee culture.

Additionally, in March 2016 the Três Corações Joint Venture purchased the coffee brands of Cia Iguaçu, a private company (owned by the Japanese Marubeni Group) with operations in the food industry, among others. The agreement between the companies includes the acquisition of retail coffee brands (Iguaçu, Cruzeiro, Amigo) and related Cia Iguaçu products in South America, including Brazil.

Group management believes that the agreement has strengthened the Três Corações Joint Venture's position in the Brazilian coffee market, making the Três Corações Joint Venture the second-largest player in the instant coffee market in Brazil following the closing, according to Nielsen. In addition, the agreement enables the Company to export more products from South America via the existing export capabilities of the brands.

Changes in profitability

For information on changes in income and profitability in the Israel Coffee segment and the International Coffee segment, see the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

11.7 Developments in the markets of the activity framework and changes in customer characteristics

The main consumer development in the markets relevant to the Company's operations is the emergence of the global coffee culture, as described in section 11.4 above. In markets where the Company operates the single-portion capsules segment has grown, partly in the non-barcoded market, as have high-end café chains that disseminate knowledge about coffee, its agricultural origins and preparation methods, as well as new categories and high added value products, and in general, a wider variety of products. Consequently, coffee consumers have become more sophisticated, have greater knowledge and demand higher standards.

In Brazil,2015 was marked by a substantial adverse change in macroeconomic conditions, accompanied by a significant devaluation of the local currency. In 2016, following the regime change and the stabilization of the geopolitical situation, markets began to stabilize and the local currency strengthened compared to 2015. However, despite the continuing economic and political crisis and notwithstanding significant currency volatility, the local operation continued to grow in domestic currency terms in the abovementioned period.

Russia and Ukraine are contending with the macroeconomic crisis that began in 2014. In 2016 the crisis moderated in Russia and the local currency stabilized. In both countries, following the drop in disposable income, consumers cut down their food expenditure, which led to a reduction in the income and profit of retailers. There has been a decrease in brand loyalty and a continuous search for discounts and sales, mainly in the organized ("modern trade") market. Consequently, manufacturers and retailers have focused on granting significant discounts, with large manufacturers focusing on their core products and on the creation of inexpensive product lines. Notwithstanding these trends, the Group succeeded in increasing its sales turnover in domestic currency in both countries.

In Eastern European countries the trend of shifting from sales to end consumers in open markets and sales by small grocery stores to sales to organized market customers operating a number of points of sale (food chains, etc.), has continued.

In Romania, macroeconomic conditions improved, with an increase in growth, a reduction in customs duties on imported coffee (green coffee and coffee products) in early 2016 and the reduction of VAT on food products in the second half of 2015.

In Poland, the coffee bean market grew in 2016. In addition, supermarket chains and their market share continued to grow in the retail arena. In light of the search for low-priced products, the coffee operation in Poland was characterized by large discounts and campaigns.

In Serbia, which has been plagued by a continuing economic crisis, retail chains have continued to grow. However, the traditional sales channel of small grocery stores continues to be the dominant channel, and the consumer bias toward low-cost products has increased.

11.8 Critical success factors in the activity framework and changes therein

In addition to the critical success factors that are common to all the Group's business areas as described in section 7 above, there are success factors that are unique or highly significant to the coffee business, including: (1) in R&G coffee products, which possess local characteristics – the ability to tailor the product, its flavor, appearance and other consumption characteristics to the unique tastes of the consumer in each country where the Group operates; (2) the existence and growing strength of brands and their attractiveness in the eyes of consumers; (3) knowhow and complex technological capabilities in instant coffee; (4) systemic capabilities in the development, operation and maintenance of coffee vending machines; (5) marketing and distribution capabilities in the AFH market and the existence of diverse points of contact between coffee products and consumers at different consumption opportunities (such as in-home consumption, on-the-go, workplace consumption and in hotels); and (6) a modern and professional supply chain which enables the consistent manufacture of top-quality products.

11.9 Major entry barriers to the activity framework and changes therein

In addition to the major entry barriers that are common to all the Group's business areas as described in section 7 above, the main entry barriers to the Coffee Operation arise from the need for knowledge in all aspects relating to the procurement of green coffee; the existence of customs duties on the import of finished products in some of the countries where the Group is active, which, among other things, influences the need for self-production of the products in these countries; in instant coffee products technological knowhow is required, as well as large-scale investments in order to establish a production site; the supply chain requires a modern and professional system that enables the consistent manufacture of top-quality products, and in the AFH channel there is a need for a unique sales-support system that is able to provide a technical response to a large number of points that operate different coffee machines, including vending machines selling hot beverages and refrigerated products.

11.10 Substitutes for the products of the activity framework and changes therein

The main substitutes for coffee products are tea, cocoa and energy drinks. Soft and carbonated beverages and water are secondary substitutes.

11.11 Raw materials and suppliers

Main raw materials

The main raw material used by the Group in the Coffee Operation (the Israel Coffee segment and the International Coffee segment), the cost of which accounts for about 50% of total purchases of raw materials, is green coffee.

Approximately 60% of green coffee produced worldwide consists of Arabica coffee beans, and approximately 40% are Robusta coffee beans (mainly grown in Vietnam, Indonesia and Brazil). Approximately 70% of the Group's purchases are of Robusta type coffee beans.

According to information from the International Coffee Organization (ICO)[16], the leading countries in the production of Arabica green coffee are Brazil, Colombia and Ethiopia, and the leading countries in the production of Robusta green coffee are Vietnam, Brazil and Indonesia. Arabica is traded on the commodities exchange in New York (New York Board of Trade), and Robusta, on the commodities exchange in London (Euronext LIFFE).

Green coffee is purchased for the Group as a whole (with the exception of Brazil, where the Três Corações Joint Venture (3C) purchases green coffee from local suppliers) in a centralized manner. Green coffee is bought from various suppliers in some 20 different countries, mainly Vietnam and in Central America and East Africa. Purchase agreements are performed according to the conditions and standard provisions of the European Standards Coffee Contract.

The Group has a system in place for the management of quality tests that is designed to achieve uniformity as far as the coffee beans are concerned and allow for quality problems to be quickly identified. This system is also used by the Group's suppliers worldwide.

As part of the Group's corporate responsibility program, the Group is a member of the 4C Association, an industrial union that sets minimum standards for the manufacturing of sustainable coffee with the aim of achieving greater sustainability through the advancement and continuous improvement of the social, environmental and economic

[16] The International Coffee Organization (ICO) is the main intergovernmental organization for coffee, bringing together exporting and importing governments to tackle the challenges facing the world coffee sector through international cooperation; http://www.ico.org.

conditions of those whose livelihood is dependent on production, processing and trading in coffee.

Green coffee is a commodity traded on world exchanges, and from time to time the Group enters into futures contracts and option contracts for the purchase and sale of green coffee.

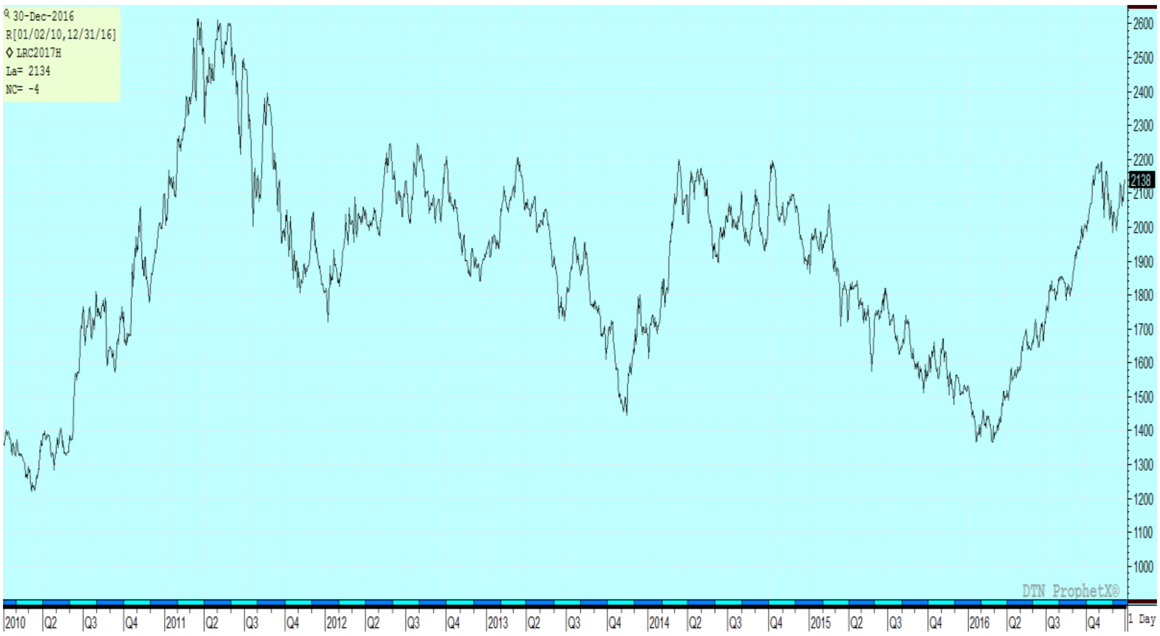
The price of green coffee is affected by the climate and by supply and demand. In 2016, green coffee prices rose worldwide for both Arabica and Robusta beans. This trend has continued in the beginning of 2017 through to the date of publication of this report.

The following graphs present the changes in prices of the different types of green coffee in the years 2010-2016. Source: DTN ProphetX[17].

Arabica (the vertical axis represents US cents/lbs) traded on the New York commodities exchange:

17 DTN ProphetX is a supplier of commodity market information and trading software including innovative analysis tools; http://www.dtn.com/trading/index/cfm.

Robusta (the vertical axis represents $/ton) traded on the London commodities exchange:



In addition to green coffee, the Group purchases instant coffee from Germany, Brazil, Vietnam and India for the needs of the Coffee Operation. The Group also buys other raw materials, mainly sugar, cocoa powder, and packaging materials, which are purchased by the Group's companies from local manufacturers in all countries of operation.

12. The Israel Coffee Segment

12.1 General information on the Israel Coffee segment

In this segment the Group develops, manufactures, sells, markets and distributes a variety of coffee products bearing its brands in Israel, and also manufactures and sells chocolate powders and other drinking powders, as well as cocoa powders for baking. Additionally, the Group engages in the retail sale of coffee products at various points of sale in Israel as well as in the retail sale of coffee products, pastries and soft drinks (through Elite Coffee café chain).

The Israel Coffee segment includes Strauss Coffee's corporate center, which concentrates the Group's entire Coffee Operation (except for identifiable costs of Strauss Coffee's various investees, which are fully allocated to each investee).

12.2 Products

The Group's main products in the Israel Coffee segment are roast and ground coffee (black (Turkish) coffee, filter coffee and espresso), instant coffee (powder, agglomerated and freeze-dried), capsules for espresso machines, chocolate powders

("Choco") (under the Chocolite brand), and hot drink powders and home baking powders.

In addition, the Group operates the "**Elite Coffee**" café chain, specializing in the sale of coffee products and accompanying products in the OTG (on-the-go) segment, mainly at coffee stands.

In response to the global and local consumer trend of drinking high quality coffee and coffee made with home machines, toward the end of 2012 the Group launched roast and ground espresso capsules for domestic use in espresso machines, which were re-launched in a new edition in March 2016. The coffee capsules are manufactured in the coffee plant in Israel.

12.3 <u>Distribution of income and profitability of products and services (according to the Company's Management (Non-GAAP) Reports)</u>

In 2016, the income of the Israel Coffee segment accounted for less than 10% of the Group's total income.

12.4 <u>Competition</u>

a. All of the Group's coffee products have rival products. The Group leads in some categories of coffee products and "Choco" powders. The main competitors in the different categories are as follows: (1) instant coffee – Osem-Nestle and Jacobs, which is marketed by Diplomat; (2) roast and ground coffee products – Landwer, Jacobs and the private brands of the retail chains Shufersal, Blue Square, Rami Levy and others; (3) espresso capsules – Nespresso which sells coffee capsules and machines at its stores; Lavazza, which collaborates with Yellow convenience stores; Shufersal, Nespresso compatible private label coffee capsules; Cup O' Joe, Nespresso compatible private label coffee capsules; (4) AFH consumption – café chains. In addition, during recent years there has been a trend of development of private label brands, in such manner that the private labels of the Shufersal and Rami Levy chains have become competitors of the Company in its activity segments in the Israel Coffee segment.

b. **Market shares** – the following table presents information on the market shares of the Group and its major competitor with regard to the Group's main products in the Israel Coffee segment:

Coffee Market (Instant and R&G Coffee)				
Market Share (in %)	**2016**		**2015**	
	The Group	**Main Competitor**	**The Group**	**Main Competitor**
Israel: instant coffee	38.1%	45.6%	38.1%	45.4%
Israel: R&G*	65.3%	4.3%	64.4%	4.4%
Israel: coffee (weighted)*	51.8%	24.8%	51.1%	25.2%

* Market shares for the group of roast coffee products in Israel were calculated by weighting StoreNext's figures for the barcoded retail market and an estimate of direct sales in the non-barcoded market, in view of the Company's opinion that StoreNext's data are not representative of this product group.

Negative factors which, in the Group's opinion, influence or are likely to influence its competitive position in the Israel Coffee segment, are, among others, economic crisis, potential expansion of the operations of international coffee companies in the Israeli domestic market, and the development of rival distribution capabilities, which will reduce the Group's competitive advantage.

Positive factors which, in the Group's opinion, influence or are likely to influence its competitive position, in addition to the factors set forth in section 7 above, are the Group's ability to develop products and to tailor its products to the tastes of the local market.

The Group contends with the competition in the Israel Coffee segment on an ongoing basis by concentrating marketing and advertising efforts; building and maintaining its brands; a comprehensive distribution system; innovation – the development and launch of new products; entry into new business areas; investment in production sites and the development of technological capabilities; and adaptation of its products to the different emerging consumer trends.

12.5 Seasonality

Following are data for the years 2016 and 2015 on the Company's income in the Israel Coffee segment, by quarter, in NIS millions, according to the Management (Non-GAAP) Reports, as defined in section 5 above:

	2016		2015 (*)	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	194	28.8%	196	30.3%
Q2	153	22.7%	136	21.2%
Q3	179	26.5%	162	24.9%
Q4	147	22.0%	153	23.7%
Total	673	100%	647	100%

(*) 2015 data were amended.

There is no clear seasonality trend in the coffee business; at the same time, revenues are generally (relatively) higher in the first quarter of the year due to increased consumption of coffee products as Passover approaches.

12.6 Production capacity

The production capacity of the Group's plants in the Israel Coffee segment is measured by quantities of product per year. The maximum potential annual production capacity of the Group's plants in the Israel Coffee segment, operating in three shifts, in tons product per year for the years 2016 and 2015 was approximately 18 thousand tons. The average production capacity utilization rate in the years 2016 and 2015 was 65% and 53%, respectively.

The production lines in the Group's plants are automatic, and some are operated in three shifts a day.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its plants and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. On the basis of information in the Company's possession as at the date of the Periodic Report, the Company does not anticipate that it will be required to make material investments in equipment and machinery in the segment in 2017.

The information in this section that the Company will not be required to make material investments in 2017 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, among other things as a result of different developments in the Israeli economy, in regulation and in market demand for the Company's products, etc.

12.7 Fixed assets, real estate and facilities

Following is a description of the main real estate properties and other material fixed assets, which serve the Group in the Israel Coffee segment:

Nature and Location	Site Designation	Land Area	Built-Up Area	Rights in and to the Site
A plant in the new industrial zone in Safed(*)	Manufacturing and packaging	Approx. 16,900 m²	Approx. 3,200 m².	Leased from the ILA under capitalized lease agreements, ending in March 2031 (approx. 10,500 m²) and in January 2033 (approx. 6,400 m²). Each of the lease agreements includes an option for the lessee to extend the lease period for an additional 49 years.
A plant in Lod	Production of coffee and powders	Approx. 5,600 m²	Approx. 4,441 m²	Ownership of 4,800 m² and leasing of 800 m² under a non-capitalized lease agreement ending in December 2033. The lease includes an option for the lessee to extend the rental period for an additional 49 years.

For information on the Group's logistics center in Shoham, see section 8.8 above.

(*) In addition, the Company is the owner of land adjacent to the packaging plant, covering an area of 2,814 m², on which there are buildings leased to several third parties for different lease periods. The Company renews the lease periods as necessary.
The assets are not mortgaged.

For the Company's policy regarding depreciation of machinery and equipment in its different plants, see Note 3.4 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

12.8 Intangible assets

The Group has registered trademarks in Israel on most of the coffee brand names (excluding products that are distributed by the Group and are not manufactured by it). The major trademarks in Israel are valid for a defined period and may be renewed at the end of that period. In view of the many years of use of these trademarks and their dominant status in the markets, the Group estimates that the economic life of its main trademarks is indefinite.

For details on the costs and financial movement in intangible assets in the years 2016 and 2015, see Note 15 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

12.9 Human Capital

a. For a description of the Group’s organizational structure and information on employment agreements, etc., see section 20 below.

Following is information on the number of employees in the Group in the Israel Coffee segment (including 11 and 19 employment agency workers) as at December 31, 2016 and December 31, 2015, respectively:

	Number of Employees as at	
	December 31, 2016	**December 31, 2015**
Management and administration	84	75
Sales and distribution	435	420
Procurement and logistics	113	110
Operations	145	162
Total	777	767

b. The above administration staff refers to the members of Strauss Coffee management, which directs the Group’s entire coffee operation.

c. Strauss Coffee’s corporate center is attributed to the Israel Coffee segment. For a description of the organizational structure of the Group’s coffee operation, see section 20.1 below.

d. Option plan – in 2011, the board of directors of Strauss Coffee approved an international plan for the allotment of non-marketable Strauss Coffee stock options to its senior executives. See Note 23.4 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

12.10 Raw materials and suppliers

a. For information on the procurement of raw materials and on suppliers in the Coffee Operation, see section 11.11 below. In addition, the Group purchases powdered instant coffee, freeze-dried instant coffee and cocoa products from external suppliers.

b. During the reporting period, there was no single supplier in the Israel Coffee segment which accounted for more than 10% of total purchases by Israel Coffee of raw and packaging materials, with the exception of powdered instant coffee for the operation in Israel from Ngon Coffee Company Ltd. Notwithstanding the foregoing, the Group is not dependent on said supplier and can replace it at no substantive additional cost to the Company.

12.11 Working Capital

Following is the composition of working capital, in millions of NIS, in the Israel Coffee segment in 2016, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above:

	Carrying Amount in the Non-GAAP Reports
Operating current assets (*)	150
Operating current liabilities (**)	68
Excess of current assets over current liabilities	82

(*) Including net trade receivables, inventory, income receivable and prepaid expenses.
(**) Including net trade accounts payable, expenses payable and income received in advance.

12.12 Restrictions and supervision in the segment

a. **Declaration as a monopoly**

In 1988, the Company was declared a monopoly, *inter alia*, in the categories of instant coffee and cocoa powders for in-home consumption. For information, see section 29.v below. b. **Antitrust approval**

In the context of an agreement for the acquisition of the coffee machine business of the Dutch company Douwe Egberts, the Israeli Antitrust Commissioner granted conditional approval for the merger, stipulating, *inter alia*, that Strauss Elite Away From Home Ltd. (which was merged with Strauss Coffee) and any and all persons related to it shall not be associated (including by way of the grant of aggregate discounts) in any manner whatsoever between the supply of coffee machines and/or concentrate and/or powder for coffee machines and the supply of other of its products to hotels.

c. **Consensual decree**

Following the merger notice issued by the Company and the Elite Coffee chain in 2005 with respect to the acquisition of 26% of the shares of Elite Coffee (formerly Coffee To Go) by the Company and the Commissioner's objection to a discussion with regard to the notice, in February 2006 the Antitrust Court approved a consensual decree between the Company and the Commissioner, pursuant to which the merger would be approved, whereas the Company will not be a party to a collaboration arrangement that affects the Israeli market and grants the Company a material ability to direct the actions of another person who manages a business, unless the collaboration arrangement is submitted for the Commissioner's approval in advance. Any doubt with respect to the fulfillment of this condition will be submitted for the Commissioner's decision.

12.13 Material Agreements

Engagement with the private investment fund, TPG Capital

For additional information, see section 12.13, Part A of the Company's Annual Report for 2013, as published on March 26, 2014 (reference no. 2014-01-023988).

Further to the Immediate Report of December 15, 2016 (reference no. 2016-01-088413), on March 27, 2017 Strauss Coffee entered into an agreement with TPG, pursuant to which Strauss Coffee effectuated a buyback of TPG's entire holding (25.1%) in Strauss Coffee.

According to the agreement, Strauss Coffee is to pay TPG EUR 257 million in respect of the shares. The consideration was determined, *inter alia*, on the basis of Strauss Coffee's profitability, the value of its operation and assets, and estimates with regard to anticipated market trends and world growth in the coffee industry. The consideration will be paid in two installments: EUR 172 million was paid on the signing of the agreement and the share transfer, and EUR 85 million will be paid by August 15, 2017. In addition, Strauss Coffee will redeem share options allotted to managers in Strauss Coffee at a cost of EUR 17 million, and options of a value of EUR 2 million will be redeemed or exchanged for Strauss Group options. The acquisition and redemption will be financed by Strauss Coffee's own sources and debt financing, and by debt financing and/or equity of Strauss Group under market conditions.

The acquisition was completed at the signing. The first installment was financed by Strauss Coffee's own sources and by a short-term loan taken by Strauss Coffee in the amount of NIS 434 million, bearing 1.5%-2.0% annual interest. The credit terms include causes for immediate repayment, as set forth in the agreement with regard to opening Strauss Coffee's bank account. Following the transaction, the financial covenants with which Strauss Coffee is required to comply have remained unchanged. It is Strauss Coffee's intention to replace the above loan with long-term debt financing.

13. The International Coffee Segment

13.1 General information on the International Coffee segment

In this segment, the Group develops, manufactures, sells, markets and distributes a range of branded coffee products in Brazil (through the Três Corações Joint Venture (3C)), in Russia and Ukraine and in Central and Eastern European countries. For additional general information on the Coffee Operation, which is common to the Israel Coffee segment and the International Coffee segment, see section 11 above.

Brazil – in 2016, the Três Corações Joint Venture's sales in Brazil increased as the Três Corações Joint Venture continued to consolidate its position as the biggest coffee company in Brazil according to Nielsen, despite the significant currency volatility throughout the period. For further information, see section 11.7 above.

Russia and Ukraine – following the political crisis in these countries and the complexities of Russia's relationship with the west, the Russian and Ukrainian currencies (the ruble and the hryvnia) suffered a significant devaluation against the major currencies from mid-2014 through to the first half of 2016. These processes led to an increase in the prices of raw materials and coffee prices and eroded the consumers' purchasing power, expressed, among other things, in a decrease in brand loyalty and a continuous search for low-cost products, discounts and campaigns. The second half of 2016 was marked by macroeconomic stability relative to the preceding period. In both countries the Group succeeded in growing its sales turnover in local currency. For further information, see section 11.7 above and also the section “"Changes in the Economic Environment” in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

Central and Eastern European Countries (Poland, Romania and Serbia) – sales in the CEE countries were mainly affected by intense competition, quantitative stagnation in the coffee market and erosion of the local currencies against the shekel. Consumers in these countries are looking for attractively priced products, and demand for the private labels of large retailers is on the rise. To contend with the economic situation and maintain profitability and market share, the Group invested in sales promotion, campaigns and discounts.

In Poland consumers are continuously looking for low-priced products, discounts and campaigns. Nevertheless, the Group's sales in domestic currency grew in 2016 compared to the prior year. In Romania, macroeconomic conditions improved with an increase in growth and a reduction in customs duties on imports of green coffee and coffee products. The Group’s sales in Romania in local currency decreased in 2016, mainly as a result of the reduction in customs duties on green coffee, which lowered the cost of raw materials and allowed for price reductions. Serbia is in a recession, accompanied by high unemployment rates. These processes have led consumers to look for low-priced products, discounts and campaigns. The Group’s sales in Serbia decreased in 2016. In 2016, the Group recognized an impairment loss of NIS 9 million (in addition to an impairment loss of approximately NIS 22 million recognized in 2015) in respect of intangible assets attributed to the operation in Serbia. For further information, see Note 15 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

For an analysis of the foreign currency effect on the Group’s sales, see the chapter “Analysis of Financial Results” in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

13.2 <u>Products</u>

The Group’s main products in the International Coffee segment are R&G coffee, instant coffee, espresso capsules and coffee machines, chocolate and other drinking powders, including coffee substitutes and juice powders. In 2016 Strauss Coffee focused on strengthening and positioning its brands, developing new categories and flavors, and supporting its capsule and coffee machine brands.

Brazil – Through the 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%), the Group sells R&G coffee, instant coffee, espresso capsules and machines, cappuccino products, chocolate powders, juice powders and corn products. The Group mainly operates under the brands **Três Corações** (instant coffee, R&G, filter coffee, cappuccino, chocolate powders, ready-to-drink coffee), **Santa-Clara** (instant coffee, R&G, filter coffee), **Pimpinela** (instant coffee, R&G, filter coffee), **Kimimo** (R&G and instant coffee), **Fino Grão** (R&G), **Itamaraty** (R&G), **Leticia** (R&G), **Tres** (espresso machines and capsules), **Dona Clara** (corn products), **Frisco** (juice powders), **Iguaçu** (instant coffee) and **Amigo** (instant coffee). As part of its activity in Brazil, the Três Corações Joint Venture also purchases, processes and exports green coffee, mainly to Europe and the US.

Russian and Ukraine – the companies in Russia and Ukraine mainly operate under the brands **Chornaya Karta** (freeze-dried instant coffee as the main brand, and R&G), **Totti** (instant coffee, premium branded tea and R&G), **Le-Café** (freeze-dried coffee),

Ambassador (freeze-dried coffee and espresso), **Fort**, **Elite Health Line** and **Chicory** (chicory tea). In Russia the Company places emphasis on **Chornaya Karta** as a leading brand.

As part of the global health trend, the Group is investing in the development of healthy coffee products such as Chicory in Russia.

Poland – the Group sells R&G, instant coffee and espresso. The Group mainly operates under the brands **MK**, **Fort** and **Pedro's**. In 2015, the Group launched a new blend with green coffee extract under the brand **MK Café Green**, and in 2016 the Group launched the **MK Fresh** brand in Poland for the sale of freshly roasted coffee beans, personally tailored to the customer's taste, via the e-commerce platform.

Romania – the Group sells R&G, espresso and instant coffee. The Group mainly operates under the brands **Doncafé**, an umbrella brand that includes various brands bearing the brand name in the instant and R&G segments, **Doncafé Espresso** and **Totti Café Espresso** (espresso coffee), **Amigo** (instant coffee and R&G) and **Fort** (R&G). In 2015, the Group launched a new blend with green coffee extract under the brand **Doncafé Green Active**. In 2016 the Group launched the **Doncafé Fresh** brand in Romania for the sale of freshly roasted coffee beans, personally tailored to the customer's taste.

Serbia – the Group mainly sells R&G coffee manufactured at its local plant. The Group mainly operates under the brands **Doncafé** as a master-brand that includes **Doncafé Moment**, **Doncafé Minas**, **Doncafé Strong** (R&G), **Doncafé Mix** (instant coffee) and **C-Kafa**.

13.3 Distribution of income and profitability of products and services (according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above)

a. Following is information on the International Coffee segment's income from external entities (consolidated) (according to the Company's Non-GAAP Reports, as defined in section 5 above), by geographical regions in which the Group operates, in NIS millions and as a percentage of the Group's total income, in the years 2016, 2015 and 2014:

Group of Similar Products	Income in NIS Millions			% of the Group's Total Income		
	2016	2015	2014	2016	2015	2014
Brazil	1,727	1,488	1,781	21.8%	19.4%	21.9%
Russia and Ukraine	603	602	635	7.6%	7.9%	7.8%
Poland	281	275	297	3.5%	3.6%	3.6%
Romania	253	263	244	3.2%	3.4%	3.0%
Serbia	136	157	179	1.7%	2.1%	2.2%
Total International Coffee segment	3,000	2,785	3,136	37.8%	36.4%	38.5%

For additional information on coffee products, see "Financial Information on Geographical Regions" – section 28 below.

b. Following is a breakdown of the segment's income from external entities (consolidated) by coffee types, in NIS millions and as a percentage of the Group's total income, in the years 2016, 2015 and 2014:

	Income in NIS Millions			% of the Group's Total Income		
	2016	2015	2014	2016	2015	2014
Roast & ground coffee	1,903	1,741	1,920	24.0%	22.7%	23.6%
Instant coffee	552	526	629	6.9%	6.9%	7.7%
Other	545	518	587	6.9%	6.8%	7.2%
Total segment	3,000	2,785	3,136	37.8%	36.4%	38.5%

13.4 Competition

Brazil – the Federal Republic of Brazil is divided into 26 states and one federal district where the capital city of Brasilia is situated. As a result, the market is regional and decentralized (numerous small companies with no dominant domestic manufacturer). In each region, there are one or two competitors as leading major rivals, several medium size competitors and a large number of small local manufacturers. Melitta, Marata and JDE are the Group's main competitors. In 2016, the Três Corações Joint Venture raised its prices by a rate corresponding to the increase in green coffee prices. Notwithstanding the price increase, in 2016 the Três Corações Joint Venture continued to consolidate its position as the largest coffee company in Brazil in terms of market share, according to Neilsen.

Russia – the main competitors in R&G are Pauling, Orimi, Lavazza and JDE. The Group ranks fourth in terms of market share. The major rivals in the instant coffee market are Orimi, JDE and Nestle, and the Group is in fourth place. 2016 was characterized by aggressive competition as rivals attempted to increase market share by granting discounts and transferring products to the mainstream category.

Ukraine – the main competitors are the global concern, JDE (in R&G and instant coffee), Nestle and Galka (in powdered instant and chicory). The Group estimates that it is the second-largest coffee company in market share in Ukraine.

Poland – in the R&G market, the Group has two main competitors – JDE and Tchibo; the Group is in third place in terms of market share in R&G in Poland.

Romania – in the R&G market, the main competitors are JDE and a number of small manufacturers. The Group is the second-largest in market share. In the instant coffee market, the main competitors are JDE, Nestle and private label, and the Group is in first place in market share.

Serbia – in the R&G market, the major competitor is Grand Prom, and the Company has the second-largest market share. In 2016 the problem of coffee bean smugglers in Serbia continued as a result of the relatively low price. The Group is applying an action plan to preserve its market share in light of this phenomenon. In 2016 competition in the shelf prices of R&G increased as a result of competitive pricing by small local companies.

a. **Market shares** – the following table presents the market shares of the Group and its major competitor in the International Coffee segment, with respect to the Group's main products in this segment. The figures are based on Nielsen data.

Similar Product Groups	Weighted Market Share (in Percent – Financial)			
	2016		2015	
	The Group	Major competitor	The Group	Major competitor
Brazil*: roast coffee	24.1%	17.0%	23.9%	17.7%
Brazil*: instant coffee	29.2%	50.5%	27.2%	54.4%
Brazil*: capsules	20.9%	60.8%	18.2%	68.3%
Poland: roast coffee	19.0%	32.0%	18.5%.	33.1%
Serbia: roast coffee	30.6%	52.4%	32.3%	51.1%
Romania: roast coffee	23.8%	40.5%	23.7%	41.8%
Romania: instant coffee	42.3%	21.9%	42.0%	22.3%

* Market share in Brazil is based on 100% of the sales of the Três Corações Joint Venture - a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%), and not only on the Group's share of sales.

** The Group estimates that reliable data with respect to market share in Russia and in Ukraine cannot be obtained.

b. Negative factors which, in the Group's opinion, influence or are likely to influence its competitive position in the International Coffee segment, are potential expansion of the operations of international coffee companies in the domestic market in each country, and the development of rival distribution capabilities, which will reduce the Group's competitive advantage. Furthermore, international coffee companies may develop capabilities, which will enable them to shape the coffee culture among consumers.

c. Positive factors which, in the Group's opinion, influence or are likely to influence its competitive position in the CEE countries, in addition to the factors set forth in section 7 above, include the Group's high-level capabilities in product development; its ability to tailor its products to the tastes of the local market in each country; the countries' acceptance as EU member states and the continued lowering of customs duties may lead to the consolidation of production plants and enable exports and distribution to a number of countries; increased regulation and enforcement in these countries, which is liable to shrink the "black market" for cheap coffee products that compete with the Group's products, and a rise in consumer purchasing power, will increase purchases of branded products.

Positive factors which, in the Group's opinion, influence or are likely to influence the competitive position of the Três Corações Joint Venture in Brazil include a trend of consolidation in the market that could eliminate small domestic manufacturers.

The Group contends with the competition in the coffee market by concentrating its marketing and advertising efforts; building and maintaining its brands; a comprehensive distribution system; innovation – the development and launch of new products; entry to new business areas; investment in production facilities and the development of technological capabilities; and adaptation of its products to the different emerging consumption trends. The Group also deals with the competition by acquiring rival businesses or establishing joint ventures with its competitors.

13.5 Seasonality

Following is information for the years 2016 and 2015 on the Company's income in the International Coffee segment, by quarter, in NIS millions, according to the Company's Non-GAAP Reports, as defined in section 5 above):

	2016		2015	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	586	19.5%	650	23.3%
Q2	724	24.1%	698	25.1%
Q3	776	25.9%	715	25.7%
Q4	914	30.5%	722	25.9%
Total	3,000	100%	2,785	100%

Seasonality is mainly affected the Christian holidays and the end of the Gregorian year in the fourth quarter, a period that is characterized by increased purchases of coffee products.

13.6 Production capacity[18]

The production capacity of the Group's manufacturing plants in the International Coffee segment is measured in quantities of product per year. The maximum potential annual production capacity of the Group's plants in the segment, operating in three shifts, in tons product per year for the years 2016 and 2015 was approximately 432 thousand tons and 425 thousand tons, respectively. The average capacity utilization rate in the years

[18] Maximum potential annual production capacity data include 100% of the figures for the Três Corações Joint Venture in Brazil, although financial data on Brazil are presented according to the Company's relative share, i.e. 50%.

2016 and 2015 was approximately 75% and 74%, respectively. The production lines in the Group's plants are automatic, and some are operated in three shifts daily.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its plants and to expand production lines with the aim of increasing production capacity according to the Group's work plans. As at the date of the Periodic Report, the Company does not anticipate that it will be required to make material investments in equipment and machinery in the segment during 2017. It is noted that in March 2017 Strauss Coffee exercised the option for the acquisition of the freeze-dried production plant in Germany, as described in section 1.4 above and in Note 24.4.7 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

The information in this section that the Company will not be required to make material investments in 2017 other than the acquisition of the plant in Germany 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, among other things as a result of different developments in the economy, in regulation and in market demand for the Company's products, etc.

13.7 <u>Fixed assets, real estate and facilities</u>

Following is a description of the Group's main real estate properties and other material fixed assets, which serve the International Coffee segment:

Nature of the Site	Location of the Site	Site Designation	Land Area	Built-Up Area	Rights in and to the Site	Liens
A plant in Poland	In Swadzim, near Poznan	Production of R&G	52,689 m²	11,540 m²	Ownership of the land.	---
A plant in Romania	Bucharest	Production of R&G	6,535 m²	4,365m²	Leased from a third party, in effect until November 2023. May be extended with 6 months' advance notice.	---
A plant in Brazil	Near Bello Horizonte in the state of Minas Gerais	Production of R&G and cappuccino	73,000 m²	13,000 m²	The Três Corações JV owns the land rights.	See note 24.2 to the Company's Financial Statements as at December 31, 2016.
A plant in Brazil	In Eusébio, in the state of Ceará	Production of R&G	10,000 m²	4,650 m²	The Três Corações JV owns the land rights.	A mortgage of EUR 417 thousand (the Company's share). See note 24.2 to the Company's Financial Statements as at December 31, 2016.
A plant in Brazil	In Natal, in the state of Rio Grande do Norte	Production of R&G, instant coffee, chocolate drink powder and	38,000 m²	8,200 m²	3C Imóveis (a 50% owned subsidiary) owns the land rights.	A mortgage of EUR 1.4 million (the Company's share). See note 24.2 to the

		cappuccino				Company's Financial Statements as at December 31, 2016.
A plant in Brazil	In Nova Iguaçu, in the state of Rio de Janeiro	Production of R&G and filter paper for filter coffee	5,600 m²	3,150 m²	3C Imóveis (a 50% owned subsidiary) owns the land rights.	See note 24.2 to the Company's Financial Statements as at December 31, 2016.
A plant in Brazil	In Mossoro, in the state of Rio Grande do Norte	Production of corn products and drink powders	54,000 m²	14,000 m²	3C Imóveis (a 50% owned subsidiary) owns the land rights.	A mortgage of EUR 408 thousand on the land and a mortgage of EUR 362 thousand on the warehouses (the Company's share). See note 24.2 to the Company's Financial Statements as at December 31, 2016.
Facility in Brazil	In Varginha, in the state of Minas Gerais	A facility used for mapping and sorting green coffee beans	70,000 m²	7,300 m²	The Três Corações JV owns right of title to the land.	---
Facility in Brazil	In Manhuaçu, east of Minas Gerais	A facility used for mapping and sorting green coffee beans	12,300 m²	6,500 m²	The Três Corações JV owns right of title to the land.	
Will be used for a future plant in Brazil	Minas Gerais	Production of capsules	59,000 m²		The Três Corações JV owns right of title to the land.	The Company intends to invest an immaterial amount in the construction of a plant in the framework of the joint venture.
A plant in Serbia	In Simanovci near Belgrade	Production of R&G	29,484 m²	8,500 m²	Strauss Adriatic owns right of title to the land.	---
A plant in Russia	Vladimirskaya area, Strunino	Production of R&G and a packaging plant for freeze-dried instant coffee.	7,785 m²	4,491 m²	Owned by Strauss Coffee in Russia.	---
A plant in Russia	Vladimirskaya area, Strunino	Production of R&G and a packaging plant for freeze-dried instant coffee.	9,409 m²	8,890 m²	Owned by the company Le Café.	---
A plant in Germany	Norddeutsche Kaffeewerke GmbH	Production of roast, instant and freeze-dried coffee	50,191 m²	4,804 m²	Owned by Strauss Coffee. See sections 1.4 and 13.6 above, and Note 24.4.7 to the Financial Statements of the Company as at December 31, 2016.	

* For information on the Company's policy regarding the depreciation of machinery and equipment in its production plants, see Note 3.4.5 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

13.8 Intangible assets

Trademarks and brands

In view of the Group's focus on branded products, the importance of registering trademarks on its brands is great. Trademarks on most of the brand names set forth above, which serve the Group in the International Coffee segment, are registered in the names of the Group's companies in the countries where it is active (excluding products that are sold and distributed by the Group, but the Group is not the owner of the brand).

The main trademarks are valid for a defined period, which may be renewed at the end of that period. In view of the years of use of these trademarks and their dominant status in the markets, management estimates that the economic life of the Group's major trademarks is indefinite.

For an itemization of costs and financial movement in intangible assets in the years 2016 and 2015, see Note 15 to the Financial Statements of the Company as at December 31, 2016, in Part C.

13.9 Human capital

For a description of the Group's organizational structure and information on employment agreements, etc., see section 20 below.

Following is information on the number of Group employees in the International Coffee segment (including all employees in the Três Corações Joint Venture in Brazil, in which the Company holds 50%), and including 449 and 429 employment agency workers, as at December 31, 2016 and December 31, 2015, respectively:

	Number of Employees as at	
	Dec. 31, 2016	**Dec. 31, 2015**
Management and administration	818	775
Sales and distribution	4,312	4,130
Supply chain (procurement and logistics)	412	446
Industry (operations)	1,686	1,662
Total	7,228	7,013 (*)

For information on employee claims in Brazil, see Note 24.1.4.5 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

(*) 2015 data were amended.

13.10 Raw materials and suppliers

a. For information on the procurement of raw materials and suppliers in the Coffee Operation, see section 11.11 above.

b. In the relevant reporting periods there was no single supplier in the International Coffee segment, which accounted for more than 10% of the Group's total purchases of raw and packaging materials in the segment.

13.11 Working capital

Following is the composition of working capital, in NIS millions, in the International Coffee segment in 2016 according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above:

	Carrying Amount in the Non-GAAP Reports
Operating current assets (*)	898
Operating current liabilities (**)	266
Excess of current assets over current liabilities	632

(*) Including net trade receivables, inventory, income receivable and prepaid expenses.
(**) Including net trade payables, expenses payable and income received in advance.

13.12 Restrictions and supervision in the segment

For information on restrictions and supervision over the Group's activities, see section 24 below.

13.13 Material agreements

Joint venture in Brazil

For further information, see section 13.13 in part A of the Company's Annual Report for 2013 as published on March 26, 2014 (reference no: 2014-01-023988) and section 13.13 in Part A of the Company's Annual Report for 2015 as published on March 21, 2016 (reference no: 2016-01-010371), and also Note 24.4.5 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

14. The International Dips & Spreads Segment

14.1 General information on the International Dips & Spreads segment

a. **Structure of the segment and changes occurring therein**

In this segment the Group manufactures, sells, markets and distributes a range of refrigerated dips and spreads in the US, Canada, Mexico, Australia, Western Europe and Mexico. According to IRI, Sabra is the largest dips and spreads company in the US in terms of sales volume and market share; in the hummus category Sabra has the largest market share in the US and the second largest market share in Canada (according to IRI and Nielsen figures). Obela has the largest market share in Australia and Mexico. The Group became active in this segment in the US in August 2005, and since March 2008 has operated in collaboration with the international food corporation PepsiCo through the Sabra joint venture. In October 2011, collaboration between the Company and PepsiCo was expanded with the establishment of the joint venture Obela, which is active in Mexico, in Australia and since 2016, also in Western Europe. For additional details on the agreements with PepsiCo, see section 14.13 below.

Since the operation was established, activities have focused on the hummus category.

b. **Changes in the scope of activity in the segment and its profitability**

Changes in the scope of activity

In 2016, the consumer trends of demand for healthy, gluten-free, preservative-free, natural and organic products continued. Additionally, consumers seek products that deliver value for money (price, quality and brand). In 2016 the Group continued to focus on strengthening and preserving the market shares of the companies and on continued growth in all territories, including the US. In the fourth quarter of 2016 a voluntary recall was made, which led to a slowdown in the Group's growth in the category in the US and Canada. For further information, see the section "Analysis of the Business Results of the Group" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

Due to the growth pace of the hummus category in recent years, the category has become highly competitive, which is expressed in the US, *inter alia*, in an aggressive pricing strategy to promote sales and penetrate a maximum of households. Furthermore, more retailers are marketing hummus under private labels both in the US and in Canada, and continue to be strong players in the market, even increasing their share and positioning their status. For additional details, see section 14.4 below.

In Mexico and Australia, Obela continued to invest in advertising, marketing and sales, in order to increase awareness of the Group's products among consumers.

Additionally, in June 2016 the joint venture active under the Obela brand acquired Florentin B.V., a Dutch company engaged in the development and manufacture of organic hummus, falafel, spreads and pita bread, marketed under the Florentin brand in Western Europe, particularly in the Netherlands, Germany and France. As at the date of this report, Obela intends to continue to develop its business in Western Europe.

The information in this section with regard to Obela's plans to continue to develop its business in Western Europe 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. Practically speaking, there is no certainty as to Florentin's continued development in the organic market in Western Europe, among other things due to the economic situation, consumer preferences, demand, etc.

<u>Changes in profitability</u>

In general, food companies in the US raised prices during 2016 by an average of 0.2% in order to increase margins after the prices of raw materials had risen in recent years. Price stagnation was recorded in the categories in which the Company is active in the US. For information on changes in the income and profitability of the International Dips & Spreads segment, see the Report of the Board of Directors of the Company as at December 31, 2016, in Part B of this report.

c. **Developments in the markets of the segment or changes in customer characteristics**

The hummus category has succeeded in reaching almost full distribution through the current distribution channels as described in section 16.1.b below, and future growth will need to be achieved through innovation, marketing, increased purchase frequency by households which are customers of the Company, penetration of new households and optimization of current shelving at the expense of competing brands or other categories. Alternative channels, such as convenience stores, continue to represent distribution opportunities.

d. **Critical success factors and changes therein**

For details on critical success factors and changes therein, see section 7 above.

Additional critical success factors in the segment include dominance in US markets and distribution channels, development of products that offer consumers an experience and added value and a response to market trends, a large-scale distribution system, expansion of production capacity to support the increase in sales volumes, continued streamlining of production and cost reduction.

e. **Major entry barriers to the segment and changes therein**

Additional entry barriers to those that are shared by all of the Group's operating segments, as specified in section 7 above, include the need to make large investments in the market in selling and distribution infrastructures, including shelf occupancy; the ability to accommodate high production volumes; and the need for relatively sophisticated manufacturing technologies that are able to support new consumer trends.

f. **Substitutes for the segment's products and changes therein**

The Group's products in the Dips & Spreads segment in the US have interchangeable products manufactured by rival companies, including the private labels of retail chains (in 2016, the Costco chain in the US launched its private label). A large number of rival companies are active in this market, including leading multinational corporations (Nestle, Mondelēz) as well as small, regional companies.

14.2 Products

In the US and Canada, the Group manufactures and sells a variety of refrigerated dips and spreads, particularly hummus in a range of flavors under the **Sabra** brand, which is regarded as a leading brand in this category in the US and Canada. The Group also manufactures and sells fresh salsa products under the brands **Santa Barbara** and **Sabra**, and sells fresh refrigerated guacamole salads and dairy-based dips under the Sabra brand.

In Australia, Obela manufactures and sells of a variety of dips (such as vegetable-based dips) under three main brands: **Red Rock Deli (RRD)**, **Copperpot (CP**), and **Obela**.

RRD dips include a range of premium vegetable-based dips with cashew nuts and cheese. The **Obela** Hummus brand is sold in different sizes, and in 2015 the Obela brand launched guacamole and yogurt-based dips.

In June 2012, the **Obela** brand was launched in Mexico, where it is sold in five different flavors and in packages of various sizes.

In Western Europe the Group markets organic hummus, falafel, spreads and pita bread under the **Florentin** brand.

14.3 Distribution of income and profitability of products and services (according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above)

In 2016, the income of the International Dips & Spreads segment accounted for less than 10% of the Group's total income.

14.4 Competition

The main brands competing with the Group's dips and spreads products in the US are: (1) Hummus –private label products, **Cedar's** and **Tribe** from Nestle; **Boar's Head** and

Eat Well; (2) Salsa – private label is the main competitor, followed by **Garden Fresh**; (3) Guacamole - the major competitor is **Wholly** by Yucatan and Hormel Foods Corporation; (4) Dips – **Chobani** and **Marzetti**. The US business is characterized by local competition against the private labels of retailers and the private labels of a large number of small local manufacturers, which operate in the regions where they manufacture, as well as competition against large companies with extensive distribution capabilities.

Due to the growth pace of the hummus category in recent years the category has become highly competitive, and this is expressed in all markets where the Company is active in hummus, among other things through an aggressive pricing strategy applied by the competition to promote sales and penetrate households, and also by broadening their distribution capabilities. In Canada, increased innovation is observed among rival firms, which have launched single-portion packaging and different flavors, as private labels continue to be strong players in the US and Canadian markets.

<u>Market share</u>

Following the voluntary recall in November 2016, Sabra's market share (in value terms) in the US hummus category in 2016 was approximately 59.6%. The market share of private labels increased in relation to 2015 and reached 12.1%, making them the second-biggest competitor[19].

The Group's market share (value) in the US packaged salad market (based on data published by Symphony IRI Group[20]) reached approximately 26.2% in 2016; the second-biggest competitor in this market held a market share of 15.5%.

The Group is leader of the hummus market in Australia with a market share of 32% and in Mexico with a market share of 60%. In both countries the Group posted an increase in sale volumes in 2016.

In Canada, the Group has a market share of 22.8% in the hummus category and of 10% in the total refrigerated dips market, and is the second-largest player; in total, there are four major players in the market with a similar market share, and the Group is one of them.

The Group battles continuously against the competition in the International Dips & Spreads segment by developing and launching new products, developing and maintaining its existing brands and by concentrating marketing and advertising efforts.

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[19] According to data published by Symphony IRI Group, which provides consumer, shopper and retail market analysis worldwide.

[20] See footnote 19 above.

Negative factors which, in the Group's opinion, influence or are likely to influence its competitive position in the International Dips & Spreads segment, are, among others, moves applied by the food chains such as reinforcement of their private labels and assuming responsibility for orders and placement of the merchandise, increasing regulation directed at large food companies, development of brands and selling and marketing capabilities by rivals.

Positive factors which, in the Group's opinion, influence or are likely to influence its competitive position in the International Dips & Spreads segment, are the Group's dominance in the markets in which it operates, top-quality products that deliver a consumption experience and added value, continuous innovation, research and a response to consumption trends, rigorous attention to product quality, competitive prices, a broad-scale production and distribution network, collaboration with leaders in the industry and massive investments in marketing.

For additional negative and positive elements affecting the Group's competitive status, see section 7 above.

14.5 Seasonality

Following is information for the years 2016 and 2015 on the Company's income in the International Dips & Spreads segment by quarter, in NIS millions, according to the Company's Non-GAAP Reports, as defined in section 5 above):

	2016		2015	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	185	25.9%	182	24.3%
Q2	197	27.4%	182	24.3%
Q3	199	27.8%	201	26.8%
Q4	136	18.9%	187	24.6%
Total	717	100%	752	100%

As indicated by the above data, there is no distinct trend of seasonality in the Dips & Spreads segment; generally, in the summer months consumption of dips and spreads is slightly higher compared to consumption during the winter. Additionally, at holiday times or on special occasions, there is an increase in consumption. The Company's income in the Dips & Spreads segment was influenced in the fourth quarter by the voluntary recall in November 2016. For further information, see the section "Analysis of the Business Results of the Group" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

14.6 Production capacity[21]

a. Production capacity is measured in quantities of product per year. The production lines are automatic, and most of them are operated in three shifts a day.

b. The maximum potential annual production capacity in three shifts, in ton products per year in the years 2016 and 2015 was approximately 96 thousand tons. The average actual capacity utilization rate in the years 2016 and 2015 was approximately 68% and 67%, respectively.

c. It is the Group’s practice to continuously improve and upgrade the equipment and machinery in its plants, as well as to expand production lines, in order to maintain and increase its production capacity according to its work plans. The Company does not anticipate that in 2017 it will be required to make material investments in manufacturing equipment and machinery in the International Dips & Spreads segment.

The information in this section that the Company will not be required to make material investments in 2017 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. There is no certainty that these estimates will indeed be realized, among other things due to various developments in the economy, in regulation and in market demand for the Company’s products.

[21] Maximum potential annual production capacity figures include 100% of the data for Sabra and Obela, although financial data on the companies are presented according to the Group’s relative holding, i.e. 50%.

14.7 Fixed assets and real estate

Following is a description of the main real estate properties and other material fixed assets used by the Group in the International Dips & Spreads segment.

Nature of the Site	Location of the Site	Site Designation	Land Area	Built-Up Area	Rights in and to the Site
Production plant	Colonial Heights, Virginia	Production of hummus	Approx. 193,200 m²	23,226m²	Ownership by Sabra
Production plant	Farmingdale, New York	Production of dips (*)	Approx.7,600 m²	3,800 m²	Leased from a third party until February 2018
Production plant	Oceanside, California	Production of salsa	Approx. 8,700 m²	3,600 m²	Ownership by Sabra
Production plant	Mijdrecht, Holland	Production of dips and spreads	Approx. 9,750 m^2	7,600 m^2	Leased from a third party until June 2021, with 3 five-year options.
Production plant	In Cavan, South Australia	Production of dips	Approx.7,930 m²	2,000 m²	Leased from a third party until August 2017, with 2 five-year options.
Production plant	In Mexico City, Azcapotzalco, Mexico	Production of dips	Approx.1,639 m²	1,639 m²	Leased from a third party for 10 years until 2021.

The assets are not pledged.

(*) It is Sabra's intention to outsource production from this site in 2017.

14.8 Research and development

The Group, together with PepsiCo, built a Center of Excellence, where Sabra carries out research and development and leverages knowhow to support business activity in the US, Canada, Australia, Western Europe and Mexico. The Center is engaged in the development of existing products, packaging, and technology and new products. For a description of the Group's R&G, see section 19 below.

14.9 Intangible assets

In view of the Group's focus on branded products, the importance of registering trademarks on its brand names is considerable. Trademarks are registered in the Group's name on most of its brand names used in the refrigerated dips and spreads segment.

Registration of a trademark in the US is valid for limited periods prescribed in the law and is renewable at the end of each such period. In view of the many years of use of these trademarks and their dominant status in the market, the Group estimates that the economic life of its major trademarks is indefinite.

14.10 Human capital

a. Following is information on the number of employees employed by Sabra and Obela (including all employees of Sabra and Obela, joint ventures in which the Group holds 50%) (including 152 and 181 employment agency workers), as at December 31, 2016 and December 31, 2015, respectively:

	Number of Employees as at	
	Dec. 31, 2016	**Dec. 31, 2015**
Management and administration	150	128
Sales and distribution	59	55
Procurement and logistics	37	30
Operations	824	766
Total	1,070	979(*)

(*) 2015 data were amended.

b. Senior employees are employed under personal employment agreements. Other employees are employed according to a personal agreement, allowing both the employer and the employee to terminate the relationship at any given time. Collective agreements do not apply to these employees and they are not unionized, except for hourly employees in Australia and Holland, who are employed under a collective agreement.

14.11 Raw materials and suppliers

The main raw materials used by Sabra and Obela in the manufacture of their products are raw tahini (sesame), hummus (i.e. chickpeas or garbanzo beans), soybean oil, tomatoes, garlic and avocado. The products are packaged in plastic items (containers and lids). Chickpea (hummus grains), avocado and tomato prices remained substantially unchanged in 2016 in comparison with 2015, whereas tahini prices dropped during the year as a result of the drop in sesame prices. Prices of soybean oil rose in 2016 following a shift by the Company to the use of soybean oil, which is not genetically modified. Prices of packaging materials (plastic containers and lids) dropped slightly in 2016 as a result of the drop in oil prices.

Agreements with suppliers are signed for different periods, normally up to one year, with the exception of two multiyear agreements. In the reporting period, there was no single supplier in the International Dips & Spreads segment which accounted for more than 10% of the Group's total purchases of raw and packaging materials, excluding guacamole purchases from Simplot and packaging material purchases from Genpak. Notwithstanding the foregoing, the Group is not dependent on Simplot and will be able to replace it without incurring additional substantive costs to the Company.

Replacement of the packaging materials supplier is liable to require considerable time to prepare for the change, the cost of which may constitute a substantial supplement for the Company. The purchasing agreement with said supplier is subject to 30 days' advance notice; in the twelve months after the date notice is given the supplier is obliged to provide 40% of Sabra's packaging materials.

14.12 Working capital

Following is the composition of working capital, in NIS millions, in the International Dips & Spreads segment in 2016, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above:

	Carrying Amount in the Non-GAAP Reports
Operating current assets (*)	90
Operating current liabilities (**)	49
Excess of current assets over current liabilities	41

(*) Including net trade receivables, inventory and prepaid expenses.
(**) Including net trade payables and expenses payable.

14.13 Material Agreements

a. **Joint venture with PepsiCo – Sabra**

For additional information see section 14.13.a in Part A of the Company's Annual Report for 2013, as published on March 26, 2014 (reference no: 2014-01-023988) and Note 24.4.6 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

b. **Global joint venture with PepsiCo**

For additional information see section 14.13.b in Part A of the Company's Annual Report for 2013, as published on March 26, 2014 (reference no: 2014-01-023988).

15. Other Operations

The Group has different business activities that are not included in the above operating segments, in which income and investments are immaterial, and they are included in the Financial Statements of the Company as at December 31, 2016 in the "Other" segment. These operations include:

15.1 Strauss Water

a. General information

The Group is active in the global water market in the development, assembly, marketing and servicing of systems for the filtration and purification of drinking water, mainly in Israel, China and the UK.

The drinking water market comprises mineral water (in jugs and bottles), bottled filtered water, electrical filtration and purification (POU) appliances and water filter pitchers (such as Brita).

In the past few years awareness of the damage to water quality in different parts of the world has grown steadily, in developing countries but also in locations where water quality is considered good (such as the water contamination crisis in Flint, Michigan), and as a result public trust in unfiltered tap water has been compromised. The health trend, which is expressed in reduced sugar consumption and a switch to the consumption of water instead of sweetened beverages, has also supported increased consumption of bottled water and filtered water.

In Israel, the water operation was initiated in 2009 with the acquisition of Tami 4, and focuses on the development, manufacture, sale and marketing of water purification and filtration systems and heating and cooling systems. The Group provides solutions for household drinking water as well as a spare parts and repair service for its water bars.

In the UK, the operation consists of the manufacture, marketing, sale and servicing of water bars and is executed in collaboration with Virgin Group. For further information, see section 15.1.k below. The water bar category in the UK is not developed and private market penetration rates are low. In 2016, the Company's UK operation focused on restructuring the business and consolidating the operating model, as well as on expanding the customer base under the Virgin Pure brand.

The Group is also active in other countries - Costa Rica, Portugal, Canada and Cyprus (hereinafter: the "**BPN Countries**") through franchisees, which buy the water bars and spare parts from the Company and market and sell the products in the markets in which they operate under the Strauss Water brand.

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For information on a material investment in an associate, see section 15.1.l below.

b. **Products**

The Group is engaged in the development, assembly, marketing, sale and servicing of a range of filtration and purification systems for drinking water, based on an innovative technology developed by the Group that consists of a combination of innovative developments in engineering, chemistry and microbiology. The Company's products include a variety of in-home and away-from-home solutions.

In Israel – the Group's products are marketed under the leading brand, Tami 4. In 2016, Tami 4 continued to be the strongest water bar brand in Israel.

In the UK – water bars of the Group and of the venture are marketed under the Virgin Pure Water Bars brand.

In the BPN Countries –.sales are made under the Strauss Water brand or in combination with the local company's brand through a variety of channels such as supermarket chains, direct marketing and e-commerce, and servicing is performed by a local distributor.

c. **Competition**

In Israel – the main competitors are companies selling water in bottles and jugs, and companies offering water filtration devices (POU). The main competitors are Mey Eden, Neviot, Electra, Brita and Maayanot, along with additional, smaller competitors. Group's

In 2016 the POU category grew, while other categories remained stable or decreased. In addition, the consumer continued to display sensitivity to the prices of the appliance and servicing, which led to downward pressure on prices. The Company's share of the water market is presently 26% and is stable in relation to 2015.

The Company has dealt with the competition by strengthening its brand (Tami 4) among new and existing customers and by improving its service. These moves have enabled it to continue to attract new customers and to retain existing ones.

In the UK – the competitors are companies selling bottled water and water filter pitchers (e.g. Brita). In 2016 the Group focused on recruiting new customers by placing sales counters in a number of malls in London, while simultaneously continuing its customer recruitment efforts through digital channels and the connection to the Virgin brand.

d. **Seasonality**

Following is information for the years 2016 and 2015 on income from the water segment, by quarter, in NIS millions, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above:

	2016		2015	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	114	23.0%	120	24.9%
Q2	124	25.0%	120	24.8%
Q3	133	26.8%	122	25.3%
Q4	125	25.2%	120	25.0%
Total	496	100%	482	100%

e. **Customers**

The Group's customers are households, businesses (offices and stores) and institutional customers. Sales are made according to orders placed from time to time as necessary, with no order backlog. The Group has service agreements with its customers for spare part sales. In the framework of these service agreements customers may terminate the engagement at any and all times (subject to the terms and conditions of the service agreement).

f. **Marketing and distribution**

In Israel and the UK, the Group's products are marketed and distributed to households and businesses by direct sales through call centers or directly via the companies' websites. Marketing and distribution to institutional customers are performed through the company's sales agents, who are in direct contact with potential customers and, if necessary, submit bids in tenders. Sales to customers are characterized by great variance and dispersion.

In Israel – the main advertising channels are mass media, radio, TV and print, as well as advertising online.

In the UK – sales counters in malls and advertising on the Internet.

The BPN countries – marketing and distribution activities are performed by franchisees, which buy the water bars and spare parts from the Company and market and sell the products in the markets in which they operate, under the Strauss Water brand, through various marketing channels or via a combination of several channels, such as retail chains, direct sales and e-commerce.

g. **Fixed assets and real estate**

Following is a description of the main real estate properties and other material fixed assets, which are used by the Group in the water business:

Nature of the Site	Location of the Site	Designation of the Site	Built-Up Area	Rights in and to the Site
Production plant	Industrial zone, Kibbutz Netiv Halamed Heh	Logistic center	3,185 m^2	Leased from a third party until January 30, 2018
Offices (in two adjacent buildings)	Or Yehuda Industrial Zone	Management offices, call center, service and sales	8,124 m^2	Leased from a third party until December 31, 2019
Subleased to a subtenant and not in use by the Company	Henley Business Park, Guildford		1,412 m^2	Leased from a third party until May 2020
Offices	Shanghai, China	Strauss Water's offices for the purpose of liaising with the joint venture with Haier Group, as set forth in section 15.l below	210 m^2	Renewable monthly rental from a third party

h. **R&D and intellectual property**

The Group has developed cutting-edge water purification technology, consisting of a combination of innovative developments in engineering, chemistry and microbiology, which enable a wide variety of applications in the domestic drinking water sector. In addition, the Group continues to develop technologies for treating drinking water for household consumer goods solutions, which include cooling, heating, boiling and carbonated (soda) water. All these developments are supported by some 25 patents as well as additional patent applications filed in numerous countries.

i. **Human capital**

Following is information on the number of Strauss Water employees (including 215 and 263 employment agency workers), as at December 31, 2016 and December 31, 2015, respectively:

	Number of Employees as at	
	Dec. 31, 2016	**Dec. 31, 2015**
Management and administration	219	231
Sales and distribution	722	741
Procurement and logistics	9	6
Operations	83	103
Total	**1,033**	**1,081**

Following is information on the number of Strauss Water employees by country, as at December 31, 2016 and December 31, 2015, respectively:

	Number of Employees as at	
	Dec. 31, 2016	**Dec. 31, 2015**
Israel	993	1,035
UK	31	29
China	9	17
Total (incl. employment agency workers)	**1,033**	**1,081**

j. **Raw materials and suppliers:**

Strauss Water's main purchases consist of water bars, filters, purifiers and UV lamps for use in water bars, the cost of which accounts for 20% and more of Strauss Water's total raw materials procurement.

In the reporting period, there was no single Strauss Water supplier from which the scope of the Group's purchases exceeded 10% of total purchases of raw and packaging materials in this segment, with the exception of purchases of filters and purifiers from a single supplier (KX Technologies) and purchases of water bars from a single supplier (ENG Electronic Co. Ltd.). However, the Group is not dependent on these suppliers in light of the possibility of replacing them with other vendors, although such replacement will require several months' organization.

Purchase agreements with the main suppliers are subject to 180 days' advance notice.

In 2016 Strauss Water entered into a framework agreement with Flextronics (Israel) Ltd. (hereinafter: "**Flex**") for the establishment of a partnership, pursuant to which Flex is to develop Strauss Water's water bars. It is Strauss Water's intention to outsource most of the production of its water bars to said manufacturer.

The information in this section that it is Strauss Water's intention to outsource most of the production of water bars to Flex 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. It is possible that the Company will not in fact transfer most of the production of its water bars to Flex, among other things as a result of market conditions, etc.

k. **<u>Material agreements</u>**

Joint venture – Virgin

For additional information, see section 15.1.k(2) in Part A of the Company's Annual Report for the year 2013, as published on March 26, 2014 (reference no. 2014-01-023988).

l. **<u>Material investment in an associate</u>**

As at the date of the report, Strauss Water holds 34% of the shares of Qingdao HSW Health Water Appliance Co. Ltd. (hereinafter: the "**Jointly Owned Company**"), and the remaining 66% of its shares are held by Haier Group of China. The Jointly Owned Company was established in 2015 following the restructuring of the joint venture with Haier Group, in which Strauss Water engaged in October 2010.

The joint venture initiated operations in 2011, focusing on the Maze purification technology. Upon its establishment, the venture in China was jointly and equally owned by the Group and Haier. The joint venture purchased the products from Strauss Water and received distribution and sales services and servicing from companies in the Haier Group.

In May 2015, 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 joint venture. As part of the restructuring process, the businesses of the joint venture were transferred to a new company, Qingdao HSW Health Water Appliance Co. Ltd., which will engage in research, development, installation, sale, maintenance, treatment and purification of water using reverse-osmosis (RO) purification systems, mainly under-sink, and micron filtration systems, as well as water bars. Haier has transferred its RO water purification operations (until now owned by Haier) to the Jointly Owned Company, and Strauss Water has granted the Jointly Owned Company an exclusive license to use the Maze technology in the China territory.

To complete Strauss Water's holding in the shares of the company to 34%, in October 2015 Strauss Water paid Haier approximately NIS 30 million. According to the joint venture agreement, Strauss Water has been granted an option to purchase an additional 15% of the Jointly Owned Company in 2017 according to a valuation of the Jointly Held Company that will be based on its financial results for 2016, and in any event will not exceed NIS 90 million. The merged company will purchase the

Maze technology products from Strauss Water, and will receive distribution and sale services, as well as servicing, from Haier Group companies.

The joint venture agreement also regulates the relationship between the parties and their role in the management of the Jointly Owned Company, and determines that the board of directors will comprise five directors, three appointed by Haier and two by Strauss Water. The chairman of the board (who has no casting vote or veto power) will be appointed by Strauss Water. The CEO and head of the finance department will be appointed by the board of directors according to Haier's recommendation, and the executive vice president will be appointed by the board of directors according to Strauss Water's recommendation. The process for adopting board resolutions will be based on an ordinary majority, save for certain resolutions that require the adoption of a unanimous resolution (a change in the articles of the Company, suspension of the Company's operations, changes in the registered capital of the Company, and also a merger or any change in the legal status of the Company) and other resolutions that require an ordinary majority that also includes a director on behalf of Strauss Water (issue of shares by the Company, entry into additional business areas other than the Company's customary business areas, etc.). Furthermore, two observers shall be appointed for the Company, one by the companies of Haier Group and the other by Strauss Water.

15.2 <u>Max Brenner</u>

The Group manufactures premium chocolate products under the Max Brenner brand, which are sold in Israel and in "Chocolate Bars" in Israel and abroad. The Max Brenner brand creates a unique and novel cultural experience of premium chocolate and chocolate beverage consumption. As at the date of publication of the report, the Chocolate Bar chain comprises 61 branches in Israel and worldwide, three of which are owned by the Group and 58 operated through franchisees, as follows: (1) Israel - 8 branches operating under a franchise; (2) US – three branches owned by the Group: in New York, Philadelphia, and Boston; (3) Australia – 42 branches operating under a franchise; (4) the Far East – five branches in Japan and one branch in South Korea, all operating under a franchise; (5) Russia – two locations operating under a franchise.

The Max Brenner production plant is located in Bet Shemesh, on land covering 5,500 m^2 with a built-up area of 2,200 m^2. The Company leases the land from the Israel Land Authority (which in turn leases the land from the Greek Patriarch, until 2053) under a capitalized lease agreement ending in April 2043.

Human capital - as at December 31, 2016, the Group employed 354 employees in the Max Brenner operation, compared to 406 in 2015; most of the change is the result of closing the Max Brenner locations in New Jersey and Maryland.

Part IV – Matters Relating to Group's Overall Activity

16. Customers

16.1 Breakdown of sales to customers

a. The Group's customers in its business segments, both in and outside Israel (except for the customers of Strauss Water – see section 15.1.e above), are divided into two main types: retail market customers and Away-From-Home ("AFH") customers. Retail customers (such as food chains, grocery stores, minimarkets, supermarkets, snack bars, kiosks) supply consumers with food and beverage products mainly for home consumption.

Customers in the AFH market (such as workplaces, hospitals, cafés, hotels, coffee machines and vending machines) provide the consumer with food and beverage consumption opportunities while away from home. In part of the AFH market, sales are carried out on the basis of tenders published by various entities, with the quantity and price being defined in advance.

Generally, sales to the Group's customers in and outside Israel are made on the basis of periodic orders placed from time to time, as necessary, with no order backlog.

b. In light of the changes in the retail map as described in section 8.2 above, since 2016 the Group has divided retail customers into the "large customer market", these customers being characterized by a broad geographic spread and central purchasing on a large scale (national chains), and the "private market".

In **Israel**, the large customer market includes the large food chains, including Shufersal, Yenot Bitan (for information Mega's merger with Yenot Bitan, see section 8.2 above), Osher Ad, Rami Levy, Yohananoff, Machsaney Hashuk, Victory and Hatzi Hinam. The Group's products are distributed directly to the various stores or to the logistics centers of large food chains. The Group has commercial agreements with each of the large chains, which are usually renewed each year, or each two or three years, for the entire chain. The Group and the chains are party to various credit terms, according to Group policy. The private market includes private retail chains that do not have a full countrywide spread, including Stop Market and Super Bareket, as well as a large number of private points of sale – minimarkets, grocery stores and convenience stores.

After the introduction of the Food Law the agreements with retailers were revised according to the law, in order to comply with the limitations of the law in general and with the settlement method with retailers in particular. Thus, for example, prior to the Food Law some retailers were paid a commission for placement of the Company's products on the shelves according to a fixed percentage of sales. After the law entered into effect, this commission was replaced by a placement discount determined in advance as a fixed percentage of actual sales, calculated per product unit invoiced. Furthermore, payments prohibited by the Food Law were eliminated, such as payment for additional logistic costs (mainly the logistics center commission and pallet commission), as well as costs involved in activities to advertise the Company's products to consumers (e.g. advertising in the retailers' leaflets and websites), payment for the purchase of selling space, and payment of bonuses to large retailers for achieving targets. For further information on the Food Law and its impacts, see sections 17 and 24 below, the section "Changes in the Economic Environment" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below, and Note 3.14.4 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

Outside Israel – the Group's customers in the International Coffee segment in CEE countries include retail market customers, AFH customers and exports from Eastern European countries to neighboring countries from time to time. In the retail market there is a growing trend of modern commerce, which is characterized by large marketing centers and national retail chains, as opposed to traditional commerce, which is characterized by neighborhood stores. In Ukraine and Serbia the traditional market is still dominant, while in Poland, Russia and Romania modern commerce already accounts for more than half of the retail market. In Central and Eastern Europe the organized market consists of national key accounts and cash and carry and discount wholesale chains, where discount prices are typical.

In **Brazil**, sales by the Três Corações Joint Venture are mainly made through direct distribution channels reaching around 64,000 retail customers. In addition, the company makes sales to AFH customers and to home and electrical appliance stores, where coffee machines are sold.

