STRAUSS GROUP LTD.

TABLE OF CONTENTS

STRAUSS GROUP LTD.

DESCRIPTION OF THE CORPORATION'S BUSINESS

UPDATE OF THE CHAPTER "DESCRIPTION OF THE COMPANY'S BUSINESS AFFAIRS" IN THE PERIODIC REPORT OF STRAUSS GROUP LTD. (HEREINAFTER: THE "COMPANY") FOR THE YEAR 2015[1] (HEREINAFTER: THE "PERIODIC REPORT")

Following is a description of material changes and/or developments that occurred in the Company's business in the nine months ended on September 30, 2016 and through to the date of publication of the report, which are required to be described in the Periodic Report in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970. This update refers to several sections in the chapter Description of the Company's Business Affairs as well as a number of regulations appearing in the chapter Additional Information on the Company in the Company's 2015 Periodic Report (**"Description of the Company's Business Affairs Report"** and **"Additional Information on the Company Report"**, respectively).

1. **Section 4 of the Description of the Company's Business Affairs Report, Dividend Distribution**

On July 7, 2016 the Board of Directors of the Company approved the distribution of a cash dividend to the shareholders of the Company. For information on said dividend distribution, see the Immediate Report of July 10, 2016 (reference number 2016-01-078250).

2. **Section 14 of the Description of the Company's Business Affairs Report, the International Dips & Spreads Segment**

On June 30, 2016 the Company announced that PepsiCo-Strauss Fresh Dips & Spreads International (**"Obela"**), an investee that is jointly controlled by Strauss and PepsiCo, 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 products and markets its products in Western Europe, particularly in the Netherlands, Germany and France. Florentin employs a staff of forty and operates a production site in Holland. According to Florentin's financial statements, its sales turnover in 2015 is estimated at approximately €5 million.

The acquisition represents the expansion of the dips and spreads operation into Western Europe.

For further information on the acquisition, see the Immediate Report of June 30, 2016 (reference number 2016-01-071689).

3. **Section 21 of the Description of the Company's Business Affairs Report, Human Capital**

Section 21.8, Officers and Managers – On September 26, 2016 the Meeting of Shareholders of the Company approved the proposed resolutions on the agenda, as follows: (1) Approval of the Company's revised remuneration policy; (2) Approval of the revision and extension of the conditions of office and employment of the Chairperson of the Board of Directors of the Company; (3) Revision of the conditions of office and employment of the Company CEO; (4) Approval of the grant of a letter of undertaking to indemnity to Mr. Adi Strauss, a director of the Company and relative of the controlling shareholder; (5) Discussion of the Annual Financial Statements of the Company and Board of Directors' Report for the year ended December 31, 2015; (6) Reappointment of KPMG Somekh Chaikin as the auditors of the Company until the next Annual General Meeting, empowerment of the Board of Directors of the Company to determine their fee for 2016 and a report on their fee for 2015; and (7) Reappointment of Ms. Ronit Haimovitch, Mr. Akiva Mozes and Ms. Galia Maor, who are retiring by rotation, as directors of the Company in accordance with the provisions of the Articles of Association of the Company. For further information, see Immediate Reports of August 18, 2016 (reference number 2016-01-105793), September 25, 2016 (reference number 2016-01-128779) and September 27, 2016 (reference number 2016-01-054906).

4. **Section 22 of the Description of the Company's Business Affairs Report, Financing**

Section 22.1, General – On May 18, 2016 the Company published a shelf prospectus. For further information, see the Immediate Report of May 18, 2016 (reference number 2016-01-028557).

Section 22.8, Credit Rating – 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

[1] As published on March 21, 2016 (reference number 2016-01-010371).

information, see the Company's Immediate Report of April 4, 2016 (reference number 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 of April 21, 2016 (reference number 2016-01-054433).

5. <u>Section 25 of the Description of the Company's Business Affairs Report, Restrictions and Supervision of the Group's Operations</u>

On September 30, 2016 the Public Health Protection (Food) Law entered into force.

The law deals with the comprehensive regulation of the food industry in Israel and of all parties engaged in this industry (manufacturers, importers, marketers, exporters, shippers and storage companies). Among other things, the law regulates a manufacturer's liability for the food it produces, *inter alia*, supervision of the manufacturing process, the liability of a food importer and supervision of the import of food products. The law further regulates the liability and obligations of a food marketer in all phases of food shipping and handling from production through import to the direct point of sale to the consumer.

In addition, the law defines a number of mitigations including the extension of licenses (production/storage and shipping), mitigations in the import of non-sensitive products, extension of the expiration date of non-sensitive raw materials, and regulation in the primary legislation of an existing contradiction between official regulations and standards applying to food safety, which are likely to influence competition in the food and beverages industry to a certain extent and at the same time, create new business opportunities for the Company. In the Company's opinion, the law will not have a material impact on the financial results of the Company.

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 packaging 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 the Company is reviewing the Committee's recommendations and is unable to assess the extent of their impact, if and to the extent that they are adopted in legislation, on the Company's business results.**6. <u>Section 27 of the Description of the Company's Business Affairs Report, Legal Proceedings</u>**

For updates, see Note 6 to the Consolidated Interim Financial Statements of the Company as at September 30, 2016.

7. <u>Regulations 21, 22 and 29A of the Additional Information on the Company Report, Payments to Interested Parties and Senior Officers, Transactions with a Controlling Shareholder, and Company Resolutions, respectively</u>

For information, see section 3 of this Report.

8. <u>Regulation 22 of the Additional Information on the Company Report, Transactions that Are Not Listed in Section 270(4) of the Companies Law Which Are Not Negligible Transactions</u>

<u>Purchase of advertising time</u> – The purchase of advertising time from Reshet-Noga Communications Ltd. in the nine months ended September 2016 totaled NIS 7,604,144.

9. <u>Regulation 26 of the Additional Information on the Company Report, Directors of the Company</u>

On May 3, 2016 the Company announced that Mr. Ran Midyan had ceased to serve as a director of the Company. For further information, see the Company's Immediate Report of May 3, 2016 (reference number 2016-01-058330).

Date: November 21, 2016

Names and titles of signatories:
Ofra Strauss, Chairperson of the Board of Directors
Gadi Lesin, CEO

Strauss Group Ltd.

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT
TO THE SHAREHOLDERS
AS AT SEPTEMBER 30, 2016

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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

The Board of Directors of Strauss Group Ltd. (hereinafter: the **"Company"** or the **"Group"**) hereby respectfully submits the Board of Directors' Report for the first nine months and third quarter of 2016 in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (the **"Regulations"**).

The review presented below is limited in scope and refers to events and changes that occurred in the state of the Company's affairs in the reporting period, which have a material impact, and should be read together with the chapter "Description of the Company's Business Affairs" in the Periodic Report as at December 31, 2015, the Financial Statements and Board of Directors' Report on the Company's Business Position for the year then ended (the "2015 Periodic Report"), as well as the update of the chapter "Description of the Company's Business Affairs", the Board of Directors' Report and the Financial Statements as at March 31, 2016 and June 30, 2016 and the update of the chapter "Description of the Company's Business Affairs" and the Financial Statements as at September 30, 2016.

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

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

The Group is a leading player in most of the markets in which it operates. The center of the Group's activity is in Israel, where it is the second-largest company in the food and beverage market. In the first nine months of 2016 the Group held an 11.5% share of the domestic food and beverage market (in value terms[1]) compared to 11.1% at the end of 2015, and it has the highest sales turnover among Israeli food companies (according to the Company's non-GAAP sales turnover).

The operation in Israel includes the activity of Strauss Israel (sale of a broad variety of refrigerated and dry food products), the coffee operation in Israel, Strauss Water's activity in Israel and Max Brenner in Israel. In addition to the operation in Israel, the Group is also active in three other major geographical regions: **the operation in Brazil**, which is conducted through the Três Corações joint venture[2] and mainly focuses on roast and ground (R&G) coffee in the domestic market; **the operation in Europe**, which mainly includes the coffee business in Russia, Ukraine and Central and Eastern Europe as well as Obela's activity in the Netherlands via the acquisition of Florentin B.V.[3]; and **the operation in the US and Canada**, which includes Sabra's operations and part of the Max Brenner business. The Group is also active in Australia and Mexico through the company Obela; and in China and the UK through Strauss Water.

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

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

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

[3] For information on the acquisition of Florentin B.V., see Note 4.4 to the Consolidated Interim Financial Statements as at September 30, 2016.

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

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 the manufacture of the Group's products. Compared to the corresponding period last year, the first nine months of 2016 were characterized by a drop in the average market prices of some of the Company's raw materials, while the average market prices of other raw materials increased compared to the corresponding period last year. On the one hand, green coffee prices dropped (except in Brazil), as did the price of raw milk (the "target price") and the prices of milk powders, tahini, hazelnuts, almonds and sesame. On the other, green coffee prices in Brazil rose (in Brazilian Reals), as did the prices of olive oil, coupled with an increase in the minimum wage and in other production inputs such as municipal taxes. In the third quarter of 2016 average green coffee prices rose overall contrary to the prevailing trend since the beginning of the year, while with regard to the rest of the raw materials the trend in the past quarter is consistent with the trend that has prevailed since the beginning of the year.

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 June 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.

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 – Since the second half of 2014 oil prices have dropped dramatically. Average oil prices remained low in the nine months as well as in the three months ended on September 30, 2016, compared to the corresponding periods last year.

Exchange rate fluctuations – In the first nine months of the year all average currency rates weakened versus the Shekel compared to the average rates in the corresponding period last year. This weakening led to negative translation differences in the Group's statements of income. In the third quarter of 2016 the Brazilian Real strengthened while most of the Group's other functional currencies weakened against the Shekel compared to their average exchange rates in the corresponding quarter last year, leading to immaterial positive translation differences in the Group's statements of income. In the first nine months of the year some of the Group's functional currencies, such as the Brazilian Real and the Russian Ruble, were significantly revalued against the Shekel compared to their exchange rate in the beginning of the year, leading to an increase in the Group's shareholders' equity. For an analysis of the foreign currency effect on the Group's sales, see the section on the analysis of financial results below.

The following table presents the average exchange rates **versus the Shekel** in the first nine months and third quarter of 2016 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Nine Months		% change	Average Exchange Rate in Third 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*
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 the first nine months and third quarter of 2016 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Nine Months		% change	Average Exchange Rate in Third 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*
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*

Business regulation in the food industry – For further information, see the update of the chapter "Description of the Company's Business Affairs", paragraph 5 ("Section 25 of the Description of the Company's Business Affairs Report, Restrictions and Supervision of the Group's Operations"), as at September 30, 2016.

Mega Retail Ltd. – 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.

ANALYSIS OF FINANCIAL RESULTS

Commencing in the first quarter of 2013 Strauss Group has retrospectively applied IFRS 11 – Joint Arrangements. The significance of the standard is that the statements of income and statements relating to financial position, comprehensive income, changes in shareholders' equity and the cash flows of businesses which are jointly controlled by Strauss and a partner are no longer stated according to Strauss's relative holding in the entity as was formerly the practice, but in a separate row ("Income of equity-accounted investees", and in other reports in the relevant item). The reporting method does not alter the Group's profit. It is noted that this is a change in reporting method only and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. There has been no change in the management of 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 fairly present the manner in which the Company runs its businesses, which, in the Company's opinion, is material for the purposes of this report.

In view of the fact that the Group's non-GAAP reports and the method in which Group Management measures the results of subsidiaries and the jointly owned companies have remained unchanged, the Group has continued to present the activity segments in the same manner in which they were presented before the standard was applied. The next pages present the non-GAAP reports, the GAAP reports and the various adjustments made by the Company in making the transition between the Company's GAAP reports and its non-GAAP reports.

Strauss Group has a number of jointly controlled companies: the Três Corações joint venture (in Brazil)[4], Sabra Dipping Company (an investee company in North America), Strauss Frito-Lay Ltd. (the salty snack business in Israel) and PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela).

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

Following are the condensed results of business operations (based on the Company's non-GAAP management reports) for the quarter and the nine months ended September 30, 2016 and 2015 (in NIS millions)*:

	First Nine Months			**Third Quarter**		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Sales	**5,909**	**5,743**	***2.9***	**2,096**	**1,974**	***6.1***
Organic growth excluding foreign currency effect	7.1%	1.9%		5.8%	3.2%	
Cost of sales	3,646	3,614	*0.9*	1,292	1,263	*2.3*
Gross profit – non-GAAP	**2,263**	**2,129**	***6.3***	**804**	**711**	***13.0%***
% of sales	38.3%	37.1%		38.3%	36.0%	
Selling and marketing expenses	1,316	1,321	*(0.3)*	471	424	*11.1*
General and administrative expenses(1)	338	307	*9.8*	120	95	*25.1*
Operating profit – non-GAAP	**609**	**501**	***21.4***	**213**	**192**	***11.2***
% of sales	10.3%	8.7%		10.2%	9.7%	
Financing expenses, net	(102)	(99)	*3.7*	(41)	(35)	*18.9*
Income before taxes on income	**507**	**402**	***25.8***	**172**	**157**	***9.5***
Taxes on income	(142)	(115)	*21.8*	(45)	(46)	*(2.9)*
Effective tax rate	27.8%	28.7%		25.9%	29.2%	
Income for the period – non-GAAP	**365**	**287**	***27.4***	**127**	**111**	***14.4***
Attributable to: **The Company's shareholders**	**277**	**219**	***26.5***	**92**	**86**	***7.0***
Non-controlling interests	88	68	*30.3*	35	25	*39.8*
EPS (NIS)	2.58	2.05		0.86	0.80	

(1) In the first nine months and third quarter of 2016, including the Company's share of the profits of equity-accounted investees in an immaterial amount.

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

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

Following are the condensed results of business operations (based on non-GAAP management reports) of the major business sectors for the quarter and the nine months ended September 30, 2016 and 2015 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Israel						
Net sales	2,274	2,178	*4.4*	*786*	*747*	*5.2*
Operating profit	248	222	*11.9*	*87*	*86*	*2.4*
Coffee						
Net sales	2,612	2,557	*2.2*	*955*	*876*	*9.0*
Operating profit	275	199	*37.7*	*112*	*63*	*75.8*
International Dips & Spreads						
Net sales	581	565	*2.8*	*199*	*201*	*(1.1)*
Operating profit	62	52	*18.2*	*11*	*29*	*(62.2)*
Other						
Net sales	442	443	*(0.4)*	*156*	*150*	*3.8*
Operating profit	24	28	*(13.0)*	*3*	*14*	*(74.3)*
Total						
Net sales	**5,909**	**5,743**	***2.9***	***2,096***	***1,974***	***6.1***
Operating profit	**609**	**501**	***21.4***	***213***	***192***	***11.2***

Following are the condensed financial accounting (GAAP) statements of income for the quarter and the nine months ended September 30, 2016 and 2015 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Sales	3,972	3,881	*2.3*	1,378	1,365	*0.9*
Cost of sales excluding impact of valuation of balance of commodity hedging transactions as at end-of-period	2,387	2,434	*(1.9)*	826	880	*(6.0)*
Valuation of balance of commodity hedging transactions as at end-of-period**	(28)	3		(1)	8	
Cost of sales	2,359	2,437	*(3.2)*	825	888	*(7.1)*
Gross profit	**1,613**	**1,444**	***11.7***	**553**	**477**	***15.9***
% of sales	40.6%	37.2%		40.1%	35.0%	
Selling and marketing expenses	911	892	*2.1*	314	285	*10.2*
General and administrative expenses	269	237	*13.7*	96	75	*26.5*
Total expenses	**1,180**	**1,129**		**410**	**360**	
Share of profit of equity-accounted investees	154	134	*15.7*	51	51	*1.9*
Operating profit before other expenses	**587**	**449**	***30.8***	**194**	**168**	***16.9***
% of sales	14.8%	11.6%		14.1%	12.2%	
Other expenses, net	(43)	(20)	*112.6*	(25)	(14)	*71.1*
Operating profit after other expenses	**544**	**429**	***27.0***	**169**	**154**	***11.7***
Financing expenses, net	(93)	(78)	*18.9*	(37)	(25)	*53.4*
Income before taxes on income	**451**	**351**	***28.7***	**132**	**129**	***4.8***
Taxes on income	(119)	(94)	*27.1*	(31)	(39)	*(14.1)*
Effective tax rate	26.4%	26.7%		23.6%	29.4%	
Income for the period	**332**	**257**	***29.3***	**101**	**90**	***12.4***
Attributable to: **The Company's shareholders**	**242**	**192**	***26.5***	**69**	**68**	***1.1***
Non-controlling interests	90	65	*37.6*	32	22	*47.9*

