STRAUSS GROUP LTD.
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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 2016[1] (HEREINAFTER: THE "PERIODIC REPORT")

The following is a summary of significant changes and/or innovations which occurred in the Company's business in the six months which ended June 30, 2017 and up to the publication date of the report and which should be outlined in the Periodic Report pursuant to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), – 1970. This update relates to the numbers of the sections which appeared in the Chapter, Description of the Company's Business and to the number of the regulations which appeared in the Chapter, Additional Details on the Corporation in the Periodic Report of the Company for 2016 ("Description of the Company's Business Affairs" and "Report of Additional Details", respectively).

1. Section 4 to the Description of the Company's Business, Distribution of Dividends

On 9, August 2017, the Board of Directors of the Company approved the distribution of a cash dividend to the Company's shareholders. For details regarding the distribution of a dividend, as aforesaid, see Immediate Report dated August 10, 2017 (Ref no. 2017-01-081858) and Note 9 to the condensed consolidated interim financial statements of the Company as at June 30, 2017.

2. Section 15.1 of other activities, Strauss Water

On 28 May, 2017, it was decided that the subsidiary Strauss Water Ltd. ("Strauss Water ") will exercise its right in accordance with the joint venture agreement as defined in the reports, to purchase an additional 15% of the Qingdao HSW Health Water Appliance Co. Ltd (“Joint Venture” and “The Acquisition”), thus following the acquisition the joint venture will be owned by the Haier Group 51% and Strauss Water 49%. For further details, see Immediate Report dated May 29, 2017 (Ref no. 2017-01-045247) and note 4.5 to the condensed consolidated interim financial statements of the Company as at June 30, 2017.

3. Section 15.2 of other activities, Max Brenner

On May 24, 2017, the Company reported that agreements were signed on May 23, 2017 for the sale of activity of Max Brenner to an Israeli franchise of Max Brenner in consideration of approximately NIS 18 million. The aforesaid amount includes lease fees for the Max Brenner factory in Beit Shemesh for five years.

The sale of the Max Brenner activity was made as part of realizing the Group's strategy to focus on its core areas. For further details, see note 4.3 to the condensed consolidated interim financial statements as at June 30, 2017.

4. Section 21 to the Description of the Corporation's Business, Finance

Section 21.1 – General – In April 2017, 4,074,752 shares of NIS 1 par value were issued to institutional entities and to the public for consideration of approximately NIS 260 million. For further details, see Immediate Reports dated April 5, 2017 (Ref no. 2017-01-030811), dated April 6, 2017 (Ref. no. 2017-01-031000) and April 7, 201 (Ref. no. 2017-01-031927).

Additionally, in June 2017, 2,727,274 shares of NIS 1 par value were issued to institutional entities for consideration of approximately NIS 180 million. For further details, see Immediate Reports dated June 22, 2017 (Ref no. 2017-01-052369), June 27, 2017 (Ref. no. 2017-01-053941) and July 2, 2017 (Ref. no. 2017-01-055525).

[1] As published on March 28, 2017 (reference number 2017-01-025621).

For information on issued to institutional entities, see Note 4.4 to the condensed consolidated interim financial statements as at June 30, 2017.

Section 21.3 – Reportable credit – On March 30, 2017, the subsidiary, Strauss Coffee B.V. entered into a loan agreement with an institutional entity (not a related party). For further details, see Immediate Report dated April 2, 2017 (Ref. no. 2017-01-029197). For further details, see note 4.1 to the condensed consolidated interim financial statements as at June 30, 2017.

On July 4, 2017, the Company issued Series E debentures, which are listed for trading on the Tel Aviv Stock Exchange. The issue proceeds were NIS 403 million. For further details, see note 9.1 to the condensed consolidated interim financial statements as at June 30, 2017, and Immediate Reports dated July 4, 2017 (Ref. no. 2017-01-056605 and Ref. no. 2017-01-056833).

Section 21.7 – Credit rating – On April 2, 2017, the Company announced the ratification of a iIAA negative outlook rating of Standard & Poor's Maalot Ltd. For further details, see Immediate Report dated April 2, 2017 (Ref. no. 2017-01 029593).

On April 3, 2017, the Company reported on a Special Report of Midroog Ltd. ("**Midroog**"), following a buyback of shares of TPG by Strauss Coffee, pursuant to which Midroog ratified an Aa2 rating for Series B debentures and Series D debentures in circulation with a stable horizon. See Immediate Report of the Company dated April 3, 2017 (Ref. no. 2017-01-029839).

On April 27, 2017, the Company announced an Aa2il rating of Midroog for Series B debentures and Series D debentures in circulation with a stable horizon. For further details, see Immediate Report of the Company dated April 27, 2017 (Ref. no. 2017-01-035740).

On July 2, 2017, the Company reported that Midroog had set a rating of Aa2il for deposits to be issued by the Company up to an amount of NIS 470 million par value. For details, see Immediate Report dated July 2, 2017 (Ref. no. 2017-01-055858). On July 2, 2017, the Company reported that Maalot had set a rating of ilAA+ for debentures to be issued by the Company up to an amount of NIS 470 million par value. For details, see Immediate Report dated July 2, 2017 (Ref. no. 2017-01-055771).

5. Section 26 to the Description of the Corporation's Business – Legal Proceedings

For updates, see Note 6 to the condensed consolidated interim financial statements of the Company for June 30, 2017.

6. Regulation 26 to the Report of Additional Details, Directors of the Corporation

On June 12, 2017, Dr. Samer Haj Yahi was appointments external director in the Company. In addition, on this date, the external directors, Ms. Dafna Schwartz and Dr. Michael Angel, and independent directors, Ms. Dalya Lev and Mr. Akiva Moses, ceased to serve as directors in the Company. For further details, see Immediate Reports dated June 13, 2017 (Ref. nos. 2017-01-049336, 2017-01-049342, 2017-01-049348, 2017-01-049354, 2017-01-049345, 2017-01-049363, 2017-01-049366).

Date: August 9, 2017

Names of the signatories and their positions:

Ofra Strauss, Chairperson of the Board of Directors

Gadi Lesin, Chief Executive Officer

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Strausss Group Ltd

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT
TO THE SHAREHOLDERS
AS AT JUNE 30, 2017

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED JUNE 30, 2017

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 second quarter of 2017 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, 2016, the Financial Statements and the Board of Directors' Report on the Company's Business Position for the year then ended, as published on March 28, 2017 (reference no. 2017-01-025621) (the "2016 Periodic Report").

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 headquarters) 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 operation being Strauss Water),.

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 second quarter of 2017 the Group held an 11.7% share of the domestic food and beverage market (in value terms[1]) compared to 11.6% at the end of 2016, and it has the highest sales turnover among Israeli food companies (according to the Company's Non-GAAP sales turnover pursuant to the Group's Management (Non-GAAP) Reports, as defined below).

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 and Strauss Water's activity 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 through the Florentin brand[3]; and **the operation in the US and Canada**, which includes Sabra's operations. 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.

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

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

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[1] According to StoreNext figures. StoreNext is engaged in the measurement of the fast-moving consumer goods (FMCG) market in the barcoded retail market (hereinafter: **"StoreNext"**).

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

[3] For information on the acquisition of Florentin B.V., see Note 12.6.1 to the Consolidated Financial Statements as at December 31, 2016.

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 to manufacture the products of the Group and the companies it controls, including joint ventures. In the first half of 2017 the average market prices of part of the Group's raw materials increased, while the average market prices of other raw materials dropped, compared to the corresponding period last year. On the one hand, green coffee prices (mainly Robusta) rose, as did the prices of sugar and raw milk (the "target price"), while on the other, the prices of cocoa, hazelnuts and almonds decreased. In the second quarter of 2017 the average prices of green coffee (mainly Robusta) rose, except in Brazil, as well as the price of raw milk (the target price); by contrast, the prices of cocoa, sugar, tahini, hazelnuts and almonds decreased. At the beginning of the third quarter, the price of raw milk (target price) was revised upward by 1.7% for the months July-September 2017, further to an increase of 6.8% from the beginning of year, for the months January-June 2017.

The Group is taking steps to reduce the impacts of commodity price volatility, including hedging, making changes in the materials mix in its products and operational efficiency enhancement. Up to and including 2016, 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. Commencing in the first quarter of 2017, profits or losses arising from economic hedges of commodities have been recorded on the income statement on the date of sale of the inventory to outside parties.

Energy prices – Since the beginning of the year and on or about the date of publication of the report, oil prices have dropped by approximately 7%; however, average oil prices in the first half and second quarter of 2017 were some 30% and 10% higher, respectively, than oil prices in the corresponding periods last year.

Exchange rate fluctuations – In the first half and second quarter of the year part of the average exchange rates versus the Shekel strengthened in relation to the average rates in the corresponding periods last year. The impact of the devaluation of the Shekel against the average exchange rates of the Real and the Ruble, after setoff of the revaluation of the Shekel against the average exchange rates of the Group's other functional currencies, led to positive translation differences in the income statement for the first half compared to the corresponding half last year. However, in the second quarter negative translation differences in relation to the corresponding quarter were caused by lower gains in the average exchange rate of the Real against the Shekel. In terms of half-yearly change and in the second quarter (based on closing prices), the Shekel strengthened against the Real as well as against most other currencies. This revaluation contributed to a reduction in the Group's shareholders' equity in the first half and second quarter. In the half and quarter part of the average exchange rates of Strauss Coffee's functional currencies strengthened (Shekel, Ruble and Real), while others weakened (Hryvnia, Leu and Dinar) against the Dollar compared to the corresponding periods last year. In the second quarter the Brazilian Real devalued significantly following political unrest in Brazil, but rallied after the statement of financial position date..

The following table presents the average exchange rates **versus the Shekel** in the first half and second quarter of 2017 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Half		% Change	Average Exchange Rate in Second Quarter		% Change
		2017	2016		2017	2016	
United States Dollar	USD	3.664	3.861	*(5.1)*	3.593	3.816	*(5.9)*
Ukrainian Hryvnia	UAH	0.137	0.152	*(9.7)*	0.136	0.151	*(10.0)*
Russian Ruble	RUB	0.063	0.055	*14.5*	0.063	0.058	*8.7*
Serbian Dinar	RSD	0.032	0.035	*(8.4)*	0.032	0.035	*(8.3)*
Romanian Leu	RON	0.873	0.958	*(8.9)*	0.867	0.958	*(9.5)*
Polish Zloty	PLN	0.928	0.987	*(5.9)*	0.937	0.986	*(5.0)*
Brazilian Real	BRL	1.153	1.045	*10.4*	1.119	1.088	*2.8*
Chinese Renminbi	CNY	0.533	0.591	*(9.7)*	0.524	0.585	*(10.4)*
Canadian Dollar	CAD	2.746	2.903	*(5.4)*	2.671	2.960	*(9.7)*
Australian Dollar	AUD	2.763	2.832	*(2.4)*	2.698	2.847	*(5.2)*
Mexican Peso	MXN	0.189	0.214	*(11.7)*	0.194	0.211	*(8.2)*

The following table presents the average exchange rates **versus the Dollar** in the first half and second quarter of 2017 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Half		% Change	Average Exchange Rate in Second Quarter		% Change
		2017	2016		2017	2016	
New Israeli Shekel	ILS	0.273	0.259	*5.4*	0.278	0.262	*6.2*
Ukrainian Hryvnia	UAH	0.037	0.039	*(4.8)*	0.038	0.040	*(4.3)*
Russian Ruble	RUB	0.017	0.014	*20.6*	0.018	0.015	*15.4*
Serbian Dinar	RSD	0.009	0.009	*(3.4)*	0.009	0.009	*(2.6)*
Romanian Leu	RON	0.238	0.248	*(4.0)*	0.241	0.251	*(3.8)*
Polish Zloty	PLN	0.254	0.256	*(0.8)*	0.261	0.258	*1.0*
Brazilian Real	BRL	0.315	0.271	*16.2*	0.311	0.285	*9.2*

Regulation in the food industry – On April 3, 2017 the Ministry of Health distributed a Draft Protection of Public Health Regulations (Food) (Nutritional Labeling), 2017 for public comment. According to the Draft Regulations, food manufacturers will be mandatorily required to mark food products with a red label for specific nutritional ingredients (saturated fat, sodium and sugar), according to the threshold values specified in the Regulations. Labeling will be introduced gradually, in three steps, with third step labeling scheduled to be implemented in 2020. Additionally, a professional committee, which will be appointed by the Director of Public Health Services, will recommend to the Minister with regard to the conditions for labeling food types that meet the “green label” requirements, according to nutritional profiling.

ANALYSIS OF FINANCIAL RESULTS

Strauss Group has a number of jointly controlled companies in which the Company and/or subsidiaries hold 50%: the Três Corações joint venture (in Brazil)(1), Sabra Dipping Company (an investee company in North America), Strauss Frito-Lay Ltd. (the salty snack operation in Israel) and PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela). To clarify, the above companies are included in the Management (Non-GAAP) Reports of the Company according to the holdings of the Company and/or the subsidiaries therein (50%).

Since 2013 Strauss Group has retrospectively applied IFRS 11 – Joint Arrangements. The significance of the standard is that the income statements and statements relating to financial position, comprehensive income, changes in shareholders’ equity and cash flows of businesses which are jointly controlled by the companies in the Group and other partners are no longer stated according to the Group companies’ relative holding in the entity as was the practice until the publication of the standard, but in a separate row (“Income of equity-accounted investees”, and in other reports in the relevant section) (hereinafter: the **“Financial Statements”**).

The reporting method does not alter the Group’s profit and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. There has been no managerial change in the jointly held businesses.

The information contained in this report and its presentation were examined from Company Management's perspective in order to provide a comprehensive picture and 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 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 IFRS 11 was applied, i.e. presentation of the Group’s relative holding in the income and expenses, assets and liabilities of the jointly controlled companies (50%) (hereinafter: the **“Management (Non-GAAP) Reports”** or the **“Non-GAAP Reports”**). Presentation of the data in this manner is different to the manner of their presentation in the Financial Statements of the Company as described.

The next pages present the Non-GAAP Reports, the GAAP Reports and the various adjustments made by the Company in making the transition from the Company’s GAAP reports to its Non-GAAP Reports.

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) for the quarter and the half ended June 30, 2017 and 2016 (in NIS millions)*:

	First Half			**Second Quarter**		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Sales	**4,125**	**3,813**	***8.2***	**2,042**	**1,933**	***5.6***
Organic growth excluding foreign currency effect	6.7%	7.8%		6.2%	11.0%	
Cost of sales	2,592	2,354	*10.1*	1,289	1,200	*7.4*
Gross profit – Non-GAAP	**1,533**	**1,459**	***5,1***	**753**	**733**	***2.7***
% of sales	37.2%	38.3%		36.9%	37.9%	
Selling and marketing expenses	900	845	*6.3*	456	442	*3.2*
General and administrative expenses	231	221	*4.5*	115	110	*4.1*
Company's share of profits of equity-accounted investees	8	3	*130.3*	5	2	*131.7*
Operating profit – Non-GAAP	**410**	**396**	***3.7***	**187**	**183**	***2.3***
% of sales	9.9%	10.4%		9.1%	9.4%	
Financing expenses, net	(78)	(61)	*28.1*	(44)	(29)	*50.1*
Income before taxes on income	**332**	**335**	***(0.7)***	**143**	**154**	***(6.8)***
Taxes on income	(77)	(97)	*(20.4)*	(35)	(50)	*(28.7)*
Effective tax rate	23.1%	28.8%		24.4%	31.9%	
Income for the period – Non-GAAP	**255**	**238**	***7.2***	**108**	**104**	***3.5***
Attributable to: The Company's shareholders	**213**	**185**	***15.2***	**97**	**78**	***24.9***
Non-controlling interests	42	53	*(21.0)*	11	26	*(60.7)*
EPS (NIS)	1.95	1.73		0.88	0.73	

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) of the major business segments for the quarter and the half ended June 30, 2017 and 2016 (in NIS millions)*:

	First Half			**Second Quarter**		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Israel						
Net sales	1,555	1,488	*4.5*	737	712	*3.4*
Operating profit	171	161	*6.3*	66	63	*4.4*
Coffee						
Net sales	1,943	1,657	*17.2*	982	877	*11.8*
Operating profit	192	163	*18.0*	101	83	*21.2*
International Dips & Spreads						
Net sales	338	382	*(11.5)*	178	197	*(9.5)*
Operating profit	23	51	*(55.5)*	6	24	*(73.3)*
Other						
Net sales	289	286	*1.2*	145	147	*(0.7)*
Operating profit	24	21	*15.9*	14	13	*6.7*
Total						
Net sales	**4,125**	**3,813**	***8.2***	**2,042**	**1,933**	***5.6***
Operating profit	**410**	**396**	***3.7***	**187**	**183**	***2.3***