<u>International Dips & Spreads customers</u> – in the US, dips and spreads are sold and distributed to club chains (giant warehouses specializing in sales of a small selection of brands in large packages at discount prices) which account for 10% of the market; mass merchandisers (large department store chains such as Wal-mart), which account for 24% of the market; retail chains (national and regional chain

stores), which account for 55% of the market; and convenience stores and the institutional market, which account for 11% of the market. The largest customer, representing 10.5% of total Sabra sales, is the retail food chain, Kroger. In Australia and Mexico products are sold and distributed in the major chains and in private chains. In Western Europe the Company's products are sold to food chains and stores specializing in organic products and part of the sales are made through local distributors. c. Following is the breakdown of the Group's total sales (in NIS millions) and their percentage of the Group's total income, by customer type, in 2016 and 2015, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above

Customer Type	Sales Channels – 2016							
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads	Other	Total Group	% of Total
Large customer market	970	362	269	1,150	572	--	3,323	41.8%
Private market	851	473	171	1,531	100	--	3,126	39.4%
AFH	123	69	115	143	45	94	589	7.4%
Other	13	102	118	176	--	496	905	11.4%
Total	1,957	1,006	673	3,000	717	590	7,943	100%

Customer Type	Sales Channels – 2015 (*)							
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads	Other	Total Group	% of Total
Large customer market	975	367	273	1,056	596	--	3,267	4.28%
Private market	792	447	139	1,432	108	--	2,918	38.2%
AFH	127	67	113	136	48	109	600	7.8%
Other	4	87	122	161	--	483	857	11.2%
Total	1,898	968	647	2,785	752	592	7,642	100%

(*) Reclassified.

d. Geographical segmentation of customers – for a breakdown of sales turnover by geographical region, see Note 27.4 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

16.2 Dependence on customers

In 2016 there were no customers in which respect income from sales accounted for more than 10% of Group's total income according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above, the loss of which would have a material impact on the Group's business results in the medium and long term.

17. Marketing and Distribution

17.1 In Israel (excluding Strauss Water)

a. The sales and distribution system for the Group's product offering in Israel (Health & Wellness, Fun & Indulgence and Israel Coffee) serves about 13,000 points of sale, including supermarkets, grocery stores, minimarkets, kiosks, hotels, restaurants, cafés, workplaces, etc.

b. In 2015 relocation to the distribution center in Shoham was completed; the Shoham center serves as a climate controlled logistics center for all product categories. The move to the logistics center in Shoham has created an efficient, high quality and friendly work environment for employees and also serves as a platform for leveraging the Company's logistics and distribution capabilities, which is likely to facilitate the Company's growth in its current categories and its development in new ones. The sales and logistics offices are also located at the Shoham site.

The information in this section as to the likelihood that the Shoham site will facilitate growth in the Company's current categories and development in new categories 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, it is possible that the Company will not leverage the distribution center as described, among other things due to market conditions, regulation in the food industry, etc.

c. Finished goods are transported from the finished-goods warehouses in the Group's plants to the three distribution centers in Shoham, Haifa and Acre (which are equipped to provide backup to Shoham in the case of a malfunction). In addition, there are cross-docking centers in Yotvata, Beersheba and Kiryat Shmona, to which goods from the distribution centers are delivered.

d. At the distribution centers, orders are picked and issued to drivers who are Company employees and to independent distributors. Sales and distribution are carried out in one of the following methods: "presale", used mainly in the food chains and large stores; in this method orders are collected from customers by a Group sales representative, and are supplied within 48 hours to the stores or to logistic centers operated by some of the major chains. In early 2014, the Company took significant steps allowing it to supply refrigerated products to most of its customers within a period of up to 24 hours; the "van-sale" method - used mainly for points of sale in the small minimarket, grocery store and kiosk channel, where sales are made directly from the distribution vehicle that serves as a mobile warehouse. In this method, the distributor is the one who executes the order from the distribution center according to his visiting plan at points of sale. Additionally, the Group is active in the AFH channel in a third sales and distribution method – telesales, where orders are collected from customers by telephone and delivered within 48 hours.

e. The Company’s distribution system is essentially based on a network of independent distributors (external system) and an internal network of distributors (Company employees).

f. The independent distributors mainly distribute the refrigerated Health & Wellness products (dairy products, milk beverages and fresh juices), while the internal distribution system (Company employees) mainly distributes Fun & Indulgence products, salty snacks, Yad Mordechai products and coffee.

The independent distributors distribute only products that are manufactured or distributed by the Group, and the points of sale are determined by the Group by allocating the distribution lines between the various distributors. The Group is liable for collecting the consideration from customers. The distributors undertake to maintain, at their own expense, a suitable vehicle for refrigerated transport according to technical specifications defined by the Group. In regard to sales to large customers and to major customers in the AFH channel, the Group (and not the distributor) is the party that makes the sale directly to the customer.

In consideration for distribution services, the Group pays the independent distributors commission defined as a percentage of the sales turnover, which varies according to customer type (new distribution channels are characterized by high commissions), customer size (the commission percentage decreases pro rata to the increase in the size of the sale), the type of activity required (sale, order, picking or collection) and various performance measures.

With most of the external distributors the Group is engaged in agreements, pursuant whereto it is entitled to terminate the engagement with the distributor following advance notice. The distribution right is granted to the distributor by the Group for no consideration. The distribution right may not be transferred by the distributor other than with the Group’s consent. There is no employer-employee relationship between the Company and its distributors.

g. The Company has a distribution and picking agreement for dry food products and for certain packaged salads with Shufersal, pursuant to which g. Shufersal places a collective order for the above products to be delivered to Shufersal's logistic centers in Modi'in or in Shoham, and Shufersal is responsible for the day-to-day supply of the orders to its stores. Under the agreement, inventory data and store orders are transferred to the Company via StoreNext's EDI system in favor of the ability to manage sales at store and item levels.

h. The Group installs coffee machines bearing the Group's brands directly and through independent operators, who are responsible for the installation and maintenance of the machines and for the supply and distribution of coffee products to various hubs.

i. The Group has exclusive distribution agreements in Israel with an external distributor to the Israel Prison Service and the Israel Police, and with a distribution company that caters to army canteens, for the distribution of the Group's food products (excluding dairy products, milk beverages and salads). The Group also has a number of exclusive external distributors who buy the Group's products and sell them in the territories of the Palestinian Authority.

j. In addition, according to the provisions of the Food Law, a large supplier or a party acting on its behalf is prohibited from engaging in the placement of products in the stores of a large retailer, as well as from dictating, recommending or intervening in any other manner in the placement of products. At the same time, however, the Food Law permits the Commissioner to grant an exemption in certain matters. Thus, since the Food Law entered into force, temporary provisions were determined with regard to the exemption of actions and arrangements relating to product placement in a large retailer's store, allowing suppliers to provide placement services to large retailers that satisfy the provisions enumerated in the exemption. In 2015-2016 the Company provided placement services to large retailers entitled to exemption from the provisions of the Food Law, subject to the satisfaction of the terms and conditions set forth in the rules. In January 2017 the Antitrust Commissioner published a temporary provision containing new terms and conditions, the satisfaction of which will enable the Company to continue to provide placement services in the years 2017-2019. The rules are to enter into force on April 2, 2017, and the Company is currently assessing compliance with the new terms and conditions together with the large retailers. In addition, until the Food Law took effect, the Company conducted commercial negotiations with retailers with respect to the allocation of selling space in stores for payment. Since the Food Law entered into force, large suppliers are prohibited from dictating, recommending or intervening with retailers in connection with shelf space allocated to their products. Consequently, the Company is prevented from activity in the selling space that is allocated to its products on the store shelves, in line with the prohibition determined in the law with respect to large suppliers, among which the Company is included, with the exception of a new product launch (as defined in the Food Law). For further information, see section 24 below and the chapter “"Changes in the Economic Environment"” in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

k. The Company takes care to maintain the freshness of its products on the shelf and collects returns from most points of sale and oversees their destruction. In stores where the chain’s own shelf-stocking system is in place (see section 17.1.j above), returns are handled as agreed.

17.2 <u>In countries outside Israel</u>

As a rule, in countries where the Group operates outside Israel, there are distribution centers in each country from which finished products are distributed, as well as warehouses and cross-docking sites.

Brazil – the Três Corações Joint Venture's sales and distribution system serves some 64,000 customers representing 300,000 points of sale in the presale method, and is operated primarily by employed distributors and a small number of independent distributors, with which the Group contracts as needed. The products are transported by trucks owned by the Três Corações Joint Venture and external suppliers’ trucks, as needed. Delivery times range from 24 hours to 7 days, depending on the location of the point of sale (the long delivery times are relevant for points of sale located in remote rural regions).

Poland, Romania, Serbia, Ukraine and Russia – the retail market sales network sells directly to a limited number of customers, some of which are independent wholesale distributors that sell the goods to small stores, while others are large modern retail chains, which usually carry out distribution independently through independent logistic centers and warehouses. Sales in the retail market are carried out in the presale method. The AFH sales system serves direct points of sale such as cafés, offices, institutions and hotels, and also sells to independent distributors, which in turn sell to customers such as cafés, offices, institutions and hotels. In addition, the AFH sales system sells and places vending machines at customer premises and is responsible for the service and maintenance of these machines.

Sabra and Obela – The sales and distribution system serves some 50,000 points of sale in the US and Canada. Products are distributed through independent logistics centers owned by a third party and through Sabra's or Obela's production warehouses, as the case may be. The products are sold in the presale method and distributed directly to the logistics centers of the retail chains or by means of independent wholesale distributors and transportation companies. Customers do not have shelf-stocking and placement systems. Deliveries are made within up to 14 days from the date the order was received and products are non-returnable.

18. Fixed Assets, Real Estate and Facilities

<table>
<tr><th>Nature and Location</th><th>Site Designation</th><th>Built-Up Area</th><th>Rights in and to the Site</th><th>Liens</th></tr>
<tr><td>Office building in Yanai Park, 49 Hasivim Street, Petach Tikva (Buildings 3 and 4)</td><td>The Group's Head Management offices</td><td>Ground floor plus nine floors above, basement space and parking places.</td><td rowspan="2">A right to be registered as the owner. A cautionary note is registered on the asset in favor of the Company, and encumbrances on the sellers' rights in and to the assets are also registered in favor of the Company. In the agreements, the sellers undertook to complete the registration of the rights in and to these assets in their name; however, as at December 31, 2016, said registration has not yet been completed.
The agreements contain provisions intended to secure the Company's rights and the registration of the condominium.</td><td rowspan="2">--</td></tr>
<tr><td>8th floor of Building 6 and commercial space in Buildings 5 and 6 in Yanai Park, 49 Hasivim Street, Petach Tikva</td><td>As at the date of this report, said spaces are held for sale For further information, see Note 16.3 to the Financial Statements of the Company as at December 31, 2016, in Part C below.</td><td>8th floor of Building 6 and commercial space in Buildings 5 and 6 in Yanai Park, 49 Hasivim Street, Petach Tikva</td></tr>
</table>

For further information on the Group's real estate properties, which are not attributed to a specific segment, see Notes 16.2 and 25 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

19. Research and Development

As part of its business strategy, the Group is continually engaged in the development of new products and their introduction to the market, as well as refreshing existing products, among other things through technological innovation and product and packaging innovation in response to the demands and tastes of target audiences. Development and innovations in dairy products and salty snacks are carried out, inter alia, using the comprehensive knowledge in the possession of the Group's strategic partners, Danone and PepsiCo, respectively. Various solutions in the refrigerated salad category in Israel are developed in collaboration with Sabra. In addition, the Group works to promote technological collaborations with global companies from corresponding disciplines, such as cosmetics, raw and packaging materials, machinery, etc.

In 2016, the Group continued to develop innovative health-oriented products, improve and streamline manufacturing processes, develop alternative energy consumption, develop raw material sources, protect the environment and develop new packaging which will improve the preservation of product quality and freshness. The technological response to the Group's needs is provided by tech teams consisting of the development people in the business units and engineering and technology teams in the plants. In addition, a professional team was established, comprising the various disciplines, in Group management, with the aim of boosting the Group's technological leadership. The team engages in building infrastructure for processes relating to management, professional promotion, accreditation programs, dedicated training programs, development tracks, performance measures and enhancement of the recruitment profile.

The Group strives to identify, develop and assimilate breakthrough technologies. To this end, the Alpha Strauss FoodTech Community was established, which actively connects the Group to researchers, inventors, entrepreneurs, academic institutions, venture capital funds and government research institutions. The community was established in the understanding that connecting Israel's vast brain trust with the Group's knowhow and assets (brands, manufacturing sites, etc.) and its ability to turn technologies into products is of great value to all community participants. In 2016 numerous new technologies were examined and over 20 projects executed. The projects examined different technologies with value to the technological aspects of the Group's products, raw materials, manufacturing processes, unique ingredients, quality control and assurance processes, packaging, energy, wastewater and ingredients with health benefits.

In the course of 2015, the Group launched the technological incubator - The Kitchen, as part of the Chief Scientist's Technological Incubators Program. The incubator's goal is to reinforce Israeli food tech by investing in early-stage technological ventures, which offer solutions to the global food industry. On January 1, 2015, after winning the franchise, the incubator was launched in the city of Ashdod. During the 8-year franchise period, The Kitchen is expected to host several innovative ventures each year, to cultivate them and lead each of them to raise additional capital within two years. In 2015 the incubator made initial investments in technological ventures, and in 2016 three additional investments were approved.

The information in this section regarding the incubator's plans to host several innovative ventures each year and lead them to fundraising within two years 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, there is no certainty with regard to the number of startups which the Company will host each year, including the date on which the startups will be ready for investment, among other things due to their maturity, their suitability to the project and market conditions.

For research and development in the Strauss Water operation, see section 15.1.h above.

In the Company's opinion, the total financial resources invested in 2016 in the development of new flavors and products, new packaging and efficiency enhancement of work processes, projects relating to breakthrough technologies, etc., amounted to approximately NIS 82 million, compared to NIS 68 million in 2015.

20. <u>Human capital</u>

20.1 <u>Organizational structure</u>

a. The Group operates according to an operating model which is based on a matrix structure that integrates business units responsible for profitable growth with central units in Group corporate center and the Israel Operation, which manage core processes and supporting processes across the organization.

b. Following is a diagram of the Group's organizational structure on or about the time the Periodic Report was published:

* The salty snack activity is part of the Fun & Indulgence segment and is managed in partnership with PepsiCo.

**The CEO of the Brazilian Três Corações Joint Venture reports to the board of directors of the JV in Brazil.

c. **Senior management** – the Group is led and managed by Group management. Group management outlines the overall strategy of the Group and its subsidiaries and follows up on the accomplishment of business results. Management members also serve as members of the boards of directors of the companies and the Group's main business units, entities that plan the Group's strategy.

Group management includes the Group President & CEO, the Deputy CEO, the Chief Legal Officer (CLO) and Group Secretary, VP Human Resources and the Chief Financial Officer (CFO).

d. **Group corporate center** – assists Group management, with emphasis on the management of strategic aspects. The corporate center serves as a professional unit for strategic and planning purposes that provides professional support to Group management, controls the performance of the Group companies in relevant areas, and adds value by leading core aspects that support the "one group" concept.

e. The functions included in the Group corporate center are: Finance (accounting, economics & control, investor relations, treasury, real estate, insurance and risk management); IT; Human Resources; Legal Department & Company Secretary; Corporate Responsibility; Communications & Spokesmanship; Strategy, Technology, the Alpha Strauss Innovation Unit, the technological incubator, Business Development; and the Chairperson's and CEO's Offices. For an itemization of the number of employees in Group corporate center in the years 2015 and 2016, see section 20.2.b below.

f. **The Israel Operation** – the Group's activity in Israel has a separate management. Management is responsible for the day-to-day management of the Israel Operation, for the development of its strategy and its approval vis-à-vis Group management. Management of the Israel Operation is responsible for the implementation of strategy, achievement of strategic goals, and for the development of people and brands. Strauss Israel's management comprises the CEO of Strauss Israel, the manager of the dairies division, the manager of the fresh foods division (divisions that are part of the Health & Wellness segment), the manager of the confectionery division, the manager of the salty snacks division (divisions that are part of the Fun & Indulgence segment), the manager of the Israel Coffee division, the supply chain and operations manager, the sales manager, the human resources manager and the CFO.

The business divisions ("Health & Wellness" and "Fun & Indulgence") are responsible for growth and profitability in their areas of responsibility, and also for the management of their manufacturing sites and the execution of manufacturing plans according to the frameworks determined by the planning unit in the supply chain.

Each business division has its own separate management, which includes the division manager and financial, operations, development, marketing and human resources managers (part of whom are also subordinate to the central professional units).

The central units (sales, supply chain, human resources and finance) provide professional services to the business divisions.

The sales division is responsible for the sales and distribution system for all of the Group's products in Israel to all of the Group's retail customers in Israel.

The supply chain division handles the centralized procurement of raw materials for the various divisions, and is also responsible for the handling and transportation of raw materials to the production sites and of finished products from the sites to the Group's distribution and cross-docking centers and its warehouses in Israel. The supply chain division also serves as the professional entity in charge of managing demand and supply planning, which includes the development of policy and strategy on issues of production planning, procurement and logistics in Israel.

HR is a business partner that accompanies organizational processes, change processes, etc. The human resources unit also manages the shared resources unit for recruitment, salary and benefits, training, welfare and work relations, which serves the entire Israel Operation.

Finance HQ in Israel focuses on the supply of services to the business divisions and the central units in Israel in the areas of performance management, financial and management reporting, payroll, strategic and budget planning, forecasts, etc.

g. **The Coffee Operation** – Strauss Coffee has its own separate management, which is responsible for the complete management of the business, for building strategy and having it approved by Strauss Coffee's board of directors. Management of the coffee company is responsible for the implementation of its strategy, the achievement of strategic goals, and the development of people and brands. Pursuant to service agreements between the Company and Strauss Coffee, the Company provides Strauss Coffee in Israel with certain head office services such as HR, legal services, operations and logistics, sales and distribution, which are directed by Group management. Strauss Coffee management comprises the CEO, the human resources manager, the marketing manager, the financial and business development manager, and the operations and supply chain manager. Strauss Coffee management is supervised by the board of directors of Strauss Coffee. Strauss Coffee's head office is located in Holland and manages the International Coffee business through the managements of the companies in the different countries: Switzerland, Poland, Russia, Ukraine, Romania, Serbia, Germany, Israel and Brazil (the coffee business in Brazil operates through the Três Corações Joint Venture, a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%), and is overseen by Três Corações' board of directors). Each company in each country is headed by a separate management HQ, in line with the activity carried out by the respective company.

h. **The International Dips & Spreads operation -** the Group's International Dips & Spreads activity has a separate management. The management of Sabra consists of the CEO, CFO, HR manager, supply chain manager, CTO, sales manager, growth & competencies manager and the marketing manager, and management is in charge of the management of Sabra in the US as well as in Canada. Australia and Mexico have country managers, CFOs and marketing managers, who receive professional direction from Sabra's management. Sabra's management is responsible for the complete management of the operation, for building its strategy and having it approved by the board of directors of Sabra and Obela. Sabra's management is responsible for implementing the strategy, accomplishing the goals derived from it, and also for developing the people and brands at Sabra and Obela. The management of Sabra and Obela is supervised by Sabra's board of directors, which consists of four directors - two on behalf of the Company and two (one of whom serves as chairman of the board) on behalf of PepsiCo; Obela's management is subject to the supervision of Obela's board of directors.

i. **The Max Brenner operation** in the US is managed by local managements.

j. **Strauss Water** has a separate management headed by the CEO of Strauss Water. See section 15.1.i above.

20.2 Headcount

a. In total, the Group employed 14,830 and 14,491 employees as at December 31, 2016 and December 31, 2015, respectively (including 1,142 and 1,522(*) employment agency workers as at December 31, 2016 and December 31, 2015, respectively). Headcount includes all employees in the Group, including jointly controlled companies in which the Company holds 50%. For further information, see section 5 above.

b. Following is the number of employees in the Group's corporate center in Petach Tikva, including 0 and 6 employment agency workers as at December 31, 2016 and December 31, 2015, respectively.

	Number of Employees as at December 31, 2016	Number of Employees as at December 31, 2015
Corporate center employees	176	165

c. Following is the number of Group employees in the head offices of the Israel Operation, the sales division and the supply chain division, who serve the Group's entire activity in Israel, including 77 and 157 temporary employment agency workers, as at December 31, 2016 and December 31, 2015, respectively.

	Number of Employees as at December 31, 2016	Number of Employees as at December 31, 2015
Employees of the head offices of the Israel Operation, sales division and supply chain division(**)	1,347	1,615

d. The Group employs 11,196 employees, excluding half of the employees of proportionately consolidated companies, according to the Management (Non-GAAP) Reports of the Company, as defined in section 5 above (jointly, the companies in the Group employ 14,830 employees, about half of them in Israel, as mentioned in section 20.2.a above). The Group employs 7,561 employees in companies controlled by the Group (according to the GAAP financial statements).

(*) 2015 data were amended.

(**) For further information, see sections 9.10 and 10.10 above.

20.3 Social benefits and employment agreements

Israel

Most of the Group's employees in Israel are employed under collective agreements. There are general collective agreements which apply to all employees of the Group by virtue of the Group companies' membership in the Manufacturers Association of Israel, which relate to wage conditions, contributions to pension insurance plans, convalescence pay, reimbursement of travel to and from work, and payment of a cost-of-living increment. Additionally, there are collective agreements, some of them updated from time to time, that apply to part of the Group's employees in Israel due to their professional attribution to the instant coffee industry or the chocolate and confectionery industry. Furthermore, there are certain terms and conditions in special collective agreements that were signed at the Group's various production plants and apply to the workers employed by that respective plant, all or part thereof, which are revised from time to time in negotiations between the workers' committees and the management of each plant. In 2016 agreements were signed in three of the Group's plants in Israel, and in January 2017 an agreement was signed in an additional plant. The agreements include wage increases, seniority increments, and special welfare conditions unique to each site. In 2015 a first collective agreement was signed in Strauss Water, applying to employees and team leads. The agreement is valid for four years and it includes mechanisms for dismissal, salary updates and accompanying benefits.

The terms of employment of other employees are determined in personal employment contracts. These include employees of the sales division, the corporate center and the people in the head offices of all divisions in Israel. Salespeople in the sales division receive incentives that vary according to sales in addition to their basic salary, from time to time or on a regular basis. The incentives are included in the pension contributions.

The Company provides its employees and their families with basic health insurance. Employees have the option of expanding the health basket for themselves and their families at a subsidized price to cover surgeries, rehabilitation nursing insurance and serious illnesses.

The Company provides employees with a "hot line", a direct channel for issues of ethics, internal enforcement with respect to securities and good governance, which is available to the Group's employees worldwide. The "hot line" enables employees to report on a variety of subjects, including discrimination and harassment, improper or unsuitable conduct, theft, violence or threats, violation of the law or corporate policy and the like.

Outside Israel

All employees of the Group companies outside Israel are employed under personal employment contracts.

The Group's obligations as far as employees' social rights are concerned are governed by the relevant laws in each country, and the Group makes payments as required.

In Brazil, the Três Corações Joint Venture is subject to the collective agreements in effect in each state where it operates. There is no uniform general collective agreement applicable to all of the Company's employees. However, each state has regional trade unions organized on the basis of occupation (drivers, production workers, etc.).

In the US, Russia, Ukraine, Poland, Romania and Serbia there is no general collective agreement that applies to the Company's employees and the employees are not organized in trade unions.

The countries differ in regard to the nature and conditions of employment agreements, which are influenced, among other things, by the provisions of the local law and accepted work culture in that country. At the same time, Group management's approach with respect to human resources in general is to apply a uniform policy insofar as possible, in all countries where it is active.

20.4 **Compensation plans for the Group employees** – the Group incentivizes its employees on the basis of the accomplishment of the business unit's qualitative and financial objectives, according to the employee's title and rank. The objectives are derived from the Group's work plans. As a rule, senior employees are also compensated for accomplishing long-term objectives.

20.5 **Employee loans** – the Group enables employees (in some of its companies) to receive loans according to Company procedures, which take the employee's salary and seniority into account. Loans to the Group's employees in Israel are linked to the Consumer Price Index and bear interest according to the rates prescribed in the Income Tax Ordinance. In certain countries it is prohibited to charge employees interest. The repayment period of loans in the Group is up to five years. Loans of a certain amount and above are secured by promissory notes, signed by guarantors. The outstanding balance of employee loans as at December 31, 2016 is NIS 7 million. In Brazil, there is an arrangement with banks for the grant of loans to employees through banks.

20.6 **Temporary agency employees ("contractor's employees")** – in Israel, the Group is engaged in agreements with a number of placement agencies for the supply of personnel services as required by the Group, for a limited period of up to 9 months (the maximum period permitted by law, in which employment agency workers may be employed). These agreements determine, *inter alia*, that no employer-employee relationship shall exist between the workers of the employment agencies and the Group, and that the agencies shall bear the payment of wages and other social benefits to which these employees are entitled by law. In accordance with these agreements, the Group will be indemnified and compensated by the placement agencies for damages or amounts which the Group will be required to pay in any case where the agreement is construed in such manner that an employer-employee relationship exists. The agreements with the manpower agencies were drawn up in accordance with the provisions of the extension order in the manpower sector, with the goal of ensuring that the agencies will comply with the provisions of the extension order. In 2012, employment agencies were required to re-sign a uniform agreement. The Group has formulated tools and control mechanisms to enforce the performance of the provisions of the extension order by the personnel agencies, which include, among other things, regular sample testing of the payslips of these employees.

In the US, Russia, Ukraine and Poland there are no regulatory limitations applying to the employment of personnel agency employees. In Brazil, Romania and Serbia there are regulatory limitations on the duration of employment of personnel agency employees. In Brazil, this period is nine months; in Romania up to 36 months and in Serbia, the period of employment shall not exceed 24 months.

20.7 Officers and managers

a. **Option plan** – for details on the senior officers' option plan of May 2003, see Note 23.1.1 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

b. **Performance share units (PSUs) plan** – for details on a performance share units plan of July 2016, see Note 23.1.2 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

c. **For details on an international plan for the allotment of non-marketable options** to senior employees of Strauss Coffee, exercisable into shares of Strauss Coffee, and where, in a specific case of TPG's buyout by the Company, equivalent options of the Company may be awarded in respect of stock options that have not yet vested, see section 12.13 above and also Note 23.4 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

d. **Management incentive** – the yearly incentive for the Chairperson of the Board of Directors and the CEO is based on the accomplishment of financial budget objectives of the Group. The yearly incentive for other managers in Israel is based on the achievement of financial budget objectives of the Group and/or achievement of a combination of said objectives and financial budget objectives of the relevant operation, accomplishment of the manager's functional objectives, plus a discretionary incentive (which may, according to the remuneration policy for officers of the Company, alternatively be awarded to officers who are subordinated to the CEO on the basis of non-measurable criteria, considering the officer's contribution to the Company). In addition to the yearly incentive, in singular cases, a special incentive may also be awarded. For the provisions of the remuneration policy for officers of the Company, and among other things with respect to officers' incentives, see the Immediate Report of August 18, 2016 (reference no. 2016-01-105793). The incentive for managers in companies outside of Israel is based on the achievement of financial budget targets of the relevant operation and on the achievement of the manager's functional targets.

e. **Benefits and employment agreements** – officers and employees of senior management of the Group are employed under personal employment contracts, which include, among other things, pension coverage in various schemes. Some of the officers and senior management employees are entitled to an adjustment period, compensation arrangements and other special personal arrangements, as set forth in regulation 21 in the chapter "Additional Information on the Company" in Part D of this report. For information on insurance, exemption and indemnification arrangements for officers of the Company, see regulation 29a in the chapter "Additional Information on the Company".

21. Financing

21.1 General

The Group finances its business activities from its own sources, loans from banks and financial institutions and non-bank credit.

For details regarding the Company's bank and non-bank loans, including debentures issued by the Company, see Notes 20.2-20.4 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

21.2 Following is the average interest rate and the rate of effective interest on bank and non-bank loans, which are not designated for special purposes by the Group, in effect during 2016, according to the Management (Non-GAAP) Reports of the Company, as defined in section 5 above:

	Short-Term Loans	Long-Term Loans	Average Rate
Group corporate center			
Bank loans	--	5.11%	5.11%
Non-bank sources (*)	--	4.22%	4.22%
Israel			
Bank loans	--	2.90%	2.90%
Non-bank sources	--	1.69%	1.69%
International Coffee			
Bank loans	6.68%	11.56%	8.42%
International Dips & Spreads			
Bank loans	1.81%	2.50%	2.19%
Other			
Bank loans	2.78%	3.41%	3.33%
Non-bank sources	--	3.58%	3.58%
Average interest rate	**5.49%**	**4.43%**	**4.53%**

(*) Including Series B and Series D Debentures and loans from financial institutions.

21.3 Reportable credit

For information on Debentures (Series B) and Debentures (Series D) issued by the Company, see Notes 20.3, 20.4 and 20.6 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

For information on the debt and financing expenses in its respect according to the Company's Management (Non-GAAP) Reports as defined in section 5 above, see the non-GAAP 'financing expenses, net' item in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

21.4 Limitations applying to the receipt of credit

The Company has undertaken towards banks and institutional investors, which extended loans to the Company, not to create any liens on its assets in favor of any third party without receiving the consent of the banks and other lenders in accordance with the terms of the letters of undertaking (other than the possibility of providing specific collateral to secure certain loans).

In addition, some of the loans taken by the Company, including the debentures issued by the Company, contain restrictions with respect to the transfer of control of the Company, subject to certain limitations.

For information on financial covenants, see Note 20.6 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

21.5 <u>Credit received between the date of the Financial Statements and on or about the date of the Periodic Report</u>

In the period between December 31, 2016 and on or about the date of publication of the Periodic Report, credit in an amount of NIS 553 million was received, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above.

21.6 <u>Floating-rate loans</u>: The following table presents the Group's floating-rate credit in 2016, according to the Management (Non-GAAP) Reports, as defined in section 5 above:

	Change Mechanism	Interest Range	Amount of Credit as at Dec. 31, 2016 (NIS Millions)	Interest Rate on or about the Date of the Report
International Coffee	**Real**	10.9% - 15.48%	110	9.4% - 13.98%
International Coffee	**Dollar – LIBOR**	2.07% - 2.43%	69	2.13% - 2.49%
International Dips & Spreads	**Dollar – LIBOR**	1.61% - 2.50%	135	2.56%
Other	**Dollar – LIBOR**	2.31% - 2.70%	15	2.76%
Other	**NIS – Prime / on call**	2.30% - 4.10%	92	2.30% - 4.10%

21.7 <u>Credit rating</u>

On April 4, 2016 the Company announced the reaffirmation of Standard & Poor's Maalot's ilAA+ rating with a revision of the rating outlook from stable to negative. For further information, see the Company's Immediate Report dated April 4, 2016 (reference no. 2016-01-041209).

On April 21, 2016 the Company announced the reaffirmation of Midroog's Aa2 rating for the Company's outstanding Series B and Series D Debentures, with stable outlook. For further information, see the Company's Immediate Report dated April 21, 2016 (reference no. 2016-01-054433).

As at the date of publication of the Periodic Report, there have been no changes in the above ratings.

As at the date of this report, in the Company's estimation the Company and/or the companies in the Group may be required to raise additional funds for the purpose of their regular business operations, including refinancing.

The information in this section that the Company and/or the companies in the Group may raise additional funds 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, among other things as a result of various developments in market conditions and the Company's actual financing requirements, etc.

21.8 For liens and guarantees pertaining to finance agreements, see Notes 24.2 and 24.3 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

22. Taxation

22.1 Tax laws applying to the Group companies in and outside Israel

For details, see Notes 35.1 and 35.2 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

22.2 Tax assessments issued to the Group companies in and outside Israel

For details, see Notes 35.4 and 35.7 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

Disputed assessments in countries outside Israel – the Três Corações Joint Venture received assessments for tax years not yet subject to prescription, pursuant to which it is required to pay approximately BRL 176 million 100%) over and above the amount included in current tax payments for those years. The Três Corações Joint Venture rejects the tax authority's demand. In the Company's estimate, based on the opinion of the investee's legal counsel, the existing provisions in the investee's books of account are sufficient. For information on claims by the tax authorities in Brazil, see Note 24.1.4.5 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

22.3 Main benefits under the Encouragements of Capital Investments Laws and the relevant laws in the countries where the Group operates

For details, see Notes 35.1 and 35.3 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

Tax benefits in countries outside Israel where the Group operates: In respect of its activity in northeast Brazil, the Três Corações Joint Venture is entitled to tax benefits: (1) a reduced corporate tax rate on part of the taxable income, up to the maximum amount determined by law; (2) tax rebates on tax collected. The tax benefits received by the Três Corações Joint Venture in 2016 amounted to BRL 36.7 million (100%). The

Três Corações Joint Venture's tax reports for part of the years in which the Três Corações Joint Venture filed for tax rebates are being reviewed by the tax authorities. For information on claims from the tax authorities in Brazil, see Note 24.1.4.5 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

22.4 **The primary tax rate compared to the Company's effective tax rate:** For information on the tax rate, see Note 35.9 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

22.5 **Unused losses for tax purposes and unused tax credits:** For deferred taxes in respect of losses, see Note 35.10 to the Financial Statements of the Company as at December 31, 2016, in Part C below. For losses in which respect no deferred taxes were recorded, see Note 35.5 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

22.6 For information on a customs investigation regarding the alleged failure to pay customs duties in amounts that are immaterial to the Company even if it is required to pay them, see the Immediate Report dated January 28, 2015 (reference no. 2015-01-020575).

23. Environmental Issues

23.1 General environmental risks inherent in the Group's business activities, main provisions of law and material environmental incidents

In general, the Group's production plants, given the nature of their manufacturing processes, do not possess the potential for environmental risks which could materially affect the Group. At the same time, manufacturing processes in the Group's facilities are affected by a range of environmental aspects, among others waste, wastewater and hazardous materials, where the uncontrolled use or treatment thereof is liable to induce environmental risks. The Group therefore applies the necessary means in order to diminish such risks.

The Group's production sites in and outside of Israel are governed by local environmental provisions of law, according to the rules and laws of each particular country, and also by local municipal legislation. The plants in EU countries are subject to European directives applying to environmental quality standards. In Brazil, national regulation is determined by two entities: CONAMA and IBAMA, which both have the authority to determine and enforce regulation. In countries abroad, production sites are required to be in possession of approval to operate the site and approval from the local environmental authority, similar to the "business license conditions" applied to manufacturing sites in Israel by the Ministry of Environmental Protection. Most of the plants in Israel and abroad are licensed to store substances, and some overseas sites are in possession of a license to use well water. Packaging laws apply to the Group's plants in Israel, in the various European countries and in Brazil, requiring the plant to treat the various packaging materials through local recycling corporations. Sabra's operations in the US are supervised by the US Environmental Protection Agency (EPA) and governed by its regulations.

The Group's activities in Israel are supervised by the Ministry of Environmental Protection and by environmental units operating in the local authorities. Additionally, as far as wastewater treatment is concerned, the plants are also governed by the requirements of the Water Authority and are subject to supervision by the Water and Sewerage Corporations and local councils, as well as supervision by the Ministry of Health.

Following are the major environmental issues, the main provisions of law and material environmental incidents which occurred in the Group:

Wastewater treatment – considerable amounts of water and detergents are used in the Group's production sites that contain, among other things, organic substances, oils and sodium, which are liable to increase the pollutant concentration in wastewater and to cause odor and sanitary nuisances. This wastewater is required to be treated, *inter alia*, due to the policy of recycling wastewater for irrigation in Israel, which necessitates high-quality purification of wastewater to render it fit for use in irrigation. The Licensing of Businesses Regulations (Salt Concentration in Industrial Waste), 2003 determine permissible values for the concentration of polluting salts in wastewater transferred from a production site to a purification plant. The Water Regulations (Prevention of Water Pollution) (ph Values of Industrial Sewage), 2003, define the maximum permissible values that may be transferred to the sewage system. The Water and Sewerage Corporations Law, 2001 and the rules prescribed thereunder, including the Rules of the Water and Sewerage Corporations (Plant Wastewater Discharged into the Sewage System), 2014, regulate the manner of treatment and removal of plant wastewater, and the Rules of the Water and Sewerage Corporations (Tariffs of Water and Sewage Services and the Construction of Water or Sewage Systems), 2009, prescribe special tariffs for the violation of effluent quality standards. It is noted that among the provisions that were amended or added to the rules, which entered into effect in July 2014, the provision of section 16(C) was added, which allows water and sewerage corporations to impose charges in respect of wastewater discharge, even in cases where the discharge was made in accordance with mitigations granted to production plants in the framework of permits or licenses held by the plant. On December 28, 2014, the Manufacturers Association of Israel petitioned the High Court of Justice, contesting the validity of the 2014 rules. In the petition, among other things the court was asked to issue an interim order to suspend the abovementioned section 16(C).

In 2016 the Water and Sewerage Authority approved and published a number of amendments to the various Rules of the Water and Sewerage Corporations, some of which included revisions that are relevant to the Company's operations. For example, in March 2016 an amendment to the Effluent Quality Standards was published, in which several amendments were made to the provisions of the rules including the addition of section 16(D), which determines that a plant granted mitigations as described above may request of the Supervisor of Industrial Effluents in the Water Authority to instruct the Water and Sewerage Corporation not to charge the plant for discharging prohibited wastewater in which respect mitigation was granted, by virtue of section 16(C). Additionally, in December 2016 an amendment to the Rules of the Water and Sewerage Corporations (Tariffs of Water and Sewage Services and the Construction of Water or Sewage Systems), 2009 was published, in which the tariffs in respect of the discharge of prohibited industrial effluents were revised and changes made to the method of calculating the tariffs. Following the changes made in the above amendments, the Manufacturers Association of Israel withdrew its petition to the High Court of Justice and in its decision of January 29, 2017, the Court instructed that said petition be dismissed.

It is noted that as at the date of this report, no charges by virtue of section 16(C) have yet been imposed on the Company, but the withdrawal and dismissal of the petition by the Court in fact led to the revocation of the suspension of section 16(C) and consequently, its provision pursuant to which charges may be imposed in respect of the discharge of prohibited wastewater even in cases where the plant was granted mitigation has exposed production facilities to charges under the Effluent Quality Standards. Consequently, in February 2017, the Company, on behalf of two of its production sites, the Achihud dairy and the salad plant, submitted applications to the Supervisor of Industrial Effluents in the Water Authority under the abovementioned section 16(D). It is noted that said applications refer to mitigations that were in force until May 2016. The suspended fines in regard to which the Supervisor is required to decide are immaterial to the Company. Until the date of this report, a reply from the Supervisor of Industrial Effluents has not yet been received.

In May 2016 requests were submitted to the Ministry of Environmental Quality for the renewal of the mitigations, but the Ministry's reply to the Company's requests has not yet been received. Furthermore, following the Company's appeal, two fines in amounts that are immaterial to the Company in respect of an allegedly anomalous measurement of chloride levels in wastewater generated by the Achihud dairy have been suspended for review.

Air pollution – energy is consumed in the Group's sites for its manufacturing operations (use of steam boilers and ovens) and as part of day-to-day activities (use of electricity and fuel consumption for the distribution of the Group's products), as well as the use of Freon and ammonia refrigerant fluids in part of Group's units. Provisions with regard to the emission of pollutants into the air are assimilated, where necessary, in the business licenses of the Group's plants.

Soil pollution and contamination of water sources – some of the Group's sites use and store hazardous materials for the purpose of cleaning and treating wastewater. Leakage of hazardous materials is liable to pollute the land and water sources. The potential for the pollution of rivers and streams is also inherent in the operation of the units abroad (especially in production sites located on river banks).

The Hazardous Substances Law, 1993 regulates the manner of handling poisons and harmful chemicals, and governs the grant of poison licenses to the plants. All of the Group's sites keeping hazardous materials that require a poison license are in possession of a valid poison license. The Company's plants in Achihud, Karmiel and Safed received new poison licenses in 2016, which contain additional requirements that were not included in previous licenses. The Company is preparing for the implementation of these requirements in full.

Waste of natural resources (energy and water resources) – uncontrolled industrial activity causes excess use of energy and water resources which leads to damage to the ecological balance, the waste of natural resources and the emission of greenhouse gases. This problem is common to all the Group's sites worldwide.

The Energy Resources Regulations (Monitoring Energy Consumption Efficiency), 1993 define measures that are required to be applied for the furtherance of efficient consumption. In 2016 a team took action in the new distribution center in Shoham to improve energy efficiency.

Israeli Standard SI 6464 – "Industrial fuel-consuming appliances – requirements for appliance application, workplace environment, approval and inspection" defines the requirements for connecting industrial factories to the natural gas supply system and the requirements for the use of natural gas in industry. The Company is making the necessary preparations to receive natural gas in its production sites in accordance with the national schedules of the natural gas distribution network.

Waste treatment – by nature, industrial operations generate considerable amounts of waste. The Packaging Management Law, 2011 (the "**Packaging Law**") defines the manufacturers' responsibility for the treatment of packaging waste. The Company in Israel is in compliance with the requirements of the law and is a partner in the packaging recycling corporation, Tamir. The coffee plants outside Israel collect packaging for recycling according to the requirements of local regulation. It is noted that most of the Group's sites outside Israel are subject to local regulation concerning the recycling of packaging.

23.2 <u>The Group's environmental risk management policy</u>

The Group's environmental management system defines the Group's commitment to improving its environmental performance and to reducing negative effects on the environment.

The Group applies a methodology for keeping abreast of environmental legal requirements, for conducting comprehensive tests of compliance and for remedying failures. The methodology is applied in the Group's production sites in Israel. The Group's plants outside of Israel are accompanied by local external consultants specializing in environmental quality.

The Group invests resources in the management of its environmental aspects. This is reflected in investments in equipment and technology, in source reduction, in improved wastewater treatment and in means for enhancing energy efficiency. In 2016 the Group's investments in equipment and technology amounted to NIS 8.5 million. During 2016 NIS 18.5 million were invested in day-to-day management, which includes the costs of waste and effluent treatment, and payment to recycling corporations for treatment of the packaging of products dispatched to the market.

It is not the Group's practice to separate the costs invested by the companies in the Group with respect to environmental issues, and these costs are immaterial. On the basis of information in the Company's possession as at the date of the report relating to its sites and to environmental requirements, the Group does not plan any material investments in 2017.

The information in this section regarding the intention not to make material investments in order to comply with environmental requirements in 2017 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, there may be material deviations in the Group's production sites or regulatory requirements may change, which would require additional substantial investments.

As at the date of the report, the Company or a senior officer therein is not a party to material legal or administrative proceedings on environmental matters. Furthermore, the Company was not a party to such a proceeding during the reporting year and did not incur any costs in respect of legal actions relating to environmental issues.

24. Restrictions and Supervision of the Group's Activity

24.1 Legislation in the food and beverage industry and consumer legislation

In Israel – the Group's food and beverage products are subject to laws, regulations and orders relating, among other things, to the definition of quality standards; cleanliness and health in production processes; processing, trade and storage of food and beverages; the definition of standards and directives relating to the packaging, labeling and identification of the products and their ingredients, including their nutritional value and expiry dates; the definition of quality and health standards for food additives, etc. (such as the Public Health Ordinance (Food) [New Version], 1983; the Supervision of Goods and Services Law, 1957 and the Standards Law, 1953). The Group has developed and acts in accordance with a manual for the uniform labeling of its products. Moreover, the Group's activities are subject to various consumer provisions, which deal, *inter alia*, with prohibitions regarding the misleading of consumers and the obligation to present them with complete information, and with the compensation of consumers in respect of bodily harm caused as a result of a product defect (such as the Consumer Protection Law, 1981 and the Defective Products Liability Law, 1980).

For legal provisions relating to the environment which apply to the Group, see section 23.1 above.

For provisions of law pertaining to the Israel Operation, the Coffee Operation, the International Dips & Spreads segment and Other Operations, see sections 8.4, 9.13, 10.13, 11.5, 12.12 and 13.12 above.

Outside Israel – the Group's activities outside Israel are subject to regulatory directives in the different countries, which generally regulate issues similar to those regulated in

Israel and prescribe rules and instructions, among others, relating to the production, distribution, storage and transportation, and import of food and beverage products; and also prescribe standards, among others, relating to the quality, cleanliness, packaging and labeling of the products. As countries where the Group is active join the European Union, they may also become subject to relevant regulatory directives which apply in EU member states.

24.2 <u>Control over product prices</u>

a. The Supervision of Prices of Goods and Services Law, 1996 enables the minister in charge, *inter alia*, to apply the provisions of this law by imposing an order on a certain product or service, for which justification of price control exists in the law (among others, a product or service that is essential and its price must be controlled for considerations of the public good, or in which respect a monopoly has been declared). In cases where the law has been applied in an order regarding a particular product or service, the law allows for a supervisor to be appointed over the prices of that product or service and also to determine in an order, after consultation with the Price Committee as defined in the law, the price, the maximum price or minimum price for the product or service. For the Group's price-controlled products, see sections 9.13 and 10.13 above.

b. On March 28, 2011 the Knesset approved the Milk Sector Planning Law, 2011. The purposes of the law are, *inter alia*, to guarantee appropriate prices for the farmers, the dairies and the public; see section 9.13 above.

c. On January 15, 2015 the Promotion of Competition in the Food Industry Law, 2014 (above and below – the "**Food Law**") entered into force. The Food Law is intended to increase competitiveness in the food and consumer products industry, in order to reduce retail prices through the imposition of prohibitions and restrictions with respect to actions and arrangements between various entities operating in the market. For additional details, see sections 16 and 17 above and Report of the Board of Directors of the Company as at December 31, 2016, in Part B below.

24.3 <u>Operating licenses</u>

In general, the Group's operations require licenses and permits according to the legislation in each country, such as a business license, manufacturer's license and licenses to hold hazardous/poisonous substances. Some of the licenses and permits are given permanently, but most of them are given for fixed periods and require renewal at the end of the term of the license. As at the date of the Periodic Report, the above licenses are valid or the Group is taking action for their renewal.

24.4 <u>Antitrust</u>

a. **Declarations as a monopoly**

For declarations of the Company as a monopoly and the Antitrust Commissioner's instructions in this regard, see section 9.13.a – dairy desserts; section 10.13.a – chocolate tablets and section 12.12.a – instant coffee and cocoa powder for domestic consumption. For information on a hearing prior to declaring the Company a monopoly, see section 9.13.b above and for further information, see section 29.v below.

b. **Consensual decrees pursuant to the Antitrust Law**

For consensual decrees with respect to chocolates and confectionery and to the announcement of the merger with Elite Coffee, see section 12.12.c above.

c. On April 10, 2014, the Antitrust Authority (in this section below – the "**Authority**") published a manifesto on the "prohibition of over-pricing that applies to monopoly holders". The manifesto describes the considerations that will be applied by the Authority in acting against a monopoly that charged excessive and unfair prices for its products. On September 21, 2016 the Authority published a draft manifesto with regard to the Antitrust Commissioner's considerations in the enforcement of the prohibition against collecting an unfair, excessive price. Among the different subjects addressed in the document, the safe harbor determined in the manifesto was revoked, enforcement considerations and profitability tests were determined, and the Authority clarified that enforcement of the issue would be reserved exclusively for distinct, clear cases according to the circumstances of each case. The draft has not yet been published as final.

24.5 <u>Kosher certification</u> – the Group's products that are manufactured or marketed in Israel are under the supervision of the relevant local rabbinate, and if necessary, also under the supervision or approval of the Chief Rabbinate of Israel. The salty snack products, a considerable part of the confectionery and bakery products ("Megadim"), most of the ready salads and part of the dairy products ("Strauss Mehadrin") are kosher le'mehadrin and also marketed to the ultra-Orthodox market. The kashrut certificates are given for defined periods, and at the end of each period the Group handles their renewal.

24.6 **Authorized Supplier to the Ministry of Defense** – the Company and part of its subsidiaries in Israel are an Authorized Supplier to the Ministry of Defense.

24.7 **Standardization** – the Group manufactures its products in accordance with various regulations, orders and standards that are relevant to its areas of business, both in Israel and in countries where it is active, where relevant standards exist. In Israel, standards are issued from time to time by virtue of the Standards Law, 1953. The standards enumerate technical requirements applying to different products manufactured by the Group as well as various properties of these products with respect to the production process, operations, labeling, packaging, etc.

Additionally, most of the Group's manufacturing sites in Israel and some of its sites abroad are ISO 9001 (Quality Management) certified, as well as certified under the food safety control standard, HACCP (Hazard Analysis & Critical Control Points), the ISO 22000 standard and other elective standards such as ISO 14001. The Group has internal enforcement processes in place to ensure compliance with the standards and regulations with respect to food, quality of the environment and safety. Most of the Company's plants have received the GMP permit from the Ministry of Health, allowing the Company to label products as "gluten-free".

24.8 **Quality management** – the Group performs routine quality control tests in its plants. Quality processes are based on planning and risk analysis in the stages of the value chain for the early detection of failures, in order to achieve a product that is high-quality and safe for consumers. Quality control is in place in the production sites, which is based on control applied by the production workers themselves and by the quality management system, together with testing in the plant laboratories and outside laboratories. The plants have an experienced team of tasters. The Group measures, on a monthly basis, the number of consumer complaints as well as the satisfaction of consumers contacting customer service, and takes action to diminish complaints and increase consumer satisfaction with the products and service.

25. Material Agreements

In addition to the material agreements described in each operating segment, following are material agreements outside the ordinary course of business:

25.1 <u>Provisions regarding the use of the "Strauss" name and brand, non-competition and indemnification according to the merger agreement between the Company and Strauss Holdings</u>

For additional details see section 26.1 in Part A of the Company's Annual Report for 2013, as published on March 26, 2014 (reference no. 2014-01-023988).

25.2 <u>Trust deed and Debentures (Series B) and trust deed and Debentures (Series D)</u> – see section 21 above and Note 20 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

26. Legal proceedings

For information on class actions and other lawsuits against the Company, see Notes 24.1.1 and 24.1.2, respectively, to the Financial Statements of the Company as at December 31, 2016, in Part C below.

27. Objectives and Business Strategy

It is the Group's practice to review its strategic plans from time to time and to revise its objectives according to developments occurring among its consumers, changes in the competition map and in the retail environment, and macroeconomic influences. In recent years the Group's strategy has been influenced by its international business expansion.

In the next few years it is the Group's intention to persevere in placing focus on developing its international growth drivers, particularly Strauss Coffee, Strauss Water and the partnership with PepsiCo in fresh foods, while improving its competitive position in the Israeli food market. The Company plans to focus on its core activities and on businesses with high added value, in which it believes it will have a competitive advantage and will be able to establish leadership. Within its lines of business, the Company aspires to increase consumer value through a variety of tools: product innovation aligned with consumer trends, improvement of nutritional values, price adjustments and by leveraging digital platforms. In parallel, the Group is working to improve its cost structure.

The Group believes that its entrepreneurial culture, multidisciplinary growth model (diverse business categories, mergers and acquisitions and organic growth), as well as its ability to tailor and develop its business activities in different parts of the world where it operates in alignment with local needs, will serve as important levers for the realization of its strategy.

In the next few years Group management will continue to execute moves aimed at improving managerial and business capabilities in various spheres and will improve the performance of its business units.

27.1 Strauss Israel

Among the major goals the Group has set for coming years are leadership of the Israeli food market in existing business areas and improvement of the consumer's quality of life, while achieving growth and improving its competitive position, and at the same time, making the business and managerial adjustments required by the economic-social environment in Israel.

In the next few years the Group intends to continue to improve its competitive position in Israel by penetrating new product categories, product innovation – the development of products and solutions with unique added value for consumers, along with the development of top-quality products – through pricing and by lowering the prices of its products, brand empowerment, placing focus on sales and contending with the growing strength of local and international competitors, in alignment with changes in the retail market.

Along with growth targets, the Group intends to focus on the improvement of capacity and productivity, development of the operational excellence of the various systems in the Company, efficiency enhancement and savings, including automation and enhanced energy efficiency, as well as actions to leverage manufacturing, logistics, distribution and sales infrastructure. Placing emphasis on these spheres is intended, among other things, to allow for the continued reduction of the prices of the Company's products and the investment in its human capital. Besides the growth and productivity targets, the Company in Israel has a number of additional strategic objectives in terms of formalizing the Group's business and cultural character for the years to come.

The business in Israel serves as the Group's home base and as such, the Company in Israel is responsible for preserving the unique business culture, for developing generations of managers for the Group, for advancing and developing corporate governance and social responsibility, and for serving as a major source of groundbreaking innovation with clear competitive advantages, which the Group will be able to implement in international markets.

27.2 Strauss Coffee

In light of trends in the worldwide coffee market, as described in section 11.1 above, Strauss Coffee's strategy is growth-oriented, while improving its competitive status in markets where it is active, and while providing a response to long-term trends in the industry and promoting the global coffee culture in target markets.

In order to realize its above strategy the Company operates on several levels. It develops its brands, tailoring them so that they can lead and shape the coffee culture trend among consumers. The Company is expanding its operations in single-portion coffee capsules and is developing new products and categories that will influence and promote the coffee culture. In addition, the Company invests in new technologies that support innovation in products that have substantial high consumer value, and is establishing direct connections with coffee consumers via current and new channels, including digital channels. Furthermore, the Company is working to enhance the expertise of all its employees in the coffee business, in the understanding that expertise and passion for coffee increases its attractiveness to consumers. In addition, the Company is persevering in the continuous improvement of operational excellence processes, improvement of supply chain and manufacturing processes as well as business process excellence in sales, and continues to explore possibilities for acquisition and expansion in its present geographic spread, while reviewing other attractive regions around the world for possible penetration in the future.

27.3 <u>Refrigerated dips and spreads – Sabra and Obela</u>

The refrigerated dips and spreads market, particularly hummus, has high market potential. This operation is one of the Group's main growth drivers.

Through Sabra and Obela, the Group has led the freshness revolution in this market through its knowhow and experience in fresh foods, which are compatible with key consumption trends today in the food world in general and in the US in particular.

The partnership with PepsiCo in Sabra in the US and Canada, and in Obela in Mexico, Australia and Western Europe, is an important strategic step in the development of the Group's business outside of Israel in general and in the US in particular. The connection between the Group's capabilities in innovation and product development and its expertise in fresh foods; coupled with PepsiCo's capabilities, infrastructure and excellence in general and in the North American market in particular, have enabled the partnership to continue to develop and lead the market and category, and to realize the great potential inherent in this activity. Additionally, possibilities for expanding the refrigerated dips and spreads business through acquisitions are being explored.

In 2010, Sabra built a new, state-of-the-art salad production facility with an investment of $68 million. The plant (in the state of Virginia) is one of the most advanced of its kind in the world and is based on the most innovative production technologies. Due to a continuing increase in demand, in 2014 Sabra made an additional investment in the plant in order to increase output and meet future demand, if any. In light of the success of the operation in North America, in 2011 the Company signed an additional partnership agreement with the PepsiCo group (50%) for the establishment of a global business in the refrigerated spreads and dips category in other countries besides North America. In 2012, the partnership commenced operations in Mexico and in Australia, and in 2016 – in Western Europe, and aspires to continue its global expansion in this field within the coming years.

27.4 <u>Strauss Water</u>

As part of realizing the Group's vision to improve its consumers' quality of life, in 2007 the Company decided to enter a venture in the drinking water business, which had been identified as a significant business opportunity with the potential for creating another international foothold for the Group.

Strauss Water views the development of technology for quality drinking water solutions at home and away-from-home as a way to improve the quality of life of families in Israel. Strauss Water developed an innovative technology for in-home water purification by means of its water bars, technology that integrates breakthrough developments in engineering and physics with innovative developments in chemistry and microbiology, some of which have been registered as patents.

The connection between Strauss Water's capabilities in the development of home water purification systems and Strauss Group's experience in the management of international businesses and penetration of emerging markets has enabled the Company to offer an integrated solution for markets in and outside Israel.

At present, Strauss Water is market leader in Israel and is one of the world's leading companies in the development, manufacture and marketing of systems for the filtration, heating and cooling of drinking water, particularly for the home and institutional markets.

Strauss Water intends to retain its status as the leading company in POU water filtration systems in Israel, and to renew a rapid growth pace in international operations.

27.5 The successful implementation of the Company's strategy depends on an experienced and skilled management team and employees on all levels. The Group will continue to encourage excellence among its employees and will seek to assimilate among them the values it champions: responsibility, daring, caring, motivation and teamwork. The Group will continue to invest in the development of its human capital and will continue to improve its managerial qualities.

27.6 The Group's strategic plans, as described above, reflect its policy as at the date of the Periodic Report and are based on current evaluations of its business areas. The Group's plans may change, in whole or in part, from time to time. There is no certainty as regards the realization of the Group's intentions or of this strategy. It is possible that the objectives described above will not be accomplished in the future, or that the Group will decide not to implement the abovementioned strategy, in whole or in part, for the following reasons among others: changes in the macroeconomic trends that affect the economic situation; the situation in the food and beverage industry in Israel and worldwide; capital market conditions in Israel and worldwide; changes in economic feasibility; changes in competitive conditions in the market and changes in the markets themselves; regulatory changes; as well as due to other risk factors affecting the Group's activity, as set forth in section 29 below.

28. Information on Geographical Regions

28.1 For information on the geographical regions where the Group operates, see Note 27.4 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

28.2 For explanations on geographic developments, see the Company's explanations in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B of this report.

28.3 Risk exposure due to operations outside Israel

Activities in the emerging markets in Central and Eastern European and in Brazil are exposed to risks that are typical of these countries, including: sensitivity of the regimes to political changes, which may affect the economic situation in these countries; fluctuations in the exchange rates of local currencies in relation to the US dollar or the euro; fiscal/economic instability and frequent changes in economic legislation; relatively high inflation and interest rates in some of the countries; exposure to large international competitors who are present or likely to enter the competition in these countries; customer debts are denominated in the domestic currency, which is subject to the risk of fluctuations in exchange rates.

At the same time, the Group's activity outside Israel contributes to the diversification of risk and reduces the dependence on the Company's operations in Israel.

29. Discussion of Risk Factors

29.1 The Group has several risk factors arising from its general environment, from the industry and from the unique characteristics of its activity, the main ones being as follows:

Macroeconomic Risk Factors

a. Financial crisis and/or economic slowdown in the global and Israeli markets – should a financial crisis affect the world economy, it could seriously hurt financial institutions, lead to a reduction in the available world sources of capital and credit and cause liquidity problems, which in turn may cause national upheavals. Economic slowdown and uncertainty lead to a decrease in private consumption and to a growing tendency on the part of consumers to consume private label products and other inexpensive brands instead of branded products. Generally, an economic slowdown could impair the growth of the Group, which focuses on branded products, impede the realization of its strategy and impair its profitability.

b. Customs duties in countries where the Group operates – in most countries outside of Israel where the Group is active, imported food and beverages are subject to customs duties that are higher on finished goods than on imports of raw materials. A decrease in customs duties on finished goods is likely to facilitate the entry of additional competitors to these countries and thus hurt the Group's competitive position. Furthermore, a change in customs rates in countries where the Group imports the products it sells is likely to affect its competitive position. When customs rates are high or rise in these countries the Company's import costs increase, thus adversely affecting its ability to compete with local or foreign manufacturers which are not subject to the same customs rates.

c. Exchange rate risk – the Group is exposed to risks arising from exchange rate volatility. Most of the Group's cash flow exposure is to the dollar in relation to local currencies (in Israel, also to the euro and the pound sterling). The strengthening of the dollar or other currencies in which goods are purchased against the functional currencies raises the purchase prices of these materials and erodes the Group's profitability and cash flows. On the other hand, revaluation of the shekel against the functional currencies of the Group's overseas operations could erode the reported profit in shekels and the Group's equity.

d. Economic and political instability – the activity in developing countries in Central and Eastern European and in Brazil is exposed to risks arising from the sensitivity of the regimes to political changes, which are liable to influence the economic situation in these countries, including changes in the exchange rates of the local currencies; customer debts are denominated in local currency, which is subject to the risk of fluctuations in exchange rates; fiscal and monetary economic instability and frequent changes in economic legislation; imposition of limitations on foreign currency movements or other limitations on foreign companies, which are liable to prevent or limit the Group's ability to withdraw profits from the local company to the Company; expropriation or nationalization of assets; and relatively high inflation and interest rates in some of the countries. The Group is also exposed to the risk of boycotts against Israeli products in other countries for political reasons and to the risk of anti-Israel policy or against doing business with Israeli companies.

e. <u>Security risk</u> – many of the Group's production sites and its senior management and employees operate in Israel, which exposes the Group to a security risk in Israel in the case of a military conflict between Israel and its neighbors and/or acts of hostility, which could have an adverse economic impact on the scope of the Company's sales, undermine its ability to collect debts from customers experiencing financial difficulty, impair the ability to supply raw materials, cause the absence of essential employees, and lead to an economic downturn in Israel.

f. <u>Exposure to interest and inflation</u> – the Company and its subsidiaries could sustain economic damage as a result of an increase in the interest rate and the inflation rate. An increase in the Index and in the interest rate will lead to an increase in the Company's financing expenses. An increase in the interest rate will also lead to an increase in the cost of new loans if taken by the Company, and as a result, to a future increase in financing expenses.

<u>Industry risk factors</u>:

g. <u>Exposure to fluctuations in raw material prices</u> – raw materials account for a substantial component in the production inputs of the Group's products. A significant part of the raw materials are agricultural commodities whose price and availability depend on factors such as the weather, the outbreak of epidemics in crop growing areas and political stability in the countries of origin. In addition, a significant part of the raw materials used by the Group is traded on the global commodities market (coffee, cocoa, sugar, sesame) and is exposed to price volatility, which is liable to erode the profitability of the Group. The Group also purchases financial derivatives in order to partially hedge the risk of an increase in raw material prices, and as these derivatives are measured at fair value on a current basis, the reported accounting profit (loss) is subject to substantial volatility.

h. Customer credit – the Group’s sales to its customers (including distributors) in Israel and abroad are generally made on credit, in line with the customary market practice. Part of the credit to retail customers in the private market in Israel is secured by credit insurance (including a deductible) and various sureties, whereas the balance of the credit to the private market that is not covered by guarantees is at risk, particularly in recession periods. However, the broad dispersal of the Group’s customers in the private market mitigates this risk. Credit to the large retail chains is partially secured and is concentrated in a small number of customers that account for a large part of the Group’s sales; therefore, non-repayment of this credit by any of the large retail customers could have a material impact on the Group’s cash flows and business results in the short term. The bulk of credit granted to customers overseas is not secured.

i. Defective product quality – the Group’s business is exposed to damage in the case of a defect in the quality of the raw materials used in the manufacture of its products or in the quality of the products manufactured by or for the Group, including damage to the tap water used in the Company’s products as well as water filters and purifiers, coffee machines and spare parts for these appliances, and also as a result of suspected illness or other damage to health that is liable to be caused in the event of a defect of this kind. Following such defects the Group may be forced to recall defective products (their removal from the shelf or collection from consumers’ homes) and will be exposed to legal action by consumers harmed by these products (if any). Defects in the Group’s products are liable to adversely impact its business results and also to be damaging to its reputation. Additionally, publications regarding impaired quality of products similar to those of the Group, produced by other manufacturers, could adversely impact the Group’s sales.

j. Kashrut – the Group is required to comply with kashrut requirements. Any doubt as to the kashrut of a product, a product ingredient or a change in a condition for kashrut is liable to be damaging to the Group’s sales.

k. The price of raw milk – the price of unprocessed milk, a major raw material in the manufacture of dairy products and milk drinks, and activity in the milk sector in Israel, are determined according to various arrangements. Any change in the price of raw milk without adjusting the prices of controlled dairy products and milk beverages could impair the Group's profitability. Liquid milk is purchased from various dairy farmers, and the Group is obliged to accept the full milk quota produced by the manufacturer from which it purchases the milk. Changes in the arrangements in the milk sector are liable to increase fluctuations in milk prices and in the Group's profit.

l. Private labels – the growing strength of retail chains in Israel and globally has led to the development of private labels that compete with the product brands manufactured and marketed by various vendors such as the Group. The continued development of private labels by the food chains is liable to pose a threat to the Group's market shares in its product categories.

m. Regulatory developments – changes in legislation or standardization in Israel and other countries with respect to restrictions imposed on food manufacturers concerning food and beverage products or other products sold by the Group (e.g. coffee machines and water filtration and purification devices) or with respect to the conduct of food manufacturers vis-à-vis retailers could impact the Group's production costs and profitability. This relates to changes in the market in general, including food engineering, food safety, environmental quality, etc. It is noted that regulatory supervision over parties active in the food industry in the US has recently been tightened. For further information, see the section "Selected financial data on Sabra's activity" in the Report of the Board of Directors of the Company as at December 31, 2016, in Part B below. Changes of this kind, if enacted, could impact both the product offering and the costs involved in production. Passing these costs on to consumers by raising prices is liable to be damaging to sales volumes and turnover. Some of the Group's products are price controlled pursuant to the Supervision of Prices of Goods and Services Law. Changes in these prices, which reduce the maximum price or limit the possibility of raising prices, will impair the Group's ability to update prices in line with the increase in input prices and could impair the Group's competitiveness with regard to these products. Furthermore, the possibility of controlling the prices of additional products could harm the Group's profitability in the future.

n. The ability to anticipate changes in consumer tastes and to develop new products – the Group's success is conditional on predicting new tastes, new consumption habits and changes in consumption preferences, and on the success of new product development. Thus, for example, in recent years there has been a trend of change in consumption habits, expressed in the shift to consumption of natural and healthy products (less sugar, sodium, etc.). A change in consumption habits could also arise from contentions that the food manufactured by the Group is not healthy. This trend has an effect on the consumption of existing products of the Group, which are not necessarily aligned with these trends. On the strategy level, the Group takes action to adapt its product range in order to respond to changing consumption trends. Failure in this regard means insufficient growth of trade volumes and income in order to accomplish objectives. The Group's success also depends on its ability to foresee the tastes and consumption habits of its consumer public, and to provide its target public with products that are aligned with its preferences and develop new products accordingly. By nature, consumption trends are subject to changes, and the inability to foresee, identify or respond to these changes accurately could result in decreased demand for the Group's products, and consequently, lead to a negative impact on sales turnovers and income.

o. <u>Exposure to class actions</u> – in view of the large number of consumers of the Group's products, the Group is exposed to class actions. For motions to certify claims as class actions against Group companies, see Note 24.1 to the Financial Statements of the Company as at December 31, 2016, in Part C below.

p. <u>Operating in a competitive market</u> – the food and beverage industry is highly competitive. Some of the Group's rivals in the markets where it is active are large multinational corporations that possess greater financial resources than the Group. The entry of additional competitors in certain categories is liable to intensify the competition. In order to compete effectively the Group is required to make growing investments in technology. The Group's ability to compete effectively requires ongoing efforts in the marketing and sales of existing products and in the development of new products.

q. <u>Downward pressure on profit margins in the food and beverage industry</u> – the prices of some of the Group's products are subject to downward pressure. As a result, the Group's ability to adjust the prices of its products to an increase in raw material and input prices may be limited. In recent years, we have witnessed events in Israel and abroad where great pressure was applied, including active protests by consumers against food manufacturers and retailers. These protests may be expressed in demonstrations, social media activity, and in articles and coverage in the media. Even when the pressure is directed at retailers, in many cases this in turn leads to pressure by retailers on the manufacturers. A consumer protest could also be a catalyst for regulatory action and reforms designed to bring about a change in the economic environment, which could erode the Company's profitability and be damaging to its financial results.

r. The Group's products may contain ingredients that could cause pecuniary and non-pecuniary damages to certain consumers – for example, some of the Group's products are liable to contain ingredients (such as nuts or gluten) that cause certain people allergic reactions and damage to their health. Pecuniary and non-pecuniary damages are liable to lead to legal actions, damage to income, expenses due to product recalls, and damage to the Group's reputation. Additionally, it is possible that ingredients and products that are presently compliant with legal requirements will in the future be regarded as potentially harmful.

Unique Risk Factors

s. Dependence on branding – the Group has a broad range of branded food and beverage products that enjoy a longstanding reputation. Damage to this reputation by various publications or other means (e.g. the social media) could have a material impact on the Group's profitability, regardless of the accuracy of these publications. Additionally, a defect in a particular product could cause damage to the master brand under which it is marketed, as well as to the entire product family marketed under that brand. The Group takes care to protect its brands and reputation, among other things by being especially meticulous about the quality of the raw materials used in manufacturing the products, production processes, finished goods and advertising messages.

t. Dependence on customers and suppliers – the loss of a substantial customer could reduce the Group's income and damage its profitability. Furthermore, due to the fact that the Group has a small number of large customers, it is subject to possible pressure and bargaining by these customers with respect to the prices of its products. These risks are liable to intensify as the chains continue to grow stronger. The loss of a material supplier to the Company is liable to create an availability problem in some of the Group's products, and as a result, to be damaging to sales and profit.

u. Licenses and franchises – The Group is engaged in licensing agreements with the owners of main brands, including the Danone brands, the PepsiCo brands, the Virgin brands and the Haier brands, the use of which, as a rule, is conditional on certain terms and conditions, the breach of which could impair usage rights (with the exception of Haier). Additionally, the continued success of the brands depends on the business results and brand reputation of the strategic partners, and on their ability to preserve their brands' reputation. Damage to the reputation of one of the brands could hurt the Group's brands.

v. <u>Declaration as a monopoly</u> – the Company is exposed to declaration as a monopoly in every product category where its market share exceeds 50%. It has been declared a monopoly in dairy desserts, chocolate tablets, instant coffee and cocoa powders for domestic consumption, and is presently undergoing a hearing prior to being declared a monopoly in several products. With regard to the hearing, see section 9.13 above.