**** 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 end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices.***

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

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

	First Nine Months 2016			**First Nine Months 2015**			**Third Quarter 2016**			**Third 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	**3,972**	**1,937**	**5,909**	**3,881**	**1,862**	**5,743**	**1,378**	**718**	**2,096**	**1,365**	**609**	**1,974**
Cost of sales excluding impact of valuation of balance of hedging transactions as at end-of-period	2,387	1,259	3,646	2,434	1,180	3,614	826	466	1,292	880	383	1,263
Valuation of balance of commodity hedging transactions as at end-of-period	(28)	-	(28)	3	-	3	(1)	-	(1)	8	-	8
Cost of sales	2,359	1,259	3,618	2,437	1,180	3,617	825	466	1,291	888	383	1,271
Gross profit	**1,613**	**678**	**2,291**	**1,444**	**682**	**2,126**	**553**	**252**	**805**	**477**	**226**	**703**
% of sales	40.6%		38.8%	37.2%		37.0%	40.1%		38.4%	35.0%		35.6%
Selling and marketing expenses	911	405	1,316	892	429	1,321	314	157	471	285	139	424
General and administrative expenses and Company's share of profit of equity-accounted investees(1)	115	233	348	103	216	319	45	79	124	24	74	98
Operating profit before other expenses	**587**	**40**	**627**	**449**	**37**	**486**	**194**	**16**	**210**	**168**	**13**	**181**
% of sales	14.8%		10.6%	11.6%		8.5%	14.1%		10.0%	12,2%		9.2%
Other expenses, net	(43)	-	(43)	(20)	-	(20)	(25)	1	(24)	(14)	-	(14)
Operating profit after other expenses	**544**	**40**	**584**	**429**	**37**	**466**	**169**	**17**	**186**	**154**	**13**	**167**
Financing expenses, net	(93)	(9)	(102)	(78)	(21)	(99)	(37)	(4)	(41)	(25)	(10)	(35)
Income before taxes on income	**451**	**31**	**482**	**351**	**16**	**367**	**132**	**13**	**145**	**129**	**3**	**132**
Taxes on income	(119)	(31)	(150)	(94)	(16)	(110)	(31)	(13)	(44)	(39)	(3)	(42)
Effective tax rate	26.4%		30.9%	26.7%		30.1%	23.6%		29.6%	29.4%		31.4%
Income for the period	**332**	**-**	**332**	**257**	**-**	**257**	**101**	**-**	**101**	**90**	**-**	**90**
Attributable to: The Company's shareholders	**242**	**-**	**242**	**192**	**-**	**192**	**69**	**-**	**69**	**68**	**-**	**68**
Non-controlling interests	90	-	90	65	-	65	32	-	32	22	-	22

(1) For further information, see the above GAAP statements of income for the quarter and the nine months ended September 30, 2016 and 2015.

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

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

	First Nine Months			Third Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Operating profit – according to proportionate consolidation method – after other expenses	**584**	**466**	***25.2***	**186**	**167**	***11.5***
Share-based payment and liability plan	10	12		4	3	
Valuation of balance of commodity hedging transactions as at end-of-period	(28)	3		(1)	8	
Other expenses, net	43	20		24	14	
Operating profit – non-GAAP	**609**	**501**	***21.4***	**213**	**192**	***11.2***
Financing expenses, net	(102)	(99)		(41)	(35)	
Taxes on income	(150)	(110)		(44)	(42)	
Taxes in respect of adjustments to the above non-GAAP operating profit	8	(5)		(1)	(4)	
Income for the period – non-GAAP	**365**	**287**	***27.4***	**127**	**111**	***14.4***
Attributable to: **The Company's shareholders**	277	219	*26.5*	92	86	*7.0*
Non-controlling interests	88	68	*30.3*	35	25	*39.8*

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

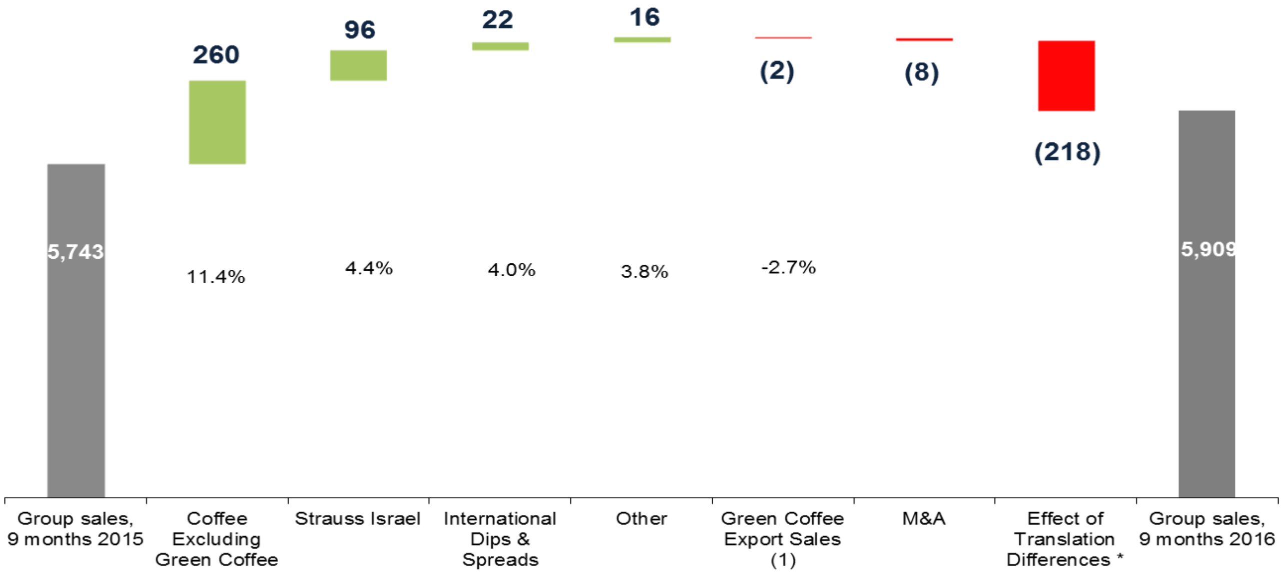
ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

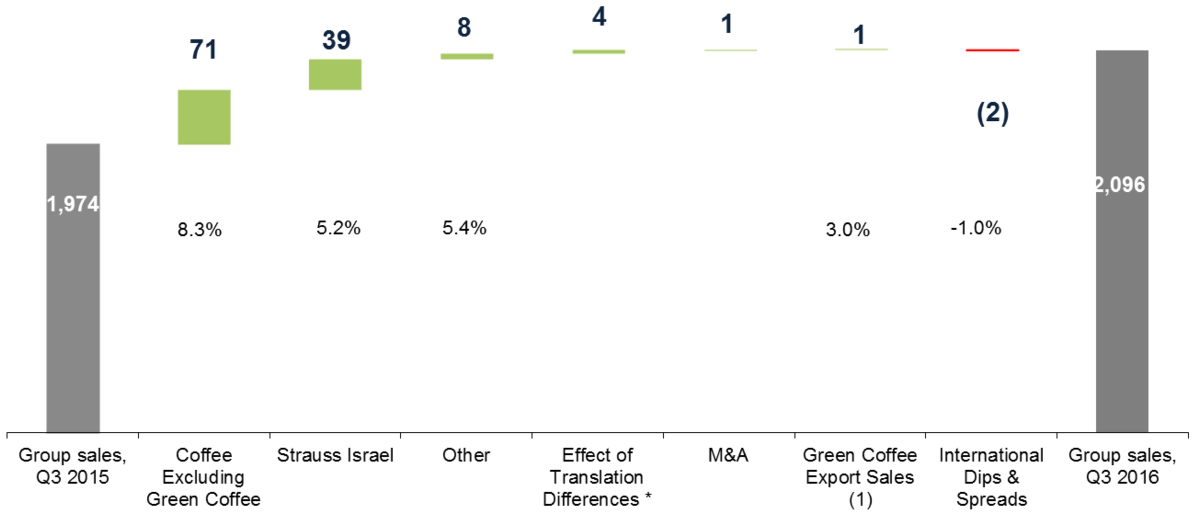
Sales – non-GAAP

	First Nine Months		Third Quarter	
	2016	**2015**	**2016**	**2015**
Sales	5,909	5,743	2,096	1,974
Growth	2.9%	(5.2%)	6.1%	(7.6%)
Organic growth excluding foreign currency effect	7.1%	1.9%	5.8%	3.2%

Organic growth of the Group's sales in the first nine months and third quarter of 2016, excluding the foreign currency effect, amounted to 7.1% and 5.8%, respectively, compared to the corresponding periods last year.

Following are the components of the change in sales in these periods in local currency and the rates of increase according to the Company's major activity sectors in local currency, together with the overall impact of translation differences (the "translation differences effect") and inorganic growth (M&A) in particular:





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

The Group's sales in the first nine months of 2016, and particularly sales by Strauss Coffee, were impacted by negative translation differences, which amounted to approximately NIS 218 million, of which NIS 130 million are due to the erosion of the average exchange rate of the Brazilian Real against 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 third quarter of the year sales on the level of the Group were influenced by positive translation differences, which amounted to NIS 4 million.

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

- Organic growth in sales by the coffee business, excluding green coffee (in the first nine months and third quarter, an increase of approximately NIS 260 million and NIS 71 million, respectively), mainly reflected volume growth along with price increases implemented in most countries of operations (in Israel 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 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 (except for Brazil).
- Growth in Strauss Israel's sales (in the first nine months and third quarter, an increase of approximately NIS 96 million and NIS 39 million, respectively) mainly reflects volume growth mostly as a result of innovation, which was partly offset by price reductions in the various categories, particularly dairy products.
- Organic growth in sales by the International Dips & Spreads operation (in the first nine months, an increase of approximately NIS 22 million, as opposed to a decrease of NIS 2 million in the third quarter). Sales growth in the cumulative period mainly reflects growth in hummus sales with an increase in value market share since the end of the fourth quarter of 2015, up from 60.7% to 62.3% (approximately 60.2% in the corresponding period last year).
- Organic growth in sales by the "Other Operations" segment (in the first nine months and third quarter, approximately NIS 16 million and NIS 8 million, respectively), mainly as a result of growth in Strauss Water's business in Israel, and conversely, a decrease in sales by Max Brenner.
- Green coffee export sales by the Três Corações joint venture in Brazil[(1)(2)], reflecting Strauss Coffee's share (50%), decreased in the first nine months of the year by approximately NIS 2 million compared to the corresponding period last year. The decrease reflects a significant drop in volumes in the first quarter of 2016, which was partly set off by an increase in green coffee prices. In the third quarter of the year green coffee export sales from Brazil rose by approximately NIS 1 million compared to the corresponding quarter of 2015 following the increase in green coffee prices, which was set off in part by the drop in sales volumes.

[(1)] As part of its operations in Brazil, the Três Corações joint venture exports green coffee, mainly to Europe and the US. The amount of green coffee sales is presented further on this report in the framework of sales by the coffee segment according to geographical regions.
[2)] Três Corações (3C) – "Três Corações Joint Venture" in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

- Inorganic decrease in the Group's sales (in the first nine months, down by approximately NIS 8 million, and third quarter, up by NIS 1 million). The decrease in the nine months mainly reflects the discontinuation of proportionate consolidation and the change to the equity method in the Haier Strauss Water joint venture in China as a result of the restructuring process, as well as inorganic sales decrease following the closing of Max Brenner locations owned by the Company; these were offset in part by sales arising from the acquisition of the coffee businesses of Itamaraty and Cia Iguaçu by the Três Corações joint venture in Brazil.

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

	First Nine Months				Third Quarter			
	2016	2015	% Chg	% chg less translation differences impact	2016	2015	% Chg	% chg less translation differences impact
Gross profit	2,263	2,129	*6.3*	*9.6*	804	711	*13.0*	*12.6*
Gross profit margin	38.3%	37.1%			38.3%	36.0%		

The Group's non-GAAP gross profit in the first nine months of 2016 was negatively influenced by translation differences into Shekels, which amounted to approximately NIS 63 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 51 million in the nine months). Following the strengthening of some of the Group's functional currencies in the third quarter, the gross profit was positively impacted (by approximately NIS 2 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 the first nine months and third quarter of the year rose by approximately NIS 134 million and NIS 93 million, respectively, compared to the corresponding periods last year:

- In the Strauss Israel segment the gross profit rose by approximately NIS 74 million and NIS 30 million in the first nine months and third 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.

- The aggregate gross profit of the International Dips & Spreads and Other Operations segments grew approximately NIS 13 million in the first nine months and dropped NIS 3 million in the third quarter, compared to the corresponding periods last year. The growth in the gross profit in the cumulative period mainly reflects sales growth, efficiency enhancing processes and a decrease in the prices of commodities used in these segments.

- In Strauss Coffee the gross profit increased by approximately NIS 47 million and NIS 66 million in the first nine months and the third quarter, respectively, compared to the corresponding periods last year. The change in the gross profit margin in the first nine months and third quarter is explained by sales growth, mainly as a result of price increases introduced in some of the countries where the Company is active (in Israel 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 third quarter the aggregate gross profit of the CEE countries increased, among other things as a result of a drop in raw material prices, the decreasing volatility of the Russian Ruble 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.

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".

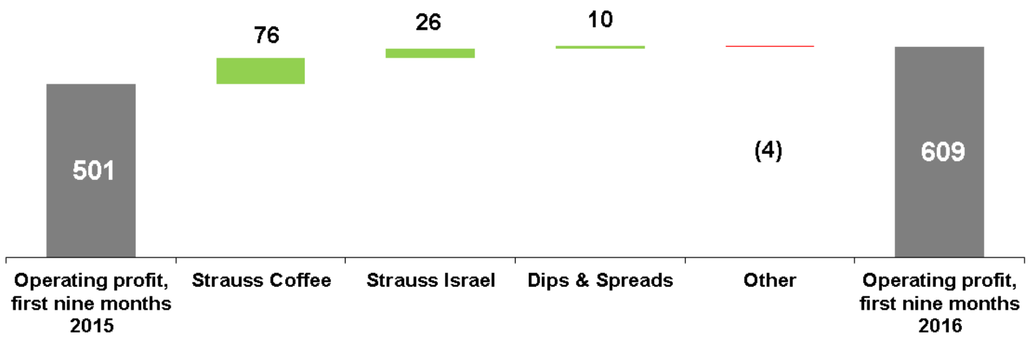
Operating Profit before Other Expenses – Non-GAAP

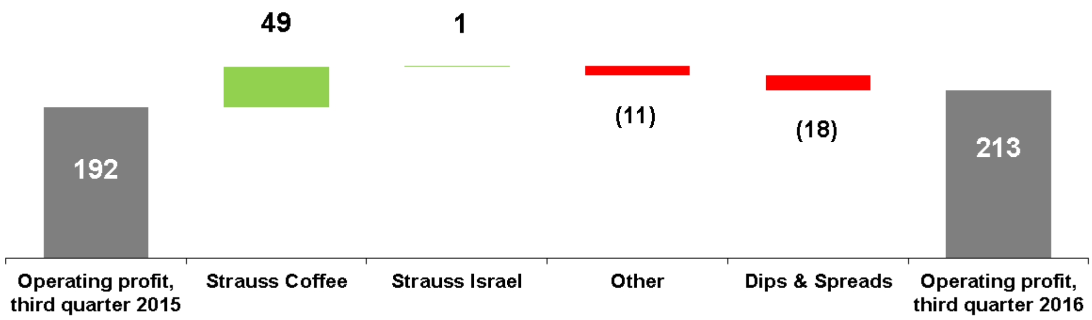
	First Nine Months				Third Quarter			
	2016	2015	% Chg	% chg less translation differences impact	2016	2015	% Chg	% chg less translation differences impact
Operating profit (EBIT)	609	501	*21.4*	*25.0*	213	192	*11.2*	*10.9*
Operating profit margin	10.3%	8.7%			10.2%	9.7%		

The Group's non-GAAP operating profit (EBIT) in the first nine months of 2016 was adversely influenced by translation differences into Shekels, which amounted to approximately NIS 14 million. Most of the translation differences originated in Strauss Coffee following the weakening of the Brazilian Real and Russian Ruble against the Shekel (approximately NIS 15 million). In the third quarter translation differences added NIS 1 million to EBIT (see also the table of exchange rates in the chapter "Changes in the Economic Environment").

