STRAUSS GROUP LTD.

ANNUAL REPORT

AS AT DECEMBER 31, 2015

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

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STRAUSS GROUP LTD.

DESCRIPTION OF THE

CORPORATION'S BUSINESS

Description of the Company's Business Affairs

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Description of the Company's Business Affairs

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

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

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

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

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

1.4 The Group is a food and beverage company with manufacturing, marketing and sales operations in some 20 countries worldwide and a strong home base in Israel, which focuses on high value-added branded products. According to StoreNext[2], the Company is the second largest food group in Israel, and the coffee company, according to Euromonitor[3], is one of the world's leading companies in terms of market share.

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

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

[3] Euromonitor is a provider of strategic market research. The company produces data and analyses of products and services throughout the world.

In 2015, the Company held 11.2% of the total food and beverage market in Israel (in value terms[4]), excluding Strauss Water's market share, and it is the food group with the second-highest sales turnover among Israeli food companies[5]. The Group is also active in the coffee markets of Brazil[6], Russia and the CEE countries, and is among the market leading companies in most of these countries. In the US, Canada, Australia and Mexico the Group is active in the development, manufacture, marketing and sale of refrigerated dips and spreads. In Israel, China and the UK, the Group is engaged in the marketing, sale and servicing of water filtration and purification products. In the US, Australia, Singapore, Japan, Russia, South Korea and Israel, the Group operates "Chocolate Bars", directly or through franchisers.

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

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

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

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

1.9 In 2004, Strauss Health Ltd. (formerly Strauss Dairies Ltd.) and Strauss Fresh Foods Ltd. (formerly Strauss Salads Ltd.) were merged with the Company (hereinafter: the **"Merger**

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[4] According to StoreNext data.

[5] According to StoreNext data.

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

with Strauss"), and the Group initiated operations in dairy products and salads. For additional information on the Merger with Strauss, see section 26.1 below. It is noted that the dairy business was initiated in the 1930's by Hilde and Dr. Richard Strauss, who built a family dairy in Nahariya, which was subsequently incorporated as a private company in March 1947. In 1969, the dairy became active in yogurt and dairy desserts, and in 1996, the French concern Danone acquired 20% of the dairy's shares.

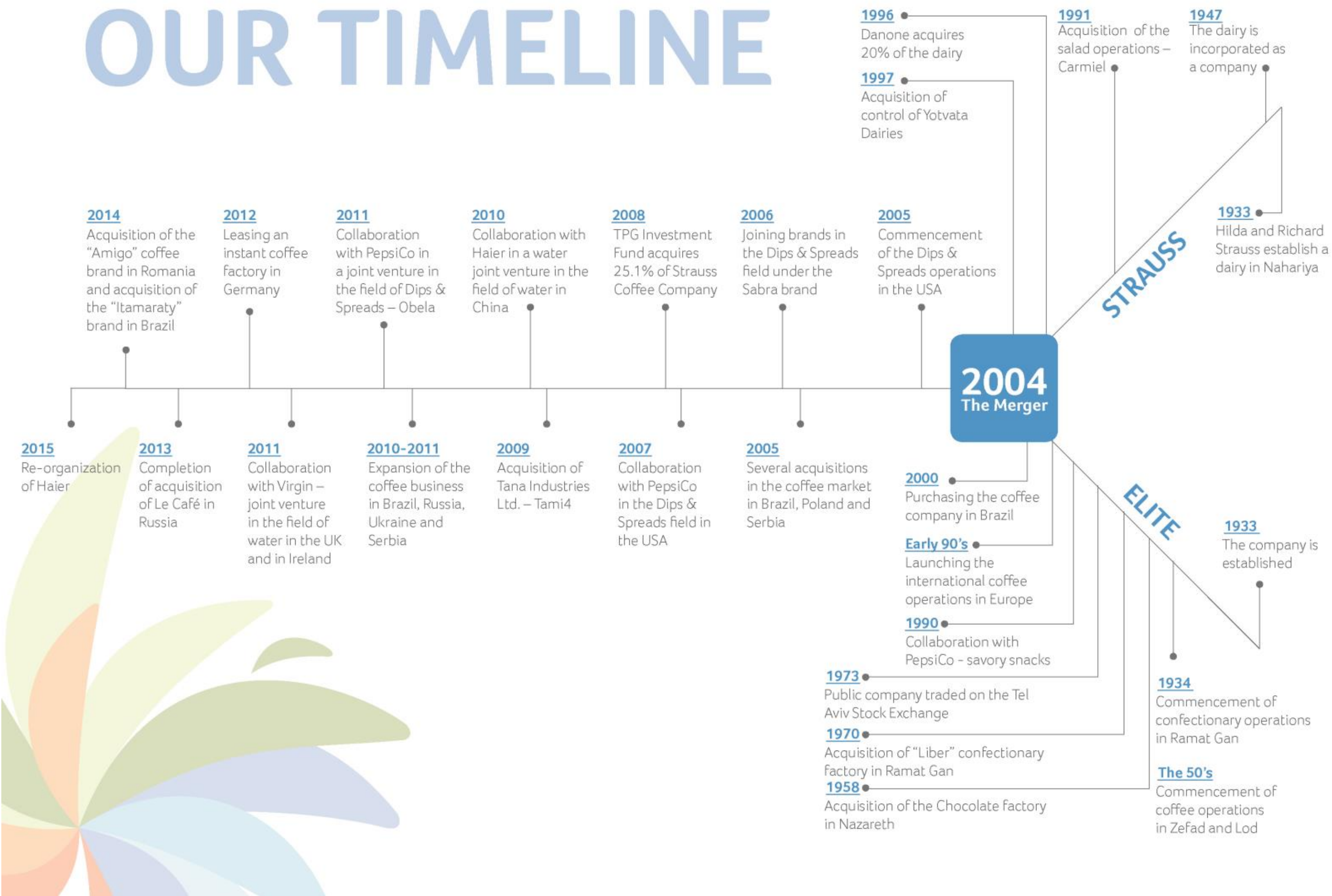
1.10 In 2005, the Group significantly expanded the international coffee operation through a series of acquisitions in Poland and Serbia, including the engagement in the Três Corações joint venture in Brazil- Três Corações (3C)- " Três Corações Joint Venture" in Brazil- a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%). The expansion of the international coffee operation continued in the following years – in Russia, additional brands were acquired in 2010, and in 2009, 2011 and 2013 part of a leading coffee company was purchased; in Brazil, the Company acquired additional brands in 2011 and in 2014; in Romania - additional brands were acquired in 2014, and in early 2012 the Group leased an instant coffee plant in Germany. In 2008, the private investment firm TPG (through Robusta Coöperatief U.A.) invested in a subsidiary of the Company, Strauss Coffee B.V. (hereinafter: "**Strauss Coffee**") in consideration for the allotment of 25.1% of the shares of Strauss Coffee. Today, all of the Group's coffee operations are converged under Strauss Coffee. For additional information on the review of TPG's exit options from Strauss Coffee, see section 12.13 below and Note 6.2.3 to the Financial Statements of the Company.

1.11 In 2005, the Group began operating in the US, in the refrigerated dips and spreads market. In late 2006, the Group expanded its business in the US and consolidated its products under the Sabra brand. At the end of 2007, the Group entered into a partnership agreement with PepsiCo to jointly operate in the US and Canada through Sabra. In October 2011, an additional partnership agreement was signed with PepsiCo for the establishment of a global joint venture in dips and spreads under the Obela brand, which operates in Mexico and in Australia.

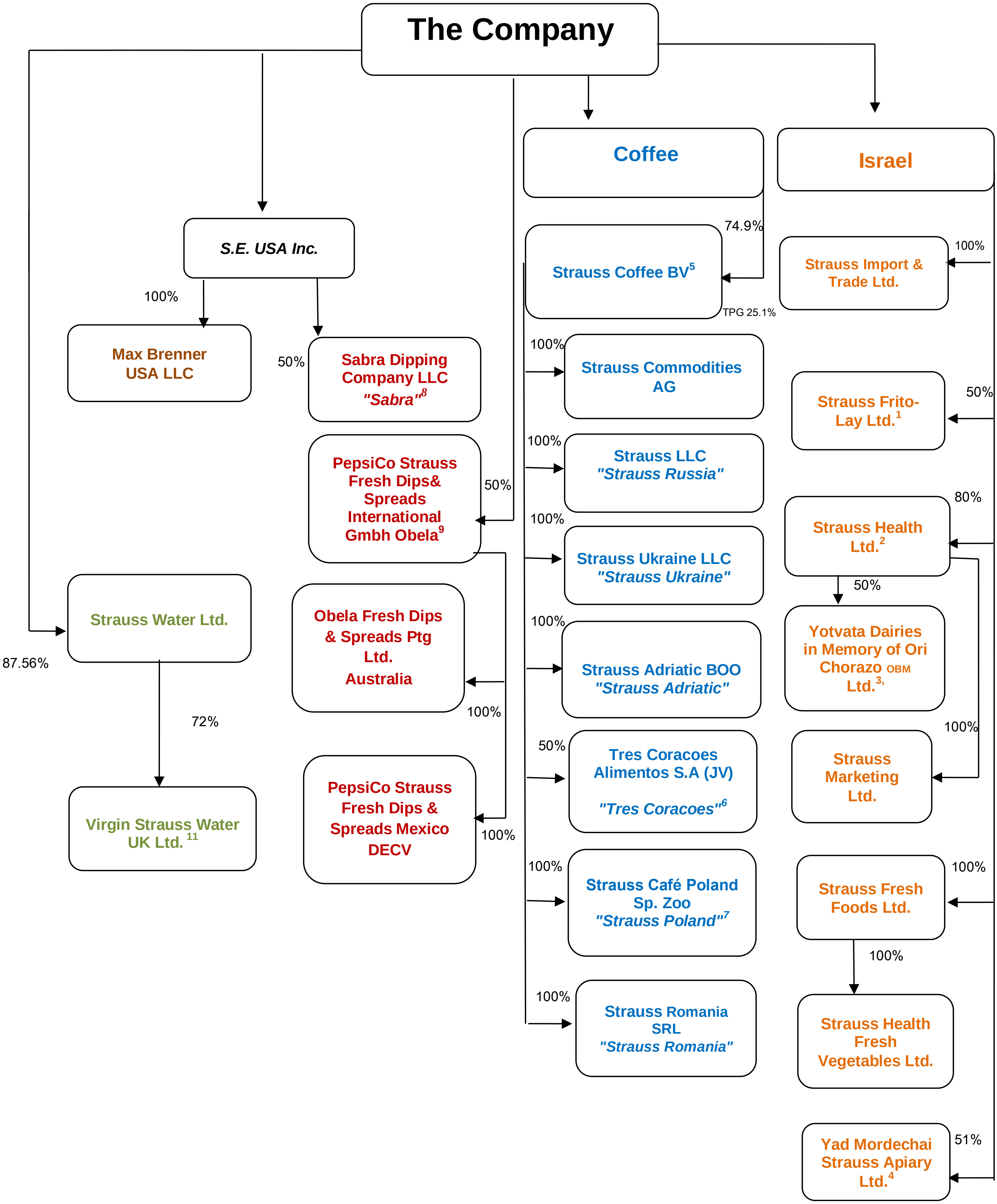
1.12 In 2006, the Group expanded the Max Brenner business globally and entered the American market.

1.13 In 2009, the Company acquired Tana Industries Ltd. (hereinafter: "Tami 4"). In October 2010, an agreement was signed with Haier Group for the establishment of a joint venture in China, and in November 2011, an agreement was signed with Virgin for the establishment of a joint venture in the UK and Ireland. In May 2015 Strauss Water signed a series of share exchange and transfer agreements with companies of Haier Group as well as a joint venture agreement, with the aim of restructuring the Haier Strauss Water joint venture in China. For further information, see section 15.1.l below.

1.14 The following diagram illustrates the development of the Group's business:



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



The Holding Structure Diagram

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

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

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

[3] 50% of the shares of Yotvata are held by Kibbutz Yotvata. For a description of the agreements with Yotvata, see section 9.14b below. Yotvata holds 6.32% of the shares of Gan Shmuel Ltd. (hereinafter: "**Gan Shmuel**") and 6.67% of the voting rights in Gan Shmuel, which is a public company whose shares are listed for trade on TASE. Yotvata has a voting agreement with Gan Shmuel Holdings Ltd., Gat Industries (2003) Agricultural Cooperative Society Ltd., and Bet Nir Holdings & Management Agriculture Cooperative Society Ltd. (which jointly hold 66.65% of the share capital and 70.31% of the voting rights in Gan Shmuel) according to which, *inter alia*, the board of Gan Shmuel shall consist of 13 directors; each shareholder has a right to propose one candidate for the position of a director with respect to each 6.33% of share capital and also to remove a director who was appointed by it from his position, and in the general meeting the parties shall support the appointment of any candidate of the other parties (it is noted that Yotvata has not appointed a director to the board of Gan Shmuel). The agreement defines a series of matters able to influence transactions or events outside the ordinary course of business, which will require a board resolution carried by a majority of 80% or 90% (according to the subject matter). For as long as two of the parties to the agreement (not including Yotvata) hold a minimum percentage of Gan Shmuel shares, each of the directors and each of the parties to the Agreement has the right to pass a resolution on these subjects (whether accepted or rejected by the board), to be decided by the general meeting of Gan Shmuel. In such case, the parties will hold a preliminary meeting at which the manner of joint voting in the meeting shall be decided upon, with resolutions in the preliminary meeting being passed by a majority of 80% or 90% (according to the subject matter) of the total shares of Gan Shmuel held by the parties; the agreement includes a right of first refusal mechanism. The agreement shall be valid for as long as the parties thereto jointly hold over 50% of the voting rights in the general meeting of Gan Shmuel. The rights of a party to the agreement shall expire in the event of a holding of less than 5% of the shares of Gan Shmuel (excluding in a case of dilution as a result of a public offering).

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

[5] 25.1% of the shares of Strauss Coffee are held by the private investment firm, TPG (through Robusta Coöperatief U.A.). For information on the agreement with TPG, see section 12.13 below. For additional information on the Strauss Coffee holdings, see Sections 12 and 13 below.

[6] 50% of the shares of Três Corações Joint Venture are held by the São Miguel Group. For a description of the joint venture (50/50) with São Miguel, see section 13.13 below. It is understood that the Group’s operations in Brazil described in this report refer to the Company’s activity through the Três Corações Joint Venture (3C) in Brazil, which includes the production, marketing and sale of coffee and other products, including the export of green coffee. For further information see section 13 below.

[7] Strauss Poland was acquired over 15 years ago. After the acquisition date it transpired that the Company did not hold a state permit, which was formerly required for the transfer of the shares in the acquisition. This permit is no longer required in similar transactions. In the opinion of Strauss Poland's legal counsel, although in this situation the Company is liable to be exposed to legal action regarding the legal invalidity of the ownership of the acquired shares, according to the legal opinion the risk that suits will be filed in this issue by state authorities in Poland or by third parties, including the historic shareholders, is remote, particularly considering the time that has elapsed since the shares were transferred, and the fact that no suits have been filed against the Company during this considerable period. Additionally, pursuant to the aforementioned professional opinion, insofar as a lawsuit should be filed, the Company has legal arguments in its defense such as abuse of right and a basis for a monetary refund of the full market value of the shares of the investee company, including the value that accrued since the historic acquisition date.

[8] 50% of the shares of Sabra are held by the American PepsiCo corporation. For a description of the joint venture with PepsiCo, see section 14.12a below.

[9] 50% of the shares of Obela are held by the American PepsiCo corporation. For a description of the joint venture with PepsiCo, see Section 14.12b below.

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

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

12. The company is in the process of merging with the Company.

2. Operating Segments

The Group engages in five key business areas that are reported as segments, as described in Note 27 to the Financial Statements of the Company as at December 31, 2015. Four out of the business areas are concentrated under two key frameworks: the **Israel Operation** and the **Coffee Operation**, as described below:

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

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

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

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

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

b. **The International Coffee segment:** In this segment the Group develops and manufactures a range of company-branded coffee products and drink powders in Brazil- through the Três Corações (3C)- " Três Corações Joint Venture" in Brazil- a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%), Russia and Central, West and East European countries, and also markets and distributes coffee machines. The Group markets and distributes its aforesaid product range in Brazil and in Eastern European countries. For additional details on this segment, see Section 13 below.

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

In addition to the segments described above, the Group has additional operations that are immaterial to its business, which do not meet the quantitative threshold for disclosure in the Financial Statements as reportable segments or as aggregation criteria for separate presentation as reportable segments. These operations are included in the Company's Financial Statements as at December 31, 2015 as the **"Other Operations"** segment. The main activities in this segment are:

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

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

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

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

To the best of the Company’s knowledge, in 2014 and 2015, until the date of publication of this report, there were no off-exchange transactions in the Company's shares.

4. Dividend Distribution

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

During 2014, the Company did not distribute any dividends. For details on distributions of cash dividends in 2015, see Note 6 to the Financial Statements of the Company as at December 31, 2015. The balance of distributable profits as of the date of the Statement of Financial Position is NIS 1,804 million.

For information on an external restriction that is liable to impact the Company's ability to distribute dividends in the future, see section 22.4 below. According to the terms and conditions of Series D Debentures, for as long as said Debentures are not repaid in full, should the Company dispose of most its assets to any third party, then for a three-year period from the date of sale the Company shall not distribute dividends, if, immediately after the dividend distribution, the Company fails to comply with its financial covenants.

Part II – Other Information

5. Financial Information on the Company's Operating Segments

Commencing in 2013, the Group has retrospectively applied IFRS 11 – Joint Arrangements. Pursuant to the standard, the income statement and the statements of financial position, comprehensive income, changes in shareholders' equity and cash flows of businesses which are jointly controlled by the Group and a partner are no longer stated according to Strauss's relative share in the entity as was formerly the practice, but in a separate line ("Income of equity-accounted investees", and in other reports, in the relevant section). The reporting method does not alter the Group's profit. It is noted that this is a change in reporting method only and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. There has been no managerial change in the jointly held businesses. In view of the fact that the Group's non-GAAP reports and the method in which Group management measures the results of subsidiaries and the jointly owned companies have remained unchanged, the Group has continued to present the operating segments in the same manner as they were presented in prior periods.

The chapter of "Description of the Company's Business Affairs" in the Periodic Report is presented in line with the Company's operating segments, and consequently all data presented in this chapter will be in accordance with the Company's non-GAAP reports, unless otherwise indicated. For information on the Company's non-GAAP management reports, see the section "Analysis of the Business Results of the Group" in the Board of Directors' Report in Part B of this report.

The Company has a number of jointly controlled companies: the Três Corações joint venture (in Brazil), Sabra Dipping Company (in the US), Strauss Frito-Lay Ltd. (the salty snack operation in Israel), PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela) and Yad Mordechai.

It is understood that the amounts of income, expenses, assets (including inventory, fixed assets and other assets) and liabilities of different activities that are attributable to those segments – were attributed accordingly. Mixed operations were attributed to a single operating segment, according to the main activity carried out therein. Expenses and assets (including trade receivables) which cannot be attributed directly – were allocated according to the economic models implemented by the Group as at the date of the Periodic Report**.**

Following are financial data of the Company (consolidated and according to the management (non-GAAP) reports of the Company), according to operating segments, in millions of NIS (see also Note 27 to the Financial Statements of the Company as at December 31, 2015).

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

(*) Variable costs are costs that are directly and immediately affected by the volume of business activity, as opposed to a fixed cost, which does not change in the short term, and is therefore is not directly and immediately affected by the volume of business activity. For example, a variable cost includes the cost of materials and regular operation of the plant, as opposed to the cost of buildings and machinery, which is a fixed cost.
The Company's main variable costs are consumption of materials, most of the production and energy costs, and part of the wage costs. The Company's flexibility in changing the volume of these costs is closely related to its ability to control its production activities. The Company can decide to discontinue the operation of production lines, thus creating a decisive impact on the volume of these variable costs.

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

2014 (based on management (non-GAAP) reports)											
		Health & Wellness	**Fun & Indulgence**	**Total Israel**	**Israel Coffee**	**International Coffee**	**Total Coffee**	**International Dips & Spreads**	**Other**	**Adjustments for Consolidation (**)**	**Consolidated**
Income	**From external parties**	1,974	998	2,972	689	3,136	3,825	683	660	-	8,140
	From other operating segments	7	16	23	2	-	2	-	1	(26)	-
	Total	1,981	1,014	2,995	691	3,136	3,827	683	661	(26)	8,140
Total attributable costs	**Costs that do not constitute income in another segment:**										
	Fixed:	481	252	733	137	851	988	164	223	164	2,272
	Variable:	1,282	648	1,930	447	2,037	2,484	444	428	-	5,286
	Costs constituting income in other segments	15	2	17	6	1	7	-	2	(26)	-
	Total	1,778	902	2,680	590	2,889	3,479	608	653	139	7,558
Income from ordinary operations:											
Attributable to the controlling shareholders		143	112	255	76	185	261	75	10	(146)	455
Attributable to non-controlling interests		60	-	60	25	62	87	-	(2)	(18)	127
Total assets		1,045	1,322	2,367	929	2,150	3,079	687	1,305		7,438
Total liabilities		530	80	610	333	710	1,043	266	2,979		4,898

For an explanation on developments that occurred in the past year, see the Board of Directors' Report on the Company's business position for the year ended December 31, 2015.

(*) and (**) – for an explanation see the 2015 table

2013 (based on management (non-GAAP) reports)											
		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Other	Adjustments for Consolidation (**)	Consolidated
Income	From external parties	1,987	1,013	3,000	715	3,229	3,944	600	599	-	8,143
	From other operating segments	6	25	31	6	-	6	-	-	(37)	-
	Total	1,993	1,038	3,031	721	3,229	3,950	600	599	(37)	8,143
Total attributable costs	Costs that do not constitute income in another segment: Fixed: Variable (*):	476 1,292	260 659	736 1,951	165 465	810 2,100	975 2,565	153 390	214 390	92 -	2,170 5,296
	Costs constituting income in other segments	25	4	29	3	4	7	-	1	(37)	-
	Total	1,793	923	2,716	633	2,914	3,547	543	605	55	7,466
Income from ordinary operations: Attributable to the controlling shareholders Attributable to non-controlling interests		144 56	115 -	259 56	66 22	236 79	302 101	57 -	(2) (4)	(75) (17)	541 136
Total assets		986	1,117	2,103	812	2,351	3,163	569	1,393	-	7228
Total liabilities		536	195	731	265	643	908	223	2,815	-	4677

(*) and (**) – for an explanation see the 2015 table

6. <u>General Environment and Impact of External Factors on the Company's Activity</u>

In addition to the trends and developments in the food and beverage industry and in the Group's business areas, there are macroeconomic factors which had or are expected to have a material impact on the Group's activities and its business results.

6.1 Fluctuations in foreign currency rates – for further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, Part B of this report.

6.2 Inflation – for further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, Part B of this report.

6.3 Interest rates – for further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, Part B of this report.

6.4 Prices of raw materials and other production inputs – for further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, Part B of this report.

6.5 Regulatory developments in input prices – for further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, Part B of this report.

6.6 Energy prices – for further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, Part B of this report.

6.7 Business regulation in the food industry – for further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, Part B of this report. For information on the impacts of the Food Law, see also sections 16, 17 and 25 below.

It is noted that in the future, the above factors may have an adverse or favorable impact the Group’s business activity and financial results, depending on their trend. The degree of impact, if any, depends, among other things, on the intensity of events, their scope and duration and the Group’s ability to contend with them.

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

7. General – the Food and Beverage Industry

The Group operates in the food and beverage industry, which is the key industry in the of Fast Moving Consumer Goods (FMCG) sector and among the most competitive and mature markets in Israel and globally. It is a dynamic industry that responds to the needs, demands and variety of changing tastes of hundreds of millions of consumers in Israel and worldwide. During the recent years, the global food market underwent substantial changes arising, in the Company's estimate, from changes in consumption trends. The way that consumers shop for food products is changing, and mainstream sale channels are being eroded as premium sales channels grow stronger on the one hand, as do discount sales channels on the other. In addition, the number of meals consumed per day is on the rise, while the quantity consumed at each meal is growing smaller, a trend that has led to the rapid growth of the snacking and nibbling categories at the expense of categories of foods that are mainly consumed in large meals. Furthermore, consumers' desire to maintain a healthier lifestyle is leading to the strengthening of the health trend and a significant increase in the demand for product categories catering to this desire.

These trends are creating new growth opportunities for food companies through product and marketing innovations. At the same time, growth in traditional products in recent years has been relatively stagnant, which has led the world's big food companies to increase their efficiency efforts.

In recent years, the trend of collaboration ventures by food companies with other food companies or other entities has intensified, with the aim of providing a quicker solution to changes and developments in consumer trends. In addition, there were several mergers and acquisitions in the industry in 2015, the two most prominent being the Kraft and Heinz merger, which created the world's fifth largest food company and the third largest in the US, and a transaction in which JAB Holding Company acquired Keurig Green Mountain. For further information, see section 11.3 below.

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

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

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

8. The Israel Operation

General information on the Israel Operation

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

8.1 Structure of the Israel Operation and changes occurring therein

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

According to StoreNext, the Group is the second largest food and beverage group in Israel. In 2015, the Group's operation in Israel focused on efforts to improve its products through high-value innovation, innovations in variety and flavors, reduction of product prices, improvement of the price/weight ratio, improvement of nutritional value, improved ease of consumption and value for money, and also targeted the different – and new – population groups and provided a response to new needs and trends.

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

The past few years were characterized by intensified competition in the food industry in Israel. The high density of retail stores contributed to the price-strategy-based competition. The aggressive competition between retail chains, coupled with consumer protests and increasing regulation in the last few years have eroded retailer profitability and placed downward pressure on manufacturers' profit margins. In addition, in 2015 several food chains such as Eden Teva Market, Cost 365 and Mega Retail Ltd. (hereinafter: "**Mega**") underwent a crisis, which has changed the competition in the industry and may potentially lead to further changes in the framework of activity and in the competition in this sector and as a result, may also impact profitability.

As at the reporting date, to the best of the Company's knowledge, the court has approved a stay of proceedings for Mega until May 2016. For further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report, Part B below.

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

In 2015, the Company avoided raising prices in Israel and continued to take various actions to reduce retail prices. These included, among others, permanent reductions in the prices of dairy products and campaigns across a broad variety of products with the aim of maintaining a competitive price level. These moves have impacted the Company's profit margins and are being carried out in tandem with extensive streamlining measures (for example, the Company's investment in 2015 in a bottling machine that has enabled milk cartons to be replaced with bottles manufactured at the plant, and as a result, has enabled to Group to reduce prices). Furthermore, profitability was also affected by volatility in the prices of raw materials in 2015. For additional information, see section 6.4 above.

For details on the impacts of the above trends and on changes in profitability in the Health & Wellness and the Fun & Indulgence segments, see the Board of Directors' Report as at December 31, 2015, in Part B below.

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

According to StoreNext, in 2015, the food sector increased nominally by 1.8% in comparison with a decrease of 0.9% in 2014. In 2015, the food and beverage industry in Israel is estimated in approximately NIS 35.1 billion in nominal terms.

For further information, see the section "The Group's Activity in Israel" in the Board of Directors' Report as at December 31, 2015, in Part B below.

The main consumer trends in the food and beverage industry in 2015 include a search for products with components that are considered healthier, "clean" labels (a minimum of preservatives), functionality, and products with environmentally friendly packaging. In Health & Wellness, consumer trends are based on products that contain no lactose, gluten, sugar and preservatives, contain fewer calories and less sodium, and also products that are rich in protein and other ingredients that are considered beneficial (probiotics, vitamins). In Fun & Indulgence, the prominent consumer trends are of fun and flavor: appetizing ingredients, creamy textures, layers and varying flavors. In this sphere, the snack trend (a small, portion controlled meal) is developing, coupled with a global increase in the demand for premium products.

In 2015, the trend of expansion and growing strength of the large and small private chains persevered (among other things through the acquisition of Mega's "You" outlets), as they continued to open more stores in Israel, while the market share of the organized retail chains simultaneously continued to diminish and their profitability was impaired.

The following table presents market shares by sales channels in 2015 and 2014, respectively

	2015	2014
Organized market (Shufersal + Mega + Co-Op Shop)	35.6%	39.0%
Large private market (retail chains that do not have a full national spread)	38.9%	36.1%
Minimarkets + grocery stores + convenience stores	25.5%	24.9%

Online shopping sites continued to flourish in 2015, providing a quick and convenient shopping experience, and estimates predict that additional retailers will become active this sales channel.

In recent years, large retail chains have promoted private label products, which compete with the food manufacturers' branded products.

The Protection of Public Health (Food) Law, which scheduled to take effect in the second quarter of 2016, is likely to lead to further change in the market in light of its provisions regarding food imports. For additional information, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, in Part B below.

The Company is of the opinion that its robustness and high positioning will support its continued success and enable it to withstand the emerging trends.

8.4 <u>Critical success factors in the activity framework and changes therein</u>

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

8.5 Major entry barriers to the activity framework and changes therein

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

8.6 Competition and substitutes for the products of the activity framework

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

Moreover, in recent years the large retail chains have promoted their "private label" products, which compete with the products of food manufacturers. This trend continued in 2015, as private label brands began to expand into additional categories such as frozen, refrigerated and fresh products (with emphasis on the dairy and meat markets) and into premium products, intensifying the competition. Sales of private label brands amounted to approximately NIS 2.2 billion in 2015, an increase of 11% in comparison with 2014. According to StoreNext, private label's market share in 2015 was 5.5% (of the FMCG market), compared to 5.1% in 2014.

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

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

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

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

8.7 Fixed assets, real estate and facilities

In 2015, the Group completed the construction of the logistics center in Shoham, which serves all categories of the Group in Israel. The logistics center includes warehouses for refrigerated products, warehouses for dry products and an office building. The total investment in the construction of the center in Shoham amounted to NIS 480 million (including the cost of purchasing of the land). Following relocation to the logistics center in 2015, the Petach Tikva, Tzrifin and Ben Shemen sites were closed.

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

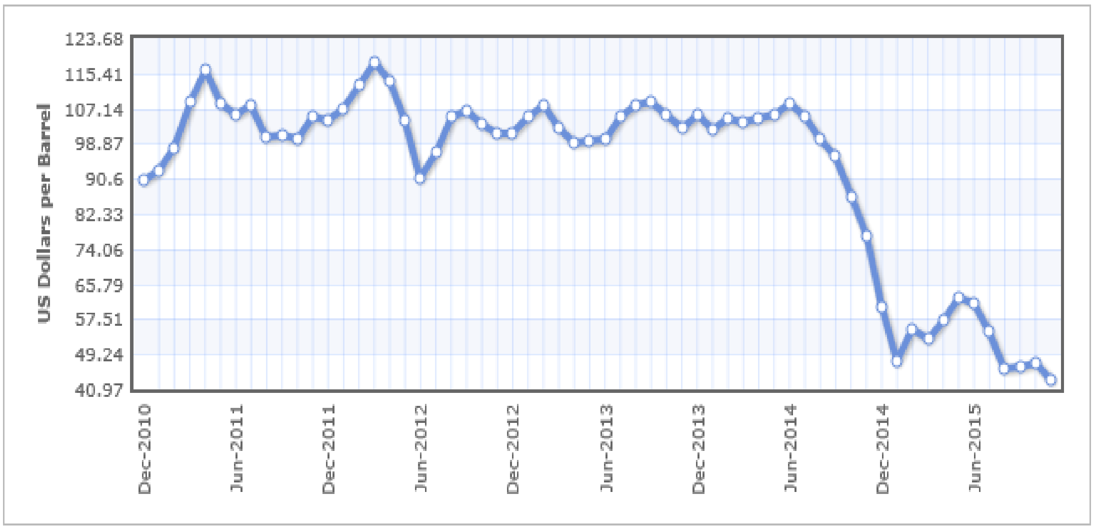
8.8 Raw materials and suppliers

a. For a description of volatility in the prices of raw materials used by the Company in Israel, see section 6.4 above.

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

c. The main packaging materials used by the Group in the Israel Operation are laminates and plastic sheets, readymade cartons, cups and bottles, and test tubes for the manufacture of bottles (most of them for Health & Wellness), which are purchased from various manufacturers in Israel and overseas (mainly in Europe). Packaging material prices are influenced by global demand and oil prices, since oil is a key component in the manufacture of packaging materials. The trend of decline in oil prices which began in the third quarter of 2014 continued throughout 2015. At the same time, however, in light of the closure of plastic processing plants around the world, packaging prices were not significantly lowered in 2015. For further information on energy prices, see section 6.6 above.

The following diagram presents the changes in the price of Brent Oil (US dollars per barrel) in 2011 – 2015 according to indexmundi.com:



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

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

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

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

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

9. The Health & Wellness Segment

9.1 General information on the Health & Wellness segment

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

9.2 Products

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

The year 2015 was characterized by continuing variation and innovation in most products, targeting new audiences and providing a solution to new needs. Thus, for example, processes for decreasing the sugar content of dairy desserts and dairy products continued and the Danone Pro series, which contains more protein and less sugar, was developed and calorie controlled products launched. Yotvata decreased the sugar content in its Choco (chocolate milk) product. In the salads category variety was introduced, including the use of environmentally friendly packaging materials in order to respond to market trends and demands.

9.3 Distribution of income and product profitability (according to the Company's non-GAAP management reports)

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

Group of Similar Products	Income in NIS Millions			Percentage of Group's Total Income		
	2015(*)	2014	2013	2015	**2014	2013
Dairy products	1,342	1,402	1,448	17.6%	17.2%	17.8%
Salads	277	290	278	3.6%	3.6%	3.4%
Other Health & Wellness products	279	282	261	3.6%	3.4%	3.2%
Other Health & Wellness products	1,898	1,974	1,987	24.8%	24.2%	24.4%

(*) Following the introduction of the Food Law at the beginning of 2015, certain costs were classified as discounts deducted from sales, as opposed to previous years in which similar costs were classified as part of selling and marketing expenses.

(**) 2014 figures were amended following a miscalculation.

9.4 Competition

The main competitors in Health & Wellness are Tnuva, Tara (of the Central Bottling Company) and Osem Nestle. Tnuva and Tara compete mainly in dairy products and Osem Nestle in salads. In 2014 a new player joined the salad market when Shufersal launched its private label in the salads category, and in 2015 private label brands continued to grow stronger, as evidenced by the expansion of the Shufersal private label, which entered the milk, cream and Choco categories. Moreover, in every product group in the segment there are other local competitors. The past few years have been characterized by the intensification of the competition in Israel's food sector, which was also expressed in Health & Wellness, with 2015 marked by aggressive competition in dairy desserts in particular, with which the Company contended through innovation and by strengthening its existing brands.

The following table presents information on the market shares of the Group and its major competitor in the years 2015 and 2014 with regard to the Group's main Health & Wellness products, according to weighted data based on StoreNext figures for the barcoded retail market (which includes the large food chains, barcoded private minimarkets and independent food chains):

Similar product groups	Weighted Market Share (in Percent – Value)			
	For 2015		For 2014(*)	
	The Group	Major Competitor	The Group	Major Competitor
Yogurts[7]	44.3%	35.6%	44.8%	35.9%
Cheeses[8]	23.4%	59.1%	23.8%	59.1%
Dairy desserts[9]	61.7%	27.7%	68.6%	21.8%
Flavored milk	59.4%	29.5%	64.1%	34.3%
Fresh milk for drinking[10]	10.9%	66.8%	10.9%	70.4%
Packaged salads[11]	32.9%	35.9%	33.8%	37.5%
Washed and packaged vegetables	44.7%	28.3%	44.6%	28.2%
Honey	58.4%	16.3%	61.3%	15.6%
Olive Oil	24.4%	13.7%	22.8%	18.8%

(*) Figures for 2014 were adjusted in order to update StoreNext's calculations.

9.5 Seasonality

Following are data for the years 2015 and 2014 with respect to the Company's income in the Health & Wellness segment, by quarter:

	2015		2014	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	454	23.93%	479	24.3%
Q2	474	%25.00	500	25.3%
Q3	507	26.70%	530	26.9%
Q4	463	24.40%	465	23.5%
Total	1,898	100.00%	1974	100.0%

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

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

9.6 <u>Production capacity</u>

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

The maximum potential yearly production capacity of the Group's manufacturing sites in the Health & Wellness segment, operating in three shifts, in tons product per year in 2015 and 2014 was 323 thousand tons and 294 thousand tons, respectively. The actual average capacity utilization rate in 2015 and 2014 was approximately 53% and 56%, respectively. It is noted that a number of production lines in the activity segment are liable, at certain points in time and during holiday periods, to reach their maximum production capacity.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. The Company does not anticipate that it will be required to make any material investments in equipment and machinery in the Health & Wellness segment in 2016.

9.7 Fixed assets, real estate and facilities

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

A. Plants

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

B. Distribution, logistics and cross-docking centers

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

For information on Company policy for depreciating the machinery and equipment in its various manufacturing plants, see note 3.4 to the Financial Statements of the Company as at December 31, 2015.

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

9.8 Research and development

For a description of R&D carried out in the Group, see section 20 below. Dairy products are developed, *inter alia*, by using Danone's comprehensive know-how.

9.9 Intangible assets

a. **Licenses and franchises**

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

b. **Trademarks and samples**

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

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

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

For an itemization of costs and financial movement relating to intangible assets in the years 2015 and 2014, see Note 15.1 to the Financial Statements of the Company as at December 31, 2015.

9.10 Human capital

For a description of the Group's organizational structure and additional information on employment agreements, investments in training and accreditation, see section 21 below.

Following is information on the number of employees in the Group (including all employees of equity-accounted investees) in the Health & Wellness segment (including 73 and 65 employment agency workers), as at December 31, 2015 and December 31, 2014, respectively:

	Number of Employees as at	
	December 31, 2015	**December 31, 2014**
Administration	108	97
Sales and distribution	18	16
Logistics	246	263
Operations	613	615
Total	985	991

9.11 **Raw materials and suppliers**

For information on raw materials and suppliers that are common to both the Health & Wellness and Fun & Indulgence segments, see section 8.8 above.

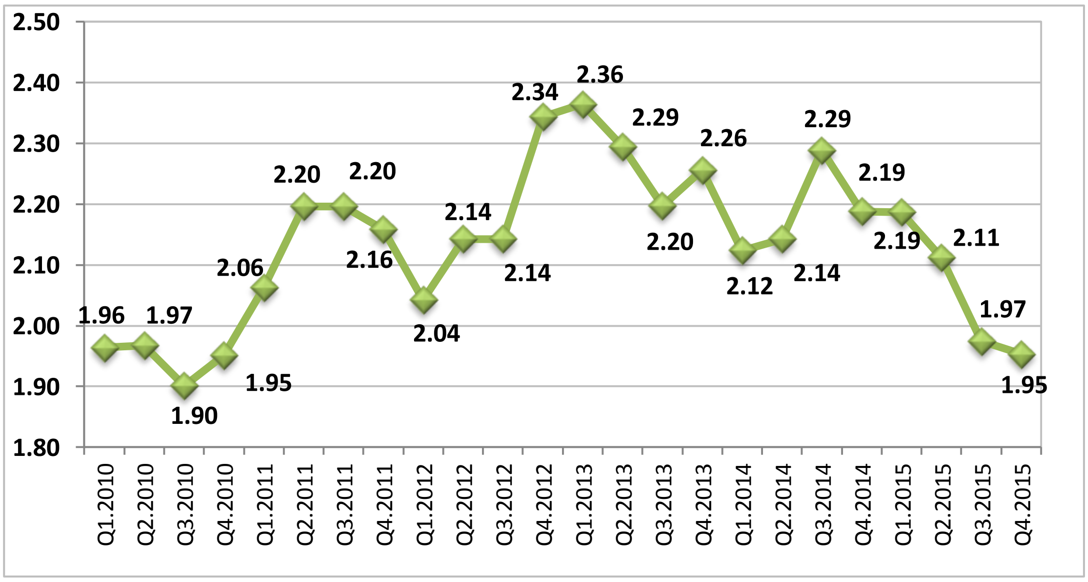
The major raw material used by the Group in the manufacture of Health & Wellness products, the cost of which forms over 20% of total purchases of the raw materials used in these products, is unprocessed (raw) milk. In addition, the Group primarily uses milk powders and proteins, sugar, cocoa powder,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

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

It is noted that the Company also purchases milk from Kibbutz Yotvata, (which also holds Yotvata shares). The milk supplied by Kibbutz Yotvata to the Company accounted for less than 5% of total milk purchases in 2015. The Company is not dependent on this supply.

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

The following diagram presents the changes occurring in the **price of raw milk** in the years 2011-2015 (the figures on the vertical axis represent the cost price ("target" price) in NIS per 1 liter, and the figures on the horizontal axis represent time:



The average price of raw milk in 2015 was lower than the average price in 2014. 2015 was characterized by a decreasing trend in milk prices, primarily due to a decrease in the prices of grains, which are imported as cattle feed. World prices of corn, wheat and grains were on a downward trend for most of the year as a result of high crop yields in the US, among other reasons.

Prices of milk powder and butter are derived from the price of raw milk, and in 2015 their prices dropped similarly to the price of unprocessed milk. In 2015 milk powder and butter prices fell by 7.5% and 4.5%, respectively.

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

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

According to the 2013 procurement services agreement between Strauss Health and Danone, Strauss Health received access to Danone's list of suppliers of raw dairy products. In addition, Danone undertook to perform control over Strauss Health's relationships with its suppliers, in consideration for a payment which is immaterial to the Company. The agreement is valid until the end of 2016. It is noted that part of the products of the Company in this category are manufactured through external suppliers, with which the Company is engaged in agreements. In the Company's opinion, at present the Company is not dependent on any of said manufacturers.

9.12 Working capital

Following is the composition of working capital, in NIS millions, in the Health & Wellness segment in 2015:

	Carrying amount
Operating current assets (*)	**396**
Operating current liabilities (**)	**244**
Excess of current assets over current liabilities	**152**

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

9.13 Restrictions and supervision in the segment

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

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

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

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

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

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

As at the date of this report, the Company is unaware of any significant effect of the Milk Law or the Milk Regulations on its operations; however, it is impossible to assess the extent of its impact (and the impact of the regulations and orders which are still to be issued thereunder) on the Company's operations in the future.

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

Price control – the prices of some dairy products in the Israeli market are controlled pursuant to orders, jointly issued by the Ministers of Agriculture and Finance following consultation with the Price Committee, under the Supervision of Prices of Goods and Services Law, 1996. The orders determine maximum prices for retailers and consumers with regard to drinking milk and a series of dairy products, which are classified by type, packaging (i.e. bag, carton or cup), and quantity.

The Group's dairy products (kosher le'mehadrin and regular kosher) which, as at the date of this report, are subject to a price control and therefore have a (maximum) price limit, are: fresh milk 3% fat (regular) in a bag, fresh milk 3% fat (regular) in a carton, fresh milk 1% fat (regular) in a bag, fresh milk 1% fat (regular) in a carton, sweet cream (38% fat) and 5% white cheese. In addition, there are price-controlled dairy products that are subjected to reports on their profitability and prices. It is noted that in 2015 the controlled price of 38% sweet cream and 5% white cheese decreased.