Definition as a monopoly under the Antitrust Law requires the Company to comply with the laws applying to a monopoly in Israel, some of which impose various business restrictions such as prohibition of the abuse of monopoly power (including as regards retail prices), definition of various terms and conditions of engagement for similar transactions, prohibition of unreasonable refusal to supply products or the unreasonable stipulation thereof. Additionally, as part of the statutory tools defined in the Antitrust Law, the Antitrust Commissioner is granted the right to intervene in issues that are liable to harm the public by issuing instructions and directives to the corporation. These limitations, if and insofar as they are imposed, are liable to impact the results of the activity segment in question. At present, there are no instructions by the Commissioner to the Company which are in force.

w. <u>Concentration of production and logistics in several sites</u> – a considerable part of the Group's activity is concentrated at a limited number of sites, including sub-contractors' sites. Damage by natural hazards or any other damage that is caused to these sites could have a material impact on the Group's activity. Thus, for example, most of the Company's production sites in Israel are located in areas that are exposed to missile attacks. In the past few years the salty snack plant in Sderot, the cut vegetables site in Sde Nitzan, the site at the Strauss Yad Mordechai Apiary in Kibbutz Yad Mordechai and the Aviv Dairy in Netivot were exposed to the continuous firing of missiles from the Gaza Strip.

x. <u>Change of control of the Company</u> – in the event of a change of control in the Company such that the Strauss family ceases to be the controlling shareholder, the Company could be forced to sell its holdings to the partners in the Três Corações Joint Venture in Brazil and in Strauss Frito-Lay, pursuant to the provisions and mechanisms set forth in the shareholders' agreements with these partners. The combined sales turnover of these companies, after intercompany eliminations, in the years 2016 and 2015 was NIS 1,945 million and NIS 1,694 million, respectively (according to the Company's relative holding (50%)). In addition, some of the liabilities to financial institutions include an early redemption clause on the grounds of change of control in the Group.

y. Successful assimilation of acquired companies – the Group's expansion strategy through mergers and acquisitions requires the successful assimilation of the acquired companies and their merger into the Group, including the realization of growth and profitability forecasts and certain market and competitive conditions. Unsuccessful assimilation of the acquired businesses and non-realization of these forecasts could inhibit the achievement of the added value in these acquisitions and lead to the impairment of included intangible and tangible assets.

z. Environmental issues – the activity of production sites and the urban development of nearby cities could lead to the Group's exposure to environmental legal action and the risk of having to shut down polluting plants.

aa. Substantial damage or hacking into computer and communication systems – substantial damage or hacking into computer and communication_systems, including the ERP systems, the CRM and digital systems, whether malicious or unintentional, is liable to cause the Group significant difficulties, including the exposure of trade secrets and the substantial disruption of various business processes. An incident of this kind that continues for a significant length of time will impair the Company's ability to supply its products and services to customers and consumers.

ab. Protection of information – part of the recipes for the Group's products and other products manufactured by the Group, their manufacture and various processes relating to production such as business projects, are trade secrets. The Group relies on customer confidentiality, patent registration, non-competition and non-disclosure clauses in employment contracts with Group managers and other employees who take part in R&D. However, under the law, the Group could be in a situation that prevents it from enforcing the non-competition clauses, in whole or in part, which will make it difficult to prevent the Group's competitors from benefiting from the expertise of former employees. Moreover, a third party could argue that certain information is not defined as a trade secret under the law. Additionally, the Group cannot ensure that these security measures are effective against unauthorized copying of product recipes and/or databases, their production or any other use thereof. Any infringement of the protection of title to trademarks and breach of confidential information could hurt the Group's businesses.

ac. Restrictions in agreements signed with strategic partners – in the framework of the Company's agreements with strategic partners, the Company agreed to restrictions relating to its businesses. For example, the Company is precluded from competing with the Três Corações Joint Venture in Brazil for a five-year period after it ceases to be a shareholder. These restrictions could prevent the Company from developing its business in the desired direction.

ad. Managerial complexity and multiplicity of partners – the Group has a wide geographic spread of business operations in a broad variety of businesses, some of which are under joint ownership with entities that are not part of the Group. Differences between the shareholders and major partners with regard to strategic vision, as well as differences in tactical approach, could cause delays and complex decision-making processes to the point of paralyzing the business and dissolving a partnership in an unplanned manner. In addition, the wide geographic and business spread could cause difficulties in the downstream and upstream flow of information within the Group and lead to difficulties in the implementation of business transactions.

ae. Restrictions on the transfer or sale of the Company's holding in joint ventures and subsidiaries – a number of agreements signed by the Company with partners in joint ventures and subsidiaries (e.g. the Três Corações Joint Venture, Strauss Health, Strauss Frito-Lay, Yotvata, Sabra, Strauss Coffee) contain provisions regarding the transfer or sale of the Company's holding. These provisions include, *inter alia*, a tag-along right and right of first refusal. These provisions could prevent the Company from realizing its investment, postpone the sale or cause it to sell at a low price. Additionally, in a number of joint ventures and subsidiaries in which the Company has partners, the partners have a *put* option which, if exercised, will require the Company to buy the partners' interests in the joint venture or subsidiary.

af. Financial debt – the Group has debts to different financial institutions, which are partially backed by an undertaking to meet financial covenants (stipulations). The amortization schedule was constructed such that the debt is repaid gradually over many years. In order to service the debt each year, the Group is required to generate a sufficient amount of free cash flows or to refinance the debt. The Company's ability to refinance the debt could be affected by exogenic factors, such as an economic crisis, which will lead to credit distress, as a result of which the Group may have to divert resources that were intended for investment to service the debt.

ag. Recruiting, retaining and training key personnel – the success of the Company depends on its ability to hire and retain high-quality people in a range of professional and managerial fields. Failure by the Company could impair its business results and its ability to meet its targets.

29.2 The following table presents the risk factors described above according to their nature (macro risks, industry risks and risks unique to the Group). These factors were graded according to the estimates of Group management, based on their potential impact (irrespective of the probability of their occurrence) on the Group's business as a whole – major impact, medium impact, and minor impact.

	The risk factor's impact on the activity of the Group as a whole		
	Major impact	**Medium impact**	**Minor impact**
Macro risks			
1. Financial crisis and/or economic downturn in the world market	+		
2. Customs duties in countries where the Company operates		+	
3. Exposure to exchange rate risk	+		
4. Lack of economic and political stability	+		
5. Security risk		+	
6. Exposure to interest and CPI		+	
Industry risks			
7. Fluctuations in raw material prices	+		
8. Customer credit		+	
9. Defective product quality	+		
10. Kashrut			+
11. Price of raw milk		+	
12. Private labels		+	
13. Regulatory developments	+		
14. Ability to anticipate changes and develop new products		+	
15. Exposure to class actions	+		
16. Activity in a competitive market	+		
17. Downward pressure on profit margins in the food and beverage industry		+	

18. Exposure to legal action due to the presence of substances in products that could cause pecuniary or non-pecuniary damage to certain consumers	+		
Risks unique to the Group			
19. Dependence on branding	+		
20. Dependence on customers and suppliers	+		
21. Licenses and franchises	+		
22. Declaration as a monopoly		+	
23. Concentration of production and logistics at several sites	+		
24. Change of control of the Company		+	
25. Successful assimilation of acquired businesses		+	
26. Environmental quality		+	
27. Material damage to computer and communication systems	+		
28. Protection of information		+	
29. Restrictions in agreements signed with strategic partners		+	
30. Managerial complexity and multiplicity of partners	+		
31. Restrictions on the transfer or sale of the Company's holding in joint ventures and subsidiaries		+	
32. Financial debt		+	
33. Hiring and retaining key personnel		+	

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT

TO THE SHAREHOLDERS

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Prices of raw materials and other production inputs – The commodities markets account for a substantive component of the raw materials used in manufacturing the products of Strauss Group and the companies it controls, including joint ventures (hereinafter: the "Group"). In 2016 the average market prices of some of the Company's raw materials rose, while the average market prices of other raw materials dropped compared to the corresponding period last year. On the one hand, green coffee prices increased, mainly in Brazil (in Brazilian Reals), as did the prices of sugar and olive oil, whereas on the other, the price of raw milk (the "target price") decreased as well as the prices of seeds, cocoa (in Shekels), sesame, milk powders, tahini, hazelnuts and almonds. In the fourth quarter of 2016 the average market prices of green coffee and sugar increased compared to the corresponding quarter, while the price of raw milk (target price), cocoa, seeds and sesame dropped. Since the third quarter of 2015 the Group has lowered its prices in a number of dairy product categories such as white cheese, desserts, milk beverages and enriched milk, by 3%-7%, and in the beginning of 2016 the Company made a further significant reduction in prices – particularly those of enriched milk and Activia yogurt – of 5%-20%. In the second quarter of 2016 the Company lowered the prices of fruit yogurt products by approximately 22%, followed by a 12% reduction in the price of hummus 400g implemented in the third quarter. At the end of 2016 an upward revision of 4% was made in the price of raw milk (target price) for the months January to March 2017.

The Group is taking steps to reduce the impacts of commodity price volatility, including hedging, making changes in the raw materials mix in its products and operational efficiency enhancement. 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.

Energy prices – In 2016 Brent oil prices recovered and rose by approximately 50%; however, the average price of Brent oil in 2016 remained lower than its average price in 2015. In the fourth quarter average oil prices rose by approximately 15% compared to the corresponding quarter last year.

Exchange rate fluctuations – In 2016 all average currency rates weakened versus the Shekel compared to their average rates in the corresponding period last year. The revaluation of the Shekel against the average exchange rates of the Group's various functional currencies led to negative translation differences in the Group's statements of income for the year 2016, compared to 2015. Commencing in the third quarter of 2016 the trend reversed, when the average exchange rate of the Brazilian Real was revalued against the Shekel and in the fourth quarter the average exchange rates of the Russian Ruble and the Australian Dollar were also revalued against the Shekel compared to the corresponding quarter, whereas the average exchange rates of the remaining currencies weakened versus the Shekel. The impacts of the revaluation contributed to net positive translation differences in the Group's statements of income. On a yearly basis, the Real and Ruble were revalued against the Shekel by 19.7% and 20.4%, respectively (among other things following the recovery of some commodity prices). In 2016, the revaluation contributed to an increase in the Group's shareholders' equity, as opposed to a significant decrease in the shareholders' equity as a result of their devaluation in 2015. In 2016 most of the average exchange rates of

Strauss Coffee's functional currencies against the US Dollar weakened versus 2015, excluding the Shekel. In the fourth quarter of 2016 part of Strauss Coffee's functional currencies weakened against the US Dollar, excluding the Shekel, the Brazilian Real and the Russian Ruble, which strengthened against the US Dollar.

The following table presents the average exchange rates **versus the Shekel** in 2016 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
		2016	2015		2016	2015	
United States Dollar	USD	3.842	3.889	*(1.2)*	3.804	3.847	*(1.1)*
Ukrainian Hryvnia	UAH	0.151	0.180	*(15.9)*	0.150	0.177	*(15.3)*
Russian Ruble	RUB	0.056	0.066	*(14.4)*	0.059	0.061	*(3.8)*
Serbian Dinar	RSD	0.035	0.036	*(3.0)*	0.034	0.036	*(3.2)*
New Romanian Leu	RON	0.956	0.977	*(2.2)*	0.951	0.966	*(1.6)*
Polish Zloty	PLN	0.984	1.044	*(5.7)*	0.978	1.022	*(4.3)*
Brazilian Real	BRL	1.088	1.249	*(12.9)*	1.174	1.095	*7.2*
Renminbi (China)	CNY	0.584	0.630	*(7.3)*	0.571	0.614	*(7.1)*
Canadian Dollar	CAD	2.908	3.093	*(6.0)*	2.919	2.943	*(0.8)*
Australian Dollar	AUD	2.850	2.969	*(4.0)*	2.885	2.790	*3.4*
Mexican Peso	MXN	0.210	0.250	*(16.0)*	0.203	0.234	*(13.3)*

The following table presents the average exchange rates **versus the Dollar** in 2016 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
		2016	2015		2016	2015	
New Israeli Shekel	ILS	0.260	0.257	*1.2*	0.263	0.260	*1.1*
Ukrainian Hryvnia	UAH	0.039	0.046	*(14.9)*	0.039	0.046	*(14.4)*
Russian Ruble	RUB	0.015	0.017	*(13.3)*	0.015	0.016	*(2.8)*
Serbian Dinar	RSD	0.009	0.009	*(1.8)*	0.009	0.009	*(2.1)*
New Romanian Leu	RON	0.249	0.251	*(1.0)*	0.250	0.251	*(0.4)*
Polish Zloty	PLN	0.256	0.268	*(4.6)*	0.257	0.266	*(3.2)*
Brazilian Real	BRL	0.283	0.321	*(11.7)*	0.309	0.285	*8.3*

Inflation – In 2016 inflation in Israel was negative at 0.2%, further to negative inflation of 1% and 0.2% in 2015 and 2014, respectively. In Russia, the CPI rose by 5.4% in 2016, compared to an increase of 12.9% last year, and in Brazil the CPI rose by 6.3%, compared to an increase of 10.7% in the CPI last year. The volume of the Company's Index-linked liabilities in Shekels (Series B Debentures, bank loans and loans from institutional corporations) has decreased in recent years following the redemption of Series B Debentures in installments, and consequently, possible changes in the inflation rate on the basis of the known Index have a significant, but decreasing 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, 2016.

Interest – The Bank of Israel interest rate has remained 0.1% since the last decrease in March 2015. In Brazil, interest dropped from 14.25% at the end of 2015 to 13.75% at the end of 2016, and to 12.25% on or about the date of publication of this report. In Russia, the interest rate dropped from 11% at the end of 2015 to 10% at the end of 2016 and to 9.75% on or about the date of publication of the report. In the Group's other major countries of operations interest was single-digit, and in December 2016 the US Federal Reserve raised the interest rate on the Dollar by 0.25% to 0.75%.The Group has floating interest loans, particularly in the Real and Dollar. The Group has Shekel and other short-term bank deposits, earmarked for current use.

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, 2016.

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

In January 2015 the Minimum Wage Law (Increase in the Minimum Wage – Temporary Order), 2015 (the "Temporary Order") received legislative approval. Pursuant to the Temporary Order, the minimum monthly wage would be increased in three installments between the years 2015 and 2017; on January 1, 2017 the monthly minimum wage will be NIS 5,000. The Temporary Order has no material impact on the Group. On March 30, 2015 another general collective agreement was signed with respect to the revision of the minimum wage, pursuant to which on December 1, 2017 the minimum wage will be raised to NIS 5,300. This collective agreement will enter into force only upon the grant of an extension order or the appropriate legislative amendment, which have not yet been published.

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 control 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.

Business regulation and changes 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.

On January 15, 2015 the Promotion of Competition in the Food Sector Law, 2014 (hereinafter: the "Food Law") entered into force. The goal of the Food Law is to increase competition in the food and consumer goods industries in order to lower retail prices by imposing prohibitions and restrictions on actions and arrangements between various parties operating in the market. According to the provisions of the law, the Company is defined 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) and as such, it is subject to certain provisions. To prepare for the Food Law entering into force the Company made necessary process and structural changes, such as the revision of trade agreements with retailers. The Company is presently conducting its business in accordance with the provisions of the law and applies an internal enforcement program, and also provides the necessary training for relevant managers and employees.

On September 30, 2016 the Protection of Public Health (Food) Law, 2015 (hereinafter in this section, the "Law") entered into force. 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 organizations). Among other things, the Law regulates the responsibility of a food manufacturer with regard to the food it manufactures, 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 Company prepared for the implementation of the provisions of the law through employee training, a change in work methods and by broadening food quality controls. The Company estimates that the Law will not have a material impact on its financial results.

On November 21, 2016 the recommendations of the Regulation Committee for the Promotion of Healthy Nutrition in Israel (the “Committee”) were published. The recommendations include, *inter alia*, reference to positive and negative labeling on the “front of pack” of food products with respect to sodium, sugar and saturated fat content; supplementation of the nutrition information on the “back of pack”; and a review of certain limitations on the advertising of negatively labeled products. As at the date of this report no regulations have yet been published expressing the Committee’s decisions. The Company continues to work to improve the nutritional values of its products “through adaptation and product innovation” in the spirit of the Committee’s recommendations and does not anticipate a material impact on its business results after the regulations enter into force during 2018.

<u>Price control</u> – Part of the dairy products in Israel are subject to control according to orders issued jointly by the Minister of Agriculture and the Minister of Finance, following consultation with the Price Committee, under the Supervision of Essential Goods and Services Law, 1996. The orders determine maximum prices to the retailer and maximum retail prices for drinking milk and a series of dairy products, classified according to their nature, their packaging (e.g. bag, carton or cup) and their quantity. On the basis of the Suari Report, pursuant to which the returns of supervised entities were determined, on January 25, 2017 the Ministry of Finance published a new price control methodology. The new methodology will gradually replace the Suari Report. The Company is reviewing the new methodology, and at the present stage its impact, if any, on the Company, is unknown.

The Group’s dairy products (kosher *mehadrin* and regular kosher) which, as at the date of this report, are subject to control defining a maximum price limit, are fresh milk 3% fat (ordinary) in a bag, fresh milk 3% fat (ordinary) in a carton, fresh milk 1% fat (ordinary) in a bag, fresh milk 1% fat (ordinary) in a carton, sweet cream 38% fat and white cheese 5% fat. In addition, there are other dairy products which, since they are subject to price control, require a report with regard to profit margins and prices. It is noted that in February 2016 the controlled price of sweet cream 38% fat, ordinary milk 3% fat and white cheese 5% decreased.

On June 1, 2017 the Standards Law is expected to enter into force as part of the Economic Policy Law. The law defines changes in the composition of standardization committees, placing special emphasis on the prevention of import barriers and on the reduction of centralization. The law limits the involvement of the Manufacturers Association of Israel, including industry representatives, in the standardization committees in terms of their number as well as in precluding the possibility of serving as committee chair, and thus reduces the influence of the Association's representatives on the revision of food standards. The law allocates a limited time to the various government ministries to respond to changes in the standards, and thus may possibly provide a response to shortening timelines with respect to making a change in a food standard in Israel. In addition, the law enables competition in the inspection of imports as opposed to the present exclusivity of the Standard Institution's laboratory. The Company does not anticipate a material impact on the results of its business operations following the Standards Law's entry into force.

The information in this section with regard to the impacts of business regulation on the Group 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, *inter alia* as a result of various developments in the Israeli economy and in legislation, etc.

<u>Mega Retail Ltd.</u> – Commencing on July 1, 2016 the Company has been making sales to Mega Retail Ltd., which is held and managed by Yenot Bitan Ba’Ir (a company currently incorporating) of the Yenot Bitan Group. Considering the credit insurance in place and provisions made by the Company for doubtful debts, Management is of the view that this change will not have a material impact on the Company’s business results.
<u>For further information, see Note 28.1.3 to the Financial Statements of the Company as at December 31, 2016,</u>

<u>QUALITATIVE REPORT ON EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT</u>

Other than as described below, as at December 31, 2016 and compared to December 31, 2015, 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, 2015. For further information, see also Note 28 to the Financial Statements as at December 31, 2016 and section 29 in the chapter “Description of the Company’s Business Affairs”, in the discussion of risk factors.

ANALYSIS OF FINANCIAL RESULTS

Strauss Group has a number of jointly controlled companies in which the Company and/or subsidiaries hold 50%: 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). To clarify, the above companies are included in the management (non-GAAP) reports of the Company according to the holding of the Company and/or the subsidiaries therein (50%).

Since 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 the companies in the Group and other partners are no longer stated according to the Group companies' relative holding in the entity as was the practice until the publication of the standard, but in a separate row ("Income of equity-accounted investees", and in other reports in the relevant section) (hereinafter: the "Financial Statements"). The reporting method does not alter the Group's profit 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 Company Management's perspective in order to provide a comprehensive picture and a fair 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 identical manner in which they were presented before IFRS 11 was applied, i.e. presentation of the Group's relative holding in the income and expenses, assets and liabilities of the jointly controlled companies (50%) (hereinafter: the "Management (Non-GAAP) Reports" or the "Non-GAAP Reports"). Presentation of the data in this manner is different to the manner of their presentation in the Financial Statements of the Company as described. 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.

[1] Três Corações (3C) – The "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 Management (Non-GAAP) Reports) for the years and quarters ended December 31, 2016 and 2015 (in NIS millions)*:

	Year			Fourth Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Sales	**7,943**	**7,642**	***3.9***	**2,034**	**1,889**	***7.2***
Organic growth excluding currency effect	6.2%	2.5%		4.2%	4.2%	
Cost of sales	4,963	4,813	*3.1*	1,317	1,199	*9.8*
Gross profit – non-GAAP	**2,980**	**2,829**	***5.4***	**717**	**700**	***2.6***
% of sales	37.5%	37.0%		35.3%	36.8%	
Selling and marketing expenses	1,795	1,751	*2.5*	479	430	*11.0*
General and administrative expenses(1)	441	419	*5.7*	103	112	*(3.2)*
Operating profit – non-GAAP	**744**	**659**	***12.8***	**135**	**158**	***(14.4)***
% of sales	9.4%	8.6%		6.6%	8.3%	
Financing expenses, net	(125)	(126)	*(0.4)*	(23)	(27)	*(15.6)*
Income before taxes on income	**619**	**533**	***16.0***	**112**	**131**	***(14.2)***
Taxes on income	(166)	(148)	*11.7*	(24)	(33)	*(23.5)*
Effective tax rate	26.8%	27.9%		22.5%	25.2%	
Income for the period – non-GAAP	**453**	**385**	***17.6***	**88**	**98**	***(11.0)***
Attributable to: The Company's shareholders	**335**	**293**	***14.3***	**58**	**74**	***(22.0)***
Non-controlling interests	118	92	*28.1*	30	24	*21.9*
Earnings per share (NIS)	3.12	2.73		0.53	0.69	

(1) In 2016 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 the Management (Non-GAAP) Reports) of the major business sectors for the years and quarters ended December 31, 2016 and 2015 (in NIS millions)*:

	Year			Fourth Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Israel						
Net sales	2,963	2,866	*3.4*	689	688	*0.2*
Operating profit	314	281	*11.8*	66	59	*11.3*
Coffee						
Net sales	3,673	3,432	*7.0*	1,061	875	*21.2*
Operating profit	359	268	*33.9*	84	69	*23.1*
International Dips & Spreads						
Net sales (loss)	717	752	*(4.6)*	136	187	*(27.2)*
Operating profit	48	80	*(40.7)*	(14)	28	*(150.7)*
Other						
Net sales (loss)	590	592	*(0.3)*	148	149	*0.1*
Operating profit	23	30	*(22.7)*	(1)	2	*(161.4)*
Total						
Net sales	**7,943**	**7,642**	***3.9***	**2,034**	**1,899**	***7.2***
Operating profit	**744**	**659**	***12.8***	**135**	**158**	***(14.4)***

**** 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, 2016 and 2015 (in NIS millions)*:

	Year			Fourth Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Sales	**5,282**	**5,183**	***1.9***	**1,310**	**1,302**	***0.6***
Cost of sales excluding impact of valuation of balance of hedging transactions as at end of period	3,179	3,250	*(2.2)*	792	816	*(3.0)*
Valuation of balance of commodity hedging transactions as at end of period**	-	(22)		28	(25)	
Cost of sales	3,179	3,228	*(1.5)*	820	791	*3.6*
Gross profit	**2,103**	**1,955**	***7.6***	**490**	**511**	***(4.0)***
% of sales	39.8%	37.7%		37.4%	39.2%	
Selling and marketing expenses	1,234	1,198	*3.1*	323	306	*5.9*
General and administrative expenses	367	329	*11.8*	98	92	*6.8*
Total expenses	**1,601**	**1,527**		**421**	**398**	
Share of profit of equity-accounted investees	178	198	*(10.1)*	24	64	*(64.1)*
Operating profit before other expenses	**680**	**626**	***8.4***	**93**	**177**	***(48.1)***
% of sales	12.9%	12.1%		7.0%	13.7%	
Other expenses, net	(49)	(41)	*18.6*	(6)	(21)	*(72.5)*
Operating profit after other expenses	**631**	**585**	***7.7***	**87**	**156**	***(44.8)***
Financing expenses, net	(109)	(101)	*7.3*	(16)	(23)	*(32.5)*
Income before taxes on income	**522**	**484**	***7.8***	**71**	**133**	***(46.9)***
Taxes on income	(134)	(139)	*(3.5)*	(15)	(45)	*(66.3)*
Effective tax rate	25.8%	28.8%		21.7%	34.1%	
Income for the period	**388**	**345**	***12.4***	**56**	**88**	***(36.9)***
Attributable to: **The Company's shareholders**	**272**	**257**	***5.7***	**30**	**65**	***(55.0)***
Non-controlling interests	116	88	*32.1*	26	23	*16.4*

**** 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 Management (Non-GAAP) 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 (non-GAAP) and internal reports):

	2016			2015			Fourth Quarter 2016			Fourth Quarter 2015		
	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	**5,282**	**2,661**	**7,943**	**5,183**	**2,459**	**7,642**	**1,310**	**724**	**2,034**	**1,302**	**597**	**1,899**
Cost of sales excluding impact of valuation of balance of hedging transactions as at end of period	3,179	1,784	4,963	3,250	1,563	4,813	792	525	1,317	816	383	1,199
Valuation of balance of commodity hedging transactions as at end of period	-	-	-	(22)	-	(22)	28	-	28	(25)	-	(25)
Cost of sales	3,179	1,784	4,963	3,228	1,563	4,791	820	525	1,345	791	383	1,174
Gross profit	**2,103**	**877**	**2,980**	**1,955**	**896**	**2,851**	**490**	**199**	**689**	**511**	**214**	**725**
% of sales	39.8%		37.5%	37.7%		37.3%	37.4%		33.9%	39.2%		38.2%
Selling and marketing expenses	1,234	561	1,795	1,198	553	1,751	323	156	479	306	124	430
General and administrative expenses and Company's share of profit of equity-accounted investees[(1)]	189	267	456	131	303	434	74	34	108	28	87	115
Operating profit before other expenses	**680**	**49**	**729**	**626**	**40**	**666**	**93**	**9**	**102**	**177**	**3**	**180**
% of sales	12.9%		9.2%	12.1%		8.7%	7.0%		5.0%	13.7%		9.5%
Other expenses, net	(49)	(1)	(50)	(41)	(1)	(42)	(6)	(1)	(7)	(21)	(1)	(22)
Operating profit after other expenses	**631**	**48**	**679**	**585**	**39**	**624**	**87**	**8**	**95**	**156**	**2**	**158**
Financing expenses, net	(109)	(16)	(125)	(101)	(25)	(126)	(16)	(7)	(23)	(23)	(4)	(27)
Income before taxes on income	**522**	**32**	**554**	**484**	**14**	**498**	**71**	**1**	**72**	**133**	**(2)**	**131**
Taxes on income	(134)	(32)	(166)	(139)	(14)	(153)	(15)	(1)	(16)	(45)	2	(43)
Effective tax rate	25.8%		30.0%	28.8%		30.8%	21.7%		24.2%	34.1%		32.8%
Income for the period	**388**	**-**	**388**	**345**	**-**	**345**	**56**	**-**	**56**	**88**	**-**	**88**
Attributable to: The Company's shareholders	**272**	**-**	**272**	**257**	**-**	**257**	**30**	**-**	**30**	**65**	**-**	**65**
Non-controlling interests	116	-	116	88	-	88	26	-	26	23	-	23

(1) For further information, see the above GAAP statements of income for the quarter and the year ended December 31, 2016 and 2015.

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

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

	Year			Fourth Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Operating profit – according to the proportionate consolidation method – after other expenses	**679**	**624**	***8.9***	**95**	**158**	***(39.2)***
Share-based payment and liability plan	15	15		5	3	
Valuation of balance of commodity hedging transactions as at end of period	-	(22)		28	(25)	
Other expenses, net	50	42		7	22	
Operating profit – non-GAAP	**744**	**659**	***12.8***	**135**	**158**	***(14.4)***
Financing expenses, net	(125)	(126)		(23)	(27)	
Taxes on income	(166)	(153)		(16)	(43)	
Taxes in respect of adjustments to the above non-GAAP operating profit	-	5		(8)	10	
Income for the period – non-GAAP	**453**	**385**	***17.6***	**88**	**98**	***(11.0)***
Attributable to: The Company's shareholders	**335**	**293**	***14.3***	**58**	**74**	***(22.0)***
Non-controlling interests	118	92	*28.1*	30	24	*21.9*

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

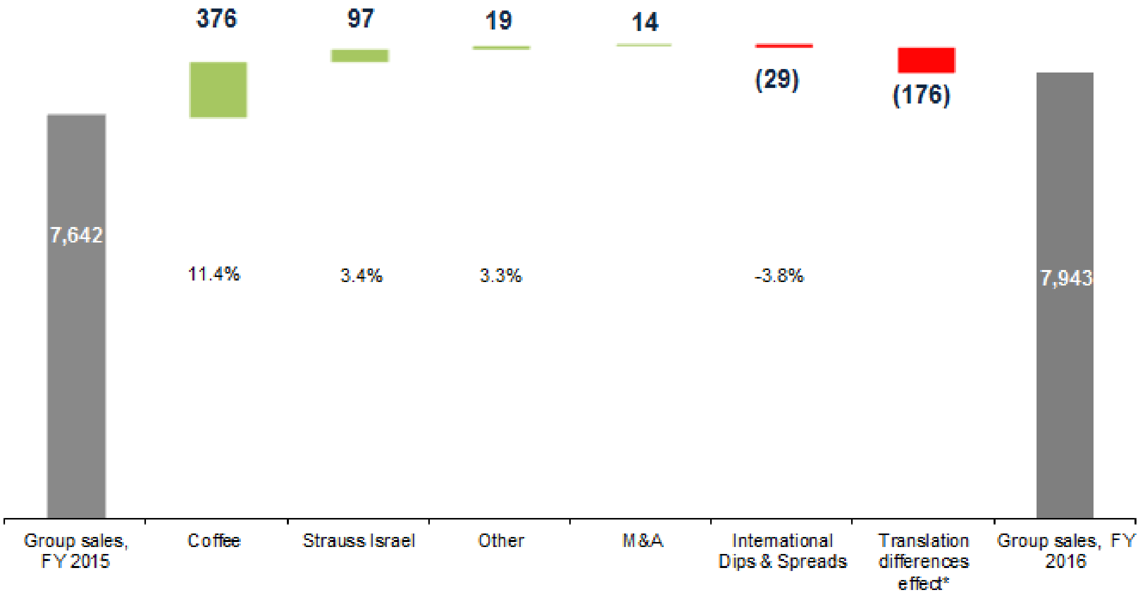
ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

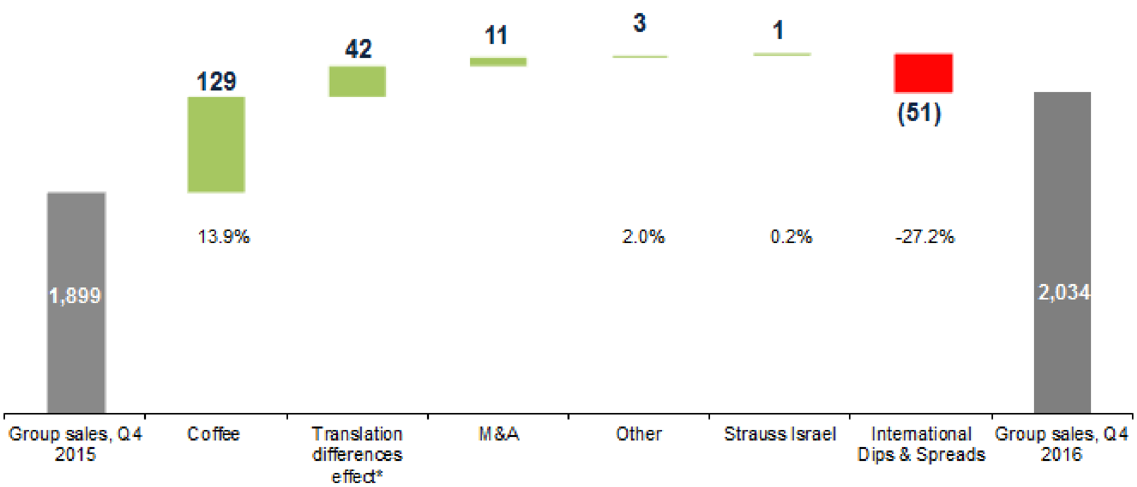
Sales – Non-GAAP

	Year		Fourth Quarter	
	2016	**2015**	**2016**	**2015**
Sales	7,943	7,642	2,034	1,899
Growth	3.9%	(6.1%)	7.2%	(8.7%)
Organic growth excluding currency effect	6.2%	2.5%	4.2%	4.2%

Organic growth in the Group's sales in the year and in the fourth quarter of 2016, excluding the foreign currency effect, amounted to 6.2% and 4.2%, respectively, compared to the corresponding periods last year.

Following are the components of the change in sales in these periods in local currency and growth rates according to the Company's major activity sectors in local currency, together with the overall impact mainly of translation differences (the "translation differences effect") and inorganic growth (M&A):





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

The Group's sales in 2016, and particularly sales by Strauss Coffee, were impacted by negative translation differences into Shekels, which amounted to approximately NIS 176 million and of which approximately NIS 75 million are due to the erosion of the average exchange rate of the Brazilian Real versus the Shekel compared to the corresponding period last year (see also the foreign exchange rate table in the section "Changes in the Economic Environment"). In the fourth quarter, sales were impacted on the Group level by positive translation differences of approximately NIS 42 million, of which NIS 54 million are the result of the strengthening of the Brazilian Real against the Shekel.

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 (an increase of approximately NIS 376 million and NIS 129 million in the year and in the fourth quarter, respectively) mainly reflected volume growth in most countries, particularly Brazil, along with price increases implemented in some countries of operations (in Israel and Romania prices were not raised, and the prices of some products were even reduced during the year) in light of the rising cost of green coffee and the erosion of the local 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 of operations (except for Brazil).
- Growth in Strauss Israel's sales in 2016 (up by NIS 97 million) mainly reflects volume growth mostly as a result of innovation and the sales mix, which was partly offset by price reductions in the various categories, particularly dairy products. Sales growth tapered off in the fourth quarter of the year as a result of fewer selling days compared to the corresponding period last year, arising from the timing of Rosh Hashanah and the High Holidays.
- Organic decrease in sales by the International Dips & Spreads operation (down by approximately NIS 29 million and NIS 51 million in the year and in the quarter, respectively), which is primarily the result of the negative impact of the recall of Sabra hummus products in the fourth quarter of the year. On November 19, 2016 Sabra announced a voluntary recall in North America of some of its hummus products, manufactured and marketed in the US and Canada, due to concerns of possible Listeria contamination. The bacteria were detected in Sabra's production site in Virginia, but not in the end products themselves. Sabra applied a series of measures in the plant to address the incident and worked in coordination with the relevant authorities in the US.
- Organic growth in sales by the "Other Operations" segment (in 2016 and in the fourth quarter, approximately NIS 19 million and NIS 3 million, respectively), mainly as a result of growth in Strauss Water's business in Israel, which was offset by a decrease in sales by Max Brenner.
- Inorganic growth (M&A) of the Group's sales (approximately NIS 14 million and NIS 11 million in 2016 and in the fourth quarter of the year, respectively), mainly as a result of the acquisition of the Dutch company, Florentin B.V. ("Florentin") and of the acquisition of Cia Iguaçu by the Três Corações joint venture in Brazil[1] in March 2016. In June 2016 Obela entered into an agreement for the acquisition of 100% of the share capital of Florentin. Florentin is engaged in the development and manufacture of organic hummus, falafel, spreads and pita bread, and markets its products in Western Europe, particularly in the Netherlands, Germany and France. For further information, see Note 12.6 to the Consolidated Interim Financial Statements as at December 31, 2016 and sections 11.6 and 14.1 in the chapter "Description of the Company's Business Affairs" as at December 31, 2016.

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			
	2016	**2015**	**% Chg**	**% chg less translation differences impact**	**2016**	**2015**	**% Chg**	**% chg less translation differences impact**
Gross profit	2,980	2,829	*5.4*	*7.4*	717	700	*2.6*	*0.9*
Gross profit margin	37.5%	37.0%			35.3%	36.8%		

The Group's non-GAAP gross profit in the year was negatively influenced by translation differences into Shekels, which amounted to approximately NIS 51 million. Most of the translation differences originated in Strauss Coffee following the weakening of the Brazilian Real and the Russian Ruble against the Shekel (approximately NIS 35 million in 2016). Following the change in trend in the fourth quarter and the strengthening of some of the Group's

[1] Três Corações (3C) – The "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).

functional currencies in the fourth quarter, the gross profit was positively impacted (by approximately NIS 11 million) compared to the corresponding quarter last year (see also the table of exchange rates in the chapter "Changes in the Economic Environment").

The Group's non-GAAP gross profit in 2016 and in the last quarter of the year rose by approximately NIS 151 million and NIS 17 million, respectively, compared to the corresponding periods last year:

- In Strauss Coffee the gross profit increased by approximately NIS 107 million and NIS 60 million in 2016 and in the fourth quarter, respectively, compared to the corresponding periods last year. The change in the gross profit margin in 2016 and in the quarter is explained by growth in sales volumes in all countries except Serbia, price increases introduced in some of the countries where the Company is active (in Israel and Romania prices were not raised, and the prices of some products were even reduced), a change in the product mix sold in some countries of operations (Brazil, Israel, Romania and Poland) and a reduction in customs duties on the import of green coffee to Romania, which lowered the cost of raw materials and allowed for a reduction in prices. Additionally, in the fourth quarter the aggregate gross profit of the CEE countries increased following sales growth and a change in the product mix. 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.

- In the Strauss Israel segment the gross profit rose by approximately NIS 84 million and NIS 10 million in the year and in the quarter, respectively, compared to the corresponding periods last year. The increase in the gross profit is due to sales growth and reflects the favorable effect of the launch of new products, efficiency enhancing moves applied in production and packaging processes in a number of manufacturing sites, a drop in energy prices and a decrease in the prices of some raw materials (particularly raw milk), which was accompanied by a reduction in the retail prices of some of the Company's products, whereas prices of other raw materials rose.

- The aggregate gross profit of the International Dips & Spreads and Other Operations segments dropped by approximately NIS 40 million in 2016 and by NIS 53 million in the fourth quarter, compared to the corresponding periods last year. The drop in the gross profit in the cumulative period and in the quarter is the result of a voluntary recall by the Company in the fourth quarter of the year.

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".

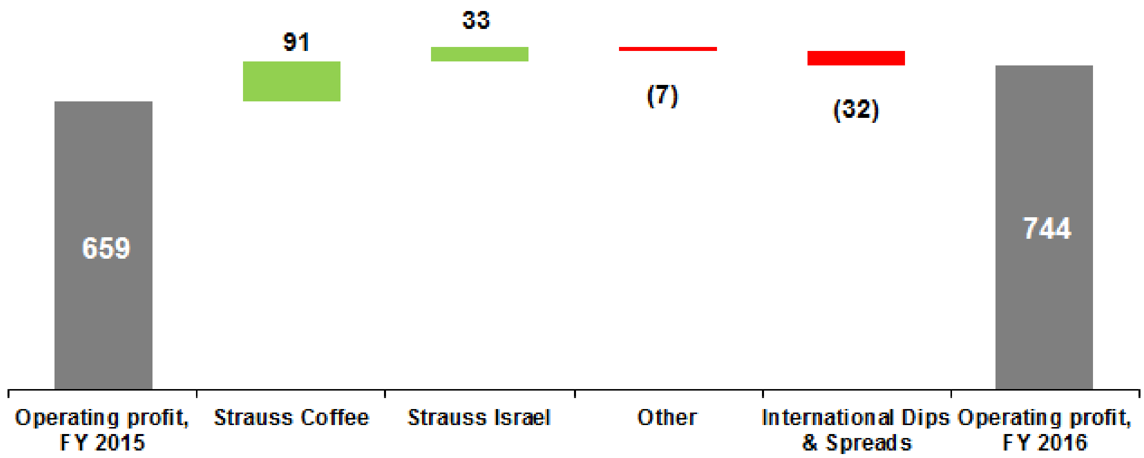
Operating Profit before Other Income (Expenses) – Non-GAAP

	Year				**Fourth Quarter**			
	2016	**2015**	**% Chg**	**% chg less translation differences impact**	**2016**	**2015**	**% Chg**	**% chg less translation differences impact**
Operating profit (EBIT)	744	659	*12.8*	*14.4*	135	158	*(14.4)*	*(17.3)*
EBIT margin	9.4%	8.6%			6.6%	8.3%		

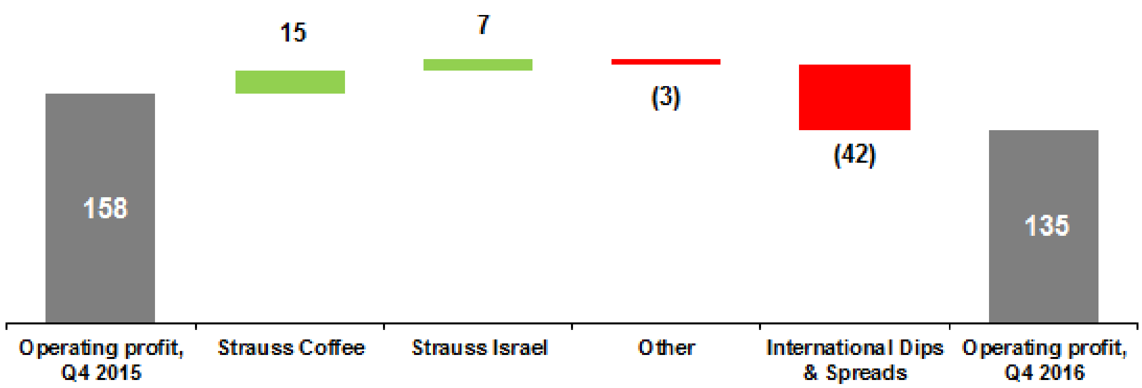
The Group's non-GAAP operating profit (EBIT) in 2016 and in the fourth quarter of the year was influenced by translation differences into Shekels, which amounted to a negative impact of approximately NIS 9 million and a positive impact of NIS 5 million, respectively. Most of the translation differences originated in Strauss Coffee (see also the table of exchange rates in the chapter "Changes in the Economic Environment").

In 2016 the non-GAAP operating profit grew by approximately NIS 85 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 2016 dropped by approximately NIS 23 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 2016 was the result of the following:

- An increase of approximately NIS 91 million and NIS 15 million in the operating profit of the coffee business in 2016 and in the fourth quarter of the year, respectively, compared to the corresponding periods last year. The change in Strauss Coffee's operating profit reflects:
    - An increase in the operating profit of the coffee business in the CEE countries in both the year and the fourth quarter, mainly as a result of an improvement in the product mix sold in Romania and Poland compared to the corresponding periods last year, and a reduction in customs duties on the import of green coffee to Romania, which lowered the cost of raw materials and allowed for a reduction in prices.
    - In Russia, the operating profit and operating profit margin rose in the fourth quarter compared to the corresponding period last year as a result of volume growth in sales and an increase in sales prices, which covered the increase in the purchase price of coffee, coupled with the strengthening of the Ruble.
    - A drop in the operating profit of Israel Coffee in the fourth quarter of the year, mainly as a result of an increase in green coffee prices, in nonrecurring costs and in marketing expenses, and a decrease in sales due to fewer selling days following the timing of Rosh Hashanah and the High Holidays compared to the corresponding quarter last year. The increase in the EBIT margin in 2016 is the result of sales growth and an improvement in the instant coffee supply chain in Israel compared to the corresponding period last year.

- An increase in the operating profit of the Três Corações joint venture in Brazil[1] in the year and in the fourth quarter of 2016 as a result of an increase in prices and sales volumes, which covered an increase in the cost of coffee and other raw materials. Três Corações' operating profit (before other expenses) in Brazilian Reals rose in 2016 by 15.5%, and in the fourth quarter – by 7.4% (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

- An increase of approximately NIS 33 million and NIS 7 million in the operating profit of Strauss Israel in 2016 and in the fourth quarter, respectively, compared to the corresponding periods last year. The growth in EBIT mainly reflects an increase in sales, which was reflected in volume growth and was partly offset by price reductions in the various categories, as well as an increase in the gross profit reflecting operational efficiency enhancement and the favorable effect of a drop in the prices of some raw materials as described above.

- The operating profit of the International Dips & Spreads business decreased by approximately NIS 32 million and NIS 42 million in 2016 and in the fourth quarter of the year, respectively, compared to the corresponding periods last year. The drop in EBIT is the result of a drop in Sabra's sales following the voluntary recall by the Company in the fourth quarter, including direct expenses involved in collecting the products, shutting down the plant for several days, suspension of shipments, and product shortages on the retail shelves during this period. In addition, the recall adversely impacted the Company's operating profit due to indirect expenses, including, *inter alia*, damage to the Company's trade agreements and a further investment in marketing following the damage to the brand, and an additional improvement made to the strict quality controls in place in the hummus factory in Virginia. Sabra has a certain amount of insurance coverage for the damages caused by the recall. As at the date of this report, insurance coverage of approximately NIS 23 million (the Group's share) has been recognized.

- A decrease in the EBIT of the Other Operations segment – approximately NIS 7 million and NIS 3 million in the year and in the fourth quarter, respectively, compared to the corresponding periods last year. The decrease in operating profit is mainly the result of a decrease in the profits of Max Brenner following a drop in sales.

Financing Expenses, Net – Non-GAAP

Net financing expenses in 2016 totaled NIS 125 million compared to expenses of NIS 126 million in the corresponding period last year.

Net financing expenses in the fourth quarter of the year amounted to NIS 23 million compared to expenses of NIS 27 million in the corresponding quarter of 2015.

The net outstanding debt (according to the proportionate consolidation method) as at December 31, 2016 totaled NIS 1,428 million compared to NIS 1,655 million on December 31, 2015. The gross outstanding debt as at December 31, 2016 totaled NIS 2,314 million compared to NIS 2,411 million on December 31, 2015.

The net outstanding debt (according to equity method) as at December 31, 2016 totaled NIS 1,120 million compared to NIS 1,516 million on December 31, 2015. The gross outstanding debt as at December 31, 2016 totaled NIS 1,884 million compared to NIS 2,136 million on December 31, 2015.

Taxes on Income – Non-GAAP

In 2016 taxes on income (non-GAAP) amounted to NIS 166 million, reflecting an effective tax rate of 26.8%, whereas in the corresponding period last year income tax amounted to NIS 148 million and the effective tax rate was 27.9%.

In the fourth quarter taxes on income (non-GAAP) amounted to NIS 24 million, reflecting an effective tax rate of 22.5%, versus NIS 33 million in the corresponding quarter last year with an effective tax rate of 25.2%.

[1] Três Corações (3C) – The "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).

The decrease in the effective tax rate in 2016 and in the fourth quarter of the year is the result of the profit mix for tax purposes between the companies in the various countries, the decrease in the corporate tax rate in Israel from 26.5% to 25% in 2016, as well as the impact of the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives for 2017 and 2018).

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

	Year			Fourth Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Income attributable to the Company's shareholders	335	293	*14.3*	58	74	*(22.0)*
% of sales	4.2%	3.8%		2.8%	3.9%	

Non-GAAP income attributable to the Company's shareholders in 2016 rose by approximately NIS 42 million compared to the corresponding period last year. The increase in non-GAAP income attributable to the Company's shareholders is mainly due to growth in the operating profit.

Non-GAAP income attributable to the Company's shareholders in the fourth quarter of 2016 decreased by approximately NIS 16 million compared to the corresponding quarter last year as a result of the decrease in EBIT in the quarter.

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

In 2016 the GAAP comprehensive income amounted to approximately NIS 490 million, compared to a comprehensive loss of NIS 39 million in the corresponding period last year. In the reporting period income in respect of translation differences, which are the main component of the other comprehensive income, amounted to NIS 100 million compared to losses of NIS 387 million arising from translation differences last year. The income from translation differences in the year was mainly the result of Strauss Coffee's operations, and of it, approximately NIS 96 million are due to the strengthening of the Brazilian Real versus the Shekel compared to the exchange rate between the currencies last year.

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

Cash flows used in operating activities in 2016 amounted to a positive cash flow of approximately NIS 610 million, compared to a positive cash flow of NIS 349 million last year. The change in cash flows is due to an increase in income for the period and to changes in working capital compared to the corresponding period last year. By contrast, in December 2015 the Company received a rebate from the Tax Assessing Officer in respect of advance tax in the amount of approximately NIS 96 million. Of this amount, the sum of NIS 53 million was refunded to the Tax Assessing Officer in January 2016.

Cash flows used in investing activities amounted to a positive cash flow of approximately NIS 67 million compared to a negative cash flow of NIS 81 million in the corresponding period last year. The change is mainly due to dividends received from investee companies and to investments in fixed assets on a smaller scale compared to the corresponding period. By contrast, in 2016 securities and deposits were realized on a smaller scale compared to the corresponding period in 2015.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 519 million compared to a negative cash flow of NIS 456 million last year. The change is mainly due to the payment of a dividend of NIS 150 million to the shareholders of the Company (compared to NIS 100 million in the corresponding period) and to the acquisition of non-controlling interests. By contrast, in 2016 dividends were paid to the non-controlling interest on a smaller scale.

Following is the change in net working capital based on cash flow:

	Year		Fourth Quarter	
	2016	**2015**	**2016**	**2015**
Change in net working capital, equity method	216	(192)	208	113
Change in net working capital, proportionate consolidation method	153	(264)	243	133

The Company's cash and cash equivalents as at December 31, 2016 totaled approximately NIS 711 million compared to NIS 560 million on December 31, 2015. In accordance with Company policy, these assets are invested mainly in liquid deposits.

The Company's liquidity ratio as at December 31, 2016 is 1.36 compared to 1.39 on December 31, 2015. On December 31, 2016 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 1,866 million compared to NIS 2,096 million on December 31, 2015. On December 31, 2016 short-term credit (excluding current maturities) totaled NIS 18 million compared to NIS 40 million on December 31, 2015. On December 31, 2016 supplier credit totaled NIS 743 million, compared to NIS 713 million on December 31, 2015.

Total assets in the Company's Consolidated Statement of Financial Position on December 31, 2016 amounted to NIS 6,182 million, compared to NIS 6,147 million on December 31, 2015.

Reportable credit – further to Note 20.6 to the Financial Statements – Financial Covenants – 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, 2106 is 29.7%, compared to 27.7% on December 31, 2015. The net financial debt-to-EBITDA ratio as at December 31, 2016 is 1.3, compared to 1.9 on December 31, 2015. The Company is in compliance with the required financial covenants.

On July 7, 2016 the Board of Directors of the Company approved the distribution of a cash dividend to the shareholders of the Company, and on July 26, 2016 payment to the shareholders was effectuated. For information on said dividend distributions, see Note 26.3 to the Consolidated Financial Statements as at December 31, 2016.

Customer credit – from time to time, the Company executes non-recourse factoring transactions in accounts receivable, as well as reverse factoring transactions in supplier credit.

In April 2016 the Company announced the reaffirmation of Midroog's Aa2 rating for the Company's outstanding Series B and Series D Debentures, with stable outlook.

In April 2016 the Company announced the reaffirmation of Standard & Poor's Maalot's ilAA+ rating with a revision of the rating outlook from stable to negative.

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.

	Year		Fourth Quarter	
	2016	**2015**	**2016**	**2015**
Cash flow from operating activities (proportionate consolidation method)	762	516	360	426
Acquisition of fixed assets and investment in intangibles (proportionate consolidation method)	239	279	76	68
Net debt balance (proportionate consolidation method) as at the reporting date	1,428	1,655	1,428	1,655
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	231	232	59	62
Strauss Israel:				
Health & Wellness	58	54	15	16
Fun & Indulgence	35	32	8	10
Strauss Coffee:				
Israel Coffee	12	10	4	2
International Coffee	52	57	14	10
International Dips & Spreads	27	23	7	6
Other	47	56	11	18

The Group's EBITDA (non-GAAP) totaled approximately NIS 975 million in 2016 compared to NIS 891 million in the corresponding period, an increase of 9.4%. Non-GAAP EBITDA in the fourth quarter amounted to NIS 194 million compared to NIS 220 million last year, a decrease of 11.8%.

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 Management (Non-GAAP) Reports of the Coffee Company by reported segments for the years and quarters ended December 31, 2016 and 2015 (in NIS millions):

	Year			Fourth Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Israel Coffee						
Net sales	673	647	*4.1*	147	153	*(3.9)*
Operating profit	87	84	*3.5*	8	20	*(56.3)*
% operating profit	13.0%	13.1%		6.0%	13.1%	
International Coffee						
Net sales	3,000	2,785	*7.7*	914	722	*26.6*
Operating profit	272	184	*47.9*	76	49	*55.9*
% operating profit	9.1%	6.6%		8.3%	6.7%	
Total Strauss Coffee						
Net sales	**3,673**	**3,432**	***7.0***	**1,061**	**875**	***21.2***
Organic growth excluding foreign currency effect.	**11.4%**	**8.8%**		**13.9%**	**9.4%**	
Gross profit	**1,182**	**1,075**	***9.9***	**320**	**260**	***23.0***
% gross profit	**32.2%**	**31.3%**		**30.2%**	**29.7%**	
Operating profit	**359**	**268**	***33.9***	**84**	**69**	***23.1***
% operating profit	**9.8%**	**7.8%**		**8.0%**	**7.8%**	

Sales

In 2016 and in the fourth quarter of the year organic growth in the coffee business, excluding the foreign currency effect, amounted to 11.4% and 13.9%, respectively, compared to the corresponding periods last year.

Growth in coffee sales in local currency in the year and in the quarter mainly reflects volume growth as well as price increases implemented in some countries (in Israel and Romania prices were not raised, and the prices of some products were even reduced), in light of the rising cost of green coffee 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 2016 Strauss Coffee's sales increased by approximately NIS 241 million. Translation differences into Shekels in the coffee operation in the period amounted to NIS 162 million, causing a negative impact on sales growth, of which approximately NIS 75 million were the result of the erosion of the average exchange rate of the Brazilian Real against the Shekel, and NIS 59 million were due to the erosion of exchange rates in Russia and Ukraine. Excluding the currency effect, sales increased by approximately NIS 403 million.

In the fourth quarter of 2016 sales by the coffee operation increased by NIS 186 million. Translation differences into Shekels in the coffee business amounted to NIS 45 million, of which NIS 54 million were the result of the increase in the average exchange rate of the Brazilian Real against the Shekel.

Further explanations on sales by the coffee operation in the reporting period are included in the section "Strauss Coffee Sales by Major Geographical Regions".

Gross profit

In 2016 the gross profit increased by approximately NIS 107 million compared to the corresponding period last year. The gross profit margin rose by 0.9% and amounted to 32.2% in the year.

In the fourth quarter of 2016 the gross profit increased by NIS 60 million compared to the corresponding quarter last year. The gross profit margin rose by 0.5% and amounted to 30.2%.

The increase in the gross profit margin is explained by growth in sales volumes in all countries except Serbia, price increases implemented in some of the countries where the Company is active (in Israel and Romania, the prices of some products were reduced), an improvement in the product mix sold in part of the Company's countries of operations (Brazil, Israel, Romania and Poland)) and a reduction in customs duties on the import of green coffee to Romania, which lowered the cost of raw materials and allowed for a reduction in prices. Additionally, in the fourth quarter the aggregate gross profit of the CEE countries increased, among other things as a result of sales growth and a change in the product mix. The cost of raw materials to the Company (including green coffee) in the Group's non-GAAP reports includes profits and losses that were realized in respect of financial derivatives that served to economically hedge those commodities.

Operating profit

In 2016 the operating profit of the coffee business increased by NIS 91 million. The operating profit margin amounted to 9.8% (up by 2% compared to 2015).

In the fourth quarter of the year the operating profit of the coffee company increased by approximately NIS 15 million. The operating profit margin amounted to 8% in the quarter (up by 0.2% compared to the fourth quarter of 2015).

The change in Strauss Coffee's EBIT in 2016 and in the fourth quarter of the year reflects:

- An increase in the operating profit of the coffee business in the CEE countries in both the year and the fourth quarter, mainly as a result of an improvement in the product mix sold in Poland and Romania compared to the corresponding periods last year, and a reduction in customs duties on the import of green coffee to Romania, which lowered the cost of raw materials and allowed for a reduction in prices.

- In Russia, the operating profit and operating profit margin rose in the fourth quarter compared to the corresponding period last year as a result of volume growth in sales and an increase in sales prices, which covered the increase in the purchase price of coffee, coupled with the strengthening of the Ruble compared to the corresponding quarter last year.

- A drop in the operating profit of Israel Coffee in the fourth quarter of the year, mainly as a result of an increase in green coffee prices, nonrecurring costs, marketing expenses deferred from the third quarter to the fourth quarter due to the timing of marketing campaigns (see the high operating profit in Israel Coffee in the third quarter of 2016 compared to the corresponding quarter last year), and a decrease in sales due to fewer selling days following the timing of Rosh Hashanah and the High Holidays compared to last year. The increase in the EBIT margin in 2016 is the result of sales growth and an improvement in the instant coffee supply chain in Israel compared to the corresponding period last year.

- An increase in the operating profit of the Três Corações joint venture in Brazil[(1)] in the year and in the fourth quarter of 2016 as a result of an increase in prices and sales volumes, which covered an increase in the cost of coffee and other raw materials. Três Corações' operating profit (before other expenses) in Brazilian Reals rose in 2016 by approximately 15.5%, and in the fourth quarter – by 7.4% (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

<u>Strauss Coffee sales by major geographical regions</u>

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, 2016 and 2015 (in NIS millions):

	Year				Fourth Quarter			
Geographical region	**2016**	**2015**	**% chg**	**% change in local currency***	**2016**	**2015**	**% chg**	**% change in local currency***
Israel Coffee	**673**	**647**	***4.1***	***4.1***	**147**	**153**	***(3.9)***	***(3.9)***
International Coffee								
Brazil (Três Corações joint venture) [(1) (2)] - 50%	1,727	1,488	*16.1*	*22.2*	539	360	*49.6*	*30.1*
Russia and Ukraine	603	602	*0.2*	*11.2*	194	188	*3.5*	*4.3*
Poland	281	275	*1.9*	*8.0*	76	64	*17.9*	*23.8*
Romania	253	263	*(4.0)*	*(1.7)*	65	67	*(3.6)*	*(0.0)*
Serbia	136	157	*(13.4)*	*(10.2)*	40	43	*(6.0)*	*(1.3)*
Total International Coffee	**3,000**	**2,785**	***7.7***	***14.3***	**914**	**722**	***26.6***	***19.1***
Total Coffee	**3,673**	**3,432**	***7.0***	***12.3***	**1,061**	**875**	***21.2***	***15.3***

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

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%))

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. In June, the agreement was approved by the regulatory authorities in Brazil. The activity of the above brands is included in the Company's business results commencing in the third quarter of 2016. For further information, see Note 12.6.2 to the Consolidated Financial Statements as at December 31, 2016 and section 11.6 in the chapter "Description of the Company's Business Affairs" as at December 31, 2016.

In 2016 the Três Corações joint venture's average value market share in roast and ground coffee (R&G) amounted to approximately 24.1%, compared to 24% 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).

Despite the economic and political crisis in Brazil, in 2016 and in the fourth quarter of the year the Três Corações joint venture's sales in local currency grew by approximately 22.2% and 30.1%, respectively (22.2% and 30.4%, respectively, 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 increase in the Três Corações joint venture's local currency sales reflects volume growth in sales and price increases introduced in 2015 and 2016 in light of the rising cost of green coffee to Três Corações compared to the corresponding periods last year.

Growth in the Três Corações joint venture's Shekel sales in 2016 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 approximately NIS 75 million in 2016, as opposed to a positive effect amounting to approximately NIS 54 million in the fourth quarter.

The Três Corações joint venture's gross profit in domestic currency rose by 10.4% and 14.8% in the year and in the quarter, respectively, and amounted to approximately 817 million and 228 million BRL, respectively. The Três Corações joint venture's gross profit margin decreased by 2.8% and 3.3% and amounted to 26.3% and 24.4%, respectively. The decrease in the gross profit margin primarily reflects the rising cost of green coffee to the Três Corações joint venture, which was offset in part by sales price increases. EBIT (before other expenses) in BRL increased in 2016 and in the fourth quarter of the year by 15.5% and 7.4%, respectively. The significant growth in operating profit in the fourth quarter of the year reflects growth in the gross profit together with a drop in selling and marketing expenses, as well as an improvement in the operating expenses of the TRES solution, the company's capsule brand in Brazil. As at the reporting date, the company in Brazil is taking action for the construction of a manufacturing plant for capsules (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

The overall impact of the TRES solution on the Três Corações joint venture's operating profit in 2016 and in the fourth quarter of the year amounted to an operating loss of approximately NIS 15 million (approximately 14 million BRL) and NIS 4 million (4 million BRL), respectively, compared to an operating loss of NIS 18 million (15 million BRL) and NIS 6 million (6 million BRL), respectively, in the corresponding periods last year (figures reflect Strauss Coffee's share (50%)).

Russia and Ukraine

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 devalued significantly against the major currencies at the beginning of the year, including the US Dollar (which adversely impacted the cost of sales in the region) and the Shekel (causing negative translation differences). However, in the last few months of the year the Ruble began to strengthen against the US Dollar and the Shekel. 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 2016 by approximately 11.2% and 4.3%, 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.

The Company's Shekel sales in the region grew by approximately NIS 1 million and NIS 6 million in the year and in the fourth quarter, respectively, compared to the corresponding periods last year, and were affected by negative translation differences against the Shekel, which were partly offset by the increase in sales prices in local currency and by volume growth in Ukraine.

Poland

The Company's sales in Poland in local currency increased by approximately 8% and 23.8% in the year and in the fourth quarter of 2016, respectively, compared to the corresponding periods last year. The growth in sales is the result of an improvement in the sales mix compared to the corresponding periods in 2015.

The Company's Shekel sales in Poland increased by approximately NIS 6 million and NIS 12 million in the year and in the quarter, respectively, compared to the corresponding periods last year. Sales growth in local currency covered the erosion in sales arising from translation differences into Shekels. Most of the increase in sales is due to growth in sales volumes.

Romania

The Company's sales in Romania in local currency decreased by approximately 1.7% in 2016 and remained unchanged in the fourth quarter of the year compared to the corresponding periods last year, but reflected volume growth in sales in the quarter and the year. The drop in sales in local currency is primarily due to a reduction in customs duties on the import of green coffee, which lowered the cost of raw materials and allowed for a reduction in prices, and growing competition.

Shekel sales in Romania decreased by approximately NIS 10 million and NIS 2 million in the year and in the quarter, respectively, compared to the corresponding periods in 2015, and were affected by negative translation differences due to the erosion of the Romanian Leu against the Shekel and the drop in retail prices, as described above.

Serbia

The Company's sales in Serbia in local currency decreased by 10.2% and 1.3% in the year and in the fourth quarter of 2016, respectively, compared to the corresponding periods last year. Sales were influenced by a drop in volumes reflecting a consumer trend of preferring cheaper coffee brands and by price erosion due to the harshening competitive environment.

The Company's Shekel sales in Serbia dropped by approximately NIS 21 million and NIS 3 million in the year and in the quarter, respectively, 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 and the consumer trend of preferring cheaper coffee brands as well as price erosion in light of the harshening competitive environment, as mentioned. In light of the increase in green coffee prices and the anticipated erosion of profit margins, in the third quarter of 2016 the Group examined the recoverable amount of the unit as at September 30, 2016, which reflects value in use. Consequently, the Group recorded an intangible asset impairment loss of NIS 9 million, which was recognized in the "other expenses" item in the Group's financial statements of income. For further information, see Note 15.3 to the Consolidated Financial Statements as at December 31, 2016.

Israel

The Company's sales in Israel rose by approximately NIS 26 million in 2016 and dropped by NIS 6 million in the fourth quarter, compared to the corresponding periods last year. The decrease in the quarter is explained by a drop in volumes due to the timing of the Jewish holidays and effective price reductions. The decrease in the operating profit in the quarter is the result of the drop in sales as mentioned, of the increase in green coffee prices, of noncurrent costs, and of an increase in marketing expenses toward the end of the year.

On March 27th, 2017 Strauss Coffee B.V. acquired the entire holding (25.1%) of TPG in Strauss Coffee, for €257 million. The sum of €172 million of the consideration was paid in cash at the closing, and €85 million will be paid by August 15, 2017. In addition, Strauss Coffee will redeem stock options granted to Strauss Coffee managers totaling €17 million and will either redeem or convert to Strauss Group Options an additional €2 million. The acquisition and the redemption of shares and stock options will be financed by the company's own assets and debt of Strauss Coffee and by Strauss Group debt or share capital increase as per market conditions. Strauss Coffee took a short-term loan of NIS 434 million bearing an interest rate of 1.5%-2.0% which will be replaced by a long-term debt loan in the future. Strauss Group and Strauss Coffee estimate that the deal creates value and is accretive and will enable increased strategic, operational and managerial flexibility to both companies.

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in 2016 according to StoreNext figures held an 11.5% share of the total retail domestic food and beverage market in value terms (compared to 11.1% in the corresponding period last year), an increase of 0.4% over the corresponding period. The Israeli market is the Group's home market, where it is active in various categories. The Company's sales in the Strauss Israel segment, which includes the Health & Wellness and the Fun & Indulgence divisions, grew by 3.4% in value terms, although according to StoreNext, in 2016 the Israeli food and beverage market decreased by 0.5% in value terms.

Sales by all operations 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). The Max Brenner and Strauss Water businesses are not included in StoreNext's market share measurements.

In 2016 Strauss Group's Israel sales totaled approximately NIS 4,129 million versus NIS 3,982 million last year, an increase of 3.7%. In the fourth quarter sales in Israel totaled approximately NIS 960 million compared to NIS 961 million last year, a decrease of 0.1%.

Strauss Israel

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Israel by activity segments, for the years and quarters ended December 31, 2016 and 2015 (in NIS millions):

	Year			Fourth Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Health & Wellness segment						
Net sales	1,957	1,898	*3.1*	466	463	*0.7*
Operating profit	213	188	*13.5*	51	47	*10.8*
% operating profit	10.9%	9.9%		11.1%	10.1%	
Fun & Indulgence segment						
Net sales	1,006	968	*3.9*	223	225	*(0.9)*
Operating profit	101	93	*8.2*	15	12	*13.1*
% operating profit	10.0%	9.6%		6.3%	5.5%	
Total Strauss Israel						
Net sales	**2,963**	**2,866**	***3.4***	**689**	**688**	***0.2***
Gross profit	**1,188**	**1,104**	***7.6***	**281**	**271**	***3.6***
% gross profit	**40.1%**	**38.5%**		**40.8%**	**39.5%**	
Operating profit	**314**	**281**	***11.8***	**66**	**59**	***11.3***
% operating profit	**10.6%**	**9.8%**		**9.6%**	**8.6%**	

Sales

In 2016 Strauss Israel's sales increased by approximately 3.4% (NIS 97 million). In the Health & Wellness segment the increase was approximately 3.1% (NIS 59 million), and in Fun & Indulgence sales growth amounted to 3.9% (NIS 38 million).

In the fourth quarter of the year Strauss Israel's sales increased by approximately 0.2% (NIS 1 million). In Health & Wellness the increase was approximately 0.7% (NIS 3 million. The increase was offset by a decrease in sales by the Fun & Indulgence segment, which amounted to 0.9% (NIS 2 million).

The increase in sales in the year reflects volume growth, which was offset in part by price reductions in the various categories, particularly dairy products (during the year the Company lowered its prices in a number of dairy categories, notably dairy products by 5%-22%, in addition to a 4.4% reduction in the controlled prices of white cheese and sweet cream).

Gross profit

In 2016 Strauss Israel's gross profit increased by approximately NIS 84 million with 1.6% growth in the gross profit margin, compared to the corresponding period last year.

In the fourth quarter Strauss Israel's gross profit rose by NIS 10 million and the gross profit margin by 1.3% compared to the corresponding quarter of 2015. The increase in the gross profit is the result of growth in sales volumes, continued efficiency enhancing moves applied in production and packaging processes in a number of plants, and also reflects the favorable effect of a drop in the prices of some raw materials (raw milk, milk powders, tahini, hazelnuts and almonds) while the prices of other raw materials rose (sugar, potatoes and olive oil). In addition, during the year an increase was recorded in production inputs such as the minimum wage and municipal taxes, compared to the corresponding periods in 2015.

Operating profit

In 2016 Strauss Israel's EBIT increased by approximately NIS 33 million and the operating profit margin rose by 0.8% and amounted to 10.6% of sales.

In the fourth quarter Strauss Israel's operating profit increased by approximately NIS 7 million and the operating profit margin rose by 1.0% and amounted to 9.6% of sales.

The increase in operating profit mainly reflects the growth in sales volumes and in the gross profit compared to the corresponding periods in 2015, which was partly offset by an increase in marketing expenses. Furthermore, in the second quarter last year a provision for doubtful debts was recorded in respect of Mega Retail in the amount of NIS 11 million before tax.

The International Dips & Spreads Activity

The Group develops, manufactures, sells, markets and distributes refrigerated dips and spreads through Sabra in the US and Canada, and through Obela in Mexico, Australia and Western Europe. The operations 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 dips and 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 31, 2016 was 26.2% (Number 1 in the market), compared to 27.6% at the end of 2015. Sabra's value market share of the hummus category in 2016 was 59.6%, compared to 60.5% in the corresponding period last year.

In Australia, a significant growth of approximately 19% was recorded in sales; in Mexico, sales volumes are immaterial. The company leads the hummus market in Australia in market share as well as in Mexico.

In June 2016 Obela entered into an agreement for the acquisition of 100% of the share capital of the company, Florentin. Florentin is a Dutch company engaged in the development and manufacture of organic hummus, falafel, spreads and pita bread, and markets its products in Western Europe, particularly in the Netherlands, Germany and France. For further information, see Note 12.6.1 to the Consolidated Financial Statements as at December 31, 2016 and section 14.1 of the chapter "Description of the Company's Business Affairs" as at December 31, 2016.

Sabra

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

	Year		Fourth Quarter	
	2016	**2015**	**2016**	**2015**
Sales	1,328	1,422	233	344
Growth	(6.6%)	10.4%	(32.2%)	(3.6%)
Organic growth excluding foreign currency effect	(5.1%)	1.7%	(31.0%)	(4.7%)
Operating profit (loss) before other expenses	118	188	(26)	57
% operating profit	8.9%	13.2%	N/A	16.4%

Sabra's sales in 2016 dropped by approximately NIS 94 million compared to last year, and in the fourth quarter of the year sales decreased by approximately NIS 111 million compared to the corresponding quarter last year due to the voluntary recall by the Company in November 2016. On November 19, 2016 Sabra announced a voluntary recall in North America of some of its hummus products, manufactured and marketed in the US and Canada, due to concerns of possible Listeria contamination. The bacteria were detected in Sabra's production site in Virginia, but not in the end products themselves. Sabra applied a series of measures in the plant to address the incident and is working in coordination with the relevant authorities in the US. As mentioned, no products were found to contain Listeria. In addition, Sabra's sales were adversely affected by negative translation differences amounting to NIS 9 million. In the fourth quarter sales decreased by 32.2% compared to the corresponding quarter last year, in which a recovery in sales was posted following the recall in the prior quarter.

Supervision over entities in the food industry in the US has recently been tightened, and new industry standards were created following regulations that entered into force in early 2016. As a result, the number recalls by food companies in the US has increased significantly.

The operating profit in 2016 fell by approximately NIS 70 million, with 4.3% decrease in the operating profit margin compared to the corresponding period in 2015.

In the fourth quarter of 2016 EBIT dropped by NIS 83 million (of which the Company's share is NIS 41.5 million). The drop in EBIT in the quarter is the result of the decrease in Sabra's sales following the voluntary recall in November 2016, including direct costs involved in collecting the products, shutting down the plant for several days, suspension of shipments, and product shortages on the retail shelves during this period. In addition, the recall adversely impacted the Company's operating profit due to indirect expenses, including, *inter alia*, damage to the Company's trade agreements and a further investment in marketing following the damage to the brand, and an additional improvement made to the strict quality controls in place in the hummus factory in Virginia. Sabra has a certain amount of insurance coverage for the damages caused by the recall. As at the date of this report, insurance coverage of approximately NIS 46 million has been recognized. If additional insurance is approved at a later date, it will be included in subsequent quarters.

Obela

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

Sales by Obela in 2016 totaled approximately NIS 106 million, compared to NIS 82 million in the corresponding period last year (29.2% growth). Excluding the foreign currency effect, growth in the period amounted to 33.4% compared to the corresponding period in 2015.

Obela's sales in the fourth quarter totaled approximately NIS 38 million, compared to NIS 29 million in the corresponding quarter last year (32.5% growth). Excluding the foreign currency effect, sales growth in the quarter amounted to 31.5% compared to last year.