In the first nine months and third quarter of 2016 the non-GAAP operating profit grew by approximately NIS 108 million and NIS 21 million, respectively.

Following are the components of the change in the operating profit compared to the corresponding periods last year, according to the Company's major activity segments:





The change in the Group's EBIT in the first nine months and third quarter of 2016 was the result of the following:

- An increase of approximately NIS 76 million and NIS 49 million in the operating profit of the coffee business in the first nine months and third quarter, 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 the first nine months and third quarter of the year, explained by sales growth, mainly as a result of price increases introduced in some of the countries where the Company is active (in Israel 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 third quarter the aggregate gross profit of the CEE countries increased, among other things as a result of a drop in raw material prices, the decreasing volatility of the Russian Ruble and a change in the product mix.

- Growth in the operating profit of Israel Coffee in the first nine months and third quarter of the year, mainly as a result of sales growth and an improvement in the product mix sold, compared to the corresponding periods in 2015.

- The increase in the operating profit of the Três Corações joint venture in Brazil[(1)] in the first nine months and third quarter of 2016 is the result of an increase in volumes and prices, despite negative translation differences, and an improvement in the product mix sold. Três Corações' operating profit (before other expenses) in Brazilian Reals rose in the first nine months by 18.9%, and in the third quarter – by 72.2% (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 26 million and NIS 1 million in the operating profit of Strauss Israel in the nine months and in the third 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 increased by approximately NIS 10 million in the first nine months of 2016 versus a drop of NIS 18 million in the third quarter, compared to the corresponding periods last year. Growth in the cumulative period is the result of sales growth and operational efficiency enhancement. In addition, Sabra's results include an insurance payout as a result of the product recall, which amounted to approximately NIS 10 million in the first quarter of 2016 (approximately NIS 5 million reflect the Group's share (50%)). The drop in EBIT in the third quarter was the result of the sales mix and increased marketing effort.

- A decrease in the EBIT of the Other Operations segment – approximately NIS 4 million and NIS 11 million in the first nine months and third quarter, respectively, compared to last year. The decrease in the operating profit is the result of a one-time increase in expenses compared to the corresponding period last year, and a decrease in the profits of Max Brenner following a drop in sales.

Financing Expenses, Net – Non-GAAP

Net financing expenses in the first nine months of 2016 totaled NIS 102 million compared to expenses of NIS 99 million in the corresponding period last year.

Net financing expenses in the third quarter of the year amounted to NIS 41 million compared to expenses of NIS 35 million in the corresponding quarter of 2015. Most of the increase in financing expenses in the third quarter is due to valuation differences of a financial instrument and to expenses in respect of exchange differences and the valuation of foreign exchange derivatives in the current quarter following the weakening of the US Dollar, as opposed to income in the corresponding quarter last year as a result of the strengthening of the Dollar, which was set off against the impact of a 0.3% increase in the (known) CPI, in which a substantive portion of the Company's debt is denominated, compared to an increase of 0.4% in the corresponding quarter in 2015; coupled with a decrease in the Index-linked debt and the expenses of the valuation of Index derivatives in the corresponding quarter in light of decreasing inflation expectations.

Net credit (according to the proportionate consolidation method) as at September 30, 2016 totaled NIS 1,640 million compared to NIS 1,655 million on December 31, 2015.

Net credit (according to the equity method) as at September 30, 2016 totaled NIS 1,360 million compared to NIS 1,516 million on December 31, 2015.

Taxes on Income – Non-GAAP

In the first nine months of 2016 taxes on income (non-GAAP) amounted to NIS 142 million, reflecting an effective tax rate of 27.8%, whereas in the corresponding period last year income tax amounted to NIS 115 million and the effective tax rate was 28.7%.

In the third quarter taxes on income (non-GAAP) amounted to NIS 45 million, reflecting an effective tax rate of 25.9%, versus NIS 46 million in the corresponding quarter last year with an effective tax rate of 29.2%.

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

The decrease in the effective tax rate in the first nine months and third quarter of 2016 is the result of the profit mix for tax purposes between the companies in the various countries and the decrease in the corporate tax rate in Israel from 26.5% to 25%, and was partly offset by an increase in the weight of non-deductible tax expenses.

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

	First Nine Months			Third Quarter		
	2016	2015	% Chg	2016	2015	% Chg
Income attributable to the Company's shareholders	277	219	*26.5*	92	86	*7.0*
% of sales	4.7%	3.8%		4.4%	4.4%	

Non-GAAP income attributable to the Company's shareholders in the first nine months and third quarter of 2016 rose by approximately NIS 58 million and NIS 6 million, respectively, compared to the corresponding periods last year. The increase in non-GAAP income attributable to the Company's shareholders is mainly due to growth in the operating profit.

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

In the first nine months of the year the GAAP comprehensive income amounted to approximately NIS 422 million, compared to a comprehensive loss of NIS 30 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 89 million compared to losses of NIS 292 million arising from translation differences in the corresponding period last year.

In the third quarter the GAAP comprehensive income amounted to approximately NIS 67 million, compared to a comprehensive loss of NIS 2 million in the corresponding quarter last year. In the reporting period losses in respect of translation differences, which are the main component of the other comprehensive income, amounted to NIS 35 million compared to losses of NIS 93 million arising from translation differences in the corresponding period last year.

The gains from translation differences in the first nine months of 2016 primarily arise from the operations of Strauss Coffee; of the above amounts, approximately NIS 88 million are due to the strengthening of the Brazilian Real against the Shekel compared to their exchange rate at the end of 2015. In the third quarter of the year, the losses from translation differences were also primarily the result of Strauss Coffee's operations; of them, approximately NIS 15 million are due to the weakening of the Brazilian Real against the Shekel compared to their exchange rate at the end of the second quarter of 2016.

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

In the first nine months of 2016

Cash flows used in operating activities amounted to a positive cash flow of approximately NIS 310 million, compared to a positive cash flow of NIS 14 million in the corresponding period 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. On the other hand, in December 2015 the Company received a rebate from the 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 Assessing Officer in January 2016.

Cash flows used in investing activities amounted to a positive cash flow of approximately NIS 58 million compared to a negative cash flow of NIS 52 million in the corresponding period last year. The change is mainly due to dividends received from investee companies and is offset by investments in fixed assets on a smaller scale compared to the corresponding period and by the sale of securities and deposits on a smaller scale in the reporting period compared to the corresponding period in 2015.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 357 million compared to a negative cash flow of NIS 246 million last year. The change is mainly due to the payment of a dividend of NIS 150 million to shareholders and a dividend of NIS 42 million to the non-controlling interest, less loans amounting to NIS 115 million taken in the current period.

In the third quarter of 2016

Cash flows used in operating activities amounted to a positive cash flow of approximately NIS 131 million, compared to a positive cash flow of NIS 23 million in the corresponding period last year. The change in cash flows is due to an increase in income for the period and changes in working capital.

Cash flows provided by (used in) investing activities amounted to a positive cash flow of approximately NIS 97 million compared to a negative cash flow of NIS 25 million last year. The change is mainly due to dividends received from investee companies and is offset by investments in fixed assets on a smaller scale compared to the corresponding period last year.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 212 million compared to a negative cash flow of NIS 47 million last year. The change is mainly due to the payment of a dividend of NIS 150 million to the shareholders of the Company.

The change in working capital (according to the proportionate consolidation method) in the first nine months of 2016 and 2015 reflects an increase of NIS 246 million and NIS 236 million compared to December 31, 2015 and 2014, respectively. The change in working capital (according to the proportionate consolidation method) in the third quarter of 2016 and 2015 reflects an increase of NIS 91 million and NIS 66 million compared to June 30, 2016 and 2015, respectively.

The change in working capital (according to the equity method) in the first nine months of 2016 and 2015 reflects an increase of NIS 87 million and NIS 235 million compared to December 31, 2015 and 2014, respectively. The change in working capital (according to the equity method) in the third quarter of 2016 and 2015 reflects an increase of NIS 33 million and NIS 88 million compared to June 30, 2016 and 2015, respectively.

The Company's cash and cash equivalents as at September 30, 2016 totaled NIS 564 million compared to NIS 560 million on December 31, 2015. In accordance with Company policy, these assets are held mainly in deposits (most of them in Shekels and Dollars).

The Company's liquidity ratio as at September 30, 2016 is 1.41 compared to 1.39 on December 31, 2015. On September 30, 2016 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 1,948 million compared to NIS 2,096 million on December 31, 2015. On September 30, 2016 short-term credit (excluding current maturities) totaled NIS 30 million compared to NIS 40 million on December 31, 2015. On September 30, 2016 supplier credit totaled NIS 672 million, compared to NIS 713 million on December 31, 2015.

Total assets in the Company's Consolidated Statement of Financial Position on September 30, 2016 amounted to NIS 6,204 million, compared to NIS 6,147 million on December 31, 2015.

Reportable credit – further to Note 20.6 to the Periodic Report – Financial Criteria – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Position as at September 30, 2016 is 30.1%, compared to 27.7% on December 31, 2015. The net financial debt-to-EBITDA ratio as at September 30, 2016 is 1.4, compared to 1.9 on December 31, 2015. The Company is in compliance with the required financial criteria.

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 dividend distributions, see the update of the chapter "Description of the Company's Business Affairs" as at September 30, 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.

	First Nine Months		Third Quarter		Year Ended December 31
	2016	2015	2016	2015	2015
Cash flow from operating activities (proportionate consolidation method)	402	90	132	60	516
Acquisition of fixed assets and investment in intangibles (proportionate consolidation method)	163	211	50	54	279
Net debt balance (proportionate consolidation method) as at the reporting date	1,640	1,813	1,640	1,813	1,655
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	172	170	60	54	232
Strauss Israel:					
Health & Wellness	43	38	14	14	54
Fun & Indulgence	27	22	9	8	32
Strauss Coffee:					
Israel Coffee	8	8	2	3	10
International Coffee	38	47	13	13	57
International Dips & Spreads	20	17	9	5	23
Other	36	38	13	11	56

The Group's EBITDA (non-GAAP) totaled approximately NIS 781 million in first nine months of the year compared to NIS 671 million in the corresponding period in 2015, an increase of 16.3%. Non-GAAP EBITDA in the third quarter amounted to NIS 273 million compared to NIS 246 million last year, an increase of 11.0%.

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

Strauss Coffee

Following are the condensed results of business operations based on the non-GAAP management reports of Strauss Coffee by reported segments for the quarter and the nine months ended September 30, 2016 and 2015 (in NIS millions):

	First Nine Months			Third Quarter		
	2016	2015	% Chg	2016	2015	% Chg
Israel Coffee						
Net sales	526	494	*6.6*	179	161	*11.4*
Operating profit	79	64	*22.1*	27	18	*47.9*
% operating profit	14.9%	13.0%		14.7%	11.1%	
International Coffee						
Net sales	2,086	2,063	*1.1*	776	715	*8.5*
Operating profit	196	135	*45.1*	85	45	*86.7*
% operating profit	9.4%	6.5%		10.9%	6.4%	
Total Strauss Coffee						
Net sales	**2,612**	**2,557**	***2.2***	**955**	**876**	***9.0***
Organic growth excluding foreign currency effect	**11.0%**	**8.4%**		**8.0%**	**9.7%**	
Gross profit	**862**	**815**	***5.7***	**322**	**256**	***25.7***
% gross profit	**33.0%**	**31.9%**		**33.7%**	**29.2%**	
Operating profit	**275**	[(1)]**199**	***37.7***	**112**	**63**	***75.8***
% operating profit	**10.5%**	**7.8%**		**11.6%**	**7.2%**	

[(1)] The operating profit of the coffee business in the first nine months of 2015 includes a provision for impairment of intangible assets attributed to the operation in Serbia in the amount of NIS 8 million.

Sales

In the first nine months and third quarter of 2016 organic growth in the coffee business, excluding the foreign currency effect, amounted to 11.0% and 8.0%, respectively, compared to the corresponding periods last year. Organic growth of the coffee operation, excluding the foreign currency effect and green coffee exports, amounted to 11.4% and 8.2%, respectively, compared to the corresponding periods in 2015.

Growth in coffee sales in local currency in the first nine months and third quarter mainly reflects volume growth as well as price increases implemented in most countries (in Israel prices were not raised, and the prices of some products were even reduced), in light of the rising cost of green coffee to the Company and the erosion of the functional currencies versus the US Dollar compared to the corresponding periods last year, since in all countries except for Brazil, green coffee is purchased in US Dollars. For further information, see the section "Strauss Coffee Sales by Major Geographical Regions".

In the first nine months of 2016 and in the third quarter of the year Strauss Coffee's Shekel sales increased by approximately NIS 55 million and NIS 79 million, respectively, compared to the corresponding periods last year. Translation differences into Shekels in the first nine months of the year had a negative impact on sales by the coffee operation and amounted to NIS 207 million, compared to a positive impact in the third quarter, amounting to NIS 7 million; of said amounts, the negative impact of the change in the average exchange rate of the Brazilian Real against the Shekel amounted to NIS 130 million in the cumulative period, as opposed to a positive impact of NIS 25 million in the third quarter. Additionally, the erosion of exchange rates in Russia and Ukraine against the Shekel led to negative translation differences amounting to NIS 58 million and NIS 12 million in the nine months and the quarter, respectively, compared to the corresponding periods in 2015.

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 the first nine months of 2016 the gross profit rose by approximately NIS 47 million compared to the corresponding period last year. The gross profit margin rose by 1.1% and amounted to 33.0%. In the third quarter of the year the gross profit increased by approximately NIS 66 million compared to the corresponding quarter in 2015. The gross profit margin rose by 4.5% and amounted to 33.7%. The change in the gross profit margin in the first nine months and third quarter is explained by growth in sales volumes, price increases implemented in almost all countries where the Company is active (in Israel, 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 third quarter the aggregate gross profit of the CEE countries increased, among other things as a result of a drop in raw material prices, the decreasing volatility of the Russian Ruble 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 the first nine months and third quarter of 2016 the operating profit of the coffee operation increased by approximately NIS 76 million and NIS 49 million, respectively, compared to the corresponding periods last year. The operating profit margin in the nine months and the quarter amounted to 10.5% and 11.6%, respectively, compared to last year.

The change in Strauss Coffee's EBIT in the nine months and in the quarter reflects:

- An increase in the operating profit of the coffee business in the CEE countries in the first nine months and third quarter of the year, 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.

- The operating profit and operating profit margin in Russia rose in the third quarter compared to the corresponding period last year despite the drop in sales as a result of the decreasing volatility of the Russian Ruble and a drop in raw material prices.

- Growth in the operating profit of Israel Coffee in the first nine months and third quarter, mainly as a result of sales growth and an improvement in the instant coffee supply chain in Israel, compared to the corresponding periods in 2015.

- The increase in the operating profit of the Três Corações joint venture in Brazil(1) in the first nine months and third quarter of 2016, which is the result of an increase in prices. Três Corações' operating profit (before other expenses) in Brazilian Reals rose in the first nine months by approximately 18.9%, and in the third quarter – by 72.2% (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

Strauss Coffee sales by major geographical regions

Following is the scope of sales of the coffee business in the major geographical regions (not including intercompany sales), and growth rates for the quarter and the nine months ended September 30, 2016 and 2015 (in NIS millions):

	First Nine Months				Third Quarter			
Geographical region	**2016**	**2015**	**% chg**	**% change in local currency***	**2016**	**2015**	**% chg**	**% change in local currency***
Israel Coffee	**526**	**494**	***6.6***	***6.6***	**179**	**161**	***11.4***	***11.4***
International Coffee								
Três Corações joint venture (Brazil) (1) (2) (3) - 50%	1,188	1,128	*5.4*	*19.2*	461	355	*30.1*	*21.6*
Former USSR countries	409	414	*(1.2)*	*14.7*	147	174	*(15.3)*	*(9.1)*
Poland	205	211	*(3.0)*	*2.9*	70	73	*(4.2)*	*0.1*
Romania	188	196	*(4.2)*	*(2.3)*	60	72	*(17.2)*	*(15.8)*
Serbia	96	114	*(16.2)*	*(13.6)*	38	41	*(10.1)*	*(7.1)*
Total International Coffee	**2,086**	**2,063**	***1.1***	***12.4***	**776**	**715**	***8.5***	***7.4***
Total Coffee	**2,612**	**2,557**	***2.2***	***11.2***	**955**	**876**	***9.0***	***8.1***

* 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 (3C) – "Três Corações Joint Venture" in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

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

	First Nine Months		Third Quarter	
	2016	**2015**	**2016**	**2015**
Green coffee sales	67	78	32	29
Sales of corn-based products	53	46	21	14

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

The Três Corações (3C) 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 July, the agreement was approved by the regulatory authorities in Brazil.