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

Following are the condensed financial accounting (GAAP) income statements for the quarter and the half ended June 30, 2017 and 2016 (in NIS millions)*:

	First Half			Second Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Sales	2,696	2,594	*3.9*	1,288	1,273	*1.1*
Cost of sales excluding impact of commodity hedges	1,618	1,561	*3.6*	787	768	*2.2*
Adjustments for commodity hedges**	19	(27)		10	(21)	
Cost of sales	1,637	1,534	*6.7*	797	747	*6.6*
Gross profit	**1,059**	**1,060**	***(0.1)***	**491**	**526**	***(6.6)***
% of sales	39.3%	40.9%		38.2%	41.3%	
Selling and marketing expenses	627	597	*5.1*	309	305	*1.4*
General and administrative expenses	179	173	*3.7*	86	86	*0.8*
Total expenses	**806**	**770**		**395**	**391**	
Share of profits of equity-accounted investees	94	103	*(8.4)*	50	52	*(4.8)*
Operating profit before other expenses	**347**	**393**	***(11.9)***	**146**	**187**	***(22.5)***
% of sales	12.9%	15.2%		11.3%	14.8%	
Other income (expenses), net	(7)	(18)		(14)	(16)	
Operating profit after other expenses	**340**	**375**	***(9.3)***	**132**	**171**	***(23.2)***
Financing expenses, net	(68)	(56)	*20.3*	(39)	(26)	*45.0*
Income before taxes on income	**272**	**319**	***(14.5)***	**93**	**145**	***(35.7)***
Taxes on income	(40)	(88)	*(54.4)*	(10)	(46)	*(78.1)*
Effective tax rate	14.7%	27.6%		10.8%	31.7%	
Income for the period	**232**	**231**	***0.7***	**83**	**99**	***(16.0)***
Attributable to: The Company's shareholders	**180**	**173**	***3.7***	**73**	**69**	**4.1**
Non-controlling interests	52	58	*(8.5)*	10	30	*(64.3)*

**** 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. Commencing in the first quarter of 2017, reflects all adjustments necessary to delay recognition of profit or loss arising from commodity derivatives until the date when the inventory is sold to outside parties.***

<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 Half 2017			First Half 2016			Second Quarter 2017			Second Quarter 2016		
	Equity method	**Change**	**Proportionate consolidation method (formerly applied)**	**Equity method**	**Change**	**Proportionate consolidation method (formerly applied)**	**Equity method**	**Change**	**Proportionate consolidation method (formerly applied)**	**Equity method**	**Change**	**Proportionate consolidation method (formerly applied)**
Sales	2,696	1,429	4,125	2,594	1,219	3,813	1,288	754	2,042	1,273	660	1,933
Cost of sales excluding impact of commodity hedges	1,618	974	2,592	1,561	793	2,354	787	502	1,289	768	432	1,200
Adjustments for commodity hedges	19	1	20	(27)	-	(27)	10	1	11	(21)	-	(21)
Cost of sales	1,637	975	2,612	1,534	793	2,327	797	503	1,300	747	432	1,179
Gross profit	**1,059**	**454**	**1,513**	**1,060**	**426**	**1,486**	**491**	**251**	**742**	**526**	**228**	**754**
% of sales	39.3%		36.7%	40.9%		39.0%	38.2%		36.3%	41.3%		39.0%
Selling and marketing expenses	627	273	900	597	248	845	309	147	456	305	137	442
General and administrative expenses	179	60	239	173	54	227	86	33	119	86	27	113
Company's share of profits of equity-accounted investees	94	(86)	8	103	(100)	3	50	(45)	5	52	(50)	2
Operating profit before other expenses	**347**	**35**	**382**	**393**	**24**	**417**	**146**	**26**	**172**	**187**	**14**	**201**
% of sales	12.9%		9.3%	15.2%		10.9%	11.3%		8.4%	14.8%		10.4%
Other expenses, net	(7)	(10)	(17)	(18)	(1)	(19)	(14)	(11)	(25)	(16)	(1)	(17)
Operating profit after other expenses	**340**	**25**	**365**	**375**	**23**	**398**	**132**	**15**	**147**	**171**	**13**	**184**
Financing expenses, net	(68)	(10)	(78)	(56)	(5)	(61)	(39)	(5)	(44)	(26)	(3)	(29)
Income before taxes on income	**272**	**15**	**287**	**319**	**18**	**337**	**93**	**10**	**103**	**145**	**10**	**155**
Taxes on income	(40)	(15)	(55)	(88)	(18)	(106)	(10)	(10)	(20)	(46)	(10)	(56)
Effective tax rate	14.7%		19.1%	27.6%		31.5%	10.8%		20.1%	31.7%		36.4%
Income for the period	**232**	**-**	**232**	**231**	**-**	**231**	**83**	**-**	**83**	**99**	**-**	**99**
Attributable to: The Company's shareholders	**180**	**-**	**180**	**173**	**-**	**173**	**73**	**-**	**73**	**69**	**-**	**69**
Non-controlling interests	52	-	52	58	-	58	10	-	10	30	-	30

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

	First Half			Second Quarter		
	2017	2016	% Chg	2017	2016	% Chg
Operating profit (according to proportionate consolidation method) after other expenses	**365**	**398**	***(8.2)***	**147**	**184**	***(20.0)***
Share-based payment	8	6		4	3	
Adjustments for commodity hedges	20	(27)		11	(21)	
Other expenses, net	17	19		25	17	
Operating profit – Non-GAAP	**410**	**396**	***3.7***	**187**	**183**	***2.3***
Financing expenses, net	(78)	(61)		(44)	(29)	
Taxes on income	(55)	(106)		(20)	(56)	
Taxes in respect of adjustments to the above Non-GAAP operating profit	(22)	9		(15)	6	
Income for the period – Non-GAAP	**255**	**238**	***7.2***	**108**	**104**	***3.5***
Attributable to: The Company's shareholders	**213**	**185**	***15.2***	**97**	**78**	***24.9***
Non-controlling interests	**42**	**53**	***(21.0)***	**11**	**26**	***(60.7)***

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

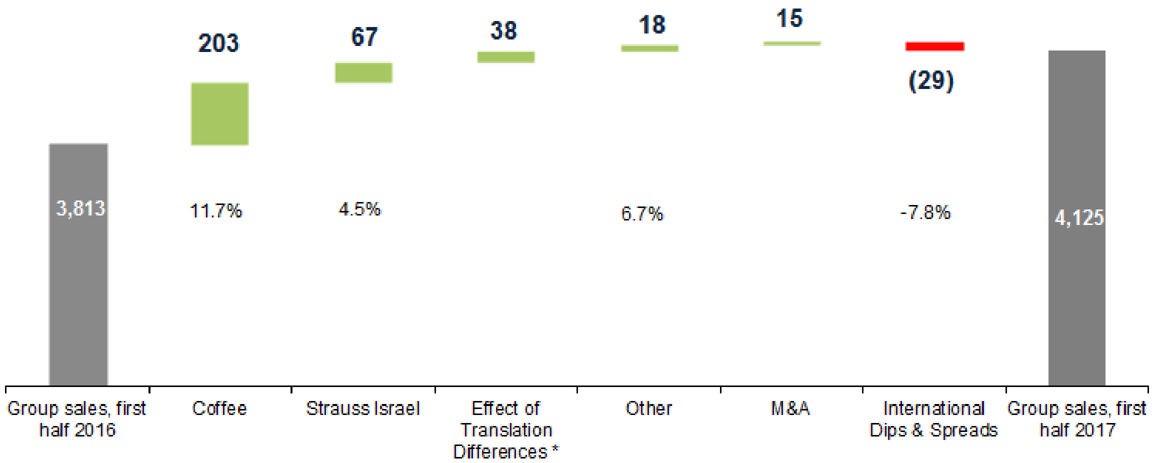
<u>ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP</u>

Sales – Non-GAAP

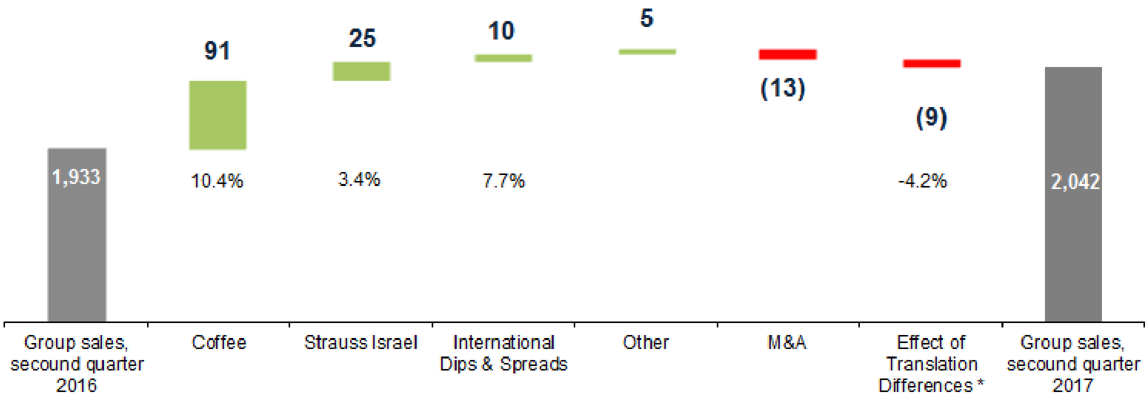
	First Half		Second Quarter	
	2017	2016	2017	2016
Sales	4,125	3,813	2,042	1,933
Growth	8.2%	1.2%	5.6%	5.2%
Organic growth excluding foreign currency effect	6.7%	7.8%	6.2%	11.0%

Organic growth of the Group's sales in the first half and second quarter of 2017, excluding the foreign currency effect, amounted to 6.7% and 6.2%, respectively, compared to the corresponding periods last year.

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



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



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

The Group's sales in the first half of 2017, particularly sales by Strauss Coffee, were impacted by positive translation differences, which amounted to approximately NIS 38 million, of which NIS 67 million are due to the strengthening of the average exchange rate of the Brazilian Real against the Shekel, as opposed to negative translation differences amounting to NIS 21 million arising from the weakening of the average exchange rate of the US Dollar against the Shekel, compared to the corresponding period last year. The Group's sales in the second quarter of the year were influenced by negative translation differences of approximately NIS 13 million, of which NIS 12 million are the result of the weakening of the average exchange rate of the US Dollar against the Shekel compared to the corresponding quarter last year (see also the foreign exchange rate table in the section "Changes in the Economic Environment").

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

- Organic growth in sales by the coffee business (in the first half and second quarter, an increase of approximately NIS 203 million and NIS 91 million, respectively) mainly reflected volume growth as well as price increases implemented in some of the countries of operations earlier this year (in Romania prices were not raised, and the prices of some products were even reduced) in light of the rising cost of green coffee and the erosion of part of the functional currencies versus the US Dollar compared to the corresponding periods last year, as 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 half and second quarter, an increase of approximately NIS 67 million and NIS 25 million, respectively) reflects the continuation of 2016's positive growth trend, and is mostly the result of volume growth thanks to the launch of new products in the yogurt categories, dairy desserts, chocolate tablets, cookies and packaged salads.

- Organic decline in sales by the International Dips & Spreads operation (in the first half and second quarter, a decrease of approximately NIS 29 million and NIS 9 million, respectively), mainly as a result of the continuing negative impact of the recall of Sabra hummus products in the fourth quarter of 2016.

- Organic growth in sales by the Other Operations segment (in the first half and second quarter, an increase of approximately NIS 18 million and NIS 10 million, respectively), mainly as a result of growth in Strauss Water's business in Israel, which was offset by a drop in sales by Max Brenner.

- Inorganic growth in the Group's sales (in the first half and second quarter, an increase of approximately NIS 15 million and NIS 5 million, respectively), primarily as a result of the acquisition of the Dutch company, Florentin B.V. (**"Florentin"**) and of the acquisition of Cia Iguaçu by the Três Corações joint venture in Brazil[(1)], offset by the sale of Max Brenner.

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

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

Gross Profit – Non-GAAP

	First Half				Second Quarter			
	2017	**2016**	**% Chg**	**% chg less translation differences effect**	**2017**	**2016**	**% Chg**	**% chg less translation differences effect**
Gross profit	1,533	1,459	*5.1*	*4.9*	753	733	*2.7*	*3.7*
Gross profit margin	37.2%	38.3%			36.9%	37.9%		

The Group's Non-GAAP gross profit in the first half of 2017 was positively impacted by translation differences into Shekels, which amounted to approximately NIS 3 million. Most of the translation differences originated in Strauss Coffee following the strengthening of the Brazilian Real against the Shekel (approximately NIS 18 million) and were offset by negative translation differences due to the weakening of the average exchange rate of the US Dollar against the Shekel (approximately NIS 10 million). In the second quarter, the gross profit was negatively impacted by translation differences into Shekels totaling approximately NIS 8 million. The main part of the translation differences originated in the International Dips & Spreads segment following the weakening of the US Dollar against the Shekel (approximately NIS 6 million) (see also the exchange rate table in the chapter "Changes in the Economic Environment").

The Group's Non-GAAP gross profit in the first half and second quarter of the year rose by approximately NIS 74 million and NIS 20 million, respectively, compared to the corresponding periods last year:

- In Strauss Coffee the gross profit increased by approximately NIS 87 million and NIS 34 million in the first half and second quarter, respectively, compared to the corresponding periods last year. The increase in the gross profit margin is explained by price increases introduced in most of the countries where the Company is active over and above the increase in green coffee prices, in order to maintain the profit margin per ton sold (in Romania the prices of some products were reduced and in Russia, the price of green coffee dropped as a result of the strengthening of the Ruble against the US Dollar).

- In the Strauss Israel segment the gross profit rose by approximately NIS 27 million and NIS 5 million in the first half and second quarter, respectively, compared to the corresponding periods last year. The increase in the gross profit is due to growth in sales volumes, continued implementation of efficiency enhancing moves in production and packaging processes in a number of manufacturing sites, and also reflects the favorable impact of a drop in the prices of some raw materials (cocoa, tahini, hazelnuts and almonds), whereas the prices of other raw materials (raw milk, milk powders and sugar) rose. Additionally, an increase in production inputs such as the minimum wage and municipal taxes was recorded during the year, compared to the corresponding periods last year.

- The aggregate gross profit of the International Dips & Spreads and Other Operations segments dropped by approximately NIS 40 million and NIS 19 million in the half and quarter, respectively, compared to the corresponding periods last year. The decrease in the gross profit in the cumulative period and in the quarter is the result of the voluntary recall by Sabra in the fourth quarter last year.