The operating loss in the year totaled NIS 23 million, compared to NIS 27 million in the corresponding period last year.

In the fourth quarter of 2016 the operating loss amounted to NIS 3 million, compared to NIS 1 million last year. The fourth quarter included the business results of Florentin, which had a negative effect on EBIT.

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, as well as other immaterial operations of the Group.

Strauss Water

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

Commencing in the third quarter of 2015 the restructuring process of the operation in China is reflected in the Group’s Non-GAAP Reports. Following this process the Company holds 34% of the Haier Strauss Water joint venture (HSW) in China.

Sales by Strauss Water in 2016 amounted to approximately NIS 496 million compared to NIS 482 million in the corresponding period last year, an increase of 2.8%.

The moderate growth in Strauss Water’s income is mainly explained by the restructuring of the international operation in China. The change of structure led to 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 as described above.

In the fourth quarter of the year Strauss Water’s sales totaled NIS 125 million compared to NIS 120 million in the corresponding period in 2015, an increase of 3.6%.

Sales by the Haier Strauss Water joint venture in China in 2016 and in the fourth quarter of the year amounted to approximately NIS 351 million and NIS 104 million, respectively (unaudited, reflecting 100%).

In 2016 Strauss Water has posted an improvement in operating profit and cash flow compared to the corresponding period in 2015.

In November 2016 the Company announced the acquisition of the non-controlling interest in Strauss Water (12.4%) in consideration for NIS 69 million. For further information, see Note 6.4 to the Consolidated Financial Statements of the Company as at December 31, 2016.

Max Brenner

On the date of publication of the report, the Max Brenner chain comprises sixty-one “Chocolate Bars” in Israel and around the world, fifty-eight under franchise and three owned by the Company (in the US: New York, Philadelphia and Boston). The Max Brenner bars are located in Australia (42), Israel (8), Japan (5), the US (3), Russia (2) and South Korea (1).

In 2016 Max Brenner’s sales totaled approximately NIS 94 million compared to NIS 109 million last year, a decrease of 13.3%. The decrease in sales, excluding the foreign currency effect, amounted to approximately 12.6% compared to the corresponding period last year.

In the fourth quarter Max Brenner’s sales totaled approximately NIS 24 million compared to NIS 29 million in the corresponding quarter last year, a decrease of 14.8%. Excluding the foreign currency effect, sales decreased by approximately 14.0% compared to the corresponding period last year.

The profit of the Other Operations segment was adversely affected by a provision for doubtful debts in Max Brenner.

DISCLOSURE RELATING TO THE EXAMINATION OF WARNING SIGNS IN RESPECT OF A WORKING CAPITAL DEFICIENCY PURSUANT TO REGULATION 10(B)(14)(a)

In the Company's separate financial statements ("solo report") for the year 2016 there is a working capital deficiency of approximately NIS 101 million, whereas in the Consolidated Financial Statements of the Company for the year there is no such deficiency. Cash flows provided by operating activities in the "solo report" amount to a positive cash flow of NIS 185 million. In light of the working capital deficiency in the "solo report", on March 27, 2017 the Board of Directors of the Company examined the Company's liquidity as described below, and determined that said working capital deficiency is not indicative of a liquidity issue in the Company. This decision is based on a review, *inter alia*, of the Company's financial results as reported in the Financial Statements of the Company as at December 31, 2016, and is also based on data regarding the Company's projected cash flow "solo" for the next two years given the Company's existing and anticipated liabilities, 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 and the resources arising from the Company's holdings in its major investees, including the receipt of dividends, repayment of loans made available to investees, raising capital from banking corporations and/or other sources if 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. The Board of Directors also reviewed sensitivity analyses of the Company's projected cash flow "solo" for the next two years, and determined that the working capital deficiency is not indicative of a liquidity issue in the Company.

It is emphasized that the abovementioned assessment by the Board of Directors is forward-looking information, as this term is defined in the Securities Law, 1968, which is primarily based on the Company's forecasts and on its analysis of its actual cash flows in the period since the end of the quarter and its future cash flows, its existing and anticipated liabilities, its existing assets, its expectations as to future profits and dividend distributions by investees, etc. 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, among other things as a result of market behavior and occurrence of the risk factors set forth in section 29 in the "Description of the Company's Business Affairs" as at December 31, 2016.

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, 2016.

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 29 in the "Description of the Company's Business Affairs" as at December 31, 2016 ("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[1] 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[1] according to the policy approved by the Company's board of directors.

[1] Três Corações (3C) – The "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).

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 material 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:

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	Assumptions applied in performing the valuation				
						Discount rate	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 2016	359	440	External (1) (2)	DCF	11%	0%	75%	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, 15 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 five directors who fulfill the conditions for qualifying as independent directors, three of whom are external directors([1]). 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 three standing committees which are active on a regular basis: the Audit Committee, the Financial Statements Review Committee and the Remuneration Committee. Additionally, there are two *ad hoc* committees: the Strategy, Finance and Investment Committee and the Human Resources, Nominating and Corporate Governance Committee, which convene as necessary.

(1) In June 2017 the term of office of the directors Dafna Schwartz, Akiva Mozes, Michael Anghel and Dalya Lev is to expire after 9 years in office. The Company will take action to appoint an additional external director.

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 Regulation 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 2016 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, see section 29 in the chapter "Description of the Company's Business Affairs" as at December 31, 2016.

Sustainability, Corporate Responsibility, Social Investment and Donations

In 2016 the Group's sustainability and corporate social responsibility (CSR) activities focused on the following:

A. Revision of the Group's sustainability strategy and inclusion of new, significant elements developed in the past year.

B. Progress in developing the Social License to Operate (SLO) management concept, launched two years ago – assimilation in the Group companies and definition of goals and work plans.

C. Development of a new health strategy to provide guidelines for product development in alignment with new standards, in order to offer consumers products that enable them to lead a healthier lifestyle.

D. Continued activity and achievements in various spheres to improve our impacts on our employees, the community and the environment

E. Continued social investment and community relations, as well as food salvage activities to help eradicate nutrition insecurity in the Israel geography.

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

A. Revision of the Group's sustainability strategy and inclusion of new, significant elements developed in the past year

In 2016 we updated our sustainability strategy to include various elements that were not adequately represented in the strategy to date. We integrated the SLO management concept that we adopted a year ago as part of a strategic approach that encourages an ongoing dialogue with stakeholders and activity that provides a response to their needs. In addition, we committed to the UN's Sustainable Development Goals, which were ratified and adopted by all UN member states in 2015. After mapping all 17 goals we chose 6 in which can contribute to the global effort to improve the quality of life on earth through Strauss Group's current business operations. We formulated targets that are aligned with our renewed sustainability strategy, which we will present in our Sustainability Report, to be published later this year.

B. Progress in developing the Social License to Operate management concept, launched two years ago – assimilation in the Group companies and definition of goals and work plans

In 2016 we focused on assimilating an overall management concept, the Social License to Operate, in the understanding that we are given a license to operate, every hour and every day, by all our stakeholders and not only by the competent authorities. The goal is to impart a management concept in the Group, which is based on ongoing relationships with our various stakeholder groups (employees, customers, consumers, suppliers, communities, etc.) that are grounded in an understanding of their needs, and on connecting to risks and opportunities. As part of this concept, for the second time we carried out an in-depth survey among the different stakeholders to gain an understanding of their perceptions of Strauss Group and of the compatibility of our products with their needs. In addition, following a series of discussions in all companies in the Group, we formulated objectives that provide a response to the main needs of our stakeholders.

C. Development of a new health strategy to guide product development in alignment with new standards, in order to offer consumers products that enable them to lead a healthier lifestyle

Based on our understanding of local Israeli and global trends and of the consumer's desire to lead a healthy lifestyle, we developed a new health strategy that also addresses the reduction of ingredients such as sugar, fats and salt in Strauss products as well as the development of new products that meet various health needs. We also renewed the labeling of many of our products to enable consumers to make informed choices. Our new strategy will be launched together with the 2016 Sustainability Report later on in 2017.

D. Continued activity and achievements in various spheres to improve our impacts on our employees, the community and the environment

In 2016 we continued to invest efforts in improving our impacts in a number of spheres:

- We continued to expand the "For a Better Society" program, which grants employees who earn less than the average wage in Israel wage increments and dedicated compensation and welfare benefits. The program is in direct continuation of steps taken in the context of social programs by as early as 2012. In total, Strauss Group has invested over NIS 8 million per year in welfare activities alone, over and above wage increments, for thousands of employees.

- We continued to conduct our business activities keeping the environment in mind and seeking to reduce our impacts in terms of energy consumption, greenhouse gas emissions, water consumption and waste production. In each of these spheres we have set strategic goals, and we are working continuously, year after year, to improve our performance. In 2016 we continued to accomplish significant improvements, including the reduction of greenhouse gas emissions by using natural gas instead of electricity from the national grid, and a reduction in the use of water through the modification of processes in our coffee production site in Germany.

- In early 2016 Sabra began to use non-GMO ingredients in its hummus recipes. This initiative is part of Sabra's vision to provide consumers with fresh products that promote a healthy, natural lifestyle. The transition to non-GMO ingredients is a complex move that includes the replacement of raw materials with materials that comply with certain criteria defined by an outside party and the US government.

- In 2016 we launched a new program for the purchase of coffee from women-owned coffee farms, which the Company supports through equipment and manpower. Sourcing coffee in this way allows for the supply of quality coffee to Strauss Group while investing in women in developing countries in order to further their economic independence and enable them to earn a decent living in the long term. The plan includes training and various forms of support for the women to help them to succeed.

E. Continued social investment and community relations, as well as food salvage activities to help eradicate nutrition insecurity in the Israel geography.

In 2016 Strauss Group continued to deepen its social investment, which focuses 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 increasing nutrition 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 2016 Strauss Group invested approximately NIS 12.5 million in community investment, donations in cash and in kind and volunteer hours, of which approximately NIS 3.4 million were in the form of financial support, NIS 6.6 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 0.9 million on community activities and NIS 1.1 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 or controlling shareholder's relative
The National Philanthropic Foundation	250,000	• Gadi Lesin, CEO, serves as Chairman of the Philanthropic Foundation
Maala – Business for Social Responsibility	85,000	• Giora Bar Dea, Deputy CEO, is a member of the governing council of the NGO.
Sheba Medical Center	50,000	• 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, sits on the financial committees of foundations of the medical center, and is the brother of Prof. Mordechai Shani, who served as Director General of Sheba Medical Center and continues to be active at the hospital • Ms. Galia Maor, a director of the Company, is Chair of the Friends of Sheba Medical Center
Jasmine	50,000	• Ms. Ofra Strauss, Chairperson of the Board of Directors and controlling shareholder of the Company, is President of the NGO

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 CEO.

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 2016:

- In the Company itself and in investee companies in Israel - 5,395 hours.
- In investee companies abroad - 2,835 hours.

Total: 8,230 hours (compared to 7,261 hours in 2015).

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 2016 thirty-six 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 2016 eleven meetings of the Audit Committee were held Group-wide (including the Strauss Coffee, Strauss Water and Strauss North America/Sabra 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 2016 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 Mozes, Professor Arie Ovadia, Ronit Haimovitch, Meir Shanie, Galia Maor and Dalia Narkys possess accounting and financial skills.

In the Company's opinion, the minimum number of required directors with accounting and financial skills 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 chapter "Additional Information on the Company" in Regulation 26.

INDEPENDENT DIRECTORS

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

In practice, three 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(1). 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.

(1) In June 2017 the term of office of the directors Dafna Schwartz, Akiva Mozes, Michael Anghel and Dalya Lev is to expire after 9 years in office. The Company will take action to appoint an additional external director.

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, 2016.

AUDITOR'S FEES

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

Company	Auditor	For the year ended December 31, 2016					
		Audit services, audit-related services and tax services		Other services		Total	
		NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies (1)	KPMG (Israel)	3,872	17,490	-	-	3,872	17,490
Max Brenner NY	Eshel Aminov & Partners LLC	154	240	-	-	154	240
SE USA Inc.	KPMG (Israel)	158	420	-	-	158	420
Sabra Dipping Company LLC (100%)	KPMG USA	1,669	1,992	-	-	1,669	1,992
PepsiCo Strauss Fresh Dips & Spreads (100%)	KPMG Switzerland, Mexico, Australia, Netherlands	507	802	-	-	507	802
Virgin Strauss Water UK Ltd.	KPMG LLP (UK)	183	353	-	-	183	353
Strauss Water companies in China	KPMG China, BDO China	180	181	-	-	180	181
Strauss Romania SRL	KPMG Romania	276	1,089	-	-	276	1,089
Strauss Adriatic Group Cluster	KPMG Serbia	64	420	-	-	64	420
Strauss Café Poland Sp.z.o.o	KPMG Poland	229	754	-	-	229	754
Três Corações Alimentos S.A (100%)(2)	KPMG Brazil	501	2,366	47	168	548	2,534
Strauss Coffee B.V.	Mazars & KPMG (Israel, Meijburg)	2,355	6,148	-	-	2,355	6,148
Strauss Commodities AG	KPMG Switzerland	229	220	-	-	229	220
Strauss Russia LLC	KPMG Russia	550	3,722	11	24	561	3,746

Company	Auditor	For the year ended December 31, 2015					
		Audit services, audit-related services and tax services		Other services		Total	
		NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies (1)	KPMG (Israel)	*3,003	*16,181			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 USA	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	*200	-	-	202	*200
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%)(2)	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

* 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.

(2) Três Corações (3C) – The "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).

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 fixed 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.

General

For information on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 9B, see the attached report.

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, 2016.

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 27, 2017

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

Strauss Group Ltd.

Financial Statements
As at December 31, 2016

Convenience translation from Hebrew
Strauss Group Ltd.

Consolidated Financial Statements as at December 31, 2016

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

Auditors' Report to the Shareholders of Strauss Group Ltd.

We have audited the accompanying consolidated statements of financial position of Strauss Group Ltd. (hereinafter "the Company") as of December 31, 2016 and 2015 and the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a consolidated subsidiary whose assets constitute 0.1% and 3% of the total consolidated assets as of December 31, 2016 and 2015, respectively, and whose revenues constitute 0.1%, 2% and 1.5% of the total consolidated revenues for the years ended December 31, 2016, 2015 and 2014, respectively. Furthermore, we did not audit the financial statements of equity accounted investees the investment in which amounted to approximately NIS 23 million and NIS 14 million as of December 31, 2016 and 2015, respectively, and the Group's share in their profits amounted to approximately NIS 9 million and NIS 4 million for the years ended December 31, 2016 and 2015, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of December 31, 2016 and 2015 and their results of operations, changes in equity and cash flows, for each of the three years in the period ended December 31, 2016, in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting, and its amendments, the components of the Company's internal control over financial reporting as of December 31, 2016, and our report dated March 27, 2017 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 27, 2017

Convenience translation from Hebrew
Strauss Group Ltd.

Consolidated Statements of Financial Position

	Note	December 31 2016	2015
		NIS millions	
Current assets			
Cash and cash equivalents	7	711	560
Securities and deposits	8	53	60
Trade receivables	9	881	926
Income tax receivables		38	20
Other receivables and debit balances	10	156	183
Inventory	11	537	581
Assets held for sale	16.3	32	62
Total current assets		2,408	2,392
Investments and non-current assets			
Investment in equity-accounted investees	12	1,119	1,018
Other investments and long-term debt balances	13	163	208
Fixed assets	14	1,581	1,612
Intangible assets	15	857	853
Deferred expenses	3.6	28	41
Investment property	16	8	7
Deferred tax assets	35	18	16
Total investments and non-current assets		3,774	3,755
Total assets		6,182	6,147

Ofra Strauss	Gadi Lesin	Shahar Florence
Chairperson of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Date of approval of the financial statements: March 27, 2017

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Financial Position (cont'd)

	Note	December 31 2016	2015
		NIS millions	
Current liabilities			
Current maturities of debentures	20	196	178
Short-term credit and current maturities of long-term loans and other liabilities	20	147	181
Trade payables	17	743	713
Income tax payables		11	80
Other payables and credit balances	18	642	531
Provisions	19	31	34
Total current liabilities		1,770	1,717
Non-current liabilities			
Debentures	20	635	834
Long-term loans and credit	20	906	943
Long-term payables and credit balances	21	60	88
Employee benefits, net	22	47	55
Deferred tax liabilities	35	221	202
Total non-current liabilities		1,869	2,122
Equity and reserves	26		
Share capital		244	244
Share premium		622	622
Reserves		(975)	(969)*
Retained earnings		1,944	1,808*
Total equity attributable to the Company's shareholders		1,835	1,705
Non-controlling interests		708	603
Total equity		2,543	2,308
Total liabilities and equity		6,182	6,147

* Adjustment due to retrospective implementation of changes in accounting policy, see Note 2.6.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

	Note	For the year ended December 31		
		2016	2015	2014
		NIS millions		
Sales	29	5,282	5,183	5,415
Cost of sales	30	3,179	3,228	3,318
Gross profit		2,103	1,955	2,097
Selling and marketing expenses	31	1,234	1,198	1,318
General and administrative expenses	32	367	329	339
		1,601	1,527	1,657
Share of profit of equity-accounted investees		178	198	219
Operating profit before other income (expenses)		680	626	659
Other income		6	16	4
Other expenses		(55)	(57)	(118)
Other expenses, net	33	(49)	(41)	(114)
Operating profit		631	585	545
Financing income		7	21	40
Financing expenses		(116)	(122)	(107)
Financing expenses, net	34	(109)	(101)	(67)
Income before taxes on income		522	484	478
Taxes on income	35	(134)	(139)	(144)
Income for the year		388	345	334
Attributable to:				
The Company's shareholders		272	257	235
Non-controlling interests		116	88	99
Income for the year		388	345	334
Earnings per share	36			
Basic earnings per share (in NIS)		2.53	2.40	2.20
Diluted earnings per share (in NIS)		2.52	2.39	2.18

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Note	For the year ended December 31		
		2016	2015	2014
		NIS millions		
Income for the year		388	345	334
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:				
Foreign currency translation differences	26.5	17	(168)	(255)
Changes in fair value of available-for-sale financial assets, net		2	3	(10)
Other comprehensive income (loss) from equity-accounted investees	26.5	83	(219)	22
Total other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods, net		102	(384)	(243)
Other comprehensive loss items that will not be transferred to profit or loss in subsequent periods:				
Change in employee benefits, net		-	-	(6)
Total other comprehensive loss items that will not be transferred to profit or loss in subsequent periods, net		-	-	(6)
Comprehensive income (loss) for the year		490	(39)	85
Attributable to:				
The Company's shareholders		343	(32)	61
Non-controlling interests		147	(7)	24
Comprehensive income (loss) for the year		490	(39)	85

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders									
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions									
Balance as at January 1, 2016	244	622	(20)	(4)*	(951)	6	1,808*	1,705	603	2,308
Changes in 2016:										
Total comprehensive income . for the year										
Income for the year	-	-	-		-	-	272	272	116	388
Components of other comprehensive income):										
Foreign currency translation differences	-	-	-	-	11	-	-	11	6	17
Other comprehensive income from equity-accounted investees	-	-	-	-	59	-	-	59	24	83
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	1	2
Other comprehensive income for the year, net	-	-	-	-	70	1	-	71	31	102
Total comprehensive income for the year	-	-	-		70	1	272	343	147	490
Share-based payment	-	-	-	-	-	-	14	14	-	14
Acquisition of non-controlling interest in a subsidiary	-	-	-	(77)	-	-	-	(77)	21	(56)
Dividend	-	-	-	-	-	-	(150)	(150)	-	(150)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(63)	(63)
Balance as at December 31, 2016	244	622	(20)	(81)	(881)	7	1,944	1,835	708	2,543

* Adjustment due to retrospective implementation of changes in accounting policy, see Note 2.6.

The accompanying notes are an integral part of these consolidated financial statements.

Convenience translation from Hebrew
Strauss Group Ltd.

Consolidated Statements of Changes in Equity (cont'd)

	Attributable to the Company's shareholders									
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions									
Balance as at January 1, 2015	244	622	(20)	(4)*	(661)	5	1,637*	1,823	717	2,540
Changes in 2015:										
Total comprehensive income (loss) for the year										
Income for the year	-	-	-	-	-	-	257	257	88	345
Components of other comprehensive income (loss):										
Foreign currency translation differences	-	-	-	-	(126)	-	-	(126)	(42)	(168)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(164)	-	-	(164)	(55)	(219)
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	2	3
Other comprehensive income (loss) for the year, net	-	-	-	-	(290)	1	-	(289)	(95)	(384)
Total comprehensive income (loss) for the year	-	-	-	-	(290)	1	257	(32)	(7)	(39)
Share-based payment	-	-	-	-	-	-	14	14	-	14
Share-based payment to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	1	1
Dividend	-	-	-	-	-	-	(100)	(100)	-	(100)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(108)	(108)
Balance as at December 31, 2015	244	622	(20)	(4)*	(951)	6	1,808*	1,705	603	2,308

* Adjustment due to retrospective implementation of changes in accounting policy, see Note 2.6.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity (cont'd)

	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
		Attributable to the Company's shareholders								
	NIS millions									
Balance as at January 1, 2014	243	622	(20)	(4)*	(496)	9	1,391*	1,745	806	2,551
Changes in 2014:										
Total comprehensive income (loss) for the year										
Income for the year	-	-	-		-	-	235	235	99	334
Components of other comprehensive income (loss):										
Foreign currency translation differences	-	-	-	-	(191)	-	-	(191)	(64)	(255)
Other comprehensive income (loss) from equity-accounted investees	-	-	-	-	26	-	-	26	(4)	22
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	(4)	-	(4)	(6)	(10)
Change in employee benefits, net	-	-	-	-	-	-	(5)	(5)	(1)	(6)
Other comprehensive loss for the year, net of tax	-	-	-	-	(165)	(4)	(5)	(174)	(75)	(249)
Total comprehensive income (loss) for the year	-	-	-	-	(165)	(4)	230	61	24	85
Exercise of options granted to employees	1	-	-	-	-	-	-	1	-	1
Share-based payment	-	-	-		-	-	16	16	-	16
Share-based payment to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	2	2
Discount of a promissory note from non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	(12)	(12)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(103)	(103)
Balance as at December 31, 2014	244	622	(20)	(4)*	(661)	5	1,637*	1,823	717	2,540

* Adjustment due to retrospective implementation of changes in accounting policy, see Note 2.6.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	Note	2016	2015	2014
		For the year ended December 31		
		NIS millions		
Cash flows from operating activities				
Income for the year		388	345	334
Adjustments:				
Depreciation		137	132	129
Amortization of intangible assets and deferred expenses		44	51	53
Impairment loss of fixed assets, intangible assets and investment property, net	14.1, 15.1	10	29	36
Other expenses (income), net		22	(14)	44
Expenses in respect of share-based payment		14	15	21
Financing expenses, net		109	101	67
Income tax expense		134	139	144
Share of profit of equity-accounted investees		(178)	(198)	(219)
Change in inventory		47	62	(82)
Change in trade and other receivables		83	(56)	(129)
Change in long-term receivables		5	9	(9)
Change in trade and other payables		84	(204)	183
Change in employee benefits		(3)	(3)	4
Interest paid		(101)	(99)	(88)
Interest received		15	26	17
Income tax received (paid), net	35.1.2A	(200)	14	(131)
Net cash flows from operating activities		610	349	374
Cash flows from investing activities				
Sale of marketable securities and deposits, net		5	61	132
Proceeds from sale of fixed assets, intangible assets and investment property		31	24	40
Investment in fixed assets and investment property		(132)	(182)	(377)
Acquisition of subsidiary		-	(4)	(82)
Investment in intangible assets and deferred Expenses		(30)	(30)	(35)
Repayment of deposits and loans granted		49	50	57
Long-term loans granted		(15)	(21)	(42)
Taxes received due to the sale of investment property		-	5	-
Dividends from investee companies	12.4	196	48	96
Investment in investee companies	12.6	(37)	(32)	-
Gain of control in an equity-accounted investee		-	-	1
Net cash flows from (used in) investing activities		67	(81)	(210)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows (cont'd)

	Note	For the year ended December 31		
		2016	2015	2014
		NIS millions		
Cash flows from financing activities				
Short-term bank credit, net		(30)	43	3
Proceeds from issuance of debentures, net		-	-	237
Receipt of long-term loans		115	38	58
Repayment of long-term loans and debentures		(339)	(329)	(295)
Acquisition of non-controlling interests in a subsidiary	6.4	(52)	-	-
Change in payables – equity-accounted investee		-	-	(64)
Dividends paid	26.3	(150)	(100)	-
Dividend paid to non-controlling interests in a subsidiary		(63)	(108)	(103)
Net cash flows used in financing activities		(519)	(456)	(164)
Net increase (decrease) in cash and cash equivalents		158	(188)	-
Cash and cash equivalents as at January 1		560	767	772
Effect of exchange rate fluctuations on cash balances		(7)	(19)	(5)
Cash and cash equivalents as at December 31		711	560	767

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - General

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

The Company and its investee companies (hereinafter: the "Group") are a group of industrial and commercial companies operating in Israel and abroad and active mainly in the development, manufacture, marketing and sale of a broad variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration and purification products.

The Company's controlling shareholders are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: the "Parent Company" or "Strauss Holdings") and Ms. Ofra Strauss, who is considered a joint holder of the Company's shares with Mr. Strauss.

The consolidated financial statements of the Group as at and for the year ended December 31, 2016 comprise those of the Company and its subsidiaries, as well as the Group's rights in joint arrangements. The financial statements were approved for publication by the Company's board of directors on March 27, 2017.

Note 2 - Basis of Preparation

2.1 Statement of compliance with International Financial Reporting Standards

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were prepared in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

2.2 Basis of measurement

The consolidated financial statements were prepared on the historical cost basis except for the following items:

- Derivative financial instruments and securities held for trading, which are measured at fair value through profit or loss
- Inventory, measured at the lower of cost or net realizable value
- Available-for-sale financial assets
- Provisions
- Assets and liabilities in respect of employee benefits
- Deferred tax assets and liabilities
- Investments in associates and joint ventures
- Non-current assets held for sale

For information on the method in which these items are measured, see Note 3, Significant Accounting Policies.

Note 2 - Basis of Preparation (cont'd)

2.3 Functional and presentation currency

The consolidated financial statements are presented in NIS, which is the functional currency of the Company. The financial information is presented in NIS millions and has been rounded to the nearest million. The NIS is the currency that represents the principal economic environment in which the Group operates.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. The estimates and their relevant assumptions are based on past experience and on other factors, including expectations relating to future events, which management considers reasonable under the circumstances. Actual results may differ from the estimates made.

Additionally, these estimates and underlying assumptions are reviewed on an ongoing basis. The judgments made by management when implementing IFRS and determining the estimates are discussed in Note 4.

2.5 Operating cycle

The Group's operating cycle is one year. As a result, current assets and current liabilities include items designated and expected to be realized within one year.

2.6 Adjustment due to retrospective implementation of changes in accounting policy

Commencing in 2016 the Group changed its accounting policy with regard to the classification of the results of the acquisition of non-controlling interests to equity. In the financial statements up to and including the financial statements as at December 31, 2015, the Group classified the consideration paid for changes in non-controlling interests as the Company's shareholders' share, directly to retained earnings. In these financial statements, the said difference is classified to the reserve from transactions with non-controlling interests. The comparative data for prior periods were classified accordingly. The Group is of the view that this classification more fairly reflects the economic nature of these transactions.

Impact of the retrospective adjustment on the statement of financial position:

NIS millions	As at December 31, 2015		
	As reported formerly	**Impact of retrospective implementation of accounting policy**	**As reported in these financial statements**
Retained earnings	1,804	4	1,808
Reserves	(965)	(4)	(969)

Note 2 - Basis of Preparation (cont'd)

2.6 Adjustment due to retrospective implementation of changes in accounting policy (cont'd)

Impact of the retrospective adjustment on the statement of changes in equity:

NIS millions	As at December 31, 2015		
	As reported formerly	Impact of retrospective implementation of accounting policy	As reported in these financial statements
Retained earnings	1,804	4	1,808
Reserve from transactions with non-controlling interests	-	(4)	(4)

NIS millions	As at December 31, 2014		
	As reported formerly	Impact of retrospective implementation of accounting policy	As reported in these financial statements
Retained earnings	1,633	4	1,637
Reserve from transactions with non-controlling interests	-	(4)	(4)

NIS millions	As at January 31, 2014		
	As reported formerly	Impact of retrospective implementation of accounting policy	As reported in these financial statements
Retained earnings	1,387	4	1,391
Reserve from transactions with non-controlling interests	-	(4)	(4)

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently in all periods presented in the consolidated financial statements. The accounting policies have been applied consistently by all Group companies. Policies that represent a choice in accounting treatment are presented in this Note in bold print.

3.1 Basis of consolidation

3.1.1 Business combinations

The Group applies the acquisition method to all business combinations.

The acquisition date is the date whereon the acquirer obtains control over the acquiree. Control exists when the Group is exposed to, or the rights owner of, varying returns as a result of its involvement in the acquiree and has the ability to influence these returns through its influence in the acquiree. In reviewing control, tangible rights held by the Group and others are taken into account.The Group recognizes goodwill on acquisition according to the fair value of the

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.1 Business combinations (cont'd)

Consideration transferred including any amounts recognized in respect of rights that do not confer control in the acquiree less the net amount of the identifiable assets acquired and the liabilities assumed.

On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

Furthermore, goodwill is not adjusted in respect of the utilization of carryforward tax losses that existed on the date of the business combination.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, liabilities incurred by the acquirer from the previous owners of the acquire and equity instruments that were issued by the Group. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in fair value of the contingent consideration classified as a financial liability in profit or loss.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as valuation and professional or consulting fees, other than those associated with an issuance of debt or equity instruments related to the business combination, are expensed in the period wherein the services are received. **The Group recognizes costs related to business combinations as other expenses.**

3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are adjusted to align them with the policies adopted by the Group.

3.1.3 Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company and they include additional components such as share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

<u>Measurement of non-controlling interests on the date of the business combination</u>
Non-controlling interests, which are instruments granting a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.3 Non-controlling interests (cont'd)

Allocation of other comprehensive income or loss among shareholders
Profit or loss and any components of other comprehensive income are attributed to the owners of the Company and the non-controlling interests. The total profit or loss and other comprehensive income are attributed as mentioned even when the result is a negative balance of the non-controlling interests.

Transactions with non-controlling interests while retaining control
Transactions with non-controlling interests while retaining control are accounted for as capital transactions. **Any variance between the consideration paid or received and the change in non-controlling interests is classified to the reserve from transactions with non-controlling interests.**
The amount of the adjustment to non-controlling interests is calculated as follows:

For an increase in the holding rate, according to the proportionate share acquired from the balance of non-controlling interests in the consolidated financial statements prior to the transaction.

For a decrease in the holding rate, according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.

Furthermore, when the holding rate in the subsidiary changes, while retaining control, the Company re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

3.1.4 Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Subsequently, the retained interest is accounted for according to the level of influence retained by the Group in the relevant company. **The difference between the sum of the proceeds and fair value of the retained interest, and the derecognized balances, is recognized in profit or loss under other income or expenses.**

3.1.5 Investment in associates and joint ventures

Associate companies are entities in which the Group has a significant influence over financial and operating policies, but not control or joint control, generally expressed in the holding of 20% to 50% of the voting rights. Joint arrangements in which the Company has rights to the net assets of the joint arrangement are classified as joint ventures. Investments in associates and joint ventures are accounted for in the equity method, and the investment is initially recognized at cost, including transaction costs. The consolidated financial statements include the Group's share of profit or loss and of other comprehensive income of equity-accounted investees, Following adjustments, to the extent required, to align accounting policies to those adopted by the Group, from the date on which the significant influence or joint control occurs, until the date whereon such influence and control no longer exist.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.5 Investment in associates and joint ventures (cont'd)

The joint ventures' operations constitute an integral part of the Group's operations, and accordingly, the Group's share in their results is included in the operating profit in the statement of income.

In the event of a decrease in the holding rate of an equity-accounted investee while retaining significant influence or joint control, the Group detracts a relative portion from its investment, and **recognizes a profit or loss from the sale, under the other income or expenses item in the statement of income.**

3.1.6 Transactions eliminated on consolidation

Intra-group balances and any unrealized income and expenses arising from intra-group transactions were eliminated in preparing the consolidated financial statements. **Unrealized gains arising from transactions with equity-accounted investees were eliminated against the investment according to the Group's interest in these investments.**

Unrealized losses were eliminated in the same way as unrealized gains, provided, however, that there is no evidence of impairment.

3.2 Foreign currency

3.2.1 Foreign currency transactions

Foreign currency transactions are translated into the relevant functional currency of the Group companies according to the exchange rate in effect on the transaction date. **Exchange differences arising on the settlement of monetary items or on reporting monetary items at exchange rates different from those at which they were initially recorded during the period or reported in previous financial statements are charged to specific income or expense items according to the nature of the monetary item (exchange differences in respect of trade receivables are recognized in income, exchange differences in respect of trade payables are recognized in the cost of sales, and exchange differences in respect of foreign currency loans are recognized in financing costs).**

Monetary items are translated using the exchange rate at the date of the statement of financial position. Nonmonetary items denominated in foreign currency and measured at historical cost are translated using the exchange rate at the date of the transaction.

3.2.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, were translated into NIS according to the exchange rates in effect as at the reporting date. The income and expenses of foreign operations were translated into NIS using the exchange rates in effect at the transaction dates.

Note 3 - Significant Accounting Policies (cont'd)

3.2 Foreign currency (cont'd)

3.2.2 Foreign operations (cont'd)

Exchange differences in respect of translation were recognized directly in other comprehensive income as a separate item of equity, translation reserve. When the foreign operation is a non-wholly-owned subsidiary of the Group, the relevant proportionate share of the foreign operation translation differences is allocated to the non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control, is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit and loss as a part of the gain or loss on disposal. In addition, when the Group's interest in a subsidiary that includes a foreign operation changes while control of the subsidiary is retained, a proportionate part of the cumulative amount of translation differences that was recognized in other comprehensive income is reattributed to non-controlling interests.

As a rule, exchange differentials in respect of loans received or granted to a foreign operation, including foreign operations which are subsidiaries, are recognized in income statements in the consolidated reports. When the settlement of loans received or granted to a foreign operation is neither planned nor likely in the foreseeable future, gains and losses from exchange differentials arising from these monetary items are included as part of the net investment in the foreign operation and are recognized in other comprehensive income, and are presented within equity in the translation reserve.

3.3 Financial instruments

3.3.1 Non-Derivative Financial Instruments

Non-derivative financial instruments include investments in cash and cash equivalents, securities, deposits, short and long-term trade and other receivables, loans and credit received, debentures issued, and trade and other payables.

Non-derivative financial instruments are initially recognized at fair value plus any directly attributable transaction costs. A financial instrument is recognized when the Group assumes the contractual conditions of the instrument. Financial instruments are derecognized when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers the financial assets to others without retaining control over the asset, or in practice transfers all the risks and rewards arising from the asset. Purchases and sales of financial assets made in the usual way are recognized on the transaction date, i.e. on the date the Group undertook to purchase or sell the asset. Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is settled or cancelled.

<u>Loans and receivables</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognized at fair value plus any attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized costs using the effective interest method, less losses from securities.
Loans and receivables include cash and cash equivalents, trade and other receivables and long-term debit balances.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.1 Non-Derivative Financial Instruments (cont'd)

Cash and cash equivalents
In the statements of financial position cash or cash equivalents include cash, short-term deposits with banks and other highly liquid short-term investments, the term of which at the time of deposit is no more than three months.

Available-for-sale financial assets
The Group's investments in available-for-sale financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3.10.3), are recognized directly in other comprehensive income and presented in equity. When an investment is sold, the cumulative gains or losses accrued in equity are recognized in the statement of income. Dividends on available-for-sale equity instruments are recognized in the statement of income when the Group's right to receive payments is established.

Financial assets at fair value through profit or loss
The Group's financial assets, which include securities held to support the Group's short-term liquidity requirements, are classified as held for trading and measured at fair value through profit or loss. Attributable transaction costs are recognized in the statement of income when incurred.

Non-derivative financial liabilities
Non-derivative financial liabilities include debentures and loans received, and short and long-term trade and other payables. Financial liabilities are initially recognized at fair value plus any attributable transaction costs. After initial recognition, these liabilities are measured at amortized cost using the effective interest method.

Transaction costs directly attributed to the expected issuance of an instrument that will be classified as a financial liability are recognized as deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon first recognition, or are deducted as financing expenses in the statement of income when the issue is no longer expected to take place.
Financial liabilities are derecognized when the Group's obligation has expired, has been discharged or has been cancelled.

Offset of financial instruments
Financial assets and liabilities are offset and the net amounts presented in the statement of financial position when there is an immediate legal right to offset the amounts recognized, which is legally enforceable in all of the following circumstances: in the ordinary course of business, in the event of failure of credit and in the event of insolvency or bankruptcy of the entity and all counterparties, and there is an intention either to settle the financial assets and financial liabilities on a net basis, or to realize the asset and settle the liability simultaneously.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.2 Derivative financial instruments

Derivatives
The Group holds derivative financial instruments mainly to economically hedge against risks relating to commodity prices and against interest, index and foreign currency risks arising from its operating, financing and investing activities. The derivative financial instruments mainly comprise forward contracts and options on currencies, index and interest as well as commodity forwards and options. Derivatives not considered accounting hedges are initially recognized and measured at fair value at each cutoff date, with changes in fair value recognized in the statement of income. Costs that can be specifically allocated to a transaction are recognized in profit or loss when incurred. **Gains and losses on commodity forwards are presented under cost of sales whereas other gains and losses are presented under financing costs.**

3.3.3 CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured in each period in accordance with the actual increase or decrease in the CPI.

3.3.4 Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributed to the issuance of ordinary shares and share options net of tax effect are recognized as a deduction from equity.

Treasury shares
When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, plus directly attributable costs, is recognized as a deduction from equity**. Repurchased shares are classified as treasury shares.**

3.3.5 Redeemable preferred shares held by non-controlling interest holders

Preferred shares which are redeemable at the holders' option are classified as liabilities. Dividends on such shares are presented as a reduction of liabilities, while the interest in their respect is recorded as financing expenses when the dividends are declared.

3.4 Fixed assets

3.4.1 Recognition and measurement

Fixed asset items are measured at cost (including advance payments in respect of trade payables) less investment grants, accumulated depreciation and accumulated impairment losses (see Note 3.10.1). The cost of self-constructed assets includes the costs of materials and direct labor, and any other costs directly attributable to bringing the assets to the location and condition required for their intended use. The Group capitalizes borrowing costs to specific and non-specific credit in respect of fixed assets that require a considerable period of time to

Note 3 - Significant Accounting Policies (cont'd)

3.4 Fixed assets (cont'd)

3.4.1 Recognition and measurement (cont'd)

prepare for their intended use, during the period required for completion and construction until the date on which they are ready for their designated use.

Gain or loss on the disposal of a fixed asset item is determined by comparing the net proceeds from disposal with the carrying amount of the asset, and is recognized net within "other income" or "other expenses", as relevant, in the income statement.

3.4.2 Spare parts and tools

Spare parts and tools are presented as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise classified as inventory.

3.4.3 Subsequent costs

Improvement and enhancement costs are added to the cost of the fixed asset if it is expected that the future economic benefits embodied in the improvement will flow to the Group and their costs can be measured reliably. The costs of day-to-day maintenance are recognized in the statement of income as incurred.

3.4.4 Leasehold improvements

The costs of leasehold improvements are presented as fixed assets and amortized over the shorter of the lease period or the estimated useful life of the improvements, on a straight-line basis.

3.4.5 Depreciation

Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful life of each part of a fixed asset item as presented below, other than land, which is not depreciated.

The principal depreciation rates for the years 2014-2016 are as follows:

	%	
Buildings and leased lands	2-5	(mainly 2.5)
Machinery, equipment	4-30	(mainly 4-20)
Motor vehicles	15-20	
Furniture and other equipment	3-33	
Leasehold improvements	2-33	

Residual values and useful lives of the assets, and the depreciation method, are reviewed and revised as necessary at least once a year.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets

3.5.1 Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. In subsequent periods goodwill is measured at cost less accumulated impairment losses. For information on measurement of goodwill at initial recognition, see Note 3.1.1.

3.5.2 Development of software for self-use

Costs that are directly related to the development of unique identified software products that are controlled by the Group and satisfy the conditions for recognition as intangible assets, as described in paragraph 3.5.3 below, are recognized as intangible assets.

Capitalized costs include direct labor costs and other direct costs accumulated until the date whereon the software is available for use.

3.5.3 Research and development

Expenditure on research activities is recognized in the statement of income when incurred. Costs incurred during development are recognized as an intangible asset if it is possible to demonstrate the technological feasibility of completing the intangible asset so that it will be available for use or sale; the intention of the Group to complete the intangible asset and to use or sell the asset; the ability to use the intangible asset or sell it; the manner in which the intangible asset will create future economic benefits; the existence of sufficient resources, technical and other, to complete the intangible asset and the ability to reliably measure the expense required for its development.

The asset is tested for impairment once a year during the development period, and also during the period in which the asset is not available for use. Subsequent to initial recognition the asset is measured at cost less accumulated amortization and accumulated impairment losses.

Amortization of the asset begins when development has been completed and the asset is available for use.

3.5.4 Other intangible assets

Other intangible assets include brands, customer relationships and non-competition agreements that were acquired.

3.5.5 Subsequent expenses

Subsequent expenses are costs that were incurred after the recognition of the intangible asset for the purpose of adding to the asset, replacing part of it or for its maintenance. Subsequent expenses are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenses, including expenses related to internally generated goodwill and brands, are recognized in the statement of income when incurred.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

3.5.6 Amortization

Intangible assets having a finite useful life are measured at cost net of accumulated amortization and impairment losses.

Amortization is recognized in the statement of income on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use.

The annual rates of amortization for the years 2014-2016 are as follows:

	%	
Brands	10-20	
Computer software	10-33	(mainly 25)
Other*	10-20	

* Customer relationships are amortized using the undiscounted cash flow method.

Goodwill and assets having an indefinite useful life are not amortized systematically, but rather will be tested annually for impairment. Intangible assets that are not amortized include certain brands and trademarks.
Amortization methods, useful lives and residual values are reviewed at the end of each reporting period at minimum and adjusted if appropriate. The Group evaluates the useful life of an intangible asset that is not being amortized at least once annually to determine whether events and circumstances continue to support an indefinite useful life.

3.6 Deferred expenses

Mainly includes prepaid expenses in respect of operating leases, which are amortized over the lease period on a straight-line basis. See Note 24.4.7.

3.7 Investment property

Investment property is property (land or buildings – or part of a building – or both) held (as owner or as lessee under a finance lease) either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

Investment property is initially measured at cost including capitalized borrowing costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Transaction costs are included in this initial measurement. **Subsequent to initial recognition the Group measures its investment property at historical cost less accumulated depreciation and impairment.** The cost is depreciated in the straight line method over the useful life of the property, The cost of self-constructed investment property includes the costs of materials and direct labor, and any other costs directly attributable to bringing the property to the condition required for it to operate as intended by management.

Note 3 - Significant Accounting Policies (cont'd)

3.7 Investment property (cont'd)

The principal depreciation rates are as follows:

	%	
Buildings	2.5	(Most of the buildings included in investment property assets have been fully depreciated)
Leased land	2	Or over the lease period (including options likely to be exercised) if longer
Owned land	-	

Fixed assets which according to the Company's decision are no longer intended for use by the Group but will be held for the purpose of producing rental revenues or to increase their capital Value will be classified as investment property from such date onward and will be treated as described above.

Any gain or loss on disposal of an investment property is determined by comparing the proceeds from disposal and the carrying amount of the item, and is recognized under other income or expenses, as the case may be, in the statement of income.

3.8 Leased assets

Leases, including land leases from the Israel Lands Administration, in which the Group has assumed substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets are recorded and a liability recognized in an amount equal to the lower of fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Future payments for exercising an option to extend the lease from the Israel Lands Administration are not recognized as part of an asset and corresponding liability since they constitute contingent lease payments that are derived from the fair value of the land on the future renewal dates of the lease agreement.

Other leases are classified as operating leases and the leased assets are not recognized on the Group's statement of financial position.

When a lease includes both a land component and a buildings component, each component is considered separately for the purpose of classifying the lease, with the principal consideration in classifying the land component being the fact that land normally has an indefinite useful life.

<u>Operating lease payments</u>
Minimum lease payments made under operating leases, excluding conditional lease payments, are recognized in the statement of income on a straight-line basis over the term of the lease. Prepayments to the Israel Lands Administration in respect of leased lands classified as operating leases are presented as deferred expenses and recognized in the statement of income over the lease period (see Note 3.6).

Note 3 - Significant Accounting Policies (cont'd)

3.8 Leased assets (cont'd)

Finance lease payments

Minimum lease payments made under finance leases are apportioned between the financing expense and the reduction of the outstanding liability. The financing expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.9 Inventory

Inventory is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventory cost is determined using the moving average method, as follows:

Raw materials and packaging materials	–	At cost.
Goods in process and finished goods	–	At calculated cost.
Goods purchased	–	At calculated cost.

3.10 Impairment

3.10.1 Non-financial assets

For impairment testing purposes, goodwill acquired in a business combination is allocated to cash-generating units, including those existing in the Group prior to the business combination, which are expected to benefit from the synergies arising from the combination. In testing for impairment assets are allocated to the lowest levels that generate separate identifiable cash flows (cash-generating units).

Assets with an indefinite useful life such as goodwill and intangible assets not yet available for use are not amortized and are tested for impairment once a year. Other non-financial assets (excluding inventory, deferred tax assets and employee benefits assets – see accounting policy 3.9, 3.17 and 3.12, respectively) are tested for impairment if there have been any occurrences or changes in circumstances indicating that their carrying amount will not be recoverable. Impaired non-financial assets, excluding goodwill, are tested at each statement of financial position date to identify the possible reversal of the impairment that was recognized in their respect.

The impairment loss recognized is equal to the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less selling expenses and its value-in-use.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. **Impairment losses for goodwill and other indefinite-lived intangible assets are classified as other expenses in the statement of income.**

Note 3 - Significant Accounting Policies (cont'd)

3.10 Impairment (cont'd)

3.10.1 Non-financial assets (cont'd)

For goodwill impairment testing purposes, when the non-controlling interests were initially measured according to their relative share of the acquiree's net assets the carrying amount of the goodwill is adjusted according to the Company's holding percentage in the cash-generating unit to which the goodwill is allocated.

3.10.2 Trade and other receivables

The Group tests trade and other receivables, which are measured at amortized cost, for impairment when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

In management's opinion, the provisions for doubtful debts adequately reflect the loss embodied in those debts, which collection is doubtful. Management's determination of the adequacy of the provision is based, *inter alia*, on an evaluation of the risk by considering the available information on the financial position of the debtors, the volume of their business and An evaluation of the collateral received from them. Doubtful debts, which Company management considers unlikely to be collected, are written off the Company's books.

Significant trade receivable balances are tested for impairment on an individual basis. The remaining trade receivables are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of the trade and other receivables' balance is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate, **and is recognized as selling and marketing expenses in the statement of income.**

An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized, and is recognized in the statement of income.

3.10.3 Available-for-sale financial assets

An impairment loss in respect of an available-for-sale financial asset is calculated on the basis of its fair value. **According to Group policy, impairment of an investment in an equity instrument of over 20% below the original cost of the asset, or impairment to below the original cost lasting more than nine months, is considered material or prolonged impairment, respectively**, of the fair value of the equity instrument and is objective evidence of impairment. An impairment loss on an available-for-sale financial asset is recognized by transferring the cumulative loss, which is recognized in the capital reserve, to the income statement.

An impairment loss on available-for-sale financial assets is recognized as other expenses in accordance with the Group's accounting policy (see Note 3.3.1).

Note 3 - Significant Accounting Policies (cont'd)

3.10 Impairment (cont'd)

3.10.4 Investments in associates and joint ventures accounted for in the equity method

An investment in an associate or joint venture accounted for in the equity method is tested for impairment when there is objective evidence of impairment.

Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognized separately, and therefore is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value-in-use and its net selling price. In estimating value-in-use of an investment in an equity-accounted investee, the Group either estimates its share of the present value of estimated future cash flows that are expected to be generated by the investee, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and is recognized as other expenses in the statement of income. An impairment loss is not allocated to any asset,

Including goodwill that forms part of the carrying amount of the investment in the equity-accounted investee.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized. The investment's carrying amount, after the reversal of the impairment loss, shall not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

3.11 Non-current assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction and not through continuing use.

Before classification as held for sale, the assets are measured in accordance with the Group's accounting policies. In subsequent periods the assets are measured at the lower of their carrying amount and fair value less cost to sell. Depreciable assets classified as held for sale are not depreciated periodically.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in the statement of income. Gains are not recognized in excess of any cumulative impairment loss recorded in the past.

Note 3 - Significant Accounting Policies (cont'd)

3.12 Employee benefits

3.12.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The Group's obligations to make contributions to defined contribution plans in respect of post-retirement benefits are recognized as an expense in the statement of income in the periods in which the employees rendered related services.

3.12.2 Defined benefit plans

The Group's net obligation in respect of defined benefit post-retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The Group determines the net interest on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset).

The discount rate is the yield on the date of the statement of financial position on high yield linked corporate debentures, the maturity dates and currencies of which are similar to the terms of the Group's obligations. The net obligations of the Group also include unrecognized actuarial gains and losses (see below). The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (insofar as relevant, excluding interest). **Remeasurements are recognized immediately, directly in retained earnings, through other comprehensive income**.

The Group offsets the assets of one benefit plan from the liability in another benefit plan only when there is a legally enforceable right to use the surplus of one plan to settle the obligation in respect of another plan, and there is intent to settle the obligation on a net basis or to simultaneously realize the surplus of one plan and settle the obligation in another.

Net interest that was recognized in the statement of income is presented under wage expenses.

3.12.3 Paid vacation and employee convalescence allowance

Employee benefits are classified, for measurement purposes, as short-term benefits or as long-term benefits depending on when the Company expects the benefits to be wholly settled. Employee benefits are classified according to the date whereon the liability falls due.

The Group recognizes the liability and the expense of the payment of leave and convalescence allowance as short-term, according to the entitlement of each employee on a non-discounted basis.

Note 3 - Significant Accounting Policies (cont'd)

3.12 Employee benefits (cont'd)

3.12.4 Share-based payment transactions

The Company recognizes the benefit created upon granting option warrants to employees as a wage expense, with a corresponding increase in retained earnings, in accordance with the grant date fair value of the option warrants on the basis of the Black & Scholes model.

The benefit is recognized over the vesting period of the option warrants based on the Company's estimates regarding the number of warrants that are expected to vest.

3.12.5 Termination benefits

Employee termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

3.13 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the liability, without adjustment for the Company's credit risk. The carrying amount of the provision is adjusted each period to reflect the time that has passed.

When an outflow of economic benefits is not expected to be required or when the amount cannot be reliably estimated, disclosure of a contingent liability is made, other than when the probability of an outflow of economic benefits is remote.

The Group recognizes a reimbursement asset if, and only if, it is virtually certain that the reimbursement will be received if the Company settles the obligation. The amount recognized in respect of the reimbursement does not exceed the amount of the provision.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and restructuring either has commenced or has been announced publicly. The provision includes direct expenditures caused by and essential for the restructuring, and which are not associated with the continuing operations of the Group.

A provision for onerous contracts is recognized when the expected benefits that will be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of upholding the contract.

Provisions for legal actions were created as a result of legal processes occurring in the ordinary course of the Group's business. A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the obligation can

Note 3 - Significant Accounting Policies (cont'd)

3.13 Provisions (cont'd)

be reliably estimated. Cancellation of these provisions refers to a situation in which proceedings have been concluded in the Group's favor. The timing of the expected cash flows in respect of these legal proceedings is uncertain, as it depends on their outcome. Therefore, the provisions are not presented at their current value (the impact of the discount is immaterial).

3.14 Revenue

3.14.1 Sale of products

3.14.1.1 Sale of goods

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. The Group recognizes revenue when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Sales on long-term credit are recorded at the present value of the consideration. Interest income deriving from these transactions is recorded as financing income over the excess credit period.

When it is possible to identify the separate components of a transaction, such as sale of a product and service, revenue is measured in respect of each separate component, and the consideration is allocated on the basis of the fair value of each component, separately.

3.14.1.2 Sale of water appliances for installment payments

Revenue from the sale of water appliances for installment payments, in which framework the Group supplies additional goods and services throughout the term of the contract, is split between the components of the transaction, in such manner that the income from the sale of appliances is recognized at the transaction date, and the income from the additional goods and services is deferred and recognized over the term of the contract. Interest income/expenses deriving from these transactions are recognized in financing income/expenses.

3.14.2 Coffee machine leasing

Revenue from the leasing of coffee machines under a lease classified as an operating lease is recognized over the term of the contract.

3.14.3 Revenue from services

Revenue from services rendered is recognized in the statement of income pro rata to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on the percentage of the service already rendered.

Note 3 - Significant Accounting Policies (cont'd)

3.14 Revenue (cont'd)

3.14.4 Customer discounts

Customer discounts are deducted from revenue on a cumulative basis when the terms and conditions entitling the customer to a discount are created, on the basis of the total annual volume of orders or sales campaigns held by the Group.

In March 2014 the Food Law was published in the Official Gazette. The Food Law determines, inter alia, prohibitions and limitations on actions and arrangements between food suppliers and retailers, including price fixing and the arrangement of shelf space. After the Food Law took effect at the beginning of 2015 certain costs were classified as discounts that are deducted from sales, as opposed to prior years in which similar costs were classified as part of selling and marketing expenses.

3.15 Government grants

Unconditional government grants are initially recognized at fair value when there is reasonable assurance that they will be received and the Group will meet the conditions associated with the grant.

Government grants that compensate the Group for expenses incurred are presented as a deduction from the corresponding expenses and recognized in the statement of income on a systematic basis, in the same periods in which the expenses are recognized in the statement of income. Government grants received for the acquisition of assets are presented as a deduction from the relevant assets and are recognized in the statement of income on a systematic basis over the useful life of the asset, as mentioned in Note 3.4.1 above.

Grants from the Chief Scientist in respect of research and development projects are accounted for as Forgivable Loans according to IAS 20. Grants received from the Chief Scientist are recognized as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The difference between the amount received and the fair value on the date of receipt of the grant is recognized as a reduction of research and development expenses. The amount of the liability is reviewed each period, and any changes are recognized in the statement of income.

3.16 Financing income and expenses

Financing income and expenses mainly comprise interest income on funds invested, interest expenses on loans received, net gains (including dividends) on changes in the fair value of financial assets presented at fair value through the statement of income, net foreign exchanges gains, and gains/losses on derivative instruments recognized in the statement of income, excluding commodity derivatives. Interest income and expenses are recognized as they accrue, using the effective interest method, except for borrowing costs that were capitalized to fixed assets (see also Note 3.4.1). Interest income in respect of sales on long-term credit, which is measured at the present value of the relative consideration, is recorded as financing income.

Note 3 - Significant Accounting Policies (cont'd)

3.16 Financing income and expenses (cont'd)

In the statements of cash flows, interest received and interest paid are presented as part of cash flows from operating activities excluding credit costs that were discounted to qualifying assets and paid in cash, which are presented together with fixed asset acquisitions in cash flows from investing activities. Dividends paid are presented under financing activities and dividends received are presented under investing activities.

3.17 Income tax expense

Income tax comprises current and deferred tax. Current and deferred taxes are recognized in the statement of income unless they relate to a business combination or are recognized directly in equity or in other comprehensive income if they relate to items recognized directly in equity or in other comprehensive income. In these cases, the income tax expense is recognized in equity or in other comprehensive income.

<u>Current tax</u>
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and also includes any adjustments to taxes in respect of prior years and any incremental tax arising from dividends.

<u>Offset of current tax assets and liabilities</u>
The Group offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

<u>Deferred tax</u>
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred tax for temporary differences on the initial recognition of goodwill as well as differences relating to investments in subsidiaries and joint ventures if the Group controls the timing of reversal of the difference and if it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized when it is probable that future taxable profits will be available against which temporary differences can be utilized or in the absence of forecasts for Taxable income. Deferred tax assets are recognized up to the amount of taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

<u>Offset of deferred tax assets and liabilities</u>
The Group offsets deferred tax assets and liabilities if there is a legally enforceable right to offset current tax assets and liabilities and they relate to the same tax authority in the same

Note 3 - Significant Accounting Policies (cont'd)

3.17 Income tax expense (cont'd)

Assesse company or different companies, which intend to settle current tax assets and liabilities on a net basis or simultaneously.

<u>Additional tax in respect of the distribution of dividends</u>
The Group may be liable for additional tax in the event of the payment of dividends by the Group companies. This additional tax was not included in the financial statements, as it is the policy of the Group companies to avoid distribution of a dividend that involves the imposition of additional tax on the recipient company in the foreseeable future. In cases where an investee company is expected to distribute a dividend deriving from profits that involves the imposition of additional tax on the Company, the Company creates a tax reserve in respect of the additional tax for which the Company may be liable as a result of distribution of the dividend.
Additional income tax in respect of the distribution of dividends is recognized in the income statement on the date when the liability to pay the corresponding dividend is recognized.

3.18 Supplier discounts

Discounts received from suppliers in which respect the Group is not obligated to meet certain targets are included in the financial statements upon making the proportionate part of the purchases entitling the Group to the said discounts.

3.19 Advertising expenses

Advertising expenses are recognized in the statement of income as incurred.

3.20 Contribution to joint venture expenses

Revenues from contributions to expenses by related and other companies are recorded on an accrual basis according to specific agreements with the companies, and are included in the relevant expense items.

3.21 Earnings per share

The Group presents basic and diluted EPS with respect to its ordinary share capital. The basic earnings per share are calculated by dividing the income or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, after adjustment for treasury shares. Diluted EPS are calculated by adjusting the income or loss attributable to the ordinary shareholders of the Company and adjusting the weighted average of ordinary shares outstanding, after adjustment for treasury shares and for the impact of all potentially dilutive ordinary shares, which include option warrants granted to employees.

Note 3 - Significant Accounting Policies (cont'd)

3.22 New standards not yet adopted

3.22.1 IFRS 9 (2014), Financial Instruments

IFRS 9 (2014) replaces IAS 39: *Financial Instruments: Recognition and Measurement*. IFRS 9 (2014) contains revised guidance for the classification and measurement of financial instruments, a new expected credit loss model for most debt instruments, requiring more timely recognition of expected credit losses, and new hedge accounting requirements.

The Group intends to apply the standard commencing on January 1, 2018 without providing comparative information, adjusting retained earning balances and other equity components as at January 1, 2018 (the date of initial application of the standard) if there is any such impact.

The Group is currently reviewing the implications of applying the standard, and estimates that its application is not expected to have a material impact on the financial statements of the Group.

3.22.2 IFRS 15, Revenue from Contracts with Customers

The standard replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. The standard provides two approaches for recognizing revenue: at a single point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. The standard also defines new and more extensive disclosure requirements than those that exist at present.

The Group appointed a team to review the anticipated impacts of the application of IFRS 15 on its financial statements and is reviewing the impacts of its application.

The Group intends to apply the standard commencing on January 1, 2018 in the aggregate effect method, adjusting retained earning balances as at January 1, 2018. The Group is also considering the application of the aggregate effect method only to contracts that are not completed as at the transition date. In the Group's estimation, implementation of the standard is not expected to have a material impact on its consolidated financial statements. With respect to the operations of the subsidiary Strauss Water Ltd., the review of the implications of applying IFRS 15 has not yet been completed.

3.22.3 IFRS 16, Leases

The standard replaces IAS 17, *Leases*, and related interpretations. The provisions of the standard revoke the current requirement that lessees classify leases as either operating leases or finance leases, and instead, introduce a single lessee accounting model. In applying the model, the lessee is required to recognize the asset and liability in respect of the lease in its financial statements. The standard further determines new disclosure requirements that are broader in scope than those that exist today.

IFRS 16 will be applied for annual periods beginning on January 1, 2019.
The Group is reviewing the implications of IFRS 16 on its financial statements and does not plan on its early adoption.

Note 4 - Critical Accounting Policies and Management's Judgments

The judgments of management and its estimates are reviewed on an ongoing basis and are based on past experience and various factors, including expectations regarding future events.

The Group makes estimates and assumptions regarding the future. The accounting estimates deriving from these assumptions may, by nature, differ from actual results. The estimates and assumptions that in the next fiscal year may result in significant adjustment to the carrying amount of assets and liabilities are discussed below.

Impairment of assets
In accordance with IAS 36, on every reporting date the Group examines the existence of any events or circumstances that may indicate impairment in the value of non-financial assets included in its scope, including investments in joint ventures, accounted for using the equity method. When there are signs indicating impairment, the Group examines whether the carrying amount of the asset exceeds its recoverable amount.

Once a year on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash-generating unit that contains goodwill or intangible assets that have indefinite useful lives or are unavailable for use. If necessary, the Group writes down the asset to its recoverable amount and recognizes an impairment loss. The assumptions regarding future cash flows are based on past experience with the specific asset or similar assets, and on the expectations of the Group regarding the economic conditions that will exist over the remaining useful life of the asset. The Group uses estimates of appraisers when determining the net sales price of assets. With respect to real estate, the estimates take into account market conditions for real estate in a similar location. See also Note 15.3 regarding assumptions and risk factors relating to goodwill impairment.

Valuation of intangible assets and goodwill
The Group is required to allocate the acquisition cost of investee companies to assets acquired and to liabilities assumed on the basis of their estimated fair value. In major acquisitions, the Group engages independent appraisers who assist it in determining the fair value of these assets and liabilities. These valuations require management to apply significant estimates and assumptions. The principal intangible assets recognized in recent years include customer relationships, trademarks and brands. Critical estimates used in estimating the useful life of these intangible assets include, *inter alia*, an estimate of the period of customer relationships, the period of use of a brand and anticipated market developments. Critical estimates used to estimate certain intangible assets include, *inter alia*, anticipated cash flows from customer contracts and replacement costs of brands. The estimates of management regarding fair value and useful life are based on assumptions considered reasonable by management but are uncertain, and consequently, actual results may differ. See also Note 15.2 regarding Intangible assets with indefinite useful lives.

Contingent liabilities
The Company has a procedure in place for examining and determining the amounts of provisions recorded in respect of legal claims pending against the Company and its investee companies. Legal opinions are received each quarter from legal counsel handling the claims on the behalf of the Company, who, in an opinion presented to the Company, assess the chances of the claims' success and indicate whether it is probable (above 50%) or improbable (50% or less) that the claim will be accepted. When a claim is unlikely to be accepted no provision is recorded

Note 4 - Critical Accounting Policies and Management's Judgments (cont'd)

On the Company's books, but disclosure is provided in the framework of Note 24 to the financial statements if the claim is significant. When acceptance of the claim is probable, the Company estimates the amount of the exposure based on the assessment of its legal counsel, the experience accumulated by the Company and the specific circumstances of the case, and recognizes a provision in the financial statements on the basis of this assessment. The legal Proceedings will ultimately be decided by the courts and consequently their results may differ from these estimates. In the course of the process of approving the Company's annual financial statements, the board of directors' balance sheet committee performs control processes also with respect to the claims pending against the Company, and these claims, including their amounts, the Company's legal counsel's assessment of the extent of exposure and their chances of success, as well as the amount of the provisions made in their respect in the financial statements, are presented to the committee.

Provision for doubtful debts

The Group applies the guidance provided in IAS 39 to determine whether there has been impairment of the trade receivables balance. This decision requires that significant judgment be applied. When applying this judgment the Group takes into account, *inter alia*, the accounts receivable age analysis, bad debt history, debt collection patterns, financial strength and a short-term analysis of customer businesses and industry trends. See also Note 9 and Note 28.1 regarding exposure to credit risk related to accounts receivable.

Deferred tax assets

Recognition of a deferred tax asset in respect of tax losses – Company management estimates whether taxable profits are expected in the foreseeable future, against which losses can be utilized, and accordingly, recognizes (or does not recognize) a deferred tax asset. The possible implication of this estimate is the recognition or of a deferred tax asset in profit or loss. For further information on losses in which respect a deferred tax asset was recognized, see Note 35 regarding taxes on income.

Uncertain tax positions

The Group is assessed for tax purposes in numerous jurisdictions, and accordingly, Group management is required to apply significant judgment in determining provisions and tax reserves according to local and international tax laws. The Group has transactions and tax positions in which respect the final tax liability is uncertain in the ordinary course of business. The Group recognizes provisions in respect of amounts expected to apply to it following tax audits, based on its estimates as to the possibility that additional taxes will be imposed. If the final tax liability is different from the liability recorded on the books, the differences will affect the provisions for income taxes in the period in which the final assessment is determined by the tax authorities. For further information on uncertain tax positions, see also Note 35.7 on tax assessments.

Note 5 - Determination of Fair Value

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 16.3, on assets held for sale;
- Note 20.2, on loans and other long term liabilities;
- Note 23, on share-based payments;
- Note 28, on financial instruments; and

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data (unobservable inputs).

Note 6 - Subsidiaries

6.1 Information on primary subsidiaries

	Percentage of equity and control (%)			Country of incorporation and main location of company operations
	December 31			
	2016	2015	2014	
Strauss Health Ltd.	80	80	80	Israel
Strauss Fresh Foods Ltd. .(1)	-	-	100	Israel
Yad Mordechai Strauss Apiary Ltd	51	51	51	Israel
Uri Horazo Yotvata Dairies Ltd. (2)	50	50	50	Israel
Strauss Water Ltd. (3)	100	88	88	Israel
S.E. USA, Inc.	100	100	100	USA
Strauss Coffee B.V.	74.9	74.9	74.9	Holland
Strauss Café Poland Sp.z.o.o. (4)	100	100	100	Poland
Strauss Commodities AG (4)	100	100	100	Switzerland
Strauss Romania SRL (4)	100	100	100	Romania
Strauss Ukraine LLC (4)	100	100	100	Ukraine
Elite CIS B.V. (4)	100	100	100	Holland
Strauss Adriatic d.o.o (4)	100	100	100	Serbia
Strauss LLC (4)	100	100	100	Russia

(1) Fresh Foods Ltd. was merged into Strauss-Group Ltd. (the parent company).
(2) Held by Strauss Health Ltd. (see also Note 6.2.2 below).
(3) See Note 6.4 with regard to a minority acquisition in Strauss Water Ltd.
(4) Held by Strauss Coffee B.V.

Note 6 – Subsidiaries (cont'd)

6.2 Information on judgment and assumptions in determining control of a subsidiary

6.2.1 Investment in Strauss Health

The Company holds 80% of the share capital of Strauss Health. The remaining 20% is held by Groupe Danone. The shareholders' agreement defines a list of actions that will not be executed if opposed to by all directors appointed by Danone, which include transactions between Strauss Health and other companies controlled by Strauss Group or an interest holder in Strauss Group, unless they are executed under market conditions or were in effect at the time the purchase agreement was signed, and except in cases in which Danone is willing to accept compensation for the difference between value under market conditions and the actual value of the transaction; distribution of a dividend of less than 25% of the net annual profit (after retaining the balances required by Strauss Health as per the agreement); a public offering or change in share capital diluting Danone; establishment of subsidiaries by Strauss Health that are not wholly-owned by Strauss Health, directly or indirectly, which engage in products that are not dairy products and if a shareholder therein is a Danone competitor; a substantial change in Strauss Health's business or investments in a category that is not dairy products, as a result of which the turnover in the non-dairy category exceeds the percentage of Strauss Health's turnover stipulated in the agreement; and distribution by Strauss Health or its subsidiaries of products manufactured by Strauss Holdings or any company controlled by it or by its shareholders (excluding Ramat Hagolan Dairies Ltd. and Strauss Ice Cream), if total annual sales of the said products exceed the percentage of Strauss Health's consolidated annual turnover set forth in the agreement. In the Company's estimation, the said actions grant the non-controlling interests the ability to influence transactions or events that are outside the ordinary course of business, and consequently protect the minority interests which do not prevent the Company's continued control of Strauss Health. In light of the circumstances described above, the Group concludes that Strauss Health is controlled by Strauss Group, and as such is consolidated in the Group's financial statements.

6.2.2 Investment in Yotvata

Strauss Health holds 50% of Yotvata's share capital and a casting share on the board of directors. Kibbutz Yotvata holds the remaining 50% of the share capital. Strauss Health acquired the following via a share allotment:

(a) 50% of Yotvata's issued and paid-up ordinary shares, conferring the rights generally conferred on shareholders in a limited company, except for the right to appoint or dismiss executives. The remaining ordinary shares continue to be held by the Kibbutz;

(b) Two management shares, each conferring the right to appoint or dismiss a director of Yotvata. Three additional management shares are held by the Kibbutz;

(c) One casting share, conferring the right to appoint or dismiss one director of Yotvata, who is also the chairman of the board and chairman of the general meeting and has a casting vote on the board of directors and the meeting of shareholders in the event of a tie.

In general, the agreement with Yotvata defines the agreements regarding the management of Yotvata, which include the stipulation that Yotvata's chief executive officer is appointed by

Note 6 – Subsidiaries (cont'd)

6.2 Information on judgment and assumptions in determining control of a subsidiary (cont'd)

6.2.2 Investment in YotvataCoffee (cont'd)

Yotvata's board of directors at the Kibbutz's recommendation. The directors appointed by Strauss Health have the right to veto the appointment of a CEO. The chairman of the board is appointed by Strauss Health. The directors appointed by the Kibbutz have the right to oppose the appointment of a chairman who does not possess the necessary qualifications for the position. Yotvata's chief financial officer is appointed by Strauss Health. The directors representing Yotvata have the right to veto this appointment, but shall not be permitted to exercise this right other than on reasonable grounds. In the Company’s estimation, these actions grant the non-controlling interests the ability to influence transactions or events that are outside the ordinary course of business, and consequently protect the minority interests which do not prevent the Company's continued control of Yotvata. In light of the circumstances described above, the Group concludes that Yotvata is controlled by Strauss Group (through Strauss Health), and as such is consolidated in the Group’s financial statements.

6.2.3 Investment in Strauss Coffee

The Company holds 74.9% of the share capital of Strauss Coffee B.V., and the remaining 25.1% of the share capital is held by the private equity investment fund, TPG Capital. The agreement between the Company and TPG Capital determines a list of cases in which respect decision-making or execution requires the approval of shareholders holding 90% of the shares of Strauss Coffee, as well as cases in which respect the approval of the board of directors is required, provided that at least one director appointed by the investor has voted in favor of such approval. These cases include decisions on the amendment of the incorporation documents on subjects relating to the non-controlling interests; modification of Strauss Coffee's share capital leading to the dilution of the minority interest and/or the issuance of other securities; approval of acquisitions or the disposal of operations or assets on a significant scale; a resolution on a substantive change in the nature of Strauss Coffee's operations; and the approval of transactions or moves outside the ordinary course of Strauss Coffee's business. In the Company’s estimation, these provisions grant the non-controlling interests the ability to influence transactions or events that are outside the ordinary course of business, and consequently protect the minority interests which do not prevent the Company's continued control of Strauss Coffee. A conflict resolution mechanism has been determined for these issues in the absence of the abovementioned approvals. In light of the circumstances described above, the Group concludes that Strauss Coffee B.V. is controlled by Strauss Group, and as such is consolidated in the Group’s financial statements. On March 27 Strauss Coffee effectuated a buyback of TPG’s entire holding (25.1%) in Strauss Coffee (hereinafter: the “Acquisition”) in consideration for €257 million (hereinafter: the “Consideration”). Of the Consideration, €172 million were paid in cash on the Acquisition date, and €85 million will be paid by August 15, 2017. In addition, Strauss Coffee will redeem share options allotted to managers in Strauss Coffee at a cost of €17 million, and options of a value of €2 million will be redeemed or exchanged for Strauss Group options. The Acquisition and redemption will be financed by Strauss Coffee’s own sources and debt financing, and by debt financing and/or equity of Strauss Group under market conditions. To finance the Acquisition, Strauss Coffee has taken a short-term loan in the amount of NIS 434 million, bearing 1.5%-2.0% annual interest, which will be replaced by a long-term loan in the future.