In the first nine months of 2016 the Três Corações joint venture's average value market share in roast and ground coffee (R&G) amounted to approximately 24.2%, compared to 24.1% 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 the first nine months and third quarter of 2016 the Três Corações joint venture's sales in local currency grew by approximately 19.2% and 21.6% (18.9% and 21.6%, respectively, before the exclusion of intercompany sales between Três Corações Alimentos S.A. and Strauss

Coffee). Excluding green coffee sales, growth in local currency amounted to 20.8% and 23.2% in the nine months and the quarter, respectively. Most of the growth originates in R&G sales. The increase in the Três Corações joint venture's local currency sales reflects price increases introduced in 2015 and 2016 in light of the rising cost of green coffee to Três Corações compared to the corresponding periods last year, as well as volume growth in sales.

Green coffee export sales from Brazil by the Três Corações joint venture(1), reflecting Strauss Coffee's share (50%), decreased in the first nine months of 2016 by approximately NIS 11 million compared to the corresponding period last year (excluding the foreign exchange effect, sales decreased by NIS 2 million). The decrease in the nine months reflects a drop in volumes, which was offset in part by an increase in green coffee prices compared to the corresponding period last year. In the third quarter green coffee export sales from Brazil by Três Corações rose by approximately NIS 3 million compared to the corresponding quarter last year (excluding the foreign currency effect, export sales increased by approximately NIS 1 million).

Growth in the Três Corações joint venture's Shekel sales in the first nine months and third quarter of 2016 compared to the corresponding periods last year was adversely affected by the erosion of the average exchange rate of the Brazilian Real against the Shekel, which amounted to approximately NIS 130 million in the first nine months, as opposed to a positive effect amounting to approximately NIS 25 million in the third quarter.

The Três Corações joint venture's gross profit in domestic currency rose by 8.8% and 19.8% in the first nine months and third quarter, respectively, and amounted to approximately 295 million and 111 million BRL, respectively. In the first nine months and third quarter the Três Corações joint venture's gross profit margin decreased by 2.5% and 0.4% and amounted to 27.1% and 28.2%, 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 price increases. EBIT (before other expenses) in BRL increased in the first nine months by 18.9% and reflects an increase in the gross profit margin as a result of volume growth. In the third quarter EBIT (before other expenses) in BRL rose by 72.2% and mainly reflects sales growth (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 the first nine months and third quarter of the year amounted to an operating loss of approximately NIS 11 million and NIS 1 million, respectively (approximately 10 million and 1 million BRL, respectively), compared to an operating loss of NIS 12 million and NIS 0.6 million, respectively (9 million and 0.5 million BRL, respectively) in the corresponding periods last year (figures reflect Strauss Coffee's share (50%)).

<u>The former USSR countries</u>

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). Additionally, the competitive environment in the region has remained challenging.

The Company's sales in the region in local currency grew by approximately 14.7% in the first nine months, as opposed to a decrease of approximately 9.1% in the third quarter, 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 dropped by approximately NIS 5 million and NIS 27 million in the first nine months and in the third 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.

<u>Poland</u>

The Company's sales in Poland in local currency increased by approximately 2.9% and 0.1% in the first nine months and third 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 decreased by approximately NIS 6 million and NIS 3 million in the first nine months and the third quarter, respectively, compared to the corresponding periods last year. The decrease is due to the erosion of the Polish Zloty against the Shekel.

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

Romania

The Company's sales in Romania in local currency decreased by approximately 2.3% and 15.8% in the first nine months and the third quarter of 2016, respectively, compared to the corresponding periods last year. The drop in sales in local currency reflects a drop in volumes and 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.

Shekel sales in Romania decreased by approximately NIS 8 million and NIS 12 million in the nine months 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 prices, as described above.

Serbia

The Company's sales in Serbia in local currency decreased by 13.6% and 7.1% in the first nine months and third quarter of the year, 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 18 million and NIS 4 million in the nine months 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, 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 non-GAAP statements of income. For further information, see Note 4.6 to the Consolidated Interim Financial Statements as at September 30, 2016.

Israel

The Company's sales in Israel rose by approximately NIS 32 million and NIS 18 million in the first nine months and third quarter, respectively, compared to the corresponding periods last year. The increase is explained by growth in volumes due to the timing of the Jewish holidays, despite effective price reductions. The increase in the operating profit is the result of sales growth as described above.

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in the first nine months of 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 Israel grew by 4.4% in value terms, although according to StoreNext, in the first nine months of 2016 the Israeli food and beverage market decreased by 0.4% in financial value.

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 the first nine months of the year Strauss Group's Israel sales totaled approximately NIS 3,169 million versus NIS 3,021 million last year, an increase of 4.9%. In the third quarter sales in Israel totaled approximately NIS 1,100 million compared to NIS 1,034 million last year, an increase of 6.5%.

Strauss Israel

Following are the condensed results of business operations based on the non-GAAP management reports of Strauss Israel by activity segments, for the quarter and the nine months ended September 30, 2016 and 2015 (in NIS millions):

	First Nine Months			Third Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Health & Wellness segment						
Net sales	1,491	1,435	*3.9*	526	507	*3.8*
Operating profit	162	141	*14.7*	63	63	*0.2*
% operating profit	10.9%	9.8%		12.0%	12.4%	
Fun & Indulgence segment						
Net sales	783	743	*5.4*	260	240	*8.1*
Operating profit	86	81	*6.9*	24	23	*8.4*
% operating profit	11.0%	10.9%		9.3%	9.3%	
Total Strauss Israel						
Net sales	**2,274**	**2,178**	***4.4***	**786**	**747**	***5.2***
Gross profit	**907**	**833**	***8.9***	**314**	**284**	***10.6***
% gross profit	**39.9%**	**38.2%**		**39.9%**	**38.0%**	
Operating profit	**248**	**222**	***11.9***	**87**	**86**	***2.4***
% operating profit	**10.9%**	**10.2%**		**11.1%**	**11.4%**	

Sales

In the first nine months of 2016 Strauss Israel's sales increased by approximately 4.4% (NIS 96 million). In the Health & Wellness segment the increase was approximately 3.9% (NIS 56 million), and in Fun & Indulgence sales growth amounted to 5.4% (NIS 40 million).

In the third quarter of the year Strauss Israel's sales increased by approximately 5.2% (NIS 39 million). In Health & Wellness the increase was approximately 3.8% (NIS 19 million), and in Fun & Indulgence sales growth amounted to 8.1% (NIS 20 million).

The increase in sales in the nine months and quarter reflects volume growth, which was offset in part by price reductions in the various categories, particularly dairy products (in the first half the Company lowered its prices in a number of dairy categories by 5%-22%, in addition to a 4.4% reduction in the controlled prices of white cheese and sweet cream).

Gross profit

In the first nine months of 2016 Strauss Israel's gross profit increased by approximately NIS 74 million with 1.7% growth in the gross profit margin, compared to the corresponding period last year.

In the third quarter Strauss Israel's gross profit rose by NIS 30 million and the gross profit margin by 1.9% 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, coupled with a reduction in energy prices, compared to the corresponding periods in 2015.

Operating profit

In the first nine months of 2016 Strauss Israel's EBIT increased by approximately NIS 26 million and the operating profit margin rose by 0.7% and amounted to 10.9% 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 third quarter the operating profit increased by approximately NIS 1 million and the operating profit margin dropped by 0.3% and amounted to 11.1% of sales.

The International Dips & Spreads Activity

The Group develops, manufactures, sells, markets and distributes dips and spreads through Sabra in the US and Canada, and through Obela in Mexico, Australia and Holland. 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 36 weeks ended on September 30, 2016 was 28.0% (Number 1 in the market), compared to 27.8% at the end of 2015 and 28.0% in the corresponding period last year. Sabra's value market share of the hummus category in the third quarter of 2016 was 62.2%, compared to 60.1% in the corresponding quarter last year.

Sale volumes in Australia and Mexico are immaterial. Nevertheless, it is noted that the company leads the hummus market in Australia in market share as well as in Mexico. In both countries, significant growth in the company's sales volumes was recorded in the first nine months of 2016.

In June 2016 Obela 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. For further information, see Note 4.4 to the Consolidated Interim Financial Statements as at September 30, 2016 and the update of the chapter "Description of the Company's Business Affairs" as at September 30, 2016.

Sabra

Following are selected financial data on Sabra's business (in NIS millions, reflecting 100% ownership):

	First Nine Months		Third Quarter	
	2016	2015	2016	2015
Sales	1,095	1,078	371	384
Growth	1.6%	15.7%	(3.4%)	19.0%
Organic growth excluding foreign currency effect	3.2%	4.0%	(1.7%)	8.9%
Operating profit before other expenses	144	131	29	64
% operating profit	13.1%	12.2%	7.6%	16.6%

Sales by Sabra in the first nine months of 2016 grew by approximately NIS 17 million versus a decrease of approximately NIS 13 million in the third quarter, compared to the corresponding periods last year. In the first nine months of the year Sabra's market share continued to grow to 62.3%, compared to 60.2% in the corresponding period last year. Hummus sales in North America continued to increase, but the increase was offset in part by a drop in sales of other products. Sales were adversely affected by negative translation differences amounting to NIS 7 million. In the third quarter sales decreased by 3.4% compared to the corresponding quarter last year, which was particularly strong following the recall in the prior quarter.

The operating profit in the first nine months rose by approximately NIS 13 million, with an increase of 0.9% in the operating profit margin compared to the corresponding period in 2015. In the third quarter EBIT dropped by NIS 35 million, with a drop of 9.0% in the operating profit margin compared to the corresponding quarter last year. The drop in EBIT in the quarter is the result of an increase in selling and marketing expenses and of the marketing mix.

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. For further information, see the Immediate Report of November 19, 2016 (reference number 2016-01-079956).

As at the date of this report, Company Management anticipates that the recall by Sabra will have a direct impact of approximately $5 million on the Company's operating profit, based, among other things, on existing insurance coverage.

Notwithstanding the foregoing, as at the date of this report, Company Management is unable to assess the indirect effect of the recall on the Company's financial results, if any.

The information in this section regarding the impact of the recall on the Company is forward-looking information, as this term is defined in the Securities Law, 1968, which is based on information in the Company's possession on the reporting date and includes estimates made by the Company on said date. There can be no assurance that these assessments will, in fact, occur, among other things in light of the uncertainty inherent in the recall and in the insurance claim.

Obela

Following are selected financial data on Obela's business (in NIS millions, reflecting 100% ownership):

Sales by Obela in the first nine months of 2016 totaled approximately NIS 68 million, compared to NIS 53 million in the corresponding period last year (27.5% growth). Excluding the foreign currency effect, growth in the period amounted to 34.3% compared to the first nine months of 2015.

Obela's sales in the third quarter totaled approximately NIS 28 million, compared to NIS 19 million in the corresponding quarter last year (44.8% growth). Excluding the foreign currency effect, sales growth in the quarter amounted to 43.1% compared to last year.

The operating loss in the first nine months totaled NIS 20 million, compared to NIS 26 million in the corresponding period last year.

In the third quarter of 2016 the operating loss amounted to NIS 6 million, compared to NIS 5 million last year. The third 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 operations in this segment are Strauss Water, Max Brenner, and other immaterial activities 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 in China. For further information, see the Board of Directors' Report on the Company's Business Position for the year ended December 31, 2015.

Sales by Strauss Water in the first nine months of 2016 amounted to approximately NIS 371 million compared to NIS 362 million in the corresponding period last year, an increase of 2.5%.

The moderate growth in Strauss Water's income in the first nine months 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 third quarter of the year Strauss Water's sales totaled NIS 133 million compared to NIS 122 million in the corresponding period in 2015, an increase of 8.6%.

Sales by the Haier Strauss Water joint venture in China in the first nine months and third quarter of 2016 amounted to approximately NIS 240 million and NIS 98 million, respectively (unaudited).

In the first nine months of 2016 Strauss Water has posted an improvement in operating profit and cash flow compared to the corresponding period in 2015.

Max Brenner

On the date of publication of the report, the Max Brenner chain comprises sixty-two "Chocolate Bars" in Israel and around the world, fifty-nine under franchise and three owned by the Company (in the US: New York, Philadelphia and Boston). The Max Brenner bars are located in Australia (43), Israel (8), Japan (5), the US (3), Russia (2) and South Korea (1).

In the first nine months of 2016 Max Brenner's sales totaled approximately NIS 70 million compared to NIS 80 million last year, a decrease of 12.8%. The decrease in sales, excluding the foreign currency effect, amounted to approximately 12.1% compared to the corresponding period last year.

In the third quarter Max Brenner's sales totaled approximately NIS 22 million compared to NIS 27 million in the corresponding quarter last year, a decrease of 17.5%. Excluding the foreign currency effect, sales decreased by approximately 17.0% compared to the corresponding period last year.

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 third quarter of 2016 there is a working capital deficiency of approximately NIS 83 million, whereas in the consolidated financial statements of the Company for the quarter there is no such deficiency. Cash flows provided by operating activities in the "solo report" amount to a positive cash flow of NIS 198 million. In light of the working capital deficiency in the "solo report", on November 21, 2016 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 September 30, 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 30 in Part A of the Company's 2015 Periodic Report.

ASPECTS OF CORPORATE GOVERNANCE

General

For information on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 38C(a), see the attached report.

INFORMATION ON THE DEBENTURE SERIES

Following is information on the series of material capital notes with respect to the Company's liabilities as at September 30, 2016:

		Debentures Series B	Debentures Series D
A.	Nominal/par value	297	465
B.	Par value linked to the Consumer Price Index	357	465
C.	Book value of Debentures	357	476
D.	Book value of interest payable	2	-
E.	Market value	368	528

LIABILITY REPORT ACCORDING TO PAYMENT DATES

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

MATERIAL EVENTS IN THE REPORTING PERIOD

For a review of material events occurring in the reporting period, see the update of the chapter "Description of the Company's Business Affairs" as at September 30, 2016 and Notes 4, 5 and 6 to the Consolidated Interim Financial Statements as at September 30, 2016.

POST-STATEMENT OF FINANCIAL POSITION DATE EVENTS

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

November 21, 2016

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2016

Strauss Group Ltd.

Financial Statements
As at September 30, 2016

Convenience Translation from Hebrew

Strauss Group Ltd.

Financial Statements as at September 30, 2016

Contents

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Review Report to the Shareholders of Strauss Group Ltd.

Introduction

We have reviewed the accompanying financial information of Strauss Group Ltd. and its subsidiaries (hereinafter– "the Group") comprising of the condensed consolidated interim statement of financial position as of September 30, 2016 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine and three month periods then ended. The board of directors and management are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting"*, in addition management is responsible for the financial information to be prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not reviewed the financial statements of equity accounted investees the investment in which amounted to approximately NIS 20.2 million as of September 30, 2016, and the Group's share in their profits amounted to approximately NIS 6.8 million and NIS 2.3 million for the nine and three month periods then ended, respectively. The financial statements of those companies were reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

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

Conclusion

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

November 21, 2016

Convenience Translation from Hebrew

Strauss Group Ltd.

Consolidated Interim Statements of Financial Position

	September 30 2016 (Unaudited)	September 30 2015 (Unaudited)	December 31 2015 (Audited)
		NIS Millions	
Current Assets			
Cash and cash equivalents	564	469	560
Marketable securities and deposits	54	60	60
Trade receivables	1,018	1,020	926
Income tax receivables	34	49	20
Other receivables and debit balances	167	250	183
Inventory	535	610	581
Assets held for sale	36	36	62
Total current assets	2,408	2,494	2,392
Investments and non-current assets			
Investment in equity-accounted investees	1,132	994	1,018
Other investments and long-term debt balances	189	234	208
Fixed assets	1,574	1,595	1,612
Intangible assets	849	912	853
Deferred expenses	33	11	41
Investment property	7	30	7
Deferred tax assets	12	36	16
Total investments and non-current assets	3,796	3,812	3,755
Total assets	6,204	6,306	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 interim financial statements: November 21, 2016

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

Strauss Group Ltd.