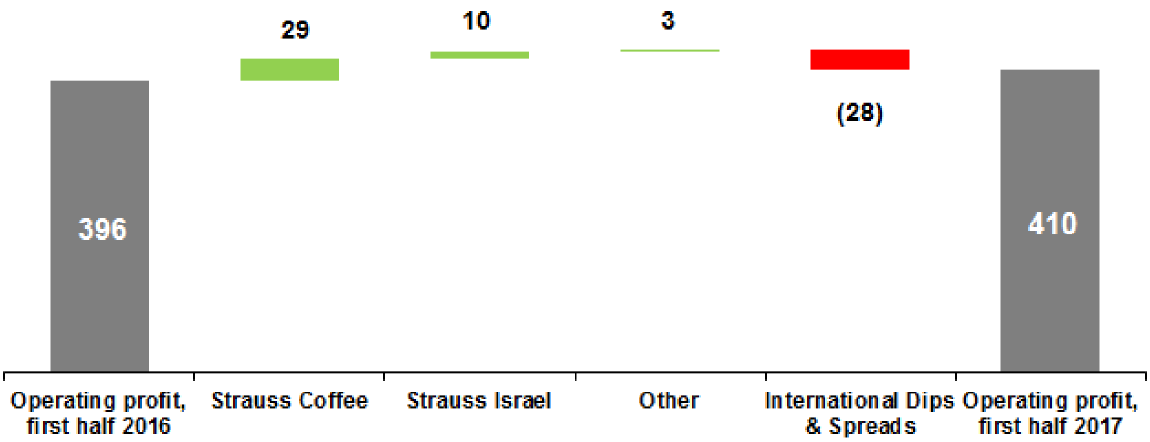
Further explanations on the Group's gross profit are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

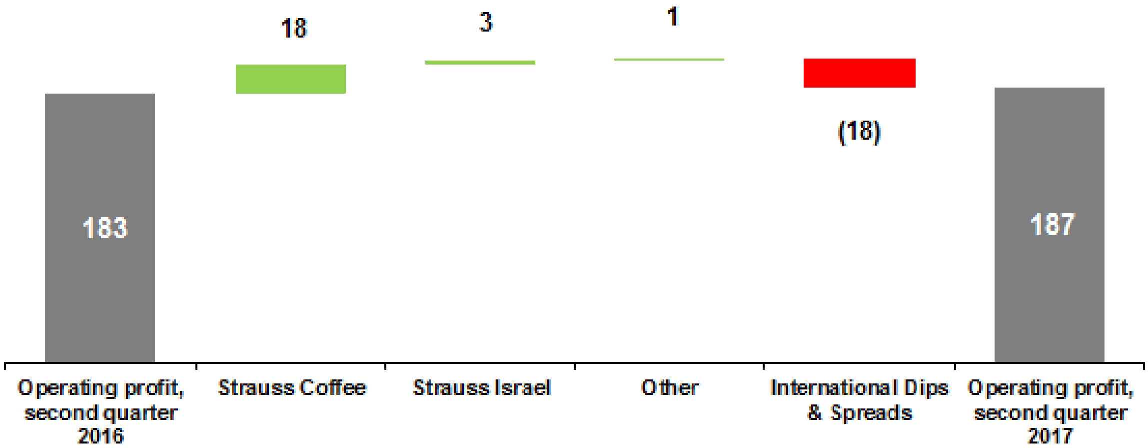
Operating Profit before Other Expenses – Non-GAAP

	First Half				Second Quarter			
	2017	**2016**	**% Chg**	**% chg less translation differences effect**	**2017**	**2016**	**% Chg**	**% chg less translation differences effect**
Operating profit (EBIT)	410	396	*3.7*	*2.8*	187	183	*2.3*	*2.7*
Operating profit margin	9.9%	10.4%			9.1%	9.4%		

The Group's Non-GAAP operating profit (EBIT) in the first half of 2017 was positively influenced by translation differences into Shekels, which amounted to approximately NIS 4 million. Most of the translation differences originated in Strauss Coffee (see also the exchange rate table in the chapter "Changes in the Economic Environment"). In the second quarter, the foreign currency effect was immaterial.
In the first half and second quarter of 2017 the Non-GAAP operating profit grew by approximately NIS 14 million and NIS 4 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 half and second quarter of 2017 was the result of the following:

- An increase of approximately NIS 29 million and NIS 18 million in the operating profit of the coffee business in the half and 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 Três Corações joint venture in Brazil[(1)] in the first half and second quarter as a result of an increase in sales prices and growth in R&G sales quantities over and above the increase in the cost of raw materials. Três Corações' operating profit (before other expenses) in Brazilian Reals rose in the half and quarter by 37% and 77.1%, respectively (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

    - An increase in the operating profit of the coffee business in the CEE countries in the half and quarter, mainly as a result of an improvement in the product mix sold in Poland and an increase in sales in all countries except for Romania and except for Serbia in the second quarter, compared to the corresponding periods last year.

    - In Russia, the operating profit and operating profit margin rose in the half compared to the corresponding periods last year as a result of volume growth in sales and an increase in sales prices less a decrease resulting from a drop in green coffee purchase costs, coupled with the strengthening of the Ruble compared to the first half of 2016. In the quarter the operating profit and operating profit margin rose compared to the corresponding periods last year as a result of drop in green coffee purchase costs.

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

- An increase in the operating profit of Israel Coffee in the first half of the year, mainly as a result of an effective increase in sales prices and a drop in the prices of raw materials, particularly coffee, as a result of the strengthening of the Shekel against the US Dollar compared to the corresponding period last year.

- An increase of approximately NIS 10 million and NIS 3 million in the operating profit of Strauss Israel in the first half and second quarter, respectively, compared to the corresponding periods last year. The growth in EBIT mainly reflects an increase in sales quantities and in gross profit compared to last year, which was partly offset by an increase in selling and marketing expenses.

- The operating profit of the International Dips & Spreads business decreased by approximately NIS 28 million and NIS 18 million in the first half and second quarter, respectively, compared to the corresponding periods last year. The decrease is due to the drop in Sabra's sales following the voluntary recall made by the company in the fourth quarter. The recall also adversely impacted the company's operating profit due to indirect expenses including, among others, damage to the company's trade agreements and the costs of an additional improvement made to the strict quality controls in place in the hummus factory in Virginia. Sabra has a certain amount of insurance coverage for the damages caused by the recall.
- An increase in the EBIT of the Other Operations segment – approximately NIS 3 million and NIS 1 million in the half and quarter, respectively – compared to last year. The increase in the operating profit is primarily due to an increase in Strauss Water's profit as a result of sales growth.

Financing Expenses, Net – Non-GAAP

Net financing expenses in the first half of 2017 amounted to NIS 78 million compared to expenses of NIS 61 million in the corresponding period last year.

Net financing expenses in the second quarter of 2017 amounted to NIS 44 million compared to expenses of NIS 29 million in the corresponding period last year.
The increase in financing expenses in the half compared to the corresponding period last year is the result of an increase in gross debt less a decrease in the cost of debt arising from the valuation of Index-linked liabilities, less the impact of derivatives, due to an increase of 0.7% in the known Index in the half compared to a 0.4% decrease in the known Index in the corresponding period, and less a decrease in an Index-linked liability; expenses in respect of the valuation of derivatives following the significant weakening of the Dollar compared to the corresponding period; and the foreign currency effect in respect of other financial balances.

The increase in financing expenses in the second quarter compared to the corresponding quarter last year is due to an increase in gross debt less a decrease in the cost of debt arising from the valuation of Index-linked liabilities, less the impact of derivatives, due to an increase of 0.9% in the known Index in the quarter compared to 0.5% in the corresponding quarter, and less a decrease in an Index-linked liability; to expenses in respect of the valuation of derivatives following the weakening of the Dollar as opposed to the strengthening of the Dollar in the corresponding quarter; and to the foreign currency effect in respect of other financial balances.

The net outstanding debt (according to the proportionate consolidation method) as at June 30, 2017 totaled NIS 2,138 million, compared to NIS 1,428 million on December 31, 2016. The gross outstanding debt as at June 30, 2017 was NIS 3,017 million, compared to NIS 2,314 million on December 31, 2016.

The net outstanding debt (according to the equity method) as at June 30, 2017 totaled NIS 1,818 million compared to NIS 1,120 million on December 31, 2016. The gross outstanding debt as at June 30, 2017 was NIS 2,581 million, compared to NIS 1,884 million on December 31, 2016.

Taxes on Income – Non-GAAP

In the first half of 2017 taxes on income (Non-GAAP) amounted to NIS 77 million, reflecting an effective tax rate of 23.1%, whereas in the corresponding period last year income tax amounted to NIS 97 million and the effective tax rate was 28.8%.

In the second quarter of 2017 income tax (Non-GAAP) amounted to NIS 35 million, reflecting an effective tax rate of 24.4%, whereas in the corresponding period last year income tax amounted to NIS 50 million and the effective tax rate was 31.9%.

The decrease in the effective tax rate in the first half and second quarter of this year is the result of the profit mix for tax purposes between the companies in the various countries, a decrease in the Israeli corporate tax rate, and a decrease in Sabra's profits in the period.

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

	First Half			Second Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Income attributable to the Company's shareholders	213	185	15.2	97	78	24.9
% of sales	5.2%	4.9%		4.8%	4.1%	

Non-GAAP income attributable to the Company's shareholders in the first half and second quarter of 2017 rose by approximately NIS 28 million and NIS 19 million, respectively, compared to the corresponding periods last year. The increase is mainly due to growth in the operating profit as well as a decrease in tax expenses, and an increase in the contribution of the coffee business's profits following the acquisition of the non-controlling interest in Strauss Coffee in the second quarter. These effects were offset by an increase in financing expenses.

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

In the first half the GAAP comprehensive income amounted to approximately NIS 91 million, compared to comprehensive income of NIS 355 million in the corresponding period last year. In the reporting period losses in respect of translation differences, which are the main component of the other comprehensive income, amounted to approximately NIS 128 million compared to income of NIS 124 million arising from translation differences in the corresponding period last year.

In the second quarter of 2017 the GAAP comprehensive income amounted to approximately NIS 12 million, compared to comprehensive income of NIS 191 million in the corresponding period last year. In the reporting period losses in respect of translation differences, which are the main component of the other comprehensive income, amounted to approximately NIS 76 million compared to income of NIS 92 million arising from translation differences in the corresponding period last year.

The losses from translation differences in the first half and second quarter of 2017 were primarily the result of Strauss Coffee's operations; of them, approximately NIS 60 million and NIS 48 million, respectively, are due to the weakening of the Brazilian Real against the Shekel compared to their exchange rate at the end 2016.

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

In the first half of 2017

Cash flows from operating activities amounted to a positive cash flow of approximately NIS 96 million, compared to a positive cash flow of NIS 179 million in the corresponding period last year. The change is mainly due to the change in working capital compared to the corresponding period, as a result of growth in inventories and an increase in accounts receivable arising from a one-time alleviation granted to growing customers.

Cash flows used in investing activities amounted to a negative cash flow of approximately NIS 149 million compared to a negative cash flow of NIS 39 million in the corresponding period last year. The change is primarily due to the acquisition of an operation by Strauss Coffee (for further information, see the chapter on Strauss Coffee). Conversely, in the first quarter an investment in an available-for-sale financial asset was realized.

Cash flows from (used in) financing activities amounted to a positive cash flow of approximately NIS 71 million compared to a negative cash flow of NIS 145 million in the corresponding period last year. The change is mainly due to an issue of shares in consideration for approximately NIS 436 million, short-term bank credit (net) of NIS 283 million, and a long-term loan of NIS 334 million. Conversely, the Company acquired the non-controlling interests in the coffee and water companies for approximately NIS 706 million and repaid long-term loans and debentures amounting to NIS 259 million.

In the second quarter of 2017

Cash flows from operating activities amounted to a positive cash flow of approximately NIS 154 million, compared to a positive cash flow of NIS 232 million in the corresponding period last year. The change is mainly due to a decrease in the net profit and to a change in working capital compared to the corresponding period, among other things as a result of growth in inventories and the timing of accounts payable.

Cash flows used in investing activities amounted to a negative cash flow of approximately NIS 22 million compared to a negative cash flow of NIS 21 million in the corresponding period last year.

Cash flows from (used in) financing activities amounted to a positive cash flow of approximately NIS 340 million compared to a negative cash flow of NIS 52 million in the corresponding period last year. The change is mainly due to the issue of shares in the quarter in consideration for approximately NIS 436 million.

In April 2017 the Company issued 4,074,752 shares of NIS 1 par value to institutional investors and the public, in consideration for approximately NIS 260 million. Additionally, in June 2017 the Company issued 2,727,274 shares of NIS 1 par value to institutional investors in consideration for approximately NIS 180 million. The costs of the issue amounted to NIS 4 million.

On April 4, 2017 the subsidiary Strauss Coffee took a long-term loan of NIS 234 million from an institutional body, which replaces part of the short-term loan. The long-term loan bears 2.5%-3.5% interest, which shall be paid half-yearly on the undischarged principal of the loan. The principal of the loan shall be repaid in ten yearly installments, as follows: two annual installments of 2% of the loan amount, four annual installments of 14%-15% of the loan amount, and four annual installments of 8%-10% of the loan amount.

On July 27, 2017 Strauss Coffee took a long-term loan of approximately NIS 78 million from an institutional body, bearing 2%-3% annual interest, which shall be paid half-yearly on the undischarged principal of the loan. The principal of the loan will be repaid in ten yearly installments, as follows: two annual installments of 2% of the loan amount, four annual installments of 14%-15% of the loan amount, and four annual installments of 8%-10% of the loan amount.

On July 4, 2017 the Company issued Debentures (Series E), which were listed on the Tel Aviv Stock Exchange (TASE). The proceeds of the issue amounted to NIS 403 million, and the costs of the issue totaled NIS 4 million. For further information, see Note 9.1 to the Condensed Consolidated Interim Financial Statements as at June 30, 2017.

On August 1, 2017 the subsidiary Strauss Coffee repaid a short-term loan of approximately EURO 85 million it had received from TPG Capital on the acquisition date (see Note 4.1 to the Condensed Consolidated Interim Financial Statements as at June 30, 2017). Repayment of the short-term loan was funded by a long-term loan granted to Strauss Coffee by the Company on July 31, 2017.

Following is the change in net working capital*:

	First Half		**Second Quarter**	
	2017	**2016**	**2017**	**2016**
Change in net working capital, equity method	(144)	4	53	112
Change in net working capital, proportionate consolidation method	(244)	(30)	34	114

* The changes in the above table are calculated on a cash basis, whereas in the corresponding period last year the changes in net working capital were calculated as changes in balance sheet amounts.

The Company's cash and cash equivalents as at June 30, 2017 totaled NIS 716 million compared to NIS 711 million on December 31, 2016. In accordance with Company policy, these assets are held mainly in liquid deposits.

The Company's liquidity ratio as at June 30, 2017 is 1.03 compared to 1.36 on December 31, 2016. On June 30, 2017 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 1,943 million compared to NIS 1,866 million on December 31, 2016. On June 30, 2017 short-term credit (excluding current maturities) totaled NIS 638 million compared to NIS 18 million on December 31, 2016. On June 30, 2017 supplier credit totaled NIS 671 million, compared to NIS 743 million on December 31, 2016.

Total assets in the Company's Consolidated Statement of Financial Position on June 30, 2017 amounted to NIS 6,298 million, compared to NIS 6,182 million on December 31, 2016.

Reportable credit – further to Note 20.6 to the Periodic Report and Note 9.1 to the Condensed Consolidated Interim Financial Statements as at June 30, 2017 – Financial Criteria – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Position as at June 30, 2017 is 28.7%, compared to 29.7% on December 31, 2016. The net financial debt-to-EBITDA ratio as at June 30, 2017 is 2.2, compared to 1.3 on December 31, 2016. Equity attributable to the Company's shareholders is NIS 1,806 million. The Company is in compliance with the required covenants.

On August 9, 2017 the Board of Directors approved a dividend to shareholders in the amount of NIS 160 million (approximately NIS 1.39 dividend per share), which shall be paid on September 5, 2017. For information on the dividend distribution, see the update of the chapter "Description of the Company's Business Affairs" as at June 30, 2017.

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 2017 the Company announced the reaffirmation of Standard & Poor's Maalot's ilAA+ rating with negative outlook. In July 2017 the Company announced that Standard & Poor's Maalot had assigned a rating of ilAA+ to debentures to be issued by the Company up to an amount of NIS 470 million.

In April 2017 the Company announced the reaffirmation of Midroog's Aa2 rating for the Company's Series B and Series D Debentures in circulation, with stable outlook. In July 2017 the Company announced that Midroog had assigned a rating of Aa2 to debentures to be issued by the Company up to an amount of NIS 470 million.

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

	First Half		**Second Quarter**		**Year Ended December 31**
	2017	**2016**	**2017**	**2016**	**2016**
Cash flow from operating activities (proportionate consolidation method)	113	270	199	296	762
Acquisition of fixed assets and investment in intangibles (proportionate consolidation method)	132	113	71	57	239
Net debt balance (proportionate consolidation method) as at the reporting date	2,138	1,574	2,138	1,574	1,428
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	111	112	56	56	231
Strauss Israel:					
Health & Wellness	27	29	13	14	58
Fun & Indulgence	17	18	9	9	35
Strauss Coffee:					
Israel Coffee	6	6	3	3	12
International Coffee	26	25	14	14	52
International Dips & Spreads	13	11	7	5	27
Other	22	23	10	11	47

The Group's EBITDA (Non-GAAP) totaled approximately NIS 521 million in the first half of the year compared to NIS 508 million in the corresponding period in 2016, an increase of 2.5%. In the second quarter, the Group's EBITDA (Non-GAAP) totaled approximately NIS 243 million compared to NIS 239 million in the corresponding period, an increase of 1.3%.

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

Strauss Coffee

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Coffee by reported segments for the quarter and the half ended June 30, 2017 and 2016 (in NIS millions):

	First Half			Second Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Israel Coffee						
Net sales	361	347	*4.0*	149	153	*(2.4)*
Operating profit	57	52	*8.4*	17	17	*(2.4)*
% operating profit	15.7%	15.1%		11.2%	11.2%	
International Coffee						
Net sales	1,582	1,310	*20.7*	833	724	*14.8*
Operating profit	135	111	*22.5*	84	66	*27.2*
% operating profit	8.6%	8.5%		10.2%	9.2%	
Total Strauss Coffee						
Net sales	**1,943**	**1,657**	***17.2***	**982**	**877**	***11.8***
Organic growth excluding foreign currency effect	**11.7%**	**12.7%**		**10.4%**	**16.9%**	
Gross profit	**627**	**540**	***16.0***	**318**	**284**	***11.9***
% gross profit	**32.3%**	**32.6%**		**32.4%**	**32.4%**	
Operating profit	**192**	**163**	***18.0***	**101**	**83**	***21.2***
% operating profit	**9.9%**	**9.9%**		**10.4%**	**9.6%**	

On March 27, 2017 the subsidiary Strauss Coffee made a buyback of TPG's entire holding (25.1%) in Strauss Coffee in consideration for EURO 257 million. For further information, see Note 4.1 to the Condensed Consolidated Interim Financial Statements as at June 30, 2017.