Note 6 – Subsidiaries (cont'd)

6.3 Information on a subsidiary with material non-controlling interests

Following is information on the subsidiary Strauss Coffee, in which respect non-controlling interests that are material to the Group exist (before elimination of inter-company transactions):

	December 31	
	2016	2015
	NIS millions	
Current assets	1,228	1,081
Non-current assets	1,294	1,157
Total assets	2,522	2,238
Current liabilities	399	400
Non-current liabilities	48	51
Total liabilities	447	451
Total net assets 100%	2,075	1,787
Non-controlling interests	521	449

	For the year ended December 31		
	2016	2015	2014
	NIS millions		
Income	1,949	1,947	2,047
Profit	269	192	259
Other comprehensive income (loss)	99	(389)	(273)
Total comprehensive income (loss)	368	(197)	(14)
Comprehensive income (loss) attributable to non-controlling interests	92	(49)	(3)
Cash flow from operating activities	344	118	218
Cash flow from (used in) investing activities	20	(29)	(48)
Cash flow used in financing activities excluding dividends to non-controlling interests	(102)	(92)	(173)
Dividends paid to non-controlling interests (1)	(21)	(42)	(59)
Effect of exchange rate fluctuations on cash balance	(7)	(19)	(7)
Total increase (decrease) in cash and cash equivalents	234	(64)	(69)

(1) In February 2016 the subsidiary Strauss Coffee distributed a dividend to shareholders by way of a capital reduction, of which the sum of approximately NIS 21 million was paid to the non-controlling interest.

6.4 Transactions with non-controlling interests

In 2016 the Company purchased an additional 12% of the ordinary shares and redeemable preferred shares of Strauss Water Ltd. in consideration for a total of approximately NIS 56 million and NIS 13 million, respectively, thus increasing its holding percentage from 88% to 100%.

As a result of the acquisitions, the Company recognized an increase of NIS 21 million in the non-controlling interest and a decrease of NIS 77 million in the reserve from transactions with non-controlling interests. As at the date of the financial statements, the sum of NIS 52 million was paid in respect of the acquisitions. The outstanding balance of the payment was paid in January 2017.

Note 7 - Cash and Cash Equivalents

	December 31	
	2016	2015
	NIS millions	
Cash and balances in banks	189	147
Deposits	522	413
	711	560

Note 8 - Securities and Deposits

	December 31 2016		December 31 2015	
	NIS millions	Interest rate	NIS millions	Interest rate
Deposits and non-marketable securities-				
Shekel deposit	7	0.35%-1.49%	15	0.35%-1.49%
Marketable securities-				
Government debentures	27		27	
Corporate debentures	19		18	
	46		45	
	53		60	

Note 9 - Trade Receivables

9.1 Composition

	December 31	
	2016	2015
	NIS millions	
Open debts	911	950
Less provision for doubtful debts	(30)	(24)
	881	926

Note 9 - Trade Receivables (cont'd)

9.2 Analysis of customer aging:

	December 31, 2016		December 31, 2015	
	Gross	Provision for doubtful debts	Gross	Provision for doubtful debts
	NIS millions			
Not past due	835	(4)	881	(1)
1-30 days past due	38	-	32	-
31-60 days past due	7	-	10	(1)
61-90 days past due	2	-	2	-
91-120 days past due	2	(2)	1	-
120+ days past due	27	(24)	24	(22)
	911	(30)	950	(24)

9.3 Changes in the provision for doubtful debts during the period:

	2016	2015
	NIS millions	
Balance as at January 1	24	45
Impairment loss recognized during the period	7	7
Doubtful debts becoming bad debts	-	(26)
Foreign currency effect	(1)	(2)
Balance as at December 31	30	24

9.4 Maximum exposure to credit risk in respect of trade receivables as at the reporting date by customer type:

	December 31	
	2016	2015
	NIS millions	
Large customer market	473	*497
Private market	151	*190
Away-from-home	165	*166
Other	92	73
Total	881	926

* Restated.

Note 10 - Receivables and Debit Balances

	December 31	
	2016	2015
	NIS millions	
Advances to trade payables	17	11
Government institutions	6	6
Loans granted, including current maturities of long-term loans	9	10
Accrued income	15	19
Derivatives (1)	21	41
Joint ventures accounted for in the equity method	10	25
Prepaid expenses	47	59
Other receivables (2)	31	12
	156	183

(1) Includes deposits encumbered to secure derivatives at the amount of NIS 8 million and NIS 26 million as at December 31, 2016 and 2015, respectively.

(2) Including insurance and VAT refund receivables amounting to approximately NIS 16 million in respect of a debt owed by Mega Retail Ltd.

Note 11 - Inventory

	December 31	
	2016	2015
	NIS millions	
Raw materials	240	271
Packaging materials	59	55
Unfinished goods	22	17
Finished goods (including purchased products)	205	226
Spare parts and auxiliary equipment	11	12
	537	581

Note 12 - Equity-Accounted Investees

12.1 Material equity-accounted investees

	Percentage of equity and control as at December 31			Country of incorporation and main location of company operations
	2016	2015	2014	
Três Corações Alimentos S.A. (1)	50%	50%	50%	Brazil
Sabra Dipping Company (2)	50%	50%	50%	USA

Note 12 - Equity-Accounted Investees (cont'd)

12.1 Material equity-accounted investees (cont'd)

(1) An equity-accounted investee held by the Group and the Brazilian holding company São Miguel, which develops, processes, sells, markets, and distributes a variety of branded coffee products, corn products, coffee machines, paper filters for filter coffee, instant coffee, cappuccino, liquid cappuccino, chocolate beverages, and powdered juice, and also sells green coffee, primarily to customers outside Brazil.

(2) An equity-accounted investee held by the Group and PepsiCo, which develops, manufactures, sells, markets, and distributes refrigerated dips and spreads throughout the USA and Canada.

2.2 Concise information on material equity-accounted investees

	Sabra Dipping Company		Três Corações Alimentos S.A.	
	December 31		December 31	
	2016	2015	2016	2015
	NIS millions			
Current assets	324	336	1,091	773
Of which:				
Cash and cash equivalents	115	99	102	158
Non-current assets	696	691	653	*462
Total assets	1,020	1,027	1,744	*1,235
Current liabilities	236	257	779	*463
Of which:				
Financial liabilities excluding trade payables, other payables and provisions	102	140	352	192
Non-current liabilities	196	29	195	*248
Of which:				
Financial liabilities excluding trade payables, other payables and provisions	192	26	158	182
Total liabilities	432	286	974	711
Total net assets 100%	588	741	770	524
Company share of net assets	294	371	385	262
Other adjustments	108	110	190	172
Book value of investment	402	481	575	434

* Reclassified.

Note 12 - Equity-Accounted Investees (cont'd)

12.2 Concise information on material equity-accounted investees (cont'd)

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	For the year ended December 31			For the year ended December 31		
	2016	2015	2014	2016	2015	2014
	NIS millions					
Income	1,328	1,422	1,288	3,459	2,982	3,593
Profit for the year	63	102	92	212	202	278
Other comprehensive income (loss)	(14)	2	58	120	(293)	(38)
Total comprehensive income (loss) (100%)	49	104	150	332	(91)	240
Of which:						
Depreciation and amortization	50	42	28	34	31	33
Interest income	-	-	-	12	10	11
Interest expenses	7	9	10	35	25	23
Income tax expense	**(49)	**(76)	**(69)	(50)	(18)	(27)
Other adjustments	(2)	-	12	34	(69)	4
Company's share of comprehensive income (loss) presented in the books	22	52	87	200	(114)	124

**Tax in respect of an equity-accounted investee assessed in the holding company, S.E. USA, Inc.

12.3 Concise aggregate information on equity-accounted investees that are not inherently material

	For the year ended December 31		
	2016	2015	2014
	NIS millions		
Carrying amount of investments	142	103	76
Group's share of profit (loss)	16	8	(1)
Group's share of other comprehensive loss	(2)	(5)	(4)
Group's share of total comprehensive income (loss)	14	3	(5)

Note 12 - Equity-Accounted Investees (cont'd)

12.4 Information on dividends distributed by equity-accounted investees

	For the year ended December 31		
	2016	2015	2014
		NIS millions	
Três Corações Alimentos S.A. (1)	60	2	55
Sabra Dipping Company	123	13	21
Strauss Frito-Lay Ltd.	13	33	20
	196	48	96

(1) Including a dividend from equity-accounted investees in Brazil that are not inherently material in the amount of approximately NIS 6 million in 2014.
The Company's share of the retained earnings of Três Corações Alimentos S.A. as at December 31, 2016, December 31, 2015 and December 31, 2014 is approximately NIS 283 million, NIS 180 million and NIS 192 million, respectively, of which NIS 25 million, NIS 16 million and NIS 18 million, respectively, are held as a legal fund that may serve only for the purpose of a capital increase or to absorb legal losses, and NIS 74 million, NIS 78 million and NIS 85 million, respectively, are included in a tax incentive reserve and decision was made by the company's management that cannot be distributed as a dividend. Should Três Corações Alimentos S.A. distribute the tax incentive reserve in the future, the amount distributed will be paid as additional tax to the tax authorities.

12.5 Attachment of financial statements

The Group is attaching the consolidated financial statements of Três Corações Alimentos S.A. to these consolidated financial statements. The investee's reports are presented in Brazilian Reals.

Following are the closing and average exchange rates and rates of change in the exchange rates of the Brazilian Real in the reporting period:

	Real to Shekel Exchange Rate		
	Closing exchange rate for the period	Average exchange rate for the period	% change
For the year ended:			
December 31, 2016	1.18	1.11	19.7
December 31, 2015	0.98	1.19	(32.9)

Note 12 - Equity-Accounted Investees (cont'd)

12.6 Additional information on the Group's equity-accounted investees

12.6.1 In the reporting period PepsiCo Strauss Fresh Dips & Spreads International (hereinafter: "Obela"), a joint venture between Strauss and PepsiCo accounted for in the equity method, entered into an agreement for the acquisition of 100% of the share capital of Florentin B.V. ("Florentin"). Florentin is a Dutch company engaged in the development and manufacture of organic hummus, falafel, spreads and pita bread, and markets its products in Western Europe, particularly in the Netherlands, Germany and France. Florentin has 40 employees and a production site in Holland, and in 2015, according to its financial statements, its sales turnover amounted to approximately €5 million (NIS 22 million). In consideration for the acquisition of Florentin, Obela paid approximately NIS 38.5 million plus an additional NIS 7.5 million (€1.75 million) to be paid over a three-year period (performance-contingent). The acquisition was equally financed by Strauss and PepsiCo.

12.6.2 In the reporting period Três Corações, an equity-accounted investee in Brazil, signed an agreement with the coffee company Cia Iguaçu de Café Soluvel for the acquisition of the operation attributed to the Cia Iguaçu retail coffee brands in South America, including Brazil. In consideration for the acquisition, Três Corações paid approximately NIS 79 million (the Group's share – NIS 39 million), including accrued interest. The agreement was approved by the regulatory authorities in Brazil in June.

12.6.3 In the reporting period Sabra Dipping Company, a Strauss and PepsiCo joint venture accounted for in the equity method, voluntarily recalled a number of hummus products manufactured and marketed in North America. As at the reporting date an expected gain in the amount of NIS 23 million (the Group's share) was recorded in respect of insurance proceeds.

Note 13 - Other Investments and Long-Term Debit Balances

13.1 Classification according to classification of investment

	December 31	
	2016	**2015**
	NIS millions	
Deposits and other long-term receivables (1)	9	29
Investment in an available-for-sale financial asset	28	26
Option to purchase shares in an equity-accounted investee	-	5
Non-current trade receivables (2)	23	57
Less current maturities	(4)	(4)
Less provision for doubtful debts (3)	(4)	(37)
	15	16
Non-current loans to others (see 13.2 and 13.3 below)	133	174
Less current maturities	(22)	(42)
	111	132
	163	208

Note 13 - Other Investments and Long-Term Debit Balances (cont'd)

13.1 Classification according to classification of investment (cont'd)

(1) As at December 31, 2015, including insurance and VAT refund receivables amounting to approximately NIS 22 million in respect of a debt owed by Mega Retail Ltd. As at December 31, 2016, following collection of part of Mega's debt, said receivables balance was reduced and classified as short-term under "Receivables and Debit Balances". See also Note 28.1.3 with regard to Credit Risk of Financial Instruments.

(2) Includes the long-term balance of trade receivables in respect of Mega Retail Ltd., the balance in respect of the leasing of coffee machines for installment payments as well as the balance of cheques and credit cards receivable in Strauss Water which are discounted at an interest rate of 0.4%-3.0% (3.0%-8.0% in 2015).

(3) As at December 31, 2015, including a debt amounting to NIS 35 million owed by Mega Retail Ltd., in which respect there is approximately NIS 22 million in income receivable from insurance compensation and VAT refunds. As at December 31, 2016, following approval of a composition with creditors in 2016, includes NIS 3 million in respect of Mega's debt. See also Note 28.1.3 with regard to Credit Risk of Financial Instruments.

13.2 Information on long-term loans and their terms:

	December 31			
	2016	2015		
	NIS millions		Interest rate as at December 31, 2016	Linkage bases
Loans to employees	6	6	3.41%	NIS Unlinked
Loans to suppliers and others	17	22	1.6% – 6.75%	NIS Unlinked
Loan to an equity-accounted investee	67	98	0% – 5.16%	USD
Loan under an operating lease; see Note 24.4.7	43	48	2.25%	Euro
	133	174		

13.3 Repayment schedule of long-term loans:

	December 31	
	2016	2015
	NIS millions	
First year	22	42
Second year	6	20
Third year	3	5
Forth year	46	2
Fifth year and thereafter	56	105
	133	174

Note 14 - Fixed Assets

14.1 Changes in fixed assets

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
	NIS millions					
Cost						
Balance as at January 1, 2016	1,156	2,063	34	285	156	3,694
Additions	15	81	4	7	6	113
Disposals	(2)	(53)	(6)	(9)	(14)	(84)
Classification from inventory	-	8	-	-	-	8
Exchange rate effect	-	(7)	-	-	(1)	(8)
Balance as at December 31, 2016	1,169	2,092	32	283	147	3,723
Accumulated depreciation and impairment losses						
Balance as at January 1, 2016	383	1,367	27	242	109	2,128
Impairment	-	1	-	-	-	1
Depreciation for the year	29	82	3	12	11	137
Disposals	(1)	(46)	(6)	(7)	(7)	(67)
Exchange rate effect	(1)	(8)	-	(1)	-	(10)
Balance as at December 31, 2016	410	1,396	24	246	113	2,189
Spare parts						47
Balance as at December 31, 2016	759	696	8	37	34	1,581

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
	NIS millions					
Cost						
Balance as at January 1, 2015	1,121	2,032	37	282	209	3,681
Additions	49	88	3	13	19	172
Disposals	(2)	(32)	(4)	(8)	(71)	(117)
Classification from inventory	-	4	-	-	-	4
Exchange rate effect	(12)	(29)	(2)	(2)	(1)	(46)
Balance as at December 31, 2015	1,156	2,063	34	285	156	3,694
Accumulated depreciation and impairment losses						
Balance as at January 1, 2015	362	1,339	28	238	159	2,126
Impairment	-	2	-	-	-	2
Depreciation for the year	26	70	3	13	20	132
Disposals	(2)	(27)	(3)	(8)	(70)	(110)
Exchange rate effect	(3)	(17)	(1)	(1)	-	(22)
Balance as at December 31, 2015	383	1,367	27	242	109	2,128
Spare parts						46
Balance as at December 31, 2015	773	696	7	43	47	1,612

Note 14 - Fixed Assets (cont'd)

14.2 Fixed assets purchased on credit

Fixed assets in the amount of NIS 30 million were purchased on credit as at December 31, 2016 (2015: NIS 47 million, 2014: NIS 61 million).

14.3 For details regarding liens – see Note 24.2.

Note 15 - Intangible Assets

15.1 Changes in intangible assets

	Brands	Computer software	Goodwill	Research and development	Other	Total
	NIS millions					
Cost						
Balance as at January 1, 2016	326	312	580	54	110	1,382
Additions	-	17	-	7	-	24
Additions – self-development	-	7	-	4	-	11
Disposals	(7)	(10)	-	(5)	(3)	(25)
Exchange rate effect	7	-	5	-	(3)	9
Balance as at December 31, 2016	326	326	585	60	104	1,401
Accumulated amortization						
Balance as at January 1, 2016	58	243	124	27	77	529
Amortization for the year	2	23	-	4	6	35
Impairment	9	-	-	-	-	9
Disposals	(7)	(10)	-	-	(2)	(19)
Exchange rate effect	(2)	(1)	(5)	-	(2)	(10)
Balance as at December 31, 2016	60	255	119	31	79	544
Balance as at December 31, 2016	266	71	466	29	25	857

	Brands	Computer software	Goodwill	Research and development	Other	Total
	NIS millions					
Cost						
Balance as at January 1, 2015	366	294	679	70	113	1,522
Additions	-	16	-	3	1	20
Additions – self-development	-	6	-	2	-	8
Disposals	(6)	(2)	-	(21)	(1)	(30)
Exchange rate effect	(34)	(2)	(99)	-	(3)	(138)
Balance as at December 31, 2015	326	312	580	54	110	1,382
Accumulated amortization						
Balance as at January 1, 2015	49	221	182	24	67	543
Amortization for the year	3	26	-	6	8	43
Impairment	17	-	1	7	5	30
Disposals	(6)	(2)	-	(10)	-	(18)
Exchange rate effect	(5)	(2)	(59)	-	(3)	(69)
Balance as at December 31, 2015	58	243	124	27	77	529
Balance as at December 31, 2015	268	69	456	27	33	853

Note 15 - Intangible Assets (cont'd)

15.2 Intangible assets with indefinite useful lives

As at December 31, 2016 intangible assets include an amount of NIS 261 million attributable to brands and trademarks having an indefinite useful life (2015: NIS 260 million). These assets were assessed as having indefinite useful lives since according to an analysis of the relevant factors, there is no foreseeable limit on the period they are predicted to generate positive cash flows for the Group.

The relevant factors that were analyzed included, inter alia, management's forecasts regarding the duration of expected use of the brand or trademark; the existence of legal or contractual limitations on their use; a review of the typical life cycle of similar branded products; the existence of indicators of changes in lifestyle, competitive environment, market demand and industry trends; the sales history of products under the brand name, the time the brand has been on the market, and market awareness of the brand name or trademark. Also taken into consideration is the length of time similar brands are used in the industry in which the Company operates.

15.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives

The following units have significant carrying amounts of goodwill and intangible assets having an indefinite useful life:

	Goodwill		Intangible assets having an indefinite useful life	
	December 31		December 31	
	2016	2015	2016	2015
	NIS millions		NIS millions	
Israel	76	76	-	-
Water	154	154	102	102
Serbia	-	-	-	9
Poland	58	64	55	60
Russia	112	92	88	73
Romania	66	70	16	16
	466	456	261	260

The recoverable amount of the cash-generating units is based on its value-in-use. Value-in-use is calculated using the most up-to-date projected future cash flows for periods of up to 5 years, based on the strategic operating plan (SOP) of the relevant unit. The projected cash flows for remaining periods are calculated using the relevant growth rate, which takes into consideration the expected growth rate of the category, the industry, the country and the population. Cash flows are discounted at rates that reflect the risks specific to the cash-generating units in each relevant year.

Note 15 - Intangible Assets (cont'd)

15.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives (cont'd)

The main assumptions according to operating segments are as follows:

	December 31, 2016		December 31, 2015	
	Long-term growth rate	Discount rate	Long-term growth rate	Discount rate
Israel (1)				
Fun & Indulgence	2.0%	13.0%	2.0%	13.0%
Health & Wellness	2.0%	11.8%-13.6%	2.0%	11.8%-13.6%
International Coffee (2)(3)	0% - 0.1%	9.2% - 16.8%	(0.15%) – 3.0%	10.6% - 16.4%
Other	2.0%	14.3%	2.0%	13.8%

(1) In light of compliance with the terms and conditions of section 99 of IAS 36, Impairment of Assets, with respect to the cash-generating units in Fun & Indulgence and a number of cash-generating units in Health & Wellness, the testing of these units for impairment in the reported period is based on the recoverable amount and on its underlying assumptions as at December 31, 2015.

(2) Following the increase in green coffee prices and forecasts for an erosion of the profit margins of Strauss Adriatic d.o.o. (a subsidiary of Strauss Coffee B.V.), the Company examined the recoverable amount of the unit as at September 30, 2016. Said amount reflects value-in-use and is calculated by discounting the unit’s projected future cash flows at a pre-tax discount rate of 16.8%. The estimate did not include an assumption of growth in the long term. Consequently, the Company recognized an impairment loss in respect of intangible assets in the amount of approximately NIS 9 million. The loss was included under other expenses in the Group’s income statement. In 2015 the Company recognized an impairment loss in respect of intangible assets attributed to the operation in Serbia in the amount of approximately NIS 22 million, applying a pre-tax discount rate of approximately 16%, assuming 0% long-term growth rate.

(3) In 2015, the valuation of the operation in Russia was performed on a nominal basis. In 2016, following the relative stability in Russia, the valuation was performed on the basis of real values, leading to a decrease in the long-term growth rate and discount rate.

Note 16 - Investment Property

16.1 Changes in investment property

	2016	2015
	NIS millions	
Balance as at January 1	7	29
Additions	1	-
Classification of investment property as assets held for sale	-	(22)
Balance as at December 31	8	7

Note 16 - Investment Property (cont'd)

16.2 Real estate rights

The investment properties include land in Givatayim and abroad, owned by subsidiaries, in the amount of approximately NIS 6 million and NIS 2 million, respectively, as at December 31, 2016 (approximately NIS 5 million and NIS 2 million, respectively as at December 31, 2015). The Company also owns land in Safed, the carrying amount of which is negligible.

16.3 Assets held for sale

As at the reporting date, the fair value of assets held for sale is proximate to their carrying amount.

16.4 For information on liens, see Note 24.2.

Note 17 - Trade Payables

	December 31	
	2016	2015
	NIS millions	
Open debts	742	711
Notes payable	1	2
	743	713

* For information regarding related parties and interested parties, see Note 37.

Note 18 - Other Payables and Credit Balances

	December 31	
	2016	2015
	NIS millions	
Employees and other payroll related liabilities	185	144
Institutions	30	15
Joint ventures	28	5
Derivatives	38	21
Accrued expenses	188	177
Deposits and guarantees from customers and distributors	86	82
Redeemable preferred shares	-	13
Deferred income	54	60
Advances from customers	10	5
Other payables	23	9
	642	531

Note 19 - Provisions

19.1 Changes during the period

	Restructuring	Legal claims	Warranty	Total
	NIS millions			
Balance as at January 1, 2016	4	11	19	34
Provisions created during the period	2	1	21	24
Provisions used during the period	(4)	(2)	(19)	(25)
Provisions reversed during the period	-	(2)	-	(2)
Balance as at December 31, 2016	2	8	21	31

19.2 Provisions in respect of legal claims- See Notes 3.13 and 24.1.

Note 20 - Loans and Credit

20.1 Short-term credit and current maturities of long-term loans and other liabilities

	December 31	
	2016	2015
	NIS millions	
Current maturities of debentures	196	178
Short-term bank loans	18	40
Current maturities of long-term loans	129	141
	343	359

20.2 Composition of non-current liabilities

	December 31	
	2016	2015
	NIS millions	
Debentures	831	1,012
Loans from others (*)	691	628
Bank loans (*)	338	450
Finance lease liability	6	6
	1,866	2,096
Less current maturities	(325)	(319)
	1,541	1,777

* As at December 31, 2016 the fair value of non-current loans exceeded their carrying amount at approximately NIS 83 million (2015: at approximately NIS 118 million). The fair value of the loans is measured on the basis of the present value of future cash flows in respect of principal and interest discounted at the interest rate on Israel government bonds of similar average duration, plus the necessary adjustments for Strauss's risk premium and the discount for lack of marketability as at the date of the financial statements (Level 2).

Note 20 - Loans and Credit (cont'd)

20.3 Information on material loans

Borrower's identity	Type	Loan date	Original loan amount NIS millions	Currency	Linkage base	Nominal Interest (%)	Redemption year	December 31, 2016 Face value NIS millions	December 31, 2016 Book value NIS millions
The Company	Debentures Series B (see 20.4)	February 2007	770	NIS	CPI	4.1	2017-2018	297	355
The Company	Debentures Series D (see 20.4)	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	465	476
The Company	Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	102
The Company	Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Subsidiary	Loans from banks	December 2013	185	NIS	Unlinked	2.9	2017	46	46
The Company	Loans from others	January 2011	300	NIS	Unlinked	5.82	2017-2022	239	239
The Company	Loans from others	April 2012	372	NIS	CPI	3.55	2017-2022	357	364
Subsidiary	Loans from others	March 2016	100	NIS	Unlinked	1.69	2017-2021	83	83

Note 20 - Loans and Credit (cont'd)

20.3 Information on material loans (cont'd)

			Original loan amount			Nominal		December 31, 2015	
								Face value	Book value
Borrower's identity	Type	Loan date	NIS millions	Currency	Linkage base	Interest (%)	Redemption year	NIS millions	
The Company	Debentures Series B (see 20.4)	February 2007	770	NIS	CPI	4.1	2016-2018	446	534
The Company	Debentures Series D (see 20.4)	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	465	478
The Company	Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	102
The Company	Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Subsidiary	Loans from banks	December 2013	185	NIS	Unlinked	2.9	2016-2017	93	93
The Company	Loans from others	January 2011	300	NIS	Unlinked	5.82	2016-2022	250	250
The Company	Loans from others	April 2012	372	NIS	CPI	3.55	2016-2022	361	369

20.3.1 In January 2017 a loan of NIS 100 million was taken by a subsidiary. The loan is unlinked and bears 2% annual interest. The maturity dates are 2017-2022.

20.3.2 For information on a loan taken by the subsidiary Strauss Coffee B.V. after the date of the statement of financial position, see Note 6.2.3.

Note 20 - Loans and Credit (cont'd)

20.4 Information on the debentures series in circulation

	Series B	Series D	Expanded Series D
Date issued	February 25, 2007	January 23, 2013	June 11, 2014
Listed for trading	May 21, 2007	January 27, 2013	June 12, 2014
Type of interest	Fixed	Fixed	Fixed
Annual interest rate	4.1% (until listing for trading, the interest rate was 4.7%)	4.5%	4.5%
Effective interest rate on the listing date, taking the issuance costs into account	4.2%	4.7%	3.0%
Face value on issuance date	NIS 770 million	NIS 249 million	NIS 216 million
Nominal face value as at December 31, 2016	NIS 297 million	NIS 249 million	NIS 216 million
Index-linked face value as at December 31, 2016	NIS 355 million	N/A	N/A
Carrying value of debentures as at December 31, 2016	NIS 355 million	NIS 246 million	NIS 230 million
Carrying value of interest payable as at December 31, 2016	NIS 6 million	NIS 3 million	NIS 2 million
Market value as at December 31, 2016	NIS 368 million	NIS 282 million	NIS 245 million
Linkage conditions	Principal and interest are linked to the CPI in respect of January 2007	Principal and interest are not linked to any index	Principal and interest are not linked to any index
Payment dates of principal	5 equal yearly payments on February 1 of each year from 2014 to 2018	7 yearly payments on March 31 of each year from 2017 to 2023. First payment 4%, second and third 6% each, fourth 13%, fifth and sixth 15% each and seventh 41%.	7 yearly payments on March 31 of each year from 2017 to 2023. First payment 4%, second and third 6% each, fourth 13%, fifth and sixth 15% each and seventh 41%.
Interest payment dates	Half-yearly interest on February 1 and August 1, from 2007 to 2018	Semiannual interest on March 31 and September 30, commencing on September 30, 2013 until on March 31, 2023	Semiannual interest on March 31 and September 30, commencing on September 30, 2014 until on March 31, 2023
Collateral or liens	None	None	None
Name of rating company	Midroog, Maalot	Midroog, Maalot	Midroog, Maalot
Rating at issue date	Aa1; AA+	Aa1; AA+	Aa1; AA+
Rating at reporting date	Aa2; AA+	Aa2; AA+	Aa2; AA+

For information on covenants relating to Debentures Series D, see Note 20.6.

20.5 For information on liens and guarantees, see Notes 24.2 and 24.3.

Note 20 - Loans and Credit (cont'd)

20.6 Covenants

The Company has an undertaking to banks in Israel and other non-banking institutions from which it has received loans, and to the holders of Debentures Series D, to meet two stipulations: the ratio of equity (not including non-controlling interests) to the total statement of financial position shall be no less than 20%, and the net financial debt to EBITDA ratio shall be no more than 4. The Company is not required to meet external capital requirements.

The Company has a loan from a non-banking institution which contains a progressive incremental interest mechanism should the abovementioned financial ratio increase to above 3 and below 4 (provided that the incremental interest does not exceed 0.25%).

Regarding the Debentures Series D, the agreement determines that the Company’s compliance with the abovementioned financial ratios shall be calculated according to the accounting standards applicable to the Company. In the event of changes to the accounting standards, following which the Company does not comply with either of the financial ratios for a period exceeding two consecutive quarters, or for a period of at least two consecutive annual financial statements, as the case may be, the Company shall be entitled to prepare, for the purpose of calculating its compliance with the financial ratios it has not met, a pro forma concise balance sheet and statement of income containing only material and relevant notes, reviewed (but not audited) in accordance with the accounting standards under which the Company’s financial statements as at September 30, 2012 were prepared.

Non-compliance with the abovementioned financial ratios for a period exceeding two consecutive quarters (also on the basis of the pro forma statements) shall grant the holders of Debentures Series D incremental interest, as set forth in the debenture certificate. Should the ratio between the net financial debt in the Company's financial statements and the annual EBITDA exceed 7 (also in accordance with the pro forma statements) in at least two consecutive annual financial statements, the violation shall serve the debenture holders at such time as cause for immediate redemption. Additionally, should the rating of Debentures Series D fall below BB, after 45 days have elapsed from the date of the said rating update and on condition that the rating has not been raised, the holders of Debentures Series D shall have cause for immediate redemption.

As at December 31, 2016 and throughout the year the Company was in compliance with all terms and conditions and covenants under the Debentures Series D trust deed. In addition, as at December 31, 2016 and throughout the year the conditions establishing cause for immediate repayment of the debentures or for the exercise of sureties given to secure payment to the debenture holders were not satisfied.

In addition, two subsidiaries are required to meet covenants in favor of banks In Israel. As at the date of this report, the subsidiaries are in compliance with these covenants.

Note 21- Long-Term Payables and Credit Balances

	December 31	
	2016	2015
	NIS millions	
Accrued expenses	3	6
Deferred income	33	31
Derivatives	-	24
Liability in respect of contracts with inferior terms	12	17
Institutes	11	8
Other payables	1	2
	60	88

Note 22 - Employee Benefits

22.1 The labor laws in Israel require the Group to pay severance pay to employees who were dismissed or have retired (including those who left the Group in other specific circumstances). The liability for the payment of severance pay is calculated according to the labor agreements in effect on the basis of salary components which, in the opinion of Company management, create an obligation to pay severance pay.

The Company has two severance pay plans: one plan according to the provisions of section 14 of the Severance Pay Law, which is accounted for as a defined contribution plan; and the other for employees to whom section 14 does not apply, which is accounted for as a defined benefit plan. The Group’s liability in Israel for the payment of severance pay to employees is mostly covered by current deposits in the names of the employees in recognized pension and severance pay funds, and by the acquisition of insurance policies, which are accounted for as plan assets.

In addition to these plans, the Company has an obligation to pay an acclimatization bonus to senior executives. The Group’s obligation for the payment of acclimatization bonuses is not covered by the current deposits in the names of the employees.

22.2 As regards its international operations, employee benefits are accounted for in accordance with the requirements of the law in each country in which the Group operates. These requirements usually comprise of monthly deposits in government plans.

The Company has an obligation to pay benefits to certain employees in accordance with personal employment contracts. In addition, the Company has an obligation to pay benefits to employees who have retired in accordance with the labor laws in Germany. These benefits were accounted for as a defined benefit plan.

Note 22 - Employee Benefits (cont'd)

22.3 Composition

	December 31	
	2016	2015
	NIS millions	
Defined benefit plan		
Present value of funded obligation	122	127
Fair value of the plan assets	(75)	(72)
Total employee benefits, net	47	55

22.4 Defined benefit plans

22.4.1 Changes in the liability for defined benefit plans

	2016	2015
	NIS millions	
Liability in respect of defined benefit plans as at January 1	127	132
Benefits paid by the plans	(10)	(14)
Current service costs and interest	8	11
Actuarial losses	(1)	1
Other adjustments	(2)	(3)
Liability in respect of defined benefit plans as at December 31	122	127

22.4.2 Composition of defined benefit plan assets

	December 31	
	2016	2015
	NIS millions	
Cash and cash equivalents	9	11
Government debentures	10	16
Corporate debentures	20	12
Equity instruments and real estate properties	36	33
Total plan assets	75	72

22.4.3 Changes in defined benefit plan assets

	2016	2015
	NIS millions	
Fair value of plan assets as at January 1	72	71
Contributions paid into the plan	11	6
Benefits paid by the plan	(7)	(5)
Interest income	2	2
Actuarial losses	(1)	(2)
Other adjustments	(2)	-
Fair value of plan assets as at December 31	75	72

Note 22 - Employee Benefits (cont'd)

22.4 Defined benefit plans (cont'd)

22.4.4 Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions as at the reporting date (weighted average) in nominal terms:

	2016	**2015**
Discount rate as at December 31 (1)	0.8%-3.11%	1.4%-2.85%
Future salary increases	2.0%-5.97%	2.0%-5.97%
Demographic assumptions (2)		

(1) In 2016 and 2016 the discount rate is based on high yield corporate debentures.

(2) Calculations are based on demographic assumptions, as follows:

a) Mortality and loss of work capacity rates are based on pension circular 2014-3-1 published by the Capital Market, Insurance and Savings Division of the Ministry of Finance.
b) Employee turnover rates are based on an analysis of historical data. According to this analysis, the main employee turnover rate is 10.36% for each year of seniority. For senior employees, the turnover rate is 13.5% for each year of seniority.

Reasonably possible changes on the reporting date in one of the actuarial assumptions, assuming that the remaining assumptions remain unchanged, influence the defined benefit obligation as follows:

		Change as at December 31, 2016
Discount rate	1% increase	(4)
Discount rate	1% decrease	6
Future salary costs	1% increase	6
Future salary costs	1% decrease	(4)
Departure rate	Multiplied by 1.2	(1)
Departure rate	Multiplied by 0.8	1

22.4.5 Influence of plan on the Group’s future cash flows

The Group’s estimate of contributions expected in 2016 to a funded defined benefit plan is NIS 5 million.

The Group’s estimate of the plan’s life (according to a weighted average) as at the end of the reporting period is 5.7-7.2 years (for 2015: 6.1-6.6 years).

22.5 Defined contribution plans

In the year ended December 31, 2016 the Group recorded an expense of NIS 37 million (2015: NIS 37 million, 2014: NIS 36 million) in respect of defined contribution plans.

Note 23 - Share-Based Payments

23.1 Description of the plan

23.1.1 Employee options plan - in accordance with the May 2003 senior employee options plan, which was updated from time to time and most recently in March, May and September 2016 (hereinafter: the "Plan") and approved by the board of directors of the Company and/or its committees, the Company has granted senior Group employees option warrants, free of charge, each of which may be exercised into one ordinary share of NIS 1 par value on a "net stock" basis, as described below:

Vesting period	
Option warrants granted before September 9, 2013	50% will vest approximately two years from the grant date, and the remaining 50%, three years from the grant date.
Option warrants granted between September 9, 2013 and March 20, 2016	Will vest in three equal tranches, two, three and four years from the grant date, respectively.
Option warrants granted commencing on March 20, 2016	50% will vest approximately two years from the grant date, and the remaining 50%, three years from the grant date.
Exercise price	
Option warrants granted up to September 9, 2013	Determined according to the average closing price of the Company's share immediately prior to the approval of the grant, linked to the CPI.
Option warrants granted between September 9, 2013 and September 12, 2016	Determined according to the average closing price of the Company's share in the 30 trading days preceding the grant date plus a 5% premium; with respect to option warrants granted before March 2016, the exercise price shall be no less than the closing price of the share on the TASE at the close of trading on the day before the grant date.
Option warrants granted commencing on September 12, 2016	According to one of the following alternatives: (1) the average closing price of the Company's share in the 30 trading days preceding the grant date plus a premium to be determined by the board of directors and/or its committees; (2) the average closing price of the Company's share in the 30 trading days preceding the grant date with no premium, linked to the CPI.
Manner of exercise	
The options warrants will be exercised without payment of the exercise price, in such manner that the offeree shall be allotted underlying shares of a number that reflects the benefit component embodied in the options, which is equal to the amount arising from:	
Exercise order including minimum price	The difference between the minimum price determined by the employee and the actual exercise price, multiplied by the number of warrants exercised.
Exercise order not including minimum price	The difference between the market price (the closing price of an ordinary share on the last trading day before the exercise date) and the actual exercise price, multiplied by the number of warrants exercised.

Note 23 - Share-Based Payments (cont'd)

23.1 Description of the plan (cont'd)

23.1.1 Employee options plan (cont'd)

The exercise price or conversion ratio of each option warrant will be adjusted pro rata for the allotment of bonus shares, consolidation and split of the Company's shares, a rights issue to the shareholders of the Company or the distribution of a dividend. The board of directors and/or its committees reserve the right to make amendments to the Plan with respect to all offerees or to a particular offeree.

In the event of termination other than due to dismissal for cause as defined in the Plan and employment agreement, the employee shall be entitled to exercise the options which have matured before and until the termination date during a period of 180 days after the termination date. Further, the board of directors and/or its committees may accelerate options that have not vested before the termination date such that they will vest on the termination date, provided, however, that the original vesting date is no more than 6 months after the termination date. With regard to options that are due to vest within 6 months from the termination date, the board of directors may extend the exercise period by an additional 180 days.

23.1.2 Restricted share units ("RSU"/"PSU") plan – according to the remuneration plan for senior employees of July 2016, which was approved by the board of directors and the meeting of shareholders of the Company, the Company may allot restricted shares to senior employees, free of charge. Upon satisfaction of their vesting terms and conditions, each RSU shall be automatically converted into one NIS 1 par value ordinary share of the Company on the vesting date determined for each offeree.

The number of shares shall be adjusted pro rata following the allotment of bonus shares, a rights issue to the shareholders of the Company or a change in the Company's structure (merger or sale of the Company). If a dividend is distributed before the RSUs have been exercised, the holder of the RSUs shall be entitled to the amount of the dividend whereto he would have been entitled had he held, on the date the dividend was distributed, the number of ordinary shares of the Company equal to the number of RSUs, less the tax applying to the distribution.

23.1.3 Taxation – for employees in Israel, the plans described above were approved under section 102 of the Income Tax Ordinance (New Version), 1961 and accordingly, the option warrants or RSUs were deposited with a trustee. According to the plans, the employees shall bear any and all taxes applying thereto.

23.2 Grants during the reporting period

23.2.1 On September 26, 2016 the meeting of shareholders of the Company approved the grant to the Company CEO of 524,613 options and 164,634 RSUs with performance conditions (the "Restricted Shares"), exercisable into ordinary shares of the Company of NIS 1 par value each. The CEO's entitlement to receive the underlying shares will crystallize in four tranches, as follows: approximately 50% of all options on July 27, 2018, and approximately 16.667% on July 27 of each of the years 2019-2021. The terms and conditions of the options granted to the CEO include a ceiling for the possible benefit, in such manner that if the market price of the share on the exercise date is 60% or more higher than the adjusted average closing prices of the

Note 23 - Share-Based Payments (cont'd)

23.2 Grants during the reporting period (cont'd)

23.2.1 Cont’d

Company’s share on the TASE in the 30 trading days preceding the board of directors’ approval, the exercise price shall increase such that the difference between the share price on the exercise date and the price at the time of the grant shall be added to the original exercise price, plus 60%. The fair value of the options on the date of approval by the meeting of shareholders of the Company was calculated using the binomial model and was estimated at approximately NIS 11.94 per option. The main assumptions used in determining the fair value of the options granted are as follows: share price NIS 59.29; annual standard deviation 22.9%-24.9%; risk free interest 1.36%-1.71%; exercise price NIS 63.13; expected dividend 0%; and life of the option 7-9 years. The CEO’s entitlement to exercise the Restricted Shares will crystallize in four tranches, as follows: approximately 50% of all options on August 30, 2018, and approximately 16.667% on August 30 of each of the years 2019-2021. Exercise of the Restricted shares is conditional on the CEO’s employment on the vesting date and on the achievement of at least 90% of the cumulative quarterly sales budget from the first full quarter after the grant date until the last full quarter before the vesting date (inclusive) in the functional currencies of the cash generating units in geographies outside of Israel, according to the budgets approved by the board of directors. The fair value of the Restricted Shares was estimated at NIS 59.29 per Restricted Share, calculated on the eve of the date of approval of the grant by the general meeting.

23.2.2 On September 29, 2016 the Group’s remuneration committee approved the grant of 93,332 option warrants to two managers (46,666 option warrants each) in lieu of 140,000 option warrants (70,000 each) that were allotted to them in 2014. Entitlement to exercise the option warrants will crystallize in two equal tranches on September 29 of each the years 2018-2019. The benefit arising from these grants will be recorded as an expense on the financial statements over the above vesting periods. Further, in respect of the abovementioned swap an incremental value of NIS 357 thousand was recognized, which will be included in the amount recognized in respect of the services to be received from the date of the change through to the end of the vesting period. The incremental fair value awarded is the difference between the fair value of the equity instrument following the change and the fair value of the original equity instrument, both estimated on the date of the change. Following is information on the fair value of the new option warrants granted to the two managers:

Grant date	Number of options and entitled employees	Fair value	Share price	Exercise price	Expected life	Expected annual volatility	Discount rate
		NIS M	NIS	NIS	Years	%	%
September 29, 2016	93,332 to 2 managers	1	59.31	63.29	4.2-5.2	21.29%-24.37%	0.75%-1.06%

Note 23 - Share-Based Payments (cont'd)

23.3 Changes in the number of share options:

	Number of share options (thousands)		
	2016	2015	2014
Balance as at January 1	3,926	3,453	2,965
Additional allotment	618	1,240	1,580
Exercise of options (1)	(137)	(590)	(1,075)
Forfeiture of options	(253)	(177)	(17)
Balance as at December 31 (2)	4,154	3,926	3,453

(1) The weighted average share price on the exercise date of the options exercised in 2016 is NIS 61.08 (2015: NIS 62.13, 2014: NIS 66.19).

(2) On December 31, 2016, 1,352 thousand (2015: 928 thousand) of the outstanding option warrants had vested.

23.4 Share-based payments in a subsidiary

A subsidiary has an international plan in place for the allotment of non-marketable options for Strauss Coffee shares to senior executives of Strauss Coffee, which vest in three to five years. In a certain case of the sale of 65% or more of the holdings of the private equity investment firm TPG Capital (which holds 21.5% of the share capital of Strauss Coffee) to the Company equivalent options of the Company may be received in respect of the Strauss Coffee options that have not yet vested. Entitlement to exercise the options depends on the occurrence of exit events as defined in the plan, including changes of ownership of the company. The fair value of each grant was calculated according to the Black & Scholes model.

In 2016, options were granted immaterial in amount.

On December 31, 2016 the number of options warrants of subsidiary is 9,697.

23.5 Salary expenses in respect of share-based payments

	For the year ended December 31		
	2016	2015	2014
		NIS millions	
Total expense included in salary expenses	14	14	18

Note 24 - Contingent Liabilities, Liens, Guarantees and Engagements

24.1 Contingent liabilities

24.1.1 Following is information on material claims filed with the courts against the Company and its subsidiaries for class certification. Based on the estimates of the Company's legal counsels, management is of the opinion at this stage that **the claims are not expected to be accepted**:

Date claim filed	Court in which claim is being litigated	Defendant	Subject of claim and the ruling	Claim amount (NIS millions)
April 2015	Central District Court	The Company and the Parent Company, Tnuva Central Cooperative for the Marketing of Agricultural Produce in Israel Ltd. and Tnuva Food Industries Agricultural Co-Op in Israel Ltd.	Alleged unfair pricing by a monopoly holder, and of products under price control (see also Note 24.1.4.3 with regard to joinders)	57 (The group's share)
November 2014	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in the sale of a product	38
May 2016	Central District Court	The Company and Parent Company	Allegedly excessive pricing by a monopoly of the Elite Cocoa product	38
June 2016	Haifa District Court	The Company, Uri Horazo Yotvata Dairies and the subsidiary, Strauss Health	Sale of allegedly defective products	915
July 2016	Central District Court	The Company and Parent Company	Allegedly excessive pricing by a monopoly of an instant coffee product	80
January 2017	Central District Court	The subsidiary Strauss Water Ltd.	Failure to supply spare parts in a timely manner	59

24.1.2 Following is information on a material claim filed with the courts against the Company for class certification in the reporting period. As at the date of approval of the report the Company is unable, at this preliminary stage, to assess the chances of the claim being accepted and its impact, if accepted, on the financial statements of the Company.

Date claim filed	Court in which claim is being litigated	Defendant	Subject of claim and the ruling	Claim amount (NIS millions)
May 2016	Central District Court	The Company and Parent Company	Allegedly excessive pricing by a monopoly of the Milky dairy dessert (see Note 24.1.4.3 with regard to a joinder)	100

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.1 Contingent liabilities (cont'd)

24.1.3 Following is information on material claims filed with the courts against the Company and its subsidiaries for class certification, in which respect legal proceedings ended in the reporting period through to the date of approval of the financial statements:

Date claim filed	Court in which claim is being litigated	Defendant	Subject of claim and the ruling	Claim amount (NIS millions)
March 2015	Central District Court	The subsidiary Strauss Water Ltd.	Alleged misleading by the representation that its water systems perform filtration on a level that is in compliance with certain standards. On March 14, 2016 the Central District Court decided to approve the claimant's notice of withdrawal without ruling costs.	1,832
June 2016	Central District Court	Uri Horazo Yotvata Dairies Ltd.	Sale of allegedly defective products. In November 2016 the Central District Court instructed that the motion for class certification be dismissed.	150

24.1.4 Claims and other contingent liabilities

24.1.4.1 According to a letter of indemnity for officers of the Company (including those who are among the controlling shareholders and their relatives), the Company has irrevocably undertaken to indemnify officers of the Company with respect to any liability or expense (as defined in the letter of indemnity) imposed on the officer due to actions performed in his capacity as such after the date of the letter of indemnity, which are directly or indirectly related to one or more of the types of events described in the letter of indemnity, or part of them or anything related to them, directly or indirectly. The amount the Company will pay, in addition to sums which shall be received from insurance companies, if any, for all officers cumulatively, in respect of one or more of the events described in the letter of indemnity, has been limited to 25% of the shareholders' equity of the Company according to its most recent financial statements as at the actual date of the indemnity payment (hereinafter: the "Date of Record"). The maximum amount of indemnity will be linked to the index from the latest index published prior to the Date of Record, until the latest index published prior to the payment date. Additionally, under a deed of exemption from liability granted to officers, the Company has released, in advance and retrospectively, its officers (including those among the controlling shareholders and their relatives) from their liability, in whole or in part, for damage as a result of a breach of the duty of care to the Company to the maximum extent permitted by law, provided, however, that such release shall not apply to a decision or transaction in the approval of which the controlling shareholder or an officer had a personal interest. See also Note 24.4.2.

24.1.4.2 The liquidator of Esio Beverage Company ("Esio"") filed an action against Strauss Water Ltd. in the State of Delaware, USA. The filing of the action was approved on November 5, 2016. In the statement of claim Esio alleges that Strauss Water was expected to convert a $5.25 million loan to Esio (the "Loan") into equity and to invest an additional $25 million in Esio's equity, and after it failed to do so Esio was obliged to discontinue its business and was declared insolvent; consequently, Esio was caused loss of profits and a loss of business opportunities. Strauss Water estimates that the chances of the action being accepted are below 50%. Strauss Water has filed a claim with the liquidator for the refund of the Loan, plus interest, against Esio's liquidated assets.

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.1 Contingent liabilities (cont'd)

24.1.4 Claims and other contingent liabilities (cont'd)

24.1.4.3 On December 27, 2016 the court instructed on the joinder of a claim of April 2015 regarding the collection of an allegedly unfair price by a monopoly for products subject to price control (the part relating to Strauss's dairy desserts) with a claim of May 2016 on the collection of an allegedly excessive price by a monopoly for the Milky dairy dessert.

24.1.4.4 Claims in the civil courts and other claims that were not mentioned in the preceding notes amounted to approximately NIS 55 million as at December 31, 2016. Based on the opinion of its legal counsel, Company management is of the view that the Company and its subsidiaries will not incur losses as a result of the above claims in excess of the amount of the provision made in the financial statements.

24.1.4.5 There are lawsuits in the civil courts and other claims underway against an equity-accounted investee in Brazil. As at December 31, 2016, these claims (the Group's share) totaled approximately NIS 232 million (of which approximately NIS 111 million relate to claims by the tax authorities, NIS 109 million relate to labor claims and NIS 12 million to civil suits). Based on the information received from the equity-accounted investee's legal counsel, an analysis of the pending legal proceedings and past experience as far as the amounts claimed are concerned, the equity-accounted investee estimates that the chances of approximately NIS 166 million of the claims are slight and has made provisions totaling approximately NIS 12 million (the Group's share), which is considered sufficient to cover the expected losses as a result of the above claims.

24.1.4.6 See Note 35.1.2 for information on benefits received by Group companies by virtue of the laws for the encouragement of capital investments.

24.2 Liens

24.2.1 The following encumbrances have been created to secure the liabilities of the Group companies:

	December 31	
	2016	**2015**
	NIS millions	
On current assets abroad in favor of foreign banks	3	3
On the assets of investees	51	41

24.2.2 There are fixed and floating charges on a number of real estate properties in the Group in favor of banks and others to secure credit.

24.2.3 The Company has undertaken in favor of banks and other financing entities in Israel not to mortgage or to otherwise encumber assets without receiving the prior written consent of the banks and financing entities.

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.3 Guarantees

24.3.1 Guarantees and comfort letters were given to banks and others with respect to the business operations of the Group, as follows:

	December 31	
	2016	2015*
	NIS millions	
In favor of subsidiaries in Israel and abroad	483	411
In favor of others in Israel and abroad	23	24

* Restated.

24.3.2 There are mutual guarantees between the Company and subsidiaries, limited (see above) and unlimited in amount, to secure all liabilities to banks and others.

24.4 Material commitments

24.4.1 In the engagement for the investment by PepsiCo Foods International (hereinafter: "PepsiCo") in Strauss Frito-Lay Ltd, the shareholders agreed that should control of the Company (directly or indirectly) be assumed by a party that is not the Strauss family, PepsiCo shall have the right, after 12 months have elapsed from the Company becoming thus controlled, to acquire the Company's entire remaining shareholding in Strauss Frito-Lay Ltd. at the market price to be determined as specified in the agreement, on condition that PepsiCo had attempted in good faith to cooperate with the new controlling shareholder in the said 12 months and shall reasonably determine that its attempt was unsuccessful.

24.4.2 As at the reporting date the Company is engaged in a policy for the insurance of directors and officers serving in the Company and its subsidiaries (the policy does not include Strauss Coffee B.V.), with liability limits of approximately USD 100 million and for payment of an annual premium of USD 100 thousand. Additionally, Strauss Coffee B.V. has a policy for the insurance of directors and officers serving in Strauss Coffee B.V. with liability limits of approximately USD 100 million, for payment of an annual premium of USD 100 thousand.

24.4.3 The agreement between Uri Horazo Yotvata Dairies (limited partnership), Kibbutz Yotvata (which holds 50% of the shares of Yotvata) (hereinafter: the "Kibbutz") and Strauss Health determines, *inter alia*, that for as long as the Kibbutz holds at least 20% of the ordinary share capital of Yotvata, a resolution by Yotvata's board of directors or general meeting relating to certain matters enumerated in the agreement will require the approval of the Kibbutz's representatives on the board of directors.

A mutual option is granted in the agreement to the Kibbutz and to Strauss Health to conduct a share exchange, if certain conditions are fulfilled, in such manner that Strauss Health will hold 100% of the control and equity in Yotvata, and the Kibbutz will own 6.4% of the share capital of Strauss Health as it is at such time.

24.4.4 Strauss Health and Yotvata are engaged in agreements with dairy farmers to purchase the entire quotas of their milk produce in accordance with the Milk Sector Planning Law, 2011.

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.4 Material commitments (cont'd)

24.4.5 On December 29, 2005 a series of agreements was signed between companies in the Group and the Lima family of Brazil and companies under its control, their goal being the consolidation of the parties' operations in Brazil. It was determined that the transfer or sale of shares by a shareholder of the jointly-held company to a third party which is not related to either of the shareholders is subject to a right of first refusal to the sale, right of first offer and a shareholder's tagalong right to the sale of the other shareholder's shares. The agreement further determines that the shareholders will have preemptive rights with respect to any allotment of securities by the joint company in the future, in such manner that they will be able to acquire new securities pro rata to their holdings. Should a shareholder in the jointly-held company enter insolvency proceedings, the other shareholder will be entitled to acquire all of the shareholder's shares in the jointly-held company on the basis of the joint company's fair market value, subject to a prescribed valuation mechanism.

The agreement further determines that should an arbiter who is appointed in a dispute between the shareholders rule that a shareholder is in breach of the shareholders' agreement or joint venture agreement, the other shareholder that is not in breach shall be entitled to exercise its call option to buy the shares of the shareholder in breach for a price equal to 80% of fair market value, or alternatively, to exercise its put option to sell its shares to the shareholder in breach for a price equal to 120% of fair market value, according to a mechanism defined in the shareholders' agreement. On September 13, 2010 the parties signed an amendment to the shareholders' agreement, in which, *inter alia*, a limitation was added, prohibiting a shareholder from selling its shares to a rival of the jointly-held company until January 1, 2020. In 2016, the mutual share encumbrance agreement designed to ensure indemnification in the framework of establishing the joint venture expired, with the agreement of the parties.

24.4.6 In December 2007, a joint venture transaction was signed with a PepsiCo subsidiary (Frito-Lay Dip Company, Inc.) (the “Buyer”) such that effective March 28, 2008, the Company (via S.E. USA, Inc.) and PepsiCo (via the Buyer) each holds 50% of the “participation rights” in Sabra Dipping Company, LLC (“Sabra”). After five years have elapsed from the date of the agreement, each of the holders of “participation rights” in Sabra will have a put option to sell its “participation rights” to the other holders of “participation rights” in Sabra at such time, on the basis of Sabra's market value less 25%. The party against which the option was exercised will have the right to purchase the “participation rights” of the party exercising the option at the said price or alternatively, to sell the party exercising the option its “participation rights” on the basis of Sabra's market value plus 25%. The bylaws determine, *inter alia*, that the sale of “participation rights” to a third party is subject to the tagalong right of the remaining owners of “participation rights”, and insofar as this right is not exercised, the seller shall have a drag-along right to enforce a sale on the remaining owners of “participation rights”. This right shall be available to the seller after five years have elapsed from the date whereon the bylaws became effective. Additionally, the bylaws contain an itemization of certain corporations, in which respect any transfer of “participation rights” in Sabra to them shall require the consent of the Buyer or of S.E. USA, Inc., according to the provisions of the bylaws.

24.4.7 On January 21, 2012 the subsidiary Strauss Coffee signed an agreement with the owners of Norddeutsche Kaffeewerke GmbH (hereinafter: “NDKW”), for the leasing of its freeze-dried coffee plant for a five-year period, for a yearly consideration of €2.5 million (of which €10 million were paid in advance). On March 27, 2012 the subsidiary Strauss Coffee granted

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.4 Material commitments (cont'd)

24.4.7 (cont'd)

NDKW a loan in an amount of €18.5 million, which will be repaid by the owners of NDKW at the end of the lease period. The loan bears interest, which is paid each year by NDKW. As collateral for the loan, the assets of NDKW are encumbered in the Company's favor. The Company has an option to extend the term of the lease for a further three years for a yearly consideration of €3.25 million (a total of €9.75 million). Should the Company decide to exercise the option, the sum of €7.5 million of the abovementioned loan will be considered a down payment on account of the yearly lease fees. In addition, the subsidiary Strauss Coffee B.V. was granted a call option to acquire NDKW in consideration for €50 million, which may be exercised at any time during the term of the agreement. As at December 31, 2016 the outstanding balance of the down payment was approximately €7.3 million. On March 23, 2017 the subsidiary Strauss Coffee B.V. exercised the call option in consideration for the sum of €50 million, less the outstanding balance of the loan in the amount of approximately €18 million (of which approximately €7.3 million were classified as deferred expenses).

24.4.8 For information on engagements in operating leases, see Note 25.

24.4.9 For information on transactions with interested and related parties, see Note 37.

Note 25 - Operating Leases

Leases in which the Group is the lessee

The Group companies are party to non-cancelable long-term lease agreements relating to property and other assets, pursuant to which the following minimum rental fees shall be paid:

	December 31	
	2016	**2015**
	NIS millions	
In the first year	56	69
Between one and five years	103	121
In the fifth year and thereafter	43	70
	202	260

Note 25 - Operating Leases (cont'd)

25.1 Information on material lease contracts

Lessee	Lessor	The leased property	Remaining lease period
The Company	Third party	Acre distribution and logistics center	Until February 2021, with an option to extend for a further five years
The Company	Third party	Haifa distribution and logistics center	Until October 2018
Subsidiary	Third party	Store and an office in the US for the operation of "Chocolate Bars"	Until 2021
Subsidiary	Third party	Freeze-dried coffee production plant in Germany	Until December 2019 (see also Note 24.4.7)
The Company	Third party	Tzrifin distribution and logistics center (1)	Until November 2021

(1) In the course of 2015 the Company relocated its operations from Tzrifin and other sites to the logistics center in Shoham, and from January 1, 2016 the Tzrifin site has been sublet under inferior terms and conditions. Income from the sublet in 2016 amounted to NIS 6 million.

25. 2 In the year ended December 31, 2016 an amount of NIS 81 million was recorded as an expense in the statement of income in respect of operating leases (2015 and 2014: NIS 85 million and NIS 86 million, respectively).

Note 26 - Capital and Reserves

Capital management – goals, procedures and processes

It is Company management's policy to maintain a strong capital base with the aim of preserving the Company's ability to conduct its operations in a manner that generates shareholder yield and benefits to other related parties such as credit providers and employees of the Company, as well as to support future business development. Company management monitors the return on equity, which is defined as total equity attributed to the shareholders of the Company, as well as the dividend payout ratio for holders of the Company's ordinary shares

26.1 Share capital

26.1.1 Composition

	December 31	
	2016	2015
	Number of shares (in thousands) of NIS 1 par value	
Authorized	150,000	150,000
Issued and paid-up	108,234	108,189
Treasury shares (See Note 26.2)	(868)	(868)
	107,366	107,321

Note 26 - Capital and Reserves (cont'd)

26.1 Share capital (cont'd)

26.1.2 The holders of ordinary shares are entitled to dividends declared from time to time and to one vote per share at shareholders' meetings of the Company. In respect of the treasury shares (see below), all rights attaching thereto are suspended until they are reissued.

26.2 Treasury shares

The reserve for treasury shares includes the cost of shares of the Company held by the Company. On December 31, 2016 and 2015 the Company held 868 thousand Company shares, constituting approximately 0.8% of the shares of the Company. These shares are suspended until reissued.

26.3 Dividend distribution

Declaration date	Payment date	Total dividend paid NIS millions	Dividend per share NIS
July 7, 2016 (ex-date: July 18, 2016)	July 26, 2016	150	1.397
November 23, 2015 (ex-date: December 2, 2015)	December 10, 2015	100	0.931

As a result of the dividend distribution, the exercise price of option warrants granted to employees was adjusted. See Note 23.1.1.

26.4 Capital reserve in respect of available-for-sale financial assets

The capital reserve in respect of available-for-sale financial assets comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

26.5 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of monetary items that in fact constitute increase or decrease in the net investment of the Group in foreign operations.

The effect of changes in foreign exchange rates that was recognized as other comprehensive income (including the share of non-controlling interests) according to the relevant operating segments was:

	For the year ended December 31		
	2016	2015	2014
	NIS millions		
International Coffee	103	(389)	(271)
International Dips and Spreads	(12)	(1)	37
Other	9	3	1
Total	100	(387)	(233)

Note 26 - Capital and Reserves (cont'd)

26.6 Reserve from transactions with non-controlling interests

The reserve from transactions with non-controlling interests includes the difference between the consideration paid for the acquisition of non-controlling interests and the change in non-controlling interests.

Note 27 - Segment Reporting

27.1 General

Segment information is presented in respect of the operating segments of the Group on the basis of the Group's management (non-GAAP) and internal reports (hereinafter: "Management Reports"). The Group's division into reportable operating segments is derived from Management Reports, which are based on the geographical location and types of products and services, as follows:

- The Israel operation, which includes two operating segments –
  - Fun & Indulgence – includes the manufacture, marketing and sale of confectionery, bakery products and snacks.
  - Health & Wellness – includes the manufacture, marketing and sale of dairy products and milk beverages, fresh salads and foods, honey products, olive oil and fruit preserves cooking sauces, bottled lemon juice and natural maple syrup.

- The coffee operation, which includes two operating segments –
  - Israel Coffee – includes the manufacture, marketing and sale of coffee products in Israel and the Coffee Company's corporate expenses in material amounts.
  - International Coffee – includes the manufacture, marketing and sale of coffee products outside Israel.

- The International Dips and Spreads operation – includes the manufacture, marketing and sale of refrigerated dips and spreads outside Israel.

Other operations include the Max Brenner chain, as well as the Company's water business, which is incorporated in Strauss Water and other non-material activities of the company.

The results of the operating segments set forth below are based on evaluations of the Company's performance in the framework of the Management Reports. These evaluations are based on operating profit, which includes the allocation of selling expenses and general and administrative expenses, less certain items, as follows:

- Other expenses (income)
- Results of the valuation of commodity hedging transactions as at the end of the year, which are reported in cost of sales
- Expenses in respect of share-based payment

Inter-segment pricing is determined on an arm's length basis.
Segment results include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly financing income and expenses.

Note 27 - Segment Reporting (cont'd)

27.2 Information according to operating segments and reconciliation between the operating data of the segments and the consolidated financial statements

	For the year ended December 31		
	2016	2015	2014
		NIS millions	
Income			
Sales to external customers:			
Health & Wellness	1,975	1,898	1,974
Fun & Indulgence	1,006	968	998
Total Israel	2,963	2,866	2,972
Israel Coffee	673	647	689
International Coffee	3,000	2,785	3,136
Total Coffee	3,673	3,432	3,825
International Dips and Spreads	717	752	683
Other	590	592	660
Sales to other segments:			
Health & Wellness	7	8	7
Fun & Indulgence	11	9	16
Total Israel	18	17	23
Israel Coffee	2	1	2
International Coffee	1	-	-
Total Coffee	3	1	2
International Dips and Spreads	-	-	-
Other	1	-	1
Total income of the segments	7,965	7,660	8,166
Elimination of inter-segment sales	(22)	(18)	(26)
Total income of segments excluding inter-segment sales	7,943	7,642	8,140
Adjustments to the equity method	(2,661)	(2,459)	(2,725)
Total consolidated income	5,282	5,183	5,415

Note 27 - Segment Reporting (cont'd)

27.2 Information according to operating segments and reconciliation between the operating data of the segments and the consolidated financial statements (cont'd)

	Year ended December 31		
	2016	2015	2014
		NIS millions	
Profit			
Health & Wellness	213	188	203
Fun & Indulgence	101	93	112
Total Israel	314	281	315
Israel Coffee	87	84	101
International Coffee	272	184	247
Total Coffee	359	268	348
International Dips and Spreads	48	80	75
Other	23	30	8
Total profit of the segments	744	659	746
Unallocated income (expenses):			
Valuation of commodity hedging transactions as at the end of the year	-	22	(22)
Other income (expenses), net	(50)	(42)	(121)
Share based payment and non-recurring grant	(15)	(15)	(21)
Total operating profit	679	624	582
Adjustments to the equity method	(48)	(39)	(37)
Total operating profit in the consolidated financial statements	631	585	545
Financing expenses, net	(109)	(101)	(67)
Income before taxes on income	522	484	478

Note 27 - Segment Reporting (cont'd)

27.3 Additional information on operating segments and reconciliation with the consolidated financial statements

	For the year ended December 31		
	2016	2015	2014
		NIS millions	
Depreciation and amortization			
Health & Wellness	58	54	49
Fun & Indulgence	35	32	29
Total Israel	93	86	78
Israel Coffee	12	10	17
International Coffee (1)	61	74	87
Total Coffee	73	84	104
International Dips and Spreads	27	23	16
Other	27	39	35
Total depreciation and amortization attributed to segments	220	232	233
Adjustments:			
Depreciation of unallocated non-financial assets	20	21	22
Adjustments to the equity method	(49)	(41)	(37)
Total depreciation and amortization in consolidated statements	191	212	218

(1) Including loss from impairment of goodwill and intangible assets. See Note 15.3.

27.4 Information on geographical segments

The Group's income from sales to external customers, as reported in the income statement, on the basis of the geographical location of the assets, is as follows:

	For the year ended December 31		
	2016	2015	2014
		NIS millions	
Israel	3,917	3,776	3,932
North America	70	80	83
Europe and rest-of-world	1,295	1,327	1,400
Total consolidated income	5,282	5,183	5,415
Adjustments to income of operating segments	2,661	2,459	2,725
Total income of operating segments	7,943	7,642	8,140

Note 27 - Segment Reporting (cont'd)

27.4 Information on geographical segments (cont'd)

The non-current assets of the Group, as reported in the statement of financial position, on the basis of their geographical location, are as follows:

	December 31	
	2016	2015
	NIS millions	
Israel	1,876	1,898
North America	20	35
Europe and rest-of-world	578	581
Total consolidated assets	2,474	2,514
Adjustment to assets of operating segments	1,018	870
Total assets of operating segments	3,492	3,384

These assets include mainly fixed assets and intangible assets, and do not include financial assets, current tax assets, deferred tax assets and assets designated for the payment of employee benefits.

27.5 Information regarding products and services

Following are the revenues of the Group from sales to external customers as reported in the income statement, according to groups of similar products and services:

	Year ended December 31		
	2016	2015	2014
		NIS millions	
Income			
Dairy products	1,394	1,342	1,402
Salads	277	277	*290
Other Health & Wellness products	286	279	*282
Confectionery and bakery products	788	761	*793
Coffee	1,946	1,945	2,045
Water purification devices and related services	496	470	491
Other	95	109	112
Total consolidated income in income statement	5,282	5,183	5,415
Adjustments to income of operating segments	2,661	2,459	2,725
Total income of operating segments	7,943	7,642	8,140

* Restated.

Note 28 - Financial Instruments

The Group is exposed to the following risks as a result of using financial instruments:

- Credit risk.
- Interest risk.
- Market risks that include: commodity price risks, foreign currency risks and CPI risks.
- Liquidity risk.

This note provides information regarding the exposure of the Group to these risks and Group policy for the management of such risks.

In calculations of fair value and the sensitivity analyses the Company used the following:
1. Options – Black & Scholes model, standard deviation and quotations of relevant underlying assets.
2. Forward transactions – According to the change in the price of the relevant underlying asset and interest differences deriving from interest rates and/or stock exchange market prices (for commodities).
3. Debentures – According to the known interest curve and average life of the debentures.

28.1 Credit risk

In 2016 in Israel and in the Group companies outside of Israel there were no customers in which respect the Group's revenues from sales to these customers exceeded 10% of the Company's total income in its financial statements. The balance of the Company's customers is spread out and the risk arising from the concentration of credit with a single customer or group of customers is immaterial.

Most of the sales of the Group to its customers (in and outside of Israel) are made on accepted market credit terms. Part of the credit to retail customers in the private market in Israel is guaranteed by credit insurance (including a deductible) and by different collateral, and the rest of the credit to the private market that is not covered by any security is at risk. Nevertheless, the wide spread of the Group's customers in the private market reduces this risk. Part of the credit to large customers is not secured and is concentrated among a small number of customers to which the scope of the Group's sales is large, and therefore the non-repayment of credit which is not secured by any of the large customers may significantly impair the Group's cash flows and business results. Most of the credit to foreign customers is not guaranteed.
Company management constantly monitors customer debts, and the financial statements include specific provisions for doubtful debts which fairly reflect, according to management's estimate, the loss inherent in debts which collection is doubtful.

28.1.1 Exposure to credit risk

The carrying amount of financial assets reflects maximum credit exposure.
For information regarding exposure to credit risk in respect of customers, see Note 9. Additionally, for a segmentation of financial assets with varying credit risks see Note 13 regarding loans granted and Note 8 regarding investment in deposits and marketable securities.

28.1.2 Sureties and other credit enhancements

As at December 31, 2016 credit to retail customers in the amount of NIS 765 million (2015: NIS 712 million) is guaranteed by credit insurance as described above. In addition, the Company has deposits and guarantees from customers to secure their debts in the amount of NIS 86 million as at 31 December 2016 (2015: NIS 82 million).

Note 28 - Financial Instruments (cont'd)

28.1.3 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 two-year deferment of 30% of the debt as at the date of filing of the motion, with the balance subsequently being repaid in 36 equal monthly installments, plus interest, commencing on July 15, 2017. On January 17, 2016 the District Court granted Mega a stay of proceedings. Commencing on July 1, 2016, following the approval of the composition with creditors and Mega's acquisition by Yenot Bitan, the Company resumed credit sales to Mega. In the Company's estimation, taking the existence of credit insurance into account, the provision on the Company's books is adequate. For further information, see Note 10 regarding receivables and debit balances and also Note 13 regarding other investments and long-term debit balances. In March 2017 an amount of NIS 13 million was received from the insurance company for credit losses in respect of Mega’s debt.