Consolidated Interim Statements of Financial Position (cont'd)

	September 30 2016 (Unaudited)	September 30 2015 (Unaudited)	December 31 2015 (Audited)
	NIS Millions		
Current liabilities			
Current maturities of debentures	197	179	178
Short terms credit and current maturities of long-term credit and loans	159	156	181
Trade payables	672	653	713
Income tax payables	25	16	80
Other payables and credit balances	618	643	531
Provisions	32	35	34
Total current liabilities	1,703	1,682	1,717
Non-current liabilities			
Debentures	636	838	834
Long-term loans and credit	986	990	943
Long-term payables and credit balances	67	96	88
Employee benefits, net	56	57	55
Deferred taxes	211	186	202
Total non-current liabilities	1,956	2,167	2,122
Equity and reserves			
Share capital	244	244	244
Share premium	622	622	622
Reserves	(904)	(888)	(965)
Retained earnings	1,908	1,836	1,804
Total equity attributable to the Company's shareholders	1,870	1,814	1,705
Non-Controlling interests	675	643	603
Total equity	2,545	2,457	2,308
Total liabilities and equity	6,204	6,306	6,147

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

Convenience Translation from Hebrew

Strauss Group Ltd.

Consolidated Interim Statements of Income

	For the nine months ended		For the three months ended		For the year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Sales	3,972	3,881	1,378	1,365	5,183
Cost of sales	2,359	2,437	825	888	3,228
Gross profit	1,613	1,444	553	477	1,955
Selling and marketing expenses	911	892	314	285	1,198
General and administrative expenses	269	237	96	75	329
	1,180	1,129	410	360	1,527
Share of profits of equity accounted investees	154	134	51	51	198
Operating profit before other income (expenses)	587	449	194	168	626
Other income	5	10	1	2	16
Other expenses	(48)	(30)	(26)	(16)	(57)
Other expenses, net	(43)	(20)	(25)	(14)	(41)
Operating profit	544	429	169	154	585
Financing income	3	14	1	5	21
Financing expenses	(96)	(92)	(38)	(30)	(122)
Financing expenses, net	(93)	(78)	(37)	(25)	(101)
Profit before income taxes	451	351	132	129	484
Income taxes	(119)	(94)	(31)	(39)	(139)
Profit for the period	332	257	101	90	345
Attributable to:					
The Company's shareholders	242	192	69	68	257
Non-Controlling interests	90	65	32	22	88
Profit for the period	332	257	101	90	345
Earnings per share for the Company's shareholders					
Basic earnings per share (in NIS)	2.26	1.79	0.64	0.64	2.40
Diluted earnings per share (in NIS)	2.25	1.78	0.64	0.63	2.39

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

Convenience Translation from Hebrew

Strauss Group Ltd.

Consolidated Interim Statements of Comprehensive Income

	For the nine months ended		For the three months ended		For the year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Profit for the period	332	257	101	90	345
Other comprehensive income (loss) components that will be transferred in the future to the statement of income:					
Foreign currency translation differences	21	(79)	(8)	(1)	(168)
Changes in fair value of available for sale financial assets, net of tax	1	5	1	1	3
Other comprehensive income (loss) from equity-accounted investees	68	(213)	(27)	(92)	(219)
Total other comprehensive income (loss) components that will be transferred in the future to the statement of income	90	(287)	(34)	(92)	(384)
Comprehensive income (loss) for the period	422	(30)	67	(2)	(39)
Attributable to:					
The Company's shareholders	303	(20)	40	8	(32)
Non-controlling interests	119	(10)	27	(10)	(7)
Comprehensive income (loss) for the period	422	(30)	67	(2)	(39)

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

Consolidated Interim Statements of Changes in Equity

	Attributable to the Company's shareholders								
	Share capital	**Share premium**	**Translation reserve**	**Treasury stock**	**Reserve in respect of available for sale financial assets**	**Retained earnings**	**Total**	**Non-Controlling interests**	**Total equity**
	NIS millions								
For the nine month period ended September 30, 2016 - unaudited:									
Balance as at January 1, 2016 - Audited	244	622	(951)	(20)	6	1,804	1,705	603	2,308
Comprehensive income for the period									
Profit for the period	-	-	-	-	-	242	242	90	332
Other comprehensive income:									
Foreign currency translation differences	-	-	15	-	-	-	15	6	21
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	-	-	-	1	1
Other comprehensive income from equity accounted investees	-	-	46	-	-	-	46	22	68
Total other comprehensive income for the Period, net of tax	-	-	61	-	-	-	61	29	90
Total comprehensive income for the period	-	-	61	-	-	242	303	119	422
Share-based payment	-	-	-	-	-	10	10	-	10
Transaction with non-controlling interests	-	-	-	-	-	2	2	(5)	(3)
Dividend distributed	-	-	-	-	-	(150)	(150)	-	(150)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(42)	(42)
Balance as at September 30, 2016 - unaudited	**244**	**622**	**(890)**	**(20)**	**6**	**1,908**	**1,870**	**675**	**2,545**

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

Strauss Group Ltd.

Consolidated Interim Statements of Changes in Shareholders' Equity (Cont'd)

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions								
Changes during the nine-month period ended September 30, 2015 - Unaudited:									
Balance as at January 1, 2015 -Audited	244	622	(661)	(20)	5	1,633	1,823	717	2,540
Comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	192	192	65	257
Other comprehensive income (loss):									
Foreign currency translation differences	-	-	(55)	-	-	-	(55)	(24)	(79)
Other comprehensive income (loss) from equity-accounted investees	-	-	(159)	-	-	-	(159)	(54)	(213)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	2	-	2	3	5
Total Other comprehensive income (loss) for the period, net of tax	-	-	(214)	-	2	-	(212)	(75)	(287)
Total Comprehensive income (loss) for the period	-	-	(214)	-	2	192	(20)	(10)	(30)
Share-based payment	-	-	-	-	-	11	11	-	11
Share-based payment to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	1	1
Dividend to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	(65)	(65)
Balance as at September 30, 2015 – Unaudited	**244**	**622**	**(875)**	**(20)**	**7**	**1,836**	**1,814**	**643**	**2,457**

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

Strauss Group Ltd.

Consolidated Interim Statements of Changes in Equity (cont'd)

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions								
For the three month period ended September 30, 2016 - unaudited:									
Balance as at July 1, 2016 - unaudited	244	622	(861)	(20)	6	1,985	1,976	648	2,624
Comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	69	69	32	101
Other comprehensive income:									
Foreign currency translation differences	-	-	(5)	-	-	-	(5)	(3)	(8)
Changes in fair value of available for sale financial assets	-	-	-	-	-	-	-	1	1
Other comprehensive loss from equity-accounted investees	-	-	(24)	-	-	-	(24)	(3)	(27)
Total other comprehensive loss for the period, net of tax	-	-	(29)	-	-	-	(29)	(5)	(34)
Total comprehensive income (loss) for the period	-	-	(29)	-	-	69	40	27	67
Share-based payment	-	-	-	-	-	4	4	-	4
Dividend distributed	-	-	-	-	-	(150)	(150)	-	(150)
Balance as at September 30, 2016 - unaudited	**244**	**622**	**(890)**	**(20)**	**6**	**1,908**	**1,870**	**675**	**2,545**

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

Strauss Group Ltd.

Consolidated Interim Statements of Changes in Equity (cont'd)

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions								
Changes during the three-month period ended September 30, 2015 - Unaudited:									
Balance as at July 1, 2015 – Unaudited	244	622	(814)	(20)	6	1,764	1,802	697	2,499
Comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	68	68	22	90
Other comprehensive income (loss):									
Foreign currency translation differences	-	-	4	-	-	-	4	(5)	(1)
Other comprehensive loss from equity-accounted investees	-	-	(65)	-	-	-	(65)	(27)	(92)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	1	-	1	-	1
Total other comprehensive incime (loss) for the period, net of tax	-	-	(61)	-	1	-	(60)	(32)	(92)
Total comprehensive income (loss) for the period	-	-	(61)	-	1	68	8	(10)	(2)
Share-based payment	-	-	-	-	-	4	4	-	4
Dividend to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	(44)	(44)
Balance as at September 30, 2015 – Unaudited	**244**	**622**	**(875)**	**(20)**	**7**	**1,836**	**1,814**	**643**	**2,457**

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

Strauss Group Ltd.

Consolidated Statements of Changes in Equity (cont'd)

	Attributable to the Company's shareholders								
	Share capital	**Share premium**	**Translation reserve**	**Treasury shares**	**Reserve in respect of available-for-sale financial assets**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
					NIS millions				
For the year ended December 31, 2015 – audited									
Balance as at January 1, 2015 – audited	244	622	(661)	(20)	5	1,633	1,823	717	2,540
Comprehensive income (loss) for the year									
Profit for the year	-	-	-	-	-	257	257	88	345
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 of tax	-	-	-	-	1	-	1	2	3
Total other comprehensive income (loss) for the year, net of tax	-	-	(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 distributed	-	-	-	-	-	(100)	(100)	-	(100)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(108)	(108)
Balance as at December 31, 2015 - audited	**244**	**622**	**(951)**	**(20)**	**6**	**1,804**	**1,705**	**603**	**2,308**

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

Convenience Translation from Hebrew

Strauss Group Ltd.

Consolidated Interim Statements of Cash Flows

	For the nine months ended		For the three months ended		For the year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	Unaudited				Audited
	NIS millions				
Cash flows from operating activities					
Income for the period	332	257	101	90	345
Adjustments:					
Depreciation	103	97	34	35	132
Amortization of intangible assets and deferred expenses	33	36	11	11	51
Impairment of fixed assets and intangible assets	15	19	12	-	29
Other expenses (income), net	13	(12)	8	4	(14)
Expenses in respect of share based payment	10	12	4	3	15
Financing expenses, net	93	78	37	25	101
Income tax expenses	119	94	31	39	139
Share of profits of equity accounted investees	(154)	(134)	(51)	(51)	(198)
Change in inventory	52	54	48	94	62
Change in trade and other receivables	(88)	(147)	(77)	(182)	(56)
Change in long-term receivables	(1)	(11)	1	(13)	9
Change in trade and other payables	42	(199)	28	17	(204)
Change in employee benefits	3	(2)	4	(3)	(3)
Interest paid	(91)	(91)	(39)	(42)	(99)
Interest received	13	18	10	9	26
Income tax received (paid), net	(184)	(55)	(31)	(13)	14
Net cash flows provided by (used in) operating activities	**310**	**14**	**131**	**23**	**349**
Cash flows from investing activities					
Sale (purchase) of marketable securities and deposits, net	5	60	(1)	(2)	61
Proceeds from sale of fixed assets, intangible assets and investment property	27	23	2	-	24
Acquisition of fixed assets	(93)	(137)	(28)	(36)	(182)
Acquisition of subsidiary	-	(4)	-	-	(4)
Investments in intangible assets	(20)	(22)	(7)	(6)	(30)
Repayment of deposits and loans granted	42	31	9	11	50
Long-term loans granted	(11)	(18)	(1)	(5)	(21)
Taxes received due to the sale of investment property	-	-	-	-	5
Dividends from investee companies	144	15	123	13	48
Investment in investee companies	(36)	-	-	-	(32)
Net cash flows provided by (used in) investing activities	**58**	**(52)**	**97**	**(25)**	**(81)**

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

Strauss Group Ltd.

Consolidated Interim Statements of Cash Flows (cont'd)

	For the nine months ended		For the three months ended		For the year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	Unaudited				Audited
	NIS millions				
Cash flows from financing activities					
Short-term bank credit, net	(18)	11	(23)	(23)	43
Receipt of long-term loans	115	26	-	21	38
Repayment of long-term loans and debentures	(260)	(262)	(39)	(44)	(329)
Dividends paid	(150)	-	(150)	-	(100)
Acquisition of non-controlling interest	(2)	-	-	-	-
Dividend paid to non-controlling interests in a subsidiary	(42)	(21)	-	(1)	(108)
Net cash flows used in financing activities	**(357)**	**(246)**	**(212)**	**(47)**	**(456)**
Increase (Decrease) in cash and cash equivalents	**11**	**(284)**	**16**	**(49)**	**(188)**
Cash and cash equivalents as at beginning of period	560	767	555	512	767
Effect of exchange rate fluctuations on cash balances	(7)	(14)	(7)	6	(19)
Cash and cash equivalents as at end of period	**564**	**469**	**564**	**469**	**560**

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

Note 1 - Reporting Rules and Accounting Policies

1.1 General

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

The Company and its subsidiaries (hereinafter: the "Group") are a group of industrial and commercial companies operating in Israel and abroad and active 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 consolidated interim financial statements of the Company as at September 30, 2016 and for the nine and three-month periods then ended (hereinafter: the "Interim Financial Statements") comprise those of the Company and its subsidiaries, as well as the Group's rights in joint arrangements.
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.

1.1.2. The Interim Financial Statements were prepared in accordance with IAS 34 with respect to interim financial reporting and in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.
These Interim Financial Statements should be read in context with the audited consolidated financial statements of the Company and its consolidated subsidiaries as at December 31, 2015 and for the year then ended, and their accompanying notes (hereinafter: the "Annual Financial Statements"). The accounting policies applied in the Interim Financial Statements are consistent with those applied in preparing the Annual Financial Statements.

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

1.1.4. The consolidated Interim Financial Statements were approved for publication by the Company's board of directors on November 21, 2016.

Note 2 - Seasonality

Sales of Fun & Indulgence and coffee products in Israel are characterized by seasonality, and are generally higher in the first quarter of the year. Seasonality is mainly influenced by the winter months, when greater consumption of chocolate products and hot beverages is typical, and by increased consumption of Fun & Indulgence products as Passover approaches.

In Health & Wellness products there is no distinct trend of seasonality, but revenue is generally relatively higher in the third quarter of the year – the hot summer months, which are characterized by greater consumption of dairy products.

The international coffee sales are usually higher in the fourth quarter of the year. The seasonality is mainly affected by the timing of the Christian holidays and the end of the calendar year in the fourth quarter of the year, a time characterized by higher purchases of coffee products.

Note 3 - Segments

Details by operating segments and reconciliation to the consolidated report:

	For the nine months ended		For the three months ended		For the year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Revenues					
Sales to external customers:					
Health & Wellness	1,491	1,435	526	507	1,898
Fun & Indulgence	783	743	260	240	968
Total Israel	2,274	2,178	786	747	2,866
Coffee Israel	526	494	179	161	647
Coffee Abroad	2,086	2,063	776	715	2,785
Total Coffee	2,612	2,557	955	876	3,432
International dips and spreads	581	565	199	201	752
Other	442	443	156	150	592
Sales to other segments:					
Health & Wellness	6	6	3	3	8
Fun & Indulgence	9	5	3	1	9
Total Israel	15	11	6	4	17
Coffee Israel	2	1	1	-	1
Coffee Abroad	-	-	-	-	-
Total Coffee	2	1	1	-	1
Total revenues of the segments	5,926	5,755	2,103	1,978	7,660
Cancellation of inter-segment sales	(17)	(12)	(7)	(4)	(18)
Total revenues of the segments excluding the inter-segment sales	5,909	5,743	2,096	1,974	7,642
Adjustments to the equity method	(1,937)	(1,862)	(718)	(609)	(2,459)
Total consolidated revenues	3,972	3,881	1,378	1,365	5,183

Note 3 - Segments (cont'd)

	For the nine months ended		For the three months ended		For the year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Profit					
Health & Wellness	162	141	63	63	188
Fun & Indulgence	86	81	24	23	93
Total Israel	248	222	87	86	281
Coffee Israel	79	64	27	18	84
Coffee Abroad	196	135	85	45	184
Total Coffee	275	199	112	63	268
International dips and spreads	62	52	11	29	80
Other	24	28	3	14	30
Total profit of reportable segments	609	501	213	192	659
Unallocated income (expenses):					
Valuation of commodities hedging transactions as at the end of the period	28	(3)	1	(8)	22
Other expenses, net (1)	(43)	(20)	(24)	(14)	(42)
Share based payment	(10)	(12)	(4)	(3)	(15)
Total operating profit of reportable segments	584	466	186	167	624
Adjustments to the equity method	(40)	(37)	(17)	(13)	(39)
Total consolidated operating profit	544	429	169	154	585
Financing expenses, net	(93)	(78)	(37)	(25)	(101)
Income before taxes On income	451	351	132	129	484

(1) For the nine-month period ended September 30, 2016 also includes expenses of approximately NIS 29 million in respect of organizational changes (of said amount, NIS 12 million in respect of an onerous contract and NIS 17 million in respect of the derecognition of fixed assets and intangible assets), as well as intangible asset impairment in an amount of approximately NIS 9 million (see also Note 4.6).
For the three-month period ended September 30, 2016. Also includes expenses of approximately NIS 11 million in respect of organizational changes (of said amount, NIS 3 million in respect of an onerous contract and NIS 8 million in respect of the derecognition of fixed assets and intangible assets), as well as intangible asset impairment in an amount of approximately NIS 9 million (see also Note 4.6).