On March 23, 2017 Strauss Coffee exercised its call option for the acquisition of 100% of the shares of Norddeutsche Kaffeewerke GmbH (hereinafter: **"NDKW"**), which operates a freeze-dried coffee production plant in Germany. For further information, see Note 4.2 to the Condensed Consolidated Interim Financial Statements as at June 30, 2017.

Sales

In the first half and second quarter of 2017 organic growth in the coffee business, excluding the foreign currency effect, amounted to 11.7% and 10.4%, respectively, compared to the corresponding periods last year.

Growth in coffee sales in local currency in the second quarter mainly reflects volume growth as well as the impact of price increases implemented in some countries earlier this year (in Romania 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 part of the functional currencies versus the US Dollar compared to the corresponding period last year, since in all countries except for Brazil, green coffee is purchased in US Dollars. For further information, see the chapter "Strauss Coffee Sales by Major Geographical Regions".

In the first half and second quarter of the year Strauss Coffee's Shekel sales increased by approximately NIS 286 million and NIS 105 million, respectively, compared to the corresponding periods last year. Translation differences into Shekels in the coffee business amounted to NIS 61 million and NIS 1 million, respectively. Most of the impact is due to the increase in the average exchange rate of the Brazilian Real against the Shekel (approximately NIS 67 million and NIS 9 million, respectively) compared to the corresponding periods last year.

Further explanations on sales by the coffee operation in the reporting period are included in the chapter "Strauss Coffee Sales by Major Geographical Regions".

Gross profit

In the first half and second quarter of 2017 the gross profit rose by approximately NIS 87 million and NIS 34 million, respectively, compared to the corresponding periods last year. The gross profit margin dropped by 0.3% in the first half and amounted to 32.3%. In the second quarter the gross profit margin remained unchanged. The drop in the gross profit margin is explained by the rate of increase in green coffee prices exceeding the price increases introduced in most of the countries where the Company is active (in Romania the prices of some products were reduced), and in Russia, a drop in the price of coffee sold as a result of the strengthening of the Ruble against the US Dollar.

Operating profit

In the first half and second quarter of 2017 the operating profit of the coffee operation increased by approximately NIS 29 million and NIS 18 million, respectively, compared to the corresponding periods last year. The operating profit margin in the half and quarter was 9.9% and 10.4%, respectively (unchanged compared to the first half of 2016, and an increase of 0.8% compared to the second quarter last year).

The change in Strauss Coffee's EBIT in the first half and second quarter reflects:

- An increase in the operating profit of the Três Corações joint venture in Brazil[(1)] in the first half and second quarter as a result of an increase in sales prices and growth in R&G sales quantities over and above the increase in the cost of coffee. Três Corações' operating profit (before other expenses) in Brazilian Reals rose in the half and quarter by 37% and 77.1%, respectively (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

- An increase in the operating profit of the CEE countries in the half and quarter, mainly as a result of an improvement in the product mix sold in Poland and an increase in sales quantities in all countries except Romania and except for Serbia in the second quarter, compared to the corresponding periods last year.

- In Russia, the operating profit and operating profit margin rose in the half compared to the corresponding periods last year as a result of volume growth in sales and an increase in sales prices less a decrease resulting from a drop in green coffee purchase costs, coupled with the strengthening of the Ruble compared to the first half of 2016. In the quarter the operating profit and operating profit margin rose compared to the corresponding periods last year as a result of drop in green coffee purchase costs.

- An increase in the operating profit of Israel Coffee in the first half and second quarter of the year, mainly as a result of an effective increase in sales prices and a drop in raw material prices, particularly green coffee, as well as due to the strengthening of the Shekel against the US Dollar compared to the corresponding period last year.

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

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 half ended June 30, 2017 and 2016 (in NIS millions):

	First Half				Second Quarter			
Geographical region	**2017**	**2016**	**% Chg**	**% change in local currency***	**2017**	**2016**	**% Chg**	**% change in local currency**
Israel Coffee	**361**	**347**	***4.0***	***4.0***	**149**	**153**	***(2.4)***	***(2.4)***
International Coffee								
Brazil (Três Corações joint venture) (1) (2) - 50%	974	727	*34.1*	*22.7*	524	411	*27.5*	*24.6*
Russia and Ukraine	297	262	*12.9*	*5.6*	149	141	*5.3*	*2.0*
Poland	144	135	*6.8*	*13.5*	70	68	*3.2*	*8.5*
Romania	106	128	*(17.1)*	*(8.9)*	55	66	*(16.6)*	*(7.8)*
Serbia	61	58	*4.8*	*14.6*	35	38	*(10.3)*	*(2.1)*
Total International Coffee	**1,582**	**1,310**	***20.7***	***15.4***	**833**	**724**	***14.8***	***14.7***
Total Coffee	**1,943**	**1,657**	***17.2***	***13.1***	**982**	**877**	***11.8***	***11.7***

* 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 – The Três Corações joint venture in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%). (Data reflect Strauss Coffee's share (50%)).
(2) Três Corações' sales – excluding intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee.

<u>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%))</u>

In the first half of 2017 the Três Corações joint venture's average value market share in roast and ground (R&G) coffee amounted to approximately 24.9%, compared to 24.3% 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). In the GAAP report, the Group's share of the joint venture is accounted for in the equity method.

Despite the economic and political crisis in Brazil, in the first half and second quarter of 2017 the Três Corações joint venture's sales in local currency grew by approximately 22.7% and 24.6%, respectively (22.9% and 24.6%, respectively, before the exclusion of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee). Most of the growth originates in R&G sales as a result of price increases and growth in sales volumes. The growth in the Três Corações joint venture's local currency sales reflects growth in sales volumes of most of the joint venture's products, as well as price increases introduced in 2016 and 2017 in light of the rising cost of green coffee to Três Corações compared to the corresponding periods last year. However, the increase in the cost of green coffee in Brazil tapered off somewhat in the first half of 2017, as did the increase in sales prices.

Growth in the Três Corações joint venture's Shekel sales in the first half and second quarter of 2017 compared to the corresponding periods last year was positively influenced by the strengthening of the average exchange rate of the Brazilian Real against the Shekel, which amounted to approximately NIS 67 million and NIS 9 million, respectively, in the half and quarter.

The Três Corações joint venture's gross profit in domestic currency rose by 22.7% and 33% in the first half and second quarter, respectively, and amounted to approximately 225 million and 134 million BRL, respectively. In the first half Três Corações' gross profit margin remained unchanged and amounted to 26.5%. In the second quarter the gross profit margin rose by 1.8%, amounting to 28.7%. The increase in the gross profit margin primarily reflects the increase in sales prices, which was offset in part due to a rise in the cost of green coffee to the Três Corações joint venture. EBIT (before other expenses) in BRL increased in the first half of 2017 by 37%, reflecting an increase in gross profit, which was partly offset by selling expenses. In the second quarter the operating profit (before other expenses) in BRL grew by 77.1% and primarily reflected growth in the gross profit as a result of volume growth and an increase in sales prices, which were offset by the rising cost of green coffee and selling and distribution expenses (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 Três Corações' EBIT in the first half and second quarter of the year amounted to an operating loss of approximately NIS 3.2 million and NIS 0.2 million, respectively (approximately 2.7 million and 0.2 million BRL, respectively), compared to a loss of NIS 9.6 million and NIS 6.2 million, respectively (8.9 million and 5.6 million BRL, respectively) in the corresponding periods last year (figures reflect Strauss Coffee's share (50%)).

In April 2017 a plant for the production of coffee capsules for sale in the domestic market initiated operations in Brazil. The plant is a joint venture between 3C and the Italian company, Caffitaly System S.p.A. During the quarter the plant began manufacturing at full capacity.

Russia and Ukraine

In the final months of 2016 and in the first half of 2017 the Ruble began to strengthen against the US Dollar and the Shekel following a period of devaluation that began at the end of 2014. Nevertheless, the competitive environment in the region has remained challenging.

The Company's sales in the region in local currency grew in the first half and second quarter of 2017 by approximately 5.6% and 2%, respectively compared to the corresponding periods last year. The Company's sales in local currency mainly reflected volume growth and price increases introduced during 2016 in light of the devaluation of the Russian Ruble against the US Dollar, as mentioned. In the first half of this year, prices in Ukraine were raised.

The Company's Shekel sales in the region grew by approximately NIS 35 million and NIS 8 million in the first half and second quarter of 2017, respectively, compared to the corresponding periods last year and were affected by positive translation differences of the Russian Ruble into Shekels, along with the increase in sales prices in local currency in Ukraine and volume growth.

Poland

The Company's sales in Poland in local currency increased by approximately 13.5% and 8.5% in the first half and second quarter of 2017, respectively, compared to the corresponding periods in 2016. The growth in sales is the result of an improvement in the sales mix, growth in volumes and an increase in sales prices implemented in the half compared to the corresponding period last year.

The Company's Shekel sales in Poland grew by approximately NIS 9 million and NIS 2 million in the half and quarter, respectively, compared to the corresponding periods last year. Sales growth in local currency covered the erosion in sales as a result of translation differences into Shekels. Most of the increase in sales is due to growth in sales volumes and to price increases implemented in the first half of 2017, which compensated for the increase in green coffee prices.

Romania

The Company's sales in Romania in local currency fell by approximately 8.9% and 7.8% in the first half and second quarter of 2017, respectively, compared to the corresponding periods last year. The drop in sales in local currency is primarily due to growing competition, which led to a drop in sales prices.

Shekel sales in Romania decreased by approximately NIS 22 million and NIS 11 million in the first half and second quarter, respectively, compared to the corresponding periods in 2016. Sales were affected by negative translation differences following the erosion of the Romanian Leu against the Shekel and by the drop in sales prices, as described above.

Serbia

The Company's sales in Serbia in local currency rose by 14.6% in the first half and dropped by 2.1% in the second quarter of the year compared to the corresponding periods last year. Sales were influenced by growth in volumes, particularly in the first quarter, despite a consumer trend of preferring cheaper coffee brands and price erosion due to the harshening competitive environment.

The Company's Shekel sales in Serbia rose by approximately NIS 3 million in half and dropped by NIS 3 million in the quarter compared to the corresponding periods last year following the growth in volumes described above, but were affected by negative translation differences as a result of the erosion of the Serbian Dinar against the Shekel, by the consumer trend of preferring cheaper coffee brands and by price erosion in light of the harshening competitive environment, as mentioned.

Israel

The Company's sales in Israel rose by approximately NIS 14 million in the first half of 2017 and dropped by NIS 4 million in the second quarter compared to the corresponding periods last year. The decrease in the quarter is explained by a drop in volumes due to the timing of Passover. The increase in the first half is due, among other things, to effective price erosion in the first quarter of 2016 as a result of marketing campaigns. The increase in the operating profit is the result of sales growth as mentioned and of the erosion of raw material costs following gains by the Shekel against the US Dollar and other currencies, despite an increase in marketing expenses.

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in the first half of 2017, according to StoreNext figures, held an 11.7% share of the total domestic retail food and beverage market in value terms (compared to 11.5% in the corresponding period last year), an increase of 0.2% over the corresponding period. The Israeli market is the Group's home market, where it is active in various categories. The Company's sales in the Strauss Israel segment, which includes the Health & Wellness and Fun & Indulgence divisions, grew by 4.5% in value terms, whereas according to StoreNext, in the first half of 2017 the Israeli food and beverage market increased by 1.5% in value terms.

Sales by all operations of Strauss Group in Israel include sales by the Health & Wellness and Fun & Indulgence divisions, the coffee operation in Israel and Strauss Water Israel (Tami 4). The Strauss Water business is not included in StoreNext's market share measurements.

In the first half of 2017 Strauss Group's sales in Israel totaled approximately NIS 2,165 million compared to NIS 2,068 million last year, an increase of 4.7%. In the second quarter of the year Strauss Group's Israel sales totaled approximately NIS 1,014 million versus NIS 986 million last year, an increase of 2.8%.

Strauss Israel

Following are the condensed results of business operations, based on the Management (Non-GAAP) Reports of Strauss Israel by activity segments, for the quarter and the half ended June 30, 2017 and 2016 (in NIS millions):

	First Half			Second Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Health & Wellness segment						
Net sales	1,002	965	*3.8*	516	491	*5.0*
Operating profit	108	99	*8.9*	55	48	*13.7*
% operating profit	10.7%	10.2%		10.6%	9.7%	
Fun & Indulgence segment						
Net sales	553	523	*5.8*	221	221	*(0.0)*
Operating profit	63	62	*2.1*	11	15	*(25.8)*
% operating profit	11.4%	11.9%		4.9%	6.7%	
Total Strauss Israel						
Net sales	**1,555**	**1,488**	***4.5***	**737**	**712**	***3.4***
Gross profit	**620**	**593**	***4.4***	**287**	**282**	***1.6***
% gross profit	**39.8%**	**39.9%**		**38.9%**	**39.6%**	
Operating profit	**171**	**161**	***6.3***	**66**	**63**	***4.4***
% operating profit	**11.0%**	**10.8%**		**8.9%**	**8.8%**	

Sales

In the first half of 2017 Strauss Israel's sales increased by approximately 4.5% (NIS 67 million). In Health & Wellness the increase was approximately 3.8% (NIS 37 million), and in Fun & Indulgence sales growth amounted to 5.8% (NIS 30 million).

In the second quarter Strauss Israel's sales grew by approximately 3.4% (NIS 25 million); in Health & Wellness growth amounted to 5% (NIS 25 million), and in Fun & Indulgence sales remained unchanged.

The increase in sales in the half and quarter reflects volume growth, which was the result of the launch of new products in the yogurt, dessert, chocolate tablet, cookie and packaged salad categories.

Gross profit

In the first half of 2017 Strauss Israel's gross profit increased by approximately NIS 27 million with the gross profit margin dropping by 0.1%, compared to the corresponding period last year.

In the second quarter Strauss Israel's gross profit increased by approximately NIS 5 million, with a 0.7% drop in the gross profit margin compared to the corresponding period in 2016.

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 (cocoa, tahini, hazelnuts and almonds), whereas the prices of other raw materials (raw milk, milk powders and sugar) rose. In addition, during the year an increase was recorded in production inputs such as the minimum wage and municipal taxes, compared to the corresponding period in 2016.

Operating profit

In the first half of 2017 Strauss Israel's EBIT increased by approximately NIS 10 million, and the operating profit margin rose by 0.2% and amounted to 11% of sales.

In the second quarter Strauss Israel's EBIT increased by approximately NIS 3 million, with the operating profit margin rising by 0.1% and amounting to 8.9% of sales.

The growth in the operating profit mainly reflects growth in sales volumes and in the gross profit compared to the corresponding periods last year, which was offset in part by an increase in selling and marketing expenses.

The International Dips & Spreads Activity

The Group develops, manufactures, sells, markets and distributes refrigerated dips and spreads through Sabra in the US and Canada, and through Obela in Mexico, Australia and Western Europe. The operations of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (each party holds 50%). In the GAAP report, the Group's share of the operations of Sabra and Obela is 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 24 weeks ended June 30, 2017 was 23.8% (Number 1 in the market), compared to 26.2% at the end of 2016 and 27.8% in the corresponding period last year. Sabra's value market share of the hummus category in the second quarter of 2017 was 57.4%, compared to 62.4% in the corresponding period last year. Sabra's market share in the last 4 weeks ended July 9, 2017 is approximately 58.6%.

In Australia, significant growth in sales in local currency in the first half and second quarter of 2017 by approximately 31.9% and 35.3%, respectively compared to the corresponding periods last year; in Mexico and Holland, sales volumes are immaterial. Obela is leader of the hummus market in Australia and Mexico in terms of market share.

Sabra

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

	First Half		**Second Quarter**	
	2017	**2016**	**2017**	**2016**
Sales	613	724	325	374
Growth	(15.3%)	4.3%	(13.0%)	7.9%
Organic growth excluding foreign currency effect	(10.1%)	5.7%	(6.3%)	9.4%
Operating profit before other expenses	56	115	18	54
% operating profit	9.1%	15.9%	5.5%	14.5%

Sales by Sabra in the first half and second quarter of 2017 dropped by approximately NIS 111 million and NIS 49 million, respectively, compared to the corresponding periods last year as a result of the voluntary recall by the company in November 2016. On November 19, 2016 Sabra announced a voluntary recall in North America of some of its hummus products, manufactured and marketed in the US and Canada, due to concerns of possible Listeria contamination. The bacteria were detected in Sabra's production site in Virginia, but not in the end products. The company's sales were also adversely impacted by translation differences, which amounted to approximately NIS 38 million and NIS 23 million in the half and quarter, respectively (of which the Company's share amounts to NIS 19 million and NIS 11.4 million, respectively). The direct impact of the recall on the Company's sales in the first half and second quarter of 2017 amounted to approximately NIS 22 million and NIS 11 million, respectively.