28.2 Interest rate risk

28.2.1 Interest rate profile

The interest rate profile of the Group’s interest bearing financial instruments as at the date of the report is as follows:

	December 31	
	2016	2015
	NIS millions	
Fixed interest financial instruments		
Financial assets	193	195
Financial liabilities	(1,770)	(1,965)
	(1,577)	(1,770)
Floating interest financial instruments		
Financial assets	534	408
Financial liabilities (1)	(176)	(229)
	358	179

(1) Loans at floating interest rates denominated in US Dollars and Shekel loans bearing interest at the prime rate. See Note 20.

28.2.2 Fair value sensitivity analysis regarding fixed interest instruments

The fixed interest assets and liabilities of the Group (such as deposits, loans granted and issued debentures) are not measured at fair value through profit or loss. Therefore, any change in the interest rate as at the reporting date would not have a material effect on the statement of income.

28.2.3 Sensitivity analysis regarding floating interest instruments

Since the balance of financial assets at floating interest rates is significantly higher than the balance of liabilities at floating interest rates and considering the current low interest rates, the positive impact of a change in the absolute interest rates as at the reporting date on equity and income in the periods presented is immaterial in amount.

Note 28 - Financial Instruments (cont'd)

28.2 Interest rate risk (cont'd)

28.3 Commodity risk

<u>Additional information:</u>
Most of the Company's variable interest rate income is linked to the Euro, Dollar and Shekel. The Company's liabilities at variable interest rates are linked to the Dollar and Shekel interest rates.

The Group companies use derivative financial instruments in order to reduce the exposure to risks arising from unusual changes in the prices of raw materials required for production purposes (green coffee, cocoa, corn, sugar and crude oil) or materials and cost influenced by commodity prices (crude oil, corn).

28.3.1 Following is an itemization of the Group's material derivative financial instruments (stock exchange derivatives)

			December 31 2016	
		Exercise/expiry date	Face value	Carrying amount and fair value
			NIS millions	
Green coffee	Contracts purchased, net	March 2017– September 2017	131	1
Green coffee	Buy Call	March 2017	15	1
Green coffee	Sell Put	May 2017-September 2017	(11)	-
				2

			December 31 2015	
		Exercise/expiry date	Face value	Carrying amount and fair value
			NIS millions	
Green coffee	Contracts purchased, net	May 2016 – September 2016	170	(4)
Green coffee	Buy Call	May 2016 – July 2016	37	-
Green coffee	Sell Call	May 2016 – July 2016	(6)	-
Green coffee	Sell Put	May 2016 – July 2016	(44)	(2)
				(6)

Note 28 - Financial Instruments (cont'd)

28.3 Commodity risk (cont'd)

28.3.2 Sensitivity analysis – forward transactions and options

Any increase (decrease) in the prices of the essential commodities will increase (decrease) equity and income for the period, in respect of forward transactions and options, by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

	December 31, 2016				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
	NIS millions				
Arabica	3	2	(3)	(2)	(3)
Robusta	11	5	5	(5)	(11)
Total	14	7	2	(7)	(14)

	December 31, 2015				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
	NIS millions				
Arabica	6	3	(1)	(3)	(7)
Robusta	13	6	(5)	(7)	(13)
Total	19	9	(6)	(10)	(20)

28.4 Foreign currency risk

28.4.1 The Group uses derivatives (OTC) in order to hedge part of its foreign currency risk. As at December 31, 2016 the carrying amount and fair value of derivative financial instruments of the Group (foreign currency), net amounted to approximately NIS 1 million (December 31, 2015: NIS 4 million)

28.4.2 Sensitivity analysis regarding financial assets (liabilities)

Following is a sensitivity analysis relating to the Group's material derivative instruments (foreign currency – OTC) as at December 31, 2016 and December 31, 2015. Any change in the exchange rates of the major currencies as at December 31 will increase (decrease) equity and income for the period by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.2 Sensitivity analysis regarding financial assets (liabilities) (cont'd)

	December 31, 2015				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	4.292	4.097	3.902	3.707	3.512
Total NIS/USD derivatives	8	5	4	(5)	(11)

	December 31, 2016				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	4.229	4.037	3.845	3.653	3.461
Total NIS/USD derivatives	8	5	1	(4)	(10)

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.3 Statement of financial position according to linkage bases

The Group's exposure to CPI and foreign currency risk, not including risk associated with financial derivatives, is as follows:

	December 31, 2016							
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non-financial	Total
				NIS millions				
Cash and cash equivalents	-	290	198	140	13	70	-	**711**
Securities and deposits	23	30	-	-	-	-	-	**53**
Trade receivables	-	629	22	2	100	128	-	**881**
Other receivables and debit balances (1)	-	46	22	2	2	2	69	**143**
Other investments and long-term debit balances	-	55	55	44	-	9	-	**163**
Current maturities of debentures	(177)	(19)	-	-	-	-	-	**(196)**
Short-term loans and credit	(4)	(128)	(15)	-	-	-	-	**(147)**
Trade payables	-	(504)	(165)	(24)	(5)	(45)	-	**(743)**
Other payables and credit balances (2)	(12)	(410)	(9)	(8)	(49)	(52)	(64)	**(604)**
Debentures	(178)	(457)	-	-	-	-	-	**(635)**
Long-term loans and credit	(462)	(444)	-	-	-	-	-	**(906)**
Long term- other payables and credit balances	-	-	(6)	-	-	(5)	(49)	**(60)**
Total	(810)	(912)	102	156	61	107	(44)	**(1,340)**

(1) Excluding derivative financial instruments in the amount of NIS 13 million.
(2) Excluding derivative financial instruments in the amount of NIS 38 million.

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.3 Statement of financial position according to linkage bases (cont'd)

	December 31, 2015							
	NIS linked	**NIS unlinked**	**Dollar**	**Euro**	**Ruble**	**Other**	**Non-financial**	**Total**
	NIS millions							
Cash and cash equivalents	-	322	92	86	2	58	-	**560**
Securities and deposits	25	31	4	-	-	-	-	**60**
Trade receivables	-	623	24	2	132	145	-	**926**
Other receivables and debit balances (1)	-	20	62	8	2	1	75	**168**
Other investments and long-term debit balances	-	79	69	50	-	10	-	**208**
Current maturities of debentures	(178)	-	-	-	-	-	-	**(178)**
Short-term loans and credit	(4)	(110)	(36)	-	(31)	-	-	**(181)**
Trade payables	-	(473)	(171)	(18)	(7)	(44)	-	**(713)**
Other payables and credit balances (2)	(15)	(338)	(10)	(4)	(29)	(34)	(80)	**(510)**
Debentures	(356)	(478)	-	-	-	-	-	**(834)**
Long-term loans and credit	(468)	(460)	(15)	-	-	-	-	**(943)**
Long term- other payables and credit balances (3)	-	-	(10)	-	-	(15)	(39)	**(64)**
Total	(996)	(784)	9	124	69	121	(44)	**(1,501)**

(1) Excluding derivative financial instruments in the amount of NIS 15 million.
(2) Excluding derivative financial instruments in the amount of NIS 21 million.
(3) Excluding derivative financial instruments in the amount of NIS 24 million.

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.4 Sensitivity analysis regarding financial assets (liabilities)

Any change in the exchange rates of the major currencies as at December 31 in regard to the currency risk arising from financial items denominated in foreign currency, which is not the functional currency of the Company and its subsidiaries, will increase (decrease) equity (the equity attributable to all shareholders of the Company) in the following amounts:

	December 31, 2016				
	NIS million				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	4.23	4.04	3.85	3.65	3.46
Effect in NIS millions	3	1	29	(1)	(3)
RUB/USD exchange rate	66.74	63.71	60.67	57.64	54.61
Effect in NIS millions	(10)	(5)	(96)	5	10
UAH/USD exchange rate	29.73	28.38	27.03	25.67	24.32
Effect in NIS millions	(3)	(1)	(25)	1	3

	December 31, 2015				
	NIS million				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	4.29	4.10	3.90	3.69	3.50
Effect in NIS millions	2	1	24	(1)	(2)
RUB/USD exchange rate	81.54	77.83	74.12	70.42	66.71
Effect in NIS millions	(11)	(6)	(113)	6	11
UAH/USD exchange rate	26.50	25.30	24.09	22.89	21.68
Effect in NIS millions	(3)	(2)	(34)	2	3

Note 28 - Financial Instruments (cont'd)

28.5 CPI risk

28.5.1 The Company uses CPI futures for varying periods to partly hedge the index risk arising from the excess of liabilities.

28.5.2 Sensitivity analysis – CPI futures contracts

Any increase (decrease) in the anticipated CPI in relation to the anticipated index inherent in the fair value of each of the CPI futures will increase (decrease) shareholders' equity (the equity attributable to all of the Company's shareholders) and income for the period in respect of these contracts by the amounts presented below. This analysis was performed assuming that all the other variables remain constant and disregards tax effects.

	December 31, 2016				
	2% increase	1% increase	Fair value and carrying amount	1% decrease	2% decrease
			NIS millions		
CPI futures	9	4	(25)	(4)	(8)

	December 31, 2015				
	2% increase	1% increase	Fair value and carrying amount	1% decrease	2% decrease
			NIS millions		
CPI futures	14	7	(34)	(7)	(14)

28.6 Liquidity risk

The Company's liabilities mainly derive from credit that was raised by issuing debentures (Series B and Series D) and loans from banks and others. In addition to these liabilities, the Company has unsecured credit lines from banks. Over the years the Company's business operations have generated positive cash flows that enable it to meet the financial obligations it has undertaken. However, should the Company require any sources of financing in addition to those generated by its business operations the Company will be able to use, *inter alia*, the additional credit lines available to it. Following is an analysis of the contractual repayment dates of financial liabilities, including interest payments, but not including the effect of setoff agreements. This analysis is based on indices known as at the reporting date, such as the CPI, foreign currency exchange rates and interest rates.

Note 28 - Financial Instruments (cont'd)

28.6 Liquidity risk (cont'd)

	December 31, 2016								
	Note	Carrying amount	Contractual cash flow	2017	2018	2019	2020	2021	2022 and thereafter
		NIS millions							
Trade payables	17	743	743	743	-	-	-	-	-
Derivatives	18,21	38	38	38	-	-	-	-	-
Other payables (1)	18	604	576	576	-	-	-	-	-
Debentures Series B	20	355	370	189	181	-	-	-	-
Debentures Series D	20	476	567	39	47	46	77	83	275
Shekel loan from banks	20	100	123	6	6	55	27	2	27
Shekel loan from banks	20	102	118	4	4	55	28	1	26
Shekel loan from banks	20	46	48	48	-	-	-	-	-
Shekel loans from others	20	364	422	17	17	102	99	96	91
Shekel loan from others	20	83	88	18	18	18	17	17	-
Shekel loan from others	20	239	299	25	24	24	67	107	52
Dollar loan from banks	20	15	15	15	-	-	-	-	-
Loans from banks and others	20	98	102	57	30	11	3	1	-
Finance lease (2)	20	6	9	-	-	-	-	-	7
		3,269	3,518	1,775	327	311	318	307	478

(1) The carrying amount includes accrued expenses in respect of interest.
(2) Yearly payments are lower than NIS 1 million.

Note 28 - Financial Instruments (cont’d)

28.6 Liquidity risk (cont'd)

	December 31, 2015								
	Note	Carrying amount	Contractual cash flow	2016	2017	2018	2019	2020	2021 and thereafter
		NIS millions							
Trade payables	17	713	713	713	-	-	-	-	-
Derivatives	18,21	45	45	21	24	-	-	-	-
Redeemable preferred shares (1)	18	13	13	13	-	-	-	-	-
Other payables (2)	18	497	465	465	-	-	-	-	-
Debentures Series B	20	534	568	197	189	182	-	-	-
Debentures Series D	20	478	588	21	39	47	46	77	358
Dollar loan from banks	20	22	22	22	-	-	-	-	-
Shekel loan from banks	20	100	129	7	6	6	55	27	28
Shekel loan from banks	20	102	121	4	5	4	54	27	27
Shekel loan from banks	20	93	97	49	48	-	-	-	-
Shekel loans from others	20	369	440	17	17	16	102	99	189
Shekel loan from others	20	250	324	26	25	24	24	67	158
Dollar loans from banks	20	28	29	13	16	-	-	-	-
Dollar loan from others	20	2	2	1	1	-	-	-	-
Ruble loan from banks	20	31	31	31	-	-	-	-	-
Loans from banks and others	20	121	127	55	38	27	7	-	-
Liability in respect of finance lease (3)	20	6	9	-	-	-	-	-	7
		3,404	3,723	1,655	408	306	288	297	767

(1) The preferred shares are redeemable immediately.
(2) The carrying amount includes accrued expenses in respect of interest.
(3) Yearly payments are lower than NIS 1 million.

Note 28 - Financial Instruments (cont'd)

28.7 Fair value of financial instruments

28.7.1 Fair value

The carrying amount of cash and cash equivalents, short and long-term investments, trade receivables, other receivables and debit balances, trade payables and other payables and credit balances is the same as or proximate to their fair value.

The fair value of the debentures, which is based on TASE prices, together with their carrying amount (including accrued interest), presented in the statement of financial position, is as follows:

	December 31, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS millions			
Debentures Series B	362	368	544	562
Debentures Series D	481	527	483	537

28.7.2 Fair value hierarchy

28.7.2.1 Derivatives – fair value valuation technique

Forward contracts – fair value is estimated by discounting the difference between the forward price quoted in the contract and the current forward price for the remaining term of the contract until the maturity date, using the appropriate market interest rates applying to similar instruments.

Foreign currency options – fair value is determined according to the Black & Scholes model.

28.7.2.2 Fair value hierarchy of financial instruments measured at fair value

	December 31, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	NIS millions					
Financial assets (liabilities)						
Marketable securities	46	-	-	45	-	-
Trade receivables- derivatives	11	2	-	9	6	-
Trade payables- derivatives	(11)	(27)	-	(9)	(36)	-
Available-for-sale financial asset	28	-	-	26	-	-
Option to purchase shares (1)	-	-	-	-	-	5
	74	(25)	-	71	(30)	5

(1) A share option in an equity-accounted investee. The fair value of the option is measured using the Monte Carlo simulation technique based, inter alia, on the investee's value and projected income as well as on peer company volatility. The revaluation is included in the statement of income under financing income.

Note 29 - Sales

	For the year ended December 31		
	2016	2015	2014
		NIS millions	
Sales of manufactured products	4,264	4,245	4,470
Sales of other products	662	602	635
Other income (1)	356	336	310
	5,282	5,183	5,415

(1) Other income includes mainly income from providing services for water purification devices and royalty income.

Note 30 - Cost of Sales

30.1 By components

	For the year ended December 31		
	2016	2015	2014
		NIS millions	
Materials consumed (1)	2,479	2,570	2,587
Wages, salaries and related expenses	393	384	396
Depreciation and amortization	109	106	107
Other manufacturing expenses	196	188	202
Change in provision for warranty	2	2	4
	3,179	3,250	3,296
Valuation of balance of commodity hedging transactions as at the end of the year	-	(22)	22
	3,179	3,228	3,318

(1) In 2016, including a net loss of NIS 24 million (2015 and 2014: NIS 21 million and NIS 35 million, respectively) in respect of inventory impairment.

30.2 By sources of income

	For the year ended December 31		
	2016	2015	2014
		NIS millions	
Manufactured products	2,741	2,868	2,904
Other products	302	257	270
Other income (1)	136	125	122
	3,179	3,250	3,296
Valuation of balance of commodity hedging transactions as at the end of the year	-	(22)	22
	3,179	3,228	3,318

(1) Costs in respect of other income include costs of services for water purification devices.

Note 31 - Selling and Marketing Expenses

	For the year ended December 31		
	2016	2015	2014
	NIS millions		
Salaries and related expenses	512	* 497	544
Advertising	254	* 227	312
Doubtful and bad debts	7	17	4
Transport expenses	210	208	212
Maintenance expenses	152	158	154
Depreciation and amortization	53	58	52
Reimbursement of expenses by equity-accounted investees	(36)	(38)	(33)
Other	82	71	73
	1,234	1,198	1,318

* Restated

Note 32 - General and Administrative Expenses

	For the year ended December 31		
	2016	2015	2014
	NIS millions		
Salaries and related expenses (1)	241	207	212
Depreciation and amortization	21	24	23
Contributions	9	6	8
Consulting and professional fees	52	56	59
Maintenance expenses	25	30	23
Reimbursement of expenses by joint ventures	(1)	(9)	(2)
Other	20	15	16
	367	329	339
(1) Less:			
Salaries and related expenses capitalized to software for self-use	5	6	6

Note 33 - Other Income (Expenses), Net

	For the year ended December 31		
	2016	2015	2014
		NIS millions	
Other income			
Gain on sale of fixed assets and investment property, net	1	1	-
Dividend income on available-for-sale financial assets	2	1	2
Restructuring income	-	6	-
Cancelation of held for sale assets Impairment	-	4	-
Other income	3	4	2
Total other income	6	16	4
Other expenses			
Restructuring expenses (1)	(29)	(15)	(17)
Expenses of establishment and purchase of operations	(5)	(10)	(17)
Loss on fixed assets, deferred expenses and assets held for sale, net (2)	(6)	(4)	(41)
Impairment loss on intangible assets(3)	(14)	(18)	(32)
Impairment of investments in investees	-	-	(1)
Other expenses	(1)	(10)	(10)
Total other expenses	(55)	(57)	(118)
Other income (expenses), net	(49)	(41)	(114)

(1) Restructuring expenses in 2016 include, *inter alia*, expenses of NIS 15 million in respect of an onerous contract and NIS 11 million in respect of the derecognition of fixed assets and intangible assets..

(2) In March 2014 the Promotion of Competition in the Food Sector Law, 2014 was published in the Official Gazette. Most of the sections of the law took effect on January 15, 2015. The law determines, inter alia, prohibitions and limitations on actions and arrangements between food suppliers and retailers. In 2014, among other things, a decrement of approximately NIS 30 million was recognized in respect of deferred expenses.

(3) See Note 15.3 for information on impairment.

Note 34 - Financing Expenses, Net

	For the year ended December 31		
	2016	2015	2014
	NIS millions		
Financing income:			
Interest income	5	12	14
Net gain on derivative financial instruments measured at fair value through profit or loss	-	-	19
Net gain deriving from changes in exchange rates	-	-	6
Linkage differences to the CPI in Israel, net	2	9	1
Total financing income	7	21	40
Financing expenses:			
Net loss on derivative financial instruments measured at fair value through profit or loss	(10)	(8)	-
Interest expenses	(101)	(112)	(107)
Net loss deriving from changes in exchange rates	(5)	(1)	-
Other	-	(1)	-
Total financing expenses	(116)	(122)	(107)
Financing expenses, net	(109)	(101)	(67)

Note 35 - Taxes on Income

35.1 Information on the tax environment in which the Group companies in Israel operate

35.1.1 Corporate tax

- The following tax rates are relevant to the Company in 2014-2016:

  2014 – 26.5%

  2015 - 26.5%

  2016 - 25%

  On January 5, 2016 the Knesset passed Amendment 216 to the Income Tax Ordinance, 2016 (hereinafter: the "Amendment") which determined, *inter alia*, that the corporate tax rate would be lowered by 1.5% from 2016 onwards, to 25%. On December 31, 2016 the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives for 2017 and 2018) was published in the Official Gazette. The law determines, *inter alia*, a decrease in the corporate tax rate to 24% commencing in 2017 and to 23% commencing in 2018. The impact of the changes on deferred taxes is expressed in a reduction of approximately NIS 22 million.

  Current taxes for the reporting periods were calculated according to the tax rates presented above.

Note 35 - Taxes on Income (cont'd)

35.1 Information on the tax environment in which the Group companies in Israel operate (cont'd)

35.1.1 Corporate tax (cont'd)

- On January 12, 2012 Amendment 188 to the Income Tax Ordinance (New Version), 1961 (hereinafter: the "Ordinance") was published in the Official Gazette, in which section 87A of the Ordinance was amended such that a temporary order determines that Israeli Accounting Standard No. 29 – "Adoption of International Financial Reporting Standards (IFRS)" published by the Israel Accounting Standards Board will not apply to the determination of taxable income in regard to the 2010 and 2011 tax years, even if the above standard was applied in the financial statements (hereinafter: the "Temporary Order"). On July 31, 2014 Amendment 202 to the Ordinance was published, which extends the validity of the Temporary Order with respect to the 2012 and 2013 tax years.

35.1.2 Benefits under laws for the encouragement of capital investments

In accordance with the Law for the Encouragement of Capital Investments, 1959 and the Law for the Encouragement of Capital Investments in Agriculture, 1980 (hereinafter: the "Capital Investment Encouragement Laws") some of the Group's production facilities were granted the status of an "approved enterprise", which entitles them to investment grants or tax benefits ("alternative benefits track"). The benefits are contingent upon fulfillment of the terms prescribed in the Capital Investment Encouragement Laws and their related regulations, and in the deeds of approval under which the investments in the approved enterprises were made. The main customary conditions in the deeds of approval are: the minimal percentage of the investments in fixed assets by paid-up share capital; keeping of proper books of account in the double entry system; execution of the plan in a timely manner, as stipulated in the deed of approval; operation of the assets of the approved enterprise for a period of no less than 7 years from the date they were purchased by the Company; increase of the employee headcount or of exports. Failure to comply with these terms is liable to lead to the benefits being revoked and refunded plus the higher of arrears interest or linkage differentials. To date, the relevant companies have complied with the conditions.

A. Amendment of the Law for Encouragement of Capital Investments, 1959

According to a legal opinion received by the Company, some of the plants of companies in the Group fulfill the definition of a "competitive industrial plant" as this term is defined in the law, and as such, these companies are entitled to tax benefits pursuant to the provisions of the law from 2011 and thereafter. Accordingly, the tax rate that will apply to the taxable income of those companies thanks to the preferred plant is 10% (for 2011-2012) and 7% (for 2013). It is noted that on August 5, 2013 the Knesset passed the Law for the Change of National Priorities (Legislative Amendments for Achieving Budget Objectives for the Years 2013 and 2014), 2013, which determines that the law was amended retrospectively with respect to 2012. As it is not presently possible to estimate the outcome of the discussions and/or proceedings which will take place with the tax authorities on the subject, and noting that the tax authority's position differs, the relevant subsidiaries adopted a conservative approach and recorded their tax expenses in their financial statements in accordance with the corporate tax rate in the relevant year and paid the advance payments arising from this calculation. During December 2015 part of the group companies were reimbursed for advanced payment made in these years in the total

Note 35 - Taxes on Income (cont'd)

35.1.2 Benefits under laws for the encouragement of capital investments (cont'd)

sum of 53 million NIS. During January 2016 the companies reimbursed the mentioned amount to the tax authorities due to the above mentioned.
Income tax returns for 2011, 2012 and 2013 were filed according to the tax rates defined in the Encouragement Laws.

B. The temporary order for distribution of exempt profits

On November 5, 2012 Amendment No. 69 and a temporary order relating to the Encouragement of Capital Investments Law, 1959 (hereinafter: the “Temporary Order”) were enacted, proposing an arrangement for payment of reduced tax by companies that had received an exemption from corporate tax by virtue of the said law. The Temporary Order determined that companies choosing to apply the Temporary Order will be entitled to benefit from a tax discount for “unfreezing” the exempt profits (hereinafter: “Advantageous Corporate Tax”). In the course of 2013 all Group companies to which the provisions of this law are relevant decided to apply the Temporary Order and to unfreeze the balance of accumulated exempt profits in the Group, in an amount of approximately NIS 203 million. The Advantageous Tax rate in respect of the unfrozen profits is 10%. Accordingly, the Group recognized current tax expenses during the reporting period in respect of payment of Advantageous Corporate Tax in the amount of approximately NIS 20 million. According to the Company’s decision and the Temporary Order, the Company is obligated to invest a total of approximately NIS 15 million in an industrial plant (as defined in the Temporary Order) by the end of 2017. As at the reporting date, the Company is in compliance with this obligation.

35.1.3 Benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company and part of the Group companies (including Strauss Health Ltd., Strauss Frito-Lay Ltd., Uri Horazo Yotvata Dairies Ltd) are “industrial companies” as defined in the Law for the Encouragement of Industry (Taxes), 1969. In accordance with this status they are entitled to benefits, the principal ones being as follows:

a. Higher rates of depreciation.
b. Amortization of issuance expenses of shares listed for trading on the Stock Exchange in three equal annual portions commencing in the year the shares were listed for trading.
c. Amortization of patents and knowhow used for the plant's development over an 8-year period.
d. The possibility of filing consolidated tax returns by companies with one production line.

The Company and certain subsidiaries submit a consolidated tax return to the tax authorities under the Encouragement of Industries (Taxes) Law, 1969.

35.1.4 House property company

The Company and one of the subsidiaries, which is a “house property” company within the meaning thereof in section 64 of the Income Tax Ordinance, file consolidated reports for tax purposes in the reporting period.

Note 35 - Taxes on Income (cont'd)

35.2 Information on the tax environment in which the Group companies outside of Israel operate

The companies incorporated outside of Israel are assessed according to the tax laws in their countries of domicile.

The principal tax rates applicable to the business operations of these companies are as follows: Romania – 16%; Poland – 19%; Serbia – 15%; The Netherlands – 25%; Switzerland – 9%; Ukraine – 18%; Russia –20%; UK – 20% (expected to be reduced to 19% on April 1, 2017); USA – approximately 43%; China – up to 25%.

The Group companies in the coffee business are held by Strauss Coffee (incorporated in the Netherlands). There is a double taxation treaty between Israel and the Netherlands. Furthermore, there are double taxation treaties between the other countries in which the Group operates and the Netherlands. The treaties prescribe the rules according to which the tax liability is divided between each country and the Netherlands. Payment of a dividend by Strauss Coffee is subject to corporate tax in Israel; a credit is awarded against this liability in respect of tax withheld in the Netherlands. In addition, corporate tax paid in foreign countries can be credited against tax payable in Israel under the “indirect credit” mechanism, in accordance with the rules and restrictions stipulated in the provisions of the Israeli law. The Company has created a tax reserve in respect of the additional tax that may be imposed on the Company as a result of the distribution of a dividend.

35.3 Tax benefits in the countries where the Group companies outside of Israel operate

In respect of its operations in Serbia, the Company is eligible for a reduced corporate tax rate of 2% (in lieu of 15%) due to its investments in productive assets at the plant and the employment of workers on the required scale, until the 2017 tax year.

35.4 Final tax assessments

The company and its major subsidiaries in Israel were issued with final tax assessments or self-assessments that are considered final (subject to the dates of submission of the tax returns and extension of the period of limitations according to the law) up to an including the 2010 tax year.

Final tax assessments were issued for the Group companies outside of Israel as follows: For Strauss Poland up to and including the 2010 tax year; for Strauss Coffee in Holland up to and including the 2011 tax year; for Strauss Romania up to and including the 2009 tax year; for Strauss Ukraine up to and including the 2014 tax year; for Strauss Switzerland up to and including the 2015 tax year; for Strauss Adriatic up to and including the 2012 tax year; for S.E. USA up to and including the 2011 tax year.

35.5 Carryforward tax losses

The Group has carryforward tax losses from operations transferred to the subsequent year in the amount of NIS 438 million (2015: NIS 509 million). Deferred taxes were not recorded in respect of losses in the amount of NIS 345 million (2015: NIS 467 million).

Note 35 - Taxes on Income (cont'd)

35.6 Transfer prices

In November 2006 a general provision and regulations were published, allowing for intervention in determining the price and terms of international transactions between related parties. The regulations define principles for examining the market value of international transactions between related parties, and prescribe reporting requirements regarding such transactions. The Company examines these transfer prices from time to time, and performs surveys to the extent required according to the regulations.

35.7 Disputed tax assessments

On March 14, 2017 the Company and subsidiaries were issued with income tax orders and assessments for the years 2011 to 2014. The payment demanded for said period amounts to a total of NIS 121 million (including interest and linkage until March 14, 2017). The Company disputes the position of the Tax Authority and accordingly, intends to appeal the orders in court and to file an objection against the assessments. Additionally, Uri Horazo Yotvata Dairies Ltd. has filed an appeal, through its tax consultants, against an order issued to it in respect of the years 2011 and 2012 regarding the implementation of the Encouragement of Capital Investments Law as set forth in section 35.1.2 above. As at the date of this report, Yotvata Dairies is awaiting the court's decision with regard to the joinder of the appeal with other appeals on the subject. Based on the opinion of its professional consultants, Company management estimates that the provisions recorded in the books of the Company and the subsidiaries are sufficient.

35.8 Composition of income tax expenses

	For the year ended December 31		
	2016	2015	2014
	NIS millions		
Current taxes	116	111	134
Deferred taxes	41	41	13
Taxes in respect of prior years	(1)	(13)	(3)
Effect of changes in tax rates	(22)	-	-
	134	139	144

Note 35 - Taxes on Income (cont'd)

35.9 Reconciliation between the theoretical tax on pre-tax income and the tax expenses recorded in the Company's books:

	For the year ended December 31		
	2016	2015	2014
		NIS millions	
Income before taxes on income	522	484	478
Principal tax rate	25%	26.5%	26.5%
Taxes on income at the principal tax rate	131	128	127
Effect of change in tax rates	(22)	-	-
Deferred taxes at a different tax rate to the main rate	20	16	20
Permanent differences, net	37	21	17
Temporary differences (losses utilized) in which respect deferred taxes were not recorded	3	-	(3)
Share of profits of equity-accounted investees, in which respect deferred taxes were not recorded	(31)	(28)	(29)
Impairment losses in which respect deferred taxes were not recorded	2	5	6
Net differences resulting from differences in tax rates abroad	(4)	11	10
Taxes in respect of prior years	(1)	(13)	(3)
Differences resulting from benefits and reduced tax rates	(1)	(1)	(1)
Taxes on income in the statement of income	134	139	144
Effective tax rate	25.7%	28.7%	30.1%

Note 35 - Taxes on Income (cont'd)

35.10 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2015	Decrease (increase) in deferred tax expense in statement of income	Changes in deferred taxes recognized in other comprehen-sive income	Balance as at December 31, 2015	Decrease (increase) in deferred tax expense in statement of income	Changes in deferred taxes recognized in other comprehen-sive income	Effect of changes in tax rates recognized directly in statement of income	Balance as at December 31, 2016
Deferred taxes in respect of:								
Provision for doubtful debts	5	8	-	13	(4)		(1)	8
Provision for vacation and convalescence	12	-	-	12	(2)		(1)	9
Tax losses and deductions	27	(6)	(10)	11	3		-	14
Employee severance benefits	5	-	1	6	(1)		(1)	4
Inventory adjustments	1	(1)	-	-	2	1	-	3
Other temporary differences	15	(7)	-	8	13	2	-	23
Fixed assets, other assets and deferred expenses	(199)	(19)	7	(211)	(28)	2	17	(220)
Hedging transactions	7	-	-	7	(7)	(3)	-	(3)
Differences arising from investment in subsidiaries and in equity-accounted investees	(16)	(16)	-	(32)	(17)		8	(41)
	(143)	(41)	(2)	(186)	(41)	2	22	(203)
	9%-43%			9%-43%				9%-43%

Note 36 - Basic and Diluted Earnings per Share

The basic earnings per share as at December 31, 2016 were calculated by dividing the income attributable to the ordinary shareholders in the amount of NIS 272 million (2015 and 2014: NIS 257 million and NIS 235 million, respectively) by the weighted average number of ordinary shares, as follows:

Weighted average number of ordinary shares:

	For the year ended December 31		
	2016	**2015**	**2014**
	Millions of NIS 1 par value shares		
Balance as at January 1	108.2	107.9	107.5
With the addition of options exercised into weighted shares during the period	-	0.2	0.1
Less treasury shares	(0.9)	(0.9)	(0.9)
Weighted average number of ordinary shares used in the calculation of basic earnings per share as at December 31	107.3	107.2	106.7

The diluted earnings per share as at December 31, 2016, 2015 and 2014 were calculated by dividing the income attributable to the ordinary shareholders in the calculation of the basic earnings per share by the weighted average number of ordinary shares outstanding, after adjustment in respect of all potentially dilutive ordinary shares, as follows:

Weighted average of ordinary shares (diluted):

	For the year ended December 31		
	2016	**2015**	**2014**
	Millions of NIS 1 par value shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	107.3	107.2	106.7
Effect of share options	0.4	0.5	0.8
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	107.7	107.7	107.5

For the purpose of calculating the dilutive effect of share options, the average market value of the Company’s shares was based on market price quotations during the period in which the options were outstanding.

On December 31, 2016, 3,008 thousand option warrants (2015 and 2014: 2,633 thousand and 1,580 thousand option warrants, respectively) were excluded from the calculation of the diluted weighted average number of ordinary shares as their effect would have been anti-dilutive.

Note 37 - Balances and Transactions with Interested and Related Parties

37.1 Identity of interested and related parties

The Company's interested and related parties are the parent company, related parties of the parent company, jointly controlled companies (see Note 12), and members of the board of directors and senior management, who are the Company's key management personnel.

37.2 Transactions with members of senior management

37.2.1 In addition to salaries, the members of senior management participate in the options plan of the Company. For information on the allotment of options to executives in 2016, see Note 23.

The benefits awarded to members of senior management are as follows:

	For the year ended December 31					
	2016		2015		2014	
	Number of people	NIS millions	Number of people	NIS millions	Number of people	NIS millions
Short-term benefits	8	26	8	20	9	21
Post-employment benefits	8	-	8	1	8	1
Share-based payment	8	9	8	9	8	10
		35		30		32

37.2.2 The benefits awarded to members of the board of directors are as follows:

	For the year ended December 31					
	2016		2015		2014	
	Number of people	NIS millions	Number of people	NIS millions	Number of people	NIS millions
Directors not employed	11	3	11	3	11	3
Employed directors	1	6	1	3	1	4
	12	9	12	6	12	7

Expenses related to senior management benefits were included in the general and administrative expenses in the profit and loss report. As of December 31, 2016 there is a credit balance of NIS 1 million for directors' salaries, similar to December 31, 2015.

37.2.3 See Notes 24.1.4.1 and 24.4.2 for information on a deed of undertaking to indemnify officers and a directors and officers (D&O) liability policy.

Note 37 - Balances and Transactions with Interested and Related Parties (cont'd)

37.3 Balances and transactions with interested and related parties

	The parent company and its related parties	Equity-accounted investees	Total
		NIS millions	
As at December 31, 2016:			
Current assets presented under trade and other receivables	-	15	15
Long-term assets presented under investments and long-term debit balances	-	53	53
Current liabilities presented under trade and other payables	(3)	(29)	(32)
As at December 31, 2015:			
Current assets presented under trade and other receivables	-	35	35
Long-term assets presented under investments and long-term debit balances	-	68	68
Current liabilities presented under trade and other payables	(4)	(7)	(11)

Note 37 - Balances and Transactions with Interested and Related Parties (cont'd)

37.3 Balances and transactions with interested and related parties (cont'd)

	The parent company and its related parties (1)	Equity-accounted investees	Total
		NIS millions	
For the year ended December 31, 2016:			
Sales	1	9	10
Purchases	-	(6)	(6)
Selling, general and administrative income (expenses)	(10)	40	30
Financing income, net	-	2	2
For the year ended December 31, 2015:			
Sales	-	14	14
Purchases	-	(9)	(9)
Selling, general and administrative income (expenses)	(17)	46	29
Financing income, net	-	4	4
For the year ended December 31, 2014:			
Sales	2	35	37
Purchases	(16)	(34)	(50)
Selling, general and administrative income (expenses)	(21)	38	17
Financing income, net	-	5	5

Prices and credit terms for transactions with interested are under customary commercial conditions. In 2016 mainly includes the purchase of advertising services from Reshet Noga Ltd. in the amount of NIS 10 million (2015: NIS 12 million, 2014: NIS 16 million). In addition, in 2015 includes payment of rent to Rav Etgar Ltd. in an amount of NIS 5 million (2014: NIS 5 million).In 2014 purchases from Ramat Hagolan Dairies amounting to NIS 16 million were included. .

Note 38 - Post-Statement of Financial Position Date Events

38.1 For information on the acquisition of the non-controlling interest in the subsidiary Strauss Coffee B.V. after the date of the statement of financial position, see Note 6.2.3.

38.2 For information on the exercise of a call option for the acquisition of the coffee plant from NDKW after the date of the statement of financial position, see Note 24.4.7.

38.3 For information on an insurance payout in respect of Mega's debt, received after the date of the statement of financial position, see Note 28.1.3.

38.4 For information on loans taken after the date of the statement of financial position, see Notes 20.3.1 and 20.3.2.

38.5 On March 27, 2017 the remuneration committee and the board of directors of the Group approved the grant of 773,325 option warrants to 14 managers. The exercise price was determined as the average closing price of the Company's share in the 30 trading days preceding the grant date with no additional premium, linked to the Consumer Price Index published on March 15, 2017. Entitlement to exercise the options will vest in two equal tranches on March 27 of the years 2019 and 2020. The value of the grants is approximately NIS 9 million.

STRAUSS GROUP LTD.

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2016.

Convenience translation from Hebrew
Strauss Group Ltd.
Annex "B"

Separate Financial Information As At December 31, 2016

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

To the Shareholders of Strauss Group Ltd.
49 Hasivim Street
Kiryat Matalon, Petach Tikva

Re: Special Auditors' Report on Separate Financial Information According to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970

We have audited the separate financial information presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970 of Strauss Group Ltd. (hereinafter – the "Company") as at December 31, 2016 and 2015 and for each of the three years, the last of which ended on December 31, 2016. The separate financial information is the responsibility of the Company's Board of Directors and its Management. Our responsibility is to express an opinion on the separate financial information based on our audit.

The data contained in the separate financial information which refer to equity accounted investments and to the Company's share of the profits (losses) of equity accounted investees are based on financial statements, some of which were audited by other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance that the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes a review of the accounting principles applied in the preparation of the separate financial information, as well as of the significant estimates made by the Board of Directors and Management of the Company, and an evaluation of the fairness of the overall presentation of the separate financial information. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the separate financial information has been prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 27, 2017

Convenience translation from Hebrew
Strauss Group Ltd.

Information Pertaining To Financial Position

	Additional information	December 31 2016	December 31 2015
		NIS millions	
Current assets			
Cash and cash equivalents	2	126	232
Securities and deposits	3	23	30
Trade receivables		179	180
Income tax receivables		17	4
Other receivables and debit balances		31	28
Investee receivables		196	330
Inventory		118	142
Assets held for sale		32	62
Total current assets		722	1,008
Investments and non-current assets			
Investments in investees		1,816	1,565
Other investments and long-term debit balances	4	665	618
Fixed assets		944	959
Intangible assets		53	56
Total investments and non-current assets		3,478	3,198
Total assets		4,200	4,206

Ofra Strauss	Gadi Lesin	Shahar Florence
Chairperson of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Date of approval of the separate financial information: March 27, 2017

The attached information is an integral part of the separate financial information.

Information Pertaining To Financial Position (cont'd)

	Additional information	December 31 2016	December 31 2015
		NIS millions	
Current liabilities			
Current maturities of debentures	5	196	178
Short-term credit and current maturities of long-term loans and other long term liabilities	5	15	37
Trade payables		202	203
Other payables and credit balances		248	202
Investee payables		160	115
Provisions		2	6
Total current liabilities		823	741
Non-current liabilities			
Debentures	5	635	834
Long-term loans and other long term liabilities	5	796	812
Long-term payables and credit balances		16	32
Employee benefits, net		20	23
Deferred tax liability	7	75	59
Total non-current liabilities		1,542	1,760
Total equity attributable to the Company's shareholders		1,835	1,705
Total liabilities and equity		4,200	4,206

The attached information is an integral part of the separate financial information.

Information Pertaining To Statements Of Income

	Additional information	For the year ended December 31 2016	2015	2014
		NIS millions		
Sales		1,010	904	828
Cost of sales		622	555	484
Gross profit		388	349	344
Selling and marketing expenses		266	226	207
General and administrative expenses		61	36	34
		327	262	241
Operating profit before other expenses		61	87	103
Other income		2	5	2
Other expenses		(12)	(18)	(40)
Other expenses, net		(10)	(13)	(38)
Operating profit		51	74	65
Financing income		28	36	45
Financing expenses		(88)	(99)	(92)
Financing expenses, net		(60)	(63)	(47)
Profit (loss) before taxes on income		(9)	11	18
Taxes on income	7	(38)	(28)	(37)
Loss after taxes on income		(47)	(17)	(19)
Income from investees		319	274	254
Income for the year attributable to the shareholders of the Company		272	257	235

The attached information is an integral part of the separate financial information.

Information Pertaining To Comprehensive Income

	For the year ended December 31		
	2016	2015	2014
	NIS millions		
Income for the period attributable to the shareholders of the Company	272	257	235
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:			
Other comprehensive income (loss) from investees	71	(289)	(169)
Total other comprehensive income (loss) items that will be transferred to profit or loss, net of tax	71	(289)	(169)
Other comprehensive loss items that will not be transferred to profit or loss in subsequent periods:			
Changes in employee benefits, net	-	-	(5)
Total other comprehensive loss items that will not be transferred to profit or loss, net of tax	-	-	(5)
Comprehensive income (loss) for the period attributable to the shareholders of the Company	343	(32)	61

The attached information is an integral part of the separate financial information.

Information Pertaining To Cash Flows

	For the year ended December 31		
	2016	2015	2014
	NIS millions		
Cash flows from operating activities			
Income for the year attributable to the shareholders of the Company	272	257	235
Adjustments:			
Depreciation	56	46	37
Amortization of intangible assets and deferred expenses	14	18	16
Other expenses (income), net	(1)	(4)	14
Expenses in respect of share-based payment	13	12	16
Share in gain of investees	(319)	(274)	(254)
Financing expenses, net	60	63	47
Income tax expense	38	28	37
Change in inventory	24	12	4
Change in trade and other receivables	6	24	20
Change in investee receivables	65	(118)	(38)
Change in long-term receivables	-	(7)	(37)
Change in trade and other payables	15	(51)	9
Change in investee payables	45	(30)	(80)
Change in employee benefits	(3)	1	(1)
Interest paid	(77)	(89)	(81)
Interest received	18	20	20
Income tax received (paid), net	(41)	16	(41)
Net cash flows from (used in) operating activities	185	(76)	(77)
Cash flows from investing activities			
Sale of marketable securities and deposits, net	6	49	125
Proceeds from sale of fixed and other assets	29	4	38
Acquisition of fixed assets	(49)	(90)	(249)
Investment in intangible assets and deferred expenses	(11)	(13)	(13)
Repayment of deposits and long-term loans	9	5	4
Long-term loans granted	(8)	(3)	(3)
Dividends from investees	159	340	303
Cash received in respect of investing activities with investees	91	35	55
Cash paid in respect of investing activities with investees	(152)	(82)	(63)
Net cash flows from investing activities	74	245	197
Cash flows from financing activities			
Repayment of debentures and long-term loans	(215)	(211)	(245)
Proceeds from the exercise of stock options	-	-	1
Proceeds from the issue of debentures	-	-	237
Dividends paid	(150)	(100)	-
Change in jointly controlled entity payables	-	-	(64)
Net cash flows used in financing activities	(365)	(311)	(71)
Net increase (decrease) in cash and cash equivalents	(106)	(142)	49
Cash and cash equivalents as at January 1	232	374	325
Cash and cash equivalents as at December 31	126	232	374

Fixed assets in the amount of NIS 15 million were purchased on credit as at December 31, 2016 (2015: NIS 23 million, 2014: NIS 32 million).

The attached information is an integral part of the separate financial information.

Note 1 – Reporting Rules and Policies

1.1 General

This report contains financial information from the consolidated financial statements of Strauss Group Ltd. (hereinafter: the "Company") as at December 31, 2016 (hereinafter: the "Consolidated Financial Statements" or "Consolidated Statements"), attributed to the Company itself (hereinafter: the "Separate Financial Information"), presented pursuant to Regulation 9C and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970 with respect to the separate financial information of the corporation.

The Separate Financial Information should be read in conjunction with the Consolidated Statements.

In this Separate Financial Information – investees – subsidiaries and joint ventures.

1.2 Accounting policies

The Company's Separate Financial Information was prepared in accordance with the accounting policies applied in the Consolidated Financial Statements, including the method in which the data in the Consolidated Financial Statements of the Company were classified, *mutatis mutandis* as a result of the following:

1.2.1 Assets and liabilities included in the Consolidated Statements, attributable to the Company itself as parent company

The amounts of assets and liabilities included in the statements of financial position, attributable to the Company itself as parent company, reflect the assets and liabilities contained in the consolidated statements of financial position, not including amounts of assets and liabilities in respect of investees, plus or minus, as the case may be, intercompany balances that were eliminated in the framework of the Consolidated Statements.

Additionally, this information includes information relating to the net amount, based on the consolidated statements of financial position, attributable to the controlling shareholders of the Company, of the amount of assets less the amount of liabilities, which in the consolidated statements of financial position represent financial information relating to investees, including goodwill.

As a result of this presentation, the equity attributable to the controlling shareholders of the Company is equal to the equity of the Company as derived from the Separate Financial Information.

1.2.2 Income and expenses included in the Consolidated Statements, attributable to the Company itself as parent company

The amounts of income and expenses included in the financial statements, segmented between profit or loss and other comprehensive income, attributable to the Company itself as parent company, reflect the income and expenses contained in the consolidated statements of income and the consolidated statements of comprehensive income, not including amounts of income and expenses in respect of investees, plus or minus, as the case may be, intercompany income and expenses that were eliminated in the framework of the Consolidated Financial Statements.

Note 1 - Reporting Rules and Policies (cont'd)

1.2 Accounting policies (cont'd)

1.2.2 Income and expenses included in the Consolidated Statements, attributable to the Company itself as parent company (cont'd)

Additionally, this information includes information relating to the net amount, based on the consolidated statements of financial position, attributable to the controlling shareholders of the Company, of the amount of income less the amount of expenses, which in the consolidated statements of financial position represent the results of operations in respect of investees, including goodwill impairment or cancellation. These data are presented, broken down according to profit or loss and other comprehensive income.

Unrealized income and expenses deriving from intra-group transactions between the Company and its investees were presented as part of the balance in respect of investees and the income in respect of investees.

As a result of this presentation, the total income for the period attributable to the shareholders of the Company and the total comprehensive income for the year attributable to the shareholders of the Company, on the basis of the Consolidated Financial Statements, are equal to the total income for the year attributable to the shareholders of the Company and the total other comprehensive income for the year attributable to the shareholders of the Company, respectively, as these are derived from the Separate Financial Information.

1.2.3 Cash flows included in the Consolidated Statements, attributable to the Company itself as parent company

This information presents cash flows included in the Consolidated Financial Statements attributable to the Company itself as parent company, which are taken from the consolidated statements of cash flows (i.e. the balances remaining after the elimination of intercompany cash flows in the Consolidated Statements), segmented between cash flows from operating activities, cash flows from investing activities and cash flows from financing activities, accompanied by an itemization of the components of each. Cash flows from operating activities, investing activities and financing activities in respect of transactions with investees are presented separately, on a net basis, as part of the above activities.

These amounts reflect the cash flows included in the Consolidated Financial Statements, not including cash flows in respect of investees.

The Notes presented below also include disclosures relating to other material information in accordance with the disclosure requirements presented in Regulation 9C and as set forth in the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970, subject to clarifications by the ISA staff, to the extent that such information was not included in the Consolidated Statements in a manner that expressly refers to the Company as parent company.

Note 2 – Cash and Cash Equivalents

	As at December 31	
	2016	2015
	NIS millions	
Cash and bank balances	13	25
Deposits	113	207
	126	232

Note 3 – Securities and Deposits

	As at December 31	
	2016	2015
	NIS millions	
Deposits and non-marketable securities -		
Shekel deposit (Interest rate of 1.49%)	7	14
Marketable securities -		
Government debentures	10	10
Corporate debentures	6	6
	16	16
	23	30

Note 4 – Other Investments and Long-Term Debit Balances

	As at December 31		
	2016	2015	
	NIS millions		
Preferred shares of an investee	289	276	
Loans to investees	172	231	Dollar-denominated and bearing 6.5%-9.2% interest
Capital notes to investees	21	24	Unlinked and interest-free
Capital notes to investees	92	94	Dollar-denominated and interest-free
Capital notes to investees	124	90	Unlinked and bearing 6% interest
Loans to employees	4	4	Bearing 3.41% interest (2015: 4.07%)
Other	4	9	
	706	728	
Less current maturities	41	110	
	665	618	

Note 5 – Loans and other liabilities

Information on material loans:

Type	Loan date	Original loan amount	Currency	Linkage base	Nominal Interest (%)	Redemption year	December 31, 2016	
							Face value	Book value
		NIS millions					NIS millions	
Debentures Series B	February 2007	770	NIS	CPI	4.1	2017-2018	297	355
Debentures Series D	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	465	476
Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	102
Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Loans from others	January 2011	300	NIS	Unlinked	5.82	2017-2022	239	239
Loans from others	April 2012	372	NIS	CPI	3.55	2017-2022	357	364

Type	Loan date	Original loan amount	Currency	Linkage base	Nominal Interest (%)	Redemption year	December 31, 2015	
							Face value	Book value
		NIS millions					NIS millions	
Debentures Series B	February 2007	770	NIS	CPI	4.1	2016-2018	446	534
Debentures Series D	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	465	478
Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	102
Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Loans from others	January 2011	300	NIS	Unlinked	5.82	2016-2022	250	250
Loans from others	April 2012	372	NIS	CPI	3.55	2016-2022	361	369

Note 6 – Financial Instruments

For a description of the risks to which the Company is exposed deriving from the use of financial instruments and in regard to the policy for managing the Company's risks, see Note 28 to the Consolidated Financial Statements.

6.1 Commodity price risk

For information on exposure to risks related to the price of commodities – cocoa and sugar, see Note 28.3 to the Consolidated Financial Statements.

6.2 CPI and foreign exchange risk

6.2.1 Statement of financial position according to linkage basis

The Company's foreign exchange risk, based on carrying amounts, is as follows:

	December 31, 2016		
	NIS millions		
	NIS linked	NIS unlinked	Total
Current maturities of debentures	177	19	196
Short-term loans and credit	4	11	15
Debentures	178	457	635
Long-term loans	462	334	796
Total	821	821	1,642

	December 31, 2015			
	NIS millions			
	NIS linked	NIS unlinked	Dollar	Total
Current maturities of debentures	178	-	-	178
Short-term loans and credit	4	11	22	37
Debentures	356	478	-	834
Long-term loans	467	345	-	812
Total	1,005	834	22	1,861

Note 6 – Financial Instruments (cont'd)

6.2 CPI and foreign exchange risk (cont'd)

6.2.2 Sensitivity analysis regarding financial assets (liabilities)

Following is a sensitivity analysis of the derivatives (Foreign exchange - OTC) of the company as of December 31, 2016 and of December 31, 2015. Any change in the exchange rates of the major currencies as at December 31, 2016 or 2015 would increase (decrease) shareholders' equity (attributable to all of the shareholders of the Company) and income for the period by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

	December 31, 2016				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
			NIS millions		
NIS/USD exchange rate	4.229	4.037	3.845	3.653	3.461
Effect (in NIS millions)	3	2	0	(1)	(3)

	December 31, 2015				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
			NIS millions		
NIS/USD exchange rate	4.292	4.097	3.902	3.707	3.512
Effect (in NIS millions)	4	2	3	(2)	(5)

6.3 CPI risk

For information on the CPI risk, see Note 28.5 to the Consolidated Financial Statements.

6.4 Floating interest rate risk and cash flow sensitivity analysis regarding floating interest instruments

The Company has floating rate deposits and consequently its financial results are exposed to changing interest rates.

Due to a low interest rate, flow sensitivity analysis regarding floating interest rate is not presented since the impact is immaterial.

Note 6 – Financial Instruments (cont'd)

6.5 Liquidity analysis

Following is an analysis of the contractual repayment dates of financial liabilities, including interest payments, but not including the effect of setoff agreements. This analysis is based on indices known as at the reporting date, such as the CPI, foreign currency exchange rates and interest rates.

	December 31, 2016							
	Carrying amount	Contractual cash flow	2017	2018	2019	2020	2021	2022 and thereafter
	NIS millions							
Trade payables	202	202	202	-	-	-	-	-
Derivatives	32	32	32	-	-	-	-	-
Other payables (1)	216	189	189	-	-	-	-	-
Investee payables	160	160	160	-	-	-	-	-
Debentures Series B	355	370	189	181	-	-	-	-
Debentures Series D	476	567	39	47	46	77	83	275
Shekel loans from banks	202	241	10	10	110	55	3	53
Shekel loans from others	603	721	42	41	126	166	203	143
Finance lease (2)	6	9	-	-	-	-	-	7
	2,252	2,491	863	279	282	298	289	478

(1) The carrying amount includes accrued expenses in respect of interest.
(2) Yearly payments are lower than NIS 1 million.

Note 6 – Financial Instruments (cont'd)

6.5 Liquidity analysis (cont'd)

	December 31, 2015							
	Carrying amount	Contractual cash flow	2016	2017	2018	2019	2020	2021 and thereafter
	NIS millions							
Trade payables	203	203	203	-	-	-	-	-
Derivatives	35	35	11	24	-	-	-	-
Other payables (1)	191	160	160	-	-	-	-	-
Investee payables	115	115	115	-	-	-	-	-
Debentures Series B	534	568	197	189	182	-	-	-
Debentures Series D	478	588	21	39	47	46	77	358
Dollar loan from banks	22	22	22	-	-	-	-	-
Shekel loans from banks	202	250	11	11	10	109	54	55
Shekel loans from others	619	764	43	42	40	126	166	347
Finance lease (2)	6	9	-	-	-	-	-	7
	2,405	2,714	783	305	279	281	297	767

(1) The carrying amount includes accrued expenses in respect of interest.
(2) Yearly payments are lower than NIS 1 million.

Note 6 – Financial Instruments (cont'd)

6.6 Fair value of financial instruments

For information on the fair value of financial instruments, see Note 28.7.1 to the Consolidated Financial Statements.

Note 7 – Information on Taxes on Income

7.1 General

The Company's income is taxed at the ordinary rate. For information on the tax rates applying to the Company and on various benefits and laws for encouragement, see Note 35.1 to the Consolidated Financial Statements. With respect to the tax rates that entered into force in January and December 2016, the impact on the financial statements as at December 31, 2016 would have been expressed in a decrease in the outstanding balance of deferred tax liabilities in the amount of approximately NIS 14 million, against deferred tax revenue.

7.2 Final tax assessments

The Company has been issued with final tax assessment up to and including the year 2010.

7.3 Disputed tax assessments

On March 14, 2017 the Company was issued with income tax orders and assessments for the years 2011 to 2014. The payment demanded for said period amounts to a total of NIS 92 million (including interest and linkage differentials until March 14, 2017). The Company disputes the position of the Tax Authority and accordingly, intends to appeal the orders in court and to file an objection against the assessments. Based on the opinion of its professional consultants, Company management estimates that the provisions recorded in the books of the Company are sufficient.

7.4 Dividend income from subsidiaries

In the reporting year a dividend was received from overseas subsidiaries, the Company was not recorded tax expenses respect of this income. The Company recorded tax expenses against deferred taxes in the reporting year in respect of dividends not yet paid in an amount of NIS 9 million (2015: NIS 16 million).

Note 7 – Information on Taxes on Income (cont'd)

7.5 Composition of income tax expenses

	For the year ended December 31		
	2016	2015	2014
	NIS millions		
Current tax expenses	(22)	(8)	(30)
Deferred tax expenses, net	(30)	(20)	(7)
Effect of changes in tax rates	14	-	-
Income tax expenses, net	(38)	(28)	(37)

7.6 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2015	Decrease (increase) in deferred tax expense in income statement	Changes recognized in other comprehensive income	Fresh Foods - Merger	Balance as at December 31, 2015	Decrease (increase) in deferred tax expense in income statement	Effect of changes in tax rates	Balance as at December 31, 2016
Deferred taxes in respect of:								
Provision for doubtful debts	3	1	-	-	4	(1)	-	3
Provision for vacation and convalescence	7	(2)	-	1	6	-	(1)	5
Investment in investees	(16)	(16)	-	-	(32)	(17)	8	(41)
Fixed and intangible assets	(34)	(3)	-	(6)	(43)	(17)	7	(53)
Employee benefits	5	-	1	-	6	(1)	-	5
Carry forward tax losses	-	-	-	-	-	6	-	6
	(35)	(20)	1	(5)	(59)	(30)	14	(75)
	26.5%				26.5%			23%-24%

7.7 On December 31, 2014 the Company submitted notice of the merger of the subsidiary, Strauss Fresh Foods Ltd., with the Company under section 103B of the Income Tax Ordinance. As of this report date, the suspending conditions required for the actual completion of the statutory merger have been fulfilled.

Note 8 – Information on Relationships, Commitments and Significant Transactions with Investees

8.1 Dividends from investees

In the reporting period the Company received dividends from investees in the amount of approximately NIS 159 million.

8.2 For further information on the Company's investment in investees, including loans and guarantees extended to investees, see Notes 6, 12 and 24.3 to the Consolidated Financial Statements.

Note 9 – Claims and Contingent Liabilities

For information on claims filed against the Company and other contingent liabilities, see Note 24.1 to the Consolidated Financial Statements.

Note 10 – Liens

For information on encumbrances, see Note 24.2 to the Consolidated Financial Statements.

Note 11 – Events after the Reporting Date

For information on events after the reporting date, see Note 38 to the Consolidated Financial Statements.

Strauss Group Ltd.
Additional Information on the Company

Regulation 10A: Condensed Quarterly Statements of Comprehensive Income

	Q1	Q2	Q3	Q4	Total
			NIS millions		
Profit and loss:					
Sales	1,321	1,273	1,378	1,310	5,282
Cost of sales	787	747	825	820	3,179
Gross profit	534	526	553	490	2,103
Selling and marketing expenses	292	305	314	323	1,234
Administrative and general expenses	87	86	96	98	367
Share of profit of equity-accounted investees	51	52	51	24	178
Operating profit before other income (expenses)	206	187	194	93	680
Other income	3	1	1	1	6
Other expenses	(5)	(17)	(26)	(7)	(55)
Other expenses, net	(2)	(16)	(25)	(6)	(49)
Operating profit	204	171	169	87	631
Financing income	9	6	1	8	7
Financing expenses	(39)	(32)	(38)	(24)	(116)
Financing expenses, net[1]	(30)	(26)	(37)	(16)	(109)
Income before taxes on income	174	145	132	71	522
Taxes on income	(42)	(46)	(31)	(15)	(134)
Income for the period	132	99	101	56	388
Attributable to:					
The Company's shareholders	104	69	69	30	272
Non-controlling interests	28	30	32	26	116
Income for the period	132	99	101	56	388
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:					
Foreign currency translation differences	32	92	(35)	11	100
Changes in fair value of available-for-sale financial assets, net of tax	-	-	1	1	2
Total other comprehensive income (loss) items for the year that will be transferred to profit or loss, net of tax	32	92	(34)	12	102
Comprehensive income (loss) for the period	164	191	67	68	490
Attributable to:					
The Company's shareholders	123	140	40	40	343
Non-controlling interests	41	51	27	28	147
Comprehensive income (loss) for the period	164	191	67	68	490

1 The total sum of financing items for all quarters is not identical to the split of financing items in total for the year as a result of the net presentation of expenses/income from the valuation of financial liabilities.

<u>Regulation 11</u>: <u>List of Investments in Subsidiaries and in Associated Companies</u>

Following is information on material subsidiaries and related companies of the Company (directly held by the Company) stating the number of shares and their par value held by the Company on the date of the report in each of the companies, their cost, their price in the Company's books, the outstanding balance of Company loans to said companies and particulars of other Company investments therein, and their major conditions[(1)]:

Company name	Type of share	No. of shares	Total par value of issued and paid-up share capital	Par value of shares held by the Company	% holding in the security	% holding in capital	% holding in voting rights	% holding in power to appoint directors	Value of investment in the Company's separate financial statements as at Dec. 31, 2016 (NIS millions)	Value of loans to the subsidiaries as at Dec. 31, 2016 (NIS millions)
Strauss Frito-Lay Ltd.	Ordinary NIS 1.00	28,775,854	NIS 28,775,854	NIS 14,387,927	50	50	50	50	62	-
Strauss Coffee B.V.	Ordinary €735	191,228	EUR140,552,580	EUR 105,273,882	74.9	74.9	74.9	74.9	1,528	-
SE USA Inc.	Ordinary $US 0.001	1,000	US$ 1	US$ 1	100	100	100	100	207	210
Strauss Health Ltd.	Ordinary NIS 1.00	6,500,000	NIS 6,500,000	NIS 5,200,000	80	80	80	80	166	-
Strauss Water Ltd. [(2)]	Preferred A NIS 0.01	700,014	NIS 7,000	NIS 7,000	100	100	100	100	(193)	413
	Preferred B NIS 0.01	3,863,712	NIS 38,637	NIS 38,637	100	100				
	Ordinary NIS 0.01	490,000	NIS 4,900	NIS 4,900	100	100				
	Ordinary A NIS 0.01	92,566	NIS 926	NIS 926	100	100				

(1) For information on additional subsidiaries that are directly or indirectly held by the Company, see Note 6.1 to the Financial Statements of the Company as at December 31, 2016.

(2) In 2016 the Company acquired 12.44% of the issued and paid-up share capital of Strauss Water from the non-controlling interest in Strauss Water. Following the closing of the transaction, the Company holds 100% of the shares of Strauss Water. For further information, see section 1.8 in the Description of the Company's Business Affairs, in Chapter A above, and also Note 6.4 to the Financial Statements of the Company as at December 31, 2016, in Chapter C above.

Regulation 12: Changes in Investments in Subsidiaries and Associated Companies

A. Changes in investments in companies directly held by the Company

Name of the company	Nature of the change	Date of change	Change in %	Cost (consideration) in NIS millions
Strauss Water Ltd.	Holding increased from 87.56% to 100%	January-December 2016	12.44%	72
Strauss Water Ltd.	Loan to subsidiary including interest accrued on principal	January – December 2016	-	34
PepsiCo Strauss Fresh Dips & Spreads International GmbH	Capital infusion	June 2016	-	36

Regulation 13: Income of Subsidiaries and Associated Companies and Revenues from Them as at Balance Sheet Date (NIS Millions)

Following is information on profit (loss) before and after tax of the Company's material subsidiaries and associated companies, held directly by the Company (profit (loss) figures are the consolidated data of these companies), dividends, interest and management fees received by the Company or which it is entitled to receive, as at December 31, 2016:

Name of subsidiary/ associated company	Pre-tax profit (loss)	After-tax profit (loss)	Dividend	Reimbursement of management expenses (1)	Interest expenses	Other comprehensive income (loss)	Total profit (loss)
Strauss Frito-Lay Ltd.	26	20	13	2	-	-	20
Strauss Coffee B.V.	344	274	63	27	-	104	378
SE USA Inc.	38	31	-	-	(17)	(5)	26
Strauss Health Ltd.	202	156	80	41	-	2	158
Strauss Water Ltd.	(23)	(20)	-	-	(7)	5	(15)

(1) Including management fees.

Regulation 20: Trading on the Tel Aviv Stock Exchange (TASE)

In the reporting period, 45,366 Ordinary Shares of NIS 1 par value were listed for trading on TASE, arising from the exercise of option warrants granted to senior employees of the Company.

Trading in the Company's securities was not suspended during the reporting period.

Regulation 21: Payments to Interested Parties and Senior Officers

Details of recipients of remuneration				Remuneration for services (at cost), in NIS thousands excluding share-based payment					
Name	**Title**	**Scope of position**	**Percentage of share capital held, fully diluted (A)**	**Annual gross salary**	**Accompanying benefits (B)**	**Total salary**	**Bonus [as relevant - deferred amount according to the Remuneration Policy] (C)**	**Management fees / consulting fees / commission / other**	**Total excluding share-based payment**
Ms. Ofra Strauss (1)	Chairperson of the Board of Directors of the Company	100%	--	1,890	1,962 [of which ~1,120 non-recurring increase in provisions[2]]	3, 852 [~2,732 not including non-recurring increase in provisions]	2,021 [446]	--	5,873 [~4,753 not including non-recurring increase in provisions]
Mr. Gadi Lesin (2)	Company President and CEO	100%	Fully diluted: 1.11%	1,834	835	2,669	1,987 [611]	--	4,656
Mr. Giora Bar-Dea (3)	Deputy CEO	100%	Fully diluted: 0.22%	1,456	677	2,133	1,066 [217]	--	3,199
Mr. Zion Balas (4)	CEO, Strauss Israel	100%	Fully diluted: 0.23%	1,370	895	2,265	1,018 [219]	--	3,283
Mr. Tomer Harpaz (5)	CEO, Strauss Coffee	100%	Fully diluted: 0.24%	1,679	924	2,603	1,530	--	4,133
Remaining directors (6)		--	--	--	--	3,435	--	--	3,425

[2] In 2016 a non-recurring provision was included in the financial statements for severance pay and the value of accumulated leave days in respect of an increase in gross salary made during the year, as approved by the General Meeting of Shareholders of the Company.

Details of recipients of remuneration		Remuneration for services (at cost), in NIS thousands		
Name	**Title**	**Total excluding share-based payment**	**Share-based payment (D)**	**Total cost of salary**
Ms. Ofra Strauss	Chairperson of the Board of Directors of the Company	5,873 [~4,753 not including non-recurring increase in provisions]	--	5,873 [~4,753 not including non-recurring increase in provisions]
Mr. Gadi Lesin	Company President and CEO	4,656	3,166	7,822
Mr. Giora Bar-Dea	Deputy CEO	3,199	999	4,198
Mr. Zion Balas	CEO, Strauss Israel	3,283	831	4,114
Mr. Tomer Harpaz	CEO, Strauss Coffee	4,133	928	5,061

Notes to the table:

(a) Full dilution – assuming full exercise of 4,146,627 option warrants granted to senior employees and 164,634 performance share units (PSUs) awarded to the Company CEO, which are theoretically exercisable (as at March 27, 2017) into 4,311,261 Ordinary Shares of the Company, excluding dormant shares. Full dilution does not take into account a possibility inherent in Strauss Coffee's option plan, pursuant whereto in a certain case of the acquisition of TPG by the Company, equivalent options of the Company may be granted in respect of options that have not yet vested. See section 12.13 in the Description of the Company's Business Affairs, in Chapter A above and also Note 23.4 to the Financial Statements of the Company as at December 31, 2016. It is noted that in practice, pursuant to the terms and conditions of the Company's option warrants, upon exercise of the option warrants the offerees will not be allotted the full number of shares arising from the options, but rather, only the quantity of shares that reflects the amount of the financial benefit inherent in the options, i.e. the difference between the ordinary share price on the exercise date and the original exercise price of the option warrant, adjusted for the distribution of dividends. Therefore, in practice, the quantity of allotted shares arising from the exercise of the option warrants is lower than the quantity indicated above. It is further noted that exercise of the PSUs is dependent on conditions, including accomplishment of a sales budget target outside of Israel. For the terms and conditions of the options plan and those of the performance share units plan, see Note 23.1 to the Financial Statements of the Company as at December 31, 2016, and also the Immediate Report of the Company of August 18, 2016, reference no. 2016-01-105793 (hereinafter: the "**Convening of the September 2016 Meeting Report**").

(b) Accompanying benefits – regarding the recipients of remuneration specified in the table, who are employed in the Company (including the Chairperson of the Board) – the amount set forth in the "accompanying benefits" column includes wage-related benefits in accordance with the Company's procedures, such as car maintenance (including "cash for car"), telephone and social benefits. It is noted that Company employees, including officers, are entitled to reimbursement of reasonable business expenses, according to Company procedure.

(c) Bonus – the amount stated in the "bonus" column is the amount of the bonus for 2016, not including bonus amounts that were paid during 2016 in respect of 2015. In addition, in the event of retirement, the amount specified in this column also includes a retirement/adjustment bonus, as well as special bonuses for attaining long-term goals insofar as relevant. As a rule, according to the remuneration policy the amount of the bonus paid to officers of the Company includes a portion deferred to the subsequent year when the incentive amount exceeds the salary amount defined as the "target incentive" (which expresses full accomplishment of targets), provided that in the subsequent year the threshold condition for the receipt of the yearly incentive for that year was met. See also the Remuneration Policy for Officers of the Company (and the Convening of the September 2016 Meeting Report).

(d) Share-based payment – the amount stated in the "share-based payment" column is the expense recorded by the Company in 2016 in accordance with IFRS 2, in respect of the options and PSUs granted.

Additional information:

(1) **Ms. Ofra Strauss** – Ms. Strauss has served as active Chairperson of the Board of Directors of the Company since June 2001. Ms. Strauss is employed under a personal employment agreement. In accordance with the revised employment agreement with Ms. Strauss, which was approved by the General Meeting of Shareholders of the Company on September 26, 2016 (with regard to the convening of the meeting, see the Convening of the September 2016 Meeting Report), the agreement is for an indefinite period, beginning on June 1, 2014, which will expire when Ofra Strauss's term of office as chairperson ends. However, the continued effectiveness of the agreement is subject to the approval of the Company's competent organs, pursuant to the provisions of the Companies Law, in its version from time to time, upon the most recent approval of the employment agreement in the Meeting, the terms and conditions of office and employment were approved, effective commencing October 1, 2016 for three years, until September 30, 2019. The employment agreement may be cancelled by the Chairperson on the one hand and by the Company in a board resolution on the other, subject to three months' advance notice (which may be shortened at the Company's initiative or with its consent) and in accordance with the provisions of the Remuneration Policy. It is noted that Ms. Strauss is not entitled to an adjustment period.

As active Chairperson of the Board, Ms. Strauss is responsible for the management of the Board of Directors, and in the framework of the Board of Directors' work, for development the Company's strategy and supervision of the performance of the CEO and senior management of the Company (GMT – Group Management Team). Ms. Strauss does not engage in the day-to-day management of the Company, and the managers subordinated to the CEO do not report to her and are not subordinate to her, but rather to the CEO. Furthermore, Ms. Strauss does not fill additional positions in the Company, other than serving on the boards of the Company's subsidiaries. The Board of Directors of the Company is responsible for maintaining the separation between the roles of the Chairperson of the Board and the Company CEO.

Ms. Strauss's wage component includes a monthly salary of NIS 175,000 (gross), linked to economy-wide cost-of-living increments that will be paid under expansion orders, plus accompanying benefits, as specified in note (b) above. However, the value of the company car benefit is not grossed up, other than if decided otherwise by the Remuneration Committee and the Board of Directors of the Company.

Ms. Strauss is entitled to an annual bonus that is calculated on the basis of financial goals only, without a discretionary bonus, in respect of each calendar year, as set forth in the Remuneration Policy.

The Chairperson of the Board is entitled to insurance coverage under the Company's D&O liability insurance or any other insurance coverage that applies to officers of the Company; she is entitled to a letter of undertaking to indemnity in the form of the letter of undertaking to indemnity given to directors and officers, which is in place in the Company; and she is also entitled to a letter of exemption in the form given to officers of the Company who are not among the controlling shareholders or their relatives; see paragraph (7) below.

For further information on the Chairperson's conditions of office and employment, see the Convening of the September 2016 Meeting Report.