9.14 <u>Material agreements</u>

a. **Agreements with Danone**

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

It is noted that the total expenses paid in respect of license, know-how and royalties pursuant to the above agreement with Danone in the years 2015, 2014 and 2013 were approximately NIS 12 million, NIS 12 million and NIS 14 million, respectively.

b. **Agreement with Yotvata**

For details on the agreement for the purchase of 50% of the issued and paid-up ordinary share capital of Yotvata by Strauss Health, see section 9.14.b in Part A of the Company’s 2013 Annual Report, as published on March 26, 2014 (reference no: 2014-01-023988), and Note 24.4.3 to the Financial Statements of the Company as at December 31, 2015, in Part C below).

10. The Fun & Indulgence Segment

10.1 General information on the Fun & Indulgence segment

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

10.2 Products

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

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

Fun & Indulgence products focus on addressing the consumer trends of "fun and pleasure" and "indulgence". These products serve as an easy and immediate solution for between-meal snacks which are generally consumed on impulse, irregularly, in many cases away from home and on the go. The general health trend in the food and beverage industry is also evident in Fun & Indulgence products and is expressed in the consumer's desire for a treat, while caring for his health at the same time. As part of enhancing the consumption experience and developing new solutions aligned with consumer trends, in 2015 the Group focused on manufacturing premium products (high cocoa content chocolate bars, chocolate snacks under the Splendid brand), a line of health cookies under the Energy brand and flavored rice cakes in individual packs. All these deliver special added value to the consumer as products that meet the need for a little indulgence and are portion controlled (such as low weight wafers, mini snack bars, etc.), as well as assorted products in bags and multipacks. In addition, the Company expanded the variety of bakery products to include new kinds of wafers, such as whipped wafers, a wide variety of "Ad Hatzot" and "Reva le'Sheva" biscuits, and expanded the "Smiley" cookie series. In addition, four "Nostalgia" candy products and a series of chewing gum in a jar were launched.

In salty snacks, the Group mainly worked on reducing salt and spices and expanding the product range through limited editions and collaborations.

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

10.3 Distribution of income and product profitability (according to the Company's non-GAAP management reports)

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

Group of Similar Products	Income in NIS Thousands			Percentage of Group's Total Income		
	2015*	2014	2013	2015	2014**	2013
Confectionery and bakery	761	793	828	9.9%	9.7%	10.2%
Salty snacks[12]	207	205	185	2.7%	2.5%	2.3%
Total Fun & Indulgence products	968	998	1,013	12.6%	12.2%	12.5%

(*) Following the introduction of the Food Law at the beginning of 2015, certain costs were classified as discounts deducted from sales, as opposed to previous years in which similar costs were classified as part of selling and marketing expenses.

(**) 2014 figures were amended following a miscalculation.

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

10.4 Competition

The major competitors of the Group's products are Unilever, Osem Nestle, Diplomat, Leiman Schlussel, Frei, Sides and the private label products of various retailers. In addition, the Fun & Indulgence segment has numerous other, smaller competitors, including additional private label brands. As a result of strengthening of the shekel and the absence of customs duties and quotas on most Fun & Indulgence products, additional competitors joined the field, some of them importing familiar international branded products and others, unfamiliar products. 2015 was characterized, *inter alia*, by increased competition in chocolate tablets, chocolate snack bars and wafers, with competition in the wafer market arising, among other things, from the introduction of the Rami Levy private label wafers. In 2015, the Company expanded its marketing activities and campaigns, and increased the investment in commercial activity and consumer campaigns.

The following table presents information on the market shares of the Group and its major competitor in the years 2015 and 2014 in reference to the Group's main products in the Fun & Indulgence segment, according to weighted data based on StoreNext's figures for the barcoded retail market (which includes the large food chains, barcoded private minimarkets and independent food chains):

Similar product groups	Weighted Market Share (in Percent – Value)			
	2015		2014	
	The Group	Major Competitor	The Group	Major Competitor
Chocolate for children and adults[13]	46.5%	18.1%	49.4%	15.0%
Chewing gum	28.4%	54.0%	31.3%	55.7%
Wafers	30.7%	23.4%	28%	23.6%
Sweet bakery products (excluding wafers)	11.7%	20.9%	12.1%	21.0%
Salty snacks	33.7%	51.3%	35.0%	50.2%

(*) Data for 2014 were adjusted in order to update StoreNext's calculations.

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

10.5 Seasonality

Following are data for the years 2015 and 2014 with respect to the Company's income in the Fun & Indulgence segment, by quarter:

	2015		2014	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	299	30.9%	311	31.2%
Q2	204	21.0%	213	21.3%
Q3	240	24.9%	256	25.6%
Q4	225	23.2%	218	21.9%
Total	968	100.0%	998	100.0%

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

10.6 Production capacity

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

b. The maximum potential yearly production capacity of the Group's manufacturing sites in the Fun & Indulgence segment, operating in three shifts, in tons product per year in the years 2015 and 2014 was approximately 75 thousand tons and 72 thousand tons, respectively. The average capacity utilization rate in the years 2015 and 2014 was 52% and 54%, respectively. It is noted that a number of production lines in the segment are liable, at certain points in time and during holiday seasons, to reach maximum production capacity.

c. It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. Based on the information in the Company's possession as at the date of the Periodic Report, the Company does not anticipate that it will be required to make any material investments in Fun & Indulgence equipment and machinery in 2016.

10.7 Fixed assets, real estate and facilities

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

Production sites

Production Sites					
Nature and location	**Site designation**	**Land area**	**Built-up area**	**Rights in the site**	**Liens**
Production plant in the Nazareth industrial zone (**)	Production of confectionery and bakery products	47,500 m²	35,000 m²	The Company owns about 32,000 m² of the area. The Company has the right to be registered as owner of 10,500 m² (the rights were acquired from the Israel Land Administration, but have not yet been fully registered in the Company's name and are in the process of being registered). The Company has lease rights in additional 5,000 m² under three non-capitalized lease agreements (*)	Floating charge on the Company’s property in favor of the State of Israel in connection with investment grants received due to the grant of "Approved Enterprise" status.
Production plant in the Sha'ar Hanegev industrial zone	Production of salty snacks	26,400 m²	10,000 m²	Leased under a lease agreement ending in October 2058, including an option to extend the lease period for an additional 49 years.	Floating charge on the Company’s property in favor of the State of Israel in connection with investment grants received due to the grant of "Approved Enterprise" status.

Logistics and cross-docking centers

<table>
<tr><th colspan="6">Distribution, logistics and cross-docking centers</th></tr>
<tr><th>Nature and location</th><th>Site designation</th><th>Land area</th><th>Built-up area</th><th>Rights in the site</th><th>Liens</th></tr>
<tr><td>Distribution and logistics center in Acre</td><td>For distribution of Company products that do not require refrigeration, in northern Israel</td><td>20,000 m²</td><td>8,695 m².</td><td>Leased from a third party (which has leased the land from the Israel Land Administration until January 2052) for a period of 10 years ending in February 2021. The Group has a 5-year extension option.</td><td>---</td></tr>
<tr><td>Distribution and logistics center in the Shaar Hanegev industrial zone</td><td>For distribution of products that do not require refrigeration, in southern Israel</td><td>---</td><td>3,400 m²</td><td>Leased from a third party. A lease agreement for five years as of January 1, 2014 and a two-year extension option.</td><td>---</td></tr>
<tr><td>Cross-docking site in Beit Shemesh</td><td>Distribution of products not requiring refrigeration</td><td>550 m²</td><td>---</td><td>Leased from a third party until December 31, 2017, with an option for an additional year.</td><td>---</td></tr>
<tr><td>Cross-docking sites</td><td colspan="5">Most of the cross-docking sites serve the Health & Wellness segment, and a small number also serve the Fun & Indulgence segment. For information on the Group's main cross-docking sites in Israel, see section 9.7.b above.</td></tr>
</table>

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

(**) The plant in Nazareth does not have a valid construction permit. As at the date of the report, the Company is handling the receipt of the permit. The Company estimates that the foregoing has no significant implications upon the Company.

For Company policy regarding the depreciation of machinery and equipment in its various plants, see Note 3.4 to the Financial Statements of the Company as at December 31, 2015.

10.8 <u>Research and development</u>

For a description of R&D carried out by the Group, see section 20 below. Salty snacks are developed, *inter alia*, by using PepsiCo's know-how.

10.9 <u>Intangible assets</u>

a. **Licenses and franchises**

Strauss Frito-Lay has a licensing agreement of 1990 with PepsiCo for the use of PepsiCo's trademarks with respect to all salty snack products marketed by Strauss Frito-Lay, which are based on PepsiCo's know-how. For information on the licensing agreement and the payments paid in its respect, see section 10.14 below. In addition, the Company has trademark licenses for its products from several third parties with which the Company has engaged, in consideration for the payment of royalties for such use in amounts that are immaterial to the Company.

b. **Trademarks and samples**

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

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

For an itemization of costs and financial movement in intangible assets in the years 2015 and 2014, see Note 15.1 to the Financial Statements of the Company as at December 31, 2015.

10.10 <u>Human capital</u>

For a description of the Group's organizational structure and additional information on employment agreements, investments in training, etc., see section 21 below.

Following is information on the number of employees in the Group (including all employees of equity-accounted investees) in the Fun & Indulgence segment (including 273 and 259 employment agency workers), as at December 31, 2015 and December 31, 2014, respectively:

	Number of Employees as at	
	December 31, 2015	December 31, 2014
Administration	100	98
Sales and distribution	173	166
Logistics (*)	216	307
Operations	992	998
Total	1,481	1,569

(*) Most of the change is the result of relocating to the logistics center in Shoham in 2015 and closing the sites in Petach Tikva, Tzrifin and Beit Shemesh, including the structural change in the Israel operation, as described in Section 21.f below.

10.11 Raw materials and suppliers

For information on the Group's raw materials and suppliers which are common to the Health & Wellness and Fun & Indulgence segments, see section 8.8 above.

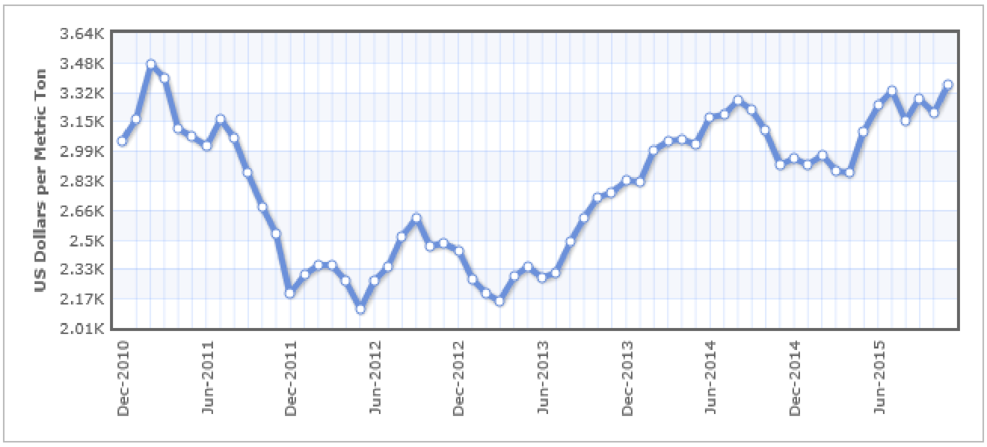
The main raw material used by the Group in the manufacture of Fun & Indulgence products is cocoa and its by-products (cocoa butter, cocoa mass and cocoa powder), the cost of which accounts for 35% of total purchases of raw and packaging materials. The Group also mainly uses sugar, nuts and milk powder,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

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

In 2015 world prices of milk powders decreased significantly following the drop in world prices of raw milk.

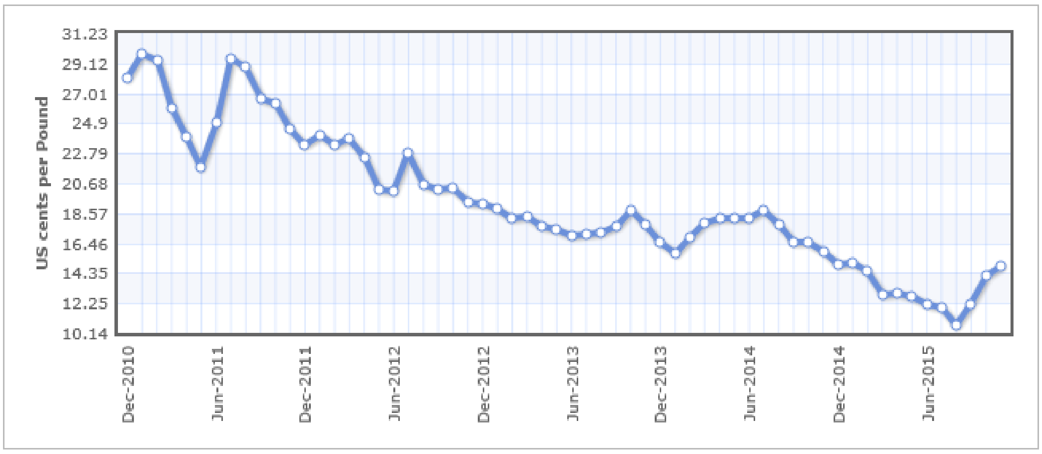
Cocoa prices increased in 2015 by some 14%, reaching a four-year high. These price increases primarily stemmed from an increase in global demand for chocolate, a downward trend in the global supply of cocoa beans and the involvement of speculators in market prices. The cost prices of processing cocoa butter remained high during the year. At the same time, there were no decreases in the price of cocoa powders, due to the increase in the price of cocoa beans.

The following graph shows the changes in the price of cocoa beans (US dollar per ton) in the years 2011 – 2015, according to indexmundi.com:



The downward trend in sugar prices was curbed in 2015, during which the price of sugar increased by approximately 8%. The rise in prices was the result of the gap between supply and demand, which was mainly due to reduced sugar output in Brazil resulting from weather conditions and continued inflexible demand.

The following graph presents the changes in sugar prices (US cent per pound) in the years 2011 – 2015, according to the indexmundi.com website:



It is noted that part of the products of the Company in this segment are manufactured by external suppliers, with which the Company is engaged in agreements. The Company estimates that at present date, it is not dependent on any of said manufacturers.

10.12 Working capital

Following is the composition of working capital, in NIS millions, in the Fun & Indulgence segment in 2015:

	Carrying amounts
Operating current assets (*)	**298**
Operating current liabilities (**)	**138**
Excess of current assets over current liabilities	**160**

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

10.13 Restrictions and supervision in the segment

a. **Declaration as a monopoly in the chocolate tablet market** – in 1988 the Company was declared a monopoly, *inter alia*, in the chocolate tablet market.

10.14 Material agreements

The manufacture, marketing and sale of salty snacks are carried out by Strauss Frito-Lay, in which the Company has a 50% interest, while the remaining shares are held by the American food concern PepsiCo though its subsidiary PepsiCo Investments Europe (I) B.V. (hereinafter: **"PepsiCo Europe"**). Strauss Frito-Lay and PepsiCo Europe are parties to a licensing agreement for the use of certain PepsiCo Europe trademarks; a shareholders' agreement that regulates the relationship in all aspects relating to Strauss Frito-Lay; and several agreements relating to services provided to Strauss Frito-Lay by the Company. For details regarding said agreements, see section 10.14 in Part A of the Company's Annual Report for 2013, as published on March 26, 2014 (reference no: 2014-01-023988) and Note 24.4.1 to the Financial Statements of the Company as at December 31, 2015.

With respect to a licensing agreement for the use of know-how and trademarks – in 2015, 2014 and 2013 the Group paid royalties to PepsiCo in the amount of NIS 6 million annually.

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

11. The Coffee Operation

General information on the Coffee Operation

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

11.1 Structure of the Coffee Operation and changes occurring therein

In Brazil (through the Três Corações joint venture- a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%)), Russia, Eastern European countries and Israel, the Group manufactures, markets and distributes a variety of coffee products (instant coffee, roast and ground (R&G) coffee, and coffee capsules), coffee substitutes (in Israel and Russia), hot drink powders (such as chocolate and cappuccino powders) and cocoa powders for baking. The Group also markets and distributes coffee machines. As part of its activity in Israel, the Group is engaged (through the Elite Coffee café chain) in the retail sale of coffee products, bakery products and soft drinks at 69 points of sale throughout Israel, most of which cater to customers in public places. In addition, as part of its activity in Brazil the Group purchases, processes and sells green coffee, corn products and juice powders.

According to Nielsen[14] and StoreNext figures, approximately 75% of sales by the Coffee Operation in 2015 originated in markets where the Company holds first or second place in terms of market share in retail coffee sales – Brazil, Israel, Romania and Serbia.

For an analysis of the foreign currency effect on the Group's sales, see the chapter "Analysis of Financial Results" in the Board of Directors' Report as at December 31, 2015, Part B below.

In 2015, the Group focused on the implementation of its growth strategy while improving its competitive position in the markets where it operates, taking long-term industry trends into account and promoting the global coffee culture in target markets. Among other things, the Group strengthened its capabilities in the development and launch of new, high added value products in tandem with the management of operations and risk in a complex macroeconomic environment in some of the markets in which it operates.

[14] Nielsen is engaged in market research, data and market analysis, with operations in 100 countries including Israel.

11.2 The global coffee market

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

	2015	2014	2010-2015	2009-2014
World Retail Coffee Market (excluding cafés)				
Scope of sales in retail prices (excluding cafés)	US$ 75.6 billion	US$ 82.3 billion	---	---
Sales volumes	5.1 million tons	5.0 million tons		
Cumulative annual growth rate (CAGR) in value terms	---	---	3.2%	7.0%
CAGR in volume terms	---	---	1.9%	2.8%

(*) Figures for 2014 were adjusted in order to update Euromonitor's calculations.

Roasted & Ground (R&G) Coffee Segment Including fresh coffee beans, ground coffee beans, and capsules				
Percentage of global coffee market in value terms	63.1%	54.4%	---	---
Percentage of global coffee market in volume terms	73.4%	73.8%	---	---
Sales value	US$ 48 billion	US$ 45 billion	---	---
Sales volumes	3.7 million tons	3.7 million tons	---	---
CAGR in value terms	---	---	8.1%	8.5%
CAGR in volume terms	---	---	1.2%	1.4%
Global Retail Instant Coffee Segment				
Percentage of global coffee market in value terms	36.7%	32.1%	---	---
Percentage of global coffee market in volume terms	26.6%	26.2%	---	---
Sales value	US$ 27.8 billion	US$ 26.4 billion	---	---
Sales volume	1.3 million tons	1.3 million tons	---	---
CAGR in value terms	---	---	7.5%	7.8%
CAGR in volume terms	---	----	3.9%	4.6%

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

	Global retail coffee market - value market share	
	2015	**2014** (*)
Nestle	22.7%	22.5%
JDE	13.4%	14.3%
Kraft Heinz	3.0%	2.5%
JM Smucker	2.9%	2.7%
Keurig Green Mountain Inc (**)	2.8%	2.4%
Strauss	2.8%	3.1%
Starbucks	2.5%	2.0%

(*) Figures for 2014 were adjusted in order to update Euromonitor's calculations.
(**) For additional information, see section 11.3 below.

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

	Global R&G market - value market share	
	2015	2014(*)
JDE	12.5%	13.7%
Nestle	7.6%	7.5%
Keurig Green Mountain Inc (**)	4.4%	3.8%
Kraft Heinz	4.3%	3.5%
JM Smucker	4.2%	3.8%
Starbucks	3.8%	3.1%
Strauss	3.4%	3.8%

(*) Figures for 2014 were adjusted in order to update Euromonitor's calculations.
(**) For additional information, see section 11.3 below.

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

	Global instant market - value market share	
	2015	2014(*)
Nestle	48.4%	47.7%
JDE	14.7%	15.2%
Strauss	1.8%	1.9%
Tchibo	1.4%	1.5%

(*) Figures for 2014 were adjusted in order to update Euromonitor's calculations.

Global coffee sales by geographic breakdown:

	Volume sales	
	2015	2014(*)
Western Europe	25%	26%
Latin America	22%	22%
North America	17%	17%
Asia, Australia and the Pacific Ocean	17%	17%
Eastern Europe	10%	10%
Middle East and Africa	9%	8%

(*) Figures for 2014 were adjusted in order to update Euromonitor's calculations.

11.3 Mergers and acquisitions in the global coffee industry

In 2015, the consolidation trend in the coffee industry continued, mainly by JAB Holding Company.

According to publications in the press, in December 2015, JAB acquired Keurig Green Mountain in consideration for $13.9 billion. In October 2015, the American coffee shop chain Peet's Coffee and Tea, which is controlled by JAB, acquired the independent American café chain, Intelligentsia. The value of the transaction was not disclosed.

In June 2015, JAB acquired the Scandinavian café chain, Espresso House, which operates 193 coffee shops in Sweden and in Norway, in consideration for $328 million.

In the same month, JAB purchased the Danish café chain, Baresso Coffee, which operates 47 coffee shops in Denmark, in consideration for an undisclosed amount.

In July 2015, the merger between DE Master Blenders, controlled by JAB, and the coffee business of Mondelēz International, which was signed in 2014, was completed. This transaction led to the creation of Jacobs Douwe Egberts (JDE), which focuses on coffee. Mondelēz received approximately €3.8 billion and 44% of the shares of the merged company. As a result of the merger, Douwe Egberts sold the European coffee brand, Carte Noire, to Lavazza for approximately €750 million, and the Danish coffee brand, Merrild, in consideration for an undisclosed amount.

In February 2015, Mondelēz sold 50% of its shares in the joint venture in its Japanese coffee business to its partner, Ajinomoto General Foods Inc.

As at the date of this report, the Company is unable to assess the implications of the series of acquisitions by JAB, primarily the merger between Douwe Egberts and Mondelēz, on the competition, if any.

11.4 Consumer trends in the coffee market

Generally, the coffee industry is an attractive, big and stable market, which is growing continuously in domestic currency terms within the food and beverage industry. According to Euromonitor figures, the global coffee industry generated approximately $75.6 billion in sales in 2015 (in retail selling prices), with Brazil being the second largest national coffee market in the world with retail sales of $5.1 billion in 2015. According to Euromonitor, in 2015 Brazil, the Eastern European countries and Israel accounted for 6.7%, 7% and 0.4%, respectively, of world retail sales of coffee.

2015 witnessed the continuation of the major consumer trend in the coffee arena in recent years - the development of a global coffee culture, characterized by a continuous increase in the level of sophistication of consumers and products.

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

In addition, in recent years research has shown that there is a connection between coffee consumption and positive health benefits (see, for example, the guidelines of the Dietary Guidelines Advisory Committee of the FDA)).[15]

In light of said trends, in 2015 the Group expanded its activity in single-portion capsules in Brazilthrough the Três Corações (3C)- "Três Corações Joint Venture" in Brazil- a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%), while consistently increasing its market share in a category which is in the initial stages of development. In addition, the Group launched Doncafé Fresh in Romania – a specialty coffee from several regions, which is personally tailored to the customer's taste (origin of the coffee, roasting method, grinding thickness, etc.) and is sold directly to the consumer. Furthermore, the Company expanded its portfolio of single-origin products marketed in retail chains, i.e. coffee originating from one country only, such as Brazil, Colombia, India, etc. In Poland and in Romania, the Group launched R&G coffee products with green-coffee extract as part of the health trend. In addition, in 2015 the Group enhanced its capabilities in the development and launch of new high added value products. A new position was established - Chief Technology Officer (CTO) - who is in charge of the development of new technology and products having high added value, and collaboration with other technology entities in the Group was intensified.

To closely monitor changes in consumer behavior, the Group conducts research, *inter alia* in order to observe and respond to these changes in a timely manner.

15 http://health.gov/dietaryguidelines/2015-scientific-report/pdfs/scientific-report-of-the-2015-dietary-guidelines-advisory-committee.pdf.

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

For further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, in Part B below. The prohibition of imports obliged the Company in Ukraine to make an operational logistic change in order to provide a response to the termination of the possibility of importing products from Russia.

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

Changes in the scope of activity

The Group's operation in the coffee business has expanded and grown in recent years both in and outside of Israel as a result of organic growth, building and developing existing and new brands, launching new high added value products in alignment with consumption trends (primarily the birth of a global coffee culture) and the acquisition of various operations, such as the Amigo coffee brand and Itamaraty, a private company active in south and southeast Brazil, acquired by the Três Corações Joint Venture (3C),which is engaged in the production and distribution of coffee products under the Itamaraty, Londrina, Charm, Ouriborn, Americano and Cafeare brands. For further information, see section 11.3 in the 2014 Annual Report, as published on March 23, 2015 and amended on March 25, 2015 (reference no. 2015-01-061711). In addition, changes were made in the manufacturing array, such as the closure of the instant coffee production site in the heart of the city of Safed and the transfer of a significant part of production to external suppliers, while retaining part of the manufacturing operation and the packaging operation in a site situated in the Safed industrial zone. For additional details, see section 11.11 below.

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

Company management believes that the agreement will strengthen the Três Corações joint venture's position in the Brazilian coffee market, making the Três Corações joint venture the second largest player in the instant coffee market in Brazil following the closing, according to A.C. Nielsen. In addition, the agreement will allow the Company to export more products from South America via the existing export capabilities of the brands.

The information in this section regarding the strengthening of the Três Corações joint venture's position in the coffee market in Brazil and in South America is forward-looking information, as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of competitive conditions in the market that differ from those anticipated, such as following new partnerships and mergers that are unknown to the Company at this time and may develop and impact the Company's market shares, the political and/or economic situation, etc.

Changes in profitability

For information on changes in income and profitability in the Israel Coffee segment and the International Coffee segment, see the Board of Directors' Report as at December 31, 2015.

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

The main consumer development in the markets relevant to the Company's operations is the emergence of the global coffee culture, as described in section 11.3 above. In markets where the Company operates the single-portion capsules segment has grown, partly in the non-barcoded market, and in high end café chains that disseminate knowledge about coffee, its agricultural origins and preparation methods, as well as new categories and high added value products, and in general, a wider variety of products. Consequently, coffee consumers have become more sophisticated, have greater knowledge and demand higher standards.

In 2015, macroeconomic conditions in Brazil underwent a substantial adverse change, accompanied by a significant devaluation of the local currency. The local operation, however, continued to grow in domestic currency terms, with the single-portion capsules segment, in which the Três Corações Joint Venture (3C) is a leading player in Brazil, continuing to grow in 2015.

In Russia and Ukraine, the macroeconomic crisis that began in 2014 continued. In both countries, following the drop in disposable income, consumers cut down their food expenditure, which led to a reduction in the income and profit of retailers. There has been a decrease in brand loyalty and a continuous search for discounts and sales, mainly in the organized (modern trade) market. These trends led, among other things, to growth in private label sales. In both countries, the Group succeeded in increasing its turnover in terms of tons of coffee sold and euro sales.

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

In Romania, macroeconomic conditions improved, with an increase in growth and the reduction of VAT on food products in the second half of 2015. In 2015 Poland experienced a decrease in the R&G market. Conversely, there was growth in the coffee bean market, characterized by big discounts and campaigns. In addition, the growth of discount channels and their market share continued in the retail arena.

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

11.8 Critical success factors in the activity framework and changes therein

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

11.9 Major entry barriers to the activity framework and changes therein

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

11.10 <u>Substitutes for the products of the activity framework and changes therein</u>

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

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

<u>Main Raw Materials</u>

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

Approximately 60% of green coffee produced worldwide consists of Arabica coffee beans, and approximately 40% are Robusta coffee beans (mainly grown in Vietnam, Indonesia and Brazil). More than 50% of the Group's purchases are of Robusta type coffee beans.

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

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

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

As part of the Group's corporate responsibility program, the Group is a member of the 4C Association, an industrial union that sets minimum standards for the manufacturing of sustainable coffee with the aim of achieving greater sustainability through the promotion and continuous improvement of the social, environmental and economic conditions of those whose livelihood is dependent on the manufacture, processing and trading in coffee.

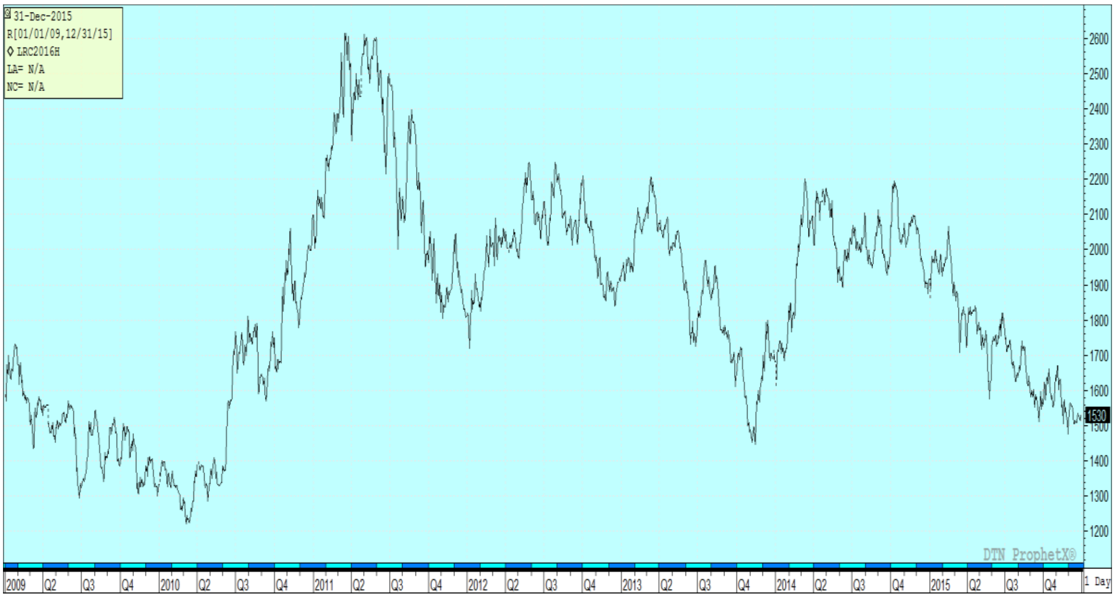
Green coffee is a commodity traded on world exchanges, and from time to time the Group enters into futures contracts and option contracts for the purchase and sale of green coffee.

The price of green coffee is affected by the climate and by supply and demand. In 2015, green coffee prices dropped worldwide (with the exception of Brazil) for both Arabica and Robusta beans. This trend has continued in the beginning of 2016.

The following graphs present the changes in prices of the different types of green coffee in the years 2010-2015. Source: DTN ProphetX.

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

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



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

12. The Israel Coffee Segment

12.1 General information on the Israel Coffee segment

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

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

12.2 Products

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

In addition, the Group operates the **Elite Coffee** café chain, specializing in the sale of coffee products and accompanying products in the OTG (on-the-go) segment, mainly at coffee stands. The Group's products also include chocolate powder under the Chocolite brand, and powders for hot drinks and home baking.

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

12.3 <u>Distribution of income and profitability of products and services (according to the Company's non-GAAP management reports)</u>

In 2015, the income of the Israel Coffee segment accounted for less than 10% of the Group's total income.

12.4 <u>Competition</u>

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

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

Coffee Market (instant and R&G coffee)				
Market share (in %)	**2015**		**2014**	
	The Group	**Main Competitor**	**The Group**	**Main Competitor**
Israel: instant coffee	38.1%	45.4%	39.7%	44.4%
Israel: R&G*	64.4%	4.4%	63.9%	4.7%
Israel: coffee (weighted)	51.1%	25.2%	51.1%	25.6%

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

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

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

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

12.5 <u>Seasonality</u>

Following is data for the years 2015 and 2014 on the Company's income in the Israel Coffee segment, by quarter, in NIS millions:

	2015		2014	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	196	30.3%	205	29.7%
Q2	136	21.2%	151	21.9%
Q3	162	24.9%	165	24.9%
Q4	153	23.7%	168	24.5%
Total	647	100%	689	100%

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

12.6 <u>Production capacity</u>

The production capacity of the Group's plants in the Israel Coffee segment is measured by quantities of product per year. The maximum potential annual production capacity of the Group's plants in the Israel Coffee segment, operating in three shifts, in tons product per year for the years 2015 and 2014 was approximately 18 thousand tons and 20.5 thousand tons, respectively. The average production capacity utilization rate in the years 2015 and 2014 was 53% and 70%, respectively.

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

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its plants and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. On the basis of information in the Company's possession as at the date of the Periodic Report, the Company does not anticipate that it will be required to make material investments in equipment and machinery in the segment in 2016.

12.7 Fixed assets, real estate and facilities

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

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

(*) In addition, the Company is the owner of land adjacent to the packaging plant, covering an area of 2,814 m², on which there are buildings leased to several third parties for different lease periods. The Company renews the lease periods as necessary.
The assets are not mortgaged.
For the Company's policy regarding depreciation of machinery and equipment in its different plants, see Note 3.4 to the Financial Statements of the Company as at December 31, 2015.

12.8 Intangible assets

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

For details on the costs and financial movement in intangible assets in the years 2015 and 2014, see Note 15 to the Financial Statements of the Company as at December 31, 2015.

12.9 <u>Human Capital</u>

a. For a description of the Group's organizational structure and information on employment agreements, investments in training, etc., see section 21 below.

Following is information on the number of employees in the Group in the Israel Coffee segment (including 19 and 34 employment agency workers) as at December 31, 2015 and December 31, 2014, respectively:

	Number of employees as at	
	December 31, 2015	**December 31, 2014**
Administration	75	60
Sales and distribution	420	401
Procurement and logistics	110	21
Operations	162	190
Total	767	672

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

c. Strauss Coffee's corporate center is attributed to the Israel Coffee segment. For a description of the organizational structure of the Group's coffee operation, see section 21.1 below.

d. Option plan – in 2011, the board of directors of Strauss Coffee approved an international plan for the allotment of non-marketable Strauss Coffee stock options to its senior executives. See Note 23.1 to the Financial Statements of the Company as at December 31, 2015.

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

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

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

12.11 Working Capital

Following is the composition of working capital, in millions of NIS, in the Israel Coffee in 2015:

	Carrying amounts
Operating current assets (*)	**166**
Operating current liabilities (**)	**66**
Excess of current assets over current liabilities	**100**

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

12.12 Restrictions and supervision in the segment

a. **Declaration as a monopoly**

In 1988, the Company was declared a monopoly, *inter alia*, in the categories of instant coffee and cocoa powders for in-home consumption. For information on the Antitrust Commissioner's directives of 1998, see section 10.13 above.

b. **Antitrust approval**

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

c. **Consensual decree**

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

Commissioner's approval in advance. Any doubt with respect to the fulfillment of this condition will be submitted for the Commissioner's decision.

12.13 Material Agreements

Engagement with the private investment fund, TPG Capital

For additional information, see section 12.13, Part A of the Company’s Annual Report for 2013, as published on March 26, 2014 (reference no. 2014-01-023988), and section 12.13, Part A of the Company's Annual Report for 2014, as published on March 23, 2015 and amended on March 25, 2015 (reference no. 2015-01-061711).

13. The International Coffee Segment

13.1 General information on the International Coffee segment

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

Brazil – in 2015, the Três Corações joint venture's sales in Brazil increased as the Três Corações joint venture continued to consolidate its position as the biggest coffee company in Brazil according to A.C. Nielsen, despite the economic recession in Brazil and the lack of political stability.

Russia and Ukraine – the macroeconomic crisis that began in 2014 continued in these countries. Russia and Ukraine are suffering from political instability and uncertainty, which have led to a sharp depreciation in the local currencies (the ruble and the hryvnia) and a rise in inflation rates. These processes have led to an increase in the prices of raw materials and coffee prices and have eroded the consumers’ purchasing power, expressed, among other things, in a decrease in brand loyalty and a continuous search for low-cost products, discounts and campaigns. In both countries the Group succeeded in growing its business in terms of coffee volumes (tons) and euro sales. For further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report in Part B below.

Central and Eastern European Countries (Poland, Romania and Serbia) – sales in the CEE countries were mainly affected by intense competition, quantitative stagnation in the coffee market and erosion of the local currencies against the shekel. Consumers in these countries are looking for attractively priced products, and demand for the private labels of large retailers is on the rise. To contend with the economic situation and maintain profitability and market share, the Group invested in sales promotion, campaigns and discounts. In Romania, macroeconomic conditions improved as growth increased and VAT on food products was reduced. The Group's sales in Romania increased in 2015, among other things as a result of the acquisition of the Amigo brand. Serbia is in a recession and unemployment rates in the country are high. The Group's sales in Poland and Serbia decreased in 2015; in Poland there is continuous search for low-cost products, discounts and campaigns. In 2015, the Company recognized impairment in an amount of approximately NIS 22 million in respect of intangible assets attributed to the operation in Serbia. For further information, see Note 15 to the Financial Statements of the Company for 2015 in Part C below.

For an analysis of the foreign currency effect on the Group's sales, see the chapter "Analysis of Financial Results" in the Board of Directors' Report as at December 31, 2015 in Part B below.

13.2 <u>Products</u>

The Group's main products in the International Coffee segment are R&G coffee, instant coffee, espresso capsules and coffee machines, chocolate and other drinking powders, including coffee substitutes and juice powders. In 2015 Strauss Coffee focused on strengthening and positioning its brands, developing new categories and flavors, and supporting its capsule and coffee machine brands.

Brazil – Through " Três Corações Joint Venture" (3C) in Brazil- a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%), the Group sells R&G coffee, instant coffee, espresso capsules and machines, cappuccino products, chocolate powders, juice powders and corn products. The Group mainly operates under the brands **Três Corações** (instant coffee, R&G, filter coffee, cappuccino, chocolate powders, ready-to-drink coffee), **Santa-Clara** (instant coffee, R&G, filter coffee), **Pimpinela** (instant coffee, R&G, filter coffee), **Kimimo** (R&G and instant coffee), **Fino Grão** (R&G), **Itamaraty** (R&G), **Leticia** (R&G), **Tres** (espresso machines and capsules), **Dona Clara** (corn products) and **Frisco** (juice powders). As part of its activity in Brazil, the Três Corações Joint Venture (3C) purchases, processes and exports green coffee, mainly to Europe and the US.

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

Totti (instant coffee, premium branded tea and R&G), **Le-Café** (freeze-dried coffee), **Ambassador** (freeze-dried coffee and espresso), **Elite Health Line** and **Chicory** (chicory tea). In Russia the Company places emphasis on **Chornaya Karta** as a leading brand and on **Elite Health Line**.

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

Poland – the Group sells R&G, instant coffee and espresso. The Group mainly operates under the brands **MK**, **Fort** and **Pedro's**. In 2015, the Group launched a new blend with green coffee extract under the brand **MK Café Green**.

Romania – the Group sells R&G, espresso and instant coffee. The Group mainly operates under the brands **Doncafé**, a master-brand that includes **Doncafé Elita**, **Doncafé Selected** (instant coffee and R&G), **Doncafé Gold** (R&G), **Doncafé Espresso** and **Totti Café Espresso** (espresso coffee), **Amigo** (instant coffee and R&G) and **Fort** (R&G). In 2015, the Group launched a new blend with green coffee extract under the brand **Doncafé Green Active**.

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

13.3 Distribution of income and profitability of products and services (according to the Company's non-GAAP management reports)

a. Following is information on the International Coffee segment's income from external entities (consolidated), by geographical regions in which the Group operates, in NIS millions and as a percentage of the Group's total income, in the years 2015, 2014 and 2013:

Group of Similar Products	Income in NIS millions			% of the Group's total income		
	2015	2014	2013	2015	2014	2013
In Brazil[16]	1,488	1,781	1,697	19.40%	21.90%	20.70%
Serbia	157	179	205	2.10%	2.20%	2.50%
Russia and Ukraine	602	635	729	7.90%	7.80%	8.90%
Romania	263	244	226	3.40%	3.00%	2.70%
Poland	275	297	368	3.60%	3.60%	4.50%
Other	0	0	5	0	0	0.10%
Total International Coffee segment	2,785	3,136	3,230	36.4%	38.50%	39.40%

[16] Including the green coffee and corn businesses, in the amount of NIS 190 million in 2015.

For additional information on coffee products, see "Financial Information on Geographical Regions" – section 29 below.

b. Following is a breakdown of the segment's income from external entities (consolidated) by coffee types, in NIS millions and as a percentage of the Group's total income, in the years 2015, 2014 and 2013:

	Income in NIS millions			Percentage of Group's total income		
	2015	2014	2013	2015	2014	2013
Roast & ground coffee	1,741	1,920	2,038	0%722.	23.60%	24.90%
Instant coffee	526	629	642	6.90%	7.70%	7.80%
Other	518	587	550	6.80%	7.20%	6.70%
Total segment	2,785	3,136	3,230	0%436.	38.50%	39.40%

13.4 Competition

Brazil – the Federal Republic of Brazil is divided into 26 states and one federal district where the capital city of Brasilia is situated. As a result, the market is regional and decentralized (numerous small companies with no dominant domestic manufacturer). In each region, there are one or two competitors as leading major rivals, several medium size competitors and a large number of small local manufacturers. Melitta, Marata and JDE are the Group's main competitors. In 2015, the Três Corações Joint Venture (3C) found it difficult to raise prices, *inter alia,* due to the economic conditions and the marketing efforts of the competitors with the objective of increasing the market segment. Notwithstanding, during 2015 the Três Corações Joint Venture (3C) continued to reinforce its position as the largest coffee company in Brazil from the aspect of market segment, according to I.C. Neilsen.

Russia – the main competitors in R&G are Pauling, Orimi and JDE. The Group ranks third in terms of market share. The major rivals in the instant coffee market are Nestle, JDE and Orimi, and the Group is in third place in market share. 2015 was characterized by aggressive competition through price reductions by competitors in an attempt to increase market share.

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

Poland – in the R&G market, the Group has two main competitors – JDE (merger between Mondelēz and Douwe Egberts) and Tchibo; the Group is in third place in terms of market share.

Romania – in the R&G market, the main competitors are JDE, Amaroy (the private label of the large retail chain, Aldi), Tchibo, as well as several small manufacturers. The Group is the second largest in market share. In the instant coffee market, the main competitors are JDE, Nestle and private label, and the Group is in first place in market share.

Serbia – in the R&G market, the major competitor is Atlantice Group, and the Company has the second largest market share. In 2015 the problem of coffee bean smugglers in Serbia increased as a result of the relatively low price, as did the appearance of small, local roasters (micro-roasters), adding various substances to the roast and ground coffee. The Group is applying an action plan to preserve its market share in light of these phenomena. In instant coffee there are three rivals: Nestle, JDE and Atlantice. In 2015 competition in the shelf prices of R&G increased as a result of competitive pricing by small local companies.

As at the date of this report, the Company is unable to estimate the implications on the competition, if any, of the series of acquisitions by JAB Holding Company, first and foremost the merger between Douwe Egberts and Mondelēz.

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

Similar product groups	Weighted Market Share (in Percent – Financial)			
	2015		2014	
	The Group	Major competitor	The Group	Major competitor
Brazil*: roast coffee*	23.7%	17.4%	23.1%	17.9%
Brazil*: instant coffee	13.0%	54.3%	11.5%	57.1%
Brazil*: capsules**	18.0%	68.4%	12.5%	74.2%
Poland: roast coffee	19.5%	34.2%	19.0%	35.7%
Serbia: roast coffee	32.3%	51.1%	33.1%	50.8%
Romania: roast coffee	23.3%	42.7%	24.8%	43.4%
Romania: instant coffee***	44.8%	21.6%	45.6%	24.2%

* Market share in Brazil is based on 100% of the sales of "Três Corações Joint Venture" (3C) - a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%).