In the first half and second quarter of 2017 EBIT dropped by NIS 59 million and NIS 36 million, respectively, compared to the corresponding periods last year (of which the Company's share is NIS 29 million and NIS 18 million, respectively). The drop in EBIT in the half and quarter is the result of the decrease in Sabra's sales following the voluntary recall in November 2016. The recall also adversely impacted the Company's operating profit due to indirect expenses including, among others, damage to the Company's trade agreements and the costs of an additional improvement made to the strict quality controls in place in the hummus factory in Virginia. Sabra has a certain amount of insurance coverage for the damages caused by the recall. In the current half, insurance coverage of approximately NIS 10 million was recognized. The direct impact of the recall on the Company's operating profit in the first half and second quarter of 2017 amounted to approximately NIS 15 million and NIS 11 million, respectively.

Additionally, in the second quarter of 2017 the Company recorded other expenses in respect of the recall, in an amount of approximately NIS 23 million.

The expenses involved in the recall are recognized for tax purposes; consequently the Company has recorded a reduction in tax expenses.

Direct impact of the recall (NIS millions, the Company's share – 50%):

	First Half	Second Quarter
Impact on the Company's sales	(11)	(5)
Impact on EBIT	(7)	(6)
Impact on other expenses	(11)	(11)

Obela

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

Sales by Obela in the first half of 2017 totaled approximately NIS 63 million, compared to NIS 40 million in the corresponding period last year (56.1% growth). Excluding the foreign currency effect, growth in the period amounted to 62.1% compared to the corresponding period in 2016. Organic growth of Obela's sales in the first half amounted to 24.1% compared to the corresponding period last year.

Obela's sales in the second quarter totaled approximately NIS 31 million, compared to NIS 19 million last year (58.3% growth). Excluding the foreign currency effect, growth in the period amount to 67.7% compared to the corresponding period in 2016. Organic growth of Obela's sales in the second quarter amounted to 24.6% compared to the corresponding period last year.

The operating loss in the first half amounted to NIS 11 million, compared to NIS 14 million in the corresponding period last year.

In the second quarter, the operating loss amounted to NIS 6 million compared to NIS 7 million last year.

Other Operations

The Group has activities which are included in the Financial Statements as the “Other Operations” segment. The main operation in this segment is Strauss Water.

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 Group’s Non-GAAP Reports have reflected the restructuring of the operation in China implemented that year, following which the Company held 34% of the Haier Strauss Water joint venture (HSW) in China.

On 28 May, 2017, the subsidiary Strauss Water Ltd. exercised the right reserved to it in accordance with the joint venture agreement to purchase an additional 15% of Qingdao HSW Health Water Appliance Co. Ltd. (the **“Joint Venture”** and the **“Acquisition”**); following the Acquisition the Joint Venture will be owned by Haier Group (51%) and Strauss Water (49%). In consideration for the Acquisition, the Company will pay approximately NIS 81 million (the **“Consideration”**) within 90 days to a company of the Haier Group. The Consideration was defined in accordance with a valuation by the Company based on the Joint Venture’s financial results for the 2016 fiscal year, as determined in the Joint Venture agreement. The Consideration will be financed through a shareholder loan that is to be extended by the Company to Strauss Water.

Sales by Strauss Water in the first half of 2017 amounted to NIS 261 million compared to NIS 238 million in the corresponding period last year, an increase of 9.5%, which mainly originates in the operation in Israel.

In the second quarter, Strauss Water’s sales amounted to NIS 136 million compared to NIS 124 million in the corresponding quarter in 2016, an increase of 9.1%.

Sales by the Haier Strauss Water Joint Venture in China, which is not included in the Non-GAAP Report, in the first half of 2017 totaled NIS 245.1 million compared to NIS 142.8 million in the corresponding period last year, an increase of 71.6% (unaudited, reflecting 100%).
In the second quarter of the year, sales amounted to NIS 127.4 million compared to NIS 83.7 million last year, an increase of 52.2% (unaudited, reflecting 100%).

Strauss Water has posted an improvement in operating profit and cash flow in the half and quarter compared to the corresponding periods last year.

Max Brenner

On May 23, 2017 an agreement was signed for the sale of the Max Brenner business in consideration for approximately NIS 18 million. The said amount includes prepaid rental fees amounting to NIS 3.5 million for Max Brenner’s production facility in Beit Shemesh for a five-year period. Pursuant to the decision to realize the operation, the Company recognized a loss of approximately NIS 10 million in the first quarter as a result of the business’s valuation according to the lower of its carrying value and fair value less costs to sell. Following the actual divestment in the second quarter, the Company recognized a net loss of NIS 10 million (NIS 7 million in respect of the realization of the translation reserve and the remainder in respect of transaction costs and severance pay to employees), which was classified to the other expenses item in the income statement. As at the date of publication of the report, the entire consideration for the sale has been received.

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.

Directors

On June 12, 2017 Dr. Samer Haj-Yehia was appointed as an external director of the Company. In addition, on said date the external directors Prof. Dafna Schwartz and Dr. Michael Anghel, and independent directors Ms. Dalya Lev and Akiva Mozes, concluded their term of office as directors of the Company. For further information, see section 6 in the update of the chapter “Description of the Company’s Business Affairs” as at June 30, 2017.

INFORMATION ON DEBENTURE SERIES

		Debentures Series B	Debentures Series D
A.	Nominal/par value	149	446
B.	Par value linked to the Consumer Price Index	179	446
C.	Carrying value of Debentures	179	456
D.	Carrying value of interest payable	3	5
E.	Market value	185	509

For further information on the issue of Debentures (Series E) of the Company, see Note 9.1 to the Condensed Consolidated Interim Financial Statements as at June 30, 2017.

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 June 30, 2017 and Notes 4, 5 and 6 to the Condensed Consolidated Interim Financial Statements as at June 30, 2017.

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 Condensed Consolidated Interim Financial Statements as at June 30, 2017.

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

Ofra Strauss Chairperson of the Board	Gadi Lesin Chief Executive Officer

August 9, 2017

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

AS AT JUNE 30, 2017

Strauss Group Ltd.

Financial Statements
As at June 30, 2017

Convenience Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Financial Statements as at June 30, 2017

Contents

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Financial Position

	June 30 2017	June 30 2016	December 31 2016
	Unaudited		Audited
	NIS Millions		
Current assets			
Cash and cash equivalents	716	555	711
Securities and deposits	47	54	53
Trade receivables	914	935	881
Income tax receivables	44	26	38
Other receivables and debit balances	122	184	156
Inventory	592	587	537
Assets held for sale	28	36	32
Total current assets	2,463	2,337	2,408
Investments and non-current assets			
Investment in equity-accounted investees	1,107	1,231	1,119
Other investments and long-term debt balances	83	195	163
Fixed assets	1,689	1,585	1,581
Intangible assets	931	864	857
Deferred expenses	-	36	28
Investment property	12	7	8
Deferred tax assets	13	13	18
Total investments and non-current assets	3,835	3,931	3,774
Total assets	6,298	6,308	6,182

Ofra Strauss Chairperson of the Board of Directors	Gadi Lesin Chief Executive Officer	Shahar Florence Chief Financial Officer

Date of approval of the interim financial statements: August 9, 2017

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

Condensed Consolidated Interim Statements of Financial Position (cont'd)

	June 30 2017	June 30 2016	December 31 2016
	Unaudited		Audited
	NIS Millions		
Current liabilities			
Current maturities of debentures	207	196	196
Short-term credit and current maturities of long-term loans and other liabilities	755	201	147
Trade payables	671	674	743
Income tax payables	16	20	11
Other payables and credit balances	705	593	642
Provisions	31	32	31
Total current liabilities	2,385	1,716	1,770
Non-current liabilities			
Debentures	428	635	635
Long-term loans and credit	1,191	1,004	906
Long-term payables and credit balances	58	70	60
Employee benefits, net	52	55	47
Deferred tax liabilities	225	204	221
Total non-current liabilities	1,954	1,968	1,869
Equity and reserves			
Share capital	251	244	244
Share premium	1,051	622	622
Reserves	(1,626)	(877)*	(975)
Retained earnings	2,130	1,987*	1,944
Total equity attributable to the Company's shareholders	1,806	1,976	1,835
Non-Controlling interests	153	648	708
Total equity	1,959	2,624	2,543
Total liabilities and equity	6,298	6,308	6,182

* Adjustment due to retrospective implementation of changes in accounting policy, see Note 2.6 to the consolidated financial statements as at December 31, 2016.

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

Convenience Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31 2016
	Unaudited				Audited
	NIS millions				
Sales	2,696	2,594	1,288	1,273	5,282
Cost of sales	1,637	1,534	797	747	3,179
Gross profit	1,059	1,060	491	526	2,103
Selling and marketing expenses	627	597	309	305	1,234
General and administrative expenses	179	173	86	86	367
	806	770	395	391	1,601
Share of profit of equity-accounted investees	94	103	50	52	178
Operating profit before other income (expense)	347	393	146	187	680
Other income	24	4	1	1	6
Other expenses	(31)	(22)	(15)	(17)	(55)
Other expenses, net	(7)	(18)	(14)	(16)	(49)
Operating profit	340	375	132	171	631
Financing income	1	5	-	6	7
Financing expenses	(69)	(61)	39	(32)	(116)
Financing expenses, net	(68)	(56)	(39)	(26)	(109)
Profit before income taxes	272	319	93	145	522
Taxes on income	(40)	(88)	(10)	(46)	(134)
Profit for the period	232	231	83	99	388
Attributable to:					
The Company's shareholders	180	173	73	69	272
Non-Controlling interests	52	58	10	30	116
Profit for the period	232	231	83	99	388
Earnings per share					
Basic earnings per share (in NIS)	1.64	1.61	0.65	0.65	2.53
Diluted earnings per share (in NIS)	1.63	1.61	0.65	0.65	2.52

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

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Comprehensive Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2017	**June 30 2016**	**June 30 2017**	**June 30 2016**	**December 31 2016**
	Unaudited				**Audited**
	NIS millions				
Profit for the period	232	231	83	99	388
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:					
Foreign currency translation differences	(32)	29	(15)	9	17
Changes in fair value of available for sale financial assets, net	3	-		-	2
Available for sale financial assets reclassified to profit or loss	(21)	-	-	-	-
Reclassification of translation reserve to profit or loss	7	-	7	-	-
Other comprehensive income (loss) from equity-accounted investees	(96)	95	(61)	83	83
Total other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods, net	(139)	124	(69)	92	102
Other comprehensive loss items that will not be transferred to profit or loss in subsequent periods:					
Changes in employee benefits, net	(2)	-	(2)	-	-
Total other comprehensive loss items that will not be transferred to profit or loss in subsequent periods, net	(2)	-	(2)	-	-
Comprehensive income for the period	91	355	12	191	490
Attributable to:					
The Company's shareholders	59	263	2	140	343
Non-controlling interests	32	92	10	51	147
Comprehensive income for the period	91	355	12	191	490

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

Convenience Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

	Attributable to the Company's shareholders									
	Share capital	**Share premium**	**Treasury shares**	**Reserve from transactions with non-controlling interests**	**Translation reserve**	**Reserve in respect of available-for-sale financial assets**	**Retained earnings**	**Total**	**Non-Controlling interests**	**Total equity**
	NIS millions									
Changes during six month period ended June 30, 2017 - unaudited:										
Balance as at January 1, 2017	244	622	(20)	(81)	(881)	7	1,944	1,835	708	2,543
Total comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	180	180	52	232
Components of other comprehensive income (loss):										
Foreign currency translation differences	-	-	-	-	(26)	-	-	(26)	(6)	(32)
Other comprehensive income from equity accounted investees	-	-	-	-	(93)	-	-	(93)	(3)	(96)
Reclassification of translation reserve to profit or loss	-	-	-	-	7	-	-	7	-	7
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	2	3
Available-for- sale financial assets reclassified to profit or loss	-	-	-	-	-	(8)	-	(8)	(13)	(21)
Change in employee benefits, net	-	-	-	-	-	-	(2)	(2)	-	(2)
Other comprehensive loss for the period, net	-	-	-	-	(112)	(7)	(2)	(121)	(20)	(141)
Total comprehensive income (loss) for the period, net	-	-	-	-	(112)	(7)	178	59	32	91
Issue of share capital, net issue costs	7	429	-	-	-	-	-	436	-	436
Share-based payment	-	-	-	-	-	-	8	8	-	8
Transaction with non-controlling interests	-	-	-	(308)	(224)	-	-	(532)	(554)	(1,086)
Acquisition of non-controlling interest in a subsidiary	-	-	-	-	-	-	-	-	(1)	(1)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(32)	(32)
Balance as at June 30, 2017 - unaudited	251	1,051	(20)	(389)	(1,217)	-	2,130	1,806	153	1,959

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

Strauss Group Ltd.

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

	Attributable to the Company's shareholders									
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions									
For the six month period ended June 30, 2016 - unaudited:										
Balance as at January 1, 2016 - Audited	244	622	(20)	(4)*	(951)	6	1,808 *	1,705	603	2,308
Comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	173	173	58	231
Other comprehensive income:										
Foreign currency translation differences	-	-	-	-	20	-	-	20	9	29
Other comprehensive income from equity accounted investees	-	-	-	-	70	-	-	70	25	95
Total other comprehensive income for the Period, net of tax	-	-	-	-	90	-	-	90	34	124
Total comprehensive income for the period	-	-	-	-	90	-	173	263	92	355
Share-based payment	-	-	-		-	-	6	6	-	6
Transaction with non-controlling interests	-	-	-	2	-	-	-	2	(5)	(3)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(42)	(42)
Balance as at June 30, 2016 - unaudited	244	622	(20)	(2)*	(861)	6	1,987 *	1,976	648	2,624

* Adjustment due to retrospective implementation of changes in accounting policy, see Note 2.6 to the consolidated financial statements as at December 31, 2016.

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

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

	Attributable to the Company's shareholders								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions								
Changes during three month period ended June 30, 2017 - unaudited:									
Balance as at April 1, 2017	244	622	(20)	(389)	(1,148)	2,055	1,364	176	1,540
Total comprehensive income for the period									
Profit for the period	-	-	-	-	-	73	73	10	83
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(15)	-	(15)	-	(15)
Other comprehensive income from equity accounted investees	-	-	-	-	(61)	-	(61)	-	(61)
Reclassification of translation reserve to profit or loss	-	-	-	-	7	-	7	-	7
Change in employee benefits, net	-	-	-	-	-	(2)	(2)	-	(2)
Other comprehensive loss for the period, net	-	-	-	-	(69)	(2)	(71)	-	(71)
Total comprehensive income for the period, net	-	-	-	-	(69)	71	2	10	12
Issue of share capital, net issue costs	7	429	-	-	-	-	436	-	436
Share-based payment	-	-	-	-	-	4	4	-	4
Acquisition of non-controlling interest in a subsidiary	-	-	-	-	-	-	-	(1)	(1)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(32)	(32)
Balance as at June 30, 2017 - unaudited	251	1,051	(20)	(389)	(1,217)	2,130	1,806	153	1,959

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

Strauss Group Ltd.

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

	Attributable to the Company's shareholders									
	Share capital	Share premium	Treasury stock	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions									
For the three month period ended June 30, 2016 - unaudited:										
Balance as at April 1, 2016 - unaudited	244	622	(20)	(2)*	(932)	6	1,915*	1,833	618	2,451
Comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	69	69	30	99
Other comprehensive income:										
Foreign currency translation differences	-	-	-	-	6	-	-	6	3	9
Other comprehensive loss from equity-accounted investees	-	-	-	-	65	-	-	65	18	83
Other comprehensive income for the period, net of tax	-	-	-	-	71	-	-	71	21	92
Total comprehensive income for the period	-	-	-	-	71	-	69	140	51	191
Share-based payment	-	-	-	-	-	-	3	3	-	3
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(21)	(21)
Balance as at June 30, 2016 - unaudited	244	622	(20)	(2)*	(861)	6	1,987*	1,976	648	2,624

* Adjustment due to retrospective implementation of changes in accounting policy, see Note 2.6 to the consolidated financial statements as at December 31, 2016.

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

Convenience Translation from Hebrew

Strauss Group Ltd.