The amount of the bonus paid to Ms. Strauss for 2016 is approximately NIS 2,021 thousand for the accomplishment of financial goals only, with a score of 4.70. The score for the accomplishment of financial targets is derived from sales (non-GAAP) of approximately NIS 7,943 million, representing a score of 4.4 of the target, non-GAAP operating profit of approximately NIS 744 million, rated 4.4 of the target, non-GAAP net profit of approximately NIS 335 million, representing a score of 5 of the target, and cash flows from non-GAAP operating activities amounting to NIS 762 million, representing a score of 5 of the target.

As described in note (c) above, part of the bonus will be deferred to next year and will be paid on or about the time of publication of the annual financial statements for 2017, provided, however, that in 2017 the threshold condition for the receipt of the yearly incentive for 2017 was satisfied.

(2) **Mr. Gadi Lesin** – Mr. Lesin has served as President and CEO of the Company since July 2009 (before then, he served as CEO of Strauss Israel from September 2007). Mr. Lesin's employment is for an indefinite period and may be terminated with 90 days' advance written notice to the other party (with an option to shorten the notice period at the Company's initiative or with its consent). The employer-employee relationship will survive the end of the above advance notice period, and the Company will continue to pay Mr. Lesin his salary and accompanying benefits (including social benefits) for a further 12 months in the event of dismissal, and for a further 6 months in the event of resignation, other than in circumstances where severance pay may be denied by law.

Mr. Lesin's wage component includes a monthly salary of NIS 152,868 (gross), linked to economy-wide cost-of-living increments that will be paid under expansion orders; and also accompanying benefits, as specified in note (b) above.

The amount of the bonus payable to Mr. Lesin in respect of 2016 is approximately NIS 1,987 thousand, the calculated incentive component being approximately NIS 1,766 thousand in respect of the extent of accomplishment of financial goals as set forth in paragraph (1) above, and an additional sum of approximately NIS 221 thousand is a discretionary bonus as approved by the Remuneration Committee and the Board of Directors.

As described in note (c) above, part of the bonus will be deferred to next year and will be paid on or about the time of publication of the annual financial statements for 2017, provided, however, that in 2017 the threshold condition for the receipt of the yearly incentive for 2017 was satisfied.

On or about the date of the report, Mr. Lesin holds a total of 1,070,208 non-marketable option warrants of the Company, as follows: (1) 524,613 option warrants (non-marketable) of the Company, their exercise price being NIS 63.133; the terms and conditions of the option warrants include a ceiling for the possible benefit, in such manner that if the market price of the share on the exercise date is higher by

60% or more than the average adjusted closing prices of the Company's share on TASE in the 30 trading days preceding the date of approval by the Board of Directors the exercise price shall increase, and the difference between the share price on the exercise date and the price on the grant date, plus 60%, shall be added to the original exercise price. Mr. Lesin's entitlement to receive said option warrants crystallizes in four tranches, 50% on July 27, 2018 and 16.667% on July 27 in each of the years 2019, 2020 and 2020, with the right to exercise the first and second tranches inuring until July 27, 2023, the right to exercise the third tranche – until July 27, 2024, and the right to exercise the fourth tranche – until July 24, 2025; and (2) 545,595 additional option warrants, their exercise price being NIS 35.86, linked to the Consumer Price Index of August 2012, with Mr. Lesin's entitlement to receive the option warrants crystallizing in several tranches in the years 2014, 2015, 2016 and 2017, and his entitlement to exercise each of the tranches inuring until September 15, 2020. In addition, Mr. Lesin holds 164,634 PSUs, and his entitlement to exercise them shall crystallize in four tranches, 50% on August 30, 2018 and 16.667% on August 30 in each of the years 2019, 2020 and 2021, subject to Mr. Lesin being employed by the Company on the vesting date of each tranche and subject to the achievement of at least 90% of the cumulative quarterly sales budget (commencing from the first full quarter after the grant date through to the last full quarter before the vesting date) in the functional currencies of the cash generating units in geographies outside of Israel, according to the budgets approved by the Board of Directors. For further information see the Convening of the September 2016 Meeting Report.

A ceiling has been defined for the CEO's remuneration, in such manner that the maximum yearly remuneration to which the CEO is entitled, i.e. the fixed remuneration (salary and accompanying benefits), the yearly incentive and the special bonus, as well as the share-based payment resulting from the 2016 grant of options and PSUs (according to fair value linearly divided over 5 years' vesting) shall not exceed the amount of NIS 8 million.

(3) **<u>Mr. Giora Bar-Dea</u>** – Mr. Bar-Dea has served as Deputy CEO of the Company since August 1, 2014 (before then, he served as CEO of Obela). Mr. Bar-Dea's employment as Deputy CEO of the Company is for an indefinite period and may be terminated by either party with three months' advance notice to the other party (with an option to shorten the notice period at the Company's initiative or with its consent). The employer-employee relationship will survive the end of the above advance notice period (other than in circumstances where severance pay may be denied by law), and the Company will continue to pay Mr. Bar-Dea his salary and accompanying benefits (except for those relating to actual work and excluding the yearly incentive and equity-based compensation) for a further six months.

Mr. Bar-Dea's wage component as Deputy CEO includes a monthly salary of NIS 121,339 (gross), linked to economy-wide cost-of-living increments that will be paid under expansion orders; and also accompanying benefits, as specified in note (b) above.

The amount of the bonus payable to Mr. Bar-Dea in respect of 2016 is approximately NIS 1,066 thousand. The calculated incentive component for the accomplishment of financial goals as described in par. (1) above and for the accomplishment of a score of 3.14 for functional targets (including implementation of the Group's strategy and achievement of financial targets by Strauss Water and Sabra and Obela), according to the formula in clause 11 of the Company's Remuneration Policy, is approximately NIS 1,066 thousand.

It is emphasized that according to the provisions of the Remuneration Policy, the Remuneration Committee and the Board of Directors may determine a yearly incentive for officeholders subordinated to the CEO based on non-measurable criteria, taking the officeholder's contribution to the Company into account, in lieu of or in addition to the calculated incentive and/or the discretional incentive.

As described in note (c) above, part of the bonus will be deferred to next year and will be paid on or about the time of publication of the annual financial statements for 2017, provided, however, that in 2017 the threshold condition for the receipt of the yearly incentive for 2017 was satisfied.

On or about the date of the report, Mr. Bar-Dea holds a total of 240,000 non-marketable option warrants of the Company, their exercise price being NIS 70.13. Mr. Bar-Dea's entitlement to receive the option warrants will crystallize in three equal tranches of 80,000 option warrants each, on the following dates: August 19, 2016, August 19, 2017 and August 19, 2018. The right to exercise each tranche of said option warrants will inure to Mr. Bar Dea for four years from the vesting date of the tranche. It is noted that after the statement of financial position date and on or about the date of the report, Mr. Bar Dea was approved a grant of an additional 160,000 non-marketable option warrants of the Company – which, as at the reporting date, have not yet been granted – their exercise price being NIS 63.49 linked to the Consumer Price Index published on March 15, 2017 and entitlement to the receipt thereof crystallizing in two equal tranches in March 2019 and March 2020. For the avoidance of doubt, it is understood that the amount set forth in the table above as "share-based payment" does not include said grant.

(4) **<u>Mr. Zion Balas</u>** – Mr. Balas has served as CEO of Strauss Israel since June 2009 (before then, he served as CEO of the Group's Sales Division from 2004). Mr. Balas's employment is for an indefinite period and may be terminated with three months' advance notice to the other party (with an option to shorten the notice period at the Company's initiative or with its consent). The employer-employee relationship will survive the end of the above advance notice period, and the Company will continue to pay Mr. Balas his salary and accompanying benefits (including social benefits) for a further six months, other than in circumstances where severance pay may be denied by law.

Mr. Balas's wage component includes a monthly salary of NIS 114,142 (gross), linked to economy-wide cost-of-living increments that will be paid under expansion orders; and also accompanying benefits, as specified in note (b) above.

The amount of the bonus payable to Mr. Balas in respect of 2016 is approximately NIS 1,018 thousand. The calculated incentive component, amounting to approximately NIS 1,018 thousand, is for the accomplishment of 50% of the Company's financial goals as described in par. (1) above and for the accomplishment of 50% of Strauss Israel's financial goals. (The score for the accomplishment of Strauss Israel's financial goals is derived from sales amounting to NIS 3,635 million, representing a score of 3.4 of the target, operating profit of NIS 311.7 million, representing a score of 2.9 of the target, 32.5% market share in relevant categories, which represents a score of 5 of the target, gross profit margin of 40%, representing a score of 3 of the target (it is noted that to review the extent of actual accomplishment of the operating profit target, a decrease of NIS 9 million in EBIT in respect of a provision made for an onerous contract relating to a sublease was excluded), and a score of 4.1 in the accomplishment of functional targets (including an innovation goal and a cash conversion goal), according to the formula in clause 11 of the Company's Remuneration Policy). It is emphasized that according to the provisions of the Remuneration Policy, the Remuneration Committee and the Board of Directors may determine a yearly incentive for officeholders subordinated to the CEO based on non-measurable criteria, taking the officeholder's contribution to the Company into account, in lieu of or in addition to the calculated incentive and/or the discretional incentive. Had the provision for the onerous contract not been excluded, the bonus payable to Mr. Balas would have been lower and would have amounted to NIS 1,011 thousand (and not NIS 1,018 thousand).

As at the date of the report, Mr. Balas holds a total of 255,000 non-marketable option warrants of the Company, as follows: (1) 55,000 option warrants at an exercise price of NIS 39.2, linked to the Consumer Price Index for the month of June 2012. As at the date of this report, Mr. Balas's entitlement to these option warrants has crystallized in full; (2) 200,000 option warrants at an exercise price of NIS 67.14. Mr. Balas is entitled to receive the options in three tranches of 33.33% on the following dates: March 25, 2016, March 25, 2017 and March 25, 2018. The right to exercise said option warrants shall inure to Mr. Balas for four years from the date vesting date of the tranche. It is noted that after the statement of financial position date and on or about the date of the report, Mr. Balas was approved a grant of an additional 133,333 non-marketable option warrants of the Company – which, as at the reporting date, have not yet been granted – their exercise price being NIS 63.49 linked to the Consumer Price Index published on March 15, 2017 and entitlement to the receipt thereof crystallizing in two equal tranches in March 2019 and March 2020. For the avoidance of doubt, it is understood that the amount set forth in the table above as "share-based payment" does not include said grant.

(5) **<u>Mr. Tomer Harpaz</u>** - Mr. Harpaz has served as CEO of the coffee company since June 2014 (before then, he served as the Company's Senior Vice President, Business Development & Strategy from July 2010, and from January 2014, also as temporary CEO of the coffee company).

Mr. Harpaz's employment as CEO of the coffee company is for an indefinite period, and may be terminated with advance notice via registered mail; Mr. Harpaz is committed to a four-month advance notice period and Strauss Coffee is obligated to eight months' advance notice.

Mr. Harpaz's wage component includes a monthly salary of €33,333 (approximately NIS 141,630), gross. Furthermore, Mr. Harpaz is entitled to the customary social benefits and conditions for senior officers in Strauss Coffee (pension, health insurance, sick leave, leave, car and reimbursement of expenses) as well as additional benefits according to Strauss Coffee's overseas employment policy for expatriates, including a relocation bonus of $7,500 that was received in 2014, reimbursement of school fees for children up to the age of five years, of up to €15,000 per year, home leave every 12 months and an adjustment period of 6 months (provided that the early notice period plus the adjustment period do not exceed 6 months).

The bonus payable to Mr. Harpaz for 2016 is NIS 1,530 thousand; the calculated incentive component is approximately NIS 1,449 thousand for the accomplishment of financial targets of Strauss Coffee with a score of 5 (the score was derived from a cash conversion target of 90.5%, which represents a score of 5 of the target; operating profit before depreciation of the allocation of a purchase price amounting to €84,835 thousand, representing a score of 5 of the target; sales less raw material costs amounting to €318,741 thousand, representing a score of 5 of the target, discretionary cash flow including M&A amounting to €63,105 thousand, representing a score of 5 of the target; and net profit of €62,557 thousand, representing a score of 5 of the target) as well as a score of 3.23 for the accomplishment of functional targets (including a target relating to the margin in Brazil and a technological development project), and an additional sum of approximately NIS 81 thousand is a discretionary bonus as approved by the Board of Directors of Strauss Coffee.

On or about the reporting date, Mr. Harpaz holds 1,912 non-marketable option warrants of Strauss Coffee, exercisable into 1,912 Strauss Coffee shares (approximately 1% of Strauss Coffee's share capital) at an exercise price of €4,489. Approximately 20% had vested on the grant date (June 2015), and the remainder will vest in four equal tranches in the month of January in the years 2016-2019. It is noted that in a specific case of the acquisition of TPG by the Company, options of the Company of equal value may be received. For information on Strauss Coffee’s option plan, see the section Description of the Company’s Business Affairs, in Chapter A above and also Note 23.4 to the Financial Statements of the Company as at December 31, 2016. Additionally, on the date of the report Mr. Harpaz holds 268,709 non-marketable option warrants of the Company granted to him in respect of having served as Senior VP, Business Development & Strategy of the Company, as follows: (1) 68,709 options warrants at an exercise price of NIS 39.2 linked to the Consumer Price Index for June 2012, which, as at the date of this report, have vested in full; (2) 200,000 option warrants at an exercise price of NIS 67.14, which will vest on March 25, 2016, March 25, 2017 and March 25, 2018 (approximately one-third on each of said dates). The right to exercise each tranche of the above option warrants will inure to Mr. Harpaz for four years from the vesting date of the tranche.

(6) Payments to the other directors include the total payments received by all the directors of the Company, with the exception of Ms. Ofra Strauss.

(7) For the exemption, indemnification and insurance of directors and officers of the Company see Note 24 to the Financial Statements of the Company as at December 31, 2016, in Chapter C above, sections 1.3.1 and 4.2 of the Note, and also Regulation 29A below.

Regulation 21A: Corporate Control

The controlling shareholders of the Company are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: "**Strauss Holdings**") and a direct holding of 21,882 Ordinary Shares of the Company, and Ms. Ofra Strauss, who is deemed to hold the shares of the Company jointly with Mr. Michael Strauss. For information on the holdings in Strauss Holdings, see section 1.3 of the Description of the Company's Business Affairs, in Chapter A above.

Regulation 22: Transactions with a Controlling Shareholder

Following is information, to the best of the Company's knowledge, on each transaction with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest (each such transaction in which the Company or its subsidiary or related company are a party thereto), which was entered into in 2016 or at a date subsequent to the reporting year until the date of filing of this report or which is still in force on the date of publication of this report. See also Note 37 to the Financial Statements of the Company as at December 31, 2016, in Chapter C above. It is noted that said transactions are approved by the Company's Audit Committee each year in accordance with the procedure adopted by the Company.

Transactions Listed in Section 270(4) of the Companies Law

a. Employment agreement with Ms. Ofra Strauss, Chairperson of the Board of Directors – for information, see Regulation 21 above.

b. Directors' fees - Adi Strauss – on May 26, 2014, the Board of Directors of the Company resolved, in accordance with the Relief Regulations, to approve that Mr. Adi Strauss will be entitled to the maximum permitted directors' fee in accordance with the Second and Third Schedules of the Companies Regulations (Rules regarding Fees and Expenses for External Directors), 2000, taking into account the Company's ranking. For additional details, see Immediate Report dated May 27, 2014 (reference no. 2014-01-074040). In addition, the grant of a letter of undertaking to indemnity was approved, in the form of the letter of undertaking to the indemnification of directors and officers that is in place in the Company (for further information, see Immediate Reports dated September 27, 2016 and August 18, 2016 (reference no. 2016-01-054906 reference no. 2016-01-105793, respectively)); he is also included as a beneficiary under the Company's current policy for directors and officers liability insurance (see Immediate Report dated May 27, 2014 (reference no. 2014-01-074040); and was also given a letter of exemption in the form identical to the letter that was given to officers of the Company, who are not among the controlling shareholders or their relatives see Immediate Reports dated June 9, 2015 (reference no. 2015-01-043815 and reference no. 2015-01-043824) and July 14, 2015 (reference no. 2015-01-072546)).

c. Undertakings to indemnification and grant of a right to use the name "Strauss" in accordance with the merger transaction with Strauss – for information, see section 25.1 in the Description of the Company's Business Affairs, in Chapter A above. As stated in that section, members of the Strauss family have undertaken not to compete against the Company and not to use the Strauss brand in specific areas and during specific periods, as set forth in said section. To the best of the Company's knowledge, members of the Strauss family are in compliance with the above undertakings.

Transactions that Are Not Listed in Section 270(4) of the Companies Law

a. In accordance with the resolution of the Company's Board of Directors dated February 21, 2011, guidelines and rules were determined for the classification of a transaction of the Company or of a consolidated company with an interested party therein, as a negligible transaction, as stipulated in Regulation 41(a)(6)(a) of the Securities Regulations (Annual Financial Statements), 2010, and as a transaction which is not negligible and is not extraordinary, as defined in the Companies Law. It was determined that these rules and guidelines will also serve to examine the scope of disclosure in the Periodic Report and in prospectuses (including shelf offering reports) with respect to a transaction of the Company, a corporation under its control or a related company, with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest; and also to review the need to issue an Immediate Report with respect to such transaction of the Company. The guidelines include, inter alia, instructions regarding transactions of the same type, which are not interdependent, that are executed frequently and repeatedly every period, interconnected or interdependent transactions and multiannual transactions.

b. In 2016, no transactions were executed and as at the date of this report, there are no transactions still in effect with the controlling shareholder or in which the controlling shareholder has a personal interest, which are not enumerated in Section 270(4) of the Companies Law and which are not negligible transactions, save for the transactions specified hereunder.

<u>Purchase of advertising time</u> – the Group purchases advertising time through a media company on Reshet, a TV franchiser under the Second Authority for Television and Radio Law, 1990. To the best of the Company's knowledge, Mr. Michael Strauss and Mrs. Raya Ben-Dror indirectly hold 16% of Reshet's share capital, cumulatively. The purchase of advertising time is made in the ordinary course of business, on market terms and prices, and as part of the purchase of advertising time from other commercial broadcasting entities (such as Keshet, Channel 10 and Channel 24) according to rating considerations and the Group's marketing needs.

<u>Achihud recycling reservoir</u> – in 2008 Strauss Health built a wastewater recycling reservoir on land owned by the controlling shareholder, Strauss Holdings Ltd., in Achihud. Since the construction date and as at the date of this report, Strauss Holdings has not charged the Company any fees for the use of the land.

c. Following are transactions with the controlling shareholder or in which the controlling shareholder has a personal interest, classified by the Company as negligible in accordance with the aforementioned resolutions, taking into account the nature of the Company, which is one of the largest industrial companies in the market, with extensive operations in Israel and overseas, the amount its assets, the diversity of the Company's business activity, the nature of transactions executed by it, and the extent of their cumulative impact on the Company's operations and its results:

1. <u>Sale of food products to restaurants in Adi's Group</u> – the Company, from time to time, in the ordinary course of business and under customary market conditions, sells food products to companies of Adi's Group, which, to the best

of the Company's knowledge, is controlled by a relative of the controlling shareholders of the Company.

2. Sale of food products to Strauss Holdings Ltd. – the Company, from time to time, in the ordinary course of business and under customary market conditions, sells food products to Strauss Holdings Ltd., a controlling shareholder of the Company.

3. Payment to restaurants in Adi's Group for hospitality – the Company, from time to time, in the ordinary course of business and according to customary market conditions, entertains at restaurants in Adi's Group, which, to the best of the Company's knowledge, is controlled by a relative of the controlling shareholders of the Company.

d. From time to time, the Group makes contributions to organizations or entities, including such where the controlling shareholders or their relatives are connected to the recipient of the contribution. For additional details, see the section on contributions in the Board of Directors' Report, in Chapter B below.

Regulation 24: Holdings of Interested Parties and Senior Officers

For information on the holdings of interested parties and senior officers, see the Company's Immediate Report dated January 5, 2017 (reference no. 2017-01-001783).

It is noted that on February 1, 2017, the Company executed a partial redemption of its Debentures (Series B). For further details, see Immediate Report dated February 14, 2017 (reference no. 2017-01-013927).

Regulation 24A: Registered Capital, Issued Capital and Convertible Securities

For details, see Notes 26.1.1, 26.1.2, 26.2 and 23 to the Financial Statements of the Company as at December 31, 2016 and the definition of "full dilution" in Regulation 21 above.

Regulation 24B: Shareholder Register

For details on the Company's shareholder register, see the Company's Immediate Report dated February 14, 2017 (reference no. 2017-01-013927).

Regulation 25A: Registered Office

Address: 49 Hasivim St., Petach Tikva 49517
Tel: 03-6752499, Fax: 03-6752279
Email address: mike.avner@strauss-group.com

Regulation 26: **Directors of the Company**

Following are the details of directors of the Company serving on the Board of Directors as of the date of the report:

Director's name	**Ofra Strauss, Chairperson of the Board**	**Adi Strauss**	**Ronit Haimovitch**	**Dr. Michael Anghel (external director)**	**Prof. Arie Ovadia**	**David Mosevics**
Identity no.	56616584	022889323	56417843	01136563	78284338	007130271
Date of birth	August 22, 1960	February 27, 1967	May 12, 1960	January 13, 1939	December 25, 1948	July 26, 1946
Address for service of judicial documents	31 Hamatsbiim St., Tel Aviv	37 Havradim St., Ganei Yehuda	3 Nissim Aloni St., Tel Aviv	4 Efter St., Tel Aviv	11a Hashomer St., Raanana	3 Daniel Frisch St, Tel Aviv
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Commencement of term of office	February 1996	August 2011	August 2003	June 2008	June 1997	December 1977
Education	LL.B. in Law – Tel Aviv University	English Studies - Cambridge, England; Business Administration, Sheffield University, England	BA in Economics and Management – Technion, Haifa and MA in Economics – Technion , Haifa	BA in Economics – the Hebrew University of Jerusalem; MA in Financing, Columbia University, New York, US, and Ph.D. in Financing – Columbia University, New York, US	Ph.D. in Economics – Wharton University (Pennsylvania, US); MBA in Finance and Accounting – Tel Aviv University	LL.B. – the Hebrew University of Jerusalem
Occupation in the last five years	Chairman of the Board of Directors from June 2001	Business manager	CEO of Strauss Investments (1993) Ltd.	Director in various companies	Business consultant to companies; lecturer at the College of Management	An attorney in private practice
Family relations with another interested party	Michael Strauss's daughter; the sister of Adi Strauss and Irit Strauss; Raya Ben-Dror's niece ; the cousin of Ran Midyan and Gil Midyan	Michael Strauss's son; the brother of Ofra Strauss and Irit Strauss; Raya Ben-Dror's nephew; the cousin of Ran Midyan and Gil Midyan	None	None	None	None

Director's name	Ofra Strauss, Chairperson of the Board	Adi Strauss	Ronit Haimovitch	Dr. Michael Anghel (external director)	Prof. Arie Ovadia	David Mosevics
Position in the Company, subsidiary, related company or in an interested party of the Company	Chairperson of the Board of Directors of the Company	Director of Strauss Holdings Ltd., director of Max Brenner; director of Strauss Health	An employee of a related company of the controlling shareholder of the Company – CEO of Strauss Investments (1993) Ltd.; a director in Strauss Holdings Ltd.	None	None	None
Additional corporations in which he/she serves as a director	Strauss Holdings Ltd.; investee companies and related companies of the Company	Strauss Holdings Ltd.; Adi's Investments Ltd.; Adi's Lifestyle Ltd.; Adi's Montefiore Ltd.; Adi's Herbert Samuel Ltd.; Adi's Ahad Haam Ltd.; Adi's Alma Ltd.; Adi's Marina Ltd.; Idan Marina Ltd.; Marina H. Hotel Management Ltd.; Adi's Assets Ltd.; Adi's Hospitality Ltd.;	Strauss Holdings Ltd.; Rav Etgar Ltd.; Reshet-Noga Ltd.; Hashachar Haole Holdings Ltd., Hashachar Haole, Consulting and Investment Management Ltd.; Pistacia Path Ltd.; Acro Real Estate Development Ltd., Acro Afeka General Partner Ltd., Acro Z.A.R. Projects Ltd., Acro Israel Ltd., Acro Auctions Ltd., Acro Herzliya General Partner Ltd., Or Mania Ltd.; Alaska Advisors S.A.; Perl Properties Holding Inc.; Emanate Technology & Trade Ltd.; Deep Blue Yachting Ltd.; Ocean Blue Holdings Ltd.; Ocean Blue Yachting Ltd.	Partner Communications Ltd.; Orbotech Ltd.; Dan Hotels Ltd.; Lahav Executive Education, Tel Aviv University; BioLineRX Ltd.; Lumus Ltd.	Aenetz Consultants Ltd.; Bazan – Oil Refineries Ltd.; Giron Ltd.; Israel Petrochemical Enterprises Ltd.; Destiny Investments Ltd.; Compugen Ltd	None

Director’s name	Ofra Strauss, Chairperson of the Board	Adi Strauss	Ronit Haimovitch	Dr. Michael Anghel (external director)	Prof. Arie Ovadia	David Mosevics
Membership on committee/s of the Board of Directors	Chairperson of the Human Resources, Nominating and Corporate Governance Committee, member of the Strategy, Finance and Investment Committee	None	Ad hoc Investments, Mergers & Acquisitions Committee	Chairman of the Audit Committee; Financial Statements Review Committee; Remuneration Committee	Financial Statements Review Committee; Remuneration & Human Resources Committee; *ad hoc* Investments, Mergers & Acquisitions Committee	Audit Committee
Does the Company view him/her as having accounting and financial expertise, for purposes of compliance with the minimum number of such directors determined by the Board of Directors	No	No	Yes	Yes	Yes	No

Director's name	Meir Shanie	Dalya Lev (independent)[3]	Prof. Dafna Schwartz (external director)	Akiva Mozes (independent)[4]	Galia Maor	Dalia Narkys (external director)
Identity no.	8409732	007555337	50172667	006255046	01154780	51928695
Date of birth	September 8, 1945	August 2, 1947	August 22, 1950	February 22, 1947	February 11, 1943	May 2, 1953
Address for service of judicial documents	28 Hanof St., Savion	16 Bnei Moshe St., Tel Aviv	4 Hasavion St., Kiryat Hahagana, Rehovot	17 Nissim Aloni St. Tel Aviv	10 Haparsa St., Ramat Gan	29 Yad Hamaavid St., Tel Aviv
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Commencement of term of office	September 1997	June 2008	June 2008	June 2008	May 2013	February 2017
Education	BA in Economics and Accounting – Tel Aviv University; MBA – Tel Aviv University; qualified accountant	Accounting – the Hebrew University of Jerusalem; LL.M. – Bar Ilan University; ISMP – Harvard University, Massachusetts, USA	BA in Economics – Tel Aviv University; MA in Agricultural Economics and Administration – the Hebrew University; Ph.D. in Economics – the Hebrew University of Jerusalem	BA in Economics and Political Science – the Hebrew University of Jerusalem; MBA – Hebrew University of Jerusalem	BA in Economics and Statistics – the Hebrew University of Jerusalem; MBA – the Hebrew University of Jerusalem	Bachelor of Business Administration, College of Management Academic Studies; Executive Management Course, Tel Aviv University; Executive Education Programs, INSEAD Business School, France. Directors and Officers Course, IDC Herzliya; Advanced Directors Course, IDC Herzliya
Occupation in the last five years	Self employed	BelGal Ltd. Investments, Real Estate and Management Services; member of the Board of Trustees of Ben Gurion University and Tel Aviv University; director of companies	Director of different companies; business economics consultant; Head of the "Entrepreneurship and Hi-tech Management" stream, Department of Business Administration; Manager, Bengis Center for Entrepreneurship and Innovation, Guilford Glazer Faculty of Management Faculty, Ben Gurion University;	Chairman of the Board of Oil Refineries Ltd.; CEO of Israel Chemicals Ltd.; Chairman of the Association of Publicly Traded Companies; Representative of the Public at the National Labor Court; Chairman of the Agriculture Committee of the International Fertilizer Industry Association (IFA); member of the Management Board of the IFA;	President and CEO of Bank Leumi le-Israel; Chairperson, Leumi Private Bank Switzerland	Since 2016: Dalia Narkys Consultants Until 2015: Chair of ManpowerGroup Israel and Director of the East Mediterranean Countries, ManpowerGroup global organization.

[3] The Company deems that the conditions for Ms. Dalya Lev's eligibility as an independent director, as defined in the Companies Law, 1999, are met.

[4] The Company deems that the conditions for Mr. Akiva Mozes eligibility as an independent director, as defined in the Companies Law, 1999, are met

Director's name	Meir Shanie	Dalya Lev (independent)	Prof. Dafna Schwartz (external director)	Akiva Mozes (independent)	Galia Maor	Dalia Narkys (external director)
			Member of the National Council for Civil Research & Development; Member of the Board of Trustees of Achva Academic College; Member of the Executive Committee of the Israel Camerata Jerusalem; Member of the Executive Committee of Ben Gurion University; former member of the EU Expert Group on "Policy Relevant Research on Entrepreneurship and SMEs"	Chairman of the Friends of the Soroka Medical Center in Beersheba; Member of the Board of Trustees of the Ben Gurion University; Member of the Board of Trustees of the Shenkar College of Engineering and Design; Member of the Academic Industrial Advisory Board of the kinneret Jordan Valley College; member of the Advisory Committee of the Supervisor of Banks in matters pertaining to banking affairs; Member of the Executive Committee of the Schneider Medical Center Society of Trustees.		
Family relations with another interested party	None	None	None	None	None	None
Position in the Company, subsidiary, related company or in an interested party of the Company	None	None	None	None	None	None
Additional corporations in which he/she serves as a director	Shani-Aharoni Investments Ltd.; family-owned companies, Delek San	Belgal Ltd. The First International Bank of Israel Ltd.	Bank Hapoalim Ltd.	TKGML Moz Management 2012 Ltd.; A.A. Moz Investments 2012 Ltd.; Evogene Ltd.,	Equity One Inc.; Teva Pharmaceutical Industries Ltd.; Aphelion G.I. Ltd.; Frihalion G.I. Ltd.	IACC – Israel Association of Community Centers

	Ltd.; Fidel; Xenia Venture Capital Ltd.; Chemi San Ltd.			Member of the Tel Aviv University Management Committee; Eucalyptus Industries Ltd.; Ein Shemer Rubber Industries Agricultural Coop Society Ltd.; Advisory Council for Trilantic Capital Partners Europe		Ltd., The Academic College of Tel Aviv – Yaffo, Afeka Tel Aviv College of Engineering, ELEM Youth in Distress in Israel, The College of Management Academic Studies.
Membership on committee/s of the Board of Directors	Financial Statements Review Committee; *ad hoc* Investments, Mergers & Acquisitions Committee	Financial Statements Review Committee; Audit Committee; *ad hoc* Investments, Mergers & Acquisitions Committee	Chair of the Remuneration & Human Resources Committee; Chair of the Financial Statements Review Committee	The *ad hoc* Investments, Mergers & Acquisitions Committee	The *ad hoc* Investments, Mergers & Acquisitions Committee	Audit Committee; Remuneration Committee; Financial Statements Review Committee
Does the Company view him/her as having accounting and financial expertise, for purposes of compliance with the minimum number of such directors determined by the Board of Directors	Yes	Yes	Yes	Yes	Yes	Yes

Regulation 26A: Senior Officers

Following are the details of senior officers of the Company as at the date of the report:

Officer's name	Gadi Lesin	Giora Bar-Dea	Michael Avner	Nurit Tal Shamir	Shahar Florence	Zion Balas
Identity no.	022848352	51921195	65261398	058786245	059764407	59167858
Date of birth	April 19, 1967	May 4, 1953	December 6, 1955	August 5, 1964	August 20, 1965	November 28, 1964
Commencement of term of office	July 2009	August 2014	April 1994	October 2007	November 2008	June 2009
Position in the Company	President and CEO of the Group	Deputy CEO	Senior Vice President, CLO and Company Secretary	VP Human Resources of the Group	CFO of the Group	CEO, Strauss Israel
Position in the Company, subsidiary, related company or in an interested party of the Company	Director of subsidiaries of the Company	Director of subsidiaries of the Company	Chairman of the Executive Board of Max Brenner, alternate director of subsidiaries	Director of subsidiaries of the Company	Director of subsidiaries of the Company	Director of subsidiaries of the Company
Education	MBA – Ben Gurion University; BA in Business Administration, College of Management, Tel Aviv	BA in Humanities, Tel Aviv University; graduate of the Advanced Management Program (AMP) of the Business Administration, Harvard Business School, Massachusetts, USA	LL.B. – Tel Aviv University	BA in Educational Psychology, Sociology –the Hebrew University of Jerusalem; MA in Behavioral Sciences – Technion, Haifa	BA in Economics and Accounting – Tel Aviv University	BA and MA in Industrial and Management Engineering – Technion, Haifa
Occupation in the last five years	President and CEO of the Group since July 1, 2009	CEO of Obela, 2011-2014	Senior VP, CLO and Company Secretary	VP Human Resources of the Group since October 1, 2007	CFO of the Group since November 3, 2008	CEO of Strauss Israel since June 15, 2009
Family relations with another interested party	None	None	None	None	None	None

Officer's name	Tomer Harpaz	Yaniv Reuven	Ronen Zohar	Shali (Tal Dina) Shoval Shalit	Shlomo Ben Shimol
Identity no.	25257304	024216160	56216013	055430821	1230878-9
Date of birth	February 28, 1973	January 30, 1969	February 9, 1960	April 17, 1959	July 2, 1956
Commencement of term of office	July 19, 2010	January 6, 2015	April 1, 2015	August 1, 2014	1999
Position in the Company	CEO of Strauss Coffee B.V.	Group Controller	CEO of Strauss Water	CEO of Sabra Dipping Company	Internal auditor
Position in the Company, subsidiary, related company or in an interested party of the Company	Director of subsidiaries of the Company	None	None	None	None
Education	LL.B. University of East Anglia, Norwich, England; Postgraduate Diploma in Business Administration, Hull University, London, England	BA in Business Administration and Accounting, College of Management, Tel Aviv Certified Accountant	BA in Food Sciences, the Hebrew University of Jerusalem	BA in Industrial Engineering and Management – Tel Aviv University; MBA in Philosophy – Tel Aviv University	BA in Economics and Accounting - Tel Aviv University; qualified accountant and internal auditor (CIA)
Occupation in the last five years	2010-2014 VP Business Development & Strategy, Strauss Group; 2006-2014, chairman of Re:Bar	2013 – controller, Soda Stream Group; 2010-2013, controller, Better Place Group	CEO of Sabra Dipping Company	2013-2014, VP Marketing, Sabra Dipping Company; 2009-2013, CEO, Strauss Frito-Lay	A partner in the accounting firm of Deloitte, Brightman Almagor Zohar & Co.
Family relations with another interested party	None	None	None	None	None

Regulation 26B: Independent Authorized Signatories in the Company

The Company does not have independent authorized signatories.

Regulation 27: The Company's Accountants

Somekh Chaikin, 17 Ha'arba'ah St., Millennium Tower, Tel Aviv 64739

Regulation 29:

a. **Recommendations and Resolutions of the Board of Directors**

Payment of a dividend or execution of a distribution, as defined in the Companies Law, in any other manner, or distribution of bonus shares – In July 2016, the Board of Directors of the Company resolved to distribute a cash dividend of approximately NIS 1.39 per each Ordinary Share of NIS 1 par value each in a total amount of NIS 150 million. For further details, see Immediate Report dated July 18, 2016 (reference no. 2016-01-084220) and Note 26.3 to the Financial Statements of the Company as at December 31, 2016.

b. **Resolutions of Special General Meetings**

(1) Special General Meeting of February 5, 2017, in which the appointment of an external director, Ms. Dalia Narkys, was approved. For details, see Immediate Reports of the Company of December 28, 2016 and February 6, 2017 (reference no. 2016-01-092340 and 2017-01-011185, respectively).

(2) Special General Meeting of September 26, 2016, in which a revised Remuneration Policy was approved; revision and extension of the conditions of office and employment of the Chairperson on the Board of Directors of the Company, Ms. Ofra Strauss; revision of the conditions of office and employment of the Company CEO, Mr. Gadi Lesin, was approved, including the allotment of options and performance share units of the Company; and the grant of an undertaking to indemnity to Mr. Adi Strauss, a director of the Company and a relative of the controlling shareholder, was approved. For details, see Immediate Reports of the Company of September 27, 2016 and August 18, 2016 (reference no. 2016-01-054906 and 2016-01-105793, respectively).

Regulation 29A: Company Resolutions

Exemption, insurance or an undertaking to indemnify an officer

1. For the provisions of the revised Remuneration Policy of the Company with regard to the exemption, indemnification and insurance of officers of the Company, see Part "I" of the Remuneration Policy that was approved on September 26, 2016 in the General Meeting of Shareholders of the Company (see Immediate Reports of August 18, 2016 (reference no. 2016-01-105793) and of September 27, 2016 (reference no. 2016-01-054906)).

2. For the grant of letters of exemption from liability to officers of the Company, including those who are among the controlling shareholders of the Company and their relatives, see Note 24.1.4.1 to the Financial Statements of the Company as at December 31, 2016; and see also the Immediate Report with regard to the convening of an Annual and Special Meeting dated June 9, 2015 (reference no. 2015-01-043824) and the Immediate Report with regard to the results of the meeting dated July 14, 2015 (reference no. 2015-01-072546); and with regard to the grant of a letter of exemption to Ms. Ofra Strauss and Mr. Adi Strauss, see also Regulation 22 above.

3. For information on the terms and conditions of the Company's D&O insurance policy, including in regard to those who are among the controlling shareholders of the Company and their relatives, see Note 24.4.2 to the Financial Statements of the Company as at December 31, 2016, and with regard to the inclusion of Ms. Ofra Strauss and Mr. Adi Strauss, see also Regulation 22 above.

4. For information on an undertaking to indemnify officers of the Company, including those who are among the controlling shareholders of the Company and their relatives, which was approved in a resolution of the General Meeting of the Company on June 6, 2011, see Note 24.1.4.1 to the Financial Statements of the Company as at December 31, 2016; and with regard to the grant of an undertaking to indemnity to Ms. Ofra Strauss and Mr. Adi Strauss, see also Regulation 22 above.

Strauss Group Ltd.

Names of signatories and their positions:

Ofra Strauss, Chairperson of the Board of Directors
Gadi Lesin, Company CEO

Date: March 27, 2016

Convenience Translation from Hebrew

Corporate Governance Questionnaire[1]

Independence of the Board of Directors			
		Correct	**Incorrect**
1.	Throughout the reporting year, two or more external directors held office in the corporation. In this question, a “correct” answer could be marked, if the time period in which there were no two outside directors, holding office in the corporation, does not exceed 90 days, as stated in Section 363.a(b)(10) of the Companies Law. However, in any (correct/incorrect) answer, state the time period (in days) in which two or more outside directors did not hold office in the corporation during the reporting year (including a period approved retroactively, while distinguishing between different directors): Director A: Prof. Dafna Schwartz Director B: Dr. Michael Anghel Director C: Dalia Narkys Number of external directors holding office in the corporation as of the date of release of this Questionnaire: 3	√	

[1] . Published within the framework of legislative proposals for improvement of statements on March 16, 2014.

2.	The rate[2] of independent directors[3] holding office in the corporation as of the date of release of this Questionnaire: 5/12 The rate of independent directors, stated in the Articles of Association[4] of the corporation[5]: _____. ☒ Irrelevant (no provision was stated in the Articles).	_____	______
3.	In the reporting year, an examination was held vis-à-vis the external directors (and the independent directors) and it had been found that in the reporting year they complied with the provision of Section 240(b) and (f) of the Companies Law regarding the absence of a linkage of the external (and independent) directors holding office in the corporation, and that they also fulfilled the conditions required for holding office as an external (or independent) director.	√	
4.	All of the directors who held office in the corporation during the reporting year do not, directly or indirectly, report[6] to the CEO (excluding a director who is a representative of the company's employees, if there is an employee representative body in the corporation). If your answer is "incorrect", (i.e., the director reports to the CEO as aforesaid) - the number of directors not complying with the aforesaid restriction shall be stated: ______.	√	

2. In this Questionnaire "**rate**" – certain number out of all of the directors. Thus, e.g. 3/8.
3. Including outside directors, as defined in the Companies Law.
4. For the purpose of this question – "articles" including according to a specific law provision applying to the corporation (e.g. for a banking corporation – guidelines of the Supervisor of Banks).
5. A debenture company is not required to fill in this section.
6. For the purpose of this question – the mere holding of office as a director in a held corporation which is controlled by the corporation shall not be deemed "reporting; conversely, a director's office in a corporation acting as an officer (other than a director) and/or employee in the held corporation which is controlled by the corporation shall be deemed "reporting" for purposes of this question.

Convenience Translation from Hebrew

5.	All of the directors, who notified of the existence of a personal interest they have in the approval of a transaction on the meeting's agenda, were not present fort the deliberations and did not participate in a vote as aforesaid (other than a deliberation and/or vote in circumstances as stated in Section 278(b) of the Companies Law) : If your answer is "incorrect" – Was this for the purpose of the presentation of a specific issue by him/her pursuant to the provisions of the last part of Section 278(a): ☐ Yes ☐No (kindly mark X in the appropriate box) State the number of meetings in which such directors were present at the deliberation and/or participated in the vote, other than in circumstances as provided in Subsection a. : _____________.	√	

6.	The controlling shareholder (including his relative and/or anyone on his behalf), who is not a director or a senior officer of the corporation, was not present in the board meetings held in the reporting year. If your answer is "incorrect" (i.e., the controlling shareholder and/or his relative and/or anyone on his behalf who is not a board member and/or a senior officer of the corporation attended such board meetings) - the following details regarding the attendance of the additional person in such board meetings shall be stated: Identity: ______________________. Position in the corporation (if any): ______________ Details of the linkage to the controlling shareholder (if the person present is not the controlling shareholder himself): ______________ Was it for the purpose of the presentation of a certain matter by him: ☐Yes ☐No (kindly *mark x in the appropriate box)* The rate of his attendance[7] at board meetings held in the reporting year for the purpose of presentation of a specific issue by him: ___________, Other presence: ___________. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	

[7] Distinguishing between the controlling shareholder and his relative and/or a party on his behalf.

Convenience Translation from Hebrew

Competencies and Qualifications of the Directors				
			Correct	Incorrect
7.	In the corporation's articles of association there is no provision limiting the possibility to immediately terminate the office of all of the directors of the corporation, who are not external directors (in this regard - a determination by a regular majority is not deemed a limitation).[8] If your answer is "incorrect" (i.e., such limitation exists), the following shall be stated -		√	
	a.	The time period prescribed in the articles of association for the office of a director: ______.		
	b.	The required majority prescribed in the articles of association for the termination of office of the directors: ______.		
	c.	The lawful quorum at the general meeting prescribed in the articles of association for the termination of office of the directors: ______.		
	d.	The majority required for amending these provisions in the articles of association: ______.		
8.	The corporation has a training plan for new directors, in the field of the corporation's business and in the field of the law applicable to the corporation and the directors, as well as a continuing plan for the training of serving directors, which is adjusted, *inter alia*, to the position held by the director in the corporation. If your answer is "correct" - state whether the plan was implemented in the reporting year: ☒Yes ☐No (kindly mark x in the appropriate box)		√	

[8] A debenture company is not required to fill in this section.

Convenience Translation from Hebrew

9.	a.	The corporation prescribed a required minimal number of directors on the board who must have accounting and financial expertise. If your answer is "correct" the minimal number prescribed will be stated: 3	√	
	b.	Number of directors holding office in the corporation during the reporting year: Having accounting and financial qualifications[9]: 8. Having professional qualifications:[10] 9 In the event of changes in the number of directors, as stated in the reporting year, the datum of the lowest figure (with the exception of a time period of 60 days from occurrence of the change) or directors of any kind serving during the reporting year.		
10.	a.	Throughout the reporting year, the composition of the board included members of both genders. If your answer is "incorrect" - the time period (in days) in which the aforesaid was not met shall be stated: ______. *In this question, you may answer "correct" if the time period in which directors of both genders did not hold office does not exceed 60 days. However, in any answer (correct/incorrect), state the time period (in days) in which directors of both genders did not hold office in the corporation:* 0.	√	
	b.	Number of directors of each gender holding office on the board of the corporation as of the release date of this questionnaire: Men: 6, Women: 6	________	_______

9 Following an evaluation of the board, according to the provisions of the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise and a Director with Professional Qualifications), 2005.

10 See Footnote 9.

Board Meetings (and Convening of a General Meeting)				
			Correct	**Incorrect**
11.	a.	Number of board meetings held during each quarter in the reporting year: Q1 (2016): 2 Q2: 1 Q3: 6 Q4: 3	______	______
	b.	Alongside each of the names of the directors holding office in the corporation during the reporting year, state their participation rate[11] in the board meetings (in this subsection - including meetings of the board committees of which they are members, and as stated below) held during the reporting year (in reference to his term of office): (Additional lines should be added according to the number of directors).	______	______

[11] See Footnote 2.

Name of the Director	Participation Rate in **Board** Meetings	Participation Rate in **Audit Committee**[12] meetings	Participation Rate in meetings of the **Financial Statements Review Committee** [13]	Participation Rate in **Remuneration Committee**[14] meetings	Participation rate in meetings of **other board committees of which he is a member** (stating the name of the committee)
Ofra Strauss	10/12				Ad hoc Strategy, Finance and Investment Committee – 5/6 Ad hoc HR, Nominating and Corporate Governance Committee – 2/2
Adi Strauss	9/12				Ad hoc Strategy, Finance and Investment Committee – 4/6 Ad hoc HR, Nominating and Corporate Governance Committee – 2/2
Ronit Haimovitch	10/12				
Meir Shanie	10/12		2/4		
David Mosevics	11/12	6/6			Ad hoc HR, Nominating and Corporate Governance Committee – 1/2
Micha Anghel	11/12	6/6	3/4	10/10	

12. In respect of a director who is a member of this committee.
13. In respect of a director who is a member of this committee.
14. In respect of a director who is a member of this committee.

Convenience Translation from Hebrew

	Dafna Schwartz	12/12	6/6	4/4	10/10	Ad hoc HR, Nominating and Corporate Governance Committee – 2/2		
	Dalya Lev	12/12	6/6	4/4		Ad hoc Strategy, Finance and Investment Committee – 6/6 Ad hoc HR, Nominating and Corporate Governance Committee – 2/2		
	Akiva Mozes	9/12				Ad hoc Strategy, Finance and Investment Committee – 4/6		
	Arie Ovadia	11/12		4/4	9/10	Ad hoc Strategy, Finance and Investment Committee – 6/6		
	Galia Maor	11/12				Ad hoc Strategy, Finance and Investment Committee – 4/6 Ad hoc HR, Nominating and Corporate Governance Committee – 2/2		
12.	In the reporting year, the board held at least one discussion regarding the management of the corporation's business by the CEO and the officers reporting to him, in their absence, after they were given opportunity to express their position.						√	

Separation between the Positions of the CEO and the Chairman of the Board				
			Correct	**Incorrect**
13.	Throughout the entire reporting year, a chairman of the board held office in the corporation. *In this question, you may answer "correct" if the time period in which a chairman of the board did not hold office in the corporation does not exceed 60 days, as stated in Section 363a(2) of the Companies Law). However, in any (correct/incorrect) answer, state the time period (in days) during which there was no chairman of the board holding office in the corporation as aforesaid:* 0.		√	
14.	Throughout the entire reporting year, a CEO held office in the corporation. *In this question, you may answer "correct" if the period of time during which there was no serving CEO at the corporation does not exceed 90 days as specified in Section 363a.(6) of the Companies Law, however, in any (correct/incorrect) answer, the time period (in days) during which there was no CEO holding office in the corporation as aforesaid should be stated:* 0. ______________		√	
15.	In a corporation in which the chairman of the board serves also as the CEO of the corporation and/or exercises his powers, the dual office was approved in accordance with Section 121(c) of the Companies Law.[15] ☒Irrelevant (insofar as such dual office does not exist in the corporation).			
16.	The CEO is <u>not</u> a relative of the chairman of the board. If your answer is "incorrect" (i.e., the CEO is a relative of the chairman of the board) -		√	
	a.	State the kinship between the parties: ______.	______	______
	b.	The office was approved in accordance with Section 121(c) of the Companies Law[16]: ☐ Yes ☐No (Kindly mark X in the appropriate box)	______	______
17.	The controlling shareholder or his relative does <u>not</u> serve as the CEO or as a senior officer in the corporation, other than as a director. ☐Irrelevant (the corporation does not have a controlling shareholder).		√	

15 . In a debenture company – approval according to Section 121(d) of the Companies Law.
16 . In a debenture company – approval according to Section 121(d) of the Companies Law.

The Audit Committee				
			Correct	**Incorrect**
18.	The following <u>did not</u> hold office in the audit committee during the reporting year -			
	a.	The controlling shareholder or his/her relative. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	
	b.	The chairman of the board.	√	
	c.	A director who is employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled by him/her.	√	
	d.	A director who regularly provides services to the Corporation or to the controlling shareholder of the Corporation or a corporation controlled by him/her.	√	
	e.	A director whose primary livelihood depends on the controlling shareholder. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	
19.	No one who is not entitled to be a member of the audit committee, including a controlling shareholder or his relative, was present in the audit committee meetings, other than pursuant to the provisions of Section 115 (e) of the Companies Law.		√	
20.	The lawful quorum for deliberations and adoption of resolutions in all of the audit committee's meetings held during the reporting year was a majority of the committee members, where the majority of attendees were independent directors and at least one of them was an external director. If your answer is "incorrect" - state the rate of the meetings in which the said requirement was not met: _______.		√	
21.	In the reporting year, the audit committee held at least one meeting in the presence of the internal auditor and the external auditor, and in the absence of officers of the corporation who are not members of the committee, regarding deficiencies in the business management of the Corporation.		√	
22.	In all of the audit committee's meetings in which a person who is not entitled to be a member of the committee was present, it was with the approval of the chairman of the committee and/or at the request of the committee (regarding the general counsel and secretary of the corporation who is not a controlling shareholder or his/her relative).		√	

23.	Arrangements stated by the Audit Committee with respect to the manner of handling of complaints of corporation's employees in connection with deficiency in the management of its business affairs and the protection to be given to the employees who have complained, as stated, which were valid during the reporting year.		√	
24.	The audit committee (and/or the financial statements review committee) was satisfied that the scope of work of the external auditor and his fees in the reporting year were appropriate for the performance of proper audit and review of the financial statements in the reporting year.		√	

Functions of the Financial Statements Review Committee (hereinafter - FSRC) in its Preliminary Work toward the Approval of the Financial Statements				
			Correct	**Incorrect**
25.	a.	State the time period (in days) prescribed by the board of directors as reasonable time for delivery of the committee's recommendations in contemplation of the board meeting in which the periodic or quarterly reports will be approved: 2 business days.	______	________
	b.	The number of days actually elapsed between the date of delivery of the recommendations to the board and the date of approval of the financial statements: Q1 statements (2016): 3 Q2 statements: 2 Q3 statements: 4 Annual statements: 3	_______	________
	c.	The number of days elapsed between the date of delivery of the draft financial statements to the directors and the date of deliberation approval of the financial statements by the board: Q1 statements (2016): 11 Q2 statements: 9 Q3 statements: 8 Annual statements: 24		
26.	The Corporation's external auditor was invited to all of the FSRC and board meetings in which the financial statements of the corporation referring to periods included in the reporting year were discussed. If your answer is "incorrect" - state the rate of his participation: ______.		√	
27.	All of the conditions specified below were fulfilled at the FSRC throughout the entire reporting year and until the release of the annual statements:		______	________

	a.	The number of its members was not less than three (on the date of the discussion at the FSRC and approval of the statements as aforesaid).	√	
	b.	All of the conditions specified in Section 115 (b) and (c) of the Companies Law (in respect of the office of audit committee members) were fulfilled.	√	
	c.	The chairman of the FSRC is an external director.	√	
	d.	All of its members are directors and most of its members are independent directors.	√	
	e.	All of its members have the ability to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	√	
	f.	The members of the FSRC provided a statement prior to their appointment.	√	
	g.	The legal quorum for discussion and decision making on the FSRC was the majority of its members provided that most of those present were independent directors including at least one outside director.	√	
	If your answer is "incorrect" in respect of one or more of the subsections of this question, state in respect of which report (periodic/quarterly) such condition was not fulfilled: ___________		____	____

			Correct	Incorrect
The Remuneration Committee				
			Correct	**Incorrect**
28.	The Committee in the reported period consisted of at least three members and external directors constituted a majority (upon the discussion date on the Committee). ☐Irrelevant (no discussion was held)		√	
29.	The terms of office and employment of all the members of the Remuneration Committee during the reporting year are according to the Companies Regulations (Rules in Respect of Remuneration and Expenses of an Outside Director), 2000		√	
30.	The following did not hold office in the audit committee during the reporting year -		_______	________
	a.	The controlling shareholder or his relative. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	
	b.	The chairman of the board.	√	
	c.	A director employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled by him.	√	
	d.	A director who regularly provides services to the Corporation or to the controlling shareholder of the Corporation or a corporation controlled by him.	√	
	e.	A director whose primary livelihood depends on the controlling shareholder. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	
31.	The controlling shareholder or his/her relative was not present in the reporting year in meetings of the Remuneration Committee unless if the chairman of the committee determined that any of them is required in order to present a certain issue.		√	
32.	The Remuneration Committee and the board did not exercise their authorities according to Sections 267a(c), 272(c)(3) and 272 (c1)(1)(c) pursuant to approval of the transaction or the remuneration policy, notwithstanding the objection of the general meeting. If you answered "incorrect" it should be indicated – The type of transaction approved, as stated: _________ The number of times that their authority was exercised during the reporting year: ________		√	

Internal Auditor			
		Correct	**Incorrect**
33.	Chairman of the board or the CEO of the corporation is the organizational in charge of the internal auditor in the corporation.	√	
34.	The chairman of the board or the audit committee approved the work plan during the reporting year. In addition, the audit items in which the internal auditor was engaged during the reporting year shall be specified: The internal audit covered a range of diverse subjects, including the Company's handling of a cyber incident, mailing, information security and management in websites, ITGC, sales, export processes, implementation of aspects from the Food Law, procurement, wages, insurance, inventory and distribution, health strategy, quality control in production, compliance with regulation and with the Company's procedures, performance of a risk survey in order to build a multiyear work plan for the internal audit, and follow-up of the implementation of recommendations. The audits were performed across the entire Group, including Group corporate center, Strauss Israel, Strauss Water, Sabra in North America and Strauss Coffee in Israel and in various countries such as Poland, Serbia, Russia, Ukraine, Romania, Holland, Germany and Brazil.	√	
35.	The scope of employment of the internal auditor in the corporation during the reporting year: 8,230 hours.	______	________
	During the reporting year, a discussion was held (by the audit committee or the board of directors) on the findings of the internal auditor.	√	
36.	The internal auditor is not an interested party of the corporation, a relative thereof, auditing accountant or anyone on its behalf, nor does he maintain essential business connections with the corporation, its controlling shareholder, his relative or corporations under their control.	√	

Convenience Translation from Hebrew

Transactions with Interested Parties			
		Correct	**Incorrect**
37.	The controlling shareholder or his relative (including a company controlled by him) is neither employed by the corporation nor provides management services thereto. If you answer is "incorrect" (i.e. the controlling shareholder or his relative is employed by the Corporation or provides management services thereto) the following shall be stated: - The number of relatives (including the controlling shareholder) employed by the corporation (including companies controlled by them and/or management companies): 1 - Have the agreements for such employment and/or management services been approved by the organs specified in the law: ☒Yes ☐ No (Kindly mark x in the appropriate box) ☐Irrelevant (the corporation does not have a controlling shareholder) _______.		X
38.	According to the best knowledge of the corporation, the controlling shareholder has no additional business affairs in the field of operation of the corporation (in one or more areas). If your answer is "incorrect" – it should be indicated whether an arrangement for the setting bounds of activities between the corporation and the controlling shareholder thereof: ☐Yes ☐ No (Kindly mark x in the appropriate box) ☐Irrelevant (the corporation does not have a controlling shareholder) _______.	√	

Chairman of the Board:
Ofra Strauss

Chairman of the Audit Committee:
Dr. Michael Anghel

Chairman of the FSRC:
Prof. Dafna Schwartz

Remarks relating to Questions 1 and 2: “As at the date of this report, five independent directors hold office in the Company; of them, three are outside directors. In June 2017 four directors will be concluding their term of office after serving in said office for nine years. The Company will take action to appoint an additional outside director. ”

STRAUSS GROUP LTD.

ISOX DECLARATION

Attached hereto is an annual report on the effectiveness of the internal control over the financial reporting and disclosure pursuant to regulation 9B(a) for 2016:

The management, under the supervision of the board of directors of Strauss Group Ltd. (the "Corporation"), is responsible for determining and maintaining proper internal control over the financial reporting and disclosure within the Corporation.

For this purpose, the members of management are:

1. Gadi Lesin, President & CEO;
2. Shahar Florence, EVP & CFO;
3. Mike Avner, Senior VP and General Counsel, the Company Secretary;
4. Giyora Bar Dea, Chief Executive Officer;
5. Nurit Tal Shamir, SVP HR;

Internal control over the financial reporting and disclosure includes controls and procedures existing within the Corporation, which were planned by or under the supervision of the CEO and the most senior financial officer, or by anyone actually performing such functions, under the supervision of the board of directors of the Corporation, which are designed to provide reasonable level of assurance regarding the reliability of the financial reporting and the preparation of the reports according to the provisions of the law, and to ensure that information which the Corporation is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth in the law.

Internal control includes, *inter alia*, controls and procedures which were planned to ensure that information which the Corporation is required to disclose as aforesaid, is gathered and transferred to the management of the Corporation, including the CEO and the most senior financial officer, or anyone actually performing such functions, in order to enable the timely making of decisions in reference to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide full assurance that misrepresentation or omission of information in the reports is prevented or discovered.

The management, with the supervision of the board of directors, carried out an examination and evaluation of the internal control over financial reporting and disclosure in the corporation, and the effectiveness thereof. The evaluation of the effectiveness of internal control over financial reporting and disclosure carried out by the management with the supervision of the board of directors included: .

Mapping and documentation of the controls and identification of the very material processes in the Company and in the main consolidated companies according to the reporting risks, in respect of each of the Company or the main consolidated companies, as the case may be.

The processes which were defined as very material are: in the Company: revenues from rent in investment property, investment property; in Sonol: the revenues from sales and the trade receivables processes; in Tambour: the revenues from sales and trade receivables, inventory and acquisition processes; in Via Maris: long-term receivables in respect of franchise arrangement.

Examination of the actual performance and documentation of the controls defined in the control processes on the organization level (ELC), the information systems (ITGC), the financial statements preparation process and the processes which were identified as very material to the financial reporting and disclosure.

General evaluation of the internal control effectiveness.

Based on the effectiveness evaluation performed by the management with the supervision of the board of directors as specified above, the board of directors and management of the corporation reached the conclusion that the internal control over the financial reporting and disclosure in the corporation, as of December 31, 2016 is effective.

Attached please find the statements of the CEO and the CFO, who is responsible for the financial reporting in the Company.

Date: March 27, 2017

Statement of Managers:

Statement of CEO pursuant to Regulation 9B(d)(1):

I, Gadi Lesin, represent that:

(1) I have reviewed the periodic report of Strauss Group Ltd. (the "Corporation") for the year 2016 (the "Reports").

(2) To my knowledge, the Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which are required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, from all material respects, the financial condition, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate.

(4) I have disclosed to the Corporation's auditor and to the Corporation's board of directors and the Audit and Financial Statement Committees, based on my most current assessment of the internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and -

b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in the internal control over the financial reporting and the disclosure;

(5) I, either alone or jointly with others in the Corporation:

a. Have determined controls and procedures, or confirmed the determination and existence, of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -

b. Have determined controls and procedures or confirmed the determination and existence, of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of the financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

c. Have evaluated the effectiveness of the internal control over the financial reporting and disclosure and presented in this report the conclusions of the board of directors and the management pertaining to the effectiveness of the internal control as aforesaid as of the date of the Reports.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 27, 2017

____

Gadi Lesin, President & CEO

Statement of Managers:

Statement of the most senior financial officer pursuant to Regulation 9B(d)(2):

I, Shahar Florence, represent that:

(1) I have reviewed the Financial Statements and other financial information included in the reports of Strauss Group Ltd. (the "Corporation") for year 2016 (the "Reports");

(2) To my knowledge, the Financial Statements and the other financial information included in the Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which are required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, from all material respects, the financial condition, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate;

(4) I have disclosed to the Corporation's auditor and to the Corporation's board of directors and the Audit and Financial Statement Committees, based on my most current assessment of the internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure insofar as it relates to the Financial Statements and the other information included in the Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and -

b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in the internal control over the financial reporting and the disclosure;

(5) I, either alone or jointly with others in the Corporation:

a. Have determined controls and procedures, or confirmed the determination and existence of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, insofar that it is relevant to the financial statements and other financial information included in the Reports, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -

b. Have determined controls and procedures or confirmed the determination and existence, of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of the financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP;

c. Have evaluated the effectiveness of the internal control over the financial reporting and disclosure, insofar that it refers to the financial statements and the other financial information included in the Reports, as of the date of the Reports. My conclusions in respect of my evaluation as aforesaid were presented to the board of directors and the management and are incorporated in this Report.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 27, 2017

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Shahar Florence, EVP & CFO;

STRAUSS GROUP LTD.

INCLUSION OF THE FINANCIAL STATEMENTS OF AN INVESTEE PURSUANT TO REGULATION 44 OF THE SECURITIES REGULATIONS, 1970

Três Corações Alimentos S.A.

Consolidated financial statements as of and for the years ended 31 December 2016 and 2015 and independent auditors’ report on consolidated financial statements

KPDS 175904

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KPMG Auditores Independentes
Rua Desembargador Leite Albuquerque, 635
Sala 501 e 502 - Aldeota
60150-150 - Fortaleza/CE - Brasil
Telefone +55 (85) 3307-5100, Fax +55 (85) 3307-5101
www.kpmg.com.br

Independent auditors' report on consolidated financial statements

To Directors and Shareholders of
Três Corações Alimentos S.A.
Fortaleza - CE

Report on the Audit of the Três Corações Alimentos S.A. Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Três Corações Alimentos S.A. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Brazil, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Fortaleza, 08 March 2017

KPMG Auditores Independentes
CRC 2SP014428/O-6

João Alberto da Silva Neto
Accountant CRC RS-048980/O-0 T-CE

Três Corações Alimentos S.A.

Consolidated statements of financial position as of 31 December 2016 and 2015

(In thousand of Brazilian Reais)

Assets	Note	2016	2015 (Reclassified)
Current			
Cash and cash equivalents	6	86.524	159.996
Deposits	7	2.418	3.478
Trade receivables	8	393.469	304.652
Inventories	9	377.163	277.283
Recoverable taxes	10	37.798	18.813
Income tax receivable		14.030	6.594
Other current assets	11	14.114	14.117
		925.516	784.933
Non-current			
Judicial deposits	22	8.780	8.799
Loans to related parties	12	7.908	-
Other non-current assets	11	7.765	10.135
Deferred tax assets	23	14.299	23.324
Investments	13	4.211	-
Fixed assets	14	242.291	231.134
Intangible assets	15	268.456	195.219
		553.710	468.611
		1.479.226	1.253.544

Liabilities	Note	2016	2015 (Reclassified)
Current			
Short term loans	16	298.804	194.222
Trade payables	17	151.143	101.180
Income tax payables		1.253	1.056
Employees and other payroll related liabilities	18	42.134	33.876
Proposed dividends	24.d	59.268	100.001
Interest on equity payable	19	43.938	-
Payable taxes	20	27.724	16.371
Other current liabilities	21	36.335	23.239
		660.599	469.945
Non-current			
Long term loans	16	134.243	184.567
Proposed dividends	24.d	-	34.548
Other non-current liabilities	21	2.565	-
Deferred tax liabilities	23	9.364	11.424
Provision for legal proceedings	22	19.518	20.688
		165.690	251.227
Equity			
Share capital	24.a	272.370	272.370
Translation reserve	24.b	(99.228)	(105.500)
Retained earnings	24.e	479.795	365.502
		652.937	532.372
		1.479.226	1.253.544

The accompanying notes are an integral part of these consolidated financial statements.

Três Corações Alimentos S.A.

Consolidated statements of income

Years ended 31 December 2016 e 2015

(In thousand of Brazilian Reais)

	Note	2016	2015
Revenue	25	3.102.874	2.540.123
Cost of sales	26	(2.286.148)	(1.800.565)
Gross profit		816.726	739.558
Selling and marketing expenses	27	(472.701)	(437.813)
General and administrative expenses	28	(89.881)	(82.127)
Equity method	13	(394)	-
Other income (expenses), net		1.029	(1.007)
Operating profit		254.779	218.611
Finance income	29	11.326	8.320
Finance expenses	29	(32.566)	(40.896)
Profit before income tax		233.539	186.035
Income tax expenses	23	(44.731)	(14.015)
Profit for the year		188.808	172.020

The accompanying notes are an integral part of these consolidated financial statements.

Três Corações Alimentos S.A.

Consolidated statements of comprehensive income

Years ended 31 December 2016 e 2015

(In thousand of Brazilian Reais)

	Note	2016	2015
Profit for the year		188.808	172.020
Foreign currency translation differences	24.b	6.272	(36.926)
Comprehensive income for the year		195.080	135.094

The accompanying notes are an integral part of these consolidated financial statements.

Três Corações Alimentos S.A.

Consolidated statements of changes in equity

Years ended 31 December 2016 e 2015

(In thousand of Brazilian Reais)

		Retained earnings					
	Share capital	**Legal reserve**	**Tax incentives**	**Profit to distribute**	**Translation adjustments**	**Accumulated profit**	**Total**
Balance as of 31 December 2014	271.669	24.026	115.667	122.669	(68.574)	-	465.457
Dividends distributed relative to 2014	-	-	-	(2.726)	-	-	(2.726)
Profit for the year	-	-	-	-	-	172.020	172.020
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	(36.926)	-	(36.926)
Total other comprehensive loss:	-	-	-	-	(36.926)	172.020	135.094
Internal equity changes							
Capitalization of tax incentive	701	-	(701)	-	-	-	-
State VAT and Federal tax incentives	-	-	42.816	-	-	(42.816)	-
Profit destination:							
Legal reserve	-	8.690	-	-	-	(8.690)	-
Dividends proposed	-	-	-	-	-	(65.453)	(65.453)
Reserve for profit to be distributed	-	-	-	55.061	-	(55.061)	-
	701	8.690	42.115	55.061	-	(172.020)	(65.453)
Balance as of 31 December 2015	272.370	32.716	157.782	175.004	(105.500)	-	532.372
Dividends distributed relative to 2015	-	-	-	(1.445)	-	-	(1.445)
Profit for the year	-	-	-	-	-	188.808	188.808
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	6.272	-	6.272
Total other comprehensive loss:	-	-	-	-	6.272	188.808	195.080
Internal equity changes							
State VAT and Federal tax incentives	-	-	36.740	-	-	(36.740)	-
Profit destination:							
Legal reserve	-	9.493	-	-	-	(9.493)	-
Revaluation reserve adjustment in investee	-	-	-	(850)	-	-	(850)
Interest on equity credited	-	-	-	-	-	(47.500)	(47.500)
Dividends proposed	-	-	-	-	-	(24.720)	(24.720)
Reserve for profit to be distributed	-	-	-	70.355	-	(70.355)	-
	-	9.493	36.740	69.505	-	(188.808)	(73.070)
Balance as of 31 December 2016	272.370	42.209	194.522	243.064	(99.228)	-	652.937

The accompanying notes are an integral part of these consolidated financial statements.

Três Corações Alimentos S.A.

Consolidated statements of cash flows

Years ended 31 December 2016 e 2015

(In thousand of Brazilian Reais)

	2016	2015
Cash flows from operating activities		
Profit for the year	188.808	172.020
Adjustments for:		
Depreciation and amortization	30.859	25.962
Provision for legal proceedings	(1.170)	3.380
Other income (expenses), net	(1.029)	1.007
Equity method	394	-
Financing expenses, net	21.240	32.576
Income tax expenses	44.731	14.015
Interest paid, net	(26.139)	(15.952)
Income tax paid	(45.855)	(26.458)
	211.839	206.550
Change in:		
Trade receivables	(90.840)	(4.921)
Inventories	(106.566)	(41.740)
Recoverable and payable taxes, net	(11.194)	3.727
Judicial deposits	19	(1.014)
Trade payables	49.963	27.325
Employees and other payroll related liabilities	8.258	588
Other current and non-current assets and liabilities	(1.717)	(12.283)
Net cash flows provided by operating activities	59.762	178.232
Cash flows from investing activities		
Change in deposits	759	1.796
Payment for acquisition of operations	(53.582)	(1.980)
Share capital increase in joint-venture	(4.605)	-
Proceeds from sales of fixed assets	2.467	5.647
Acquisition of fixed assets	(39.002)	(44.029)
Investments in intangible assets	(5.454)	(6.151)
Long-term loans to related parties	(7.766)	-
Net cash flows used in investing activities	(107.183)	(44.717)
Cash flows from financing activities		
Proceeds from loans	464.656	314.957
Repayment of loans	(389.261)	(373.525)
Dividend paid	(101.446)	(2.726)
Net cash flows used in financing activities	(26.051)	(61.294)
Net increase (decrease) in cash and cash equivalents	(73.472)	72.221
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents as of beginning of year	159.996	87.775
Cash and cash equivalents as of end of year	86.524	159.996
	(73.472)	72.221

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General information

Três Corações Alimentos S.A. and its controlled entities are an industrial and commercial group of companies, which operates in Brazil, in producing and selling branded coffee products, multibeverage single portion capsules and machines, powdered juices, chocolate drinks and corn meal products. The Group is also active in green coffee exports, lending Away-From-Home machines and operation of cafeterias.

The Company controls the entities Cafeterias Três Corações Ltda. and Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda., all together referred to as "the Group". The Company is part of a joint-venture with Caffitaly System S.p.A., whereby it holds 50% share of company 3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi"). 3Caffi is not consolidated in this report, since the Group no longer controls it.