** Figures for 2014 express the data as at Q3 2014.

*** The main change in the Group’s market share in instant coffee in Romania is explained by the acquisition of the Amigo brand and the start of its sales in September 2014; until the acquisition, Amigo was the Group’s main competitor in the instant coffee market in Romania.

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

*****Figures for 2014 were adjusted in order to update Nielsen's calculations.

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

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

Positive factors which, in the Group's opinion, influence or are likely to influence the competitive position in the "Três Corações Joint Venture" (3C) in Brazil include a trend of consolidation in the market that could eliminate small domestic manufacturers.

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

13.5 Seasonality

Following is information for the years 2015 and 2014 on the Company's income in the International Coffee segment, by quarter, in NIS millions:

	2015		2014	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	650	23.3%	662	21.1%
Q2	698	25.1%	756	24.2%
Q3	715	25.7%	854	27.1%
Q4	722	25.9%	864	27.6%
Total	2,785	100%	3,136	100%

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

13.6 Production capacity

The production capacity of the Group's manufacturing plants in the International Coffee segment is measured in quantities of product per year. The maximum potential annual production capacity of the Group's plants in the segment, operating in three shifts, in tons product per year for the years 2015 and 2014 was approximately 298 thousand tons and 303 thousand tons, respectively. The average capacity utilization rate in the years 2015 and 2014 was approximately 72% and 74%, respectively. The production lines in the Group's plants are automatic, and some are operated in three shifts daily.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its plants and to expand production lines with the aim of increasing production capacity according to the Group's work plans. As at the date of the Periodic Report, the Company does not anticipate that it will be required to make material investments in equipment and machinery in the segment during 2016.

13.7 Fixed assets, real estate and facilities

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

Nature of the site	Location of the site	Site designation	Land area	Built-up area	Rights in the site	Liens
A plant in Poland	In Swadzim, near Poznan	Production of R&G	52,689 m²	11,540 m²	Ownership of the land	---
A plant in Romania	Bucharest	Production of R&G	6,535 m²	4,365m²	Leased from a third party, in effect until November 2023. May be extended with 6 months' advance notice.	---

A plant in Brazil (3C)**	Near Bello Horizonte in the state of Minas Gerais	Production of R&G and cappuccino	73,000 m²	13,000 m²	The Três Corações (JV) owns the land rights	See note 24.2 to the Company's Financial Statements as at Dec. 31, 2015.
A plant in Brazil (3C)**	In Eusébio, in the state of Ceará	Production of R&G	10,000 m²	4,650 m²	The Três Corações (JV) owns the land rights	A mortgage of €440,000 (the Company's share). See note 24.2 to the Company's Financial Statements as at Dec. 31, 2015.
A plant in Brazil (3C)**	In Natal, in the state of Rio Grande do Norte	Production of R&G, instant coffee, chocolate drink powder and cappuccino	38,000 m²	8,200 m²	3C Imóveis owns the land rights	A mortgage of € 1.5 million (the Company's share). See note 24.2 to the Company's Financial Statements as at Dec. 31, 2015.
A plant in Brazil (3C)**	In Nova Iguaçu, in the state of Rio de Janeiro	Production of filter paper for fitter coffee	5,600 m²	3,150 m²	3C Imóveis owns the land rights	See note 24.2 to the Company's Financial Statements as at Dec. 31, 2015.
A plant in Brazil (3C)**	In Mossoro, in the state of Rio Grande do Norte	Production of corn products and drink powders	54,000 m²	14,000 m²	3C Imóveis owns the land rights	A mortgage of €440,000 (the Company's share). See note 24.2 to the Company's Financial Statements as at Dec. 31, 2015.
Facility in Brazil (3C)**	In Varginha, in the state of Minas Gerais	A facility used for mapping and sorting green coffee beans	70,000 m²	7,300 m²	The Três Corações (JV) owns right of title to the land	---
Facility in Brazil (3C)**	East of Minas Gerais	A facility used for mapping and sorting green coffee beans	12,300 m²	6,500 m²	The Três Corações (JV) owns right of title to the land	
Will be used for a future plant in Brazil (3C)**	Minas Gerais	Production of capsules	59,000 m²		The Três Corações (JV) owns right of title to the land	The Company intends to invest an immaterial amount in the construction of a plant in the framework of the joint venture
A plant in Serbia	In Simanovci near Belgrade	Production of R&G and blended instant coffee	29,484 m²	8,500 m²	Strauss Adriatic owns right of title to the land	---
A plant in Russia	Vladimirskaya area, Strunino	Production of R&G and a packaging plant for freeze-dried instant coffee.	9,409 m²	8,890 m²	Owned by the company Le Café	---
A plant in Russia	Vladimirskaya area, Strunino	Production of R&G and a packaging plant for freeze-dried instant coffee.	7,785 m²	4,491 m²	Owned by Strauss Russia.	

A plant in Germany	Norddeutsche Kaffeewerke GmbH	Production of roast, instant and freeze-dried coffee	50,191 m²	4,804 m²	Operating lease. On November 1, 2015, Strauss Coffee exercised its option to operate the plant for 3 more years, ending on December 31, 2019. For details, see Note 24.4.7 to the Financial Statements of the Company as at December 31, 2015, Part C below.	

* For information on the Company's policy regarding the depreciation of machinery and equipment in its production plants, see Note 3.4.5 to the Financial Statements of the Company as at December 31, 2015.
** Três Corações (3C)- " Três Corações Joint Venture" in Brazil- a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%).

13.8 Intangible assets

Trademarks and brands

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

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

For an itemization of costs and financial movement in intangible assets in the years 2015 and 2014, see Note 15 to the Financial Statements of the Company as at December 31, 2015.

3.9 Human capital

For a description of the Group's organizational structure and information on employment agreements, investments in training, etc., see section 21 below.

Following is information on the number of Group employees in the International Coffee segment (including employees in equity-accounted investees), and including 429 and 437 employment agency workers, as at December 31, 2015 and December 31, 2014, respectively:

	Number of employees as at	
	Dec. 31, 2015	Dec. 31, 2014
Administration	740	712
Sales and distribution	4,007	4,011
Supply chain (procurement and logistics)	440	330
Industry (operations)	1,476	1,760
Total	6,663	6,813

For information on employee claims in Brazil, see Note 24.1.2.4 to the Financial Statements of the Company as at December 31, 2015, in Part C below.

13.10 Raw materials and suppliers

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

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

13.11 Working capital

Following is the composition of working capital, in NIS millions, in the International Coffee segment in 2015:

	Carrying amounts
Operating current assets (*)	**774**
Operating current liabilities (**)	**228**
Excess of current assets over current liabilities	**546**

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

13.12 Restrictions and supervision in the segment

For information on restrictions and supervision in the segment, see section 12.12 above. For information on restrictions and supervision over the Group's activities, see section 25.1 below.

13.13 Material agreements

Joint venture in Brazil

In 2015, the mutual SCP share encumbrance agreement designed to ensure indemnification in the framework of establishing the joint venture expired, with the agreement of the parties. For further information, see section 13.13 in part A of the Company's Annual Report for 2013 as published on March 26, 2014 (reference no: 2014-01-023988), and Note 24.4.5 to the Financial Statements of the Company as at December 31, 2015 in Part C below.

14. The International Dips & Spreads Segment

14.1 General information on the International Dips & Spreads segment

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

In this segment the Group manufactures, sells, markets and distributes a range of refrigerated dips and spreads in the US, Canada, Mexico, Australia and Mexico. According to IRI, the Group is the largest dips and spreads company in the US in terms of sales volume and market share; in the hummus category the Group has the largest market share in the US, Mexico and Australia, and the second largest market share in Canada (according to IRI and A.C. Nielsen figures). The Group became active in this segment in the US in August 2005, and since March 2008 has operated in collaboration with the international food corporation PepsiCo through the Sabra joint venture.

In October 2011, collaboration between the Company and PepsiCo was expanded with the establishment of the joint venture Obela, which is active in Mexico and Australia. For additional details on the agreements with PepsiCo, see section 14.12 below.

Initially, activities focused on the hummus category, and in 2015 the Group continued the transition from a hummus company to a company specializing in dips and spreads.

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

Changes in the scope of activity

In 2015, the consumer trends of demand for healthy, gluten-free, preservative-free, natural and organic products continued. Additionally, consumers seek products that deliver value for money products (price, quality and brand).

In the second quarter of 2015, a recall was made, which led to a slowdown in the Group's growth in the category in the US and Canada; however, the Group's market share was not eroded and according to IRI amounts to 61%. In 2015, the Group focused on reinforcing and retaining the companies' market share and on continued growth in the US.

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

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

Changes in profitability

In general, food companies in the US raised prices during 2015 by an average of 1.2% in order to increase margins after the prices of raw materials rose in recent years. Price stagnation was recorded in the categories in which the Company is active in the US. For information on the changes in the income and profitability of the International Dips & Spreads segment, see the Board of Directors' Report as at December 31, 2015, in Part B of this report.

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

The hummus category has succeeded in reaching almost full distribution through the current distribution channels, and future growth will need to be facilitated through innovation, marketing and optimization of current shelving at the expense of competing brands or other categories. Alternative channels, such as convenience stores, continue to represent distribution opportunities.

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

For details on the critical success factors and changes therein, see Section 7 above. Additional critical success factors in the segment include dominance in US markets and distribution channels, development of products that offer consumers an experience and added value and a response to market trends, a large-scale distribution system, expansion of production capacity to support the increase in sales volumes, continued streamlining of production and cost reduction.

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

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

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

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

14.2 Products

In the US and Canada, the Group manufactures and sells a variety of refrigerated dips and spreads, particularly hummus in a range of flavors under the **Sabra** brand, which is regarded as a leading brand in this category in the US and Canada. The Group also manufactures and sells fresh salsa products under the brands **Santa Barbara** and **Sabra**, and fresh refrigerated guacamole salads under the brand names Fresh Refrigerated Guacamole and Greek Yogurt Based Vegetable Dip.

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

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

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

14.3 Distribution of income and profitability of products and services (according to the Company's non-GAAP management reports)

In 2015, the income of the International Dips & Spreads segment accounted for less than 10% of the Group's total income.

14.4 Competition

The main brands competing with the Group's dips and spreads products in the US are: (1) Hummus – Mondelēz' **Athenos**, private label, **Cedar's** and **Tribe**, **Boar's Head**, **Eat Well** and **Hannah** from Nestle; (2) Salsa - the main competitor is **Garden Fresh**, the brand name and the company which were purchased by **Campbell Soup**; (3) Guacamole - the major competitor is **Wholly** by Yucatan and Hormel Foods Corporation; (4) Dips - **Marzetti**. The US business is characterized by local competition against large companies with extensive distribution capabilities, as well as against the private labels of retailers and the private labels of a large number of small local manufacturers, which operate in the regions where they manufacture.

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

Market share

Sabra's market share (in value terms) in the US hummus category in 2015 was approximately 61%. Private labels remained virtually unchanged compared to 2014, with a market share of around 10%, making them the second biggest competitor[17].

The Group's market share (value) in the US packaged salad market (based on data published by Symphony IRI Group[18]) reached approximately 27.8% in 2015; the second-biggest competitor in this market held a market share of 5%.

The Group is leader of the hummus market in Australia with a market share of 32% and in Mexico with a market share of 66%. In both countries the Group posted an increase in sale volumes in 2015.

In Canada, the Group has a market share of 24% and is the second largest player; in total, there are four major players in the market with a similar market share, and the Group is one of them.

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

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

Positive factors which, in the Group's opinion, influence or are likely to influence its competitive position in the International Dips & Spreads segment, are the Group's dominance in the markets in which it operates, top-quality products that deliver a

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

18 See footnote 16 above.

consumption experience and added value, continuous innovation, research and a response to consumption trends, rigorous attention to product quality, competitive prices, a broad-scale production and distribution network, collaboration with leaders in the industry and massive investments in marketing.

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

Seasonality

Following is information for the years 2015 and 2014 on the Company's income in the International Dips & Spreads segment by quarter, in NIS millions:

	2015		2014	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	182	24.3%	149	21.8%
Q2	182	24.3%	171	25.0%
Q3	201	26.8%	170	25.0%
Q4	187	24.6%	193	28.2%
Total	752	100%	683	100%

As indicated by the above data, there is no distinct trend of seasonality in the Dips & Spreads segment; generally, in the summer months consumption of dips and spreads is slightly higher compared to consumption during the winter. Additionally, at holiday times or on special occasions, there is an increase in consumption.

14.5 Production capacity

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

b. The maximum potential annual production capacity in three shifts, in ton products per year in the years 2015 and 2014 was approximately 96 thousand tons and 91 thousand tons, respectively. The average actual capacity utilization rate in the years 2015 and 2014 was approximately 67% and 65%, respectively.

c. It is the Group's practice to continuously improve and upgrade the equipment and machinery in its plants, as well as to expand production lines, in order to maintain and increase its production capacity according to its work plans. The Company does not anticipate that in 2016 it will be required to make material investments in manufacturing equipment and machinery in the International Dips & Spreads segment.

The information in this section regarding additional investment in the production site in 2016 is forward-looking information, as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. There is no certainty that these estimates will be realized. In practice, it is uncertain whether such additional investment will or will not be made, as it is dependent on the scale of demand for the Company's products in 2016.

14.6 Fixed assets and real estate

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

Nature of the site	Location of the site	Site designation	Land area	Built-up area	Rights in the site
Production plant	Colonial Heights, Virginia	Production of salads	Approx. 193,200 m²	23,226m²	Ownership by Sabra
Production plant	Farmingdale, New York	Production of dips	Approx.7,600 m²	3,800 m²	Leased from a third party until December 2035
Production plant	Oceanside, California	Production of salsa	8,700 m²	3,600 m²	Ownership by Sabra
Production plant	In Cavan, South Australia	Production of dips	Approx.7,930 m²	2,000 m²	Leased from a third party for 5 years from August 2012, with 2 five-year options.
Production plant	In Mexico City, Azcapotzalco, Mexico	Production of dips	Approx.1,639 m²	1,639 m²	Leased from a third party for 10 years until 2021.

The assets are not pledged.

14.7 Research and development

The Group, together with PepsiCo, built a Center of Excellence, where Sabra carries out research and development and leverages know-how to support the business activity in the US, Canada, Australia and Mexico. For a description of the Group's R&G, see section 20 below.

14.8 Intangible assets

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

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

14.9 Human capital

a. Following is information on the number of employees employed by Sabra and Obela (including all employees of equity-accounted investees) (including 44 and 40 employment agency workers, as at December 31, 2015 and December 31, 2014, respectively:

	Number of employees as at	
	Dec. 31, 2015	Dec. 31, 2014
Management	9	9
Finance, marketing, HR, IT and administration	116	75
Sales and distribution	52	42
Procurement and logistics	30	81
Operations	628	576
Total	835	783

b. Senior employees are employed under personal employment agreements. Other employees are employed according to a personal agreement, allowing the employer and the employee to terminate the relationship at any given time. Collective agreements do not apply to these employees and they are not unionized.

14.10 Raw materials and suppliers

The main raw materials used by Sabra and Obela in the manufacture of their products are raw tahini (sesame), hummus (i.e. chickpeas or garbanzo beans), soybean oil, tomatoes, garlic and avocado. The products are packaged in plastic products (containers and lids). Chickpea (hummus grains) prices fell during 2015 in comparison with 2014. Prices of soybean oil decreased in 2015, as a result of the slowdown in exports alongside a general decline in commodity prices in the US. Tahini prices decreased in 2015 as a result of the drop in sesame prices. Prices of packaging materials (plastic containers and lids) fell in 2015 due to bulk discounts granted to the Group and due to the drop in oil prices.

There is no dependence on any supplier in this segment. Agreements with suppliers are signed for different periods, normally up to one year. With a specific packaging supplier (on which the Company is not dependent) the agreement is for a period of up to 4 years.

14.11 Working capital

Following is the composition of working capital, in NIS millions, in the International Dips & Spreads segment in 2015:

	Carrying amount
Operating current assets (*)	**119**
Operating current liabilities (**)	**43**
Excess of current assets over current liabilities	**76**

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

14.12 Material Agreements

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

For additional information see section 14.13a in Part A of the Company's Annual Report for 2013, as published on March 26, 2014 (reference no: 2014-01-023988) and Note 24.4.6 to the Financial Statements of the Company as at December 31, 2015.

b. **Global joint venture with PepsiCo**

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

15. Other Operations

The Group has different business activities that are not included in the above operating segments, in which the income and investments are immaterial, and they are included in the Financial Statements of the Company as at December 31, 2015 in the "Other" segment. These operations include:

15.1 Strauss Water

a. **General information**

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

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

In the past few years there has been a phenomenon of water quality impairment in different parts of the world. Trends such as urbanization, aging water infrastructure and extreme weather changes have increased the damage to drinking water sources in both developed and developing countries. Additionally, consumption of sweetened beverages is on a declining trend as people are shifting to the consumption of water. Consumption of bottled water has continued to grow slightly on the global level thanks to the enduring health concept, the reduction in prices and the use of environmentally friendly packaging.

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

In the UK, the operation consists of the manufacture, marketing, sale and servicing of water bars and is executed in collaboration with Virgin Group, with which a joint venture was established in the UK. For further information, see section 1(15)(k) below. The water bar category in the UK is not developed and private market penetration rates are low. In 2015, the Company's UK operation focused on restructuring the business and consolidating the operating model, as well as expanding the customer base under the Virgin Pure brand.

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

It is noted that until 2015, the operating segment (according to the Group's non-GAAP management reports) also included the turnover of the joint venture with Haier Group (Haier Strauss Water), which is active in water filtration and purification in China. Following the restructuring of this operation, since July 2015 it has been carried out through an associate in collaboration with Haier Group - see section l below.

b. **Products**

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

<u>In Israel</u> – the Group's products are marketed under the leading brand, Tami 4. In 2015, Tami 4 continued to be the strongest water bar brand in Israel.

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

In other countries – in Costa Rica, Portugal, Canada and Cyprus, the brand is Strauss Water or combined with the local company's brand. Sales in these countries are made through a variety of channels such as supermarket chains, direct marketing and e-commerce, and servicing is performed by a local distributor (hereinafter: the **"BPN countries"**).

c. **Competition**

In Israel – the main competitors are companies selling water in bottles and tanks, and companies offering water filtration devices. The main competitors are Mey Eden, Neviot, Electra, Brita and Maayanot, along with additional, smaller competitors. The aggressive competition in household water filtration solutions (the POU category) continued in 2015; the competition grew the category at the expense of mineral water, and the trend of reducing prices in light of higher consumer sensitivity to the price of the appliance and the service persevered. To the best of the Company's knowledge, the Group's market share in the water market for the private sector is approximately 25%. The Group dealt with the competition by recruiting new customers and retaining existing ones, improving convenience and the products offered by the Company, water quality and attractive prices versus mineral water brands.

In the UK – the competitors are companies selling bottled water and water filter pitchers (e.g. Brita). In 2015, the Group focused on recruiting new customers through digital channels and the connection to the Virgin brand.

d. **Seasonality**

Following is information for the years 2015 and 2014 on income from the water segment, by quarter, in NIS millions:

	2015		**2014**	
	Income (NIS millions)	**% of total segment income**	**Income (NIS millions)**	**% of total segment income**
Q1	120	24.9%	137	25.00%
Q2	120	24.8%	136	24.82%
Q3	122	25.3%	136	24.82%
Q4	120	25.0%	139	25.36%
Total	482	100%	548	100%

e. **Customers**

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

f. **Marketing and distribution**

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

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

In the UK – the company advertises on the Internet.

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

g. **Fixed assets and real estate**

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

Nature of the site	Location of the site	Designation of the site	Built-up area	Rights in the site
Production plant	Industrial zone, Kibbutz Netiv Halamed Heh	Logistic center	3,185 m^2	Leased from a third party until January 30, 2018
Offices (in two adjacent buildings)	Or Yehuda Industrial Zone	Management offices, call center, service and sales	7,742 m^2	Leased from a third party until December 31, 2016
Offices and warehouse	Hanley Industrial Park, Pibright road, Gilford, Ireland	Company offices, call center and a warehouse for imported bars	1,412 m^2	Leased from a third party until December 2019
Offices	Shanghai, China	Strauss Water's offices for the purpose of liaising with the joint venture with Haier Group, as set forth in Section 15.l below	210 m^2	Renewable monthly rental from a third party

Nature of the site	Location of the site	Designation of the site	Built-up area	Rights in the site
Offices	Shenzhen, China	Manufacture of products by Strauss Water for the joint venture with Haier Group plus product support, as set forth in section 15.1 beow	200 m^2	Renewable monthly rental from a third party

h. **Research and development and intellectual property:**

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

i. **Human capital**

Following is information on the number of Strauss Water employees (including 263 and 175 employment agency workers), as at December 31, 2015 and December 31, 2014, respectively:

	Number of employees as at	
	Dec. 31, 2015	**Dec. 31, 2014**
Management	9	9
Finance, marketing, HR, IT, R&D and administration	222	232
Sales and distribution	741	691
Procurement and logistics	6	6
Operations	103	92
Total	**1,081**	**1,030**

Following is information on the number of Strauss Water employees by country, as at December 31, 2015 and December 31, 2014, respectively:

	Number of employees as at	
	Dec. 31, 2015	**Dec. 31, 2014**
Israel (*)	1,035	838
UK	29	27
China (**)	17	165
Total (incl. employment agency workers)	**1,081**	**1,030**

(*) The main change in Israel is the result of the improvement and enlargement of the operation of the Customer Service Dept.

(**) The main change in China is the result of the restructuring of the joint venture. 2014 figures included all employees of the joint venture, which in 2015 became an associated company. For further information, see section 15.l below.

j. **Raw materials and suppliers:**

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

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

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

k. **Material agreements**

Joint venture – Virgin

For additional information, see Section 15.1.k(2) in Part A of the Company's Annual Report for the year 2014, as published on March 26, 2015 (reference no. 2014-01-023988).

On November 27, 2015, Strauss Water entered a non-binding memorandum of understanding with Virgin for the amendment of the usage license agreement with respect to the Virgin brand and the shareholders' agreement in Virgin Strauss Water UK. According to the memorandum, payment for the license to use the Virgin brand will be decreased if Strauss Water increases its investment in the company, up to a maximum reduction of 28% in the minimum amount of royalties. The above adjustment method will be applied against an investment and allotment of shares to Strauss Water, and accordingly, the rate of Strauss Water's holding is expected to increase pro rata from approximately 72% to a maximum of 78%. As at the date of this report, the transaction has not yet been closed, and there is no certainty as to its closing. It is noted that Strauss Water has guaranteed the payment of royalties to Virgin.

l. **Material investment in an associate**

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

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

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

To complete Strauss Water's holding in the shares of the company to 34%, in October 2015 Strauss Water paid Haier approximately NIS 30 million. According to the joint venture agreement, Strauss Water has been granted an option to purchase an additional 15% of the Jointly Owned Company in 2017 according to a valuation of the Jointly Held Company that will be based on its financial results for 2016, and in any event will not exceed NIS 90 million. The merged company will purchase the Maze technology products from Strauss Water, and will receive distribution and sale services, as well as servicing from Haier Group companies. See also Note 12.6 to the Financial Statements of the Company as at December 31, 2015.

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

15.2 <u>Max Brenner</u>

The Group manufactures premium chocolate products under the Max Brenner brand which are sold in Israel and in "Chocolate Bars" in Israel and abroad. The Max Brenner brand creates a unique and novel cultural experience of premium chocolate and chocolate beverage consumption. As at the date of the report, the Chocolate Bar chain comprises 61 branches in Israel and worldwide, five of which are owned by the Group and 56 operated through franchisees, as follows: (1) Israel - 8 branches operating under a franchise; (2) US – five branches owned by the Group: in New York, Philadelphia, New Jersey, Boston and Maryland; (3) Australia – 40 branches operating under a franchise; (4) the Far East – four branches in Japan, one in Singapore and one branch in South Korea operating under a franchise; (5) Russia – two locations operating under a franchise.

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

<u>Human capital</u> - as at December 31, 2015, the Group employs 406 employees in the Max Brenner operation, compared to 421 in 2014.

Part IV – Matters Relating to Group's Overall Activity

16. Customers

16.1 Breakdown of sales to customers

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

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

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

b. It is the Group's practice to divide retail customers into the "large customer market", which is characterized by a large number of branches and central purchasing on a relatively large scale, and the "private market". In Israel, the large customer market includes the "organized market" and "large private market". The organized market in Israel includes the large food chains - Shufersal, Mega (for information on Mega having entered a stay of proceedings, see section 8.2 above) and Co-Op Shop (previously known as Co-Op Israel), and the large private market includes Hatzi Hinam, Tiv Taam, Rami Levy, Osher Ad, Victory, Freshmarket, Yohananoff, Machsaney Lahav and Machsaney Hashuk. The Group's products are distributed directly to the various stores or to the logistics centers of large food chains. The Group has commercial agreements with each of the large chains, which are usually renewed each year, or each two or three years, for the entire chain. The Group and the chains are party to various credit terms, according to Group policy.

After the introduction of the Food Law the agreements with retailers were revised according to the law, in order to comply with the limitations of the law in general and with the settlement method with retailers in particular. Thus, for example, prior to the Food Law some retailers were paid a commission for placement of the Company's products on the shelves according to a fixed percentage of sales, whereas after the law entered into effect, this commission was replaced by a placement discount determined in advance as a fixed percentage of actual sales, calculated per product unit invoiced. Furthermore, payments prohibited by the Food Law were eliminated, such as payment for additional logistic costs (mainly the logistics center commission and pallet commission), as well as costs involved in activities to advertise the Company's products to consumers (e.g. advertising in the retailers' leaflets and websites), payment for the purchase of selling space, and payment of bonuses to large retailers for achieving targets. For further information on the Food Law and its impacts, see sections 17 and 25 below and the section "Changes in the Economic Environment" in the Board of Directors report as at December 31, 2015.

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

In Brazil, sales by the Três Corações Joint Venture (3C) are mainly made through direct distribution channels that reaching around 60,000 retail customers. In addition, the company makes sales to AFH customers and to home and electrical appliance stores, where coffee machines are sold.

International Dips & Spreads customers – in the US, dips and spreads are sold and distributed to club chains (giant warehouses specializing in sales of a small selection of brands in large packages at discount prices) which account for 17% of the market; mass merchandisers (large department store chains such as Walmart), which account for 13% of the market; retail chains (national and regional chain stores), which account for 63% of the market; and convenience stores, which account for 7% of the market. The largest customer, representing 10.5% of total

Sabra sales, is the warehouse club chain, Costco. In Australia and Mexico products are sold and distributed in the major chains and in private chains.

c. Following is the breakdown of the Group's total sales (in NIS millions) and their percentage of the Group's total income, by customer type, in 2015 and 2014:

Customer type	**Sales channels – 2015 (*)**							
	Health & Wellness	**Fun & Indulgence**	**Israel Coffee**	**International Coffee**	**International Dips & Spreads**	**Other**	**Total Group**	**% of total**
Large customer market	1,065	407	294	1,127	596	--	3,489	45.7%
Private market	628	413	108	1,364	108	--	2,621	34.3%
AFH	194	109	124	106	48	109	690	9.0%
Other	11	39	121	188	--	483	842	11.0%
Total	1,898	968	647	2,785	752	592	7,642	100%
Customer type	**Sales channels – 2014**							
	Health & Wellness	**Fun & Indulgence**	**Israel Coffee**	**International Coffee**	**International Dips & Spreads**	**Other**	**Total Group**	**% of total**
Large customer market	1,160	448	329	1,077	558	--	3,572	43.9%
Private market	578	366	126	1,648	86	--	2,804	34.4%
AFH	214	152	126	149	39	112	792	9.7%
Other	22	32	108	262	--	548	972	12.0%
Total	1,974	998	689	3,136	683	660	8,140	100%

(*) After the Food Law entered into effect in the beginning of 2015, certain costs were classified as discounts deducted from sales, as opposed to prior years, when similar costs were classified as part of selling and marketing expenses.

d. Geographical segmentation of customers – for a breakdown of sales turnover by geographical region, see Note 27.4 to the Financial Statements of the Company as at December 31, 2015.

16.2 <u>Dependence on customers</u>

In 2015, there were no customers in which respect income from sales accounted for more than 10% of the Group's total income in the Financial Statements, and which loss of one of them would have a material impact on the Group's business results in the medium and long term.

17. Marketing and Distribution

17.1 In Israel (excluding Strauss Water)

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

b. In 2015, relocation to the distribution center in Shoham was completed; the Shoham center serves as a climate controlled logistics center for all of Strauss Israel's categories. The distribution center in Shoham replaces the sites in Petach Tikva, Tzrifin and Bet Shemesh. The move to the logistics center in Shoham allows for an efficient, high quality and friendly work environment for employees, as well as leveraging of the Company's logistics and distribution capabilities, which is likely to facilitate the Company's growth in its current categories and its development in new ones. The Shoham site also includes the sales and logistics offices.

The information in this section as to the likelihood that the Shoham site will facilitate growth in the Company's current categories and development in new categories is forward-looking information, as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated. In practice, it is possible that the Company will not leverage the distribution center as described, among other things due to market conditions, regulation in the food industry, etc.

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

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

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

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

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

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

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

g. The Company has a distribution agreement for dry food products with Shufersal, pursuant to which the Group supplies all of the orders placed by the chain's branches to Shufersal's logistics center, which sees to distribution to the chain's different branches in consideration for payment of a distribution fee.

h. Furthermore, in 2014, the Company signed an additional agreement with Shufersal with regard to the salty snack category, Yad Mordechai products and coffee, pursuant to which Shufersal places a collective order for all products to be delivered to Shufersal's logistic center in Modi'in and is responsible for the day-to-day supply of the orders to its stores. Under the agreement, inventory data and store orders are transferred to the Company via StoreNext's EDI system in favor of the ability to manage sales at store and item levels.

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

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

k. In addition, according to the provisions of the Food Law, a large supplier or a party acting on its behalf is prohibited from engaging in the placement of products in the stores of a large retailer, as well as from dictating, recommending or intervening in any other manner in the placement of products. At the same time, however, the Food Law permits the Commissioner to grant exemption if an application for exemption is filed by a large retailer or supplier. Thus, after the Food Law entered into force, the Antitrust Commissioner granted an exemption (Exemption of Actions and Arrangements Pertaining to Product Placement in a Large Retailer's Store (Temporary Provision) 2014). The exemption allows suppliers to provide placement services to large retailers that satisfy the special provisions in the exemption. In 2015, the Company provided placement services to large retailers entitled to exemption from the provisions of the Food Law, under transitional provisions for 2015-2016. The Company has received written statements from large retailers that satisfy the provisions of the exemption with respect to 2016, and accordingly, it provides placement services to these retailers, as well as to large retailers that have received specific exemption from the Antitrust Commissioner for the receipt of placement services. In addition, until the Food Law took effect, the Company conducted commercial negotiations with retailers with respect to the allocation of selling space in stores for payment. Since the Food Law entered into force, large suppliers are prohibited from dictating, recommending or intervening with retailers in connection with shelf space allocated to their products. Accordingly, large retailers are prohibited from being a party to an arrangement with a large supplier as far as the allocation of any percentage of selling space for any product supplied by the large supplier is concerned. In addition, large retailers are limited in the allocation of shelf space of more than 50% of the total shelf space in each of their stores to products supplied by the "very large suppliers" (over NIS 1 billion in sales per year). The operational significance is that according to the Food Law, the Company is prevented from activity in the selling space that is allocated to its products on the store shelves, in line with the prohibition determined in the law with respect to large suppliers, among which the Company is included, with the exception of a new product launch (as defined in the Food Law). For further information, see section 25 below and the chapter "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015 in Part B below.

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

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

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

Brazil (through "Três Corações Joint Venture" (3C))– the sales and distribution system serves some 60,000 customers representing 300,000 points of sale in the presale method, and is operated primarily by employed distributors and a small number independent distributors, with which the Company contracts as needed. The products are transported by trucks owned by the "Três Corações Joint Venture" (3C)and external suppliers' trucks, as needed. Delivery times range from 24 hours to 7 days, depending on the location of the point of sale (the long delivery times are relevant for points of sale located in remote rural regions).

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

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

18. Consumer Relations, Advertising and Marketing Communications

In the course of 2015, the Group took an additional step in adapting and changing communication and marketing processes and stakeholder relationship management in a manner that places emphasis on direct communication and dialogue, increased availability in service processes in Strauss Water and in the Israel Operation, and adapting marketing processes to the spirit of the times, with emphasis on enlarging consumer value. As part of the change, a broad concept was defined and assimilated for managing the relationships of the Group and its businesses with all stakeholders, in which context the Company maintains formal processes for the assimilation of a barometer (a feedback tool) that reflects stakeholder perceptions of the Company. Within this concept, the Company assimilates considerations of stakeholder needs and expectations as an integral part of business decision making processes, and as a substantial factor in decisions. Additionally, a Responsible Marketing Charter was formulated and assimilated, emphasizing the relationships through which the Group conducts a dialogue with the consumer while highlighting the product aspect (aspiring to the finest ingredients in each category, responsible labeling, providing a solution to the needs of special populations, etc.), the communication aspect (responsible advertising and marketing communications, fair advertising to children, taking care to avoid deception, encouraging a healthy lifestyle, etc.) and the pricing aspect.

In addition, the Group continues to invest in building and reinforcing its brands, expanding its investment in brand building on digital platforms that allow for direct and accurate dialogue as well as the receipt of feedback and consumer insights, development of brand building capabilities on the digital shelf (e-commerce), broadening direct dialogue channels with consumers, creating direct channels such as the mobile-based Strauss Plus loyalty club, consumer service that is available via social media channels (in the Israel Operation and in Strauss Water) and also through dedicated applications for ordering a service technician in Strauss Water, etc.

In addition, in 2015 the Strauss Plus application platform was launched as a loyalty program, affording the Company better acquaintance with and understanding of consumers in a direct format, as well as the ability to directly compensate consumers who continuously and increasingly choose the products of the Company across the variety of its categories.

Furthermore, the percentage of the Company's investment in advertising on digital channels was increased, and a considerable portion of brand-related content is communicated via digital media and assets. The Group also continuously reviews digital-based technologies which will allow it to broaden the dialogue with consumers or to increase the value and transparency of its products - issues that were found to be relevant in the dialogue with the Company's stakeholders.

The Group's advertising expenses (including accessories, market surveys and packaging design) in NIS millions, in the years 2015, 2014, and 2013, are as follows:

	2015 (*)	**2014**	**2013**
Israel Operation	136	175	189
Coffee Operation	166	237	224
Other	133	127	113
Total	435	539	526

(*) Following the introduction of the Food Law in early 2015, certain costs were classified as discounts deducted from sales, as opposed to prior years in which similar costs were classified as part of selling and marketing expenses.

19. Fixed Assets, Real Estate and Facilities

<table>
<tr><th>Nature and location</th><th>Site designation</th><th>Built-up area</th><th>Rights in the site</th><th>Liens</th></tr>
<tr><td>Office building in Yanai Park, 49 Hasivim Street, Petach Tikva (Building 3 and 4)</td><td>The Group's Head Management offices</td><td>Ground floor plus nine floors above, basement space and parking places</td><td rowspan="2">A right to be registered as the owner. A cautionary note is registered on the asset in favor of the Company, and mortgages and pledges on the sellers' rights in the assets are also registered in favor of the Company. In the agreements, the sellers undertook to complete the registration of the rights in these assets in their name; however, as at December 31, 2015, said registration has not yet been completed.
The agreement contains provisions intended to assure registration of the condominium and the rights of the Company; inter alia, the Company was given an irrevocable personal guarantee by the individuals of the sellers to secure the sellers' obligation to the register the condominium. Furthermore, according to an addendum to the purchase agreement of Buildings 5 and 6, an amount of NIS 10,000,000 was deposited to secure registration of a lease for 999 years in favor of the Company with respect to Buildings 5 and 6 should the Company so request, under the terms and conditions determined by and between the parties.</td><td rowspan="2">--</td></tr>
<tr><td>Office building in Yanai Park, 49 Hasivim Street, Petach Tikva (Building 5 and 6)</td><td>In November 2014, office floors 1-8 in Building 5 were sold to an unrelated third party. In January 2016, the 4th floor in Building 6 was sold to an unrelated third party.
As at the date of this report, the commercial part of Building 5 and the rest of Building 6 are held for sale. For further information, see Note 16.2 to the Financial Statements of the Company as at December 31, 2015.</td><td>Commercial ground floor with a gallery above plus eight office floors, basement space and parking places</td></tr>
</table>

For further information on the Group’s real estate properties, which are not attributed to a specific segment, see Notes 16.2 and 25 to the Financial Statements of the Company as at December 31, 2015.

20. Research and Development

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

In 2015, the Group continued to develop innovative health-oriented products, improve and streamline manufacturing processes, develop alternative energy consumption, develop raw material sources, protect the environment and develop new packaging which will improve the preservation of product quality and freshness. The technological response to the Group's needs is provided by tech teams consisting of the development people in the business units and engineering and technology teams in the plants. In addition, a professional team was established, comprising the various disciplines, in Group management, with the aim of boosting the Group's technological leadership. The team engages in building infrastructure for processes relating to management, professional promotion, accreditation programs, dedicated training programs, development tracks, performance measures and enhancement of the recruitment profile.

The Group strives to identify, develop and assimilate breakthrough technologies. To this end, the Alpha Strauss FoodTech Community was established, which actively connects the Group to researchers, inventors, entrepreneurs, academic institutions, venture capital funds and government research institutions. The community was established in the understanding that connecting Israel's vast brain trust with the Group's know-how and assets (brands, manufacturing sites, etc.) and its ability to turn technologies into products is of great value to all community participants. In 2015 numerous new technologies were examined and over 20 projects executed. In addition, several groundbreaking projects were launched with the support of the Chief Scientist in the Ministry of Economics. The projects examined different technologies with value to the technological aspects of the Group's products, raw materials, manufacturing processes, unique ingredients, quality control and assurance processes, packaging, energy, wastewater and ingredients with health benefits.

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

The information in this section regarding the incubator's plans to host several innovative ventures each year and lead them to fundraising within two years is forward-looking information, as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated. In practice, there is no certainty with regard to the number of start-ups which the Company will host each year, including the date on which the startups will be ready for investment, among other things due to their maturity, their suitability to the project and market conditions.

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

In the Company's opinion, the total financial resources invested in 2015 in the development of new flavors and products, new packaging and enhancing the efficiency of work processes, projects relating to breakthrough technologies, etc., amounted to NIS 68 million compared to NIS 76 million in 2014.

21. Human capital

21.1 Organizational structure

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

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

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

** The CEO of Brazilian Três Corações Joint Venture (3C) reports to the board of directors of the joint venture in Brazil.

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

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

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

e. The functions included in the Group corporate center are: Finance (accounting, economics & control, investor relations, treasury, real estate, insurance and risk management); IT; Human Resources; Legal Department & Company Secretary; Corporate Responsibility; Communications & Spokesmanship; Strategy & Business Development; and the Chairperson's and CEO's Offices.

For information on the number of employees in the Group corporate center in the years 2015 and 2014, see section 21.2.b below.

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

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

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

The central units (sales, supply chain, finance and human resources) provide professional services to the business divisions. The sales division is responsible for the sales and distribution system that handles all of the Group's products in Israel and services all of the Group's retail customers in Israel.

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

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

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

It is noted that in July 2015, the Company made a structural change in the Israel Operation with the objective of assuring business accuracy, improved efficiency, quickness of response and cost reduction. Accordingly, the CEOs of the business divisions undertook the direct management of the manufacturing sites of the business divisions, as well as responsibility for the management of the industrial array in the business division, as described above, which prior to the change were concentrated in the operations division. Furthermore, the operations division's head office was combined with supply chain division in order to boost the synergy between the operations and supply chain disciplines.

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

. Each company maintains separate headquarters in line with the activity carried out by the respective company.

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

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

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

21.2 Headcount

a. In total, the Group employs 13,998 and 13,957 employees as at December 31, 2015 and December 31, 2014, respectively (including 1,363 and 1,140 employment agency workers as at December 31, 2015 and December 31, 2014, respectively). Headcount includes all employees in the Group, including jointly controlled companies.

b. Following is the number of employees in the Group’s corporate center in Petach Tikva, including 6 and 5 employment agency workers as at December 31, 2015 and December 31, 2014, respectively.

	Number of employees as at December 31, 2015	Number of employees as at December 31, 2014
Corporate center employees	165	178

c. Following is the number of Group employees in the head offices of the Israel Operation, the sales division and the supply chain division, who serve the Group's entire activity in Israel, including 157 and 126 temporary employment agency workers, as at December 31, 2015 and December 31, 2014, respectively.

	Number of employees as at December 31, 2015	Number of employees as at December 31, 2014
Employees of the head offices of the Israel Operation, sales division and supply chain division	1,615	1,534

d. The Group employs 10,830 employees, excluding half of the employees of proportionately consolidated companies, according to management (non-GAAP) reports (jointly, the companies in the Group employ 13,998 employees, about half of them in Israel, as mentioned in section 21.2.a above). The Group employs 7,661 employees in companies controlled by the Group (according to the GAAP financial statements).

21.3 Social benefits and employment agreements

Israel

Most of the Group's employees in Israel are employed under collective agreements. There are general collective agreements which apply to all employees of the Group by virtue of the Group companies' membership in the Manufacturers Association of Israel, which relate to wage conditions, contributions to pension insurance plans, convalescence pay, reimbursement of travel to and from work, and payment of a cost-of-living increment. Additionally, there are collective agreements, some of them updated from time to time, that apply to part of the Group's employees in Israel due to their professional attribution to the instant coffee industry or the chocolate and confectionery industry. Furthermore, there are certain terms in special collective agreements that were signed at the Group's various production plants and apply to the workers employed by that respective plant, all or part thereof, which are revised from time to time in negotiations between the workers' committees and the management of each plant. In 2013 agreements were signed in two of the Group's plants in Israel and in 2014 agreements were signed in three additional plants. The agreements include wage increases, seniority increments, and special welfare conditions unique to each site. In 2015 a first collective agreement was signed in Strauss Water, applying to employees and team leads. The agreement is valid for four years and it includes mechanisms for dismissal, salary updates and accompanying benefits.

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

In Israel, the Group's obligations to make pension contributions for employees are stipulated in general collective agreements with respect to a comprehensive pension plan in the industry, which apply to the Company by virtue of its membership in the Manufacturers Association of Israel and under the Pension Agreement of January 2008 between the New Histadrut Labor Federation and the Coordinating Bureau of Economic Organizations, regarding employers' pension obligations. Company employees may choose to deposit the pension contributions in pension funds or insurance policies/ provident funds, as they are defined in the Control of Financial Services (Provident Funds) Law, 2005. It is noted that pursuant to Israeli law, each employee has complete freedom of choice of the form of pension insurance (a pension fund or insurance policy/provident fund) as well as the insurer. The Company has also signed agreements with different pension funds, which govern their relationship with regard to employees' insurance with pension/provident funds. In the past few years, the Company increased the employees' choice options regarding pension funds and advanced study funds, and also signed agreements with some of the funds for the reduction of management fees.