Note 4 - Material Events during the Reported Period

4.1 On January 4, 2016 the Knesset plenum approved the Law for the Amendment of the Israeli Tax Ordinance (Amendment 216), 2016 (the "Amendment"), which determines, inter alia, that the corporate tax rate will be reduced commencing in 2016 and thereafter, by 1.5%, i.e. from 26.5% to 25%. Deferred tax balances as at September 30, 2016 were calculated according to the new tax rates as determined in the Law for the Amendment of the Israeli Tax Ordinance, on the basis of the expected tax rate at the time of reversal. The impact of the change on the financial statements as at September 30, 2016 is expressed in the reduction of the deferred tax liability by approximately NIS 8 million against revenue generated by deferred taxes.

4.2 In February 2016 the subsidiary, Strauss Coffee, distributed a dividend by way of a capital reduction, expressed in the payment of NIS 21 million to the non-controlling interest.

4.3 In March 2016 the Três Corações joint venture, an equity-accounted investee in Brazil (jointly held by the Group (50%) and by São Miguel Holding e Investimentos S.A. (50%)), signed an agreement with the coffee company Cia Iguaçu de Café Soluvel for the acquisition of the operation attributed to Cia Iguaçu's retail coffee brands in South America, including Brazil. Três Corações is to pay approximately NIS 77 million for the acquisition (the Group's share is NIS 38 million). In September, the agreement was approved by the regulatory authorities in Brazil. According to the final acquisition agreement, an additional sum of NIS 2 million (the Group's share – NIS 1 million) will be added to the consideration, reflecting interest accrued on funds deposited in a trust account.

4.4 On June 30, 2016 PepsiCo-Strauss Fresh Dips & Spreads International (hereinafter: "Obela"), an equity-accounted investee that is jointly controlled by Strauss and PepsiCo, 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 products and markets its products in Western Europe, particularly in the Netherlands, Germany and France. Florentin employs a staff of forty employees and operates a production site in Holland. According to Florentin's financial statements, its sales turnover in 2015 is estimated at €5 million (approximately NIS 22 million). Obela is to pay the sum of NIS 38.5 million in consideration for the acquisition of Florentin, plus an additional performance-contingent payment of NIS 7.5 million (approximately €1.75 million) over a three-year period. The acquisition will be equally financed by Strauss and PepsiCo.

4.5 On July 26, 2016 the company distributed a dividend to shareholders in amount of NIS 150 million (NIS 1.40 per share).

4.6 Following the increase in the green coffee prices and the expected erosion of profits of Strauss Adriatic d.o.o., (a Strauss Coffee B.V. subsidiary) on September 30, 2016 the Company examined the recoverable amount of the unit. This amount reflects value in use and calculated by discounting the unit's projected future cash flows at a pre-tax discount rate of 14.5%. The estimate did not include an assumption of long-term growth. Consequently, the Group recognized an intangible asset impairment loss of NIS 9 million, which was recognized in the statement of income under other expenses.

Note 5 - Share-Based Payment

5.1 Grants in the reporting period

5.1.1 On September 26 the meeting of shareholders of the Company approved the grant of 524,613 warrants to the Company CEO, as well as 164,634 performance share units (PSUs) (the "Restricted Shares") which are exercisable for ordinary shares of the Company of NIS 1 par value each. The CEO's entitlement to receive the underlying shares resulting from the options offered to him will vest in four tranches, as follows: 50% of the total number options on July 27, 2018, and 16.667% of the number of options on July 27 in each of the years 2019, 2020 and 2021. The terms and conditions of the options granted to the CEO include a ceiling for the possible benefit embodied in the options, 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 price of the Company's share in the 30 trading days preceding the date of approval of the allotment by the board of directors, the difference between the share price on the exercise date and the price at the time of 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 according to the binomial model and estimated at NIS 11.94 per warrant. The main assumptions that were used in determining the fair value of the options are the following: share price NIS 59.29; annual standardized deviation 22.9%-24.9%; risk-free interest rate 1.36%-1.71%; exercise price NIS 63.13; projected dividend rate 0%; and life of the warrants 7-9 years. The CEO's entitlement to exercise the Restricted Shares will vest in four tranches, as follows: 50% of the total number of options on August 30, 2018, and 16.667% of the number of options on August 30 in each of the years 2019, 2020 and 2021. Exercise of the Restricted Shares is conditional on the CEO being employed by the Company on the vesting date and on adherence to 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 is estimated at NIS 59.29 per Restricted Share and was calculated according to the share price on the eve of approval by the meeting of shareholders of the Company. 5.1.2 On September 29, 2016 the Group's remuneration committee approved the grant of 93,332 warrants to two executives (46,666 warrants each) in lieu of 140,000 warrants (70,000 each) which had been allotted to them in 2014. Following are details on the fair value of the new warrants granted:

Grant date	Number of options and entitled employees	Fair value	Share price	Exercise price	Expected life	Annualized standard deviation	Discount rate
		NIS M	NIS	NIS	Years	%	%
September 29, 2016	93,332 to 2 executives	1.0	59.31	63.29	4.2 – 5.2	21.29 – 24.37	0.75 – 1.06

Entitlement to exercise the warrants will crystallize in two equal tranches, on September 28 of each of the years 2018 and 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 swap described above incremental value of approximately NIS 357 thousand was recognized, which shall be included in the amount recognized for the services received from the date of the swap until the end of the vesting period. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification.

5.2 During the reported period, 109,042 share options that were granted to employees were exercised into 32,233 shares in consideration for their par value.

Note 6 - Contingent liabilities

6.1 For information on claims and contingent liabilities against the Company and its investees as at December 31, 2015, see Note 24.1.1 to the Annual Financial Statements.

Following is information on claims filed with the court against the Company in the reporting period through to the date of approval of the financial statements, for class action certification. Based on the opinion of legal counsel, at this time Company management is of the view that the claims are not expected to be certified as class actions:

Date on which claim was filed	Court in which claim is itigated	Defendant	Subject of claim	Claim amount (NIS millions)
May 2016	Central District Court	The Company and Parent Company	Alleged excessive pricing of Elite cocoa powder by a monopoly	38
June 2016	Haifa District Court	The Company, Uri Horazo Yotvata Dairies Ltd. and the subsidiary, Strauss Health	Sale of products alleged to be defective	915

6.2 Following is information on claims filed with the court against the Company in the reporting period through to the date of approval of the financial statements, for class action certification. As at the date of approval of the report, the Company is unable, at this preliminary stage, to assess the chances of the claims being accepted and their impact, if accepted, on the financial statements of the Company:

Date on which claim was filed	Court in which claim is litigated	Defendant	Subject of claim	Claim amount (NIS millions)
May 2016	Central District Court	The Company and Parent Company	Alleged excessive pricing of the Milky dairy dessert by a monopoly	100
July 2016	Central District Court	The Company and Parent Company	Alleged excessive pricing of an instant coffee product by a monopoly	80

6.3 In March 2016 the Lod Central District Court approved the notice of withdrawal by the claimant of a monetary claim and a motion for its certification as a class action, brought against the subsidiary Strauss Water Ltd., with no order for costs (see Note 24.1.2 to the Annual Financial Statements).

6.4 In November 2016 the Central District Court directed the abatement of a motion for class certification of a claim in the amount of NIS 150 million, brought in June 2016 against the subsidiary, Uri Horazo Yotvata Dairies Ltd., in respect of the sale of allegedly defective products.

Note 7 - Equity-Accounted Investees

7.1 Concise information on material equity-accounted investees:

(a) Concise financial information on the financial position:

	Sabra Dipping Company			Três Corações Alimentos S.A		
	September 30		December 31	September 30		December 31
	2016	2015	2015	2016	2015	2015
	(Unaudited)		(Audited)	(Unaudited)		(Audited)
	NIS Millions					
Current assets	337	307	336	995	804	773
Of which:						
Cash and cash equivalents	112	94	99	43	132	158
Non-current assets	686	690	691	627	450	468
Total assets	1,023	997	1,027	1,622	1,254	1,241
Current liabilities	219	268	257	616	500	405
Of which:						
Financial liabilities except Trade and other payables and provisions	100	164	140	241	263	192
Non-current liabilities	197	36	29	230	220	312
Of which:						
Financial liabilities except Trade and other payables and provisions	197	32	26	193	188	182
Total liabilities	416	304	286	846	720	717

Note 7 - Equity-Accounted Investees (cont'd)

7.1 Concise information on material equity-accounted investees (cont'd)

(b) Concise financial information on operating results

	Sabra Dipping Company					Três Corações Alimentos S.A				
	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2016	2015	2016	2015	2015	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)	(Unaudited)		(Unaudited)		(Audited)
	NIS Millions									
Income	1,095	1,078	371	384	1,422	2,377	2,262	924	710	2,982
Profit for the period	79	71	15	35	102	144	141	67	30	202
Other comprehensive income (loss)	(28)	6	(22)	26	2	110	(285)	(20)	(144)	(293)
Total comprehensive income (loss)	51	77	(7)	61	104	254	(144)	47	(114)	(91)
Of which										
Depreciation and amortization	33	31	11	10	42	24	24	9	7	31
Interest income	-	-	-	-	-	10	7	2	2	10
Interest expenses	5	7	2	2	9	26	17	10	6	25
Income tax expenses (1)	59	53	11	26	76	46	21	19	4	18

(1) Taxable income of Sabra Dipping Company is assessed in the holding company. S.E USA, Inc.

Note 7 - Equity-Accounted Investees (cont'd)

7.2 The Group is enclosing to these interim consolidated financial statements the condensed interim consolidated financial statements of Tres Coracoes Alimentos S.A, a joint venture in Brazil (50% ownership), accounted for under the equity method.

The investee's presentation currency is the Brazilian real.

7.3 The real-shekel exchange rate was 1.16 as of September 30, 2016.

The following are the average exchange rates and rates of change in the real exchange rates during the reporting period:

	Real Exchange Rate	
	Average for the period	**Change in %**
For the nine-month period ending on:		
September 30, 2016	1.09	17.8
September 30, 2015	1.25	(33.0)
For the three month period ending on:		
September 30, 2016	1.17	(2.7)
September 30, 2015	1.10	(19.2)
For the year ending December 31, 2015	1.19	(32.9)

Note 8 - Financial Instruments

8.1 Financial instruments measured at fair value for disclosure purposes only

The carrying amount of the cash and cash equivalents, short and long term investments, trade receivables, other receivables and debit balances, trade payables and other payables and credit balances. There was no material change in the fair value (as stated in the annual financial statements) of long term loans.

Presented below are the carrying amounts (including accrued interest) and fair values of the Company's debentures, based on the prices of the Tel Aviv Stock Exchange:

	September 30, 2016		September 30, 2015		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(Unaudited)				(Audited)	
	NIS millions					
Series B Debentures	359	368	543	567	544	562
Series D Debentures	476	528	478	526	483	537

Note 8 - Financial Instruments (cont'd)

8.2 Fair value hierarchy of financial instruments measured at fair value

The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active market for similar instruments.
- Level 2: Inputs other than quoted prices within level 1.
- Level 3: inputs that are not based on observable market data.

	September 30, 2016			September 30, 2015			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	Unaudited						Audited		
	NIS million								
Financial assets (liabilities)									
Marketable securities	47	-	-	46	-	-	45	-	-
Receivables- derivatives	20	2	-	4	11	-	9	6	-
Payables- derivatives	(6)	(33)	-	(29)	(32)	-	(9)	(36)	-
Available for sale financial asset	27	-	-	27	-	-	26	-	-
Option to purchase shares (1)	-	-	-	-	-	6	-	-	5
	88	(31)	-	48	(21)	6	71	(30)	5

(1) Option to purchase shares 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's volatility. The revaluation is included in the statement of income under financing income.

For details regarding the determination of the fair value of derivative financial instruments measured at level 2, see Note 28.7.2.1 to the Annual Financial Statements.

Note 9 - Subsequent Events

9.1 On November 15, 2016 a company held by the group declared a dividend distribution in the amount of 25 million NIS. The part attributed to the company is about 13 million NIS.

9.2 For information on a claim closed after the statement of financial position date, see Note 6.4.

Strauss Group Ltd.
Annex "B"

SEPARATE FINANCIAL INFORMATION AS AT September 30, 2016

Table of Contents: **Page**

Somekh Chaikin

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To the Shareholders of Strauss Group Ltd.

Special Auditors' Report on Separate Financial Information According to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970

We have reviewed the separate financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of Strauss Group Ltd. (hereinafter – the "Company") as of September 30, 2016 and for the nine and three month periods then ended .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 review.

We did not reviewed the financial statements of equity accounted investees the investment in which amounted to approximately NIS 20.2 million as of September 30, 2016, and the Group’s share in their profits amounted to approximately NIS 6.8 million and NIS 2.3 million for the nine and three month periods then ended, respectively.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Somekh Chaikin

Certified Public Accountants (Isr.)

November 21, 2016

INFORMATION PERTAINING TO FINANCIAL POSITION

	September 30 2016 (Unaudited)	September 30 2015 (Unaudited)	December 31 2015 (Audited)
		NIS Millions	
Assets			
Cash and cash equivalents	126	74	232
Securities and deposits	23	29	30
Trade receivables	215	211	180
Income tax receivables	20	27	4
Other receivables and debit balances	34	42	28
Investee receivables	126	187	330
Inventory	102	123	142
Dividend receivable	-	136	-
Assets held for sale	36	36	62
Total current assets	682	865	1,008
Non-current assets			
Investments in investees	1,868	1,721	1,565
Other investments and long-term debit balances	638	691	618
Fixed assets	941	941	959
Intangible assets	53	61	56
Investment property	-	23	-
Total non-current assets	3,500	3,437	3,198
Total assets	4,182	4,302	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: November 21, 2016

The attached information is an integral part of the separate financial information.

INFORMATION PERTAINING TO FINANCIAL POSITION (cont'd)

	September 30 2016 (Unaudited)	September 30 2015 (Unaudited)	December 31 2015 (Audited)
		NIS Millions	
Current liabilities			
Current maturities of debentures	197	179	178
Short-term credit and current maturities of long-term loans and other long term liabilities	15	41	37
Trade payables	195	196	203
Other payables and credit balances	225	193	202
Investee payables	130	114	115
Provisions	3	8	6
Total current liabilities	765	731	741
Non-current liabilities			
Debentures	636	838	834
Long-term loans and other long term liabilities	800	812	812
Long-term payables and credit balances	17	35	32
Employee benefits, net	24	21	23
Deferred tax liabilities	70	51	59
Total non-current liabilities	1,547	1,757	1,760
Total equity attributable to the Company's shareholders	1,870	1,814	1,705
Total liabilities and equity	4,182	4,302	4,206

The attached information is an integral part of the separate financial information.

INFORMATION PERTAINING TO STATEMENTS OF INCOME

	For the nine months ended		For the three months ended		For the year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Sales	785	673	262	256	904
Cost of sales	476	419	165	164	555
Gross profit	309	254	97	92	349
Selling and marketing expenses	198	154	67	50	226
General and administrative expenses	41	18	17	5	36
	239	172	84	55	262
Operating profit before other expenses	70	82	13	37	87
Other income	2	1	1	-	5
Other expenses	(8)	(17)	(1)	(9)	(18)
Other expenses, net	(6)	(16)	-	(9)	(13)
Operating profit (loss)	64	66	13	28	74
Financing income	20	24	7	19	36
Financing expenses	(74)	(72)	(31)	(29)	(99)
Financing expenses, net	(54)	(48)	(24)	(10)	(63)
profit (loss) before taxes on income	10	18	(11)	18	11
Taxes on income	(28)	(23)	(5)	(10)	(28)
Loss after taxes on income	(18)	(5)	(16)	8	(17)
Share in profit of investees	260	197	85	60	274
Income for the year attributable to the shareholders of the Company	242	192	69	68	257

The attached information is an integral part of the separate financial information.