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

	Attributable to the Company's shareholders									
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions									
Balance as at January 1, 2016	244	622	(20)	(4)	(951)	6	1,808	1,705	603	2,308
Changes in 2016 (audited) :										
Total comprehensive income for the year										
Income for the year	-	-	-		-	-	272	272	116	388
Components of other comprehensive income:										
Foreign currency translation differences	-	-	-	-	11	-	-	11	6	17
Other comprehensive income from equity accounted investees	-	-	-	-	59	-	-	59	24	83
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	1	2
Other comprehensive income for the period, net	-	-	-	-	70	1	-	71	31	102
Total comprehensive income for the year	-	-	-		70	1	272	343	147	490
Share-based payment	-	-	-	-	-	-	14	14	-	14
Acquisition of non-controlling interest in a subsidiary	-	-	-	(77)	-	-	-	(77)	21	(56)
Dividend	-	-	-	-	-	-	(150)	(150)	-	(150)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(63)	(63)
Balance as at December 31, 2016	244	622	(20)	(81)	(881)	7	1,944	1,835	708	2,543

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

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2017	**June 30 2016**	**June 30 2017**	**June 30 2016**	**December 31 2016**
	Unaudited				**Audited**
	NIS millions				
Cash flows from operating activities					
Profit for the period	232	231	83	99	388
Adjustments:					
Depreciation	70	69	37	35	137
Amortization of intangible assets and deferred expenses	17	22	9	11	44
Impairment loss of fixed assets and intangible assets and investment property, net	8	3	1	3	10
Other expenses (income), net	(14)	5	6	5	22
Expenses in respect of share-based payment	8	6	4	3	14
Financing expenses, net	68	56	39	26	109
Income tax expenses	40	88	10	46	134
Share of profit of equity-accounted investees	(94)	(103)	(50)	(52)	(178)
Change in inventory	(61)	4	(19)	19	47
Change in trade and other receivables	(64)	(11)	109	94	83
Change in long-term trade receivables	(1)	(2)	(1)	(2)	5
Change in trade and other payables	(21)	14	(38)	1	84
Change in employee benefits	3	(1)	2	-	(3)
Interest paid	(47)	(52)	(11)	(9)	(101)
Interest received	2	3	-	2	15
Income tax paid, net	(50)	(153)	(27)	(49)	(200)
Net cash flows provided by operating activities	96	179	154	232	610
Cash flows from investing activities					
Sale (acquisition) of marketable securities and deposits, net	6	6	-	(1)	5
Proceeds from sale of fixed assets, intangible assets and investment property	8	25	1	18	31
Investment in fixed assets, investment property and held-for-sale assets	(70)	(65)	(37)	(31)	(132)
Investments in intangible assets	(22)	(13)	(12)	(8)	(30)
Proceeds from sale of operations, net cash sold (See note 4.3)	6	-	6	-	-
Acquisition of a subsidiary, net cash acquired (See note 4.2)	(119)	-	-	-	-
Available for sale financial assets realization	31	-	-	-	-
Repayment of deposits and loans granted	15	33	6	19	49
Loans granted	(13)	(10)	(4)	(3)	(15)
Dividends from investee companies	18	21	18	21	196
Investment in investee companies	(9)	(36)	-	(36)	(37)
Net cash flows provided by (used in) investing activities	(149)	(39)	(22)	(21)	67

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

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Cash Flows (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31, 2016
	Unaudited				Audited
	NIS millions				
Cash flows from financing activities					
Proceeds from issue of share capital, net issue costs (See note 4.4)	436	-	436	-	-
Short-term bank credit, net	283	5	(258)	(28)	(30)
Receipt of long-term loans	334	115	234	15	115
Repayment of long-term loans and debentures	(259)	(221)	(43)	(18)	(339)
Dividends paid	-	-	-	-	(150)
Acquisition of non-controlling interests in subsidiaries (see note 4.1 and note 6.4 to the annual financial statements)	(706)	(2)	(12)	-	(52)
Dividend paid to non-controlling interests in a subsidiary	(17)	(42)	(17)	(21)	(63)
Net cash flows provided by (used in) financing activities	71	(145)	340	(52)	(519)
Net increase (decrease) in cash and cash equivalents	**18**	**(5)**	**472**	**159**	**158**
Cash and cash equivalents as at beginning of period	711	560	242	395	560
Effect of exchange rate fluctuations on cash balances	(13)	-	2	1	(7)
Cash and cash equivalents as at end of period	716	555	716	555	711

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

Note 1 - Reporting Principles and Accounting Policy

1.1 General

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

The Company and its investee companies (hereinafter: the "Group") are a group of industrial and commercial companies operating in Israel and abroad and active mainly in the development, manufacture, marketing and sale of a broad variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration and purification products. The condensed consolidated interim financial statements as at June 30, 2017 and for the six and three months period then ended (hereinafter - the "Interim Statements") comprise the Company and its subsidiaries.

The Company's controlling shareholders are Mr. Michael Strauss through his holdings (indirect) in Strauss Holdings Ltd. (hereinafter: the "Parent Company" or "Strauss Holdings") and through a direct holding in the Company, and Ms. Ofra Strauss, who is considered a joint holder of the Company's shares with Mr. Strauss.

1.1.2 The consolidated Interim Statements have been prepared in accordance with IAS 34 regarding interim financial reporting and Section D of the Securities Regulations (Periodic and Immediate Reports) - 1970.
These Interim Statements should be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as at December 31, 2016 and for the year then ended together with their accompanying notes (hereinafter: the "Annual Financial Statements").
The accounting principles applied in preparing these Interim Statements are consistent with the principles applied in preparing the Annual Financial Statements.

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

1.1.4 These Interim Statements have been approved by the Company's Board of Directors on August 9, 2017.

1.2 IFRS 15, Revenue from Contracts with Customers

Further to note 3.22.2 to the consolidated financial statements as at December 31, 2016, the company completed the review of the implications of applying IFRS 15 and in its assessment of the implementation of the standard is not expected to have a material impact on its consolidated financial statements.

Note 2 - Seasonality

The sales of Fun & Indulgence products are characterized by seasonality, and they are usually higher in the first quarter of the year. The seasonality is mainly affected by the winter, being characterized by a higher consumption of chocolate products, as well as by higher consumption before Passover.

In the area of coffee in Israel, there is no clear trend of seasonality. However, total revenues are usually high in the first quarter of the year, due to increased consumption of coffee products prior to the Passover holiday.

Note 2 – Seasonality (cont'd)

In the area of health and wellness products, there is no clear trend of seasonality. However, total revenues are usually relatively high in the third quarter of the year, in which the hot summer months occur, characterized by an increase in consumption in 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 - Operating segments

Details by operating segments and reconciliation to the consolidated financial statements:

	For the three months ended		For the three months ended		For the year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31 2016
	Unaudited				Audited
	NIS millions				
Revenues					
Sales to external customers:					
Health & Wellness	1,002	965	516	491	1,975
Fun & Indulgence	553	523	221	221	1,006
Total Israel	1,555	1,488	737	712	2,963
Israel Coffee	361	347	149	153	673
International Coffee	1,582	1,310	833	724	3,000
Total Coffee	1,943	1,657	982	877	3,673
International dips and spreads	338	382	178	197	717
Other	289	286	145	147	590
Sales to other segments:					
Health & Wellness	4	3	2	1	7
Fun & Indulgence	5	6	2	3	11
Total Israel	9	9	4	4	18
Israel Coffee	1	1	1	-	2
International Coffee	1	-	-	-	1
Total Coffee	2	1	1	-	3
Other	-	-	-	-	1
Total revenues of the segments	4,136	3,823	2,047	1,937	7,965
Elimination of inter-segment sales	(11)	(10)	(5)	(4)	(22)
Total revenues of the segments excluding the inter - segment sales	4,125	3,813	2,042	1,933	7,943
Adjustment to the equity method	(1,429)	(1,219)	(754)	(660)	(2,661)
Total consolidated revenues	2,696	2,594	1,288	1,273	5,282

Note 3 - Operating segments (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31 2016
	Unaudited				Audited
	NIS millions				
Profit					
Health & Wellness	108	99	55	48	213
Fun & Indulgence	63	62	11	15	101
Total Israel	171	161	66	63	314
Israel Coffee	57	52	17	17	87
International Coffee	135	111	84	66	272
Total Coffee	192	163	101	83	359
International dips and spreads	23	51	6	24	48
Other	24	21	14	13	23
Total profit of reportable segments	410	396	187	183	744
Unallocated income (expenses):					
Adjustments for commodity hedges (1)	(20)	27	(11)	21	-
Other expenses, net	(17)	(19)	(25)	(17)	(50)
Share based payment	(8)	(6)	(4)	(3)	(15)
Total operating profit of business operations	365	398	147	184	679
Adjustment to the equity method	(25)	(23)	(15)	(13)	(48)
Total operating profit in the consolidated financial statements	340	375	132	171	631
Financing expenses, net	(68)	(56)	(39)	(26)	(109)
Profit before taxes on income	272	319	93	145	522

(1) Reflects accounting revaluation (mark-to-market) to the end of the period of open positions in the Group in respect of derivative financial instruments which are used to hedge the prices of goods. As a result of a change in management reporting, Commencing in the first quarter of 2017, reflects all adjustments necessary to delay recognition of profit or loss arising from commodity derivatives until the date when the inventory is sold to outside parties..

Note 4 - Material Events during the Reported Period

4.1 On March 27, the subsidiary, Strauss Coffee (hereinafter: "Strauss Coffee") effected a buyback of the shares of TPG (25.1%) in Strauss Coffee (hereinafter: "the purchase") for consideration of EURO 257 million (hereinafter: "the consideration"). Of the consideration, an amount of approximately EURO 172 million (approximately NIS 676 million) was paid in cash at the date of the purchase and an amount of approximately EURO 85 million, which was given by TPG as non-recourse loans to Strauss Coffee, was paid on August 1, 2017. The repayment of the loan from TPG was financed by a long-term loan taken by the subsidiary Strauss Coffee from Strauss managers in Strauss Coffee amounting to approximately EURO 16 million, and the

Note 4 - Material Events during the Reported Period (cont'd)

Options of Strauss Group are approved for allocation, at a value of approximately EURO 2 million (see also Note 5.1). In respect of the purchase transaction costs amounting to approximately EURO 3 million were incurred.

As a result of the transaction outlined above, the Company recognized a decrease in non-controlling interests amounting to approximately NIS 554 million, a decrease in the reserve for transactions with non-controlling interests amounting to approximately NIS 308 million and a decrease in translation reserve amounting to approximately NIS 224 million.

The purchase and the redemption of the options were financed from independent resources and a debt assumed by Strauss Coffee, and a capital mobilization of Strauss Group. In order to finance the purchase, Strauss Coffee took a short-term loan amounting to approximately NIS 434 million (approximately EURO110 million) bears 1.5%-2.0% interest. As at the date of the financial statement Strauss Coffee repaid the full short-term loan.

On April 4, 2017, the subsidiary, Strauss Coffee took a long-term loan from an institutional entity amounting to NIS 234 million which replaces a part of the long-term loan. The long-term loan bears 2.5%-3.5% interest, which shall be paid half-yearly on the undischarged principal of the loan. The loan principal will be repaid in 10 annual installments, as follows: two annual installments of 2% of the total of the loan, four annual installments at a rate of between 14% and 15% of the total of the loan and four annual installments at a rate of between 8% and 10% of the total of the loan.

On July 27, 2017, the subsidiary, Strauss Coffee assumed an additional long-term loan from the institutional entity, amounting to approximately NIS 78 million, bearing annual interest ranging from 2%-3%, payable semi-annually on the balance of the outstanding principal, and repayable in identical manner to the loan taken in April 2017 (see above).
The following financial criteria have been established for the loans outlined above: (1) the capital ratio (with the addition of shareholder loan) to the balance sheet must not be less than 25%; (2) The ratio of the financial debt, net, to EBITDA must not exceed 3.5.

On August 1, 2017 the subsidiary, Strauss Coffee assumed an additional long-term loan from bank, amounting to approximately EURO 30 million (approximately NIS 121 million) which replaces an additional part of the long-term loans outlined above.

4.2 On March 23, the subsidiary, Strauss Coffee exercised the Call option which it held to purchase 100% of the shares of Norddeutsche Kaffeewerke GmbH (hereinafter" "NDKW"), which operates a freeze-dried coffee plant in Germany (see also Note 24.4.7 to the annual financial statements). The consideration of the purchase amounted to EURO 56 million (NIS 220 million) (EURO 32 million in cash and EURO 24 million in respect of the payment of a mutual balance). The subsidiary, Strauss Coffee completed the allocation of the cost of the purchase to the identifiable assets and liabilities which were purchased, and recognized, mainly, fixed assets amounting to EURO 34 million and goodwill amounting to EURO 22 million.

4.3 On May 23, 2017 an agreement was signed for the sale of the Max Brenner business inconsideration for approximately NIS 18 million. The said amount includes prepaid rental fees amounting to NIS 3.5 million for Max Brenner’s production facility in Beit Shemesh for a five-year period. Pursuant to the decision to realize the operation, the Company recognized a loss of

Note 4 - Material Events during the Reported Period (cont'd)

approximately NIS 10 million in the first quarter as a result of the business's valuation according to the lower of its carrying value and fair value less costs to sell. Following the actual divestment in the second quarter, the Company recognized a net loss of NIS 10 million (NIS 7 million in respect of the realization of the translation reserve and the remainder in respect of transaction costs and severance pay to employees), which was classified to the other expenses item in the income statement. As at the date of publication of the report, the entire consideration for the sale has been received.

4.4 In April 2017, 4,074,752 shares of NIS 1 each par value were issued to institutional entities and to the public for consideration of approximately NIS 260 million. Additionally, in June 2017, 2,727,274 shares of 1 NIS each par value have been issued to institutional entities in consideration of an amount of approximately NIS 180 million. The costs of the issue amounted of approximately NIS 4 million.

4.5 On 28 May, 2017, the subsidiary Strauss Water Ltd. Company exercised the right reserved to it in accordance with the joint venture agreement, to purchase an additional 15% of the Qingdao HSW Health Water Appliance Co. Ltd ("Joint Venture" and "The Acquisition"), thus following the acquisition the joint venture will be owned by the. Haier Group 51% and Strauss Water 49%. In consideration for the acquisition, the company will pay approximately CNY 150 million (approximately NIS 81 million) ("The Consideration") within 30-90 days to a company of the Haier Group. The consideration was fixed in accordance with the company's appraisal based on the joint venture's financial results for the 2016 fiscal year as determined in the joint venture agreement. The consideration was financed through an owners' loan extended by the company to Strauss Water. The ownership of the additional shares will be transferred on the date of payment of the purchase consideration. As at the publication date of the financial statement, the consideration has not yet been transferred.

Note 5 - Share-Based Payment

5.1 Grants during the period

Details of the new options granted during the period are as follows:

Grant date	Number of options and entitled employees	Fair value	Share price	Exercise price	Expected life	Expected annual volatility	Discount rate
		NIS millions	NIS	NIS	Years	%	%
March 27, 2017 (1)	773,325 to 14 managers	8.3	62.26	63.49	4.29-5.29	19.95-21.00	0.12-0.23
May 28, 2017 (2)	368,060 to 11 managers	4.2	64.52	63.82	4.29-5.29	19.69-20.98	(0.07)-(0.22)
May 28, 2017 (3)	653,258 to 5 managers	12.4	64.52	49.74-53.5	2.89-6.30	19.62-23.60	0.48-1.48

Note 5 - Share-Based Payment (cont'd)

(1) The exercise increment of each one of the options is linked to the consumer price index, published on March 15, 2017. Entitlement to exercise the options will be crystallized in two equal tranches, on March 27 of each of the years 2019 and 2020. The benefit arising from these grants will be charged as an expense in the financial statements over the said vesting periods.

(2) The exercise money of each of the options is linked to the consumer price index published on May 15, 2017. Entitlement to realize the warrants will be formed in two equal steps, on May 28 of each of the years 2019-2020. The benefit deriving from these grants will be recognized under an expense in the financial statements over such vesting periods.

(3) As part of the repurchase made by Strauss Coffee of all of TPG shares (25.1%) in Strauss Coffee, the options held by the managers of Strauss Coffee were converted. Under the conversion, 653,258 options were converted into the Company's shares. The exercise money of each of the options is not linked to the consumer price index. Entitlement to realize the warrants will be formed in accordance with the original terms of the options granted to the managers of Strauss Coffee over the years 2018-2021. At the time of conversion, no incremental value was recognized as the fair value of the options following the change of the terms did not exceed the fair value before the change, as measured on the date of changing the terms.

5.2 Exercises during the period

During the report period, 311,874 options which were granted to employees were realized to 115,968 shares in consideration of their par value.

Note 6 - Contingent liabilities

6.1 For details regarding legal claims and contingencies liabilities against the Company and its subsidiaries, as at December 31, 2016, see note 24.1.1 and note 24.1.2 to the Annual Financial Statements.

6.2 On January 17, 2017, a monetary claim and a petition to approve it as a class action were filed in the Central District of the District Court against the subsidiary, Strauss Water Ltd., relating to the failure to supply of spare parts on time. On April 30, 2017, the court instructed the dismissal of the request for approval for a class action without the ruling on expenses.

6.3 On April 5, 2017, a monetary claim and a petition to approve it as a class action were filed in the Central District of the District Court against the Company, regarding an allegation of displaying erroneous nutritional values and an erroneous weight mark on a 5% Ski cheese product in packages weighing 125 grams. The amount of the claim is NIS 53 million. Based on the estimates of the Company's legal counsels, management is of the opinion at this stage that the claims are not expected to be accepted.