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

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

Outside Israel

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

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

In Brazil, the "Três Corações Joint Venture" (3C)is subject to the collective agreements in effect in each state where it operates. There is no uniform general collective agreement applicable to all of the company's employees. However, each state has regional trade unions organized on the basis of occupation (drivers, production workers, etc.).

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

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

21.4 **Investments in training and the development of human capital** – the Group provides internal and external training for its employees in Israel and overseas on a regular basis, according to their jobs and the needs of the Group; personal and team development under the professional supervision of external consultants, workshops and dedicated professional courses across the entire organization. Among other things, the Group sends its professional employees to trade fairs, study days and seminars on diverse subjects. The Group also encourages employees to attend academic studies in fields that interface with their areas of work in the Group and contributes to financing these studies. Furthermore, the Group has developed a model that defines the core competencies required of managers (a leadership development program) in order to achieve the Group's business objectives. Management levels in the Group are trained according to the model and the managers are subsequently evaluated on its basis each year. New employees inducted in the companies of the Group attend orientation sessions designed to connect them to the Company's tradition and history, its values and vision, code of ethics, products and brands. New managers also learn about the organizational processes (performance management, core competencies evaluation, etc.). A training portal is available to Company employees, providing access to information on various training options within the organization and professional contents.

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

21.6 **Employee loans** – the Group enables employees (in some of its companies) to receive loans according to Company procedures, which take the employee's salary and seniority into account. Loans to the Group's employees in Israel are linked to the Consumer Price Index and bear interest according to the rates prescribed in the Income Tax Ordinance. In certain countries it is prohibited to charge employees interest. The repayment period of loans in the Group is up to five years. Loans of a certain amount and above are secured by promissory notes, signed by guarantors. The outstanding balance of employee loans as at December 31, 2015 is NIS 7 million. In Brazil, there is an arrangement with banks for the grant of loans to employees through the banks.

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

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

21.8 **<u>Officers and managers</u>**

a. **Option plan** – for details on the senior officers' option plan of May 2003, see Note 23 to the Financial Statements of the Company as at December 31, 2015.

b. **For details on an international plan for the allotment of non-marketable options** to senior employees of Strauss Coffee, exercisable into shares of Strauss Coffee, and where, in a specific case of TPG's buyout by the Company, equivalent options of the Company may be awarded in respect of stock options that have not yet vested, see Note 23.4 to the Financial Statements of the Company as at December 31, 2015.

c. **Management incentive** – the incentive for managers is based on the accomplishment of financial budget objectives of the Group or of the relevant operation, accomplishment of the manager's functional objectives, plus a discretionary incentive. For the provisions of the remuneration policy for officers of the Company, and among other things with respect to officers' incentives (including discretionary bonuses and special bonus), see the Immediate Report of June 17, 2014 (reference no. 2014-01-092841). For additional details on the executive remuneration and incentivization policy, see article 21 in the chapter "Additional Information on the Company" in Part D of this report.

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

22. Financing

22.1 General

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

For details regarding the Company's bank and non-bank loans, including debentures issued by the Company, see Notes 20.2-20.4 to the Financial Statements of the Company as at December 31, 2015.

22.2 Following is the average interest rate and the rate of effective interest on bank and non-bank loans, which are not designated for special purposes by the Group, in effect during 2015:

	Short-term loans	Long-term loans	Average rate
Group corporate center			
Bank loans	--	5.11%	5.11%
Non-bank sources (*)	--	4.12%	4.12%
Israel			
Bank loans	--	2.90%	2.90%
International Coffee			
Bank loans	5.84%	7.16%	6.25%

International Dips & Spreads			
Bank loans	**1.65%**	**--**	**1.65%**
Other			
Bank loans	**3.10%**	**3.44%**	**3.43%**
Non-bank sources	**--**	**4.25%**	**4.25%**
Average interest rate	**5.21%**	**4.21%**	**4.30%**

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

22.3 Reportable credit

For information on Debentures (Series B) and Debentures (Series D) issued by the Company, see Notes 20.3, 20.4 and 20.6 to the Financial Statements of the Company as at December 31, 2015.

22.4 Limitations applying to the receipt of credit

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

In this context the Company has undertaken to comply with two financial covenants, based on the Company's (GAAP) Financial Statements: the ratio of shareholders' equity (excluding non-controlling interests) to total assets shall be no less than 20%, and the net financial debt to EBITDA ratio shall be no more than 4. As at the date of publication of this report, there have been no material changes in the financial covenants. As at December 31, 2015 and as at the date of publication of this Periodic Report, the Company is in compliance these covenants. For further information on the Company's compliance with the above financial covenants, see the Board of Directors' Report in Part B below, in the section "Reportable Credit". For information on the Company's undertaking to the holders of Series D Debentures to comply with the financial covenants, see Note 20.6 to the Financial Statements of the Company as at December 31, 2015.

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

22.5 **Credit received between the date of the Financial Statements and on or about the date of the Periodic Report**

In the period between December 31, 2015 and on or about the date of the Periodic Report, credit in an amount of NIS 100 million was received, according to the Company's managerial (non-GAAP) reports.

22.6 **Credit facility drawdown:** Of the Company's credit facilities, which are not anchored in writing and are not secured by the banks, and which on or about the date of the report amounted to approximately NIS 2,587 million (in the proportionate consolidation method, i.e., in regard to companies under joint control, with respect to the Company's share in the holdings of the joint venture), as at said date the Group has utilized an amount of NIS 938 million.

22.7 **Floating-rate loans:** The following table presents the Group's floating-rate credit in 2015:

	Change mechanism	Interest range	Amount of credit as at Dec. 31, 2015 (NIS millions)	Interest rate on or about the date of the report
Group corporate center	**Dollar – LIBOR**	2.61% - 2.26%	22	2.63%
International Coffee	**Real – TJLP/TR/CDI**	15.32% - 7.0%	56	15.32% - 7.0%
International Coffee	**Dollar – LIBOR**	1.45% - 1.22%	52	1.72% - 1.10%
International Coffee	**Ruble**	14.06%-31.26%	6	13.4%
International Dips & Spreads	**Dollar – LIBOR**	1.64%-1.99%	39	2.01%
Other	**Dollar – LIBOR**	2.31% - 1.96%	28	2.33%
Other	**NIS – Prime / on call**	4.10% - 2.30%	108	4.10% - 2.30%

22.8 **Credit rating**

On August 20, 2014, Maalot reaffirmed the ilAA+ rating with stable outlook for the outstanding Series B and Series D Debentures. See the Company's Immediate Report dated August 20, 2014 (reference no. 2014-01-138189).

On April 30, 2015, Midroog published a report downgrading the outstanding Series B and Series D Debentures to Aa2 with stable outlook. See the Company's Immediate Report dated April 30, 2015 (reference no. 2015-01-009324).

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

22.9 For liens and guarantees in respect to finance agreements see Notes 24.3 and 24.2 to the Financial Statements of the Company as at December 31, 2015.

23. Taxation

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

For details, see Notes 35.1 and 35.2 to the Financial Statements of the Company as at December 31, 2015.

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

For details, see Notes 35.4 and 35.7 to the Financial Statements of the Company as at December 31, 2015.

Disputed assessments in countries outside Israel – the Três Corações joint venture received assessments for tax years not yet subject to prescription, pursuant to which it is required to pay approximately NIS 82 million (the Company's share) over and above the amount included in current tax payments for those years. The Três Corações joint venture rejects the tax authority's demand. In the Company's estimate, based on the opinion of its consultants, the existing provisions in the subsidiary's books of account are sufficient. For information on claims by the tax authorities in Brazil, see Note 24.1.3.4 to the Financial Statements of the Company as at December 31, 2015, in Part C below.

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

For details, see Notes 35.1 and 35.3 to the Financial Statements of the Company as at December 31, 2015.

<u>Tax benefits in countries outside Israel where the Group operates</u>: In respect of its activity in northeast Brazil, the Três Corações joint venture is entitled to tax benefits: (1) a reduced corporate tax rate on part of the taxable income, up to the maximum amount determined by law; (2) tax rebates on tax collected. The tax benefits received by the Três Corações joint venture in 2015 amounted to BRL 42.8 million (100%). The Três Corações joint venture's tax reports for part of the years in which the Três Corações joint venture filed for tax rebates are being reviewed by the tax authorities. For information on claims from the tax authorities in Brazil, see Note 24.1.3.4 to the Financial Statements of the Company as at December 31, 2015 in Part C below.

23.4 The primary tax rate compared to the Company's effective tax rate: For information on the tax rate, see Note 35.9 to the Financial Statements of the Company as at December 31, 2015.

23.5 Unused losses for tax purposes and unused tax credits: For deferred taxes in respect of losses, see Note 35.10 to the Financial Statements of the Company as at December

31, 2015. For losses in which respect no deferred taxes were recorded, see Note 35.5 to the Financial Statements of the Company as at December 31, 2015.

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

24. Environmental Issues

24.1 General environmental risks inherent in the Group's business activities

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

a. **Wastewater treatment** – considerable amounts of water and detergents are used in the Group's production sites that contain, among other things, organic substances, oils and sodium, which are liable to increase the pollutant concentration in wastewater and to cause odor and sanitary nuisances. This wastewater is required to be treated, *inter alia*, due to the policy of recycling wastewater for irrigation in Israel, which necessitates high-quality purification of wastewater to render it fit for use in irrigation.

b. **Air pollution** – energy is consumed in the Group's sites for its manufacturing operations (use of steam boilers and ovens) and as part of day-to-day activities (use of electricity and fuel consumption for the distribution of the Group's products), as well as the use of Freon and ammonia refrigerant fluids in part of Group's units. In addition, in the coffee sites there is nonpoint fugitive dust, dust which is released into the air as a result of unloading green coffee and roast coffee production. These processes and uses are liable to cause air pollution, emission of greenhouse gases and damage to the ozone layer.

c. **Soil pollution and contamination of water sources** – leakage of hazardous materials used by units of the Group (such as acids, alkalis, oils, fuels and raw materials) as a result of defective storage is liable to pollute the land and water sources. In addition, the potential for the pollution of rivers and streams exists in some of the units abroad (especially in production sites located on river banks) where wastewater is liable to penetrate a nearby river or stream.

d. **Waste of natural resources (energy and water resources)** – uncontrolled industrial activity causes excess use of energy and water resources which leads to damage to the ecological balance, the waste of natural resources and the emission of greenhouse gases. This problem is common to all the Group's sites worldwide. Failure to save water is liable to intensify the condition of Israel's water economy and to cause salinity and pollution of Israel's sparse water sources. In the Group's plants abroad water consumption is not a critical aspect, as these countries are water rich (in Brazil and in Serbia there is a well in each site).

e. **Waste treatment** – by nature, industrial activity generates large amounts of waste. Defective treatment of waste such as improper burial or transferring waste for landfill rather than reusing it is liable to cause land and water pollution, use up land reserves and impair potential recycling efforts.

24.2 Environmental laws and regulations applying to the Group

The Company's activities in Israel are subject to environmental regulations, the main ones being:

a. **Wastewater treatment** – the Public Health Regulations (Effluent Quality Standards and Wastewater Treatment Rules), 2010 determine standards for the quality of treated wastewater and supervisory mechanisms to enable the reuse of treated effluent as a water source, to prevent the pollution of water sources by wastewater and to protect the environment; the Licensing of Businesses Regulations (Salt Concentration in Industrial Waste), 2003 determine permissible values for the concentration of polluting salts in wastewater transferred from a production site to a purification plant; the Water Regulations (Prevention of Water Pollution) (ph Values of Industrial Sewage), 2003, prescribe the maximum permissible values that may be transferred to the sewage system in order to prevent system corrosion; The Water and Sewerage Corporations Law, 2001 and the rules prescribed thereunder, including the Rules of the Water and Sewerage Corporations (Tariffs of Water and Sewage Services and the Construction of Water or Sewage Systems), 2009, which prescribe special tariffs for the violation of effluent quality standards as defined in the Sewage Quality Rules; Rules of the Water and Sewerage Corporations (Plant Wastewater Discharged into the Sewage System), 2014 ("Wastewater Quality Rules"), which, on July 1, 2014, replaced the

Rules of the Water and Sewerage Corporations (Plant Wastewater Discharged into the Sewage System), 2011, which had applied to the Company until that date.

These rules govern the treatment and discharge of plant wastewater and define "wastewater prohibited from discharge into the sewage system" and "exceptional wastewater", according to the concentration of pollutants in the wastewater. Effluent quality rules prescribe a mechanism for mitigations in the discharge of "exceptional wastewater" by water and sewerage corporations and allow for renewed approval by the Government Water & Sewerage Authority of past agreements regarding wastewater treatment, which were signed with wastewater treatment plants or water and sewerage corporations, prior to the entry into effect of these rules.

It is noted that among the provisions that were amended or added to the rules, which entered into effect in July 2014, the provision of section 16(c) was added, which allows water and sewerage corporations to impose charges in respect of wastewater discharge, even in cases where the discharge was made in accordance with mitigations granted to production plans in the framework of permits or licenses held by the plant, contrary to the provisions of the rules of 2011. This provision exposed many plants, including some of the Company's plants, to the risk of substantial charges by virtue of the rules in cases where the plants are unable to reduce the levels of discharge in which respect the mitigations were granted, as the rules require. On December 28, 2014, the Manufacturers Association of Israel filed a petition against the Government Water & Sewage Authority with the High Court of Justice, contesting the validity of the 2014 rules. In the petition, among other things the court was asked to issue an interim order to suspend the abovementioned section 16(C). The court acceded to the motion to issue an interim order to suspend the validity of section 16(C) of the 2014 rules.

The significance of the court's decision is that at this stage and until the ruling by the court, the authority of the water and sewerage corporations to impose penalties in cases where wastewater was discharged in accordance with mitigations granted to the plant under permits or licenses held by the plant has been suspended. It is noted that as at the reporting date, no charge has yet been imposed on the Company by virtue of this section.

Plans for the monitoring and control of wastewater were defined for the Company's sites, including its production facilities, by the water and sewerage corporations or regional councils (where there is no corporation), according to sewage quality rules. Some of the sites have received approval from the corporation for discharging exceptional wastewater, and the plants are charged an additional payment that expresses the additional cost of treating the wastewater, in respect of the exceptional wastewater.

b. **Air pollution and damage to the ozone layer** – the Clean Air Law, 2008, and the regulations enacted thereunder, are intended to bring about an improvement in air quality in order to protect the life and health of individuals and protect the environment. The law deals with many aspects of air quality, and among other things imposes an obligation on the various industrial sectors enumerated in it to obtain emission permits as a condition for their continuing operation, according to the dates prescribed in the law for each sector. For operations that are not enumerated in the law and involve emissions of contaminators into the air, relevant provisions will be determined in the plant's business license. The Company’s sites are not required to obtain such an emission permit, and the provisions on the subject of the emission of pollutants into the air are assimilated, where necessary, in the business licenses of the Group's plants. The Hazardous Substances Regulations (Application of the Montreal Protocol on Substances that Damage the Ozone Layer), 2004 determine limitations on the manufacture, consumption, import and export of controlled substances due to the damage they cause to the ozone layer.

c. **Soil and water pollution** – The Water Law, 1959, prohibits contamination of water sources; the use of hazardous materials in units of the Group is subject to the Hazardous Substances Law, 1993, which regulates the manner of handling poisons and harmful chemicals, and governs the grant of poison licenses to the plants. Some of the Group's sites use and store hazardous materials for the purpose of cleaning and treating wastewater. All of the Group's sites keeping hazardous materials that require a poison license are in possession of a valid poison license by virtue of the Safety at Work Regulations (Safety Data Sheet, Classification, Packing, Labeling and Marking), 1998, which dictate the method of working with hazardous materials and the manner of their storage.

Separation distances in stationary hazardous sources policy - a circular from the Director General of the Ministry of Environmental Protection on the subject of "Separation Distances in Stationary Hazardous Sources Policy" was published in October 2011 and updated by the Ministry of Environmental Protection in March 2014. The circular deals with the appropriate separation distances between "stationary hazardous sources" and "public receptors" (population concentrations) and defines methodology for determining the appropriate separation distances in planning procedures and in an existing situation. In general, separation distances will be determined in accordance with the type of hazardous materials that are found in the hazardous sources, and these include, among others, sites using ammonia and Freon type gases, as is the case in some of the Company's sites. If there are public receptors within the range of the separation distances, the plants will be required to take action to reduce the risk, for example by installing passive measures, reducing the quantities and concentration of the hazardous materials, etc.

Three of the Company's sites were required by the Ministry of Environmental Protection to submit risk surveys for the examination of separation distances from public receptors. Two of the sites completed the process in 2014 and received approval of the risk survey from the Ministry of Environmental Protection. The third site is the production site in Safed, which was closed in early 2014, and the process was therefore not completed at this site.

In 2015, construction of the Company's new logistics center in the Shoham industrial zone was completed. In the site's environmental document, filed as a condition for the building permit, separation distances from public receptors were examined. In the last quarter of 2015, a review of the separation distances from public receptors in the Company's distribution center in Petach Tikva was submitted to the Ministry of Environmental Protection (the Company's operations in this distribution site were terminated upon relocation to the logistics center in Shoham).

As at the date of the report, there is a proposal for the Prevention of Land Contamination and Remediation of Contaminated Land Law, 2011, which imposes extensive obligations on an owner/holder of land and on parties causing land contamination. To the best of the Company's knowledge, this is a bill and there is no certainty as to the final version that will ultimately be passed, if and to the extent that it is passed.

In addition, in February 2015, following the receipt of the public's comments on the draft, which was published in May 2014, the Ministry published a policy paper regarding contaminated land. The principles set forth in this document reflect the policy implemented by the Ministry in practice, as reflected, among other things, in the environmental terms and conditions attached to the business license and poison licenses issued by the Ministry, as well as in other actions it takes, in accordance with the power granted to the Ministry under applicable laws and based on the "the polluter pays" principle. The land contamination policy is in the spirit of the above bill, but does not reflect all the arrangements.

In addition, in the past year the Ministry of Environmental Protection issued professional guidelines on the treatment of contaminated soil and updates to current guidelines.

d. **Waste of natural resources (energy and water)** – the Energy Resources Regulations (Monitoring Energy Consumption Efficiency), 1993 define the appointment of a supervisor to advance the efficient consumption of energy and describe the supervisor's duties. Such qualified supervisors are active in the Company's sites in Israel.

e. **Waste treatment** – the Maintenance of Cleanliness Law, 1984 and regulations define the removal of waste to sites that are licensed according to the type of waste. The Packaging Management Law, 2011, (**"the Packaging Law"**) defines the manufacturers' responsibility for the treatment of packaging waste, defines recycling targets for various packaging materials, and defines the reporting mechanisms regarding quantities and types of packaging waste.

The Company in Israel has established a system of measurement, reporting and control for the packaging of products that are dispatched to the market in accordance with the obligation to report on packaging waste, which applies to the Group under the Packaging Law. The Company sits on the board of directors of the Tamir Recycling Corporation, has signed contracts with Tamir as a producer of packaging waste and is compliance with all requirements of the Packaging Law. The coffee plants outside Israel collect packaging for recycling according to the requirements of local regulation. It is noted that most of the Group's sites outside Israel are subject to local regulation concerning the recycling of packaging.

The Environmental Treatment of Electrical and Electronic Equipment and Batteries Law, 2012, (hereinafter: "**the Electronic Waste Law**"): The law, which entered into effect on March 1, 2014, determines arrangements with respect to the environmental treatment of electrical and electronic equipment and batteries, *inter alia*, by way of imposing expanded liability on manufacturers and importers of electrical and electronic equipment and batteries for recognized recycling of equipment and battery waste, as per the targets stated in the law. The law obliges manufacturers and importers to engage with a recognized organization for the purpose of fulfilling their legal obligations, and they are required to finance all costs of removing and treating electronic waste. The law further obliges all parties in possession of business electronic waste (which are not private households) to contract with a recognized organization for the disposal of the electronic waste in their possession. The Group in Israel has contracted with Ecommunity in order to fulfill its obligation.

f. **Registration and reporting duty** – The Environmental Protection Law (Emissions and Transfer of Contaminants – Duty of Reporting and Registration) 2012 (the **"PRTR Law"**), defines mechanisms for the public reporting of emissions into the environment of land, air and water contaminants as well as wastewater. The Strauss Dairy in the Bar Lev Industrial Park and Yotvata Dairies, both part of the Group, which are required to report pursuant to the PRTR Law, are compliant with the law.

g. **Integrated environmental licensing**

In September 2015, a memorandum of law, Integrated Environmental Licensing, 2015, was filed for comments by the public. The objective of the law is to concentrate the treatment of environmental aspects under the responsibility of the Environmental Protection Ministry vis-à-vis production plants, in a detailed and consolidated licensing process that requires the implementation of the best available technology (BAT), meeting minimum emission values, etc. The law is to replace the method that was previously in practice, in which each environmental permit (wastewater, air pollution, noise, waste, etc.) was handled separately by different parties on different dates, using different, unrelated methods. Generally, the memorandum distinguishes between three levels of plants, according to the degree of their environmental impact. Level A and B plants will be subject to integrated licensing as specified in the memorandum, while Level C plants will be addressed through specifications of uniform conditions in their business license, according to the type of operations.

In December 2015, the draft Israeli Standard 6464 was published - Requirements for Natural Gas Consumption in Industrial Facilities. The purpose of this standard is to allow the use of natural gas in industry, and assist in connecting the industry to the gas delivery system. The Company is reviewing the draft standard and is preparing for the reception of natural gas at its sites, according to the national schedules of the Natural Gas Distribution Authority.

h. **The Group's production plants abroad** - are subject to local environmental provisions of law, according to the rules and laws of each country and to local municipal legislation applying in the locations where the overseas sites of the Group are situated. The production sites in EU member states are subject to European environmental directives. In Brazil, national regulation is determined by two entities: CONAMA and IBAMA, which both have the authority to determine and enforce regulation; CONAMA defines professional requirements and IBAMA enforces them (and prescribes requirements with respect to the manner of implementation and control). Similar to Israel, the plants are required to comply with both the laws of the countries in which the plant is situated and with the municipal bylaws of the authority in which the plant is located. In addition, plants are required to hold an operating license, approval from the Ministry of the Environment, and in a large part of the sites – a permit to hold hazardous materials and a license to use well water. A similar law to the Packaging Law has been enacted in the various European countries and in Brazil, and as a consequence, the Group’s coffee manufacturing plants in Europe and "Três Corações Joint Venture" (3C) coffee manufacturing plants in Brazil are also subject to a regulatory obligation to treat packages vis-à-vis local packaging recycling corporations. The coffee plants outside Israel operate according to local directives with regard to the separation and recycling of waste at the sites. The subject is highly developed in the various sites in Europe.

24.3 <u>Major environmental events</u>

a. <u>In Israel</u>

New distribution center in Shoham - in 2015 the Company completed the construction of a new distribution center in Shoham. The new distribution center was built while planning for the reduction of the Company's environmental impacts. A system for the separation of waste types was built on site for optimal recycling. The destruction of product rejects, which are liable to create a wastewater overload, is not executed at the site. Product rejects are collected and removed from the site and delivered to a supplier that manufactures animal feed from these remnants. Several pits were included in the rainwater drainage area, approximately 12 meters in depth, so that the rainwater (clean upper runoff) will be absorbed by the ground. The distribution center was planned for optimal energy utilization and saving.

Strauss Water - In 2015, Strauss Water launched a joint venture with the Israel WEEE Recycling Corporation for the recycling of electronic waste. In this venture, infrastructure was built for collecting and recycling filters and lamps of Strauss Water bars at hundreds of points in stores of the major retail chains throughout the country.

Strauss Dairy in the Bar Lev Industrial Park - in December 2014, the Company filed an application with the Mateh Asher Regional Council to discharge exceptional wastewater (phosphorus and nitrogen) requiring approval according to the Rules of the Water and Sewerage Corporations (Plant Wastewater Discharged into the Sewage System), 2014 (the **"Rules"**). It is noted that the Company has an innovative facility enabling wastewater treatment of far better quality than that required by the relevant regulation. However, at the time the facility was built, the Rules of the Water and Sewerage Corporations (Plant Wastewater Discharged into the Sewage System) defining maximum values for concentrations of nitrogen and phosphorus in wastewater had not yet been determined. As a result, the existing facility is not planned for the treatment of nitrogen and phosphorus, and mitigation has been requested in the values discharged by the Company to the municipal sewage system.

It is further noted that according to the Rules, an application to discharge exceptional wastewater which was not acceded to by the water and sewerage corporations (in the matter at hand - the Mateh Asher Regional Council) within 60 days from having been submitted may be regarded as approved. Only in April 2015, i.e. after more than 60 days had passed, the Company received the Council's response to its application, stating that the application had been rejected due to the refusal of the Acre Wastewater Treatment Institute, which claimed that it was incapable of treating wastewater containing the values requested by the Company.

Notwithstanding the foregoing and in order to further a practical solution through cooperation with the Council, the Company reapplied to the Council and to the Environmental Commissioner in the Ministry of Environmental Protection, referring in detail to the reasons justifying approval of its application, including the fact that the period granted to the Council to reject the application had expired.

In a hearing held by the Environmental Commissioner in the Ministry of Environmental Protection, it transpired that according to the data in the Wastewater Treatment Institute and the effluent quality at the point of exit from the facility the Company's application could be approved; however, due to a financial dispute between the Wastewater Treatment Institute and the Regional Council, the Institute refused to receive wastewater of the values requested without financial indemnification from the Council, due to the concern that this discharge would cause it to be non-compliant with the Public Health Regulations (Effluent Quality Standards and Rules for Sewage Treatment), 2010.

In November 2015, following an additional discussion held at the initiative of the Ministry of Environmental Protection with the participation of the Water Authority, representatives of the Council and the Wastewater Treatment Institute, as well as representatives of the Company, it was decided that due to the fact that the Bar Lev Industrial Park pays a special tariff for organic load but in practice deviates only from the phosphorus values, the Dairy's application was approved. Toward renewal of the application for exceptional wastewater in 2017, the Dairy will be required to submit up-to-date measurements of nitrogen and phosphorus.

Instant coffee manufacturing plant in Safed - as at the date of this report, the Company has not yet received a request for payment from the Peleg Hagalil Water and Sewerage Corporation - Regional Water and Sewerage Company Ltd. further to notices received by the Company from said organization with respect to a charge relating to the discharge of alleged exceptional and/or prohibited wastewater at the coffee plant in Safed in 2012 and 2013. In the course of 2014, the Company closed the instant coffee plant in Safed.

Strauss Salad plant - the plant submitted an application to the Ein Kramim Water and Sewerage Corporation for the approval of exceptional wastewater, according to the Rules of the Water and Sewerage Corporations (Plant Wastewater Discharged into the Sewage System).

Due to a financial dispute between the Ein Kramim Corporation and the Carmiel Wastewater Treatment Institute, the plant's application was forwarded by the Corporation for decision by the Industrial Wastewater Supervisor in the Water Authority. As at the date this report was written and after 60 days had elapsed from the application date, no response had been received from the Ein Kramim Corporation or from the Environmental Commissioner, and therefore, according to the Rules, the plant's application is approved pending final decision by the Industrial Wastewater Supervisor.

In February 2015, a warning letter under section 5 of the Prevention of Environmental Nuisances (Civil Actions) Law, 1992 and under section 20(v) of the Water Law, 1959 (hereinafter; the **"Water Law"**) was received from Malraz, Council for the Prevention of Noise and Air Pollution in Israel, regarding alleged prohibited effluents discharged by the plant. The Company replied to Malraz through its legal counsel, denying the Council's allegations. As at the date this report was written, no response has yet been received from Malraz.

In this context, it is noted that after a hearing granted to Malraz by the Minister of Environmental Protection regarding revocation of the enforcement powers vested in the Council by virtue of the Abatement of Environmental Nuisances (Civil Action) Law, 1992, on February 15, 2016 the Knesset Interior and Environmental Protection Committee approved the removal of Malraz from the list of entities recognized in said law.

Strauss distribution center in Petach Tikva - in 2015, the Company was in the advanced stages of building a new logistics center in the Shoham industrial zone, to replace the site in Petach Tikva. The Petach Tikva site's poison license was issued on September 9, 2014, valid for one year. The license did not contain additional conditions for compliance with separation distances from public receptors due to the quantity of ammonia stored at the distribution site, as the site was planned to relocate to the Shoham industrial zone by September 2015. At the same time, however, the poison license determined that the Company was required to remove the ammonia from the site in Petach Tikva by September 2015, in coordination with the Ministry of Environmental Protection. Due to a delay in completing the relocation of the Petach Tikva site to the new site in Shoham, in August 2015 the Company approached the Ministry of Environmental Protection with a request to renew the poison license for the site (including storage of ammonia at the site) until April 2016. Since according to the previous poison license the ammonia was required to be removed from the Petach Tikva site by September 2015, on August 11, 2015, the Company was sent a warning under section 15(d) of the Hazardous Substances Law, 1993 on behalf of the Ministry of Environmental Protection, in which the Ministry informed the Company that there was ostensibly a breach of the conditions of said poison license, and the Company was therefore required to report within seven days on the action it intended to take to remove the ammonia from the plant (the **"Warning"**). On August 18, 2015 the Company sent a detailed response to the Ministry of Environmental Protection, in which it made specific reference to the Ministry's letter, attaching an initial assessment of the potential health and environmental risk as a result of the use of ammonia at the logistics center in the

Petach Tikva site, performed by a professional consultancy specializing in the subject, which had been retained by the Company. Following discussions with the Ministry of Environmental Protection and after submitting supplements as requested and instructed by the Ministry, on August 25, 2015 a summons to a hearing was received from the Ministry, calling on the Company to present its arguments before the Ministry on September 2, 2015 prior to the adoption of enforcement proceedings by the Ministry. On September 2, 2015 a hearing was held at the offices of the Ministry of Environmental Protection – Central District, at the closing of which it was agreed that the Company would send the Ministry additional documents, including an amended, final report on the above initial assessment, a summary of its compliance with the Ministry's separation distances and the actions required in light of the findings of the final report, as well as monthly reports to the Ministry of Environmental Protection on the progress of the relocation project to the new site in Shoham. The Company further undertook during discussions that the site would be vacated by May 2016. The Company sent the required documents in a timely manner and is in compliance with the arrangements concluded by the parties at the hearing. In December 2015 removal of the ammonia from the site was completed, and on December 31, 2015 the site was vacated and its relocation to the new site in Shoham completed.

As at today's date, no additional enforcement steps were taken on the subject by the Ministry of Environmental Protection and the Company is in compliance with its undertakings.

Coffee plants overseas – during 2015, there were no violations and environmental incidents likely to create material exposure. Possible implications on the Company as a result of such events are the temporary loss of the plant's business license until such faults have been remedied, as well as exposure to legal action by the environmental authorities in that country. An exception to the foregoing is a fine imposed on the coffee company in Strauss Romania with respect to problems in the reports of the local packaging recycling corporation with which the Company had engaged in Romania, which do not directly relate to operations or deviations by the site. The fine was split between all manufacturers / importers of packaged products in Romania engaged with the packaging recycling corporation in question.

24.4 The Group's environmental risk management policy

The Group's environmental management system defines the Group's commitment to improving its environmental performance, the reduction of negative effects on the environment, the inclusion of environmental considerations in decision-making processes, and increasing awareness of the subject among employees, suppliers and interested parties.

a. **Environmental monitoring system** – the Group's quality system in Israel coordinates the activity of the units in Israel in areas of integrated quality (food quality and safety, employee safety and quality of the environment). Work processes are in place at the corporate center and at the Company's sites for the identification of environmental legal requirements, review of the extent of adequacy and correction of faults, identification of material environmental impacts, definition of environmental objectives, and creation of yearly and multiyear work plans for the reduction of environmental impacts. The six main production sites of Strauss Israel are certified by the Standards Institution of Israel under the ISO14001 (EMS) standard. The production volume of these units accounts for 86% of all production in Strauss Israel.

   Strauss Water was certified by the Standards Institution in 2014 for Israeli Standards ISO14001 and OHSAS18001. The company has implemented work processes for the identification of environmental legal requirements, review of the extent of adequacy and correction of faults, identification of material environmental impacts, definition of environmental objectives, and creation of yearly and multiyear work plans for the reduction of environmental impacts. Furthermore, in 2014 the Company received a green label for its products, awarded by the Standards Institution and the Ministry of Environmental Protection to products that have less impact on the environment.

b. At the beginning of 2013, the coffee company defined multiyear goals in the environmental sphere to reduce energy consumption, greenhouse gas emissions, use of water and disposal of waste in landfill sites, all per ton product. In 2015, the system for environmental data collection from the coffee company's production sites was improved, and the coffee site in Russia was added to the system. In addition, environmental data, goals and targets were monitored quarterly in the framework of Strauss Coffee's EMS. Most of the Group's coffee plants are fully ISO14001 certified. In 2015, various environmental energy saving and conservation projects were carried out in the coffee plants in the various countries, as well as projects designed to reduce landfill waste and water consumption (particularly in the instant coffee plant in Germany, which is the major consumer of water in the coffee company).

c. **Compliance with environmental legal requirements** – the Group applies a methodology for keeping abreast of environmental legal requirements, for conducting comprehensive tests of compliance and for remedying failures. The methodology is applied in the Group's production sites in Israel.

d. **Monitoring and measurement** – the Group has a central reporting tool for monitoring water consumption, the carbon footprint, wastewater quality, air quality and other environmental aspects. The environmental quality supervisors in the Group's sites report on environmental aspects every month in Israel, and quarterly in the coffee sites outside Israel, using this tool.

e. **Wastewater treatment** – the Group's sites in and outside Israel, where activity involves a significant environmental risk from this aspect, apply increased wastewater treatment, both in an attempt to reduce pollutants at source and in building wastewater treatment facilities.

f. **Prevention of soil and water pollution** – the Group's production sites in Israel operate in compliance with the poison licenses in their possession, which define the method of storing and handling hazardous substances and limitation of the quantity of each substance that may be kept on hand. In 2014, the Company continued the process of testing and improving the hazardous materials management system in the plants and in the distribution system, and containment pallets were installed and upgraded. The Group’s plants abroad operate according to the requirements of local regulation with respect to each site.

g. **Prevention of air pollution and depletion of the ozone layer** – in Israel, the Group has defined a strategic goal for a 15% reduction in greenhouse gas emissions per ton product by the year 2015, on the basis of the 2008 figures. By the end of 2015, 41% of greenhouse gas emissions were reduced. At sites where complaints of odor nuisances have been received, the Group is working to reduce them by including the site's neighbors. The Group's sites in and outside Israel have a target: to reduce greenhouse gas emissions by 15% per ton product by 2020 (based on the figures for 2013). By the end of 2015 there was no reduction (0%) in emissions of greenhouse gases per ton product in the operations of the plants of the coffee company overseas. The main reason for this was the addition of a site in Russia (a medium energy consumer) to the array of the Company's plants. Use of

Freon is made in most of the Group’s cooling systems. However, new systems are adapted to use more environmentally friendly cooling agents.

h. **Waste separation and recycling** – at the Group's production and logistic sites in and outside Israel, action is being taken to separate and recycle waste. The Group is taking action to increase the employees' awareness of the importance of waste separation and recycling. Dedicated bins have been placed in the Group's sites for different kinds of waste. Plastic, paper, glass and metals are collected and sent for recycling; organic waste is sent to be used as animal feed. The Group in Israel and abroad has a target of 15% reduction in the quantity of waste per ton product disposed of by landfill by 2020 (based upon the figures for 2013).

i. **Treatment of packaging waste** – the Company in Israel has built a measurement, reporting and control system for the packaging of products that are dispatched to the market, in accordance with the duty to report on packaging waste that applies to the Group under the Packaging Management Law, 2011. In the coffee plants outside Israel packaging is collected, as required by the local regulation in the various sites in Europe.

j. **Saving electricity and energy** – the Group is taking action to increase electricity saving at its production sites through different operational projects, such as programs for saving electricity, use of economic light bulbs, use of sunlight for illumination, a transition to the use of gas in production processes, a transition to the use of natural gas, utilization of energy produced in one process for heating and the operation of another process, increasing the efficiency of cooling systems, insulation of piping, etc. The Group in Israel and abroad has set a goal of reducing energy consumption by 15% per ton product by 2020 (based on 2013 figures). By the end of 2015, energy consumption per ton product was reduced by 1% in the operation of the sites of the coffee company overseas. The main reason for the small reduction was the addition of a site in Russia (a medium energy consumer) to the Company's energy consumption data.

k. **Saving water** – the Group in Israel defined a strategic goal to reduce its water consumption per ton product by 20% by 2015, based on 2008 figures. By the end of 2015, the Company reduced 13% of its water consumption per ton product. The coffee plants outside Israel are required to meet a target of 5% decrease in water consumption per ton product by 2020 (based on 2013 figures). By the end of 2015, there was an 11% reduction in water consumption per ton product in the Company’s coffee sites overseas.

l. The Group invests resources in the management of its environmental aspects. This is reflected in investments in equipment, such as wastewater treatment plants and energy utilization enhancement facilities; investments in overhead such as the appointment of environmental quality supervisors in the various units; and investment in current costs, including materials for the maintenance of wastewater treatment plants and prevention of emissions into the air, training employees, and others.

In 2015 the Group invested approximately NIS 32 million in Israel and abroad in infrastructure and projects to improve the environmental aspects of its production sites and to minimize the risks arising from its activity, and another NIS 15 million were invested in day-to-day management, overhead, environmental monitoring, current expenses and payment to recycling corporations for the packaging of products dispatched to the market.

It is not the Group's practice to separate the costs invested by the companies in the Group with respect to environmental issues, and these costs are immaterial. On the basis of information in the Company's possession as at the date of the report relating to its sites and to environmental requirements, the Group does not plan any irregular investments in 2016.

The information in this section regarding the intention not to make irregular investments in order to comply with environmental requirements in 2016 is forward-looking information, as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated. In practice, there may be material deviations in the Group's production sites or requirements may change, which would require additional substantial investments.

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

25. Restrictions and Supervision of the Group's Activity

25.1 Legislation in the food and beverage industry and consumer legislation

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

For legal provisions relating to the environment which apply to the Group, see section 24.2 above.

The Public Health Protection Law (Food) is planned to enter into force in June 2016. The law deals with the comprehensive regulation of the food sector in Israel and of all those engaged therein (manufacturers, importers, marketers, exporters, carriers and storage operators). For additional details, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, Part B of this report.

In addition, in February 2016, the Agriculture and Finance Ministries announced that they had completed the formulation of principles for an agricultural reform. For further information, see the section "Changes in the Economic Environment" in the Board of Directors' Report as at December 31, 2015, Part B of this report.

Outside Israel – the Group's activities outside Israel are subject to regulatory directives in the different countries, which generally regulate issues similar to those regulated in Israel and prescribe rules and instructions, among others, relating to the production, distribution, storage and transportation, and import of food and beverage products; and also prescribe standards, among others, relating to the quality, cleanliness, packaging and labeling of the products. As countries where the Group is active join the European Union, they may also become subject to relevant regulatory directives which apply in EU member states.

25.2 Control over product prices

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

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

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

25.3 Operating licenses

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

25.4 <u>Antitrust</u>

a. **Declarations as a monopoly**

For declarations of the Company as a monopoly and the Antitrust Commissioner's instructions in this regard, see section 9.13.a – dairy desserts; section 10.13.a – chocolate tablets and section 12.12.a – instant coffee and cocoa powder for domestic consumption.

For information on a hearing prior to declaring the Company a monopoly, see section 9.13 above.

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

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

c. On April 10, 2014, the Antitrust Authority (in this section below – the **"Authority"**) published a manifesto on "prohibition of over-pricing that applies to monopoly holders". The manifesto describes the considerations that will be applied by the Authority in acting against a monopoly that charged excessive and unfair prices for its products. An unfair price may an exceedingly low price, which could eliminate competition, or an excessive price, which allows the holders of the monopoly to rake in significantly greater profits than they would have under competitive market conditions. The manifesto includes three main measures applied by the Authority to examine whether a monopoly charged exorbitant prices: the difference between the product's price and the cost of production; the profitability test: the Authority will compare the monopoly's actual profitability to external and objective benchmarks; the comparative analysis: the Authority will compare the price charged by the monopoly and the price of competing products, or the price collected from different customers, or the price of similar products in other geographical markets. The "safe harbor" defense: the Authority provides in its policy document for a "safe harbor", and determines that if the monopoly complies with its terms, the Authority will not take enforcement steps against it with respect to excessive prices. This defense will be available to the monopoly when the difference between the product's price and its production cost, calculated according to the guidelines in the document, does not exceed 20%.

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

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

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

Additionally, most of the Group's manufacturing sites in Israel and some of its sites abroad are ISO9001 certified, as well as certified under the food safety control standard, HACCP (Hazard Analysis & Critical Control Points), the ISO22000 standard and other elective standards such as ISO14001. The Group has internal enforcement processes in place to ensure compliance with the standards and regulations with respect to food, quality of the environment and safety.

During 2015, most of the plants of the Company received the GMP permit from the Ministry of Health, allowing the Company to label products as "gluten- free".

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

25.9 **Insurance** – in management’s opinion, the Group's assets and activities are insured against loss, damage or liability as customary in Israel and in countries where the Group operates, based on standards determined by the Company's insurance manager with the assistance of certified insurance consultants. In the US and Brazil, due to the unique insurance arrangements in these countries and the composition of the partnerships, the insurance policies are procured in accordance with accepted practice in these countries and with criteria defined by the local managements and the Group's partners, with the assistance of local insurance consultants who plan the insurance in each country.

26. Material Agreements

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

26.1 Provisions regarding the use of the "Strauss" name and brand, non-competition and indemnification according to the merger agreement between the Company and Strauss Holdings

For additional details see section 26.1 in Part A of the Company's Annual Report for 2013, as published on March 25, 2014 (reference no. 2014-01-023988).

26.2 **Trust deed and Debentures (Series B) and trust deed and Debentures (Series D)** – see section 22 above and Note 20 to the Financial Statements of the Company as at December 31, 2015.

27. Legal proceedings

For information on class actions and other lawsuits against the Company, see Notes 24.1.1 and 24.1.2, respectively, to the Financial Statements of the Company as at December 31, 2015.

28. Objectives and Business Strategy

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

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

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

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

28.1 <u>Strauss Israel</u>

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

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

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

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

28.2 Strauss Coffee

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

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

28.3 Refrigerated dips and spreads – Sabra and Obela

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

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

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

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

28.4 Other Operations

a. **Strauss Water**

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

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

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

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

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

b. **Max Brenner**

The Company has leveraged the prestige chocolate brand Max Brenner to create a novel consumption experience in the chocolate and chocolate beverage category. Max Brenner operates over 60 "Chocolate Bars" in Israel and abroad, most of them under the franchise model. In the US the Group leases 5 stores. For further information, see Note 25.1 to the Financial Statements of the Company as at December 31, 2015 in Part C below.

28.5 In the next few years the Group plans to focus on the development of its activities in Israel and globally, placing special emphasis on continued international development in the coffee, water and refrigerated dips and spreads categories.