INFORMATION PERTAINING TO COMPREHENSIVE INCOME

	For the nine months ended		For the three months ended		For the year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Income for the period attributable to the shareholders of the Company	242	192	69	68	257
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:					
Other comprehensive income (loss) from investees	61	(212)	(29)	(60)	(289)
Total other comprehensive income (loss) items that will be transferred to profit or loss, net of tax	61	(212)	(29)	(60)	(289)
Comprehensive income (loss) for the period attributable to the shareholders of the Company	303	(20)	40	8	(32)

The attached information is an integral part of the separate financial information.

INFORMATION PERTAINING TO CASH FLOWS

	For the nine months ended		For the three months ended		For the year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Cash flows from operating activities					
Income for the year attributable to the shareholders of the Company	242	192	69	68	257
Adjustments:					
Depreciation	42	32	14	13	46
Amortization of intangible assets and deferred expenses	10	10	3	3	18
Other expenses (income), net	(1)	2	-	1	(4)
Expenses in respect of share-based payment	10	9	4	3	12
Share in gain of investees	(260)	(197)	(85)	(60)	(274)
Financing expenses, net	54	48	24	10	63
Income tax expense (Income)	28	23	5	10	28
Change in inventory	40	31	24	21	12
Change in trade and other receivables	(38)	(20)	(29)	(52)	24
Change in investee receivables	133	(36)	36	(5)	(118)
Change in long-term receivables	-	(15)	-	(20)	(7)
Change in trade and other payables	35	(21)	14	7	(51)
Change in investee payables	15	(31)	(4)	10	(30)
Change in employee benefits	-	(1)	(1)	-	1
Interest paid	(75)	(83)	(34)	(38)	(89)
Interest received	1	2	1	1	20
Income tax received (paid), net	(38)	(10)	(7)	(3)	16
Net cash flows from (used in) operating activities	198	(65)	34	(31)	(76)
Cash flows from investing activities					
Sale (purchase)of marketable securities and deposits, net	6	50	-	-	49
Proceeds from sale of fixed assets	25	4	1	-	4
Acquisition of fixed assets	(38)	(65)	(11)	(21)	(90)
Investment in intangible assets	(7)	(11)	(3)	(3)	(13)
Repayment of deposits and long-term loans	7	3	3	1	5
Long-term loans granted	(7)	(3)	(1)	(1)	(3)
Dividends from investees	65	45	-	1	340
Cash received in respect of investing activities with investees	90	6	87	-	35
Cash paid in respect of investing activities with investees	(83)	(60)	(7)	(23)	(82)
Net cash flows from (used in) investing activities	58	(31)	69	(46)	245

The attached information is an integral part of the separate financial information.

INFORMATION PERTAINING TO CASH FLOWS (cont'd)

	For the nine months ended		For the three months ended		For the year ended
	September 30 2016	September 30 2015	September 30 2016	September 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Cash flows from financing activities					
Repayment of debentures and long-term loans	(212)	(204)	(20)	(11)	(211)
Dividends paid	(150)	-	(150)	-	(100)
Net cash flows used in financing activities	(362)	(204)	(170)	(11)	(311)
Net increase (decrease) in cash and cash equivalents	(106)	(300)	(67)	(88)	(142)
Cash and cash equivalents as at January 1	232	374	193	162	374
Cash and cash equivalents as at end of period	126	74	126	74	232

The attached information is an integral part of the separate financial information.

Note 1 - Reporting Rules and Accounting Policies

1.1 General

1.1.1 The Company's business comprises the activity of the Group Headquarters and the Group's confectionery operation in Israel, which includes the development, manufacture and marketing of branded candy products. In addition, since the third quarter of 2015, the company operations also include the operations of the Group's salads in Israel.

1.1.2 The Interim Separate Financial Information of Strauss Group Ltd. (hereinafter: the "Company") is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970 and the Tenth Addendum to the said regulations with respect to the separate financial information of the corporation. This financial information should be read in conjunction with the Financial Information as at and for the year ended on December 31, 2015, and in conjunction with the interim consolidated financial statements as at September 30, 2016 (hereinafter: the "Interim Consolidated Financial Statements").

The accounting policy applied in this Condensed Interim Separate Financial Information is in accordance with the accounting policy rules described in the Separate Financial Information as at December 31, 2015.

1.1.3 In this Separate Financial Information – the Company and investee companies as defined in Note 1 to the Consolidated Financial Statements of the Company as at December 31, 2015.

1.1.4 The Interim Separate Financial Information is presented in Shekels, which is the Company's functional currency. The financial information is presented in NIS millions and rounded to the nearest million.

Note 2 - Seasonality

Confectionery sales in Israel are characterized by seasonality and are generally higher in the first quarter of the year. Seasonality is mainly affected by the winter months, when greater consumption of chocolate products is typical, as well as by increased consumption of confectionery products as Passover approaches.

Note 3 - Material Events during the Reported Period

For information on material events during the Reported Period see Note 4 to the Consolidated Interim Financial Statements.

Note 4 – Share-Based Payments

For information on share based payment, see Note 5 to the Consolidated Interim Financial Statements.

Note 5 – Contingent liabilities

For information on contingent liabilities, see Note 6 to the Consolidated Interim Financial Statements.

Note 6 - Financial Instruments

6.1 Fair value of financial instruments

For information on the fair value of financial instruments, see Note 8.1 to the Consolidated Interim Financial Statements.

6.2 Fair value hierarchy

For information on the Fair value hierarchy of financial instruments, see Note 8.2 to the Consolidated Interim Financial Statements.

Note 7 – Events after the Reporting Date

For information on events after the reporting date, see Note 9 to the Consolidated Interim Financial Statements.

STRAUSS GROUP LTD.
ISOX DECLARATION

<u>Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure Pursuant to Regulation 38c(a)</u>

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 financial reporting and disclosure within the Corporation.

For this purpose, the members of Management are:

1. Gadi Lesin, President & CEO;
2. Giyora Bar Dea, Deputy Chief Executive Officer;
3. Shahar Florence, EVP & CFO;
4. Mike Avner, EVP, CLO, Company Secretary;
5. Nurit Tal Shamir, SVP HR;

Internal control over 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 a reasonable level of assurance regarding the reliability of financial reporting and 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 timely decision-making in reference to the disclosure requirements.

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.

In the Annual Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure, which was attached to the Periodic Report for the period ended December 31, 2015 (hereinafter: the “Latest Annual Report on Internal Control”), the Board of Directors and Management evaluated internal control in the Corporation.

Based on this evaluation, the Board of Directors and Management of the Corporation reached the conclusion that the above mentioned internal control as at December 31, 2015 is effective.

Until the reporting date the Board of Directors and Management were not informed of any event or matter that are able to alter the evaluation of the effectiveness of financial control, as presented in the Latest Annual Report on Internal Control.

As at the reporting date, based on the evaluation of the effectiveness of internal control in the Latest Annual Report on Internal Control, and based on information brought to the knowledge of Management and the Board of Directors as mentioned above, internal control is effective.

<u>Statement of the Chief Executive Officer Pursuant to Regulation 38c(d)(1):</u>

Managers' Statement

Statement of the Chief Executive Officer

I, Gadi Lesin, warrant that:

(1) I have reviewed the quarterly report of Strauss Group Ltd. (hereinafter: the "Corporation") for the third quarter of 2016 (hereinafter: 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 is 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 position, 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 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 directly subordinate to him or which involves other employees who play a significant role in the internal control over financial reporting and 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), 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 financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

c. Was not informed of any event or matter occurring in the period between the date of the latest report (the Periodic Report as at December 31, 2015) and the date of the

Reports, which could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person pursuant to any law.

November 21, 2016

____
Gadi Lesin, President & CEO

<u>Statement of the Most Senior Financial Officer Pursuant to Regulation 38c(d)(2):</u>

Managers' Statement

Statement of the Most Senior Financial Officer

I, Shahar Florence, warrant that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim reports of Strauss Group Ltd. (hereinafter: the "Corporation") for the third quarter of 2016 (hereinafter: the "Reports" or the "Interim Reports").

(2) To my knowledge, the Interim Financial Statements and other financial information contained in the Interim Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which is 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 Interim Reports adequately reflect, from all material respects, the financial position, 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 to the extent that it relates to the Interim Financial Statements and to the other financial information included in the Interim Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts 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 directly subordinate to him or which involves other employees who play a significant role in the internal control over financial reporting and 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 our supervision, which are designed to ensure that material information in reference to the Corporation, including companies thereof as defined in the Securities Regulations (Annual Financial Statements), 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 financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

c. Was not informed of any event or matter occurring in the period between the date of the latest report (the Periodic Report as at December 31, 2015) and the date of the Reports that refers to the Interim Financial Statements and to any other financial information included in the Interim Report, which I estimate could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person pursuant to any law.

November 21, 2016

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Shahar Florence, EVP & CF

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.

Condensed consolidated interim financial statements as of and for the three and nine month periods ended 30 September 2016 and 2015 and independent auditors' limited review report on condensed consolidated interim financial statements

KPDS 157917

Contents

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Independent auditors’ report on review of interim financial statements

To
Directors and shareholders of Três Corações Alimentos S.A.
Eusébio - Ceará

Introduction
We have reviewed the accompanying 30 September 2016 condensed consolidated interim financial statements of Três Corações Alimentos S.A. (“the Company”), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2016;
- the condensed consolidated statement of income and other comprehensive income for the three and nine month periods ended 30 September 2016;
- the condensed consolidated statement of changes in equity for the three and nine month periods ended 30 September 2016;
- the condensed consolidated statement of cash flows for the three and nine month period ended 30 September 2016; and
- the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with IAS 34‘Interim Financial Reporting’. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review
We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Statement Performed by the Independent Auditor of the Entity”. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2016 condensed consolidated interim financial statements are not prepared in all material respects in accordance with IAS 34, ‘Interim Financial Reporting’.

Fortaleza, 04 November 2016

KPMG Auditores Independentes
CRC 2SP014428/O-6
João Alberto da Silva Neto
CRC RS-048980/O-0 T-CE

Três Corações Alimentos S.A.

Consolidated interim statements of financial position as of 30 September 2016 and 31 December 2015

(In thousand of Brazilian Reais)

Assets	**30 September 2016**	**31 December 2015 (Reclassified)**
Current		
Cash and cash equivalents	37,307	159,996
Deposits	1,977	3,478
Trade receivables	370,550	304,652
Inventories	399,439	277,283
Recoverable taxes	23,531	18,813
Income tax receivable	7,181	6,594
Derivative instruments	376	-
Other current assets	16,726	14,117
	857,087	784,933
Non-current		
Judicial deposits	8,365	8,799
Other non-current assets	9,965	10,135
Deferred tax assets	14,668	23,324
Investments	4,487	-
Fixed assets	234,242	231,134
Intangible assets	268,773	195,219
	540,500	468,611
	1,397,587	1,253,544

Liabilities	**30 September 2016**	**31 December 2015 (Reclassified)**
Current		
Short term loans	207,743	194,222
Trade payables	113,485	101,180
Income tax payables	5,789	1,056
Employees and other payroll related liabilities	50,630	33,876
Proposed dividends	100,001	100,001
Payable taxes	17,337	16,371
Other current liabilities	35,521	23,239
	530,506	469,945
Non-current		
Long term loans	166,610	184,567
Proposed dividends	-	34,548
Other non-current liabilities	2,511	-
Deferred tax liabilities	9,851	11,424
Provision for legal proceedings	19,334	20,688
	198,306	251,227
Equity		
Share capital	272,370	272,370
Translation reserve	(96,660)	(105,500)
Retained earnings	493,065	365,502
	668,775	532,372
	1,397,587	1,253,544

The accompanying notes are an integral part of these consolidated financial statements.

Três Corações Alimentos S.A.

Consolidated Interim Statements of Income

Nine and three month periods ended 30 September 2016 and 2015

(In thousand of Brazilian Reais)

	Nine months period ended 30 September		Three months period ended 30 September	
	2016	**2015**	**2016**	**2015**
Revenue	2,170,441	1,825,264	787,293	647,547
Cost of sales	(1,581,548)	(1,284,131)	(565,362)	(462,244)
Gross profit	588,893	541,133	221,931	185,303
Selling and marketing expenses	(338,836)	(327,795)	(117,297)	(117,656)
General and administrative expenses	(65,544)	(58,309)	(24,477)	(21,164)
Equity method	(118)	-	(115)	-
Other income (expenses), net	383	(145)	155	(224)
Operating profit	184,778	154,884	80,197	46,259
Finance income	9,721	5,012	2,098	1,873
Finance expenses	(23,051)	(31,846)	(9,658)	(17,043)
Profit before income tax	171,448	128,050	72,637	31,089
Income tax expenses	(41,590)	(16,764)	(15,884)	(3,804)
Profit for the period	129,858	111,286	56,753	27,285

The accompanying notes are an integral part of these consolidated financial statements.

Três Corações Alimentos S.A.

Consolidated Interim Statements of Comprehensive Income

Nine and three month periods ended 30 September 2016 and 2015

(In thousand of Brazilian Reais)

	Nine months period ended 30 September		Three months period ended 30 September	
	2016	**2015**	**2016**	**2015**
Profit for the period	129,858	111,286	56,753	27,285
Foreign currency translation differences	8,840	(29,803)	1,550	(16,501)
Comprehensive income for the period	138,698	81,483	58,303	10,784

The accompanying notes are an integral part of these consolidated financial statements.

Três Corações Alimentos S.A.

Consolidated Interim Statements of Changes in Equity

Three month periods ended 30 September 2016 and 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 30 June, 2015	272,370	28,226	138,984	175,726	(81,876)	-	533,430
Profit for the period	-	-	-	-	-	27,285	27,285
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	(16,501)	-	(16,501)
Total other comprehensive gain:	-	-	-	-	(16,501)	27,285	10,784
Internal equity changes							
State VAT and Federal tax incentives	-	-	8,376	-	-	(8,376)	-
Profit destination:							
Legal reserve	-	1,364	-	-	-	(1,364)	-
Reserve for profit to be distributed	-	-	-	17,545	-	(17,545)	-
	-	1,364	8,376	17,545	-	(27,285)	-
Balance as of 30 September, 2015	272,370	29,590	147,360	193,271	(98,377)	-	544,214
Balance as of 30 June, 2016	272,370	36,371	177,125	223,666	(98,210)	-	611,322
Profit for the period	-	-	-	-	-	56,753	56,753
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	1,550	-	1,550
Total other comprehensive gain:	-	-	-	-	1,550	56,753	58,303
Internal equity changes							
State VAT and Federal tax incentives	-	-	10,673	-	-	(10,673)	-
Profit destination:							
Legal reserve	-	2,838	-	-	-	(2,838)	-
Revaluation reserve adjustment in investee	-	-	-	(850)	-	-	(850)
Reserve for profit to be distributed	-	-	-	43,242	-	(43,242)	-
	-	2,838	10,673	42,392	-	(56,753)	(850)
Balance as of 30 September, 2016	272,370	39,209	187,798	266,058	(96,660)	-	668,775

The accompanying notes are an integral part of these consolidated financial statements.

Três Corações Alimentos S.A.