6.4 Further to note 24.1.1 of the annual financial statements, on April 6, 2017, the District Court in Haifa decided to approve a withdrawal notice of the plaintiff, from a monetary claim and a petition for its approval as a class action in the amount of NIS 915 million which was filed against the Company, Uri Horazo Yotvata Dairies and the subsidiary, Strauss Health in June 2016 due to sale of allegedly defective products.

Note 6 - Contingent liabilities (Cont'd)

6.5 Further to note 24.1.1 of the annual financial statements, on May 17, 2017, the District Court of Tel Aviv-Jaffa decided to approve the plaintiff's notice of withdrawal from a monetary claim and motion to certify a class action filed against the Company and Israel Railways in November 2014 due to alleged misleading in the sale of a product .The Company was required to pay compensation and fees in the amount of NIS 20,000 (in addition to VAT) for the plaintiff and its counsel.

6.6 Further to note 24.1.2 of the annual financial statements pertaining to a claim that was filed with the Central District Court in May 2016 due to charging a prima facie exaggerated price by a Monopolist for the Milky dairy dessert, the company's management, based on the assessment of its legal advisors, estimates at this stage that the claim will not be upheld.

Note 7 - Equity-Accounted Investees

7.1 Concise information on material equity-accounted investees:

(a) Concise financial information about the financial position:

	Sabra Dipping Company			Três Corações Alimentos S.A		
	June 30		December 31	June 30		December 31
	2017	2016	2016	2017	2016	2016
	Unaudited		Audited	Unaudited		Audited
	NIS millions			NIS millions		
Current assets	311	374	324	1,135	914	1,091
Of which:						
Cash and cash non-current assets	48	127	115	160	72	102
Non-current assets	633	699	696	613	645	653
Total assets	944	1,073	1,020	1,748	1,559	1,744
Current liabilities	377	219	428*	650	586	779
Of which:						
Financial liabilities excluding trade payables, other payables and provisions (1)(2)	256	102	294*	285	189	352
Non-current liabilities	3	14	4*	311	244	195
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	-	13	-*	277	208	158
Total liabilities	380	233	432	961	830	974

* Reclassified.

(1) Classification of balance of loan at June 30, 2017 and December 31, 2016 from long term to short term due to non-compliance with the financial criteria that became apparent in retrospect to the investee company and to the banks in this quarter.

(2) Further to note 1 above, as of the publication date of this report and further to the giving of a guarantee through December 31, 2017 by the companies holding US$ 2 million (the Company's share), the terms of the loan were changed such that the investee company is not required to comply with the financial criteria as aforesaid through December 31, 2017.

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

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

(b) Concise financial information about the results of operations:

	Sabra Dipping Company					Três Corações Alimentos S.A				
	For the six months ended June 30		For the three months ended June 30		For the year ended December 31	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016	2017	2016	2017	2016	2016
	Unaudited				Audited	Unaudited				Audited
	NIS millions									
Income	613	724	325	374	1,328	1,950	1,453	1,048	821	3,459
Profit for the period (1)	18	64	(2)	30	63	121	77	91	47	212
Other comprehensive income (loss)	(56)	(11)*	(22)	22	(14)	(81)	130	(65)	94	120
Total comprehensive income (loss) (100%)	(38)	53*	(24)	52	49	40	207	26	141	332
Of which:										
Depreciation and amortization	22	22	11	11	50	20	15	10	8	34
Interest income	-	-	-	-	-	6	8	4	5	12
Interest expenses	4	3	2	1	7	23	16	12	9	35
Income tax expense (income)(1)	14	48	(2)	23	49	22	27	19	17	50

(1) Tax in respect of an equity-accounted investee assessed in the holding company, S.E. USA, Inc.

* Reclassified.

7.2 The Group is enclosing to these condensed consolidated interim financial statements the condensed consolidated interim financial statements of Três Corações 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 1.06 as of June 30, 2017.

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 six-month period ending on:		
June 30, 2017	1.15	(10.1)
June 30, 2016	1.05	21.2
For the three-month period ending on:		
June 30, 2017	1.12	(6.6)
June 30, 2016	1.09	14.7
For the year ending December 31, 2016	1.11	19.7

Note 8 - Financial Instruments

8.1 Financial instruments measured at fair value

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 is the same as or proximate to their fair value . 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:

	June 30, 2017		June 30, 2016		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Unaudited				Audited	
	NIS millions					
Series B Debentures	182	185	361	376	362	368
Series D Debentures	461	509	481	541	481	527

8.2 Fair value hierarchy of financial instruments measured at fair value

The table below presents an analysis of the financial instruments measured at fair value using an evaluation method. 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.

	June 30, 2017			June 30, 2016			December 31, 2016		
	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	-	-	47	-	-	46	-	-
Trade receivables-derivatives	9	4	-	28	5	-	11	2	-
Trade payables- derivatives	(18)	(14)	-	(1)	(39)	-	(11)	(27)	-
Available for sale financial asset (1)	-	-	-	26	-	-	28	-	-
Option to purchase shares (2)	-	-	-	-	-	3	-	-	-
	38	(10)	-	100	(34)	3	74	(25)	-

(1) During the period, an available-for-sale financial asset was sold for consideration of approximately NIS 31 million. As a result of such an exercise, a gain was recognized of approximately NIS 21 million which was classified as other income item in the operating statement.

(2) A share option in an equity-accounted investee. The fair value of the option is measured using the Monte Carlo simulation technique based, inter alia, on the investee's value and projected income as well as on peer company volatility. See note 4.5, Material events during the reported period.

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 July 4, 2017 the Company issued Series E bonds that were listed for trade on Tel Aviv Stock Exchange. The consideration of the issue is approximately NIS 399 million, net issue costs. The following are the terms of the issued bonds:

	Series E
Type of interest	Fixed
Annual interest rate	2.61%
Effective Interest rate on the date of listing for trade taking into consideration issue costs	2.78%
Par value at time of issue	NIS 403.1 million
Linkage terms	Principal and interest are not linked to any index
Principal payment dates	8 annual installments on the June 30 of each year of the years 2020 until 2027. 4 first installments – 5% each and 4 additional installments – 20% each.
Interest payment dates	Semi-annual interest on December 31 and June 30. As of December 31, 2017 until June 30, 2027.
Securities or charges	None
Rating company's name	Midroog; Maalot
Rating at time of issue	Aa2; AA+

As long as the Series E bonds have not been fully repaid, the Company undertakes to meet the financial conditions it assumed under the deed of trust and bond certificate, such financial conditions being identical to the financial conditions previously determined with respect of the D Series bonds, in accordance with the details in Note 20.6 of the annual financial statements. In addition, the following conditions were provided for with respect of the Series E bonds: if the Company's equity (neutralizing a decrease deriving from the purchase of non-controlling rights following the issue date of Series E bonds) falls under NIS 500 million in the course of 3 consecutive quarters, this breach will constitute a cause for the bondholders at that time for immediate repayment. In addition, if it falls under NIS 700 million, the Company undertakes not to perform a distribution as this term is defined in the Companies Law. In addition, if the rating of Series E bonds falls under BBB- after 45 days have elapsed from the date of the update notice of such rating, and provided that the rating is not increased, the holders of Series E bonds will have a cause for immediate repayment.

9.2 On August 9, 2017, the Board of Directors of the Company approved the distribution of a dividend to the shareholders amounting to NIS 160 million (NIS 1.39 per share) to be paid on September 5, 2017.

9.3 On August 9, 2017, the Company's Benefits Committee approved a grant of 93,332 options to two managers. The exercise price was determined at the average of the closing prices of the Company's shares 30 days preceding the date of grant, without any premium increment, and linked to the consumer price index at July 14, 2017. The value of these grants, according to a preliminary estimate, amounts to a total of approximately NIS 1 million.

9.4 For details regarding long-term loans assumed by Strauss Coffee after the balance sheet date, see Note 4.1.

Convenience Translation from Hebrew

Strauss Group Ltd.

Separate Financial Information As At June 30, 2017

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Strauss Group Ltd.

Condensed Interim Information on the Financial Position

	June 30 2017 (Unaudited)	June 30 2016 (Unaudited)	December 31 2016 (Audited)
		NIS Millions	
Current assets			
Cash and cash equivalents	438	193	126
Securities and deposits	16	23	23
Trade receivables	173	178	179
Income tax receivables	27	16	17
Other receivables and debit balances	30	44	31
Investee receivables	126	240	196
Inventory	115	126	118
Assets held for sale	27	36	32
Total current assets	952	856	722
Investments and non-current assets			
Investments in investees	1,405	1,810	1,816
Other investments and long-term debit balances	623	641	665
Fixed assets	936	944	944
Investment property	4	-	-
Intangible assets	50	54	53
Total investments and non-current assets	3,018	3,449	3,478
Total assets	3,970	4,305	4,200

Ofra Strauss Chairperson of the Board of Directors	Gadi Lesin Chief Executive Officer	Shahar Florence Chief Financial Officer

Date of approval of the separate financial information: August 9, 2017

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

Strauss Group Ltd.

Condensed Interim Information on the Financial Position (cont'd)

	June 30 2017 (Unaudited)	June 30 2016 (Unaudited)	December 31 2016 (Audited)
		NIS Millions	
Current liabilities			
Current maturities of debentures	207	196	196
Short-term credit and current maturities of long-term loans and other long term liabilities	15	28	15
Trade payables	191	198	202
Other payables and credit balances	201	227	248
Investee payables	205	134	160
Provisions	1	4	2
Total current liabilities	820	787	823
Non-current liabilities			
Debentures	428	635	635
Long-term loans and other long term liabilities	793	804	796
Long-term payables and credit balances	18	16	16
Employee benefits, net	23	25	20
Deferred tax liabilities	82	62	75
Total non-current liabilities	1,344	1,542	1,542
Total equity attributable to the Company's shareholders	1,806	1,976	1,835
Total liabilities and equity	3,970	4,305	4,200

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

Strauss Group Ltd.

Condensed Interim Information on Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31 2016
	(Unaudited)				(Audited)
	NIS Millions				
Sales	527	523	216	222	1,010
Cost of sales	327	311	140	130	622
Gross profit	200	212	76	92	388
Selling and marketing expenses	128	131	62	64	266
General and administrative expenses	30	24	13	12	61
	158	155	75	76	327
Operating profit before other income (expenses)	42	57	1	16	61
Other income	-	1	-	-	2
Other expenses	(6)	(7)	(4)	(6)	(12)
Other expenses, net	(6)	(6)	(4)	(6)	(10)
Operating profit (loss)	36	51	(3)	10	51
Financing income	(11)	17	6	14	28
Financing expenses	(61)	(47)	(32)	(23)	(88)
Financing expenses, net	(50)	(30)	(26)	(9)	(60)
Profit (loss) before taxes on income	(14)	21	(29)	1	(9)
Taxes on income	(5)	(23)	(4)	(14)	(38)
Loss after taxes on income	(19)	(2)	(33)	(13)	(47)
Income from investees	199	175	106	82	319
Income for the period attributable to the shareholders of the Company	180	173	73	69	272

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

Strauss Group Ltd.

Condensed Interim Information on Comprehensive Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31 2016
	(Unaudited)				(Audited)
	NIS Millions				
Income for the period attributable to the shareholders of the Company	180	173	73	69	272
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:					
Other comprehensive income (loss) from investees	(119)	90	(69)	71	71
Total other comprehensive income (loss) items that will be transferred to profit or loss, net of tax	(119)	90	(69)	71	71
Other comprehensive loss items that will not be transferred to profit or loss in subsequent periods:					
Changes in employee benefits, net	(2)	-	(2)	-	-
Total other comprehensive loss items that will not be transferred to profit or loss in subsequent periods, net	(2)	-	(2)	-	-
Comprehensive income for the period attributable to the shareholders of the Company	59	263	2	140	343

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

Strauss Group Ltd.

Condensed Interim Information on Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	December 31 2016
	(Unaudited)				(Audited)
	NIS Millions				
Cash flows from operating activities					
Income for the period attributable to the shareholders of the company	180	173	73	69	272
Adjustments:					
Depreciation	27	28	14	14	56
Amortization of intangible assets and deferred expenses	7	7	3	4	14
Other income, net	(2)	(1)	(2)	-	(1)
Expenses in respect of share-based payment	7	6	3	4	13
Income from investees	(199)	(175)	(106)	(82)	(319)
Financing expenses, net	50	30	26	9	60
Income tax expense	5	23	4	14	38
Change in inventory	-	16	(10)	(4)	24
Change in trade and other receivables	-	(9)	85	66	6
Change in investee receivables	38	97	6	22	65
Change in trade and other payables	(31)	21	(74)	(11)	15
Change in investee payables	42	19	14	(19)	45
Change in employee benefits	1	1	1	-	(3)
Interest paid	(36)	(41)	(2)	(3)	(77)
Interest received	-	-	-	-	18
Income tax paid, net	7	(31)	(3)	(14)	(41)
Net cash flows from operating activities	82	164	32	69	185
Cash flows from investing activities					
Sale (acquisition) of marketable securities and deposits, net	7	6	-	(1)	6
Proceeds from sale of fixed and other assets	8	24	1	18	29
Acquisition of fixed assets	(28)	(27)	(15)	(11)	(49)
Investment in intangible assets	(4)	(4)	(2)	(3)	(11)
Repayment of deposits and long-term loans	2	4	1	2	9
Loans granted	(7)	(6)	-	(1)	(8)
Dividends from investees	2	65	2	2	159
Cash received in respect of investing activities with investees	39	3	-	3	91
Cash paid in respect of investing activities with investees	(31)	(76)	(4)	(54)	(152)
Proceeds from sale of operations	8	-	8	-	-
Net cash flows from (used in) investing activities	(4)	(11)	(9)	(45)	74
Cash flows from financing activities					
Repayment of debentures and long-term loans	(202)	(192)	-	(4)	(215)
Dividends paid	-	-	-	-	(150)
Short-term bank credit, net	-	-	(44)	-	-
Proceeds from issue of share capital, net issue costs	436	-	436	-	-
Net cash flows from (used in) financing activities	234	(192)	392	(4)	(365)
Net increase (decrease) in cash and cash equivalents	312	(39)	415	20	(106)
Cash and cash equivalents as at January 1	126	232	23	173	232
Cash and cash equivalents as at end of period	438	193	438	193	126

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 the Group's salad activity in Israel and the Group's confectionery operation in Israel, which includes the development, manufacture and marketing of branded candy products.

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, 2016, and in conjunction with the interim consolidated financial statements as at June 30, 2017 (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, 2016.

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, 2016.

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. There is no clear trend of seasonality in the area of salads in Israel

Note 3 - Material Events during the Reported Period

3.1 Further to the acquisition of the minority in the subsidiary Strauss Water Ltd. (the "Subsidiary") in November 2016, the Company and the Subsidiary signed on a change to the terms of the balance of the loans amounted to approximately NIS 124 million that provided by the Company to the Subsidiary in the past. Within the change to the terms, the existing loans were replaced with unlinked and interest-free capital notes and that will not be repaid before May 18, 2022. Pursuant to a change in the conditions the difference between the value of the loans in the books before the replacement date and the capitalized value after the replacement was carried to the item, investment in investee companies.

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

Note 4 - Share-Based Payment

For information on share-based payment see Notes 5 to the Consolidated Interim Financial Statements.

Note 5 - Contingent liabilities

For information on Contingent liabilities see Notes 6 to the Consolidated Interim Financial Statements.

Note 6 - Financial Instruments

6.1 Fair value of financial instruments measured at fair value

For information on the fair value of financial instruments measured at fair value, 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

7.1 On July 31, 2017 the subsidiary Strauss Coffee assumed a long-term loan from the Company in the total of NIS 375 million. The long-term loan bears annual interest at 2%. The principal of the loan will be repaid in 3 annual instalments commencing December 31, 2018, as follows: two annual instalments of 44% the amount of the loan each and the remainder, (a total of 12%) in one payment. For further details, see Note 4.1 to the condensed consolidated interim financial statements.

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

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, 2016 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.

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

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 second quarter of 2017 (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, 2016) 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.

August 9, 2017

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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 second quarter of 2017 (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, 2016) 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.

August 9, 2017

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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 six month periods ended 30 June 2017 and 2016 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 June 2017 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 June 2017;
- the condensed consolidated statement of income and other comprehensive income for the three and six month periods ended 30 June 2017;
- the condensed consolidated statement of changes in equity for the three and six month periods ended 30 June 2017;
- the condensed consolidated statement of cash flows for the three and six month periods ended 30 June 2017; 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 June 2017 condensed consolidated interim financial statements are not prepared in all material respects in accordance with IAS 34, 'Interim Financial Reporting'.