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

28.7 The Group's strategic plans, as described above, reflect its policy as at the date of the Periodic Report and are based on current evaluations of its business areas. The Group's plans may change, in whole or in part, from time to time. There is no certainty as regards the realization of the Group's intentions or of this strategy. It is possible that the objectives described above will not be accomplished in the future, or that the Group will decide not to implement the abovementioned strategy, in whole or in part, for the following reasons among others: changes in the macroeconomic trends that affect the economic situation; the situation in the food and beverage industry in Israel and worldwide; capital market conditions in Israel and worldwide; changes in economic feasibility; changes in competitive conditions in the market and changes in the markets themselves; regulatory changes; as well as due to other risk factors affecting the Group's activity, as set forth in section 30 below.

29. Information on Geographical Regions

29.1 For information on the geographical regions where the Group operates, see Note 27.4 to the Financial Statements of the Company as at December 31, 2015.

29.2 For explanations on geographic developments, see the Company's explanations in the Board of Directors' Report as at December 31, 2015, part B of this report.

29.3 Exposure to risks due to operations outside Israel

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

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

30. Discussion of Risk Factors

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

Macroeconomic Risk Factors

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

customs duties that are higher on finished goods than on imports of raw materials. A decrease in customs duties on finished goods is likely to facilitate the entry of additional competitors to these countries and thus hurt the Group's competitive position. Furthermore, a change in customs rates in countries where the Group imports the products it sells is likely to affect its competitive position. When customs rates are high or rise in these countries the Company's import costs increase, thus adversely affecting its ability to compete with local or foreign manufacturers which are not subject to the same customs rates. By contrast, the Group's export sales from Israel to the EU encounter entry barriers arising from customs duties at significant rates. Some of the Group's products that are exported to Europe are subject to customs arising from minimum prices determined to protect European agricultural produce. Any increase in these customs duties is likely have a negative impact on exports of the Group's products.

3. Exchange rate risk – the Group is exposed to risks arising from fluctuations in currency exchange rates. Most of the Group's cash flow exposure is to the dollar in relation to local currencies (in Israel, also to the euro and the pound sterling). The strengthening of the dollar or other currencies in which goods are purchased raises the purchase prices of these materials and erodes profitability, and *vice versa*. Revaluation of the shekel against the functional currencies of the Group's overseas operations could erode the Group's profitability, cash flows and equity.

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

5. Security risk – many of the Group's production sites and its senior management and employees operate in Israel, which exposes the Group to a security risk in Israel in the case of a military conflict between Israel and its neighbors and/or acts of hostility, which could have an adverse economic impact on the scope of the Company's sales, undermine its ability to collect debts from customers experiencing financial difficulty, impair the ability to supply raw materials, cause the absence of essential employees, and lead to an economic downturn in Israel.
6. Exposure to interest and inflation – the Company and its subsidiaries could sustain economic damage as a result of an increase in the interest rate and the inflation rate. An increase in the Index and in the interest rate will lead to an increase in the Company's financing expenses. An increase in the interest rate will also lead to an increase in the cost of new loans if taken by the Company, and as a result, to a future increase in financing expenses.

Industry risk factors:

7. Exposure to fluctuations in raw material prices – raw materials form a substantial component in the production inputs of the Group’s products. A significant part of the raw materials are agricultural commodities whose price and availability depend on factors such as the weather, the outbreak of epidemics in crop growing areas and political stability in the countries of origin. In addition, a significant part of the raw materials used by the Group is traded on the global commodities market (coffee, cocoa, sugar) and is exposed to price volatility, which is liable to erode the profitability of the Group. The Group also purchases financial derivatives in order to partially hedge the risk of an increase in raw material prices. As the derivatives that partially hedge against exposure to different future periods are measured at fair value on a current basis, the reported accounting profit (loss) is subject to substantial fluctuations.
8. Customer credit – the Group's sales to its customers (including distributors) in Israel and abroad are generally made on credit, in line with the customary market practice. Part of the credit to retail customers in the private market in Israel (that are not part of the organized retail market) is secured by credit insurance (including a deductible) and various sureties, whereas the balance of the credit to the private market that is not covered by guarantees is at risk, particularly in recession periods. However, the broad dispersal of the Group's customers in the private market mitigates this risk. Credit to the large retail chains is partially secured and is concentrated in a small number of customers that account for a

large part of the Group's sales; therefore, non-repayment of this credit by any of the organized market customers could have a material impact on the Group's cash flows and business results in the short term. The bulk of credit granted to customers overseas is not secured.

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

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

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

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

13. Regulatory developments – changes in legislation or standardization in Israel and other countries with respect to restrictions imposed on food manufacturers concerning food and beverage products or other products sold by the Group (e.g. coffee machines and water filtration and purification devices) or with respect to the conduct of food manufacturers vis-à-vis retailers could impact the Group's production costs and profitability. This relates to changes in the market in general, food engineering, compliance with food and environmental quality standards, etc. Changes of this kind, if enacted, could impact both the product offering and the costs involved in production. Passing these costs on to consumers by raising prices is liable to be damaging to sales volumes and turnover. Some of the Group's products are price controlled pursuant to the Supervision of Prices of Goods and Services Law. Changes in these prices, which reduce the maximum price or limit the possibility of raising prices, will impair the Group's ability to update prices in line with the increase in input prices and could impair the Group's competitiveness with regard to these products. Furthermore, the possibility of controlling the prices of additional products could harm the Group's profitability in the future.
14. The ability to anticipate changes in consumer tastes and to develop new products – the Group's success is conditional on predicting new tastes, new consumption habits and changes in consumption preferences, and on the success of new product development. Thus, for example, in recent years there has been a trend of change in consumption habits, expressed in the shift to consumption of natural and healthy products (less sugar, sodium, etc.). A change in consumption habits could also arise from contentions that the food manufactured by the Group is not healthy. This trend has an effect on the consumption of existing products of the Group, which are not necessarily aligned with these trends. On the strategy level, the Group takes action to adapt its product range in order to respond to changing consumption trends. Failure in this regard means insufficient growth of trade volumes and income in order to accomplish objectives. The Group's success also depends on its ability to foresee the tastes and consumption habits of its consumer public, and to provide its target public with products that are aligned with its preferences and develop new products accordingly. By nature, consumption trends are subject to changes, and the inability to foresee, identify or respond to these changes accurately could result in decreased demand for the Group's products, and consequently, lead to a negative impact on sales turnovers and income.

15. Exposure to class actions – in view of the large number of consumers of the Group's products, the Group is exposed to class actions. For motions to certify claims as class actions against Group companies, see Note 24.1 to the Financial Statements of the Company as at December 31, 2015.
16. Operating in a competitive market – the food and beverage industry is highly competitive. Some of the Group's rivals in the markets where it is active are large multinational corporations that possess greater financial resources than the Group. The entry of additional competitors in certain categories is liable to intensify the competition. In order to compete effectively the Group is required to make growing investments in technology. The Group's ability to compete effectively requires ongoing efforts in the marketing and sales of existing products and in the development of new products.
17. Downward pressure on profit margins in the food and beverage industry – the prices of some of the Group's products are subject to downward pressure. As a result, the Group's ability to adjust the prices of its products to an increase in raw material and input prices may be limited. In recent years, we have witnessed events in Israel and abroad where great pressure was applied, including active protests by consumers against food manufacturers and retailers. These protests may be expressed in demonstrations, social media activity, and in articles in the print media or on television. Even when the pressure is directed at retailers, in many cases this in turn leads to pressure by retailers on the manufacturers. A consumer protest could also be a catalyst for regulatory action and reforms designed to bring about a change in the economic environment, which could erode the Company's profitability and be damaging to its financial results.
18. The Group's products may contain ingredients that could cause pecuniary and non-pecuniary damages to certain consumers – for example, some of the Group's products are liable to contain ingredients (such as nuts or gluten) that cause certain people allergic reactions and damage to their health. Pecuniary and non-pecuniary damages are liable to lead to legal actions, damage to income, expenses due to product recalls, and damage to the Group's reputation. Additionally, it is possible that ingredients and products that are presently compliant with legal requirements will in the future be regarded as potentially harmful.

Unique Risk Factors

19. Dependence on branding – the Group has a broad range of branded food and beverage products that enjoy a longstanding reputation. Damage to this reputation by various publications or other means (e.g. the social media) could have a material impact on the Group's profitability, regardless of the accuracy of these publications. Additionally, a defect in a particular product could cause damage to the master brand under which it is marketed, as well as to the entire product family marketed under that brand. The Group takes care to protect its brands and reputation, among other things by being especially meticulous about the quality of the raw materials used in manufacturing the products, production processes, finished goods and advertising messages.
20. Dependence on customers and suppliers – the loss of a substantial customer could reduce the Group's income and damage its profitability. Furthermore, due to the fact that the Group has a small number of large customers, it is subject to possible pressure and bargaining by these customers with respect to the prices of its products. These risks are liable to intensify as the chains continue to grow stronger. The loss of a material supplier to the Company is liable to create an availability problem in some of the Group's products, and as a result, be damaging to sales and profit.
21. Licenses and franchises – The Group is engaged in licensing agreements with the owners of main brands, including the Danone brands, the PepsiCo brands, the Virgin brands and the Haier brands, the use of which, as a rule, is conditional on certain terms and conditions, the breach of which could impair usage rights (with the exception of Haier). Additionally, the continued success of the brands depends on the business results and brand reputation of the strategic partners, and on their ability to preserve their brands' reputation. Damage to the reputation of one of the brands could hurt the Group's brands.
22. Declaration as a monopoly – the Company has been declared a monopoly in chocolate tablets, instant coffee and chocolate powders for domestic consumption. Declaration as a monopoly could lead to price control of the products to which the declaration refers, or to the imposition of other business restrictions. The Group companies are exposed to their declaration as a monopoly in every product category where their market share exceeds 50%. For details on a hearing prior to declaring the Group a monopoly, see section 9.13 above.

23. Concentration of production and logistics in several sites– a considerable part of the Group's activity is concentrated at a limited number of sites, including sub-contractors' sites. Damage by natural hazards or any other damage that is caused to these sites could have a material impact on the Group's activity. Thus, for example, most of the Company's production sites in Israel are located in areas that are exposed to missile attacks. In the past few years the salty snack plant in Sderot, the cut vegetables site in Sde Nitzan, the site at the Strauss Yad Mordechai Apiary in Kibbutz Yad Mordechai and the Aviv Dairy in Netivot were exposed to the continuous firing of missiles from the Gaza Strip.
24. Change of control of the Company – in the event of a change of control in the Company such that the Strauss family ceases to be the controlling shareholder, the Company could be forced to sell its holdings to the partners in the "Três Corações Joint Venture" (3C) in Brazil and in Strauss Frito-Lay, pursuant to the provisions and mechanisms set forth in the shareholders' agreements with these partners. The combined sales turnover of these companies, after intercompany eliminations, in the years 2015 and 2014 was NIS 1,694 million and NIS 1,985 million. In addition, some of the liabilities to financial institutions include an early redemption clause on the grounds of change of control in the Group.
25. Successful assimilation of acquired companies – the Group's expansion strategy through mergers and acquisition requires the successful assimilation of the acquired companies and their merger into the Group, including the realization of growth and profitability forecasts and certain market and competitive conditions. Unsuccessful assimilation of the acquired businesses and non-realization of these forecasts could inhibit the achievement of the added value in these acquisitions and lead to the impairment of included intangible and tangible assets.
26. Environmental issues – the activity of production sites and the urban development of nearby cities could lead to the Group's exposure to environmental legal action and the risk of having to shut down polluting plants.
27. Computer and communication systems crash – computer and communication systems crash, including the ERP system, CRM and digital system, could cause the Group substantial difficulties. An incident of this kind that continues for a significant length of time will impair the Company's ability to supply its products and services to customers and consumers.
28. Protection of information – part of the recipes for the Group's products and other products manufactured by the Group, their manufacture and various processes

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

29. Restrictions in agreements signed with strategic partners – in the framework of the Company's agreements with strategic partners, the Company agreed to restrictions relating to its businesses. For example, Strauss Health agreed with Danone not to export over 7% of Strauss Health's turnover and to coordinate its export activity with Danone; the Company has a non-competition clause in its agreements with PepsiCo; the Company is precluded from competing with the "Três Corações Joint Venture" (3C) in Brazil for a five-year period after it ceases to be a shareholder. The Company undertook to the TPG private investment fund not to invest in a competitor whose main business is coffee other than coffee shops, for as long as TPG holds more than 10% of Strauss Coffee's share capital. These restrictions could prevent the Company from developing its business in the desired direction.

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

31. Restrictions on the transfer or sale of the Company's holding in joint ventures and subsidiaries – a number of agreements signed by the Company with partners in

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

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

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

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

	The risk factor's impact on the activity of the Group as a whole		
	Major impact	**Medium impact**	**Minor impact**
Macro risks			
1. Financial crisis and/or economic downturn in the world market	+		
2. Customs duties in countries where the Company operates			+
3. Exposure to exchange rate risk	+		
4. Lack of economic and political stability	+		
5. Security risk		+	
6. Exposure to interest and CPI		+	
Industry risks			
7. Fluctuations in raw material prices	+		
8. Customer credit		+	
9. Defective product quality	+		
10. Kashrut			+
11. Price of raw milk		+	
12. Private labels		+	
13. Regulatory developments	+		
14. Ability to anticipate changes and develop new products		+	
15. Exposure to class actions	+		
16. Activity in a competitive market	+		
17. Downward pressures on profit margins in the food and beverage industry		+	
18. Exposure to legal action due to the presence of substances in products that could cause pecuniary or non-pecuniary damage to certain consumers	+		
Risks unique to the Group			
19. Dependence on branding	+		
20. Dependence on customers and suppliers	+		
21. Licenses and franchises	+		
22. Declaration as a monopoly		+	
23. Concentration of production and logistics at several sites	+		
24. Change of control of the Company			+
25. Successful assimilation of acquired businesses		+	

26. Environmental quality		+	
27. Computer and communication systems crash	+		
28. Protection of information		+	
29. Restrictions in agreements signed with strategic partners			+
30. Managerial complexity and multiplicity of partners	+		
31. Restrictions on the transfer or sale of the Company's holding in joint ventures and subsidiaries			+
32. Financial debt		+	
33. Hiring and retaining key personnel.		+	

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT

TO THE SHAREHOLDERS

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

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

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

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

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

CHANGES IN THE ECONOMIC ENVIRONMENT

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

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

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

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

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

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

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

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

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

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

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

Prices of raw materials and other production inputs – The commodities markets account for a substantive component of the materials used in the manufacture of the Group's products. In 2015 the average market prices of some of the Company's raw materials decreased, while the average market prices of other raw materials increased compared to the corresponding period last year. On the one hand, green coffee prices dropped (except in Brazil), as did the price of raw milk (the "target price") and the prices of sugar, seeds and sesame. By contrast, green coffee prices in Brazil rose (in Brazilian Reals), as did the prices of cocoa, hazelnuts and almonds, coupled with increases in the minimum wage and other production inputs such as municipal rates and taxes. In the third quarter of the year the Group lowered its prices, mainly in a number of dairy product categories, such as white cheese, desserts, milk beverages and enriched milk, by 3%-7%. In the beginning of 2016 the Company made a further significant reduction in prices – 15%-20% - particularly those of enriched milk and Activia yogurt.

The Group is taking steps to reduce the impacts arising as a result of commodity price volatility, including hedging, changes in the mix of materials in its products and operational streamlining. The cost of raw materials to the Company (including green coffee) in the Group's non-GAAP reports includes profits and losses that were realized in respect of financial derivatives that served to economically hedge those commodities.

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

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

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

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

Regulation in the food industry

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

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

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

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

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

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

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

Mega Retail Ltd.

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

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

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

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

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

Other than as described below, as at December 31, 2015 and compared to December 31, 2014, there has been no material change in the market risk factors to which the Company is exposed, in the policy for managing these risks, in the persons responsible for their management and in the means for supervising and realizing the policy, as described in the Board of Directors' Report as at December 31, 2014. For further information, see also Note 30 to the financial statements and section 28 in the chapter "Description of the Company's Business Affairs", in the discussion of risk factors.

ANALYSIS OF FINANCIAL RESULTS

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

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

The information contained in this report and its presentation were examined from the Company's perspective in order to provide a comprehensive picture and presentation of the manner in which the Company manages its businesses, which, in the Company's opinion, is material for the purposes of this report.

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

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

In the reporting period the subsidiary Strauss Water signed a series of share exchange and transfer agreements with companies of Haier Group, as well as a joint venture agreement, with the aim of restructuring the Haier Strauss Water joint venture in China. The restructuring process was completed in the reporting period and is reflected in the non-GAAP reports commencing in the third quarter of 2015. For further information, see Note 12.6 to the financial statements as at December 31, 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

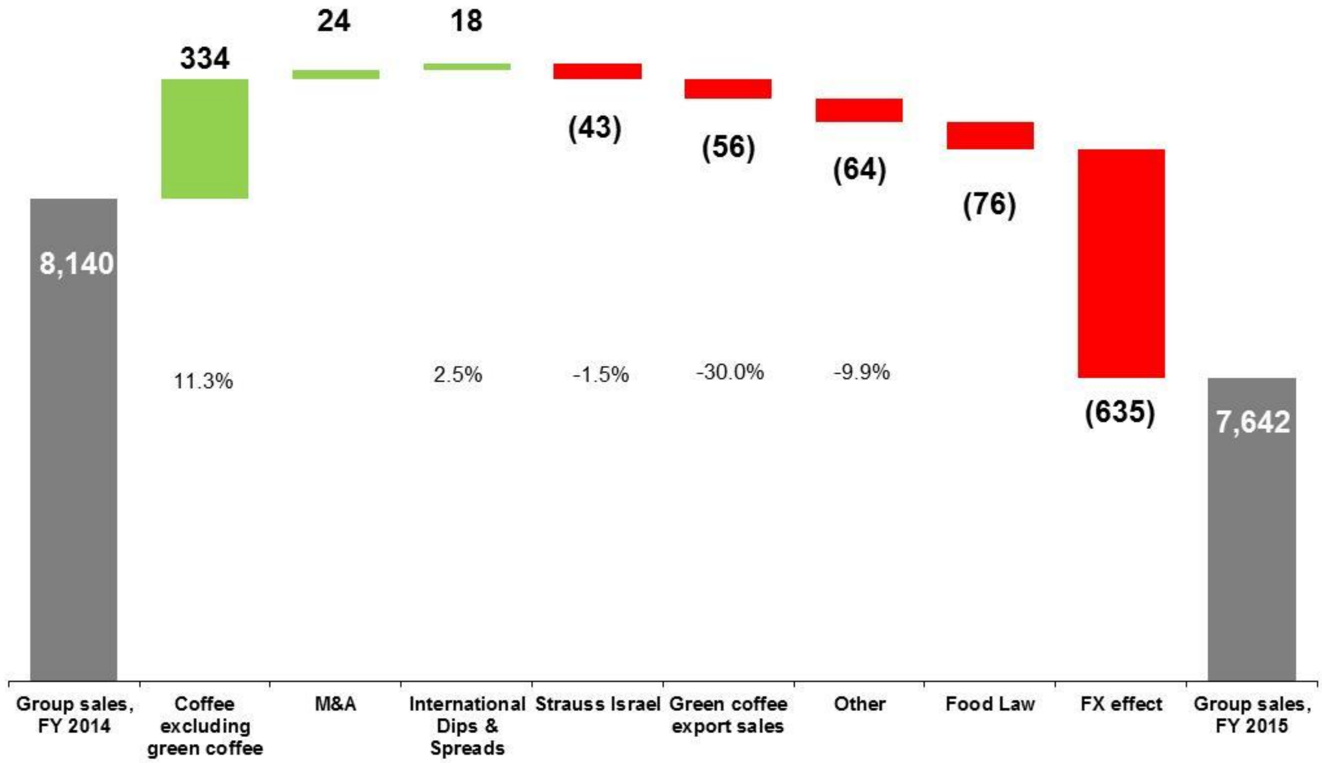
Sales – non-GAAP

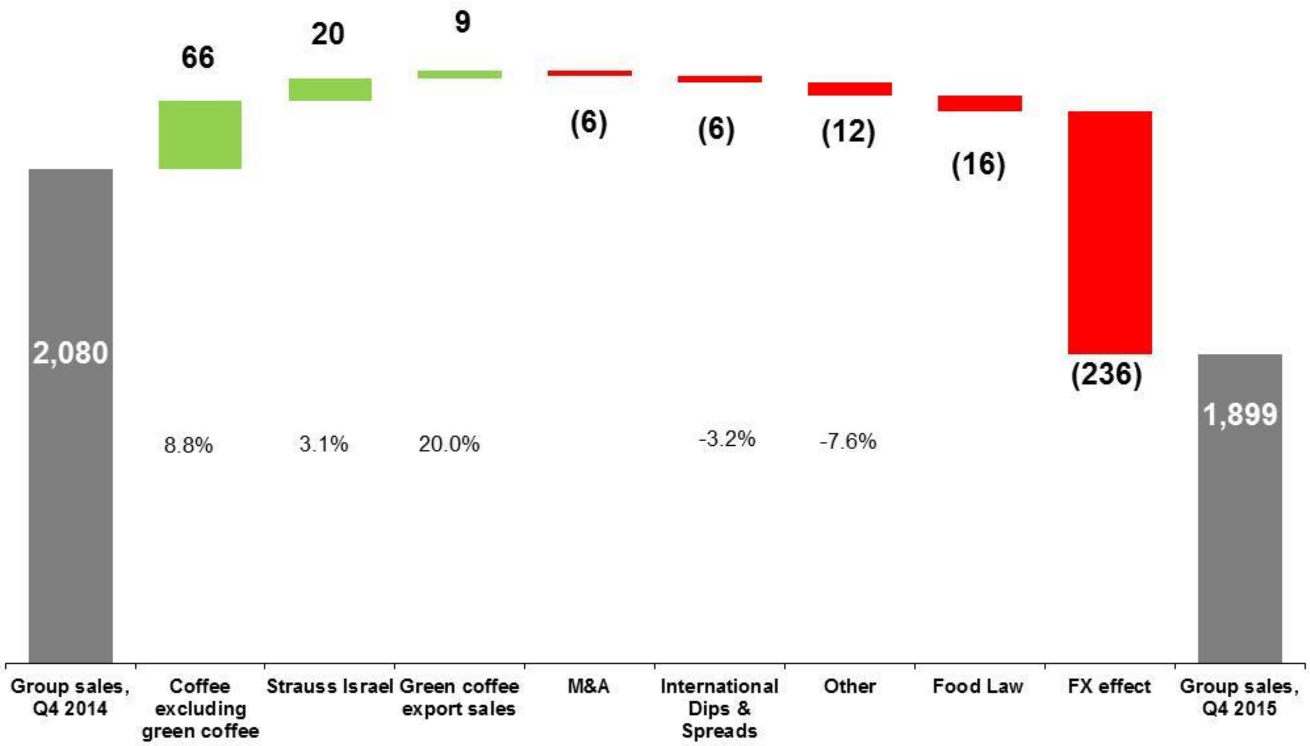
	Year		Fourth Quarter	
	2015	**2014**	**2015**	**2014**
Sales	7,642	8,140	1,899	2,080
Growth	(6.1%)	0.0%	(8.7%)	0.3%
Organic growth excluding currency effect and classification of costs following the Food Law	2.5%	4.2%	4.2%	2.8%

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

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

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





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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross Profit – Non-GAAP

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

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

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

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

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

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

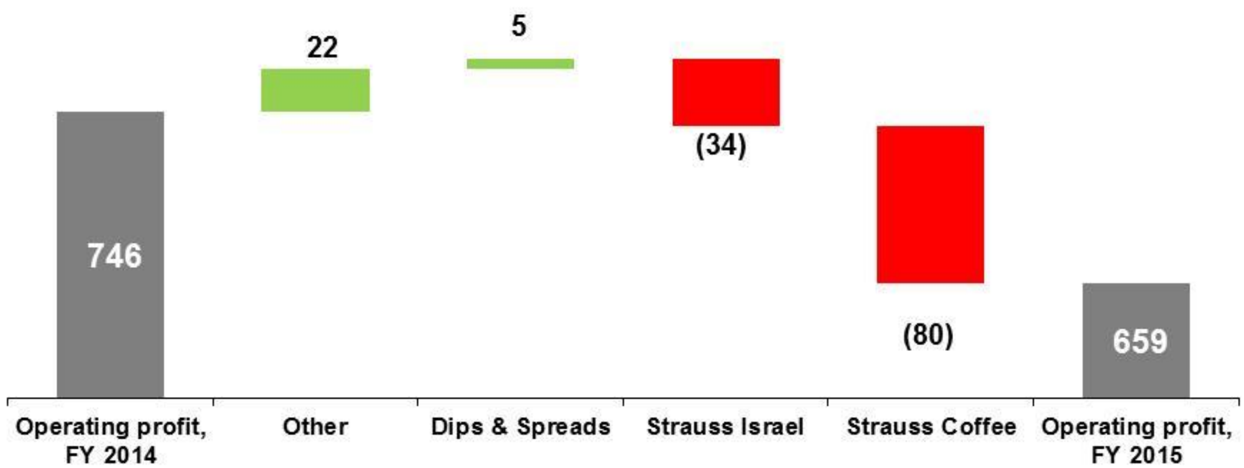
Further explanations on the Group's gross profit are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

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

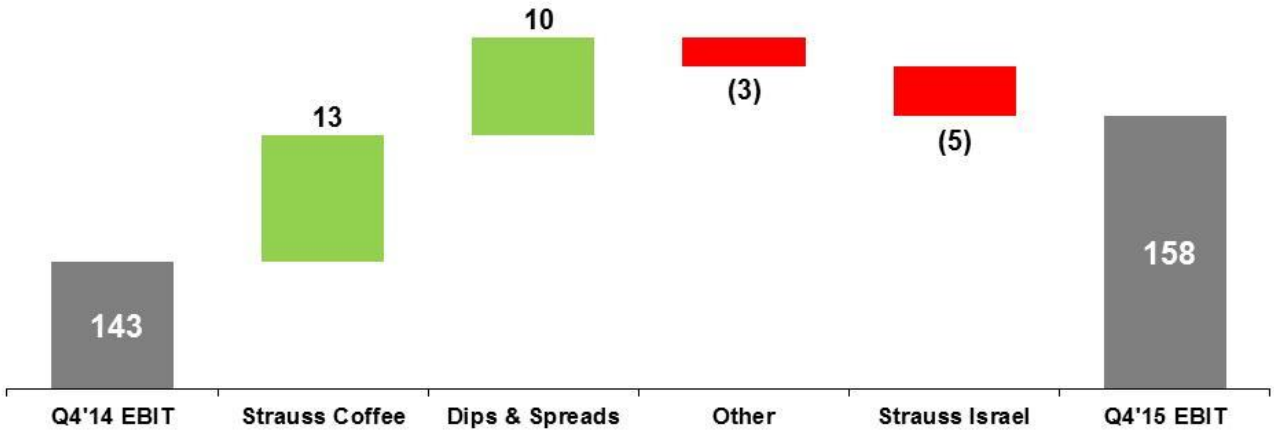
	Year				Fourth Quarter			
	2015	**2014**	**% Chg**	**% chg less translation differences impact**	**2015**	**2014**	**% Chg**	**% chg less translation differences impact**
Operating profit (EBIT)	659	746	*(11.6)*	*(6.1)*	158	143	*11.3*	*19.9*
EBIT margin	8.6%	9.2%			8.3%	6.8%		

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

In 2015 the non-GAAP operating profit decreased by approximately NIS 87 million. Following are the components of the change in the operating profit compared to the corresponding period last year, according to the Company's major activity segments:



The non-GAAP EBIT in the fourth quarter of the year increased by approximately NIS 15 million. Following are the components of the change in the operating profit compared to the corresponding period last year, according to the Company's major activity segments:



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

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

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

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

- And a decrease in the operating profit of Israel Coffee in 2015, with stability in EBIT in the fourth quarter, mainly as a result of a drop in sales, an increase in the cost of green coffee to the Company and the strengthening of the US Dollar (the currency in which green coffee is bought) against the NIS compared to the corresponding periods last year; on the other hand, an improvement in the instant coffee supply chain in Israel was achieved, as well as a decrease in operating expenses.

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

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

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

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

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

Explanations regarding the fourth quarter of 2015 are included in those applying to the year as set forth above. Further explanations on the Group's non-GAAP operating profit in the reporting period are included in the section "Analysis of the Business Results of the Group's Major Business Units".

Financing Expenses, Net – Non-GAAP

Net financing expenses in 2015 totaled NIS 126 million compared to expenses of NIS 83 million in the corresponding period last year. Most of the increase in financing expenses is the result of the capitalization of financing costs relating to the Shoham logistics center project in 2014. In 2014 the Group derived substantive income from the valuation of foreign exchange derivatives as a result of the strengthening of the US dollar and the scale of FX positions, particularly versus the Shekel and the Ruble, and in 2015 the Group incurred net expenses from exchange differences in respect of financial assets and liabilities versus net income in the corresponding period last year. However, the increase was offset by a decrease in the (known) CPI, to which a substantive part of the Company's debt is linked, by 0.9% compared to a decrease of 0.1% in the corresponding period, as well as the recording of lower expenses arising from the valuation of Index derivatives in 2015 compared to the corresponding period.

Net financing expenses in the fourth quarter of 2015 totaled NIS 27 million compared to expenses of NIS 13 million in the corresponding quarter last year. Most of the increase in financing expenses is due to substantive income from the valuation of foreign exchange derivatives in 2014 due to the strengthening of the US Dollar and the scale of FX positions, particularly versus the Shekel and the Ruble, in the corresponding period, and the capitalization of financing costs relating to the Shoham logistics center project in the corresponding quarter last year. However, the increase was offset by a decrease in the (known) CPI, to which a substantive part of the Company's debt is linked, by 0.7% in the quarter, compared to a decrease of 0.2% in the corresponding quarter last year.

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

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

Taxes on Income – Non-GAAP

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's cash and cash equivalents as at December 31, 2015 totaled approximately NIS 560 million compared to NIS 767 million on December 31, 2014. In accordance with Company policy, these assets are invested mainly in deposits (most of them in Shekels and Dollars).

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

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

Reportable credit – further to Note 20 to the Periodic Report – Financial Criteria – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Position as at December 31, 2105 is 27.7%, compared to 27.0% on December 31, 2014. The net financial debt-to-EBITDA ratio as at December 31, 2015 is 1.9, compared to 1.8 on December 31, 2014. The Company is in compliance with the required financial criteria.

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

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

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

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

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

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

Strauss Coffee

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

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

Sales

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

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

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

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

Further explanations on sales by Strauss Coffee in the reporting period are presented in the section "Strauss Coffee Sales by Major Geographical Regions".

Gross profit

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

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

The drop in the gross profit mainly reflects the drop in sales by the coffee business, which, as described above, was impacted by negative translation differences. Furthermore, the drop in the gross profit margin in 2015 (and to a small extent, also in the fourth quarter of the year) is explained by the negative impact of the cost of green coffee to the Company in local currency and the erosion of the functional currencies against the US Dollar compared to the corresponding periods last year, since the currency in which green coffee is purchased in all countries of operations except for Brazil is the US Dollar. The cost of raw materials to the Company (including green coffee) in the Group's non-GAAP reports includes profits and losses that were realized in respect of financial derivatives that served to economically hedge those commodities. Most of the decrease was offset by the price increases implemented in most countries where the coffee company is active (in Israel, prices were reduced). .

Operating profit

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

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

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

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

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

- And a decrease in the operating profit of Israel Coffee in 2015, with stability in EBIT in the fourth quarter, mainly as a result of the drop in sales, an increase in the cost of green coffee to the Company and the strengthening of the US Dollar (the currency in which green coffee is bought) against the NIS compared to the corresponding periods last year; on the other hand, an improvement in the instant coffee supply chain in Israel was achieved, as well a decrease in operating expenses.

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

Strauss Coffee sales by major geographical regions

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

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

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

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

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

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

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

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

In December 2014 the Três Corações joint venture acquired the coffee business of the company Itamaraty, the fourth-largest player in south and southeast Brazil (value market share according to A.C. Nielsen figures), with the goal of continuing to bolster the company's competitive position in this region. In March 2016 Três Corações acquired the operation attributed to the retail coffee brands of the coffee company Cia Iguaçu. The agreement between the companies includes the acquisition of the retail coffee brands (Iguaçu, Cruzeiro, Amigo), as well as accompanying Cia Iguaçu products, in South America, including Brazil. The agreement is subject to approval by the regulatory authorities in Brazil.

In 2015 the Três Corações joint venture's average value market share in R&G amounted to approximately 23.7%, compared to 23.2% in the corresponding period last year (value market share, reflecting 100% of the Três Corações joint venture's sales according to A.C. Nielsen figures and including the market share of Itamaraty's coffee business in both periods). Excluding the Itamarty acquisition, the Três Corações joint venture's value market share was 23.2% versus 22.7% in the corresponding period last year.

Despite the economic and political crisis in Brazil, in the year and in the fourth quarter of 2015 the Três Corações joint venture's sales in local currency grew by approximately 8.7% and 16.0%, respectively (approximately 8.0% and 15.0%, respectively, before the exclusion of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee). Excluding green coffee sales, growth in local currency amounted to 14.8% and 15.3% in the year and in the quarter, respectively. Most of the growth originates in R&G sales. The increase in the Três Corações joint venture's local currency sales reflects price increases introduced in 2014 and 2015 in light of the rising cost of green coffee to Três Corações compared to the corresponding periods last year, as well as volume growth in sales. The sales growth also reflects sales of machines and capsules under the TRES brand. Itamaraty sales under the Três Corações joint venture began toward the end of the first quarter of the year, and their impact in the current period was immaterial.

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

Growth in the Três Corações joint venture's Shekel sales in the year and in the fourth quarter of 2015 compared to the corresponding periods last year was adversely affected by the erosion of the average exchange rate of the Brazilian Real against the Shekel, which amounted to NIS 412 million and NIS 154 million, respectively.

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

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

<u>The former USSR countries</u>

Following the political crisis in Russia and Ukraine and the complexity of Russia's relations with the West and as a result of the drop in oil prices, the Ukrainian and Russian currencies devalued significantly against the major currencies, including the US Dollar (which adversely impacted the cost of sales in the region) and the Shekel (causing negative translation differences). Additionally, the competitive environment in the region has remained challenging.

The Company's sales in the region in local currency grew in the year and in the fourth quarter of 2015 by approximately 44.4% and 42.9%, respectively, compared to the corresponding periods last year. The Company's sales in local currency mainly reflect price increases introduced in light of the devaluation of the Russian and Ukrainian currencies against the US Dollar, as mentioned above.

The Company's Shekel sales in the region decreased by approximately NIS 33 million in the year and remained unchanged in the fourth quarter compared to the corresponding periods last year, and were affected by negative translation differences against the Shekel as mentioned.

<u>Poland</u>

The Company's sales in Poland in local currency increased by approximately 1.8% in the year and fell by 12.8% in the fourth quarter of 2015, compared to the corresponding periods last year. Sales reflected price increases due to a rise in the cost of green coffee (particularly Arabica) to the Company, along with the strengthening of the US Dollar (the currency in which green coffee is purchased) against the Polish Zloty, compared to the corresponding periods last year, as well as a drop in volumes that intensified in the fourth quarter due to the challenging competitive environment.

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

Romania

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

Sales growth in local currency in 2015 reflects volume growth and price increases following an increase in the cost of green coffee to the Company, along with the strengthening of the US Dollar (the currency in which green coffee is purchased) against the Romanian Leu, compared to last year. The Company's sales in the fourth quarter reflect a drop in volumes, particularly against the backdrop of timing differences in commercial activity compared to the corresponding quarter in 2014.

Shekel sales in Romania grew by approximately NIS 19 million in the year and dropped by NIS 9 million in the fourth quarter of 2015 compared to the corresponding periods last year, reflecting negative translation differences due to the erosion of the Romanian Leu against the Shekel.

On June 1, 2015 VAT on food products in Romania was lowered (from 24.0% to 9.0%).

Serbia

The Company's sales in Serbia in local currency decreased by 0.5% and 5.8% in the year and in the fourth quarter of 2015 compared to the corresponding periods last year. Sales were influenced by a consumer trend of preferring cheaper coffee brands and by price erosion due to the harshening competitive environment. As a result of the moderation in growth of the sales turnover in Serbia and the erosion of the operation's profitability in view of the erosion of the local currency against the US Dollar and a limited ability to raise prices, the Company revised its forecasts for the next few years and recorded a provision for impairment in respect of intangible assets attributed to the operation in Serbia. Accordingly, in 2015 the Group included a provision of NIS 22 million (of which NIS 14 million were recorded in the fourth quarter of the year). For further information, see Note 15.3 to the financial statements as at December 31, 2015.

Shekel sales in Serbia dropped by approximately NIS 22 million and NIS 9 million in 2015 and in the fourth quarter of the year compared to the corresponding periods last year, and were affected by negative translation differences as a result of the erosion of the Serbian Dinar against the Shekel.

Israel

The Company's sales in Israel decreased by approximately NIS 42 million and NIS 15 million in 2015 and in the fourth quarter of the year, respectively, compared to the corresponding periods last year. The decrease is explained by a more intense competitive environment, effective price decreases and a negative effect of the sales mix. Additionally, after the Food Law was introduced in the beginning of 2015 certain costs were classified as discounts deducted from sales, as opposed to prior years in which similar costs were classified as part of selling and marketing expenses (approximately NIS 13 million and NIS 1 million, respectively). Pro forma for the classification of costs in respect of the Food Law, the drop in sales in the year would have amounted to 4.3% and to 8.6% in the quarter.

The operating profit of Israel Coffee dropped by NIS 17 million in 2015 and remained unchanged in the fourth quarter compared to the corresponding periods in 2014. The decrease in operating profit is the result of the drop in sales as mentioned, of the increase in the cost of green coffee to the Company, and of the strengthening of the US Dollar (in which green coffee is purchased) against the Shekel, compared to the corresponding periods last year. By contrast, an improvement in the instant coffee supply chain in Israel was achieved, as well as a reduction in operating expenses.

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in 2015 according to StoreNext figures held an 11.2% share of the total retail domestic food and beverage market in value terms (compared to 11.5% in 2014). The Israeli market is the Group's home market, where it is active in various categories. According to StoreNext, in 2015 the Israeli food and beverage market grew by 1.9% in financial value.

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

In 2015 sales by Strauss Group's entire operation in Israel totaled approximately NIS 3,982 million compared to NIS 4,128 million last year, a decrease of 3.5%. In the fourth quarter of the year Israel sales totaled NIS 961 million versus NIS 971 million last year, a decrease of 1.0%. After the Food Law was introduced in the beginning of 2015 certain costs were classified as discounts deducted from sales, as opposed to prior years in which similar costs were classified as part of selling and marketing expenses. Excluding the classification of costs following the Food Law, the decrease in sales by the Group's entire operation in Israel would have amounted to 1.7% in the year, whereas in the fourth quarter sales would have increased by 0.6%.

Strauss Israel

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

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

Sales

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

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

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

Gross profit

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

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

In the fourth quarter of 2015 Strauss Israel's gross profit decreased by approximately NIS 3 million, with 0.6% reduction in the gross profit margin, compared to the corresponding quarter last year. Pro forma for the classification of costs in respect of the Food Law, the gross profit margin increased by approximately 0.7%.

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

Operating profit

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

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

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

The International Dips & Spreads Activity

The Group develops, manufactures, sells, markets and distributes dips and spreads through Sabra in the US and Canada, and through Obela in Mexico and Australia. The activities of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (each party holds 50%). In the GAAP report the Group's holdings in Sabra and Obela are accounted for in the equity method.

Sabra is the largest refrigerated flavored spreads company in the US. According to IRI, Sabra's value market share of the total refrigerated dips and spreads category in the 52 weeks ended on December 27, 2015 was 27.8% (Number 1 in the market), compared to 28.5% in the corresponding period last year. Sabra's value market share of the hummus category in the same period was 60.7%, compared to 62.7% last year.

Sales volumes in Australia and Mexico are immaterial. Nevertheless, it is noted that the company leads the hummus market in Australia in terms of market share as well as in Mexico. In 2015, growth in the company's sales volumes was recorded in both countries.

Sabra

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

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

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

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

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

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

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

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

Obela

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

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

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

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

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

Other Operations

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

Strauss Water

Through Strauss Water the Group is active in the water market in the development, assembly, sale and servicing of systems for the filtration, purification and carbonation of drinking water, mainly in Israel, China and the UK.

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

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

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

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

Max Brenner

On the date of publication of the report, the Max Brenner chain comprises sixty-two "Chocolate Bars" in Israel and around the world, fifty-seven under franchise and five owned by the Company (in the US: New York, Philadelphia, New Jersey, Boston and Maryland). The Max Brenner branches are located in Australia (40), Israel (8), the US (5), Japan (4), Russia (2), Singapore (2) and South Korea (1).

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

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

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

The cash flow from operating activities in the Company's separate financial statements ("solo report") for the year ended December 31, 2015 and for the year ended December 31, 2014 is negative (NIS 76 million and NIS 77 million, respectively). Notwithstanding the foregoing, on March 20, 2016 the Board of Directors of the Company determined that the abovementioned negative cash flow is not indicative of a liquidity issue in the Company. This decision is based, *inter alia*, on a review of the Company's existing and anticipated liabilities in the two years commencing on the date of approval of the financial statements as at December 31, 2015, including the Company's liabilities to the holders of its debentures (Series B and Series D) and to banking corporations and their maturity dates, and on an inspection of existing and anticipated sources for the repayment of these liabilities, including the Company's ability to draw future dividends from the Company's major investees; receipt of regular dividends from the Company's major investees in the past; and the Company's ability to raise funds from banking corporations and/or other sources to the extent necessary; as well as on the financial strength of the major investees of the Company and their leading competitive position in the markets where these companies operate.

It is emphasized that the abovementioned information on the Company's sources of finance and income is forward-looking information, as this term is defined in the Securities Law, 1968, which is primarily based on the Company's forecasts. There can be no assurance that these assessments will, in fact, occur, or that they will not occur in a different form, including materially, than estimated, as a result of market behavior and occurrence of the risk factors set forth in section 30 in Part A of the Company's 2015 Periodic Report.

EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT

Reporting according to linkage bases and sensitivity tests

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

Description of the market risks to which the Company is exposed

The Company operates in areas that are by nature basic and stable; however, there are several factors and trends that are liable to influence both the scope and profitability of the Company’s business. For a description of the market risks to which the Group is exposed, see section 30 in the "Description of the Company's Business Affairs" as at December 31, 2015 ("Discussion on Risk Factors"), and the section "Changes in the Economic Environment" in this chapter.

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

Commodities procurement

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

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

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

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

As mentioned, the Company has long-term liabilities, primarily in Shekels, partly Index-linked and partly at fixed interest rates, loans denominated in foreign currency, part of which are at floating interest rates, and is exposed to future cash flows in currencies that differ from the functional currencies of the subsidiaries. To protect the Company from exposure to fluctuations in foreign currency exchange rates, Index and interest rates, the Company occasionally executes hedging transactions for partial coverage using forward contracts, futures contracts on Index rates, and futures contracts and option contracts on interest rates and the various currency exchange rates.