Consolidated Statements of Changes in Equity

Nine month periods ended 30 September 2016 and 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 period	-	-	-	-	-	111,286	111,286
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	(29,803)	-	(29,803)
Total other comprehensive gain:	-	-	-	-	(29,803)	111,286	81,483
Internal equity changes							
Capitalization of tax incentive	701	-	(701)	-	-	-	-
State VAT and Federal tax incentives	-	-	32,394	-	-	(32,394)	-
Profit destination:							
Legal reserve	-	5,564	-	-	-	(5,564)	-
Reserve for profit to be distributed	-	-	-	73,328	-	(73,328)	-
	701	5,564	31,693	73,328	-	(111,286)	-
Balance as of 30 September, 2015	272,370	29,590	147,360	193,271	(98,377)	-	544,214
Balance as of 31 December, 2015	272,370	32,716	157,782	175,004	(105,500)	-	532,372
Dividends distributed	-	-	-	(1,445)	-	-	(1,445)
Profit for the period	-	-	-	-	-	129,858	129,858
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	8,840	-	8,840
Total other comprehensive loss:	-	-	-	-	8,840	129,858	138,698
Internal equity changes							
State VAT and Federal tax incentives	-	-	30,016	-	-	(30,016)	-
Profit destination:							
Legal reserve	-	6,493	-	-	-	(6,493)	-
Revaluation reserve adjustment in investee	-	-	-	(850)	-	-	(850)
Reserve for profit to be distributed	-	-	-	93,349	-	(93,349)	-
	-	6,493	30,016	92,499	-	(129,858)	(850)
Balance as of 30 September, 2016	272,370	39,209	187,798	266,058	(96,660)	-	668,775

The accompanying notes are an integral part of these consolidated financial statements.

Três Corações Alimentos S.A.

Consolidated Interim Statements of Cash Flows

Nine and three month periods ended 30 September 2016 and 2015

(In thousand of Brazilian Reais)

	Nine months period ended 30 September		Three months period ended 30 September	
	2016	**2015 (Reclassified)**	**2016**	**2015 (Reclassified)**
Cash flows from operating activities				
Profit for the period	129,858	111,286	56,753	27,285
Adjustments for:				
Depreciation and amortization	21,936	18,992	7,618	6,603
Provision for legal proceedings	(1,354)	(402)	(136)	(488)
Equivalence	118	-	115	-
Other expenses (income), net	(383)	145	(155)	224
Financing expenses, net	13,330	26,834	7,560	15,170
Income tax expenses	41,590	16,764	15,884	3,804
Interest paid, net	(16,909)	(8,870)	(8,293)	(3,864)
Income tax paid	(31,211)	(20,259)	(18,215)	(7,319)
	156,975	144,490	61,131	41,415
Change in:				
Trade receivables	(67,863)	8,925	8,514	37,075
Inventories	(116,275)	(101,563)	(114,100)	(85,445)
Recoverable and payable taxes, net	(3,752)	681	(6,335)	4,390
Derivatives, net	(376)	-	(376)	-
Judicial deposits	434	(425)	(123)	(134)
Trade payables	2,218	14,443	(6,416)	(2,148)
Employees and other payroll related liabilities	16,754	11,576	4,636	1,070
Other current and non-current assets and liabilities, net	(5,998)	(13,323)	(7,448)	(3,554)
Net cash flows provided by (used in) operating activities	(17,883)	64,804	(60,517)	(7,331)
Cash flows from investing activities				
Change in deposits	1,223	991	3,765	(1,668)
Payment for acquisition of operations	(53,582)	(1,980)	-	-
Share capital increase in joint-venture	(4,605)	-	-	-
Proceeds from sales of fixed assets	1,529	2,357	361	388
Acquisition of fixed assets	(26,935)	(28,845)	(7,230)	(9,661)
Investments in intangible assets	(3,701)	(4,341)	(1,340)	(2,537)
Long-term loans to related parties	-	(33)	-	-
Net cash flows used in investing activities	(86,071)	(31,851)	(4,444)	(13,478)
Cash flows from financing activities				
Proceeds from loans	280,276	258,347	114,318	214,709
Repayment of loans	(263,018)	(242,081)	(72,194)	(78,903)
Dividend paid	(35,993)	(2,726)	-	-
Net cash flows provided by (used in) financing activities	(18,735)	13,540	42,124	135,806
Net increase (decrease) in cash and cash equivalents	(122,689)	46,493	(22,837)	114,997
Net increase (decrease) in cash and cash equivalents				
Cash and cash equivalents as of beginning of period	159,996	87,775	60,144	19,271
Cash and cash equivalents as of end of period	37,307	134,268	37,307	134,268
	(122,689)	46,493	(22,837)	114,997

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the condensed consolidated interim financial statements

(Amounts in thousands of Brazilian reais, unless otherwise stated)

1 Reporting entity

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.

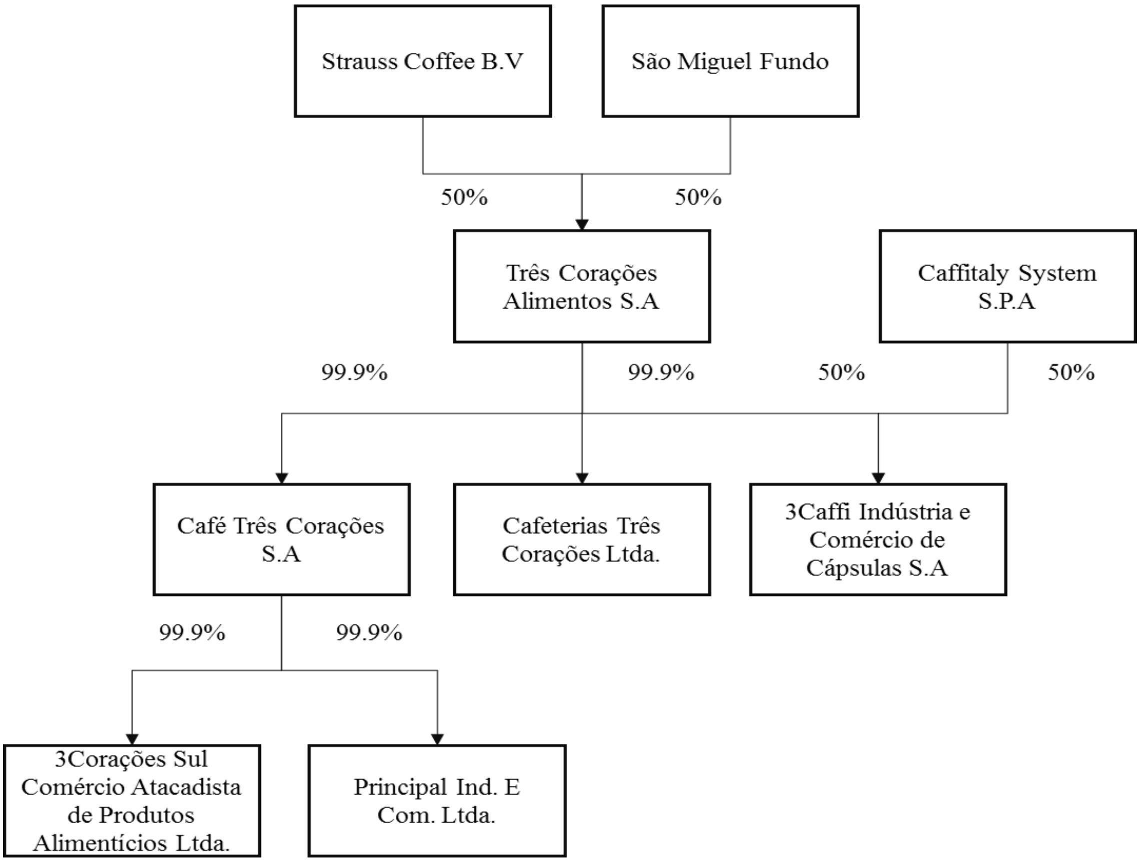
The Company controls the entities Cafeterias Três Corações Ltda., and Café Três Corações S.A., which controls the entities 3Corações Sul Comércio Atacadista de Produtos Alimentícios Ltda. (former Polo Participações Ltda.) and Principal Comércio e Indústria de Café Ltda., all together referred to as "the Group". The Company is part in a joint-venture with Caffitaly System S.P.A., according to which each part owns 50% of 3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi"). 3Caffi is not consolidated in this report, since the Company does not control 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%).

As of 30 September 2016, the Group had the following structure:



2 Basis of preparation

a. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 regarding interim financial reporting. These condensed consolidated interim financial statements does not include all of the information required for full annual financial statements, and should be read in conjunction with the IFRS audited financial statements of the Company as of 31 December 2015 and for the year then ended, together with its accompanying notes (hereinafter - the "Annual Financial Statements").

These condensed consolidated interim financial statements were authorized for issue by the Company's Management on 04 November 2016.

3 Significant accounting policies

The accounting principles applied by the Company in preparing these condensed consolidated interim financial statements are consistent with the principles applied by the Company in preparing its audited Annual Financial Statements as of 31 December 2015 and have been applied consistently to all entities of the Group.

4 Reclassification

(i) Reclassification of 30 September 2015 financial statements of fixed assets acquired through loans and borrowings

Fixed assets purchased through loans and borrowings were presented in the financial statements as of 30 September 2015 as a cash outflow in the cash flows from investing activities, while cash inflows were presented as cash flows from financing activities, following the new loans or borrowings contracted.

When preparing these 30 September 2016 condensed consolidated interim financial statements, Management decided to treat these acquisitions as non-cash activities, once the funds raised with the loans or borrowings are directly transferred by the banks to the supplier. The reclassification effect in the consolidated interim statement of cash flows for the three and nine-month periods ended 30 September 2015 is presented below:

	Originally presented nine month period ended 30 September, 2015	Fixed assets purchased with through loans and borrowings reclassification	Reclassified nine month period ended 30 September, 2015
Cash flows from investing activities			
Change in deposits	991	-	991
Payment for acquisition of operations	(1,980)	-	(1,980)
Proceeds from sales of fixed assets	2,357	-	2,357
Acquisitions of fixed assets	(34,267)	5,422	(28,845)
Investments in intangible assets	(4,341)	-	(4,341)
Long-term loans to related parties	(33)	-	(33)
Net cash flows used in investing activities	(37,273)	5,422	(31,851)
Cash flows from financing activities			
Proceeds from loans	267,074	(8,727)	258,347
Repayment of loans	(245,386)	3,305	(242,081)
Dividend paid	(2,726)	-	(2,726)
Net cash flows used in financing activities	18,962	(5,422)	13,540

	Originally presented three month period ended 30 September, 2015	Fixed assets purchased with through loans and borrowings reclassification	Reclassified three month period ended 30 September, 2015
Cash flows from investing activities			
Change in deposits	(1,668)	-	(1,668)
Proceeds from sales of fixed assets	388	-	388
Acquisitions of fixed assets	(8,491)	(1,170)	(9,661)
Investments in intangible assets	(2,537)	-	(2,537)
Net cash flows used in investing activities	(12,308)	(1,170)	(13,478)
Cash flows from financing activities			
Proceeds from loans	214,858	(149)	214,709
Repayment of loans	(80,222)	1,319	(78,903)
Dividend paid	-	-	-
Net cash flows used in financing activities	134,636	1,170	135,806

(ii) Reclassification of 31 December 2015 financial statements judicial deposit

The Group has a legal obligation to pay the Accident Prevention Factor (FAP), but in accordance with its assessment of the assigned FAP percentage, Management understands the applied percentage should be lower.

Due to the above, the amount paid in excess was recorded as judicial deposit, and a provision was made as employees and other payroll related liabilities. Both the provision and the deposit will be settled on a net basis when the legal issue is concluded, and therefore Management decided to present both in the net position.

The amount reclassified from judicial deposits to employees and other payroll related liabilities as of 31 December 2015 is R$ 6,605.

5 Material events during the reported period

5.1 Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi")

On 10 May 2016, Caffitaly System S.p.A. purchased 50% of the Company's existing shares in 3Caffi, in the amount of R$ 5, then subscribed new shares issued by 3Caffi in the amount of R$ 4,995, of which it paid-in the amount of R$ 4,600. On the same date, the Company increased its participation in 3Caffi share capital subscribing new shares in the amount of R$ 4,995, of which it paid-in the amount of R$ 4,600 through capitalization of the Advance for Future Increase of Share Capital made by the Company on February 18, 2016. This way, as of the same date, the remaining amount that was subscribed but not paid-in was R$ 790, corresponding to R$ 395 for each shareholder, which may be paid in accordance with capital requirements within 10 years.

As a result the operation above, share capital has the following structure as of September 30, 2016:

	Changes in Share Capital (R$ 000)				
	Share Capital on December 31, 2015	**Share Capital After Purchase Agreement on May 10, 2016**	**Subscribed Share Capital as of June 30 and September 30 , 2016**	**Paid-in Share Capital as of June 30 and September 30, 2016**	**%**
Caffitaly System S.p.A	-	5	5,000	4,605	50%
Três Corações Alimentos S.A	10	5	5,000	4,605	50%
Other	-				
Total	10	10	10,000	9,210	100%

As a result of the above, 3Caffi became a joint controlled entity, and therefore is no more part of the consolidation.

5.2 Iguaçu acquisition

In June 2016, the agreement for business acquisition related to instant coffee and related product brands with Companhia Iguaçu de Café Solúvel was approved by the Administrative Council for Economic Defense (CADE). The official announcement was published on 8 June 2016. As a result of the acquisition, the brands added to the portfolio of the Group are Iguaçu, Cruzeiro and Amigo, increasing Company´s market share mainly in the South of Brazil and providing an entry into the Latin American markets outside of Brazil with the brands of Iguaçu and Cruzeiro.

According to the agreement, the transaction closing date was 28 June 2016, at the total purchase value of R$ 73,582. The amount of R$ 53,582 has been paid by means of an escrow deposit amount transferred to Companhia Iguaçu de Café Solúvel and R$ 20,000 is 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 annual instalments, with interests, in June each year starting 2017

The total amount still outstanding as of 30 September 2016, including interest, is R$ 21,124

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 are listed below:

	R$
Intangible assets:	
Brands and trademarks	11,000
List of customers	34,400
Net identifiable assets	45,400

The amounts above represent the best Management's estimate of the fair value of the identifiable assets transferred at the time of the acquisition and initial recognition of the purchase. The Group will reflect the impact of the fair value of all assets, including goodwill, from new information obtained, including an independent valuation now in course, regarding conditions existing at the time of the acquisition within the measurement period of 12 months, in accordance with IFRS 3.

As a result of the total valuation of the transaction and that of the above identifiable assests as performed by the Management, the Goodwill from the business combination can been estimated at R$ 28,182.

5.3 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 payments are calculated as a positive difference between 10% of the VAT payables for the month and the respective VAT tax payment, if compared to the same month of the previous year, which indicates an increase in tax contribution by the taxpayer. This way, the additional VAT tax payment due is zero in case the increase is equal or higher than 10% and is the full 10% if there is no increase in the month. As this is an entirely new legislation, its interpretation by individual states may still be subject to change.

5.4 Dividend paid

On 7 June 2016, additional dividends declared from the 2015 results in the amount of R$ 1,445, were approved by the ordinary shareholders' meeting. These additional dividends were paid in June 2016.
The amount of R$ 34,548, representing 50% of dividends declared from the 2014 results, was paid together with the above additional dividend.

6 Net debt

	30 September 2016	31 December 2015
	(Unaudited)	(Audited)
Short term loans	207,743	194,222
Long term loans	166,610	184,567
Cash and cash equivalents	(37,307)	(159,996)
Net debt	337,046	218,793

The increase in net debt presented above is mainly due to increase in inventories.

7 Contingent liabilities

There were no material events related to contingent liabilities provisions during the reported period, except for the usual interest accrued on the contingent liabilities provision balances.

8 Financial instruments

a. Fair value of financial instruments

The carrying amounts of the cash and cash equivalents, short and long term financial investments, trade receivables, other receivables and debit balances, credit from banks and others, trade payables and other payables and credit balances are the same or close to their fair value, except as mentioned below.

Presented below are the carrying amounts and fair values of financial liabilities that are not presented in the financial statements at fair value or close to it:

	30 September 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	(Unaudited)		(Audited)	
Financial liabilities				
Short term loans	207,743	183,950	194,222	184,171
Long term loans	166,610	138,488	184,567	174,216

The fair value is based on the contractual cash flow discounted to each reporting date, based on the market interest rates as of each reporting date. The carrying amount includes interest accrued as of each reporting date.

b. Fair value hierarchy

The table below illustrates an analysis of financial instruments carried at fair value, using valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active market.

Level 2: inputs other than quoted prices within level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of 30th of September 2016 and 31 December 2015, the Group did not have financial instruments balances carried at fair value using valuation methods.

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Pedro Alcântara Rêgo de Lima	Danisio Costa Lima Barbosa	Adenise Evangelista de Melo
Chief Executive Officer	Chief Financial Officer	Accountant CRC/CE nº 8.126/O-3
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