Fortaleza, 4 August 2017

KPMG Auditores Independentes
CRC 2SP014428/O-6

João Alberto da Silva Neto

Três Corações Group

Consolidated Interim Statements of Financial Position as of 30 June 2017 and 31 December 2016

(In thousand of Brazilian reais)

Assets	**30 June 2017**	**31 December 2016**
Current		
Cash and cash equivalents	150,638	86,524
Deposits	2,805	2,418
Trade receivables	487,054	393,469
Inventories	363,694	377,163
Recoverable taxes	44,418	37,798
Income tax receivable	4,934	14,030
Derivative instruments	409	-
Other current assets	16,157	14,114
	1,070,109	925,516
Non-current		
Judicial deposits	9,202	8,780
Loans to related parties	17,870	7,908
Other non-current assets	5,113	7,765
Deferred tax assets	13,182	14,299
Investments	4,037	4,211
Fixed assets	255,737	242,291
Intangible assets	273,252	268,456
	578,393	553,710
	1,648,502	1,479,226

Liabilities	**30 June 2017**	**31 December 2016**
Current		
Short term loans	269,300	298,804
Trade payables	152,739	151,143
Income tax payables	7,410	1,253
Employees and other payroll related liabilities	51,233	42,134
Proposed dividends	24,732	59,268
Interest on equity payable	64,288	43,938
Payable taxes	23,041	27,724
Other current liabilities	20,414	36,335
	613,157	660,599
Non-current		
Long term loans	261,617	134,243
Other non-current liabilities	1,977	2,565
Deferred tax liabilities	10,776	9,364
Provision for legal proceedings	18,971	19,518
	293,341	165,690
Equity		
Share capital	273,442	272,370
Translation reserve	(95,797)	(99,228)
Retained earnings	564,359	479,795
	742,004	652,937
	1,648,502	1,479,226

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Income

Six and three month periods ended 30 June 2017 and 2016

(In thousand of Brazilian Reais)

	Six months period ended 30 June		Three months period ended 30 June	
	2017	**2016**	**2017**	**2016**
Revenue	1,699,287	1,383,148	938,957	753,322
Cost of sales	(1,248,846)	(1,016,186)	(669,471)	(550,630)
Gross profit	450,441	366,962	269,486	202,692
Selling and marketing expenses	(254,482)	(221,539)	(136,405)	(121,399)
General and administrative expenses	(52,786)	(41,067)	(25,349)	(20,501)
Equity method	(174)	(3)	(56)	(3)
Other income (expenses), net	(27)	228	(55)	188
Operating profit	142,972	104,581	107,621	60,977
Finance income	5,522	7,623	3,589	4,760
Finance expenses	(21,111)	(13,393)	(11,359)	(7,578)
Profit before income tax	127,383	98,811	99,851	58,159
Income tax expenses	(19,735)	(25,706)	(17,579)	(15,373)
Profit for the period	107,648	73,105	82,272	42,786

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Comprehensive Income

Six and three month periods ended 30 June 2017 and 2016

(In thousand of Brazilian Reais)

	Six months period ended 30 June		Three months period ended 30 June	
	2017	**2016**	**2017**	**2016**
Profit for the period	107,648	73,105	82,272	42,786
Foreign currency translation differences	3,431	7,290	(466)	2,753
Comprehensive income for the period	111,079	80,395	81,806	45,539

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

Três Corações Group

Consolidated Interim Statements of Changes in Equity

Three months period ended 30 June 2017 and 2016

(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 March, 2016	272,370	34,232	165,288	196,301	(100,963)	-	567,228
Dividends distributed relative to 2015	-	-	-	(1,445)	-	-	(1,445)
Profit for the period	-	-	-	-	-	42,786	42,786
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	2,753	-	2,753
Total other comprehensive gain:	-	-	-	-	2,753	42,786	45,539
Internal equity changes							
State VAT and Federal tax incentives	-	-	11,837	-	-	(11,837)	-
Profit destination:							
Legal reserve	-	2,139	-	-	-	(2,139)	-
Reserve for profit to be distributed	-	-	-	28,810	-	(28,810)	-
	-	2,139	11,837	28,810	-	(42,786)	-
Balance as of 30 June, 2016	272,370	36,371	177,125	223,666	(98,210)	-	611,322
Balance as of 31 March, 2017	272,370	43,478	203,309	253,984	(95,331)	-	677,810
Dividends distributed relative to 2016	-	-	-	(12)	-	-	(12)
Profit for the period	-	-	-	-	-	82,272	82,272
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	(466)	-	(466)
Total other comprehensive gain:	-	-	-	-	(466)	82,272	81,806
Internal equity changes							
Capitalization of tax incentives	1,072	-	(1,072)	-	-	-	-
State VAT and Federal tax incentives	-	-	12,280	-	-	(12,280)	-
Profit destination:							
Legal reserve	-	4,042	-	-	-	(4,042)	-
Interest on equity credited	-	-	-	-	-	(17,600)	(17,600)
Reserve for profit to be distributed	-	-	-	48,350	-	(48,350)	-
	1,072	4,042	11,208	48,350	-	(82,272)	(17,600)
Balance as of 30 June, 2017	273,442	47,520	214,517	302,322	(95,797)	-	742,004

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

Três Corações Alimentos S.A.

Consolidated Statements of Changes in Equity

Six month periods ended 30 Junho 2017 and 2016

(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, 2015	272,370	32,716	157,782	175,004	(105,500)	-	532,372
Dividends distributed relative to 2015	-	-	-	(1,445)	-	-	(1,445)
Profit for the period	-	-	-	-	-	73,105	73,105
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	7,290	-	7,290
Total other comprehensive gain:	-	-	-	-	7,290	73,105	80,395
Internal equity changes							
State VAT and Federal tax incentives	-	-	19,343	-	-	(19,343)	-
Profit destination:							
Legal reserve	-	3,655	-	-	-	(3,655)	-
Reserve for profit to be distributed	-	-	-	50,107	-	(50,107)	-
	-	3,655	19,343	50,107	-	(73,105)	-
Balance as of 30 June, 2016	272,370	36,371	177,125	223,666	(98,210)	-	611,322
Balance as of 31 December, 2016	272,370	42,209	194,522	243,064	(99,228)	-	652,937
Dividends distributed relative to 2016	-	-	-	(12)	-	-	(12)
Profit for the period	-	-	-	-	-	107,648	107,648
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	3,431	-	3,431
Total other comprehensive loss:	-	-	-	-	3,431	107,648	111,079
Internal equity changes							
Capitalization of tax incentives	1,072	-	(1,072)	-	-	-	-
State VAT and Federal tax incentives	-	-	21,067	-	-	(21,067)	-
Profit destination:							
Legal reserve	-	5,311	-	-	-	(5,311)	-
Interest on equity credited	-	-	-	-	-	(22,000)	(22,000)
Reserve for profit to be distributed	-	-	-	59,270	-	(59,270)	-
	-	5,311	21,067	59,270	-	(107,648)	(22,000)
Balance as of 30 June, 2017	273,442	47,520	214,517	302,322	(95,797)	-	742,004

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Cash Flows

Six and three month periods ended 30 June 2017 and 2016

(In thousand of Brazilian Reais)

	Six months period ended 30 June		Three months period ended 30 June	
	2017	**2016**	**2017**	**2016**
Cash flows from operating activities				
Profit for the period	107,648	73,105	82,272	42,786
Adjustments for:				
Depreciation and amortization	17,299	14,318	9,059	7,274
Provision for legal proceedings	(547)	(1,218)	1	(1,232)
Other income, net	27	(228)	55	(188)
Equity method	174	3	56	3
Financing expenses, net	15,589	5,770	7,770	2,818
Income tax expenses	19,735	25,706	17,579	15,373
Interest paid, net	(18,722)	(8,616)	(7,144)	(4,551)
Income tax paid	(1,953)	(12,996)	(1,953)	(9,134)
	139,250	95,844	107,695	53,149
Change in:				
Trade receivables	(94,133)	(76,377)	(86,759)	(59,551)
Inventories	16,215	(2,175)	1,964	13,269
Recoverable and payable taxes, net	(12,953)	2,583	6,128	8,312
Derivatives, net	(409)	-	(466)	-
Judicial deposits	(422)	557	(747)	631
Trade payables	1,596	8,634	26,874	27,808
Employees and other payroll related liabilities	9,099	12,118	5,825	7,693
Other current and non-current assets and liabilities, net	2,954	1,450	3,152	(2,165)
Net cash flows provided by operating activities	61,197	42,634	63,666	49,146
Cash flows from investing activities				
Change in deposits	(375)	(2,542)	(612)	52,012
Payment for acquisition of operations	(20,244)	(53,582)	(1,252)	(53,582)
Share capital increase in joint-venture	-	(4,605)	-	(4,605)
Proceeds from sales of fixed assets	651	1,168	386	571
Acquisition of fixed assets	(24,195)	(19,705)	(12,993)	(7,506)
Investments in intangible assets	(6,247)	(2,361)	(2,514)	(1,790)
Long-term loans to related parties	(9,424)	-	(270)	-
Net cash flows used in investing activities	(59,834)	(81,627)	(17,255)	(14,900)
Cash flows from financing activities				
Proceeds from loans	351,687	165,958	257,904	64,061
Repayment of loans	(254,388)	(190,824)	(142,134)	(63,006)
Dividend paid	(34,548)	(35,993)	(34,548)	(35,993)
Net cash flows provided by (used in) financing activities	62,751	(60,859)	81,222	(34,938)
Net increase (decrease) in cash and cash equivalents	64,114	(99,852)	127,633	(692)
Net increase (decrease) in cash and cash equivalents				
Cash and cash equivalents as of beginning of period	86,524	159,996	23,005	60,836
Cash and cash equivalents as of end of period	150,638	60,144	150,638	60,144
	64,114	(99,852)	127,633	(692)

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.

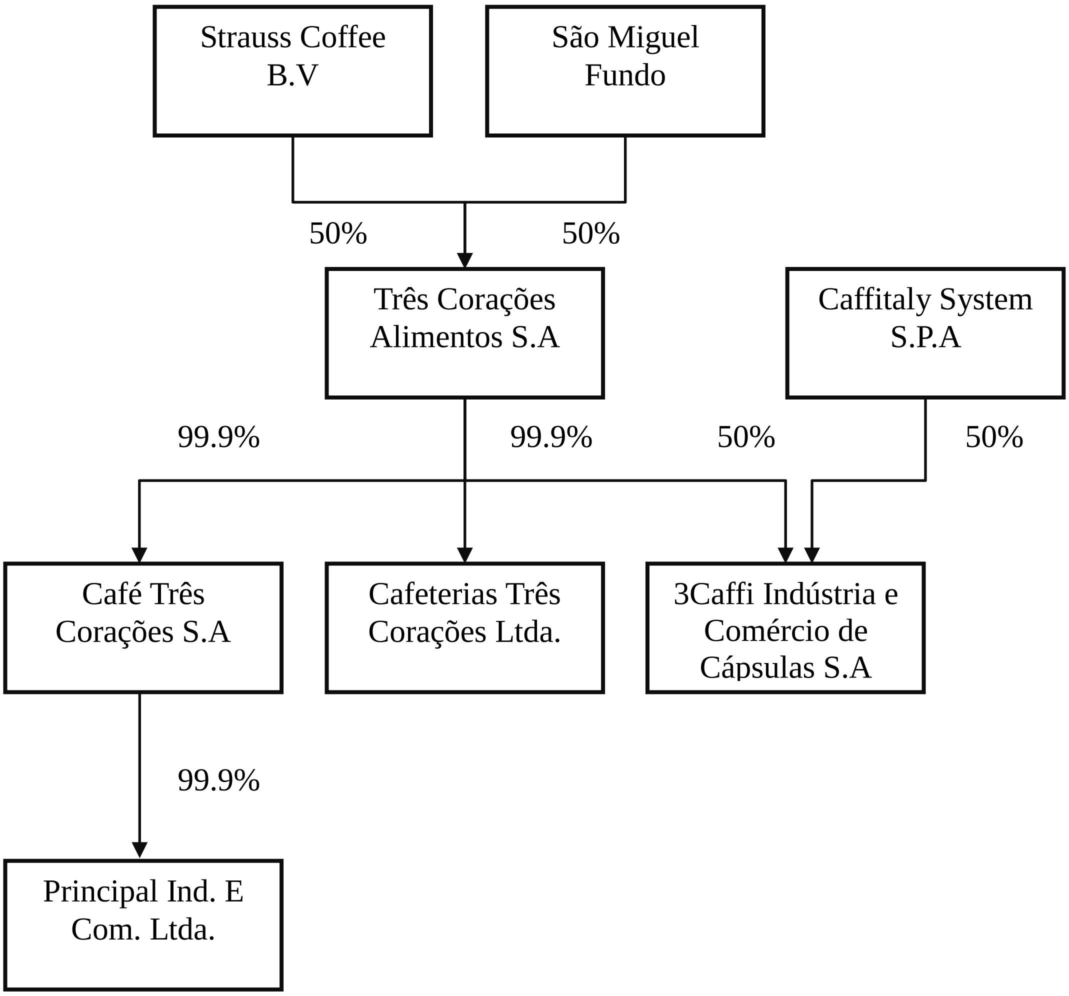
The Company controls the entities Cafeterias Três Corações Ltda. and Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda., all together referred to as "the Group". The Company is part of a joint-venture with Caffitaly System S.p.A., whereby it holds 50% share of company 3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi"). 3Caffi is not consolidated in this report, since the Group no longer controls it.

The Company is located at Rua Santa Clara, 100, Parque Santa Clara, Eusébio, Ceará, Brazil.

The Group is currently the largest group in roasted and ground coffee business in Brazil, and owns the coffee and other food brands of Santa Clara, Kimimo, Três Corações, Pimpinela, Principal, Fino Grão, Café Doutor, Café Opção, Café Divinópolis, Café Geronymo, Estrada Real, Café Letícia, Itamaraty, Londrina, Chocolatto, Dona Clara, Claramil, Frisco, Tornado, Tres, Iguaçu, Cruzeiro, Amigo, and the recently acquired brands Cirol, Cirol Real and Realmil.

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 almost all states of Brazil. In addition to that, the Group owns green coffee processing plants in the state of Minas Gerais. 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 June 2017, 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 do 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 2016 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 4 August 2017.

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 2016 and have been applied consistently to all entities of the Group.

4 Material events during the reported period

4.1 Dividend payment

In June 2017, the amount of R$ 34,548, representing the final 50% of dividends declared from the 2014 results, was paid.

4.2 Iguaçu final purchase price allocation

On June 23rd, 2017, Management received the purchase price allocation of Iguaçu acquisition performed by Ernst & Young Assessoria Empresarial Ltda. The impact of this independent valuation as presented below:

	Before independent valuation	Adjustment	After independent valuation
Acquisition cost			
Consideration transferred, paid or to be paid	73,582	-	73,582
Identifiable assets			
Brands and trademarks	11,000	7,330	18,330
List of customers	34,400	(12,020)	22,380
Total identifiable assets	45,400	(4,690)	40,710
Goodwill	28,182	4,690	32,872

All adjustments above were recognized in these condensed consolidated interim financial statements.

5 Net debt

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Short term loans	269,300	298,804
Long term loans	261,617	134,243
Cash and cash equivalents	(150,638)	(86,524)
Net debt	380,279	346,523

The increase in net debt presented above is mainly due to the payment of dividends, as mentioned above

In May 2017 the Company entered in a new loan agreement operation in the amount of R$ 150,000, with cost of debt of 95.9% of the Brazilian Interbank Deposit CDI rate, with a 3 year payment term and another amount of R$ 80,000, with fixed cost of debt of 8.80%, with one year payment term. This new operation will allow the Company to modify its debt structure, balanced between short and long term.

The excess cash was temporarily deposited in interest bearing instruments and is remunerated at 101% of the Brazilian Interbank Deposit CDI rate.

6 Contingent liabilities

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

7 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 equal or close to their fair values, 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 June 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	(Unaudited)		(Audited)	
Financial liabilities				
Short term loans	269,300	238,388	298,804	254,013
Long term loans	261,617	214,321	134,243	110,019

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 Company uses the following hierarchy to determine and disclose the fair values of financial instruments, based on the valuation methodology used:

Level 1: quoted prices (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 assets or liabilities that are not based on observable market data (unobservable inputs).

As of 31 December 2016, the Group did not have financial instrument balances carried at fair value using valuation methods. As of 30 June 2017 the Group had futures open positions in the amount of R$ 18, classified as level 2, with due date of July 2017 and in the amount of R$ 391, classified as level 2, with due date of August 2017.

*   *   *

Pedro Alcântara Rêgo de Lima	Danisio Costa Lima Barbosa	Adenise Evangelista de Melo
Chief Executive Officer	Chief Financial Officer	Accountant
Três Corações Alimentos S.A.	Três Corações Alimentos S.A.	Três Corações Alimentos S.A.