The Company’s policy is to match, to the greatest extent possible, assets and liabilities in the same currency, using financial derivatives when they are available and advantageous.

In its international activity the Company does not regularly hedge the measurement basis of the results of its operations or its Statement of Financial Position against changes arising from the various currency exchange rates against the Shekel.

The Company has committees that manage the risks related to interest rates, currency exposure, financial investments, etc., in which all the relevant professional people in the Company participate.

The hedging and investment activities are conducted by the Group's Financial Department in Group Corporate Center and are the responsibility of Strauss Coffee's CFO in all aspects relating to the coffee business, of Strauss Water's CFO with respect to the water business, and of the Group EVP Finance in regard to the business of the Group as a whole.

Customer credit

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

Valuations

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

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

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

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

ASPECTS OF CORPORATE GOVERNANCE

The Board of Directors and its Standing Committees

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

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

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

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

Risk Management

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

Sustainability, Corporate Responsibility, Social Investment and Donations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Social investment and community relations

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

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

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

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

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

E. <u>Stakeholder dialogue</u>

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

INFORMATION ON THE INTERNAL AUDITOR OF THE COMPANY

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

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

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

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

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

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

Considerations in determining the subjects in the audit plan:

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

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

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

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

Scope of engagement: Following is an itemization of the hours spent on the internal audit of the Group:

- In the Company itself and in investee companies in Israel - 4,269 hours.
- In investee companies abroad - 2,992 hours.

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

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

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

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

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

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

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

DIRECTORS WITH ACCOUNTING AND FINANCIAL SKILLS

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

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

INDEPENDENT DIRECTORS

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

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

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

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

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

- Before the financial statements are approved the draft Annual Financial Statements are forwarded to the Committee members and the rest of the members of the Board of Directors for their review. The draft financial statements of the Company were forwarded to the members of the Board approximately seven business days before the date of approval of the financial statements, and the recommendations of the Financial Statements Review Committee were forwarded to the members of the Board before the date of approval of the Annual Financial Statements of the Company. The EVP Finance and the Company Controller hold meetings from time to time with the Chairperson of the Financial Statements Review Committee on subjects related to the financial statements of the Company. Before the financial statements as at December 31, 2015 were approved, a meeting was held with the Chairperson to discuss material issues that arose during the preparation of the Annual Financial Statements.

- The financial statements are presented for discussion by the Financial Statements Review Committee. In this discussion, the EVP Finance extensively reviews the business activity and business results of the Company for the reporting period. Additionally, the EVP Finance reviews the critical estimates applied, material issues that arose during the preparation of the financial statements, the internal controls relating to financial reporting, the completeness and fairness of the disclosure in the financial statements, holds a discussion on the effectiveness of internal control over financial reporting and disclosure in the Company, the accounting policy adopted and accounting treatment applied in the material affairs of the corporation. On March 14, 2016 the Financial Statements Review Committee held a discussion on the financial statements of the Company as described. The meeting was attended by all members of the Financial Statements Review Committee, Ofra Strauss, Ronit Haimovitch and Adi Strauss as observers, the Company CEO, the EVP Finance, the CLO, the Company Controller, the Company Auditor and the Internal Auditor.

- At the meeting of the Board of Directors on March 20, 2016 the Board discussed the recommendation of the Financial Statements Review Committee to approve the financial statements of the Company as at December 31, 2015. The Board of Directors received an update from Company Management that no event or matter had occurred, which is able to alter the assessment of the effectiveness of internal control as presented in the latest Annual Report. In the opinion of the Board of Directors, the Committee's recommendations and the necessary materials were forwarded to the members of the Board a reasonable time before the abovementioned meeting. All members of the Board of Directors were present at the meeting (except for Adi Strauss), as well as the Company CEO, the Company EVP Finance, the CLO, the Company Controller and the Company Auditor.

- After the Board of Directors was satisfied that the financial statements accurately reflect the Company's position and the results of its operations, the Board of Directors resolved to approve the financial statements of the Company for the year 2015.

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UPDATE ON ASSIMILATION OF AN INTERNAL ENFORCEMENT PROGRAM RELATING TO SECURITIES

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

NEGLIGIBLE TRANSACTIONS

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

REGULATIONS WITH RESPECT TO FINANCIAL REPORTING BY THE CORPORATION

Critical Accounting Estimates

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

AUDITOR'S FEES

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

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

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

* Restated.

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

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

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

LIABILITY REPORT ACCORDING TO PAYMENT DATES

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

POST STATEMENT OF FINANCIAL POSITION DATE EVENTS

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

DEDICATED DISCLOSURE TO DEBENTURE HOLDERS

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

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

Ofra Strauss	Gadi Lesin
Chairperson of the Board	Chief Executive Officer

March 20, 2016

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

Strauss Group Ltd.

Financial Statements
As at December 31, 2015

Convenience translation from Hebrew

Strauss Group Ltd.

Consolidated Financial Statements as at December 31, 2015

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Auditors' Report to the Shareholders of Strauss Group Ltd.

We have audited the accompanying consolidated statements of financial position of Strauss Group Ltd. (hereinafter "the Company") as of December 31, 2015 and 2014 and the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain consolidated subsidiaries whose assets constitute 3% and 2.2% of the total consolidated assets as of December 31, 2015 and 2014, respectively, and whose revenues constitute 2%, 1.5% and 2.4% of the total consolidated revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Furthermore, we did not audit the financial statements of equity accounted investees the investment in which amounted to approximately NIS 14 million as of December 31, 2015, and the Group's share in their profits amounted to approximately NIS 4 million. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of December 31, 2015 and 2014 and their results of operations, changes in equity and cash flows, for each of the three years in the period ended December 31, 2015, in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting, and its amendments, the components of the Company's internal control over financial reporting as of December 31, 2015, and our report dated March 20, 2016 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 20, 2016

Convenience translation from Hebrew
Strauss Group Ltd.

Consolidated Statements of Financial Position

	Note	December 31 2015	2014
		NIS millions	
Current assets			
Cash and cash equivalents	7	560	767
Securities and deposits	8	60	121
Trade receivables	9	926	907
Income tax receivables		20	53
Other receivables and debit balances	10	183	256
Inventory	11	581	681
Assets held for sale	16.3	62	36
Total current assets		2,392	2,821
Investments and non-current assets			
Investment in equity-accounted investees	12	1,018	1,030
Other investments and long-term debt balances	13	208	245
Fixed assets	14	1,612	1,596
Intangible assets	15	853	979
Deferred expenses	3.6	41	20
Investment property	16	7	29
Deferred tax assets	35	16	22
Total investments and non-current assets		3,755	3,921
Total assets		6,147	6,742

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

Date of approval of the financial statements: March 20, 2016

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

Consolidated Statements of Financial Position (cont'd)

	Note	December 31 2015	2014
		NIS millions	
Current liabilities			
Current maturities of debentures	20	178	179
Short-term credit and current maturities of long-term loans and other liabilities	20	181	150
Trade payables	17	713	846
Income tax payables		80	12
Other payables and credit balances	18	531	596
Provisions	19	34	37
Total current liabilities		1,717	1,820
Non-current liabilities			
Debentures	20	834	1,020
Long-term loans and credit	20	943	1,045
Long-term payables and credit balances	21	88	91
Employee benefits, net	22	55	61
Deferred tax liabilities	35	202	165
Total non-current liabilities		2,122	2,382
Equity and reserves	26		
Share capital		244	244
Share premium		622	622
Reserves		(965)	(676)
Retained earnings		1,804	1,633
Total equity attributable to the Company's shareholders		1,705	1,823
Non-controlling interests		603	717
Total equity		2,308	2,540
Total liabilities and equity		6,147	6,742

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

Consolidated Statements of Income

	Note	2015	2014	2013
		For the year ended December 31		
		NIS millions		
Sales	29	5,183	5,415	5,605
Cost of sales	30	3,228	3,318	3,389
Gross profit		1,955	2,097	2,216
Selling and marketing expenses	31	1,198	1,318	1,341
General and administrative expenses	32	329	339	346
		1,527	1,657	1,687
Share of profit of equity-accounted investees		198	219	175
Operating profit before other income (expenses)		626	659	704
Other income		16	4	25
Other expenses		(57)	(118)	(119)
Other expenses, net	33	(41)	(114)	(94)
Operating profit		585	545	610
Financing income		21	40	22
Financing expenses		(122)	(107)	(136)
Financing expenses, net	34	(101)	(67)	(114)
Income before taxes on income		484	478	496
Taxes on income	35	(139)	(144)	(165)
Income for the year		345	334	331
Attributable to:				
The Company's shareholders		257	235	234
Non-controlling interests		88	99	97
Income for the year		345	334	331
Earnings per share	36			
Basic earnings per share (in NIS)		2.40	2.20	2.19
Diluted earnings per share (in NIS)		2.39	2.18	2.17

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

Consolidated Statements of Comprehensive Income

	Note	For the year ended December 31 2015	2014	2013
		NIS millions		
Income for the year		345	334	331
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:				
Foreign currency translation differences	26.5	(168)	(255)	(133)
Changes in fair value of available-for-sale financial assets, net		3	(10)	13
Other comprehensive income (loss) from equity-accounted investees		(219)	22	(137)
Total other comprehensive loss items that will be transferred to profit or loss in subsequent periods, net		(384)	(243)	(257)
Other comprehensive loss items that will not be transferred to profit or loss in subsequent periods:				
Change in employee benefits, net		-	(6)	(1)
Total other comprehensive loss items that will not be transferred to profit or loss in subsequent periods, net		-	(6)	(1)
Comprehensive income (loss) for the year		(39)	85	73
Attributable to:				
The Company's shareholders		(32)	61	29
Non-controlling interests		(7)	24	44
Comprehensive income (loss) for the year		(39)	85	73

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders								
	Share capital	**Share premium**	**Translation reserve**	**Treasury shares**	**Reserve in respect of available-for-sale financial assets**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	NIS millions								
Balance as at January 1, 2015	244	622	(661)	(20)	5	1,633	1,823	717	2,540
Changes in 2015:									
Total comprehensive income (loss) for the year									
Income for the year	-	-	-	-	-	257	257	88	345
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	(126)	-	-	-	(126)	(42)	(168)
Other comprehensive loss from equity-accounted investees	-	-	(164)	-	-	-	(164)	(55)	(219)
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	1	-	1	2	3
Other comprehensive loss for the year, net	-	-	(290)	-	1	-	(289)	(95)	(384)
Total comprehensive income (loss) for the year	-	-	(290)	-	1	257	(32)	(7)	(39)
Share-based payment	-	-	-	-	-	14	14	-	14
Share-based payment to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	1	1
Discount of a promissory note from non-									
Dividend	-	-	-	-	-	(100)	(100)	-	(100)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(108)	(108)
Balance as at December 31, 2015	244	622	(951)	(20)	6	1,804	1,705	603	2,308

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

Consolidated Statements of Changes in Equity (cont'd)

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury shares	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2014	243	622	(496)	(20)	9	1,387	1,745	806	2,551
Changes in 2014:									
Total comprehensive income (loss) for the year									
Income for the year	-	-	-	-	-	235	235	99	334
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	(191)	-	-	-	(191)	(64)	(255)
Other comprehensive income (loss) from equity-accounted investees	-	-	26	-	-	-	26	(4)	22
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(4)	-	(4)	(6)	(10)
Change in employee benefits, net	-	-	-	-	-	(5)	(5)	(1)	(6)
Other comprehensive loss for the year, net of tax	-	-	(165)	-	(4)	(5)	(174)	(75)	(249)
Total comprehensive income (loss) for the year	-	-	(165)	-	(4)	230	61	24	85
Exercise of options granted to employees	1	-	-	-	-	-	1	-	1
Share-based payment	-	-	-	-	-	16	16	-	16
Share-based payment to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	2	2
Discount of a promissory note from non-controlling interests in a subsidiary	-	-	-	-	-	-	-	(12)	(12)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(103)	(103)
Balance as at December 31, 2014	244	622	(661)	(20)	5	1,633	1,823	717	2,540

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

Consolidated Statements of Changes in Equity (cont'd)

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury shares	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2013	243	622	(287)	(20)	4	1, 325	1,8 87	850	2, 737
Changes in 2013 :									
Total comprehensive income (loss) for the year									
Income for the year	-	-	-	-	-	234	234	97	331
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	(100)	-	-	-	(100)	(33)	(133)
Other comprehensive loss from equity-accounted investees	-	-	(109)	-	-	-	(109)	(28)	(137)
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	5	-	5	8	13
Change in employee benefits, net	-	-	-	-	-	(1)	(1)	-*	(1)
Other comprehensive Income (loss) for the year, net of tax	-	-	(209)	-	5	(1)	(205)	(53)	(258)
Total comprehensive income (loss) for the year	-	-	(209)	-	5	233	29	44	73
Share-based payment	-	-	-	-	-	13	13	-	13
Share-based payment to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	5	5
Dividend paid	-	-	-	-	-	(157)	(157)	-	(157)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(73)	(73)
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	(27)	(27)	(20)	(47)
Balance as at December 31, 2013	243	622	(496)	(20)	9	1,3 87	1,745	806	2, 551

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

Consolidated Statements of Cash Flows

	Note	2015	2014	2013
		For the year ended December 31		
		NIS millions		
Cash flows from operating activities				
Income for the year		345	334	331
Adjustments:				
Depreciation		132	129	137
Amortization of intangible assets and deferred expenses		51	53	48
Impairment loss of fixed assets, intangible assets and investment property, net	14.1, 15.1, 16.3	29	36	43
Other expenses (income), net		(14)	44	13
Expenses in respect of share-based payment and other liability plans		15	21	18
Financing expenses, net		101	67	114
Income tax expense		139	144	165
Share of profit of equity-accounted investees		(198)	(219)	(175)
Change in inventory		62	(82)	(86)
Change in trade and other receivables		(56)	(129)	(6)
Change in long-term receivables		9	(9)	(4)
Change in trade and other payables		(204)	183	54
Change in employee benefits		(3)	4	6
Interest paid		(99)	(88)	(84)
Interest received		26	17	26
Income tax received (paid), net	35.1.2 A	14	(131)	(120)
Net cash flows from operating activities		349	374	480
Cash flows from investing activities				
Sale (purchase) of marketable securities and deposits, net		61	132	(28)
Proceeds from sale of fixed assets, intangible assets and investment property		24	40	31
Investment in fixed assets, intangible assets and held-for-sale assets		(182)	(377)	(336)
Acquisition of subsidiary		(4)	(82)	-
Investment in intangible assets and deferred Expenses		(30)	(35)	(40)
Investment in long-term deposits		-	-	(3)
Repayment of deposits and long-term loans granted		50	57	45
Long-term loans granted		(21)	(42)	(70)
Taxes received (paid) due to the sale of investment property		5	-	(2)
Dividends from investee companies	12.4	48	96	88
Investment in investee companies	12.6	(32)	-	-
Gain of control in an equity-accounted investee		-	1	-
Net cash flows used in investing activities		(81)	(210)	(315)

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

Consolidated Statements of Cash Flows (cont'd)

	Note	For the year ended December 31		
		2015	2014	2013
		NIS millions		
Cash flows from financing activities				
Short-term bank credit, net		43	3	(4)
Proceeds from issuance of debentures, net		-	237	247
Receipt of long-term loans		38	58	203
Repayment of long-term loans and debentures		(329)	(295)	(235)
Acquisition of non-controlling interests in a subsidiary		-	-	(47)
Change in payables – equity-accounted investee		-	(64)	(48)
Dividends paid	26.3	(100)	-	(157)
Dividend paid to non-controlling interests in a subsidiary		(108)	(103)	(79)
Net cash flows used in financing activities		(456)	(164)	(120)
Net increase in cash and cash equivalents		(188)	-	45
Cash and cash equivalents as at January 1		767	772	735
Effect of exchange rate fluctuations on cash balances		(19)	(5)	(8)
Cash and cash equivalents as at December 31		560	767	772

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

Note 1 - General

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

The Company and its investee companies (hereinafter: the "Group") are a group of industrial and commercial companies operating in Israel and abroad and active mainly in the development, manufacture, marketing and sale of a broad variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration and purification products.

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

The consolidated financial statements of the Group as at and for the year ended December 31, 2015 comprise those of the Company and its subsidiaries, as well as the Group's rights in joint arrangements. The financial statements were approved for publication by the Company's board of directors on March 20, 2016.

Note 2 - Basis of Preparation

2.1 Statement of compliance with International Financial Reporting Standards

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were prepared in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

2.2 Basis of measurement

The consolidated financial statements were prepared on the historical cost basis except for the following items:

- Derivative financial instruments and securities held for trading, which are measured at fair value through profit or loss
- Inventory, measured at the lower of cost or net realizable value
- Available-for-sale financial assets
- Provisions
- Assets and liabilities in respect of employee benefits
- Deferred tax assets and liabilities
- Investments in associates and joint ventures

For information on the method in which these items are measured, see Note 3, Significant Accounting Policies.

Note 2 - Basis of Preparation (cont'd)

2.3 Functional and presentation currency

The consolidated financial statements are presented in NIS, which is the functional currency of the Company. The financial information is presented in NIS millions and has been rounded to the nearest million. The NIS is the currency that represents the principal economic environment in which the Group operates.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. The estimates and their relevant assumptions are based on past experience and on other factors, including expectations relating to future events, which management considers reasonable under the circumstances. Actual results may differ from the estimates made.

Additionally, these estimates and underlying assumptions are reviewed on an ongoing basis. The judgments made by management when implementing IFRS and determining the estimates are discussed in Note 4.

2.5 Operating cycle

The Group's operating cycle is one year. As a result, current assets and current liabilities include items designated and expected to be realized within one year.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently in all periods presented in the consolidated financial statements. The accounting policies have been applied consistently by all Group companies. Policies that represent a choice in accounting treatment are presented in this Note in bold print.

3.1 Basis of consolidation

3.1.1 Business combinations

The Group applies the acquisition method to all business combinations.

The acquisition date is the date whereon the acquirer obtains control over the acquiree. Control exists when the Group is exposed to, or the rights owner of, varying returns as a result of its involvement in the acquiree and has the ability to influence these returns through its influence in the acquiree. In reviewing control, tangible rights held by the Group and others are taken into account.The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of rights that do not confer control in the acquiree less the net amount of the identifiable assets acquired and the liabilities assumed.

On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

Furthermore, goodwill is not adjusted in respect of the utilization of carryforward tax losses that existed on the date of the business combination.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, liabilities incurred by the acquirer from the previous owners of the acquiree and equity instruments that were issued by the Group. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in fair value of the contingent consideration classified as a financial liability in profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.1 Business combinations (cont'd)

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as valuation and professional or consulting fees, other than those associated with an issuance of debt or equity instruments related to the business combination, are expensed in the period wherein the services are received. **The Group recognizes costs related to business combinations as other expenses.**

3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are adjusted to align them with the policies adopted by the Group.

3.1.3 Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company and they include additional components such as share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

<u>Measurement of non-controlling interests on the date of the business combination</u>
Non-controlling interests, which are instruments granting a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), **are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.**

<u>Allocation of other comprehensive income or loss among shareholders</u>
Profit or loss and any components of other comprehensive income are attributed to the owners of the Company and the non-controlling interests. The total profit or loss and other comprehensive income are attributed as mentioned even when the result is a negative balance of the non-controlling interests.

<u>Transactions with non-controlling interests while retaining control</u>
Transactions with non-controlling interests while retaining control are accounted for as capital transactions. **Any variance between the consideration paid or received and the change in non-controlling interests is classified as the Company's shareholders' share directly to retained earnings.**

The amount of the adjustment to non-controlling interests is calculated as follows:

For an increase in the holding rate, according to the proportionate share acquired from the balance of non-controlling interests in the consolidated financial statements prior to the transaction.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.3 Non-controlling interests (cont'd)

For a decrease in the holding rate, according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.

Furthermore, when the holding rate in the subsidiary changes, while retaining control, the Company re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

3.1.4 Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Subsequently, the retained interest is accounted for according to the level of influence retained by the Group in the relevant company. **The difference between the sum of the proceeds and fair value of the retained interest, and the derecognized balances, is recognized in profit or loss under other income or expenses.**

3.1.5 Investment in associates and joint ventures

Associate companies are entities in which the Group has a significant influence, but not control, generally expressed in the holding of 20% to 50% of the voting rights. Joint arrangements in which the Company has rights to the net assets of the joint arrangement are classified as joint ventures. Investments in associates and joint ventures are accounted for in the equity method, and the investment is initially recognized at cost, including transaction costs. The consolidated financial statements include the Group's share of profit or loss and of other comprehensive income of equity-accounted investees, following adjustments, to the extent required, to align accounting policies to those adopted by the Group, from the date on which the significant influence or joint control occurs, until the date whereon such influence and control no longer exist.

The joint ventures' operations constitute an integral part of the Group's operations, and accordingly, the Group's share in their results is included in the operating profit in the statement of income.

In the event of a decrease in the holding rate of an equity-accounted investee, while retaining significant influence or joint control, the Group detracts a relative portion from its investment, and **recognizes a profit or loss from the sale, under the other income or expenses item in the statement of income.**

3.1.6 Transactions eliminated on consolidation

Intra-group balances and any unrealized income and expenses arising from intra-group transactions were eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees were eliminated against the

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.6 Transactions eliminated on consolidation (cont'd)

investment according to the Group's interest in these investments. Unrealized losses were eliminated in the same way as unrealized gains, provided, however, that there is no evidence of impairment.

3.2 Foreign currency

3.2.1 Foreign currency transactions

Foreign currency transactions are translated into the relevant functional currency of the Group companies according to the exchange rate in effect on the transaction date. **Exchange differences arising on the settlement of monetary items or on reporting monetary items at exchange rates different from those at which they were initially recorded during the period or reported in previous financial statements are charged to specific income or expense items according to the nature of the monetary item (exchange differences in respect of trade receivables are recognized in income, exchange differences in respect of trade payables are recognized in the cost of sales, and exchange differences in respect of foreign currency loans are recognized in financing costs).**

Monetary items are translated using the exchange rate at the date of the statement of financial position. Nonmonetary items denominated in foreign currency and measured at historical cost are translated using the exchange rate at the date of the transaction.

3.2.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, were translated into NIS according to the exchange rates in effect as at the reporting date. The income and expenses of foreign operations were translated into NIS using the exchange rates in effect at the transaction dates.

Exchange differences in respect of translation were recognized directly in other comprehensive income as a separate item of equity, translation reserve. When the foreign operation is a non-wholly-owned subsidiary of the Group, the relevant proportionate share of the foreign operation translation differences is allocated to the non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control, is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit and loss as a part of the gain or loss on disposal. In addition, when the Group's interest in a subsidiary that includes a foreign operation changes while control of the subsidiary is retained, a proportionate part of the cumulative amount of translation differences that was recognized in other comprehensive income is reattributed to non-controlling interests.

Note 3 - Significant Accounting Policies (cont'd)

3.2 Foreign currency (cont'd)

3.2.2 Foreign operations (cont'd)

As a rule, exchange differentials in respect of loans received or granted to a foreign operation, including foreign operations which are subsidiaries, are recognized in income statements in the consolidated reports. When the settlement of loans received or granted to a foreign operation is neither planned nor likely in the foreseeable future, gains and losses from exchange differentials arising from these monetary items are included as part of the net investment in the foreign operation and are recognized in other comprehensive income, and are presented within equity in the translation reserve.

3.3 Financial instruments

3.3.1 Non- Derivative Financial Instruments

Non-derivative financial instruments include investments in cash and cash equivalents, securities, deposits, short and long-term trade and other receivables, loans and credit received, debentures issued, and trade and other payables.

Non-derivative financial instruments are initially recognized at fair value plus any directly attributable transaction costs. A financial instrument is recognized when the Group assumes the contractual conditions of the instrument. Financial instruments are derecognized when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers the financial assets to others without retaining control over the asset, or in practice transfers all the risks and rewards arising from the asset. Purchases and sales of financial assets made in the usual way are recognized on the transaction date, i.e. on the date the Group undertook to purchase or sell the asset. Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is settled or cancelled.

Cash and cash equivalents
In the statements of financial position cash or cash equivalents include cash, short-term deposits with banks and other highly liquid short-term investments, the term of which at the time of deposit is no more than three months.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognized at fair value plus any attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized costs using the effective interest method, less losses from securities.

Loans and receivables include cash and cash equivalents, trade and other receivables and long-term debit balances.

Available-for-sale financial assets
The Group's investments in available-for-sale financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3.10.3), are recognized directly in other comprehensive income and presented in equity. When an

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.1 Non-derivative financial instruments (cont'd)

investment is sold, the cumulative gains or losses accrued in equity are recognized in the statement of income.

Financial assets at fair value through profit or loss
The Group's financial assets, which include securities held to support the Group's short-term liquidity requirements, are classified as held for trading and measured at fair value through profit or loss. Attributable transaction costs are recognized in the statement of income when incurred.

Non-derivative financial liabilities
Non-derivative financial liabilities include debentures and loans received, and short and long-term trade and other payables. Financial liabilities are initially recognized at fair value plus any attributable transaction costs. After initial recognition, these liabilities are measured at amortized cost using the effective interest method.

Transaction costs directly attributed to the expected issuance of an instrument that will be classified as a financial liability are recognized as deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon first recognition, or are deducted as financing expenses in the statement of income when the issue is no longer expected to take place.

Financial liabilities are derecognized when the Group's obligation has expired, has been discharged or has been cancelled.

Offset of financial instruments
Financial assets and liabilities are offset and the net amounts presented in the statement of financial position when there is a current legal right (that is not conditional on the occurrence of a future event) to offset the amounts recognized, which is legally enforceable in all of the following circumstances: in the ordinary course of business, in the event of failure of credit and in the event of insolvency or bankruptcy of the entity and all counterparties, and there is an intention either to settle the financial assets and financial liabilities on a net basis, or to realize the asset and settle the liability simultaneously.

3.3.2 Derivative financial instruments

Derivatives
The Group holds derivative financial instruments mainly to economically hedge against risks relating to commodity prices and against interest, index and foreign currency risks arising from its operating, financing and investing activities. The derivative financial instruments mainly comprise forward contracts and options on currencies, index and interest as well as commodity forwards and options. Derivatives not considered accounting hedges are initially recognized and measured at fair value at each cutoff date, with changes in fair value recognized in the statement of income. Costs that can be specifically allocated to a transaction are recognized in profit or loss when incurred. **Gains and losses on commodity forwards are presented under cost of sales whereas other gains and losses are presented under financing costs.**

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.3 CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured in each period in accordance with the actual increase or decrease in the CPI.

3.3.4 Share capital

<u>Ordinary shares</u>
Incremental costs directly attributed to the issuance of ordinary shares and share options net of tax effect are recognized as a deduction from equity.

<u>Treasury shares</u>
When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, plus directly attributable costs, is recognized as a deduction from equity**.** **Repurchased shares are classified as treasury shares.**

3.3.5 Redeemable preferred shares held by non-controlling interest holders

Preferred shares which are redeemable at the holders' option are classified as liabilities. Dividends on such shares are presented as a reduction of liabilities, while the interest in their respect is recorded as financing expenses when the dividends are declared.

3.4 Fixed assets

3.4.1 Recognition and measurement

Fixed asset items are measured at cost (including advance payments in respect of trade payables) less investment grants, accumulated depreciation and accumulated impairment losses (see Note 3.10.1). The cost of self-constructed assets includes the costs of materials and direct labor, and any other costs directly attributable to bringing the assets to the location and condition required for their intended use. The Group capitalizes borrowing costs to specific and non-specific credit in respect of fixed assets that require a considerable period of time to prepare for their intended use, during the period required for completion and construction until the date on which they are ready for their designated use.

Gain or loss on the disposal of a fixed asset item is determined by comparing the net proceeds from disposal with the carrying amount of the asset, and is recognized net within "other income" or "other expenses", as relevant, in the income statement.

Note 3 - Significant Accounting Policies (cont'd)

3.4 Fixed assets (cont'd)

3.4.2 Spare parts and tools

Spare parts and tools are presented as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise classified as inventory.

3.4.3 Subsequent costs

Improvement and enhancement costs are added to the cost of the fixed asset if it is expected that the future economic benefits embodied in the improvement will flow to the Group and its cost can be measured reliably. The costs of day-to-day maintenance are recognized in the statement of income as incurred.

3.4.4 Leasehold improvements

The costs of leasehold improvements are presented as fixed assets and amortized over the shorter of the lease period or the estimated useful life of the improvements, on a straight-line basis.

3.4.5 Depreciation

Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful life of each part of a fixed asset item as presented below, other than land, which is not depreciated.

The principal depreciation rates for the years 2013-2015 are as follows:

	%	
Buildings and leased lands	2-5	
Machinery, equipment	4-30	(Mainly 4-20)
Motor vehicles	15-20	
Furniture and other equipment	3-33	
Leasehold improvements	2-33	

Residual values and useful lives of the assets, and the depreciation method, are reviewed and revised as necessary at least once a year.

3.5 Intangible assets

3.5.1 Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. In subsequent periods goodwill is measured at cost less accumulated impairment losses. For information on measurement of goodwill at initial recognition, see Note 3.1.1.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

3.5.2 Development of software for self-use

Costs that are directly related to the development of unique identified software products that are controlled by the Group and satisfy the conditions for recognition as intangible assets, as described in paragraph 3.5.3 below, are recognized as intangible assets.

Capitalized costs include direct labor costs and other direct costs accumulated until the date whereon the software is available for use.

3.5.3 Research and development

Expenditure on research activities is recognized in the statement of income when incurred. Costs incurred during development are recognized as an intangible asset if it is possible to demonstrate the technological feasibility of completing the intangible asset so that it will be available for use or sale; the intention of the Group to complete the intangible asset and to use or sell the asset; the ability to use the intangible asset or sell it; the manner in which the intangible asset will create future economic benefits; the existence of sufficient resources, technical and other, to complete the intangible asset and the ability to reliably measure the expense required for its development.

The asset is tested for impairment once a year during the development period, and also during the period in which the asset is not available for use. Subsequent to initial recognition the asset is measured at cost less accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development has been completed and the asset is available for use.

3.5.4 Other intangible assets

Other intangible assets include brands, customer relationships and non-competition agreements that were acquired.

3.5.5 Subsequent expenses

Subsequent expenses are costs that were incurred after the recognition of the intangible asset for the purpose of adding to the asset, replacing part of it or for its maintenance. Subsequent expenses are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenses, including expenses related to internally generated goodwill and brands, are recognized in the statement of income when incurred.

3.5.6 Amortization

Intangible assets having a finite useful life are measured at cost net of accumulated amortization and impairment losses.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

3.5.6 Amortization (cont'd)

Amortization is recognized in the statement of income on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use.

The annual rates of amortization for the years 2013-2015 are as follows:

	%	
Brands	10-20	
Computer software	10-33	(mainly 25)
Other*	10-20	

* Customer relationships are amortized using the undiscounted cash flow method.

Goodwill and assets having an indefinite useful life are not amortized. Intangible assets that are not amortized include certain brands and trademarks.

Amortization methods, useful lives and residual values are reviewed at the end of each reporting period at minimum and adjusted if appropriate.

3.6 Deferred expenses

Mainly includes prepaid expenses in respect of operating leases, which are amortized over the lease period on a straight-line basis. See Note 24.4.7.

3.7 Investment property

Investment property is property (land or buildings – or part of a building – or both) held (as owner or as lessee under a finance lease) either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

Investment property is initially measured at cost including capitalized borrowing costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Transaction costs are included in this initial measurement. **Subsequent to initial recognition the Group measures its investment property at historical cost less accumulated depreciation and impairment. The cost is depreciated in the straight line method over the useful life of the property, The cost of self-constructed investment property includes the costs of materials and direct labor, and any other costs directly attributable to bringing the property to the condition required for it to operate as intended by management.**

Note 3 - Significant Accounting Policies (cont'd)

3.7 Investment property (cont'd)

The principal depreciation rates are as follows:

	%	
Buildings	2.5	(Most of the buildings included in investment property assets have been fully depreciated)
Leased land	2	Or over the lease period (including options likely to be exercised) if longer
Owned land	-	

Fixed assets which according to the Company's decision are no longer intended for use by the Group but will be held for the purpose of producing rental revenues or to increase their capital value will be classified as investment property from such date onward and will be treated as described above.

Any gain or loss on disposal of an investment property is determined by comparing the proceeds from disposal and the carrying amount of the item, and is recognized under other income or expenses, as the case may be, in the statement of income.

3.8 Leased assets

Leases, including land leases from the Israel Lands Administration, in which the Group has assumed substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets are recorded and a liability recognized in an amount equal to the lower of fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Future payments for exercising an option to extend the lease from the Israel Lands Administration are not recognized as part of an asset and corresponding liability since they constitute contingent lease payments that are derived from the fair value of the land on the future renewal dates of the lease agreement.

Other leases are classified as operating leases and the leased assets are not recognized on the Group's statement of financial position.

When a lease includes both a land component and a buildings component, each component is considered separately for the purpose of classifying the lease, with the principal consideration in classifying the land component being the fact that land normally has an indefinite useful life.

<u>Operating lease payments</u>
Minimum lease payments made under operating leases, excluding conditional lease payments, are recognized in the statement of income on a straight-line basis over the term of the lease. Prepayments to the Israel Lands Administration in respect of leased lands classified as operating leases are presented as deferred expenses (see Note 3.6).

Note 3 - Significant Accounting Policies (cont'd)

3.8 Leased assets (cont'd)

Finance lease payments

Minimum lease payments made under finance leases are apportioned between the financing expense and the reduction of the outstanding liability. The financing expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.9 Inventory

Inventory is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost is determined as follows:

Raw materials and packaging materials	–	At cost on the basis of the moving average method.
Goods in process and finished goods	–	At calculated cost.
Goods purchased	–	At calculated cost.

3.10 Impairment

3.10.1 Non-financial assets

Assets with an indefinite useful life such as goodwill and intangible assets not yet available for use are not amortized and are tested for impairment once a year. Other non-financial assets (excluding inventory, deferred tax assets and employee benefits assets – see accounting policy 3.9, 3.17 and 3.12, respectively) are tested for impairment if there have been any occurrences or changes in circumstances indicating that their carrying amount will not be recoverable.

The impairment loss recognized is equal to the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less selling expenses and its value-in-use. In testing for impairment assets are allocated to the lowest levels that independently generate cash flow and whose cash flow is independent of cash flows generated by other assets (cash-generating unit). Impaired non-financial assets, excluding goodwill, are tested at each statement of financial position date to identify the possible reversal of the impairment that was recognized in their respect.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to cash-generating units, including those existing in the Group prior to the business combination, which are expected to benefit from the synergies arising from the combination.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. **Goodwill impairment loss is classified as other expenses in the statement of income.**

Note 3 - Significant Accounting Policies (cont'd)

3.10 Impairment (cont'd)

3.10.1 Non-financial assets (cont'd)

For purposes of goodwill impairment testing, when the non-controlling interests were initially measured according to their relative share of the acquiree's net assets the carrying amount of the goodwill is adjusted according to the Company's holding percentage in the cash-generating unit to which the goodwill is allocated.

3.10.2 Trade and other receivables

The Group tests trade and other receivables, which are measured at amortized cost, for impairment when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

In management's opinion, the provisions for doubtful debts adequately reflect the loss embodied in those debts, which collection is doubtful. Management's determination of the adequacy of the provision is based, *inter alia*, on an evaluation of the risk by considering the available information on the financial position of the debtors, the volume of their business and an evaluation of the collateral received from them. Doubtful debts, which Company management considers unlikely to be collected, are written off the Company's books.

Significant trade receivable balances are tested for impairment on an individual basis. The remaining trade receivables are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of the trade and other receivables' balance is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate, **and is recognized as selling and marketing expenses in the statement of income.**

An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized, and is recognized in the statement of income.

3.10.3 Available-for-sale financial assets

An impairment loss in respect of an available-for-sale financial asset is calculated on the basis of its fair value. **According to Group policy, impairment of an investment in an equity instrument of over 20% below the original cost of the asset, or impairment to below the original cost lasting more than nine months, is considered material or prolonged impairment, respectively.**

An impairment loss on available-for-sale financial assets is recognized as other expenses in accordance with the Group's accounting policy (see Note 3.3.1).

Note 3 - Significant Accounting Policies (cont'd)

3.10 Impairment (cont'd)

3.10.4 Investments in equity-accounted investees

An investment in an equity-accounted investee is tested for impairment when there is objective evidence of impairment.

Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognized separately, and therefore is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value-in-use and its net selling price. In estimating value-in-use of an investment in an equity-accounted investee, the Group either estimates its share of the present value of estimated future cash flows that are expected to be generated by the equity-accounted investee, including cash flows from operating activities of the equity-accounted investee and the consideration from the final disposal of the investment, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and is recognized as other expenses in the statement of income. An impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the equity-accounted investee.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized. The investment's carrying amount, after the reversal of the impairment loss, shall not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

3.11 Non-current assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction and not through continuing use.

Before classification as held for sale, the assets are measured in accordance with the Group's accounting policies. In subsequent periods the assets are measured at the lower of their carrying amount and fair value less cost to sell. Depreciable assets classified as held for sale are not depreciated periodically.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in the statement of income. Gains are not recognized in excess of any cumulative impairment loss recorded in the past.

Note 3 - Significant Accounting Policies (cont'd)

3.12 Employee benefits

3.12.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The Group's obligations to make contributions to defined contribution plans in respect of post-retirement benefits are recognized as an expense in the statement of income in the periods in which the employees rendered related services.

3.12.2 Defined benefit plans

The Group's net obligation in respect of defined benefit post-retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The Group determines the net interest on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset).

The discount rate is the yield on the date of the statement of financial position on high yield linked corporate debentures, the maturity dates and currencies of which are similar to the terms of the Group's obligations. The net obligations of the Group also include unrecognized actuarial gains and losses (see below). The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (insofar as relevant, excluding interest). **Remeasurements are recognized immediately, directly in retained earnings, through other comprehensive income**.

The Group offsets the assets of one benefit plan from the liability in another benefit plan only when there is a legally enforceable right to use the surplus of one plan to settle the obligation in respect of another plan, and there is intent to settle the obligation on a net basis or to simultaneously realize the surplus of one plan and settle the obligation in another.

Net interest that was recognized in the statement of income is presented under wage expenses.

3.12.3 Paid vacation and employee convalescence allowance

Employee benefits are classified, for measurement purposes, as short-term benefits or as long-term benefits depending on when the Company expects the benefits to be wholly settled. Employee benefits are classified according to the date whereon the liability falls due.

The Group recognizes the liability and the expense of the payment of leave and convalescence allowance as short-term, according to the entitlement of each employee on a non-discounted basis.

Note 3 - Significant Accounting Policies (cont'd)

3.12.4 Share-based payment transactions

The Company recognizes the benefit created upon granting option warrants to employees as a wage expense, with a corresponding increase in retained earnings, in accordance with the grant date fair value of the option warrants on the basis of the Black & Scholes model.

The benefit is recognized over the vesting period of the option warrants based on the Company's estimates regarding the number of warrants that are expected to vest.

3.12.5 Termination benefits

Employee termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

3.13 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the liability, without adjustment for the Company's credit risk. The carrying amount of the provision is adjusted each period to reflect the time that has passed.

The Group recognizes a reimbursement asset if, and only if, it is virtually certain that the reimbursement will be received if the Company settles the obligation. The amount recognized in respect of the reimbursement does not exceed the amount of the provision.

When an outflow of economic benefits is not expected to be required or when the amount cannot be reliably estimated, disclosure of a contingent liability is made, other than when the probability of an outflow of economic benefits is remote.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and restructuring either has commenced or has been announced publicly. The provision includes direct expenditures caused by and essential for the restructuring, and which are not associated with the continuing operations of the Group.

A provision for onerous contracts is recognized when the expected benefits that will be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of upholding the contract.

Note 3 - Significant Accounting Policies (cont'd)

3.13 Provisions (cont'd)

Provisions for legal actions were created as a result of legal processes occurring in the ordinary course of the Group's business. A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the obligation can be reliably estimated. Cancellation of these provisions refers to a situation in which proceedings have been concluded in the Group's favor. The timing of the expected cash flows in respect of these legal proceedings is uncertain, as it depends on their outcome. Therefore, the provisions are not presented at their current value. The impact of the discount is immaterial.

3.14 Revenue

3.14.1 Sale of products

3.14.1.1 Sale of goods

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. The Group recognizes revenue when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Sales on long-term credit are recorded at the present value of the consideration. Interest income deriving from these transactions is recorded as financing income over the excess credit period.

When it is possible to identify the separate components of a transaction, such as sale of a product and service, revenue is measured in respect of each separate component, and the consideration is allocated on the basis of the fair value of each component, separately.

3.14.1.2 Sale of water appliances for installment payments

Revenue from the sale of water appliances for installment payments, in which framework the Group supplies additional goods and services throughout the term of the contract, is split between the components of the transaction, in such manner that the income from the sale of appliances is recognized at the transaction date, and the income from the additional goods and services is deferred and recognized over the term of the contract. Interest income/expenses deriving from these transactions are recognized in financing income/expenses.

3.14.2 Coffee machine leasing

Revenue from the leasing of coffee machines under a lease classified as an operating lease is recognized over the term of the contract.

Note 3 - Significant Accounting Policies (cont'd)

3.14 Revenue (cont'd)

3.14.3 Revenue from services

Revenue from services rendered is recognized in the statement of income pro rata to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on the percentage of the service already rendered.

3.14.4 Customer discounts

Customer discounts are deducted from revenue on a cumulative basis when the terms and conditions entitling the customer to a discount are created, on the basis of the total annual volume of orders or sales campaigns held by the Group.

In March 2014 the Food Law was published in the Official Gazette. The Food Law determines, inter alia, prohibitions and limitations on actions and arrangements between food suppliers and retailers, including price fixing and the arrangement of shelf space. After the Food Law took effect at the beginning of 2015 certain costs were classified as discounts that are deducted from sales, as opposed to prior years in which similar costs were classified as part of selling and marketing expenses

3.15 Government grants

Unconditional government grants are initially recognized at fair value when there is reasonable assurance that they will be received and the Group will meet the conditions associated with the grant.

Government grants that compensate the Group for expenses incurred are presented as a deduction from the corresponding expenses and recognized in the statement of income on a systematic basis, in the same periods in which the expenses are recognized in the statement of income. Government grants received for the acquisition of assets are presented as a deduction from the relevant assets and are recognized in the statement of income on a systematic basis over the useful life of the asset, as mentioned in Note 3.4.1 above.

Grants from the Chief Scientist in respect of research and development projects are accounted for as Forgivable Loans according to IAS 20. Grants received from the Chief Scientist are recognized as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The difference between the amount received and the fair value on the date of receipt of the grant is recognized as a reduction of research and development expenses. The amount of the liability is reviewed each period, and any changes are recognized in the statement of income.

3.16 Financing income and expenses

Financing income and expenses mainly comprise interest income on funds invested, interest expenses on loans received, net gains (including dividends) on changes in the fair value of financial assets presented at fair value through the statement of income, net foreign exchanges gains, and gains/losses on derivative instruments recognized in the statement of income, excluding commodity derivatives. Interest income and expenses are recognized as they accrue,

Note 3 - Significant Accounting Policies (cont'd)

using the effective interest method, except for borrowing costs that were capitalized to fixed assets (see also Note 3.4.1). Interest income in respect of sales on long-term credit, which is measured at the present value of the relative consideration, is recorded as financing income.