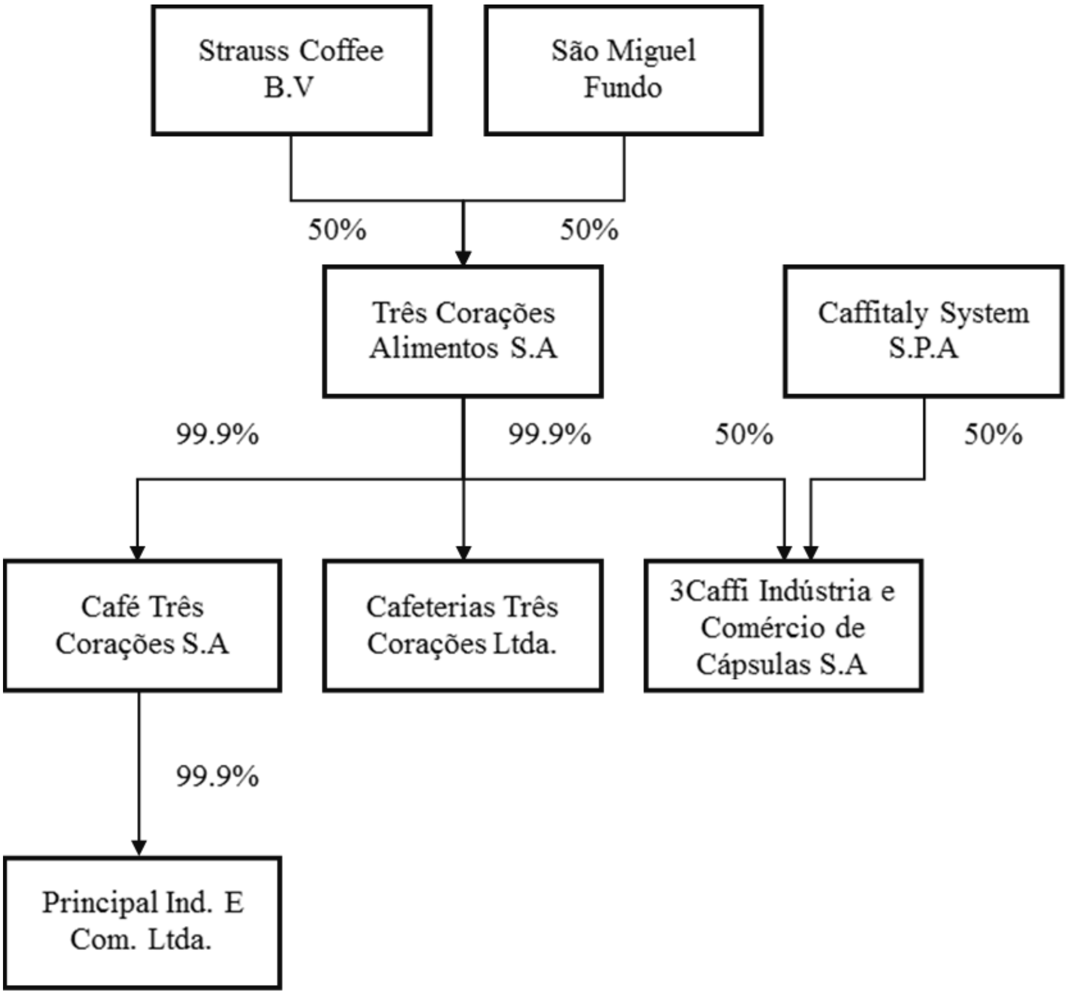
The Company is located at Rua Santa Clara, 100, Parque Santa Clara, Eusébio, Ceará, Brazil.

The Group is currently the largest group in roasted and ground coffee business in Brazil, and owns the coffee and other food brands of Santa Clara, Kimimo, Três Corações, Pimpinela, Principal, Fino Grão, Café Doutor, Café Opção, Café Divinópolis, Café Geronymo, Estrada Real, Café Letícia, Itamaraty, Londrina, Claralate, Dona Clara, Claramil, Frisco, Tornado, Tres, Iguaçu, Cruzeiro and Amigo.

The Group's industrial facilities are located in the states of Ceará, Rio Grande do Norte, Minas Gerais and Rio de Janeiro, and its distribution centers are located in all states of Brazil. In addition to that, the Group owns green coffee processing plants in the states of Minas Gerais and Bahia. Part of the facilities used by the Group is leased from one of its related parties, Três Corações Imóveis Armazéns Gerais e Serviços Ltda., which is not consolidated in this report, since it is not part of the Group structure presented below. Três Corações Imóveis Armazéns Gerais e Serviços Ltda. is owned by São Miguel Holding e Investimentos S.A. (50%) and Strauss Coffee B.V. (50%).

In December 2016, the previous indirectly controlled 3Corações Sul Comércio Atacadista de Produtos Alimentícios Ltda. ("3Sul"), was incorporated by directly controlled Café Três Corações S.A.

As of 31 December 2016, the Group had the following structure:



2 Business combination

(i) Cafeterias Três Corações Ltda.

In December 2015, the Company obtained control over the entity Cafeterias Três Corações Ltda. ("Cafeteria", former Cafeterias Lima Ltda. - ME), through the purchase of 99.9% of its shares from related parties.

The entity purchased owns two cafeterias in Northeast of Brazil.

a. Consideration transferred

The acquisition value was R$ 100, paid in February 2016. After the acquisition, still in December 2015, the Company further increased its equity investment, capitalizing prior advances already paid to the Cafeteria, in the amount of R$ 1,187.

The amount to be paid as of 31.12.2015 is presented as other liabilities, there is zero to be paid as of 31.12.2016 (Note 21).

b. Assets transferred and liabilities incurred

All identifiable assets transferred and liabilities assumed, are listed below:

	Note	**R$**
Current assets:		
Cash and cash equivalents		10
Accounts receivable		21
Inventories		38
Other current assets		2
Fixed assets:		
Furniture and other equipment	14	68
Current liabilities:		
Employees and other payroll related liabilities		(7)
Payable taxes		(10)
Other current liabilities		(29)
Net identifiable assets		93

There is no fair value assessment for the identifiable assets and liabilities assumed, once the acquisition involves related parties businesses.

c. Goodwill

	R$
Acquisition cost	
Consideration transferred, including capitalization of prior advance payments of R$ 1,187	1,287
Net identifiable assets	(93)
Goodwill (Note 15)	1,194

Considering the history of past losses accumulated by the Cafeteria, all Goodwill identified as a result of the acquisition was provisioned and charged to the statement of income as other expenses in 2015.

(ii) Companhia Iguaçu de Café Solúvel

In June 2016, the business acquisition contract related to brands of instant coffee and related products with Companhia Iguaçu de Café Solúvel was approved by Administrative Council for Administrative Defense (CADE). The official announcement was published on 08 June 2016. As a result of the acquisition, the brands added to Group's portfolio were Iguaçu, Cruzeiro and Amigo, increasing the Company market share mainly in the southern region of Brazil with the brands Iguaçu and Cruzeiro.

a. Consideration transferred

According to the contract, the transaction date was 28 June 2016, in the total amount of R$ 73.582. The amount of R$ 53,582 was paid through an escrow account transferred to Companhia Iguaçu de Café Solúvel and R$ 20,000 to be paid as follows:

- R$ 17,000 to be paid in March 2017, with interest; and
- R$ 3,000 to be paid in 5 installments, with interest, in June of each year starting 2017.

The remaining amount to be paid is presented as other payables (Note 21).

b. *Transferred assets and incurred liabilities*

There were no liabilities transferred in the business combination and in the opinion of the Company's legal advisers, there were also no contingent liabilities. All identifiable assets transferred, based on Management best judgment and estimates, are listed below:

	Note	R$
Intangible		
Brands	15	11,000
Client portfolio	15	34,400
Net identifiable assets		45,400

The Company has the period of 12 months after the acquisition to conclude the independent valuation of the identifiable assets, and confirm or adjust fair value based on such valuation.

c. *Goodwill*

	R$
Acquisition cost:	
Transferred resources, paid or to be paid	73,582
Net identifiable assets	(45,400)
Goodwill (Note 15)	28,182

3 Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were approved by Management for issuance on 08 March 2017.

b. Basis of measurement

These consolidated financial statements have been prepared based on the historical cost, except for derivative financial instruments measured at fair value through profit and loss.

For further information regarding the measurement of these assets and liabilities, see Note 5 regarding significant accounting policies.

c. Functional currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"), which, in accordance with IAS 21 - Effects of Changes in Foreign Exchange Rates - is the Brazilian Real (R$), except for the export business of green coffee, of which the functional currency is the United States Dollar. The Group presents its financial statements in Brazilian Real, which is the presentation currency.

d. Use of judgments and estimates

In preparing these consolidated financial statements, Management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or both in the period of the revision and in future periods, if the revision affects both the current and future periods.

In preparing these consolidated financial statements, significant judgments made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2015.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the years ended 31 December 2016 and 2015 is included in the following notes:

- **Note 8 -** Provision for doubtful accounts;
- **Note 14 -** Useful life of fixed asset items;
- **Note 15 -** Impairment test: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- **Note 22 -** Recognition and measurement of provisions for legal proceedings: key assumptions about the likelihood and magnitude of an outflow of resources.
- **Note 23 -** Recognition of deferred tax assets: availability of future taxable profits against which tax loss carryforwards can be used;
- **Note 30 -** Financial instrument fair value measurements;

Fair values have been determined for measurement and/or disclosure purposes based on the methods described in Note 30. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

e. Derivatives

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

For further information regarding the fair value hierarchy, see Note 30 on financial instruments.

4 Reclassification

(i) *Reclassification of judicial deposits related to labor claims*

The Company legally contests the amounts to be paid for Accident Prevention Factor (FAP), and realize judicial deposits related to the contested amounts.

During the preparation of these consolidated financial statements for the year ended 31 December 2016, Management decided to disclose the paid amounts as a reduction of the provisioned amounts. Management understands that net disclosure is more comprehensible and relevant for the users of financial information, once judicial deposits will be realized in the same moment as the provision is settled. The effects of the reclassification on consolidated financial position of 2015 are demonstrated below:

	Originally presented in 2015	**Judicial deposits reclassification**	**Reclassified balances 2015**
Judicial Deposits	15,404	(6,605)	8,799
Employees and other payroll related liabilities	(40,481)	6,605	(33,876)
	(25,077)	-	(25,077)

5 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently within the Group entities.

a. Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method - i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The consideration transferred does not include (this means it is net of) amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or in other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as a bargain purchase gain.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iii) Loss of control

When applicable, upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary.

In case of loss of control, the retained interest would be accounted for based on the level of influence retained by the Company in the relevant entity.

(iv) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currency are translated to the functional currency of the Group according to the exchange rate in effect on the date of the transaction. Exchange rate differences arising upon the settlement of monetary items or upon reporting monetary items at exchange rates different from that by which they were initially recorded during the period, or reported in previous financial statements, are charged to specific income or expense items according to the nature of the monetary item (exchange rate differences in respect of trade receivables, trade payables and foreign currency loans are recognized in financing costs, etc.).

Monetary assets and liabilities are translated using the exchange rate at the date of the statement of financial position.

Monetary assets and liabilities are translated using the exchange rate at the date of the statement of financial position.

(ii) Foreign operations

The assets and liabilities derived from foreign operations, including goodwill and fair value adjustments arising on acquisition, if applicable, are translated to Brazilian reals using the exchange rates at the reporting date. Income and expenses of foreign operations are translated to Brazilian reals using the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When applicable, and the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered part of the net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

c. Financial instruments

c.1 Non-derivative financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Non-derivative financial assets and financial liabilities - Recognition and derecognition

The Group initially recognizes loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

A financial instrument is recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the assets. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire, are discharged or cancelled.

Non-derivative financial assets - Measurement

(i) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits that can be withdrawn immediately. Cash equivalents also include short-term deposits where the deposit period on the day of deposit does not exceed three months, and form an integral part of the Group's cash management.

(iii) Loans and receivables

Loans and other receivables, which are not quoted in an active market are non-derivative financial instruments that are measured at amortized cost using the effective interest method, less any impairment losses (see Note 5.h).

Should it become applicable, non-current receivables would be stated at their present value. The interest rate used in order to calculate the present value is composed of the time value of the receivable according to the currency of the receivable, plus the specific risk component of each customer. Income in respect of interest is recorded over the period of the receivable as financial income.

Non-derivative financial liabilities - Measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

c.2 Derivative financial instruments

The Group routinely uses derivative financial instruments in order to hedge against risks relating to prices of commodities and against foreign currency risks arising from its operating, financing and investing activities. The derivative financial instruments are comprised mainly of forward transactions and options on currencies and of forward transactions and options on commodities. Nonetheless, derivatives not considered accounting hedges are accounted for as financial assets/liabilities and are presented at fair value through profit and loss as follows:

- Derivative financial instruments are recognized at fair value both initially and subsequent to initial recognition, and are stated at fair value according to the market value of registered instruments and the stated market value of forward currency contracts.

- Changes in fair value are recognized as income or expense as incurred. Gains and losses on commodity forward transactions are presented under cost of sales whereas other gains and losses are presented under financing costs.

d. Inventories

Inventory is measured at the lower of the weighted average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to finish the sale.

Inventory includes certain spare parts and maintenance equipment, which will be used in up to one year.

Provision for slow-moving or obsolete inventory is recorded when deemed necessary by Management.

The cost of finished goods and work in progress comprises raw materials, direct labor, other direct cost and related production overheads (based on normal operating capacity).

e. Investments

The investments in invested companies are valued by equity in the consolidated statement of financial position and in statement of income.

f. Fixed assets

Recognition and measurement

Fixed assets are measured at cost, less accumulated depreciation (see below) and impairment losses (see Note 5.h).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located (when the Group has an obligation to dismantle and remove the asset or to restore the site), and, when applicable, capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of fixed assets are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", if relevant, in profit or loss.

Subsequent expenditures

Improvements and enhancements are added to the cost of the assets, whereas maintenance and repairs are charged to expense as incurred.

Leasehold improvements

The construction costs on leased property, which will be transferred to the lessor's ownership at the end of the rental period, are amortized over the expected rental period on a straight-line basis.

Depreciation
Depreciation is recognized as an expense on a straight-line basis over the estimated useful lives of each component of an item of fixed assets, other than land that is not depreciated.

The principal depreciation rates for the reporting periods are as follows:

	%	
Buildings	2-3	
Machinery and equipment	7-10	
Vehicles	16-20	
Furniture and other equipment	12	
Leasehold improvements	10-100	(over the shorter of the expected lease period or the estimated useful life of the asset)

Depreciation methods, useful lives and residual values are reassessed on every reporting date and the rates used for tax purposes may differ from the above rates.

In case of changes in the useful lives as a result of its reassessment, the new useful life is applied prospectively.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by Management.

g. Intangible assets and Goodwill

Goodwill
Goodwill arises on the acquisition of subsidiaries and jointly controlled entities, and is presented as part of intangible assets. In subsequent periods, goodwill is measured at cost, less accumulated impairment losses. See also note 5.h.

Other intangible assets
The intangible assets include brands, trademarks, software, distribution networks and non-competition agreements that were acquired as part of business combination.

Amortization
Intangible assets having a finite useful life are measured at cost net of accumulated amortization and impairment losses. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use.

The annual rates of amortization for the reporting periods are as follows (on a straight-line basis):

	%
Software	33
Brands and trademarks - specifically those acquired in 3Corações Sul business combination	20
List of customers (presented as other in note 15)	5-10
Other	20

Amortization methods, useful lives and residual values are reassessed on every reporting date.

In case of changes in the useful lives as a result of its reassessment, the new useful life is applied prospectively.

Goodwill and brands, except for those brands acquired in 3Corações Sul business combination, which have useful life of 5 years, have an indefinite useful life, and are not amortized for reporting purposes. For tax purposes, Goodwill is amortized, according to Brazilian tax legislation.

The Group examines the useful life of an intangible asset that is not periodically amortized, at least once a year, in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

h. Impairment

Non-financial assets

(i) Timing of impairment testing
The carrying amounts of the Group's non-financial assets (other than inventories and deferred tax assets - see Notes 5.d and 5.m, respectively) are examined on each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For assets, including intangible assets, that have indefinite useful lives, the Group estimates the recoverable amounts at least once a year. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

For the purposes of impairment testing, the goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in the statement of income in accordance with the nature of the item that has been impaired. Impairment losses recognized in respect of cash-generating units (CGU) are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. Goodwill impairment losses are classified as other expenses in the statement of income.

(ii) Calculation of the recoverable amount
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its net selling price (fair value less costs to sell). In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Reversal of impairment
Impairment losses recognized in previous periods are reexamined every reporting period in order to determine whether there are any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only if the carrying amount after the reversal of the impairment loss does not exceed the carrying amount net of depreciation or amortization, that would have been determined if no impairment loss had been recognized. Reversals of impairment losses are included in the statement of income. Impairment losses in respect of goodwill are not reversed.

Non-derivative financial assets
The impairment of financial assets, which are not presented at fair value adjusted through profit

and loss, including the trade receivables' balance, is examined when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from such assets.

The financial statements include special provisions in respect of bad debts, which in Management opinion, adequately reflect the loss arising from those debts the collection of which is doubtful. Management determination of the adequacy of the provision is based, inter alia, on an evaluation of the risk, by considering the available information on the financial position of the debtors, the volume of their business and an evaluation of the security received from them. Bad debts, which according to Management opinion are unlikely to be collected, are written-off.

An impairment loss in respect to the receivables balance, which is measured at amortized cost, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate, and is recognized as selling and marketing expense in the statement of income.

Individually significant receivable balances are tested for impairment on an individual basis. The remaining customer balances are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized, and the reversal is recognized in the statement of income.

i. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. The Group considers the present value of the liability, to be equivalent to the future value, as the differences are not material.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, disclosure is provided of a contingent liability, except when the possibility of the outflow of economic benefits is considered remote.

j. Government grants

Government grants are recorded in profit or loss when there is reasonable assurance that the subsidy will be received or compensated and the conditions established for the subsidy will be achieved by the Group. Afterwards, the revenue recognized in profit or loss is retained in equity.

The types of government grants received by the Group and their respective tax treatment are described in Note 24.e.

k. Revenue

Goods sold

Revenue from the sales of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized by the Group when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no expected continued Management involvement with the goods and the revenue can be measured reliably.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discounts are recognized as a reduction of revenue as the sales are recognized.

l. Financial income and expenses

Financial income comprises interest income on deposits invested, financial income from financial leases, and gains on derivatives (other than commodities) that are recognized in the statement of income.

Financial expenses comprise interest expenses on loans and borrowings and foreign currency variation gains and losses, net.

In the cash flow reports, interests received and interests paid are presented as part of cash flows from operating activity. Dividends paid are presented under financing activity.

m. Income tax expenses

Income tax expenses comprise current and deferred tax. Income tax expenses are recognized in the statement of income, unless they relate to a transaction or event recognized directly in equity.

Current tax

Current tax (in Brazil: "IRPJ" and "CSLL") comprises the expected tax payable or receivable on the taxable income or loss for the year and, when applicable, any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date, considering also the effect of government grants as described in Notes 23.c and 24.e.

Deferred tax

Deferred taxes are recognized in relation to temporary differences between accounting balances of assets and liabilities and the corresponding balance amounts used for tax purposes. Deferred income tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for tax loss carryforwards, tax credits and deductible temporary differences to the extent that it is probable that taxable income will be generated in the future. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

n. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9 (2014), Financial instruments (hereinafter - "IFRS 9")

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. No material impact from the adoption is expected. The Company also considers the impact of the remaining phases of IFRS 9 when completed by the IASB.

IFRS 15 Revenue from Contracts with Customers (hereinafter - "IFRS 15")

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

IFRS 15 is applicable for annual periods beginning on or after 1 January 2018 and earlier application is permitted. No material impact from the adoption is expected.

IFRS 16 Leases (hereinafter - "IFRS 16")

The standard replaces IAS 17, Leases, and related interpretations. The provisions of the standard revoke the current requirement that lessees classify leases as either operating leases or finance leases, and instead, introduce a single lessee accounting model. In applying the model, the lessee is required to recognize the asset and liability in respect of the lease in its financial statements. The standard further determines new disclosure requirements that are broader in scope than those that exist today.

IFRS 16 will be applied for annual periods beginning on January 1, 2019. Early adoption is permitted, provided that the company also applies IFRS 15, Revenue from Contracts with Customers. The standard includes different options for applying the transitional provisions, in such manner that, on initially applying the standard, companies may choose to apply a full retrospective approach or to apply the standard commencing on the effective date while adjusting retained earnings for that date.

The Company is yet to assess IFRS 16´s impact, and at this time, no early application is planned.

6 Cash and cash equivalents

	R$	
	31/12/2016	**31/12/2015**
Bank balances	52,021	67,540
Cash on hand	41	51
Short term deposits:		
Deposits in banks (*)	34,462	92,405
	86,524	159,996

(*) Refers to short-term deposits, with high liquidity, classified as financial instruments at fair value through profit and loss, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These deposits refer substantially to overnight deposits, with low interest calculated over resources kept in bank account for short periods, with interest of 37.4% of the Brazilian Interbank Deposit rate - CDI (in 2015, 93.4% of the Brazilian Interbank Deposit rate - CDI, applicable mainly to investments under repurchase agreements, with immediate liquidity).

7 Deposits

	R$	
	31/12/2016	**31/12/2015**
Deposits with brokers (*)	2,418	3,478
	2,418	3,478

(*) Refers to deposits made as margin requirements, classified as financial instruments at fair value through profit and loss, with brokers responsible for derivative financial instrument operations, especially green coffee sell and buy options.

8 Trade receivables

	R$	
	31/12/2016	**31/12/2015**
National customers:		
Third parties	407,888	315,356
Foreign customers	17,282	13,829
Related parties (Note 12)	892	1,427
	426,062	330,612
Less:		
Provision for discounts (a)	(28,148)	(20,059)
Subtotal	397,914	310,553
Provision for doubtful debt accounts (b)	(4,445)	(5,901)
	393,469	304,652

(a) Refers to discounts calculated based on volume rebates.

(b) Provision calculated based on an assessment of past due receivables, adjusted according to an individual analysis of the main customers with overdue debts, considering Management knowledge of the market and collection past record.

The aging of trade receivables at the reporting date was

	R$	
	31/12/2016	**31/12/2015**
Not past due	374,220	288,904
Past due 1 to 30 days	16,575	13,284
Past due 31 to 60 days	1,180	1,652
Past due 61 to 90 days	919	540
Past due 91 to 120 days	340	169
More than 120 days	235	103
	393,469	304,652

The movement in the allowance for doubtful debt accounts during the period was:

	R$	
	2016	**2015**
Balance at 1 January	(5,901)	(3,958)
Provision in the year	(5,715)	(3,297)
Write-offs	7,171	1,354
Balance at 31 December	(4,445)	(5,901)

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated, and there is a low level of concentration with the biggest customers. The biggest customer represents 6.27% of 2016 gross revenue (5.67% in 2015).

9 Inventories

	R$	
	31/12/2016	**31/12/2015**
Finished goods	271,298	175,332
Work in progress	162	237
Raw material	36,449	27,169
Packaging and other materials	28,335	25,590
Import in progress	19,116	12,892
Advances to suppliers	2,488	22,806
Other	19,315	13,257
	377,163	277,283
Carrying amount of inventory pledged as security for financial liabilities (including variable lien)	7,175	12,322

In 2016 the write-down of inventory to net realizable value amounted to R$ 815 (2015: R$ 1,581), recorded in the statements of income, as cost of sales.

Inventory includes spare parts and maintenance equipment, which will be used up within one year.

Inventory balances are presented net of provision for obsolescence.

10 Recoverable taxes

	R$	
	31/12/2016	**31/12/2015**
Tax recoverable:		
State VAT - ICMS	27,068	10,191
Federal VAT - PIS and COFINS	9,172	8,548
Other	1,558	74
Total	37,798	18,813

State VAT recoverable is mainly due to operations where advanced VAT was paid at the moment of the goods receipt in the State. However, for those cases where the presumed operation has not taken place due to goods movement to another State, the Company is entitled to a reimbursement of such VAT paid in advance to the State Government (mainly Piauí and São Paulo).

In addition to the above, for green coffee acquisitions in Varginha and Manhuaçu, by means of government auctions, where the State VAT of 18% needs to be paid on the purchased amount, it is accumulated as VAT recoverable.

Due to increase in green coffee prices, Management decided to increase inventory coverage, which led to higher State VAT balance as of 31 December 2016.

Federal VAT amounts are due to credits on purchases of packaging materials and freight services linked to local market sales with zero tax rate, as well as presumed credit on green coffee export revenue.

Other refers mainly to IPI credits accumulated at the Frisco factory, transferred from non-current assets.

Federal VAT and IPI balances are quarterly compensated with payable amounts due to other taxes managed by Brazilian Federal Revenues.

11 Other current and non-current assets

	R$	
	31/12/2016	**31/12/2015**
Assets:		
Advances to suppliers	584	1,756
Advances to employees	2,217	2,117
Prepaid expenses	11,339	9,439
Special Bank Deposit for reinvestment	3,175	2,772
Non-current taxes	1,117	6,471
Long-term deposit	2,865	200
Sundry	583	1,497
	21,879	24,252
Current assets	(14,114)	(14,117)
Non-current assets	7,765	10,135

Non-current taxes have decreased mainly due to IPI credits accumulated at the Frisco factory until December 31, 2015. Starting in 2016, Management decided to continue compensation of those credits, which were transferred to current assets as recoverable taxes.

12 Related parties

The Group's related parties are the parent companies of 50% shareholding each, related parties of the parent companies, investee companies of both the Group and the parent companies and members of the Board, senior Management and their close family members, of both the Group and the parent companies.

The prices and credit terms in respect of transactions with related parties are determined according to customary commercial terms.

	R$	
	31/12/2016	**31/12/2015**
Current assets		
Trade receivables (Note 8)		
Strauss Commodities AG	892	1,427
	892	1,427
Non-current assets		
Loans to related parties		
3Caffi Indústria e Comércio de Cápsulas S.A.	7,908	-
	7,908	-
Current liabilities		
Trade payables (Note 17)		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	4,822	4,268
	4,822	4,268
Proposed dividends (Note 24.d)		
Strauss Coffee B.V.	29,634	50,000
São Miguel Fundo de Investimento em Participações	29,634	50,000
	59,268	100,001
Interest on equity payable (Note 19)		
Strauss Coffee B.V.	21,969	-
São Miguel Fundo de Investimento em Participações	21,969	-
	43,938	-
	108,028	104,269
Non-current liabilities		
Proposed dividends (Note 24.d)		
Strauss Coffee B.V.	-	17,274
São Miguel Fundo de Investimento em Participações	-	17,274
	-	34,548
Profit or loss		
Revenue		
Strauss Commodities AG	4,677	5,203
	4,677	5,203
Cost of sales		
Strauss Commodities AG	4,388	4,439
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	1,993	1,777
	6,381	6,216
Sales and general and administrative expenses		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	2,966	2,844
	2,966	2,844

a. Trade receivables, trade payables and sales

Trade receivables, trade payables and sales balances with related parties are due to operations of purchase and sale of goods. Part of the facilities used by the Group is leased from Três Corações Imóveis Armazéns Gerais e Serviços Ltda.

b. Loans to related party

Refers substantially to loans to 3Caffi Indústria e Comércio de Cápsulas S.A., for the construction of the capsule factory. These loans have due date of 181 days, with interest of 100% of the Brazilian Interbank Deposit rate - CDI.

13 Investments

a. Societary structure

The previously directly controlled 3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi") became a joint-venture in 2016, with the participation of shareholder Caffitaly System S.p.A., which started to share the Company control, both Companies with 50% share.

b. Investment balance composition

	R$	
	31/12/2016	**31/12/2015**
3Caffi Indústria e Comércio Ltda.	4.211	-
	4.211	-

c. Investment movement

	R$	
	31/12/2016	**31/12/2015**
Balances in 1 January	-	-
New investments	4,605	-
Equity method	(394)	-
Balances at 31 December	4,211	-

d. Joint-venture information

	R$	
	3Caffi	
	31/12/2016	31/12/2015
Assets		
Current	2,140	10
Non-current	35,917	-
	38,057	10
Liabilities		
Current	20,017	-
Non-current	9,618	-
Equity	8,422	10
	38,057	10
Profit and Loss		
Revenue	-	-
(-) Cost of sales	-	-
(=) Gross profit	-	-
Other expenses, net	(701)	-
(=) Profit before income tax	(701)	-
(-) Income tax expenses	(87)	-
(=) Profit for the year	(788)	-

e. Endorsements, guarantees andmortgages, granted in favor of joint venture

The Company granted endorsements in favor of the joint venture, with balances on 31 December 2016 listed below:

	R$
	31/12/2016
Type of endorsement	**3Caffi**
Legal entity endorsement	4,324
	4.324

14 Fixed assets

	R$					
Cost	**Land and buildings**	**Machinery and equipment**	**Vehicles**	**Furniture and other equipment**	**Leasehold improvements**	**Total**
Balances as of 31 December 2014	47,604	166,506	49,483	42,844	25,079	331,516
Additions	3,030	19,254	1,529	11,946	6,573	42,332
Cafeteria acquisition (Note 2)	-	-	-	68	-	68
Disposals	(142)	(6,146)	(714)	(2,238)	(60)	(9,300)
Transfer between classes of assets	33	66	(250)	1,413	54	1,316
Effect of changes in exchange rates	5,613	(1,350)	(124)	(64)	568	4,643
Balances as of 31 December 2015	56,138	178,330	49,924	53,969	32,214	370,575
Additions	2,531	14,084	2,910	10,863	6,983	37,371
Interest capitalization	930	-	-	-	-	930
Disposals	-	(45)	(811)	(1,752)	(54)	(2,662)
Transfer between classes of assets	129	(60)	(15)	3,140	557	3,751
Effect of changes in exchange rates	(3,659)	(941)	(10)	(4)	(191)	(4,805)
Balances as of 31 December 2016	56,069	191,368	51,998	66,216	39,509	405,160
Accumulated depreciation						
Balances as of 31 December 2014	(7,470)	(66,224)	(23,148)	(19,311)	(4,145)	(120,298)
Additions	(722)	(11,054)	(5,116)	(4,734)	(930)	(22,556)
Disposals	45	2,781	531	450	33	3,840
Transfer between classes of assets	31	(202)	(165)	309	(373)	(400)
Effect of changes in exchange rates	(1,312)	1,362	109	57	(243)	(27)
Balances as of 31 December 2015	(9,428)	(73,337)	(27,789)	(23,229)	(5,658)	(139,441)
Additions	(879)	(11,416)	(5,455)	(6,296)	(1,029)	(25,075)
Disposals	-	12	780	388	44	1,224
Transfer between classes of assets	(23)	(18)	(91)	(106)	(44)	(282)
Effect of changes in exchange rates	521	94	-	2	88	705
Balances as of 31 December 2016	(9,809)	(84,665)	(32,555)	(29,241)	(6,599)	(162,869)
Balance net as of						
31 December 2015	46,710	104,993	22,135	30,740	26,556	231,134
31 December 2016	46,260	106,703	19,443	36,975	32,910	242,291

The cost of significant machine overhauls, which prolongs the useful life of the machine, is capitalized.

Leasehold improvements to leased premises are depreciated over the shorter of the expected lease period or the estimated useful life of the asset.

The balance of the trade payables due to fixed assets purchased as of 31 December 2016 is R$ 1,857 (R$ 2,106 as of 31 December 2015), and the balance of loans and borrowings due to fixed assets purchased, including interests, as of 31 December 2016 is R$ 28,886 (R$ 30,271 as of 31 December 2015).

In the year ended 31 December 2016, the amount of R$ 3,454 (R$ 1,267 in the year ended 31 December 2015), regarding TRES machines lent to customers, was transferred from inventories to fixed assets.

The Group did not lease any land or buildings as of 31 December 2016 or 31 December 2015, except for operational leases with Três Corações Imóveis Armazéns Gerais e Serviços Ltda.

15 Intangible assets and goodwill

	R$				
Cost	**Brands and trademarks (*)**	**Computer software**	**Goodwill**	**Other**	**Total**
Balances as of 31 December 2014	2,198	16,245	182,266	6,936	207,645
Additions	-	4,279	14	1,858	6,151
Cafeteria acquisition (Note 2)	-	-	1,194	-	1,194
Provision for impairment (Note 2)	-	-	(1,194)	-	(1,194)
Transfer between classes of assets	1,099	2	(6,699)	5,600	2
Effect of changes in exchange rates	-	(9)	-	(18)	(27)
Balances as of 31 December 2015	3,297	20,517	175,581	14,376	213,771
Additions	113	4,166	-	1,175	5,454
Iguaçu acquisition (Note 2)	11,000	-	28,182	34,400	73,582
Transfer between classes of assets	-	(2)	-	-	(2)
Balances as of 31 December 2016	14,410	24,681	203,763	49,951	292,805
Accumulated amortization					
Balances as of 31 December 2014	-	(9,444)	-	(6,065)	(15,509)
Additions	(300)	(2,312)	-	(794)	(3,406)
Transfer between classes of assets	-	400	-	(51)	349
Effect of changes in exchange rates	-	-	-	14	14
Balances as of 31 December 2015	(300)	(11,356)	-	(6,896)	(18,552)
Additions	(360)	(2,887)	-	(2,537)	(5,784)
Transfer between classes of assets	(13)	-	-	-	(13)
Balances as of 31 December 2016	(673)	(14,243)	-	(9,433)	(24,349)
Balance net as of					
31 December 2015	2,997	9,161	175,581	7,480	195,219
31 December 2016	13,737	10,438	203,763	40,518	268,456

(*) Only brands and trademarks acquired as a result of 3Corações Sul acquisition (incorporated by Três Corações) have definite useful life.

Additions to computer software refer to software acquired by the Company for use in automated process and software licenses acquired, such as:

- In 2016, mainly SAP licenses, Microsoft licenses, SAP business planning and consolidation (BPC), SAP QM module (quality), Warehouse Management System, and the SAP GRC access control update.

- In 2015, mainly SAP licenses, SAP business planning and consolidation (BPC), success factors used for performance evaluation, EGT-I for process of goods import and export, bank reconciliation and the SAP GRC access control update.

Impairment testing

As of 31 December 2016 intangible assets include an amount of R$ 216,103 that is attributable to brands (except for those acquired in 3Corações Sul business combination) and goodwill, having an indefinite useful life (31 December 2015 - R$ 177,078). These assets were assessed as having an indefinite useful life since according to an analysis of the relevant factors, there is no foreseeable limitation of the period they are expected to generate positive cash flows for the Group.

The relevant factors that were analyzed included, inter alia, the length of time the brand or trademark is anticipated to be used; the existence of legal or contractual restrictions on their use; a review of the typical life cycle of similar branded products; the existence of indicators of changes in life style, competitive environment, market requirements and industry trends, the sales history of products of the same brand and the awareness of the market of the brand name or trademark.

Impairment loss

The Company tests annually the recoverable amounts of goodwill and brands from business combination transactions. Property, plant and equipment and definite life intangible assets that are subject to depreciation and amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Management analyses the business and makes decisions based on two different cash generating units: green coffee and internal market. All goodwill is allocated to the internal market, as there were no acquisitions associated to the green coffee business.

The recoverable amounts of the cash-generating units are based on the calculation of their value in use. These calculations use cash flow projections that are based on the most current three-year strategic operating plans (SOP) of the relevant unit.

The cash flows for remaining periods are calculated using the relevant growth rate, which takes into account the anticipated growth rates of the category, industry, country and population. The estimated long-term growth rate was 3.0% in 2016 and of 3.0% in 2015. The projected cash flows were discounted according to pre-tax discount rates of 9.6% in 2016 and of 9.4% in 2015. Both 2016 and 2015 projected cash flows were prepared without inflation effects.

These discount rates reflect also the risk of the cash-generating units in each relevant year.

In 2016 and 2015, the Group did not recognize any impairment loss from the operation, except for the one mentioned in Note 2 as a result of the Cafeteria acquisition.

16 Short and long term loans

a. Loans schedule

	Annual interest rate		Index	R$	
	31/12/2016	**31/12/2015**		**31/12/2016**	**31/12/2015**
Brazilian reals loans and borrowings					
Loans for acquisition of machines and vehicles	5.94	5.41	TJLP	28,886	30,271
Incentivized loan for projects in development regions (FNE)	7.50	7.50	-	6,883	12,298
Working capital loans	14.03	14.68	CDI	191,206	113,374
Loans for acquisition of green coffee	9.73	9.11	-	56,928	59,744
				283,903	215,687
United States dollar loans and borrowings					
Loans for acquisition of inventories (ACC)	2.26	1.28	-	116,331	106,065
Loans for acquisition of inventories (PPE)	3.15	3.15	-	32,813	39,297
Working capital loans	-	3.15	-	-	17,740
				149,144	163,102
Total loans and borrowings				433,047	378,789
(-) Current liabilities				(298,804)	(194,222)
(=) Non-current liabilities				134,243	184,567

There are no debt covenants on the Group's loans and borrowings contracts with the banks.

b. Non-current payment schedule

	R$	
	31/12/2016	**31/12/2015**
13 to 24 months	116,317	57,964
25 to 36 months	5,290	111,144
37 to 48 months	4,923	4,407
49 to 60 months	3,854	4,037
Thereafter	3,859	7,015
	134,243	184,567

c. Guarantees

The following liens have been provided as security for the liabilities of the Group:

	R$	
	31/12/2016	**31/12/2015**
Pledges registered in favor of the banks	57,413	53,506
Mortgages registered in favor of the banks	29,263	29,263
	86,676	82,769

17 Trade payables

	R$	
	31/12/2016	**31/12/2015**
National suppliers	124,593	84,460
National Related party suppliers (Note 12)	4,822	4,268
Foreign suppliers	21,728	12,452
	151,143	101,180

18 Employees and other payroll related liabilities

	R$	
	31/12/2016	**31/12/2015 (Reclassified)**
Payroll and related charges	6,814	5,861
Provision for vacation	22,426	19,867
Provision for variable remuneration	12,081	7,054
Other	813	1,094
	42,134	33,876

The Group Employees benefits' treatment is in accordance with local legal requirements. These requirements mainly call for and are limited to monthly contributions to Social Security funds (INSS, FGTS). The Group has no obligations under defined benefits or defined contribution plans. The Group offers other short-term benefits to its employees, which are expensed when incurred.

19 Interest on equity payable

The Company, in Extraordinary Shareholders' Meeting held on 30 December 2016, approved recommendation of the Board of Directors for the distribution of Interest on equity for the year ended 31 December 2016, in the amount of R$ 47,500, to be paid beforethe end of 2017.

On the amount mentioned above, there is shareholders' income tax to bewithheld at source, in the amount of R$ 3,562, already reduced from the Interest on equity payable balance.

20 Payable taxes

	R$	
	31/12/2016	**31/12/2015**
Tax payable:		
State VAT - ICMS	21,824	14,202
Federal VAT - PIS and COFINS	95	248
IRRF	3,563	-
Other	2,242	1,921
Total	27,724	16,371

21 Other current and non-current liabilities

	R$	
	31/12/2016	**31/12/2015**
Liabilities:		
Advances from customers	1,122	1,070
Accounts payable for acquisition of operations - Iguaçu	21,535	
Accounts payable for acquisition of operations - Polo	-	3,424
Accounts payable for acquisition of operations - Fino Grão	2,799	2,498
Accounts payable for acquisition of operations - Cafeteria	-	100
Other provision - marketing services	1,945	10
Provision for insurance	-	1,646
Payable for acquisition of fixed assets	1,857	2,106
Handling commission	522	1,632
Provision for freights	2,091	1,479
Provision for lawyers´ fees	1,942	1,512
Sundry	5,087	7,762
Total	38,900	23,239
Current liabilities	(36,335)	(23,239)
Non-current liabilities	2,565	-

22 Provision for legal proceedings

Based on information from its legal advisors, an analysis of the pending legal proceedings, and previous experience with regards to amounts claimed, the Group recorded provisions for amounts considered sufficient to cover probable losses from current legal proceedings. The amounts of probable and possible losses with respect to legal and administrative actions against the Group are as follows:

	R$					
	31/12/2016			31/12/2015		
	Probable loss	**Possible loss**	**Remote loss**	**Probable loss**	**Possible loss**	**Remote loss**
Labor*	14,748	52,559	121,446	16,541	33,140	76,192
Tax**	4,255	22,120	149,971	3,785	17,727	156,368
Civil	515	8,139	8,475	362	5,720	6,940
	19,518	82,818	279,892	20,688	56,587	239,500

(*) The Company and its subsidiaries are parties to a number of labor claims filed by former employees and service providers challenging, among other things, unpaid overtime, night shift premiums and risk premiums, employment guarantees, and the reimbursement of withholdings from payroll such as social contributions and trade union charges, among others. As of 31 December 2016, total quantity of labor claims was 476 (401 as of 31 December 2015).

(**) Tax claims details by type are demonstrated in the following table

	R$					
	31/12/2016			**31/12/2015**		
	Probable loss	**Possible loss**	**Remote loss**	**Probable loss**	**Possible loss**	**Remote loss**
State VAT - ICMS	1	10,525	16,654	29	11,544	5,479
Federal VAT - PIS/COFINS/IPI	3,931	6,676	103,310	3,645	6,057	119,130
Income taxes (IRPJ/CSLL)	-	-	25,856	-	-	23,817
Social contribution (INSS)	-	4,781	3,542	-	-	7,426
Other	323	138	609	111	126	516
	4,255	22,120	149,971	3,785	17,727	156,368

The main legal claims are listed below:

- Goodwill amortization - tax authorities claim that the Group does not meet all criteria to deduct Goodwill amortization for tax purposes. The Group and its tax advisors are of the opinion that the Group is entitled to the full tax relief of the Goodwill amortization and there is no need to record any liability. As of 31 December 2016 the amount of the legal claim was R$ 25,856 (R$ 23,817 as of 31 December 2015). The claim amount increased due to interest incurred;

- Investment subsidies - revenues arising from investment subsidies granted by the Government are not subject to taxation, according to Brazilian tax laws. However, tax authorities claim that the tax incentives granted to the Group should not be classified as investment subsidies. The Company and its tax advisors are of the opinion that the incentives granted are, indeed investments subsidies and there is no need to create a provision. In May 2013, the Group had favorable outcome in the first administrative instance, but the Government contested the ruling at the second administrative level. In November 2016, tax authorities have not contested the ruling at the final instance within the legal time period, this way finishing the judicial demand (As of 31 December 2015 the amount of this legal claim was R$ 12,139);

- Federal VAT (PIS/COFINS) credits - tax authorities claim that the Group (together with most other coffee companies in Brazil) had purchased green coffee from de facto, but not legally constituted companies in order to receive more PIS and COFINS credits and demand the difference between the total credit and the presumed credit, which amounted as of 31 December 2016 to R$ 57,702 (R$ 56,518 as of 31 December, 2015). Part of the total amount, R$ 1,751 (R$ 1,622 as of 31 December 2015), had its risk of loss reviewed to probable, and was provisioned in December 2016. Another part of the total amount, R$ 3,496 (R$ 2,592 as of 31 December 2015) was classified as possible loss. For the remaining amount, the Group and its tax advisors are of the opinion that there is no need to record any liability. The increase is due to interest incurred.

- Federal excise tax (IPI) - tax authorities claim the tax treatment applied, in respect to federal tax IPI - tax on certain industrialized goods (powder juice) was incorrect. According to the Company's understanding of the regulation, powder juice is a product classified as entitled to zero IPI tax. According to the tax authorities, the Company should have used tax rates of 27% for the period from January 2011 to December 2011, 20% for the period from January 2012 to May 2012 and 10% since June 2012. The total updated claim, as of 31 December 2016 is

R$ 37,537 (R$ 34,039 as of 31 December 2015). The Group and its tax advisors are of the opinion that there is no need to record any liability. The increase is due to interest incurred.

The legal claims detailed above, except for the mentioned part of the Federal VAT (PIS/COFINS) claim, are classified as remote loss as of 31 December 2016 and 2015.

Changes in provision for legal proceedings during the year

	R$	
	2016	**2015**
Balance as of 1 January	20,688	17,308
Provisions made during the year	1,577	6,782
Legal proceedings closed during the year	(2,747)	(3,402)
Balance as of31 December	19,518	20,688

Judicial deposits

The Group has, as of 31 December 2016, the amount of R$ 8,780 of judicial deposits (R$ 8,799, reclassified, as of 31 December 2015). These deposits were required by courts associated to various open legal proceedings and comprise a number of individual case deposits of smaller amounts.

23 Income taxes and social contribution

a. Amounts recognized in profit and loss

	R$	
	31/12/2016	**31/12/2015**
Current taxes	38,616	25,054
Deferred taxes	6,115	(11,039)
Tax in income statement as of 31 December	44,731	14,015

b. Reconciliation of effective tax rate

	R$	
	31/12/2016	**31/12/2015**
Income before taxes on income	233,539	186,035
Income tax expenses (34%)	79,403	63,252
Adjustments to reconcile to effective tax rate:		
State VAT incentives	(18,483)	(17,484)
Foreign exchange effects of foreign operation	4,778	(13,902)
Benefit of Goodwill amortization for tax purposes	(2,401)	(2,959)
Federal incentive - "Exploration profit"	(7,986)	(10,558)
Federal incentive - "Re-investment"	(480)	(634)
Interest on equity credited	(16,500)	-
Benefit of previously unrecognized Carryforward tax losses at subsidiary	-	(2,031)
Recognition of deferred tax assets on Carryforward tax losses	-	(9,915)
Incineration of goods and inventory write-offs	2,638	4,477
Other	3,412	3,769
Tax in Income Statement	44,731	14,015
Effective tax rate	19.15%	7.53%

c. Deferred income tax assets and liabilities

Temporary differences	Basis	Income tax (*)	Social contribution (9%)	R$ 31/12/2016	R$ 31/12/2015
Provision for legal proceedings	19,521	3,936	1,757	5,693	5,884
Inventory adjustments	3,665	668	330	998	1,149
Provision for doubtful debt accounts	4,579	851	412	1,263	1,591
Hedging transactions	24,007	4,841	2,161	7,002	(486)
Provision for discounts	28,867	5,323	2,598	7,921	5,642
Provision for variable remuneration	14,906	2,741	1,342	4,083	1,873
Provision for revenue recognition	3,234	554	291	845	500
Fixed assets revaluation	(5,324)	(1,331)	(479)	(1,810)	(1,359)
Goodwill amortization	(92,263)	(12,151)	(8,304)	(20,455)	(20,455)
Carryforward tax losses	16,796	4,060	1,651	5,711	15,218
Exchange rate variation cash basis	22,889	(4,470)	(2,060)	(6,530)	-
Profit elimination on inventory	3,761	868	338	1,206	1,220
Other	(1,901)	(681)	(311)	(992)	1,123
Total net deferred tax	(3,041)	5,209	(274)	4,935	11,900
Non-current assets				14,299	23,324
Non-current liabilities				(9,364)	(11,424)

(*) Income tax rate (excluding the Social contribution) is 25%, applicable to all Group's subsidiaries. However, as the Company has tax incentives (see Note 24.e), the Group´s future average income tax rate expected to be applied when the deferred tax is realized or settled, is 13.17%.

In assessing the recoverability of deferred tax assets, Management estimates future taxable income and the timing of reversal of the temporary differences. When it is more likely than not that a part or all of the deferred tax assets are not recoverable, such a portion is not recorded by the Company. Under Brazilian tax law, tax loss carry forwards (including those of the Social contribution) do not expire, however, their use is limited to up to 30% of annual taxable income and they do not benefit from any interest or monetary correction.

Considering the occurrence of taxable profit in recent years, the Group assessed the future taxable profits in order to calculate deferred tax asset on accumulated losses. One of the Group subsidiaries, Café Três Corações S.A., has as of 31 December 2016, R$ 16,796 (31 December 2015, R$ 44,760) of accumulated losses. The Group concluded that it is more probable than not that the full amount of R$ 16,796 of accumulated losses will be used in the foreseeable future, which corresponds to a deferred tax asset of R$ 5,711.

Other subsidiary, Principal Comércio e Indústria de Café Ltda. has, as of 31 December 2016, R$ 7,945 of accumulated losses. However, due to history of recent losses, it is more probable than not that in the foreseeable future the accumulated losses will not be used.

24 Equity

a. Share capital

As of 31 December 2016 and 2015, Três Corações Alimentos S.A.´s share capital is comprised of the following:

	R$		
Shareholders	**31/12/2016**	**31/12/2015**	**%**
Strauss Coffee B.V.	136,184.9	136,184.9	50%
São Miguel Fundo de Investimento em Participações	136,184.9	136,184.9	50%
	272,369.8	272,369.8	

Share capital as of 31 December 2014 was comprised of 27,166,897,167 shares with a nominal value of R$ 0,01 (one cent) each. On 29 June 2015, an increase in share capital with resources from tax incentive of re-investment, in the amount of R$ 701 took place. As a result, 70,088,254 shares with a nominal value of R$ 0.01 (one cent) were issued.

b. Translation adjustments

Management decided to use two different functional currencies, according to IAS 21 - Effects of changes in foreign exchange rates. For internal market operations, the functional currency is the Brazilian real (R$). For the green coffee export activity, the functional currency is the United States dollar (US$).

Management assessed the Company operations in order to present its green coffee export activity as a "foreign operation", as established by IAS 21 - Effects of changes in foreign exchange rates, and, thereby, could apply separate accounting for the purposes of consolidation.

The main reasons to treat the green coffee export activity as a separated operation were:

- The export activity has its own Management, which is considered independent in terms of decisions about green coffee purchases and sales (export entity).

The exchange rate effects recorded in the translation adjustments arise from the following assets and liabilities, for the years ended on 31 December 2016 and 2015:

	R$		
31/12/2016	**Três Corações Alimentos**	**Café Três Corações**	**Total**
Inventories	-	(3,682)	(3,682)
Fixed assets	(3,231)	(869)	(4,100)
Trade receivables	-	(2,023)	(2,023)
Derivatives	(90)	(211)	(301)
Cost of sales	-	450	450
Loans and borrowings	-	15,928	15,928
Total	(3,321)	9,593	6,272

	R$		
31/12/2015	**Três Corações Alimentos**	**Café Três Corações**	**Total**
Inventories	-	(641)	(641)
Fixed assets	3,701	915	4,616
Intangible assets	(13)	-	(13)
Trade receivables	-	12,197	12,197
Derivatives	272	473	745
Cost of sales	-	610	610
Loans and borrowings	-	(54,440)	(54,440)
Total	3,960	(40,886)	(36,926)

c. Revaluation reserve (subsidiary)

Created at the subsidiary Café Três Corações S.A., based upon valuation report issued by independent specialists, the revaluation reserve is being realized through depreciation or disposal of the revalued assets against retained earnings, net of tax effects.

Management decided to maintain the revaluation reserve balance until its full realization, according to Brazilian Law 11,638/07.

d. Dividends

Dividends are calculated in accordance with the terms agreed upon in the Shareholders´ Agreement, with rate of 35% over net income, adjusted by financial results. This amount is provisioned as proposed dividend in the balance sheet, subject to the approval by the General shareholders meeting.

On 7 June 2016, the dividends related to 2015 profits were approved by the General shareholders´ meeting in the amount of R$ 66,898, which represents additional R$ 1,445 when compared to the original provision, made in December of 2015 based upon Management's proposal at the time. Part of the approved dividends was paid in two installments, in the amount of R$ 1,445 each, in June 2016 and the remaining amount, R$ 65,453, was paid in December 2016.

Still in June 2016, the first half of the remaining dividends from the year ended on 31 December 2014, in the amount of R$ 34,547 was paid. The remaining half, R$ 34,548, will be paid in June 2017. The Management's proposal for the 2016 profit destination is to pay dividend in the amount of R$ 24,720 in December 2017, after the credit of interest on equity, in the amount of R$ 47,500.

e. Retained earnings

Legal reserve

Created at the rate of 5% on profit for the year, limited to 20% of share capital, as shown below:

	R$	
	31/12/2016	**31/12/2015**
Profit for the year (*)	189,852	173,804
	5%	5%
Legal reserve (*)	9,493	8,690

(*) The reserve is calculated based on Três Corações Alimentos S.A. *per solo* profit above, which is different from the consolidated one due to the elimination of un-realized profit in intercompany transactions, in the amount of R$ 1,044 in 2016. In 2015, the amount of un-realized profit in intercompany transaction eliminated was R$ 1,784.

This reserve can only be used for capital increases or absorption of losses.

Tax incentives reserve

Until 31 December 2007, all amounts of tax incentives were recognized in capital reserve, and starting 1 January 2008, due to changes implemented by Law 11,638/07, were recognized in profit or loss, and then designated to the tax incentives reserve. During the year ended 31 December 2016, the Company received government grants in the amount of R$ 36,740 (R$ 42,816 in the year ended 31 December 2015). The tax incentive reserve cannot be distributed as dividends. If the Company distributes it in the future, the amounts have the following treatment depending on the incentive:

- Federal incentives - the amount of income taxes not paid and distributed as dividends, must be paid as back taxes, as if there was no incentive;

- Other incentives - the amount distributed must be added back to the taxable income used for calculating income tax and social contribution, under a combined rate of up to 34% in the period of the distribution, and will be also subject to PIS and COFINS taxes (currently 9.25%) on the distributed amount.

These government incentives are as follows:

PROVIN - Ceará State

The Government of the State of Ceará, in accordance with the state public policies geared towards promoting the industrial development of Ceará, decided to provide financial assistance for the investments necessary for installation of the industrial unit in the city of Eusébio, State of CE. The incentive consists of the postponement of payment of the ICMS state VAT tax and the deduction of 56.25% of total sales of roasted and ground coffee. The incentive is valid until July 2018. In order to maintain the incentive, the Company committed to: (a) finalize appropriately the investment project; (b) utilize the incentives exclusively for the project; (c) have no overdue tax and labor obligations; (c) keep the headquarters in the State of Ceará and have no changes in the Company's ownership involving third parties for the duration of the incentive contract, currently until July of 2018.

PROADI - Rio Grande do Norte State

The government of the State of Rio Grande do Norte, in the interest of the development of this State, decided to grant financial assistance to the investments necessary for the Group industrial units in the cities of Natal and Mossoró. The benefit consists of the postponement of payment of the tax and the subsequent deduction of up to 75% of ICMS state VAT payable. In order to maintain the incentive, the Company committed to have no overdue tax and labor obligations and keep the plants related to the project in the State of Rio Grande do Norte.

The incentives are valid at least until March 2020 (Mossoró unit) and October 2018 (Natal unit).

Other

The Group has received certain tax incentives and special tax regimes also in other Brazilian states.

State Tax Stability Funds (FEEF)

A requirement of maintaining the necessary tax balance, considering Brazilian economic scenario, led the Federal Government to provide for establishment of the State Tax Stability Funds (FEEF). The funds establish temporary additional VAT tax payments, to be made by companies with existing tax incentives granted by the individual states.

Considering state tax incentives applicable to the Group, only Ceará and Paraíba States' regulations are applicable at this time. The Ceará FEEF is applicable during 24 months, from 1st of September, 2016 to 31 August, 2018 and the Paraíba FEEF during 30 months, starting 1st of October, 2016 to February 2019, and may be extended for thirty more months. On the other side, both states extend the subject tax incentives for an additional period equal to the period of this temporary collection - in case of Paraíba - and for double of such period in case of Ceará.

The Fund's purpose is to assure a minimum increase of 10% in VAT payments of incentivized companies. This way, in case VAT payable amount of a specific month has increased less than 10% compared to the same month in previous year, an additional payment must be made in order to achieve the minimum 10% of total increase.

In the year ended 31 December 2016, total contributions to FEEF were R$ 256.

Federal incentive - "Re-investment"

The Group is allowed to allocate part of its income tax payable to capital investments. The projects associated with these investments are submitted to the authorities' approval.

The allocated amount is recognized in profit or loss at the moment of the Group's decision to proceed, since there is reasonable assurance the grant will be approved.

Federal incentive - "Exploration profit"

The Group benefits from the income tax exemption of 75% of the operating income derived from its main activities at the units of Eusébio (State of Ceará), Natal and Mossoró (State of Rio Grande do Norte).

According to the rules for income tax government grants, until 2007 the amount, for local purposes, was charged directly to capital reserve - investment subsidy. Starting 2008, due to the effects of Law 11,638/07, the amount is charged to profit or loss, and then set aside from profit for the year to retained earnings - tax incentives.

Reserve for profit to be distributed

Management decided to create reserve for profit to be distributed, for the remaining profit after all destinations above.

25 Revenue

	R$	
	2016	**2015**
Gross revenue:		
Products - domestic	3,399,576	2,747,227
Products - foreign	236,143	240,329
Services	343	429
Other	217	194
Taxes on sales	(254,832)	(200,426)
Deductions	(278,573)	(247,630)
	3,102,874	2,540,123

26 Cost of sales by nature

	R$	
	2016	**2015**
According to source		
Cost of sales - domestic	(2,074,464)	(1,598,694)
Cost of sales - foreign	(211,684)	(201,871)
	(2,286,148)	(1,800,565)

	R$	
	2016	**2015**
According to components		
Materials consumed	(2,194,609)	(1,715,345)
Wages, salaries and related expenses	(42,238)	(38,557)
Depreciation and amortization	(11,479)	(10,284)
Services contracted	(8,311)	(10,837)
Maintenance	(5,556)	(6,048)
Other	(23,955)	(19,494)
	(2,286,148)	(1,800,565)

27 Selling and marketing expenses by nature

	R$	
	2016	**2015**
Wages, salaries and related expenses	(212,828)	(190,155)
Depreciation and amortization	(13,954)	(10,952)
Transport expenses	(82,428)	(83,083)
Export expenses	(4,853)	(5,444)
Services contracted	(35,653)	(33,586)
Marketing	(90,840)	(86,679)
Travel expenses	(7,524)	(8,697)
Other	(24,621)	(19,217)
	(472,701)	(437,813)

28 General and administrative expenses by nature

	R$	
	2016	**2015**
Wages, salaries and related expenses	(46,158)	(37,036)
Tax expenses	(4,488)	(5,083)
Depreciation and amortization	(5,869)	(4,726)
Services contracted	(20,568)	(18,198)
Provision for legal proceedings	1,136	(3,880)
Travel expenses	(3,514)	(3,242)
Other	(10,420)	(9,962)
	(89,881)	(82,127)

29 Finance expenses, net

	R$	
	2016	**2015**
Finance expenses		
Interest expenses	(3,332)	(1,330)
Interest on loans and borrowings	(28,120)	(19,973)
Exchange rate effect	3,288	(16,356)
Other	(4,402)	(3,237)
	(32,566)	(40,896)
Finance income		
Interest income	4,504	3,666
Interest from deposits	6,800	4,654
Sundry	22	-
	11,326	8,320
	(21,240)	(32,576)

30 Financial instruments and risk management

Financial instruments by category

	R$	
	31/12/2016	**31/12/2015 (Reclassified)**
Financial assets		
Financial instruments at fair value through profit or loss		
Short term deposits - Deposits in banks (Note 6)	34,462	92,405
Deposits with brokers (Note 7)	2,418	3,478
Loans and receivables		
Cash and cash equivalents (Note 6)	52,062	67,591
Trade receivables with third parties (Note 8)	392,577	303,225
Trade receivables with related parties (Note 8)	892	1,427
Other	28,958	24,824
Financial liabilities		
Financial liabilities measured at amortized cost		
Trade payables (Note 17)	151,143	101,180
Loans and borrowings (Note 16)	433,047	378,789
Other	140,984	156,718

Risk management

The Group is exposed to the following risks as a result of using financial instruments:

- Credit risk
- Commodity price risk
- Interest rate risk
- Foreign currency risk
- Liquidity risk
- Capital structure risk.

This note provides information regarding the exposure of the Group to these risks and regarding the policy of the Group for management of such risks.

Forward transactions sensitivity analyses are determined according to the changes in the price of the relevant underlying asset and interest differences deriving from interest rates and storage costs (for green coffee).

b. Credit risk

Credit risk is the risk of the Group incurring a monetary loss if a customer or counterparty does not meet its contractual obligations, and it derives mainly from debit balances of customers and cash and cash equivalents balances held at financial institutions. In order to mitigate this risk, the Group assesses the financial situation of its customers or counterparties, as well as defines credit limits and monitors outstanding debts and operates with first line financial institutions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	R$	
	31/12/2016	**31/12/2015 (Reclassified)**
Cash and cash equivalents (Note 6)	86,524	159,996
Deposits with brokers (Note 7)	2,418	3,478
Trade receivables (Note 8)	393,469	304,652
Other receivables	5,664	3,814
Other	11,955	11,571
	500,030	483,511

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated. The biggest customer represents 6.27% of 2016 gross revenue (5.67% in 2015).

In addition, provision for doubtful debt accounts amounts to R$ 4,445 as of 31 December 2016 (R$ 5,901 as of 31 December 2015), which represents 1.12% (1.90% as of 31 December 2015) of total trade receivables balance, to properly reflect the existing credit risk.

c. *Commodity price risk*

The prices of raw materials used in manufacture (primarily green coffee) of the Group's products are affected, among other things, by uncontrollable factors, such as weather conditions.

Green coffee export business

For its green coffee export activity, the Group covers it fixed future sales agreements by both physical inventory, fixed future purchase agreements and uses financial derivatives to a limited extent. Below is a table with the quantities of bags (60 kg each) which the Group was committed to purchase or sell in the future, as of 31 December 2016 and 2015:

	31/12/2016	**31/12/2015**
Purchase agreements:		
Fixed price	88,850	52,800
Sales agreements:		
Fixed price	117,987	101,960
Price to be fixed	160,360	1,920

Green coffee for the industry (internal market)

For its internal market production the Group principally seeks to manage its industry green coffee price exposure by managing its physical inventory of green coffee, its green coffee future purchases and only uses financial derivatives to a limited extent. When green coffee prices are attractive, the Group typically increases its coverage in advance of any expected price increases. Similarly, when green coffee prices are deemed high, the Group decreases its coverage of green coffee in anticipation of lower prices in the future. The Group coverage can normally range from as low as 2 months to up to 6 months.

Commodity financial derivatives - both green coffee export business and internal market

In prior years, the Group had engaged in future contracts and option contracts for the purchase and sale of commodities.

As of 31 December 2016 and 2015, there were no open derivatives positions and no sensitivity analysis was required. Management has focused its hedging for green coffee prices variations in purchase and sales agreements, presented above.

d. *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group does not use derivative financial instrument in order to reduce exposure to risks arising from changes in interest rates.

At the reporting date the interest rate profile of the Group's interest bearing financial instrument was:

	Carrying amount	
	31/12/2016	**31/12/2015**
	R$	
Fixed rate instruments		
Financial liabilities	(138,700)	(158,565)
Variable rate instruments		
Financial assets	36,880	95,883
Financial liabilities	(294,347)	(220,224)
Net exposure	(396,167)	(282,906)

Cash flow sensitivity analysis for variable rate instruments - CDI and TJLP
Changes in the interest rates as of the report date would increase (decrease) equity and the income or loss of the following period by the amounts presented below. This analysis was performed assuming that all the other variables remain the same.

	31 December 2016				
	Decrease of 2%	**Decrease of 1%**	**Annual weighted interest**	**Increase of 1%**	**Increase of 2%**
			R$		
Total	5,149	2,575	(12,313)	(2,575)	(5,149)

	31 December 2015				
	Decrease of 2%	**Decrease of 1%**	**Annual weighted interest**	**Increase of 1%**	**Increase of 2%**
			R$		
Total	2,487	1,243	(6,958)	(1,243)	(2,487)

Fair value sensitivity analysis for fixed rate instruments
Fixed interest assets and liabilities of the Group (such as deposits and loans) are not measured at fair value through profit or loss. Therefore, any change in the interest rate as of the report date would not have an effect on the statement of income.

Inflation rate
Brazilian inflation was 6.29% for the year ended 31 December 2016 as measured by the IPCA consumer price index of the independent Fundação Getúlio Vargas, which represents significant reduction from the 10.67% in 2015 and the Brazilian economy is not considered as hyperinflationary according to IAS 29 - financial reporting on hyperinflationary economies. However, Management is aware of the high inflation rates impact on the Group´s financial statements.

e. Foreign currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

	Exposure to US$	
	R$	
	31/12/2016	31/12/2015
Financial liabilities		
Short term loans and credit	(149,144)	(124,054)
Long term loans and credit	-	(39,048)
Total exposure	(149,144)	(163,102)

Sensitivity analysis to currency risk

Any change in the exchange rates of the principal currency, Brazilian Reals, versus foreign exchange rate currencies, mainly United States Dollars, as of 31 December would have increased (decreased) equity and the income or loss by the amounts presented below. This analysis was performed assuming that all the other variables remain the same and disregards use of hedging instruments and tax effects.

The sensitivity analysis relates to foreign currency risk arising from financial items denominated in foreign currency that is not the functional currency of the Group and its investee companies. Therefore, the foreign currency risk arising from the translation of financial statements of foreign operations, which is reflected in a translation reserve, is not included in this sensitivity analysis.

	31 December 2016				
	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
	R$				
Functional currency BRL/USD exchange rate	2.9332	3.0961	3.2591	3.4221	3.5850
Effect in R$ Thousand	14,914	7,457	(149,144)	(7,457)	14,914)

	31 December 2015				
	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
	R$				
Functional currency BRL/USD exchange rate	3.5143	3.7096	3.9048	4.1000	4.2953
Effect in R$ Thousand	16,310	8,155	(163,102)	(8,155)	(16,310)

The Group uses derivative financial instruments in order to reduce exposure to risks arising from changes in foreign currency exchange rates. As of 31 December 2016, the derivative financial instruments of the Group were as follows:

	Currency receivable	**Currency payable**	**Expiration/ Maturity/ sale**	**Face value R$**
Forward currency contracts	US$	R$	February/2017 and October/2017	21,735

Presented hereunder is a sensitivity analysis of the Group's derivative instruments (foreign currency) as of 31 December 2016 and 31 December 2015 in R$. Any change in the exchange rates of the principal currency, Brazilian Reals, versus foreign exchange rate currencies, mainly United States Dollars, as of 31 December, would have increased (decreased) the income or loss and the equity by the amounts presented below (in R$). This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	31 December 2016				
	Decrease of 10%	**Decrease of 5%**	**Exchange rate carrying amount**	**Increase of 5%**	**Increase of 10%**
			R$		
Functional currency BRL/USD exchange rate	2.9332	3.0961	3.2591	3.4221	3.5850
Effect of forwards	(2,200)	(1,100)	(10)	1,100	2,200

	31 December 2015				
	Decrease of 10%	**Decrease of 5%**	**Exchange rate carrying amount**	**Increase of 5%**	**Increase of 10%**
			R$		
Functional currency BRL/USD exchange rate	3.5143	3.7096	3.9048	4.1000	4.2953
Effect of forwards	(1,660)	(830)	110	830	1,660

f. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The following are the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements. This analysis is based on indices known as of 31 December, such as foreign exchange rates and interest rates.

	31 December 2016							
	Carrying amount	**Contractual cash flow**	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
				R$				
Non-derivative financial liabilities:								
BRL long term loan	134,243	150,264	-	131,551	5,659	5,141	3,966	3,947
BRL credit from bank	149,660	156,405	156,405	-	-	-	-	-
USD credit from bank	149,144	150,964	150,964	-	-	-	-	-
Trade payables	151,143	151,143	151,143	-	-	-	-	-
Other payables	79,912	79,912	79,912	-	-	-	-	-
Total	664,102	688,688	538,424	131,551	5,659	5,141	3,966	3,947

	31 December 2015							
	Carrying amount	**Contractual cash flow**	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
				R$				
Non-derivative financial liabilities:								
BRL long term loan	145,519	173,731	-	37,506	119,694	4,820	4,330	7,381
BRL credit from bank	70,168	73,206	73,206	-	-	-	-	-
USD long term loan	39,048	40,278	-	40,278	-	-	-	-
USD credit from bank	124,054	125,007	125,007	-	-	-	-	-
Trade payables	101,180	101,180	101,180	-	-	-	-	-
Other payables	56,045	56,045	56,045	-	-	-	-	-
Total	536,014	569,447	355,438	77,784	119,694	4,820	4,330	7,381

g. Capital structure management

Management policy is to maintain a solid capital base in order to maintain investors´ and market trust, as well as to maintain the future development of the business. Management monitors returns on capital, which the Group defines as the relation between operational profit and total equity. Management monitors as well the dividend amounts distributed to the shareholders.

Management seeks to maintain a balanced level of returns to the shareholders with low risk level of net debt and a healthy capital structure.

The Group's equity and working capital versus net debt at the end of each year are presented below:

	R$	
	31/12/2016	**31/12/2015**
Debt (Note 16)	433,047	378,789
Less: cash and cash equivalent (Note 6)	(86,524)	(159,996)
Net debt	346,523	218,793
Total equity	652,937	532,372
Equity/net debt ratio as of 31 December	1.88	2.43
Trade receivables (Note 8)	393,469	304,652
Inventories (Note 9)	377,163	277,283
Trade payables (Note 17)	(151,143)	(101,180)
Total working capital	619,489	480,755
Working capital/net debt ratio as of 31 December	1.79	2.20

Fair Value

As of 31 December 2016 and of 2015, the fair value of financial instruments, as well as the carrying amounts presented in the financial statements are identified below:

	R$			
	Carrying amount 31/12/2016	**Fair value 31/12/2016**	**Carrying amount 31/12/2015 (Reclassified)**	**Fair value 31/12/2015 Reclassified)**
Financial assets				
Short term deposits - Deposits in banks (Note 6)	34,462	34,462	92,405	92,405
Deposits with brokers (Note 7)	2,418	2,418	3,478	3,478
Cash and cash equivalents (Note 6)	52,062	52,062	67,591	67,591
Trade receivables with third parties (Note 8)	392,577	392,577	303,225	303,225
Trade receivables with related parties (Note 8)	892	892	1,427	1,427
Other	28,958	28,958	24,824	24,824
Financial liabilities				
Trade payables (Note 17)	151,143	151,143	101,180	101,180
Loans and borrowings (Note 16)	433,047	364,032	378,789	358,387
Other	140,984	140,984	156,718	156,718

The fair value of financial assets and liabilities is determined by reference to price at which they could be exchanged in a current transaction between parties willing to negotiate, and not in a forced sale or liquidation. The following methods and assumptions were used to estimate the fair value:

- Regarding derivative balances, the Group used the fair value reported in the brokers' statements, which is identified in the Fair value hierarchy as the Level 2 of source of information.
- The amounts of deposits presented in the financial statements as cash and cash equivalents are close to its realizable value because the operations are performed at variable interest rate and are immediately convertible to a determined amount of cash.
- The fair value of non-negotiable instruments, bank loans and other debts, as well as other non-current financial liabilities, are estimated using discounted future cash flows at the rates currently available for similar instruments.

Fair value hierarchy

The Company uses the following hierarchy to determine and disclose the fair values of financial instruments, based on the valuation methodology used:

- **Level 1:** quoted prices in an active market for identical assets and liabilities;

- **Level 2:** other techniques for which all of the data having a significant effect on the fair value recorded are observable, directly or indirectly;

  The fair value of assets and liabilities that are not quoted in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is considered as valued from Level 3 source of information.

  Specific valuation techniques that might be used to value financial instruments in general include:

(i) Quoted market prices or dealer quotes for similar instruments;

(ii) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

(iii) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

- **Level 3:** inputs for valuing a financial instrument that are not based on observable market data (that is, unobservable inputs). As of 31 December 2016 and 2015, the Group had no financial instruments classified at Level 3.

31 Insurance

The Group hires insurance coverage for assets exposed to risks. The Management believes the coverage is in an amount sufficient to cover eventual losses, considering the nature of the Group's activities.

On 31 December 2016, insurance coverage against operational risk comprised R$ 79,190 (R$ 89,414 on 31 December 2015) for material damage, R$ 128,348 (R$ 131,172 on 31 December 2015) for lost profits, R$ 3,500 (R$ 3,500 on 31 December 2015) for civil responsibility and R$ 15,000 (R$ 15,000 on 31 December 2015) for directors and members of the executive team civil responsibility.

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