3.16 Financing income and expenses (cont'd)

In the statements of cash flows, interest received and interest paid are presented as part of cash flows from operating activities excluding credit costs that were discounted to qualifying assets and paid in cash, which are presented together with fixed asset acquisitions in cash flows from investing activities. Dividends paid are presented under financing activities and dividends received are presented under investing activities.

3.17 Income tax expense

Income tax comprises current and deferred tax. Current and deferred taxes are recognized in the statement of income unless they relate to a business combination or are recognized directly in equity or in other comprehensive income if they relate to items recognized directly in equity or in other comprehensive income. In these cases, the income tax expense is recognized in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and also includes any adjustments to taxes in respect of prior years and any incremental tax arising from dividends.

Offset of current tax assets and liabilities

The Group offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred tax for temporary differences on the initial recognition of goodwill as well as differences relating to investments in subsidiaries and joint ventures if the Group controls the timing of reversal of the difference and if it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized when it is probable that future taxable profits will be available against which temporary differences can be utilized or in the absence of forecasts for taxable income. Deferred tax assets are recognized up to the amount of taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Note 3 - Significant Accounting Policies (cont'd)

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

3.17 Income Tax Expense (cont'd)

<u>Offset of deferred tax assets and liabilities</u>
The Group offsets deferred tax assets and liabilities if there is a legally enforceable right to offset deferred tax assets and liabilities and they relate to the same tax authority in the same assessee company or different companies, which intend to settle deferred tax assets and liabilities on a net basis or simultaneously.

<u>Additional tax in respect of the distribution of dividends</u>
The Group may be liable for additional tax in the event of the payment of dividends by the Group companies. This additional tax was not included in the financial statements, as it is the policy of the Group companies to avoid distribution of a dividend that involves the imposition of additional tax on the recipient company in the foreseeable future. In cases where an investee company is expected to distribute a dividend deriving from profits that involves the imposition of additional tax on the Company, the Company creates a tax reserve in respect of the additional tax for which the Company may be liable as a result of distribution of the dividend.
Additional income tax in respect of the distribution of dividends is recognized in the income statement on the date when the liability to pay the corresponding dividend is recognized.

3.18 Supplier discounts

Discounts received from suppliers in which respect the Group is not obligated to meet certain targets are included in the financial statements upon making the proportionate part of the purchases entitling the Group to the said discounts.

3.19 Advertising expenses

Advertising expenses are recognized in the statement of income as incurred.

3.20 Contribution to joint venture expenses

Revenues from contributions to expenses by related and other companies are recorded on an accrual basis according to specific agreements with the companies, and are included in the relevant expense items.

3.21 Earnings per share

The Group presents basic and diluted EPS with respect to its ordinary share capital. The basic earnings per share are calculated by dividing the income or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, after adjustment for treasury shares. Diluted EPS are calculated by adjusting the income or loss attributable to the ordinary shareholders of the Company and adjusting the weighted average of ordinary shares outstanding, after adjustment for treasury shares and for the impact of all potentially dilutive ordinary shares, which include option warrants granted to employees.

3.22 New standards not yet adopted

3.22.1 IFRS 9 (2014), Financial Instruments

IFRS 9 (2014) is the final version of the standard and contains revised guidance for the classification and measurement of financial instruments as well as a new model for measuring impairment of financial assets. This guidance has been added to the chapter dealing with general hedge accounting requirements issued in 2013.

Classification and measurement
According to the standard, there are three principal categories for measuring financial assets: amortized cost, fair value through profit or loss and fair value through other comprehensive income. The basis of classification for debt instruments is the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Investments in equity instruments will be measured at fair value through profit or loss (unless the entity elected at initial recognition to present fair value changes in other comprehensive income).

The standard requires that changes in fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in its credit risk, should usually be recognized in other comprehensive income.

Hedge accounting – general
According to the standard, additional hedging strategies that are used for risk management may qualify for hedge accounting. The standard replaces the present 80%-125% test for determining hedge effectiveness, with the requirement that there be an economic relationship between the hedged item and the hedging instrument, without setting a quantitative threshold. Additionally, the standard introduces new models that are alternatives to hedge accounting as regards credit exposures and certain contracts outside the scope of the standard, and sets new principles for accounting for hedging instruments. The standard further provides new disclosure requirements.

Impairment of financial assets
The standard presents a new 'Expected Credit Loss' Model for most financial assets. The new model presents a dual measurement approach for impairment: if the credit risk of a financial asset has not increased significantly since its initial recognition, an impairment provision will be recorded in the amount of the expected credit losses that result from default events that are possible within the twelve months after the reporting date. If the credit risk has increased significantly, in most cases the impairment provision will increase and will be recorded at the level of lifetime expected credit losses of the financial asset.

The standard will be applied retrospectively for annual periods beginning on January 1, 2018. According to the guidance in IFRS 9, early adoption of the standard is permitted. The Group is reviewing the anticipated impact of IFRS 9 on its financial statements.

Note 3 - Significant Accounting Policies (cont'd)

3.22 New standards not yet adopted (cont'd)

3.22.2 IFRS 15, Revenue from Contracts with Customers

The standard replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. The standard provides two approaches for recognizing revenue: at a single point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. The standard also defines new and more extensive disclosure requirements than those that exist at present.

On July 22, 2015 the IASB announced its decision confirming a one-year deferral of the effective date of the standard, such that the standard will be applied retrospectively for annual periods beginning on January 1, 2018 or thereafter, considering the relief described in the transitional provisions relating to IFRS 15.

According to the guidance in IFRS 15, early adoption of the standard is permitted. The Group is reviewing the anticipated impact of IFRS 15 on its financial statements.

3.22.3 IFRS 16, Leases

The standard replaces IAS 17, Leases, and related interpretations. The provisions of the standard revoke the current requirement that lessees classify leases as either operating leases or finance leases, and instead, introduce a single lessee accounting model. In applying the model, the lessee is required to recognize the asset and liability in respect of the lease in its financial statements. The standard further determines new disclosure requirements that are broader in scope than those that exist today.

IFRS 16 will be applied for annual periods beginning on January 1, 2019. Early adoption is permitted, provided that the company also applies IFRS 15, Revenue from Contracts with Customers. The standard includes different options for applying the transitional provisions, in such manner that, on initially applying the standard, companies may choose to apply a full retrospective approach or to apply the standard commencing on the effective date while adjusting retained earnings for that date. The Group is reviewing the anticipated impact of IFRS 16 on its financial statements.

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3.22.4 Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that to recognize a deferred tax asset when estimating future taxable profit, the impact of the reversal of deductable temporary differences should be excluded. The estimate will be made separately for deductible temporary differences of different types, if the tax laws contain restrictions on the types of taxable profits against which losses can be utilized. The amendments further determine that future taxable profit may include income relating to assets that will be recovered for more than their carrying amount, if the recovery of an asset for more than its carrying amount is probable. The amendments will be applied retrospectively for annual periods beginning on January 1, 2017, with early adoption being permitted. The Group has not yet begun to review the implications of the standard's adoption.

Note 4 - Critical Accounting Policies and Management's Judgments

The judgments of management and its estimates are reviewed on an ongoing basis and are based on past experience and various factors, including expectations regarding future events.

The Group makes estimates and assumptions regarding the future. The accounting estimates deriving from these assumptions may, by nature, differ from actual results. The estimates and assumptions that in the next fiscal year may result in significant adjustment to the carrying amount of assets and liabilities are discussed below.

<u>Impairment of assets</u>
In accordance with IAS 36, on every reporting date the Group examines the existence of any events or circumstances that may indicate impairment in the value of non-financial assets included in its scope, including investments in joint ventures, accounted for using the equity method. When there are signs indicating impairment, the Group examines whether the carrying amount of the asset exceeds its recoverable amount.

Once a year on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash-generating unit that contains goodwill or intangible assets that have indefinite useful lives or are unavailable for use. If necessary, the Group writes down the asset to its recoverable amount and recognizes an impairment loss. The assumptions regarding future cash flows are based on past experience with the specific asset or similar assets, and on the expectations of the Group regarding the economic conditions that will exist over the remaining useful life of the asset. The Group uses estimates of appraisers when determining the net sales price of assets. With respect to real estate, the estimates take into account market conditions for real estate in a similar location. See also Note 15.3 regarding assumptions and risk factors relating to goodwill impairment.

<u>Valuation of intangible assets and goodwill</u>
The Group is required to allocate the acquisition cost of investee companies to assets acquired and to liabilities assumed on the basis of their estimated fair value. In major acquisitions, the Group engages independent appraisers who assist it in determining the fair value of these assets and liabilities. These valuations require management to apply significant estimates and assumptions. The principal intangible assets recognized in recent years include customer relationships, trademarks and brands. Critical estimates used in estimating the useful life of these intangible assets include, *inter alia*, an estimate of the period of customer relationships, the period of use of a brand and anticipated market developments. Critical estimates used to estimate certain intangible assets include, *inter alia*, anticipated cash flows from customer contracts and replacement costs of brands. The estimates of management regarding fair value and useful life are based on assumptions considered reasonable by management but are uncertain, and consequently, actual results may differ. See also Note 15.2 regarding Intangible assets with indefinite useful lives.

Note 4 - Critical Accounting Policies and Management's Judgments (cont'd)

Contingent liabilities

The Company has a procedure in place for examining and determining the amounts of provisions recorded in respect of legal claims pending against the Company and its investee companies. Legal opinions are received each quarter from legal counsel handling the claims on the behalf of the Company, who, in an opinion presented to the Company, assess the chances of the claims' success and indicate whether it is probable (above 50%) or improbable (50% or less) that the claim will be accepted. When a claim is unlikely to be accepted no provision is recorded on the Company's books, but disclosure is provided in the framework of Note 24 to the financial statements if the claim is significant. When acceptance of the claim is probable, the Company estimates the amount of the exposure based on the assessment of its legal counsel, the experience accumulated by the Company and the specific circumstances of the case, and recognizes a provision in the financial statements on the basis of this assessment. The legal proceedings will ultimately be decided by the courts and consequently their results may differ from these estimates. In the course of the process of approving the Company's annual financial statements, the board of directors' balance sheet committee performs control processes also with respect to the claims pending against the Company, and these claims, including their amounts, the Company's legal counsel's assessment of the extent of exposure and their chances of success, as well as the amount of the provisions made in their respect in the financial statements, are presented to the committee.

Provision for doubtful debts

The Group applies the guidance provided in IAS 39 to determine whether there has been impairment of the trade receivables balance. This decision requires that significant judgment be applied. When applying this judgment the Group takes into account, *inter alia*, the accounts receivable age analysis, bad debt history, debt collection patterns, financial strength and a short-term analysis of customer businesses and industry trends. See also Note 9 and Note 28.1 regarding exposure to credit risk related to accounts receivable.

Deferred tax assets

Recognition of a deferred tax asset in respect of tax losses – Company management estimates whether taxable profits are expected in the foreseeable future, against which losses can be utilized, and accordingly, recognizes (or does not recognize) a deferred tax asset. The possible implication of this

Estimate is the recognition or of a deferred tax asset in profit or loss. For further information on losses in which respect a deferred tax asset was recognized, see Note 35 regarding taxes on income.

Note 5 - Determination of Fair Value

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 16.4, on Investment Property;
- Note 20.2, on loans and other long term liabilities;
- Note 23, on share-based payments;
- Note 28, on financial instruments; and

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data (unobservable inputs).

Note 6 - Subsidiaries

6.1 Information on primary subsidiaries

	Percentage of equity and control (%)			Country of incorporation and main location of company operations
	December 31			
	2015	2014	2013	
Strauss Health Ltd.	80	80	80	Israel
Strauss Fresh Foods Ltd.	-	100	100	Israel
Yad Mordechai Strauss Apiary Ltd.(1)	51	51	51	Israel
Uri Horazo Yotvata Dairies Ltd. (2)	50	50	50	Israel
Strauss Water Ltd.	88	88	88	Israel
S.E. USA, Inc.	100	100	100	USA
Strauss Coffee B.V.	74.9	74.9	74.9	Holland
Strauss Café Poland Sp.z.o.o. (3)	100	100	100	Poland
Strauss Commodities AG (3)	100	100	100	Switzerland
Strauss Romania SRL (3)	100	100	100	Romania
Strauss Ukraine LLC (3)	100	100	100	Ukraine
Elite CIS B.V. (3)	100	100	100	Holland
Strauss Adriatic Group (3)	100	100	100	Serbia
Strauss LLC (3)	100	100	100	Russia
Le Café Soluvel Rus ,LLC (3)	100	100	100	Russia

(1) Fresh Foods Ltd. was merged into Strauss-Group Ltd. (The parent company).
(2) Held by Strauss Health Ltd. (see also Note 6.2.2 below)
(3) Held by Strauss Coffee B.V.

Note 6 – Subsidiaries (cont'd)

6.2 Information on judgment and assumptions in determining control of a subsidiary

6.2.1 Investment in Strauss Health

The Company holds 80% of the share capital of Strauss Health. The remaining 20% is held by Groupe Danone. The shareholders' agreement defines a list of actions that will not be executed if opposed to by all directors appointed by Danone, which include transactions between Strauss Health and other companies controlled by Strauss Group or an interest holder in Strauss Group, unless they are executed under market conditions or were in effect at the time the purchase agreement was signed, and except in cases in which Danone is willing to accept compensation for the difference between value under market conditions and the actual value of the transaction; distribution of a dividend of less than 25% of the net annual profit (after retaining the balances required by Strauss Health as per the agreement); a public offering or change in share capital diluting Danone; establishment of subsidiaries by Strauss Health that are not wholly-owned by Strauss Health, directly or indirectly, which engage in products that are not dairy products and if a shareholder therein is a Danone competitor; a substantial change in Strauss Health's business or investments in a category that is not dairy products, as a result of which the turnover in the non-dairy category exceeds the percentage of Strauss Health's turnover stipulated in the agreement; and distribution by Strauss Health or its subsidiaries of products manufactured by Strauss Holdings or any company controlled by it or by its shareholders (excluding Ramat Hagolan Dairies Ltd. and Strauss Ice Cream), if total annual sales of the said products exceed the percentage of Strauss Health's consolidated annual turnover set forth in the agreement. In the Company's opinion, the said actions grant the non-controlling interests the ability to influence transactions or events that are outside the ordinary course of business, and consequently protect the minority interests which do not prevent the Company's continued control of Strauss Health. In light of the circumstances described above, the Group concludes that Strauss Health is controlled by Strauss Group, and as such is consolidated in the Group's financial statements.

6.2.2 Investment in Yotvata

Strauss Health holds 50% of Yotvata's share capital and a casting share on the board of directors. Kibbutz Yotvata holds the remaining 50% of the share capital. Strauss Health acquired the following via a share allotment:

(a) 50% of Yotvata's issued and paid-up ordinary shares, conferring the rights generally conferred on shareholders in a limited company, except for the right to appoint or dismiss executives. The remaining ordinary shares continue to be held by the Kibbutz;

(b) Two management shares, each conferring the right to appoint or dismiss a director of Yotvata. Three additional management shares are held by the Kibbutz;

(c) One casting share, conferring the right to appoint or dismiss one director of Yotvata, who is also the chairman of the board and chairman of the general meeting and has a casting vote on the board of directors and the meeting of shareholders in the event of a tie.

Note 6 – Subsidiaries (cont'd)

6.2 Information on judgment and assumptions in determining control of a subsidiary (cont'd)

6.2.2 Investment in Yotvata (cont'd)

In general, the agreement with Yotvata defines the agreements regarding the management of Yotvata, which include the stipulation that Yotvata's chief executive officer is appointed by Yotvata's board of directors at the Kibbutz's recommendation. The directors appointed by Strauss Health have the right to veto the appointment of a CEO. The chairman of the board is appointed by Strauss Health. The directors appointed by the Kibbutz have the right to oppose the appointment of a chairman who does not possess the necessary qualifications for the position. Yotvata's chief financial officer is appointed by Strauss Health. The directors representing Yotvata have the right to veto this appointment, but shall not be permitted to exercise this right other than on reasonable grounds. In the Company's opinion, these actions grant the non-controlling interests the ability to influence transactions or events that are outside the ordinary course of business, and consequently protect the minority interests which do not prevent the Company's continued control of Yotvata. In light of the circumstances described above, the Group concludes that Yotvata is controlled by Strauss Group (through Strauss Health), and as such is consolidated in the Group's financial statements.

6.2.3 Investment in Strauss Coffee

The Company holds 74.9% of the share capital of Strauss Coffee B.V., and the remaining 25.1% of the share capital is held by the private equity investment fund, TPG Capital. The agreement between the Company and TPG Capital determines a list of cases in which respect decision-making or execution requires the approval of shareholders holding 90% of the shares of Strauss Coffee, as well as cases in which respect the approval of the board of directors is required, provided that at least one director appointed by the investor has voted in favor of such approval. These cases include decisions on the amendment of the incorporation documents on subjects relating to the non-controlling interests; modification of Strauss Coffee's share capital leading to the dilution of the minority interest and/or the issuance of other securities; approval of acquisitions or the disposal of operations or assets on a significant scale; a resolution on a substantive change in the nature of Strauss Coffee's operations; and the approval of transactions or moves outside the ordinary course of Strauss Coffee's business. In the Company's opinion, these provisions grant the non-controlling interests the ability to influence transactions or events that are outside the ordinary course of business, and consequently protect the minority interests which do not prevent the Company's continued control of Strauss Coffee. A conflict resolution mechanism has been determined for these issues in the absence of the abovementioned approvals. In light of the circumstances described above, the Group concludes that Strauss Coffee B.V. is controlled by Strauss Group, and as such is consolidated in the Group's financial statements.

Note 6 – Subsidiaries (cont'd)

6.2 Information on judgment and assumptions in determining control of a subsidiary (cont'd)

6.2.3 Investment in Strauss Coffee (cont'd)

In the context of reviewing TPG's exit options from Strauss Coffee, the Company and TPG, the shareholders of Strauss Coffee, are examining an IPO and the listing of Strauss Coffee shares on a US stock exchange (in New York), and have submitted a draft confidential prospectus to the SEC. In preparation for a possible IPO, the shareholders have reached an agreement regulating the IPO execution process, the allocation of shares to be issued in the IPO and the rights of the shareholders post IPO.

The Company notes that there is no certainty that the IPO will indeed be completed, and if completed, on which date. It is further noted that completion of the IPO is dependent on numerous factors which are beyond the control of the Company and Strauss Coffee, including, among other things, suitable market conditions for launching an IPO, and the receipt of regulatory approvals from US authorities.

Note 6 – Subsidiaries (cont'd)

6.3 Information on a subsidiary with material non-controlling interests

Following is information on the subsidiary Strauss Coffee, in which respect non-controlling interests that are material to the Group exist (before elimination of inter-company transactions):

	December 31	
	2015	2014
	NIS millions	
Current assets	1,081	1,260
Non-current assets	1,157	1,427
Total assets	2,238	2,687
Current liabilities	400	473
Non-current liabilities	51	62
Total liabilities	451	535
Total net assets 100%	1,787	2,152
Non-controlling interests	449	540

	For the year ended December 31		
	2015	2014	2013
		NIS millions	
Income	1,947	2,047	2,250
Profit	192	259	272
Other comprehensive loss	(389)	(273)	(240)
Total comprehensive income (loss)	(197)	(14)	32
Comprehensive income (loss) attributable to non-controlling interests	(49)	(3)	8
Cash flow from operating activities	118	218	181
Cash flow from investing activities	(29)	(48)	(5)
Cash flow from financing activities excluding dividends to non-controlling interests	(92)	(173)	(49)
Dividends paid to non-controlling interests	(42)	(59)	-
Effect of exchange rate fluctuations on cash balance	(19)	(7)	(9)
Total increase (decrease) in cash and cash equivalents	(64)	(69)	118

Note 7 - Cash and Cash Equivalents

	December 31 2015	December 31 2014
	NIS millions	
Cash and balances in banks	147	150
Deposits	413	617
	560	767

Note 8 - Securities and Deposits

	December 31 2015		December 31 2014	
	NIS millions	Interest rate	NIS millions	Interest rate
Deposits and non-traded securities-				
Deposit in USD	-		2	
Deposit in NIS	15	0.35%-1.49%	21	0.51%-1.49%
	15		23	
Marketable securities-				
Government debentures	27		50	
Corporate debentures	18		48	
	45		98	
	60		121	

Note 9 - Trade Receivables

9.1 Composition

	December 31	
	2015	2014
	NIS millions	
Open debts	950	952
Less provision for doubtful debts	(24)	(45)
	926	907

9.2 Analysis of customer aging:

	December 31, 2015		December 31, 2014	
	Gross	Provision for doubtful debts	Gross	Provision for doubtful debts
	NIS millions			
Not past due	881	(1)	855	(1)
Past due 1-30 days	32	-	30	-
Past due 31-60 days	10	(1)	5	-
Past due 61-90 days	2	-	2	(1)
Past due 91-120 days	1	-	1	-
Past due more than 120 days	24	(22)	59	(43)
	950	(24)	952	(45)

9.3 Changes in the provision for doubtful debts during the period:

	2015	2014
	NIS millions	
Balance as at January 1	45	50
Impairment loss recognized during the period	7	5
Doubtful debts becoming bad debts	(26)	(7)
Foreign exchange effect	(2)	(3)
Balance as at December 31	24	45

9.4 Maximum credit exposure in respect of trade receivables as at the reporting date by customer type:

	December 31	
	2015	2014
	NIS millions	
Large customers market	576	546
Private market	127	94
Away-from-home	150	184
Other	73	83
Total	926	907

Note 10 - Receivables and Debit Balances

	December 31	
	2015	2014
	NIS millions	
Advances to trade payables	11	14
Government institutions	6	11
Loans granted, including current maturities of long-term liabilities	10	12
Accrued income	19	36
Derivatives (1)	41	72
Joint ventures	25	27
Prepaid expenses	59	54
Other receivables	12	30
	183	256

(1) Includes deposits encumbered to secure derivatives in at the amount of NIS 26 and 47 million as at December 31, 2015 and 2014, respectively.

Note 11 - Inventory

	December 31	
	2015	2014
	NIS millions	
Raw materials	271	342
Packaging materials	55	52
Unfinished goods	17	23
Finished goods (including purchased products)	226	255
Spare parts and auxiliary equipment	12	9
	581	681

Note 12 - Equity-Accounted Investees

12.1 Material equity-accounted investees

	Percentage of equity and control as at December 31			Country of incorporation and main location of company operations
	2015	**2014**	**2013**	
Três Corações Alimentos S.A. (1)	50%	50%	50%	Brazil
Sabra Dipping Company (2)	50%	50%	50%	USA

(1) An equity-accounted investee held by the Group and the Brazilian holding company Sao Miguel, which develops, processes, sells, markets, and distributes a variety of branded coffee products, corn products, coffee machines, paper filters for filter coffee, instant coffee, cappuccino, liquid cappuccino, chocolate beverages, and powdered juice, and also sells green coffee, primarily to customers outside Brazil.

(2) An equity-accounted investee held by the Group and PepsiCo, which develops, manufactures, sells, markets, and distributes dips and spreads throughout the USA and Canada.

12.2 Concise information on material equity-accounted investees

	Sabra Dipping Company		Três Corações Alimentos S.A.	
	December 31		December 31	
	2015	**2014**	**2015**	**2014**
	NIS millions			
Current assets	336	277	773	967
Of which:				
Cash and cash equivalents	99	64	158	129
Non-current assets	691	672	468	644
Total assets	1,027	949	1,241	1,611
Current liabilities	257	266	405	*754
Of which:				
Financial liabilities excluding trade, other payables and provisions	140	92	192	412
Non-current liabilities	29	92	312	174
Total liabilities	286	358	717	*928
Total net assets 100%	741	591	524	*683
Company share of net assets	371	296	262	*341
Other adjustments	110	109	172	*208
Book value of investment	481	405	434	549

Note 12 - Equity-Accounted Investees (cont'd)

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

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
	NIS millions					
Income	1,422	1,288	1,131	2,982	3,593	3,426
Expenses	730	644	568	2,109	2,503	2,410
Gross profit	692	644	563	873	1,090	1,016
Operating profit	188	181	147	259	329	347
Profit for the year	102	92	76	202	278	267
Other comprehensive income (loss)	2	58	(28)	(293)	*(38)	*(145)
Total comprehensive income (100%)	104	150	48	(91)	*240	*122
Of which:						
Depreciation and amortization	42	28	36	31	33	28
Interest income	-	-	-	10	11	9
Interest expenses	9	10	12	25	23	30
Income tax expense	**(76)	**(69)	**(57)	(18)	(27)	(50)
Other adjustments	-	12	(7)	(69)	*4	*(39)
Company's share of comprehensive income (loss) presented in the books	52	87	17	(114)	124	22

* Re-presented to match current period.
**Tax expenses in respect of an equity-accounted investee assessed in the holding company, S.E. USA, lnc.

12.3 Concise aggregate information on equity-accounted investees that are not inherently material

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Carrying amount of investments	103	76	106
Group's share of profit (loss)	8	(1)	(23)
Group's share of other comprehensive loss	(5)	(4)	(6)
Group's share of total comprehensive income (loss)	3	(5)	(29)

Note 12 - Equity-Accounted Investees (cont'd)

12.4 Information on dividends distributed by equity-accounted investees

	For the year ended December 31		
	2015	**2014**	**2013**
		NIS millions	
Três Corações Alimentos S.A. (1)	2	55	32
Sabra Dipping Company	13	21	23
Strauss Frito-Lay Ltd.	33	20	33
	48	96	88

(1) Including a dividend from equity-accounted investees in Brazil that are not inherently material in the amount of approximately NIS 6 million in 2014.
The Company's share of the reserves of Três Corações Alimentos S.A. as at December 31, 2015 and December 31, 2014 is approximately NIS 180 million and NIS 192 million, respectively, of which NIS 16 million and NIS 18 million, respectively, are held as a legal fund that may serve only for the purpose of a capital increase or to absorb legal losses, and NIS 78 million and NIS 85 million, respectively, are included in a tax incentive reserve and decision was made by the company's management that cannot be distributed as a dividend. Should Três Corações Alimentos S.A. distribute the tax incentive reserve in the future, the amount distributed will be paid as additional tax to the tax authorities.

12.5 Attachment of financial statements

The Group is attaching the consolidated financial statements of Três Corações Alimentos S.A. to these consolidated financial statements. The investee's reports are presented in Brazilian Reals.
The Real to Shekel exchange rate on December 31, 2015 was 0.98.
Following are the average exchange rates and rates of change in the exchange rates of the Brazilian Real in the reporting period:

	Real to Shekel Exchange Rate	
	Average for the period	**% change**
For the year ended:		
December 31, 2015	1.19	(32.9)
December 31, 2014	1.53	(0.1)

Note 12 - Equity-Accounted Investees (cont'd)

12.6 Additional information on the Group's equity-accounted investees

In the reporting period the subsidiary Strauss Water Ltd. (hereinafter: "Strauss Water") signed a series of share exchange and transfer agreements with companies of the Haier Group, as well as a joint venture agreement, their goal being the restructuring of the joint venture, Haier Strauss Water, in China (hereinafter: the "Restructuring"). In the framework of the Restructuring, the businesses of the existing joint venture will be transferred to a new company that is to be established (hereinafter: the "Merged Company"), which will engage in research, development, installation, sale, maintenance, water treatment and purification, and will henceforth also include water purification products based on reverse osmosis (RO) water purification technology, which to date were owned by Haier.

According to the joint venture agreement with companies of the Haier Group, the Merged Company will be owned by companies controlled by Haier (66%) and by Strauss Water (34%) (an associate company). To complete Strauss Water's holding in the shares of the company to 34%, Strauss Water has undertaken to pay Haier approximately NIS 30, and has also granted the Merged Company an exclusive license to use the Maze technology in the China territory.

The Merged Company will receive distribution, marketing, sales and development services from Haier. According to the agreement, Strauss Water has been granted an option to acquire an additional 15% of the Merged Company in 2017 at a price which will be based, inter alia, on its financial results for the year 2016.

As a result of the Restructuring, the Company recognized income in respect of the realization of part of an equity-accounted investee and the grant of a license to use the Maze technology in the amount of NIS 30 million, and expenses in respect of a provision for an onerous contract, the derecognition and amortization of intangible assets and employee benefits in the amount of NIS 25 million, which were included in Other Income as Income in Respect of Restructuring, Net item. The impact of the transaction on the Company's net profit is a profit of NIS 1 million.

Note 13 - Other Investments and Long-Term Debit Balances

13.1 Classification according to classification of investment

	December 31	
	2015	2014
	NIS millions	
Non-current and other receivables (1)	29	7
Investment in an available-for-sale financial asset	26	23
Derivatives	-	2
Option to purchase shares in an equity-accounted investee (2)	5	-
Non-current trade receivables (3)	57	22
Less current maturities	(4)	(6)
Less provision for doubtful debts (4)	(37)	(3)
	16	13
Non-current loans to others (see 13.2 and 13.3 below)	174	242
Less current maturities	(42)	(42)
	132	200
	208	245

(1) Including insurance and VAT refund receivables amounting to approximately NIS 22 million in respect of a debt owed by Mega Retail Ltd. See also Note 28.1.3 with regard to Credit risk of Financial Instruments.

(2) See Note 12.6 with regard to the restructuring of the Strauss Water operation in China and Note 28.7.2 with regard to the fair value of financial instruments.

(3) Includes the long-term balance of trade receivables in respect of Mega Retail Ltd; Also, in respect of the leasing of coffee machines for installment payments as well as cheques and credit cards receivable in Strauss Water which are discounted at an interest rate of 3.0%-8.0% (similar to 2014).

(4) Including a debt amounting to NIS 35 million owed by Mega Retail Ltd., in which respect there is approximately NIS 22 million in income from insurance compensation and VAT refunds. See also Note 28.1.3 with regard to Credit risk of Financial Instruments.

13.2 Information on long-term loans and their terms:

	December 31			
	2015	2014		
	NIS millions		Interest rate	Linkage bases
Loans to employees	6	9	4.07%	NIS Unlinked
Loans to suppliers and others	22	21	0% - 7.4%	NIS Unlinked
Loan to an equity-accounted investee	98	124	0% - 6.5%	USD
Loan under an operating lease see Note 24.4.7	48	88	5.5%	EURO
	174	242		

Note 13 - Other Investments and Long-Term Debit Balances (Cont'd)

13.3 Repayment schedule of long-term loans:

	December 31	
	2015	2014
	NIS millions	
First year	42	42
Second year	20	38
Third year	5	107
Forth year	2	3
Fifth year and thereafter	105	52
	174	242

Note 14 - Fixed Assets

14.1 Changes in fixed assets

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
			NIS millions			
Cost						
Balance as at January 1, 2015	1,121	2,032	37	282	209	3,681
Additions	49	88	3	13	19	172
Disposals	(2)	(32)	(4)	(8)	(71)	(117)
Classification from inventory	-	4	-	-	-	4
Exchange rate effect	(12)	(29)	(2)	(2)	(1)	(46)
Balance as at December 31, 2015	1,156	2,063	34	285	156	3,694
Accumulated depreciation and impairment losses						
Balance as at January 1, 2015	362	1,339	28	238	159	2,126
Impairment	-	2	-	-	-	2
Depreciation for the year	26	70	3	13	20	132
Disposals	(2)	(27)	(3)	(8)	(70)	(110)
Exchange rate effect	(3)	(17)	(1)	(1)	-	(22)
Balance as at December 31, 2015	383	1,367	27	242	109	2,128
Spare parts						46
Balance as at December 31, 2015	773	696	7	43	47	1,612

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
			NIS millions			
Cost						
Balance as at January 1, 2014	1,032	2,029	44	279	207	3,591
Inclusion in consolidation	-	3	-	-	2	5
Additions	112	139	3	10	19	283
Disposals	(3)	(120)	(6)	(5)	(22)	(156)
Classification from inventory	-	10	-	-	-	10
Exchange rate effect	(20)	(29)	(4)	(2)	3	(52)
Balance as at December 31, 2014	1,121	2,032	37	282	209	3,681
Accumulated depreciation and impairment losses						
Balance as at January 1, 2014	344	1,385	31	231	150	2,141
Impairment	-	5	-	-	2	7
Inclusion in consolidation	-	2	-	-	2	4
Depreciation for the year	22	74	4	13	16	129
Disposals	(1)	(115)	(5)	(5)	(13)	(139)
Exchange rate effect	(3)	(12)	(2)	(1)	2	(16)
Balance as at December 31, 2014	362	1,339	28	238	159	2,126
Spare parts						41
Balance as at December 31, 2014	759	693	9	44	50	1,596

Note 14 - Fixed Assets (cont'd)

14.2 Capitalized borrowing costs

In 2014 amount of NIS 15 million were capitalized with capitalization rate of 4.1%, to fixed assets for the construction of a new logistics center in Israel, whose construction was largely completed in the fourth quarter of 2014.

14.3 Fixed assets purchased on credit

Fixed assets in the amount of NIS 47 million were purchased on credit as at December 31, 2015 (2014: NIS 61 million, 2013: NIS 87 million).

14.4 For details regarding liens – see Note 24.2.

Note 15 - Intangible Assets

15.1 Changes in intangible assets

	Brands	Computer software	Goodwill	Research and development	Other	Total
	NIS millions					
Cost						
Balance as at January 1, 2015	366	294	679	70	113	1,522
Acquisitions	-	16	-	3	1	20
Additions – self-development	-	6	-	2	-	8
Disposals	(6)	(2)	-	(21)	(1)	(30)
Exchange rate effect	(34)	(2)	(99)	-	(3)	(138)
Balance as a December 31, 2015	326	312	580	54	110	1,382
Accumulated amortization						
Balance as at January 1, 2015	49	221	182	24	67	543
Amortization for the year	3	26	-	6	8	43
Impairment	17	-	1	7	5	29
Disposals	(6)	(2)	-	(10)	-	(18)
Exchange rate effect	(5)	(2)	(59)	-	(3)	(69)
Balance as at December 31, 2015	58	243	124	27	77	528
Balance as at December 31, 2015	268	69	456	27	33	853

Note 15 - Intangible Assets (cont'd)

15.1 Changes in intangible assets (cont'd)

	Brands	Computer software	Goodwill	Research and development	Other	Total
	NIS millions					
Cost						
Balance as at January 1, 2014	414	276	720	65	92	1,567
Acquisition in a business combination	19	2	55	-	19	95
Additions	-	11	-	11	2	24
Additions – self-development	-	10	-	1	-	11
Disposals	-	(4)	(1)	(7)	-	(12)
Exchange rate effect	(67)	(1)	(95)	-	-	(163)
Balance as a December 31, 2014	366	294	679	70	113	1,522
Accumulated amortization						
Balance as at January 1, 2014	51	200	156	20	58	485
Acquisition in a business combination	-	1	-	-	1	2
Amortization for the year	3	24	-	8	8	43
Impairment	-	-	29	-	-	29
Disposals	-	(3)	(1)	(4)	-	(8)
Exchange rate effect	(5)	(1)	(2)	-	-	(8)
Balance as at December 31, 2014	49	221	182	24	67	543
Balance as at December 31, 2014	317	73	497	46	46	979

15.2 Intangible assets with indefinite useful lives

As at December 31, 2015 intangible assets include an amount of NIS 260 million attributable to brands and trademarks having an indefinite useful life (2014: NIS 310 million). These assets were assessed as having indefinite useful lives since according to an analysis of the relevant factors, there is no foreseeable limit on the period they are predicted to generate positive cash flows for the Group.

The relevant factors that were analyzed included, inter alia, management's forecasts regarding the duration of expected use of the brand or trademark; the existence of legal or contractual limitations on their use; a review of the typical life cycle of similar branded products; the existence of indicators of changes in lifestyle, competitive environment, market demand and industry trends; the sales history of products under the brand name, the time the brand has been on the market, and market awareness of the brand name or trademark. Also taken into consideration is the length of time similar brands are used in the industry in which the Company operates.

Note 15 - Intangible Assets (cont'd)

15.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives

The following units have significant carrying amounts of goodwill and intangible assets having an indefinite useful life:

	Goodwill		Intangible assets having an indefinite useful life	
	December 31		December 31	
	2015	2014	2015	2014
	NIS millions		NIS millions	
Israel	76	77	-	-
Water	154	154	102	102
Serbia	-	-	9	30
Poland	64	70	60	68
Russia	92	115	73	91
Romania	70	81	16	19
	456	497	260	310

The recoverable amount of the cash-generating units is based on its value-in-use. Value-in-use is calculated using the most up-to-date projected future cash flows for periods up to 5 years, based on the strategic operating plan (SOP) of the relevant unit. The projected cash flows for remaining periods are calculated using the relevant growth rate, which takes into consideration the expected growth rate of the category, the industry, the country and the population. Cash flows are discounted at rates that reflect the risks specific to the cash-generating units in each relevant year.

Note 15 - Intangible Assets (cont’d)

15.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives (cont'd)

The main assumptions according to operating segments are as follows:

	December 31, 2015		December 31, 2014 (1)	
	Long-term growth rate	**Discount rate**	**Long-term growth rate**	**Discount rate**
Israel				
Fun & Indulgence	2.0%	13.0%	2.5%	9.49%
Health & Wellness	2.0%	11.8%-13.6%	2.5%	9.5% -13.33%
International Coffee (2)(3)	(0.15%) – 3.0%	10.6% - 16.4%	(0.15%) – 4.0%	10.3% - 27.6%
Other	2.0%	13.8%	2.0%	14.9%

(1) In light of compliance with the terms and conditions of section 99 of IAS 36, Impairment of Assets, with respect to the cash-generating units in Fun & Indulgence and a number of cash-generating units in Health & Wellness, the testing of these units for impairment in the reported period is based on the recoverable amount and on its underlying assumptions as at December 31, 2012.Apart from International Coffee, the discount rates were re-presented to a pre-tax discount rates to match current period.

(2) Following the moderation of growth in sales turnover and the erosion of the profit margins of the Strauss Coffee subsidiary, Strauss Adriatic d.o.o., in 2015 the Company recognized an impairment loss in respect of intangible assets attributed to the operation in Serbia in the amount of approximately NIS 22 million. The recoverable amount of the cash-generating unit, which is based on its value-in-use, was calculated by discounting future cash flows at a pre-tax capitalization rate of approximately 16%, assuming 0% long-term growth rate. The impairment loss was classified to intangible assets and included under selling and marketing expenses and other expenses in the income statement.

(3) While testing for impairment of goodwill and indefinite-life intangible assets attributed to the Strauss Coffee subsidiary in Russia, which is a cash-generating unit, it was found that the recoverable amount exceeds the carrying amount of the unit. The recoverable amount was estimated by applying the discounted cash flow technique to future cash flows derived from the unit, according to a nominal pre-tax discount rate that ranges from 19% in 2016 to 15% in 2020. The long-term nominal growth rate used in the estimate is 3%. Increasing the discount rate by 0.25% or reducing the long-term growth rate by 0.5% would each, individually, result in the carrying amount being equal to the recoverable amount.

Note 16 - Investment Property

16.1 Changes in investment property

	December 31	
	2015	2014
	NIS millions	
Balance as at January 1	29	25
Additions	-	49
Classification of investment property as assets held for sale	(22)	(45)
Balance as at December 31	7	29

16.2 Real estate rights

The investment properties include land in Givatayim and abroad, owned by subsidiaries, in the amount of approximately NIS 5 million and NIS 2 million, respectively, as at December 31, 2015 (similar to December 31, 2014). The Company also owns land in Safed, the carrying amount of which is immaterial.

16.3 Assets held for sale

As at December 31, 2014 investment properties included land owned by the Company in Park Yanai, Petach Tikva, in the amount of approximately NIS 22 million. On December 31, 2015, after having satisfied the conditions for classification as held-for-sale, the above was classified to the assets held for sale item.

16.4 Fair value

As at the reporting date, the fair value of assets held for sale was estimated at approximately NIS 62 million. Accordingly, cancellation of impairment was recorded in the amount of NIS 4 million and included under other expenses, net in the income statement. Fair value is estimated at Level 3, with the valuation primarily based on the price per square meter as reflected, inter alia, in a sale transaction that was signed in 2015, in advanced negotiations for the sale of additional properties and in a survey of prices offered for similar properties in the area.

16.5 For information on liens, see Note 24.2.

Note 17 - Trade Payables

	December 31	
	2015	2014
	NIS millions	
Open debts	711	836
Notes payable	2	10
	713	846

* For information regarding related parties see Note 37.

Note 18 - Other Payables and Credit Balances

	December 31	
	2015	2014
	NIS millions	
Employees and other payroll related liabilities	144	151
Institutions	15	19
Joint ventures	5	33
Derivatives	21	37
Accrued expenses	177	190
Deposits and guarantees from customers and distributors	82	76
Redeemable preferred shares	13	13
Deferred income	60	65
Advances from customers	5	3
Other payables	9	9
	531	596

Note 19 - Provisions

19.1 Changes during the period

	Restructuring	Legal claims	Warranty	Total
	NIS millions			
Balance as at January 1, 2015	10	10	17	37
Provisions created during the period	3	8	2	13
Provisions used during the period	(6)	(3)	-	(9)
Provisions reversed during the period	(3)	(4)	-	(7)
Balance as at December 31, 2015	4	11	19	34

19.2 Provisions in respect of legal claims- See Notes 3.13 and 24.1.

Note 20 - Loans and Other Long-Term Liabilities

20.1 Short-term credit and current maturities of long-term loans and other liabilities

	December 31	
	2015	2014
	NIS millions	
Current maturities of debentures	178	179
Short-term bank loans	40	3
Current maturities of long-term loans	141	147
	359	329

20.2 Composition of non-current liabilities

	December 31	
	2015	2014
	NIS millions	
Debentures	1,012	1,199
Loans from others (*)	628	642
Bank loans (*)	450	550
Finance lease liability	6	-
	2,096	2,391
Less current maturities	(319)	(326)
	1,777	2,065

*At December 31, 2015 the fair value of non-current loans exceeded their carrying amount at approximately NIS 118 million (2014: at approximately NIS 129 million). The fair value of the loans is measured on the basis of the present value of future cash flows in respect of principal and interest discounted at the interest rate on Israel government bonds of similar average duration, plus the necessary adjustments for Strauss's risk premium and the discount for lack of marketability as at the date of the financial statements (Level 2).

Note 20 - Loans and Other Long-Term Liabilities (cont'd)

20.3 Information on material loans

Borrower identity	Type	Loan date	Original loan amount	Currency	Linkage base	Nominal	Redemption year	December 31, 2015	
								Face value	Book value
			NIS millions			Interest (%)		NIS millions	
The company	Debentures Series B	February 2007	770	NIS	CPI	4.1	2016-2018	446	534
The company	Debentures Series D	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	465	478
The company	Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	102
The company	Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Subsidiary	Loans from banks	December 2013	185	NIS	Unlinked	2.9	2016-2017	93	93
The company	Loans from others	January 2011	300	NIS	Unlinked	5.82	2016-2022	250	250
The company	Loans from others	April 2012	372	NIS	CPI	3.55	2016-2012	361	369

20.3.1 On March, 2016 a loan of 100 Million NIS was obtained by a subsidiary. The loan has no linkage and bares a 1.698% annual interest rate.

Note 20 - Loans and Other Long-Term Liabilities (cont'd)

20.3 Information on material loans (cont'd)

Borrower identity	Type	Loan date	Original loan amount NIS millions	Currency	Linkage base	Nominal Interest (%)	Redemption year	December 31, 2014 Face value	December 31, 2014 Book value
								NIS millions	
The company	Debentures Series B	February 2007	770	NIS	CPI	4.1	2015-2018	595	719
The company	Debentures Series D	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	465	480
The company	Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	103
The company	Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Subsidiary	Loans from banks	December 2013	185	NIS	Unlinked	2.9	2015-2017	139	139
The company	Loans from others	January 2011	300	NIS	Unlinked	5.82	2015-2022	261	261
The company	Loans from others	April 2012	372	NIS	CPI	3.55	2015-2012	364	375

Note 20 - Loans and Credit (cont'd)

20.4 Information on the debentures series in circulation

	Series B	Series D	Expanded Series D
Date issued	February 25, 2007	January 23, 2013	June 11, 2014
Listed for trading	May 21, 2007	January 27, 2013	June 12, 2014
Type of interest	Fixed	Fixed	Fixed
Annual interest rate	4.1% (until listing for trading, the interest rate was 4.7%)	4.5%	4.5%
Effective interest rate on the listing date, taking the issuance costs into account	4.2%	4.7%	3.0%
Face value on issuance date	NIS 770 million	NIS 249 million	NIS 216 million
Nominal face value as at December 31, 2015	NIS 446 million	NIS 249 million	NIS 216 million
Index-linked face value as at December 31, 2015	NIS 534 million	N/A	N/A
Carrying value of debentures as at December 31, 2015	NIS 534 million	NIS 246 million	NIS 232 million
Carrying value of interest payable as at December 31, 2015	NIS 9 million	NIS 3 million	NIS 2 million
Market value as at December 31, 2015	NIS 562 million	NIS 288 million	NIS 249 million
Linkage conditions	Principal and interest are linked to the CPI in respect of January 2007	Principal and interest are not linked to any index	Principal and interest are not linked to any index
Payment dates of principal	5 equal yearly payments on February 1 of each year from 2014 to 2018	7 yearly payments on March 31 of each year from 2017 to 2023. First payment 4%, second and third 6% each, fourth 13%, fifth and sixth 15% each and seventh 41%.	7 yearly payments on March 31 of each year from 2017 to 2023. First payment 4%, second and third 6% each, fourth 13%, fifth and sixth 15% each and seventh 41%.
Interest payment dates	Half-yearly interest on February 1 and August 1, from 2007 to 2018	Semiannual interest on March 31 and September 30, commencing on September 30, 2013 until on March 31, 2023	Semiannual interest on March 31 and September 30, commencing on September 30, 2014 until on March 31, 2023
Collateral or liens	None	None	None
Name of rating company	Midroog, Maalot	Midroog, Maalot	Midroog, Maalot
Rating at issue date	Aa1; AA+	Aa1; AA+	Aa1; AA+
Rating at reporting date	Aa2; AA+	Aa2; AA+	Aa2; AA+

For information on financial criteria relating to Debentures Series D, see Note 20.6.

20.5 For information on liens and guarantees, see Notes 24.2 and 24.3.

Note 20 - Loans and Credit (cont'd)

20.6 Covenants

The Company has an undertaking to banks in Israel and other non-banking institutions from which it has received loans, and to the holders of Debentures Series D, to meet two stipulations: the ratio of equity (not including non-controlling interests) to the total statement of financial position shall be no less than 20%, and the net financial debt to EBITDA ratio shall be no more than 4. The Company is not required to meet external capital requirements.

The Company has a loan from a non-banking institution which contains a progressive incremental interest mechanism should the abovementioned financial ratio increase to above 3 and below 4 (provided that the incremental interest does not exceed 0.25%).

Regarding the Debentures Series D, the agreement determines that the Company's compliance with the abovementioned financial ratios shall be calculated according to the accounting standards applicable to the Company. In the event of changes to the accounting standards, following which the Company does not comply with either of the financial ratios for a period exceeding two consecutive quarters, or for a period of at least two consecutive annual financial statements, as the case may be, the Company shall be entitled to prepare, for the purpose of calculating its compliance with the financial ratios it has not met, a pro forma concise balance sheet and statement of income containing only material and relevant notes, reviewed (but not audited) in accordance with the accounting standards under which the Company's financial statements as at September 30, 2012 were prepared.

Non-compliance with the abovementioned financial ratios for a period exceeding two consecutive quarters (also on the basis of the pro forma statements) shall grant the holders of Debentures Series D incremental interest, as set forth in the debenture certificate. Should the ratio between the net financial debt in the Company's financial statements and the annual EBITDA exceed 7 (also in accordance with the pro forma statements) in at least two consecutive annual financial statements, the violation shall serve the debenture holders at such time as cause for immediate redemption. Additionally, should the rating of Debentures Series D fall below BB, after 45 days have elapsed from the date of the said rating update and on condition that the rating has not been raised, the holders of Debentures Series D shall have cause for immediate redemption.

As at the reporting date the Company is in compliance with the above covenants.

In addition, two subsidiaries are required to meet covenants in favor of banks In Israel. As at the date of this report, the subsidiaries are in compliance with these covenants.

Note 21- Long-Term Payables and Credit Balances

	December 31	
	2015	2014
	NIS millions	
Accrued expenses	6	7
Deferred income	31	39
Derivatives	24	23
Liability in respect of contracts with inferior terms	17	20
Institutes	8	-
Other payables	2	2
	88	91

Note 22 - Employee Benefits

22.1 The labor laws in Israel require the Group to pay severance pay to employees who were dismissed or have retired (including those who left the Group in other specific circumstances). The liability for the payment of severance pay is calculated according to the labor agreements in effect on the basis of salary components which, in the opinion of Company management, create an obligation to pay severance pay.

The Company has two severance pay plans: one plan according to the provisions of section 14 of the Severance Pay Law, which is accounted for as a defined contribution plan; and the other for employees to whom section 14 does not apply, which is accounted for as a defined benefit plan. The Group's liability in Israel for the payment of severance pay to employees is mostly covered by current deposits in the names of the employees in recognized pension and severance pay funds, and by the acquisition of insurance policies, which are accounted for as plan assets.

In addition to these plans, the Company has an obligation to pay an acclimatization bonus to senior executives. The Group's obligation for the payment of acclimatization bonuses is not covered by the current deposits in the names of the employees.

22.2 As regards its international operations, employee benefits are accounted for in accordance with the requirements of the law in each country in which the Group operates. These requirements usually comprise of monthly deposits in government plans.

The Company has an obligation to pay benefits to certain employees in accordance with personal employment contracts. In addition, the Company has an obligation to pay benefits to employees who have retired in accordance with the labor laws in Germany. These benefits were accounted for as a defined benefit plan.

Note 22 - Employee Benefits (cont'd)

22.3 Composition

	December 31	
	2015	**2014**
	NIS millions	
Defined benefit plan		
Present value of funded obligation	127	132
Fair value of the plan assets	(72)	(71)
Total employee benefits, net	55	61

22.4 Defined benefit plans

22.4.1 Changes in the liability for defined benefit plans

	2015	**2014**
	NIS millions	
Liability in respect of defined benefit plans as at January 1	132	127
Benefits paid by the plans	(14)	(10)
Current service costs and interest	11	15
Actuarial losses	1	3
Other adjustments	(3)	(3)
Liability in respect of defined benefit plans as at December 31	127	132

22.4.2 Composition of defined benefit plan assets

	December 31	
	2015	**2014**
	NIS millions	
Cash and cash equivalents	11	8
Government debentures	16	19
Corporate debentures	12	11
Equity instruments and real estate properties	33	33
Total plan assets	72	71

22.4.3 Changes in defined benefit plan assets

	2015	**2014**
	NIS millions	
Fair value of plan assets as at January 1	71	72
Contributions paid into the plan	6	6
Benefits paid by the plan	(5)	(6)
Interest income	2	2
Actuarial losses	(2)	(3)
Fair value of plan assets as at December 31	72	71

Note 22 - Employee Benefits (cont'd)

22.4 Defined benefit plans (cont'd)

22.4.4 Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions as at the reporting date (weighted average) in nominal terms:

	2015	2014
Discount rate as at December 31 (1)	2.49%-2.85%	2.18%-3.07%
Future salary increases	3.0%-6.0%	3.0%-6.0%
Demographic assumptions (2)		

(1) In 2015 the discount rate is based on high yield corporate debentures.

(2) Calculations are based on demographic assumptions, as follows:

a) Mortality and loss of work capacity rates are based on pension circular 2013-3-1 published by the Capital Market, Insurance and Savings Division of the Ministry of Finance.

b) Employee turnover rates are based on an analysis of historical data. According to this analysis, the main employee turnover rate is 10.36% for each year of seniority. For senior employees, the turnover rate is 13.5% for each year of seniority.

Reasonably possible changes on the reporting date in one of the actuarial assumptions, assuming that the remaining assumptions remain unchanged, influence the defined benefit obligation as follows:

		Change as at December 31, 2015
Discount rate	0.5% increase	(2)
Discount rate	0.5% decrease	3
Future salary costs	1% increase	5
Future salary costs	1% decrease	(4)
Departure rate	Multiplied by 1.2	(1)
Departure rate	Multiplied by 0.8	2

22.4.5 Influence of plan on the Group’s future cash flows

The Group’s estimate of contributions expected in 2016 to a funded defined benefit plan is NIS 6 million.

The Group’s estimate of the plan’s life (according to a weighted average) as at the end of the reporting period is 6.1-6.6 years (for 2014: 5.3-6.6 years).

22.5 Defined contribution plans

In the year ended December 31, 2015 the Group recorded an expense of NIS 37 million (2014: NIS 36 million, 2013: NIS 35 million) in respect of defined contribution plans.

Note 23 - Share-Based Payments

23.1 In accordance with the May 2003 senior employee options plan, updated in June 2004, August 2006, April 2010, April 2011, March 2012, July 2012 and September 2013 (pursuant to Amendment 20 to the Companies Law) (hereinafter: the "Plan") and approved by the Company's audit committee and/or the remuneration committee and the board of directors, the Company has granted senior Group employees option warrants, free of charge, each of which may be exercised into one ordinary share of NIS 1 par value on a "net stock" basis, as described below:

On September 9, 2013 the general meeting of the Company, following approval by the board of directors and the remuneration committee, approved the Company's executive remuneration policy. As part of the remuneration policy, certain sections of the option plan were revised. Some of the revisions, as set forth below, will apply to new grants, whereas grants made before the adoption of the remuneration policy will be governed by the sections of the plan as they were prior to the approval of the policy.

The shares will be allotted to the employees in consideration for their par value in an amount equal to the difference between the closing price of the share on the last trading day on the Stock Exchange before the exercise date ("market value") and the exercise price, multiplied by the number of options divided by the market value of the share (plus a number of shares equal to the total par value of the issued shares).

Exercise price – the exercise price of the option warrants granted after September 2013 will be set as the average closing price of the Company's share in the 30 trading days preceding the record date plus a 5% premium, provided that the exercise price is no less than the share's closing price on the trading day preceding the record date. The exercise price of option warrants granted prior to September 2013 reflects the average price of the share on the Stock Exchange immediately prior to approval of the grant, linked to the Consumer Price Index from the CPI that is known on the allotment date until the latest CPI known on the exercise date.

The exercise price or conversion ratio of each option warrant will be adjusted pro rata for the allotment of bonus shares, consolidation and split of the Company's shares, a rights issue to the shareholders of the Company or the distribution of a dividend.

Note 23 - Share-Based Payments (cont'd)

23.1 (cont'd)

According to the terms of the Plan, the options granted commencing in September 2013 will be exercisable in three equal tranches after two, three and four years have elapsed from the date of entitlement to the options. Options granted between April 2011 and September 2013 will be exercisable in two equal tranches after two and three years have elapsed from the entitlement date. For grants from March 2008 up to and including March 2011 the options are exercisable in three equal tranches after two, three and four years from the entitlement date. Individuals entitled to exercise the option warrants may exercise them within an additional period of 4 years from the date the employee's right to exercise that amount of options was first created. Option warrants not exercised by that date will expire. In the event of termination (the end of the relationship between the offeree and the Group) other than due to dismissal for cause, the employee shall be entitled to exercise the options which have matured during a period of 180 days from the termination date. After 180 days have elapsed, all unexercised options will expire. In the event of such termination of an employee with over two years of seniority in the Group, the Company may, with the approval of the board of directors and/or the remuneration committee, determine that the employee shall be entitled to early vesting of the options that are due to vest within 6 months from the termination date and extend the exercise period by an additional 180 days.

According to the Plan, the grant of options to managers will be approved by the board of directors' remuneration committee, and the grant of options to senior executives will be approved by the board of directors, at the recommendation of the remuneration committee.

For employees in Israel, the Plan was approved in accordance with section 102 of the Income Tax Ordinance (Capital Gains Track) and the options were kept in trust accordingly. Pursuant to the Plan, the employees will be liable for any and all tax applying to the Plan.

Note 23 - Share-Based Payments (cont'd)

23.2 Grants during the reporting period

Following is information on the fair value of option warrants granted during the reported period and the data used for this estimate at the grant date:

Grant date	Number of options and entitled employees	Fair value NIS M	Share price NIS	Exercise price NIS	Expected life Years	Expected annual volatility %	Discount rate %
March 19, 2015	500,000 to 8 managers	6.4	58.61	61.71	4.2-6.2	24.11%-25.12%	0.64%-1.17%
March 22, 2015	700,000 to 4 officers	9.0	58.60	61.68	4.2-6.2	24.10%-25.11%	0.59%-1.11%
December 25, 2015	40,000 to manager	0.5	55.56	58.22	4.2-6.2	23.20%-24.50%	1.05%-1.63%

Entitlement to exercise the option warrants will vest in three equal tranches.

The benefit arising from the grants will be recorded as an expense on the financial statements over the above vesting periods.

Note 23 - Share-Based Payments (cont'd)

23.3 Changes in the number of share options:

	Number of share options (thousands)		
	2015	2014	2013
Balance as at January 1	3,453	2,965	4,725
Additional allotment	1,240	1,580	-
Exercise of options (1)	(590)	(1,075)	(1,715)
Forfeiture of options	(177)	(17)	(45)
Balance as at December 31 (2)	3,926	3,453	2,965

(1) The weighted average share price on the exercise date of the options exercised in 2015 is NIS 62.51 (2014: NIS 66.17, 2013: 56.33).

(2) On December 31, 2015, 928 thousand (2014: 724 thousand) of the outstanding option warrants had vested.

23.4 Share-based payments in a subsidiary

23.4.1 On February 2, 2011 the board of directors of the Company approved an international plan for the allotment of non-marketable options for Strauss Coffee shares to senior executives of Strauss Coffee, with vesting period of five years.

The total fair value of the options granted, calculated according to the Black & Scholes model, is approximately NIS 34 million (the Company's share is approximately NIS 25.5 million). The benefit deriving from the plan is recognized as an expense in the financial statements over the vesting period. At December 31, 2014, the number of stock options is 6,029.

23.4.2 In May and November 2015 Strauss Coffee allocated a plan for the allotment of non-marketable options for Strauss Coffee shares to three senior executives and to another senior executive, respectively. The options will vest in five equal yearly tranches.

The total fair value of the options granted, calculated according to the Black & Scholes model on the grant date, is approximately NIS 2.4 million (the Company's share is approximately NIS 1.8 million).

23.5 Salary expenses in respect of share-based payments

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Total expense included in salary expenses	14	18	18

Note 24 - Contingent Liabilities, Liens, Guarantees and Engagements

24.1 Contingent liabilities

24.1.1 Following is information on claims filed with the courts against the Company and its subsidiaries for class certification. Based on the estimates of the Company's legal counsel, management is of the opinion at this stage that **the claims are not expected to be accepted**:

Date claim filed	**Court in which claim is being litigated**	**Defendant**	**Subject of claim**	**Claim amount (NIS millions)**
April 2015	Central District Court	The Company and the Parent Company, Tnuva Central Cooperative for the Marketing of Agricultural Produce in Israel Ltd. and Tnuva Food Industries Agricultural Co-Op in Israel Ltd.	Alleged unfair pricing by a monopoly holder, and of products under price control	57 (The group's share)
November 2014	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in the sale of a product	38

24.1.2 Following is information on claims filed with the courts against the Company and its subsidiaries for class certification, in which respect **legal proceedings ended** in the reporting period, by the date of publication of the report

Date claim filed	**Court in which claim is being litigated**	**Defendant**	**Subject of claim**	**Claim amount (NIS millions)**
November 2013	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in a product recall process. On March 31, 2015, following negotiations with the claimant's attorney the claim was quashed and the proceedings concluded.	11
November 2014	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in the labeling of a product manufactured by the company. On May 11, 2015 the court decided to approve the Company's motion to quash the monetary claim.	11
December 2014	Tel Aviv – Jaffa District Court	An equity-accounted investee company in Israel	Alleged misleading in the sale of products in large packs. On May 10, 2015 the Tel Aviv – Jaffa District Court decided to approve the claimant's notice of withdrawal without ruling costs.	12
December 2007	Haifa District Court	The Company and the	Alleged misleading in the labeling of a product	34

		subsidiary Strauss Health Ltd.	manufactured by the company. On May 28, 2015 the Haifa District Court approved and granted force of judgment to the settlement between the parties. In the settlement arrangement it was agreed that the Company would donate various products during a period of 48 months, amounting to a total retail price of NIS 6 million.	
October 2014	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in the labeling of a product manufactured by the company. On July 1, 2015 the Tel Aviv – Jaffa District Court decided to approve the claimant's notice of withdrawal without ruling costs.	20
October 2011	Tel Aviv – Jaffa District Court	The Company	Alleged misleading of consumers in the labeling of the list of ingredients of chocolate bars. On July 12, 2015 a judgment was awarded in which the court approved the settlement agreement, pursuant to which the Company will grant its customers discounts and product donations worth NIS 900 thousand, as well as compensation and fees in the amount of NIS 200 thousand.	200
March 2014	Haifa District Court	Uri Horazo Yotvata Dairies Ltd. (50%)	Alleged misleading in the labeling of a product. On November 17, 2015 the Haifa District Court decided to approve the claimant's notice of withdrawal.	115
June 2015	Haifa District Court	The subsidiary Strauss Coffee B.V.	Alleged misleading in the labeling of a product manufactured by the company	25
March 2015	Central District Court	The subsidiary Strauss Water Ltd.	Alleged misleading by the representation that its water treatment devices perform filtration on a level complying with certain standards.	1,832

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.1 Contingent liabilities (cont'd)

24.1.3 Claims and other contingent liabilities

24.1.3.1 According to a letter of indemnity for officers of the Company, the Company has irrevocably undertaken to indemnify officers of the Company with respect to any liability or expense (as defined in the letter of indemnity) imposed on the officer due to actions performed in his capacity as such after the date of the letter of indemnity, which are directly or indirectly related to one or more of the types of events described in the letter of indemnity, or part of them or anything related to them, directly or indirectly. The amount the Company will pay, in addition to sums which shall be received from insurance companies, if any, for all officers cumulatively, in respect of one or more of the events described in the letter of indemnity, has been limited to 25% of the shareholders' equity of the Company according to the most recent financial statements published as at the actual date of the indemnity payment (hereinafter: the "Date of Record"). The maximum amount of indemnity will be linked to the index from the latest index published prior to the Date of Record, until the latest index published prior to the payment date. Additionally, in 2015 the General Meeting of Shareholders of the Company approved, among other things, the amendment of the Articles of Association of the Company to allow for the grant of deeds of exemption from liability and undertaking to indemnity to directors and officers serving in the Company, including those who are among the controlling shareholders of the Company and their relatives, and amendment of the Company's remuneration policy to allow for the grant of said deeds of exemption as well as the grant of deeds of exemption from liability and undertaking to indemnity to directors and officers serving in the Company, including those who are among the controlling shareholders of the Company and their relatives, and also including the Company CEO. See also Note 24.4.2.

24.1.3.2 The liquidator of Esio Beverage Company ("Esio") filed an action against Strauss Water Ltd. in the State of Delaware, USA. The filing of the action was approved on November 5, 2015. In the statement of claim Esio alleges that Strauss Water was expected to convert a $5.25 million loan to Esio (the "Loan") into equity and to invest an additional $25 million in Esio's equity, and after it failed to do so Esio was obliged to discontinue its business and was declared insolvent;

consequently, Esio was caused loss of profits and a loss of business opportunities. Strauss Water estimates that the chances of the action being accepted are below 50%. Strauss Water has filed a claim with the liquidator for the refund of the Loan, plus interest, against Esio's liquidated assets.

24.1.3.3 Claims in the civil courts and other claims that were not mentioned in the preceding notes amounted to approximately NIS 91 million as at December 31, 2015. Based on the opinion of its legal counsel, Company management is of the view that the Company and its subsidiaries will not incur losses as a result of the above claims in excess of the amount of the provision made in the financial statements.

24.1.3.4 There are lawsuits in the civil courts and other claims underway against an equity-accounted investee in Brazil. As at December 31, 2015, these claims (the Group's share) totaled approximately NIS 149 million (of which approximately NIS 82 million relate to claims by the tax authorities, NIS 59 million relate to labor claims and NIS 8 million to civil suits). Based on the information received from the Company's legal counsel, an analysis of the pending legal proceedings and past experience as far as the amounts claimed are concerned, the equity-accounted investee estimates that the chances of approximately NIS 112 million of the claims

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.1 Contingent liabilities (cont'd)

24.1.3 Claims and other contingent liabilities

are slight and has made provisions totaling approximately NIS 11 million (the Group's share), which is considered sufficient to cover the expected losses as a result of the above claims .

24.1.3.5 See Note 35.1.2 for information on benefits received by Group companies by virtue of the laws for the encouragement of capital investments.

24.2 Liens

24.2.1 The following encumbrances have been created to secure the liabilities of the Group companies:

	December 31	
	2015	2014
	NIS millions	
On current assets abroad in favor of foreign banks	3	3
On the assets of investees	41	57

24.2.2 Floating charges on machinery, equipment, tools, instruments, facilities and real estate as well as the fruits and rights of the pledged assets of several Group companies operating in Israel have been registered in favor of the State of Israel to secure the repayment of grants in the event of non-compliance with the terms and conditions stipulated.

24.2.3 There are fixed and floating charges on real estate, machinery, equipment and inventory of a number of Group companies in favor of banks and others to secure credit.

24.2.4 The Company has undertaken in favor of banks and other financing entities in Israel not to mortgage or to otherwise encumber assets without receiving the prior written consent of the banks and financing entities.

24.3 Guarantees

24.3.1 Guarantees and comfort letters were given to banks and others with respect to the business operations of the Group, as follows:

	December 31	
	2015	2014
	NIS millions	
In favor of subsidiaries in Israel and abroad	467	384
In favor of others in Israel and abroad	22	23

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.3.2 There are mutual guarantees between the Company and subsidiaries, limited (see above) and unlimited in amount, to secure all liabilities to banks and others.

24.4 Material commitments

24.4.1 In the engagement for the investment by PepsiCo Foods International (hereinafter: "PepsiCo") in Strauss Frito-Lay Ltd, the shareholders agreed that should control of the Company (directly or indirectly) be assumed by a party that is not the Strauss family, PepsiCo shall have the right, after 12 months have elapsed from the Company becoming thus controlled, to acquire the Company's entire remaining shareholding in Strauss Frito-Lay Ltd. at the market price to be determined as specified in the agreement, on condition that PepsiCo had attempted in good faith to cooperate with the new controlling shareholder in the said 12 months and shall reasonably determine that its attempt was unsuccessful.

24.4.2 As at the reporting date the Company is engaged in a policy for the insurance of directors and officers serving in the Company and its subsidiaries (the policy does not include Strauss Coffee B.V.), with liability limits of approximately USD 100 million and for payment of an annual premium of USD 100 thousand. Additionally, Strauss Coffee B.V. has a policy for the insurance of directors and officers serving in Strauss Coffee B.V. with liability limits of approximately USD 100 million, for payment of an annual premium of USD 100 thousand.

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.4 Material commitments (cont'd)

24.4.3 The agreement between Uri Horazo Yotvata Dairies (limited pPartnership), Kibbutz Yotvata (which holds 50% of the shares of Yotvata) (hereinafter: the "Kibbutz") and Strauss Health determines, *inter alia*, that for as long as the Kibbutz holds at least 20% of the ordinary share capital of Yotvata, a resolution by Yotvata's board of directors or general meeting relating to certain matters enumerated in the agreement will require the approval of the Kibbutz's representatives on the board of directors.

A mutual option is granted in the agreement to the Kibbutz and to Strauss Health to conduct a share exchange, if certain conditions are fulfilled, in such manner that Strauss Health will hold 100% of the control and equity in Yotvata, and the Kibbutz will own 6.4% of the share capital of Strauss Health as it is at such time.

24.4.4 Strauss Health and Yotvata are engaged in agreements with dairy farmers to purchase the entire quotas of their milk produce in accordance with the Milk Sector Planning Law, 2011.

24.4.5 On December 29, 2005 a series of agreements was signed between companies in the Group and the Lima family of Brazil and companies under its control, their goal being the consolidation of the parties' operations in Brazil. It was determined that the transfer or sale of shares by a shareholder of the jointly-held company to a third party which is not related to either of the shareholders is subject to a right of first refusal to the sale, right of first offer and a shareholder's tagalong right to the sale of the other shareholder's shares. The agreement further determines that the shareholders will have preemptive rights with respect to any allotment of securities by the joint company in the future, in such manner that they will be able to acquire new securities pro rata to their holdings. Should a shareholder in the jointly-held company enter insolvency proceedings, the other shareholder will be entitled to acquire all of the shareholder's shares in the jointly-held company on the basis of the joint company's fair market value, subject to a prescribed valuation mechanism.

The agreement further determines that should an arbiter who is appointed in a dispute between the shareholders rule that a shareholder is in breach of the shareholders' agreement or joint venture agreement, the other shareholder that is not in breach shall be entitled to exercise its call option to buy the shares of the shareholder in breach for a price equal to 80% of fair market value, or alternatively, to exercise its put option to sell its shares to the shareholder in breach for a price equal to 120% of fair market value, according to a mechanism defined in the shareholders' agreement. On September 13, 2010 the parties signed an amendment to the shareholders' agreement, in which, *inter alia*, a limitation was added, prohibiting a shareholder from selling its shares to a rival of the jointly-held company until January 1, 2020. In 2015, the mutual share encumbrance agreement designed to ensure indemnification in the framework of establishing the joint venture expired, with the agreement of the parties.

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.4 Material commitments (cont'd)

24.4.6 In December 2007, a joint venture transaction was signed with a PepsiCo subsidiary (Frito-Lay Dip Company, Inc.) (the “Buyer”) such that effective March 28, 2008, the Company (via S.E. USA, Inc.) and PepsiCo (via the Buyer) each holds 50% of the “participation rights” in Sabra Dipping Company, LLC (“Sabra”). After five years have elapsed from the date of the agreement, each of the holders of “participation rights” in Sabra will have a put option to sell its “participation rights” to the other holders of “participation rights” in Sabra at such time, on the basis of Sabra's market value less 25%. The party against which the option was exercised will have the right to purchase the “participation rights” of the party exercising the option at the said price or alternatively, to sell the party exercising the option its “participation rights” on the basis of Sabra's market value plus 25%. The bylaws determine, *inter alia*, that the sale of “participation rights” to a third party is subject to the tagalong right of the remaining owners of “participation rights”, and insofar as this right is not exercised, the seller shall have a drag-along right to enforce a sale on the remaining owners of “participation rights”. This right shall be available to the seller after five years have elapsed from the date whereon the bylaws became effective. Additionally, the bylaws contain an itemization of certain corporations, in which respect any transfer of “participation rights” in Sabra to them shall require the consent of the Buyer or of S.E. USA, Inc., according to the provisions of the bylaws.

24.4.7 On January 21, 2012 the subsidiary Strauss Coffee signed an agreement with the owners of Norddeutsche Kaffeewerke GmbH (hereinafter: “NDKW”), for the leasing of its freeze-dried coffee plant for a five-year period, for a yearly consideration of €2.5 million (of which €10 million were paid in advance).

On March 27, 2013 the subsidiary Strauss Coffee granted NDKW a loan in an amount of €18.5 million, which will be repaid by the owners of NDKW at the end of the lease period. The loan bears interest, which is paid each year by NDKW. As collateral for the loan, the assets of NDKW are encumbered in the Company's favor.

The Company has an option to extend the term of the lease for a further three years for a yearly consideration of €3.25 million (a total of €9.75 million). Should the Company decide to exercise the option, the sum of €7.5 million of the abovementioned loan will be considered a down payment on account of the yearly lease fees.

In addition, the subsidiary Strauss Coffee has a call option to acquire NDKW in consideration for €50 million, which may be exercised at any time during the term of the agreement.

24.4.8 For information on engagements in operating leases, see Note 25**.**

24.4.9 For information on transactions with interested and related parties, see Note 37.

Note 25 - Operating Leases

Leases in which the Group is the lessee

The Group companies are party to non-cancelable long-term lease agreements relating to property and other assets, pursuant to which the following minimum rental fees shall be paid:

	December 31	
	2015	2014
	NIS millions	
In the first year	69	75
Between one and five years	121	144
In the fifth year and thereafter	70	83
	260	302

25.1 Information on material lease contracts

Lessee	Lessor	The leased property	Remaining lease period
The Company	Third party	Acre distribution and logistics center	Until February 2021, with an option to extend for a further five years
The Company	Third party	Haifa distribution and logistics center	Until October 2018
Subsidiary	Third party	US Stores for the operation of "Chocolate Bars"	Until 2024
Subsidiary	Third party	Freeze-dried coffee production plant in Germany	Until December 2019 (see Note 24.4.7)
The Company	Third party	Tzrifin distribution and logistics center (1)	Until November 2021

(1) In the course of 2015 the Company relocated its operations from Tzrifin and other sites to the logistics center in Shoham, and from January 1, 2016 the Tzrifin site has been sublet. The costs created until the sub-lessee took possession of the premises ("onerous contract" costs) were included in the provision for structural change and classified under the other expenses item in the income statement.

25.1.2 In the year ended December 31, 2015 an amount of NIS 85 million was recorded as an expense in the statement of income in respect of operating leases (2014 and 2013: NIS 86 million and NIS 85 million, respectively).

Note 26 - Capital and Reserves

Capital management – goals, procedures and processes

It is Company management's policy to maintain a strong capital base with the aim of preserving the Company's ability to conduct its operations in a manner that generates shareholder yield and benefits to other related parties such as credit providers and employees of the Company, as well as to support future business development. Company management monitors the return on equity, which is defined as total equity attributed to the shareholders of the Company, as well as the dividend payout ratio for holders of the Company's ordinary shares

26.1 Share capital

26.1.1 Composition

	December 31	
	2015	**2014**
	Number of shares (in thousands) of NIS 1 par value	
Authorized	150,000	150,000
Issued and paid-up	108,189	107,949
Treasury shares (See Note 26.2)	(868)	(868)
	107,321	107,081

26.1.2 The holders of ordinary shares are entitled to dividends declared from time to time and to one vote per share at shareholders' meetings of the Company. In respect of the treasury shares (see below), all rights attaching thereto are suspended until they are reissued.

26.2 Treasury shares

The reserve for treasury shares includes the cost of shares of the Company held by the Company. On December 31, 2015 and 2014 the Company held 868 thousand Company shares, constituting approximately 0.8% of the shares of the Company. These shares are suspended until reissued.

26.3 Dividend distribution

Declaration date	Payment date	Total dividend paid NIS millions	Dividend per share NIS
November 23, 2015 (ex-date: December 2, 2015)	December 10, 2015	100	0.931
October 30, 2013 (ex-date: November 15, 2013)	November 28, 2013	157	1.473

As a result of the dividend distribution, the exercise price of option warrants granted to employees was adjusted. See Note 23.1.

Note 26 - Capital and Reserves

26.4 Capital reserve in respect of available-for-sale financial assets

The capital reserve in respect of available-for-sale financial assets comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

26.5 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of monetary items that in fact constitute increase or decrease in the net investment of the Group in foreign operations.

The effect of changes in foreign exchange rates that was recognized as other comprehensive income (including the share of non-controlling interests) according to the relevant operating segments was:

	For the year ended December 31		
	2015	**2014**	**2013**
		NIS millions	
International Coffee	(389)	(271)	(239)
International Dips and Spreads	(1)	37	(15)
Other	3	1	(16)
Total	(387)	(233)	(270)

Note 27 - Segment Reporting

27.1 General

Segment information is presented in respect of the operating segments of the Group on the basis of the Group’s management (non-GAAP) and internal reports (hereinafter: "Management Reports"). The Group's division into reportable operating segments is derived from Management Reports, which are based on the geographical location and types of products and services, as follows:

- The Israel operation, which includes two operating segments –
  - Fun & Indulgence – includes the manufacture, marketing and sale of confectionery, bakery products and snacks.
  - Health & Wellness – includes the manufacture, marketing and sale of dairy products and milk beverages, fresh salads and foods, honey products, olive oil and fruit preserves cooking sauces, bottled lemon juice and natural maple syrup.
- The coffee operation, which includes two operating segments –
  - Israel Coffee – includes the manufacture, marketing and sale of coffee products in Israel and the Coffee Company’s corporate expenses in material amounts.
  - International Coffee – includes the manufacture, marketing and sale of coffee products outside Israel.
- The International Dips and Spreads operation – includes the manufacture, marketing and sale of refrigerated dips and spreads outside Israel.

Other operations include the Max Brenner chain, as well as the Company’s water business, which is incorporated in Strauss Water and other non-material activities of the company.

The results of the operating segments set forth below are based on evaluations of the Company’s performance in the framework of the Management Reports. These evaluations are based on operating profit, which includes the allocation of selling expenses and general and administrative expenses, less certain items, as follows:

- Other expenses (income)
- Results of the valuation of commodity hedging transactions as at the end of the year, which are reported in cost of sales
- Expenses in respect of share-based payment

Inter-segment pricing is determined on an arm’s length basis.

Segment results include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly financing income and expenses.

Note 27 - Segment Reporting (cont'd)

27.2 Information according to operating segments and reconciliation between the operating data of the segments and the consolidated financial statements

	For the year ended December 31		
	2015	2014	2013
		NIS millions	
Income			
Sales to external customers:			
Health & Wellness	1,898	1,974	1,987
Fun & Indulgence	968	998	1,013
Total Israel	2,866	2,972	3,000
Israel Coffee	647	689	715
International Coffee	2,785	3,136	3,229
Total Coffee	3,432	3,825	3,944
International Dips and Spreads	752	683	600
Other	592	660	599
Sales to other segments:			
Health & Wellness	8	7	6
Fun & Indulgence	9	16	25
Total Israel	17	23	31
Israel Coffee	1	2	6
International Coffee	-	-	-
Total Coffee	1	2	6
International Dips and Spreads	-	-	-
Other	-	1	-
Total income of the segments	7,660	8,166	8,180
Elimination of inter-segment sales	(18)	(26)	(37)
Total income of segments excluding inter-segment sales	7,642	8,140	8,143
Adjustments to the equity method	(2,459)	(2,725)	(2,538)
Total consolidated income	5,183	5,415	5,605

Note 27 - Segment Reporting (cont'd)

27.2 Information according to operating segments and reconciliation between the operating data of the segments and the consolidated financial statements (cont'd)

	Year ended December 31		
	2015	2014	2013
	NIS millions		
Profit			
Health & Wellness	188	203	200
Fun & Indulgence	93	112	115
Total Israel	281	315	315
Israel Coffee	84	101	88
International Coffee	184	247	315
Total Coffee	268	348	403
International Dips and Spreads	80	75	57
Other	30	8	(6)
Total profit of the segments	659	746	769
Unallocated income (expenses):			
Valuation of commodity hedging transactions as at the end of the year	22	(22)	12
Other income (expenses), net	(42)	(121)	(100)
Share based payment and non-recurring grant	(15)	(21)	(18)
Total operating profit	624	582	663
Adjustments to the equity method	(39)	(37)	(53)
Total operating profit in the consolidated financial statements	585	545	610
Financing expenses, net	(101)	(67)	(114)
Income before taxes on income	484	478	496

Note 27 - Segment Reporting (cont'd)

27.3 Additional information on operating segments and reconciliation with the consolidated financial statements

	For the year ended December 31		
	2015	2014	2013
		NIS millions	
Depreciation and amortization			
Health & Wellness	54	49	50
Fun & Indulgence	32	29	28
Total Israel	86	78	78
Israel Coffee (1)	10	17	44
International Coffee (2)	74	87	59
Total Coffee	84	104	103
International Dips and Spreads	23	16	19
Other	39	35	36
Total depreciation and amortization attributed to segments	232	233	236
Adjustments:			
Depreciation of unallocated non-financial assets	21	22	23
Adjustments to the equity method	(41)	(37)	(31)
Total depreciation and amortization in consolidated statements	212	218	228

(1) In 2013, including expenses in respect of restructuring in the Israel Coffee segment.
(2) In 2015 and 2014, including loss from impairment of goodwill and intangible assets. See Note 15.3.

Note 27 - Segment Reporting (cont'd)

27.4 Information on geographical segments

The Group's income from sales to external customers, as reported in the income statement, on the basis of the geographical location of the assets, is as follows:

	For the year ended December 31		
	2015	2014	2013
		NIS millions	
Israel	3,776	3,932	3,970
North America	80	83	88
Europe and rest-of-world	1,327	1,400	1,547
Total consolidated income	5,183	5,415	5,605
Adjustments to income of operating segments	2,459	2,725	2,538
Total income of operating segments	7,642	8,140	8,143

The non-current assets of the Group, as reported in the statement of financial position, on the basis of their geographical location, are as follows:

	December 31	
	2015	2014
	NIS millions	
Israel	1,898	1,902
North America	35	39
Europe and rest-of-world	581	683
Total consolidated assets	2,514	2,624
Adjustment to assets of operating segments	870	1,011
Total assets of operating segments	3,384	3,635

These assets include mainly fixed assets and intangible assets, and do not include financial assets, current tax assets, deferred tax assets and assets designated for the payment of employee benefits.

Note 27 - Segment Reporting (cont'd)

27.5 Information regarding products and services

Following are the revenues of the Group from sales to external customers as reported in the income statement, according to groups of similar products and services:

	Year ended December 31		
	2015	2014	2013
		NIS millions	
Income			
Dairy products	1,342	1,402	1,448
Salads	277	289	278
Other Health & Wellness products	279	249	261
Confectionery and bakery products	761	827	828
Coffee	1,945	2,045	2,247
Water purification devices and related services	470	491	427
Other	109	112	116
Total consolidated income in statement of income	5,183	5,415	5,605
Adjustments to income of operating segments	2,459	2,725	2,538
Total income of operating segments	7,642	8,140	8,143

Note 28 - Financial Instruments

The Group is exposed to the following risks as a result of using financial instruments:

- Credit risk.
- Interest risk.
- Market risks that include: commodity price risks, foreign currency risks and CPI risks.
- Liquidity risk.

This note provides information regarding the exposure of the Group to these risks and Group policy for the management of such risks.

In calculations of fair value and the sensitivity analyses the Company used the following:

1. Options – Black & Scholes model, standard deviation and quotations of relevant underlying assets.
2. Forward transactions – According to the change in the price of the relevant underlying asset and interest differences deriving from interest rates and/or stock exchange market prices (for commodities).
3. Debentures – According to the known interest curve and average life of the debentures.

Note 28 - Financial Instruments (cont'd)

28.1 Credit risk

In 2015 in Israel and in the Group companies outside of Israel there were no customers in which respect the Group's revenues from sales to these customers exceeded 10% of the Company's total income in its financial statements. The balance of the Company's customers is spread out and the risk arising from the concentration of credit with a single customer or group of customers is immaterial.

Most of the sales of the Group to its customers (in and outside of Israel) are made on accepted market credit terms. Part of the credit to retail customers in the private market in Israel is guaranteed by credit insurance (including a deductible) and by different collateral, and the rest of the credit to the private market that is not covered by any security is at risk. Nevertheless, the wide spread of the Group's customers in the private market reduces this risk. Part of the credit to large customers is not secured and is concentrated among a small number of customers to which the scope of the Group's sales is large, and therefore the non-repayment of credit which is not secured by any of the large customers may significantly impair the Group's cash flows and business results. Most of the credit to foreign customers is not guaranteed.
Company management constantly monitors customer debts, and the financial statements include specific provisions for doubtful debts which fairly reflect, according to management's estimate, the loss inherent in debts which collection is doubtful.

28.1.1 Exposure to credit risk

The carrying amount of financial assets reflects maximum credit exposure.
For information regarding exposure to credit risk in respect of customers, see Note 9. Additionally, for a segmentation of financial assets with varying credit risks see Note 13 regarding loans granted and Note 8 regarding investment in deposits and marketable securities.

28.1.2 Sureties and other credit enhancements

As at December 31, 2015 credit to retail customers in the amount of NIS 712 million (2014: NIS 680 million) is guaranteed by credit insurance as described above. In addition, the Company has deposits and guarantees from customers to secure their debts in the amount of NIS 82 million as at 31 December 2015 (2014: NIS 76 million).

28.1.3 One of the Company's major customers in Israel, Mega Retail Ltd., filed a motion with the Lod Central Region District Court for a debt settlement under section 350 of the Companies Law, 1999. In July 2015 the court approved the composition with creditors, which included the rescheduling of debts to banks and suppliers, and an undertaking by Mega's owners to the injection of funds and guarantees. As part of the settlement, the parties agreed to a two-year deferment of 30% of the debt as at the date of filing of the motion, with the balance subsequently being repaid in 36 equal monthly installments, plus interest, commencing on July 15, 2017. On January 17, 2016 the District Court granted Mega a stay of proceedings. As at the date of the order, Mega's debt is covered in its entirety by credit insurance, excluding the deductible. In the Company's opinion, taking said credit insurance into account, the provision for Mega's debt on the Company's books is adequate. The "other investments and long-term debit balances" item states a provision for doubtful debts for Mega's debt as well as other receivables in respect of credit insurance compensation.

Note 28 - Financial Instruments (cont'd)

28.2 Interest rate risk

28.2.1 Interest rate profile

The interest rate profile of the Group's interest bearing financial instruments as at the date of the report is as follows:

	December 31	
	2015	**2014**
	NIS millions	
Fixed interest financial instruments		
Financial assets	195	278
Financial liabilities	(1,965)	(2,201)
	(1,770)	(1,923)
Floating interest financial instruments		
Financial assets	408	664
Financial liabilities (1)	(229)	(269)
	179	395

(1) Loans at floating interest rates denominated in US Dollars and Shekel loans bearing interest at the prime rate. See Note 20.

28.2.2 Fair value sensitivity analysis regarding fixed interest instruments

The fixed interest assets and liabilities of the Group (such as deposits, loans granted and issued debentures) are not measured at fair value through profit or loss. Therefore, any change in the interest rate as at the reporting date would not have a material effect on the statement of income.

28.2.3 Fair value sensitivity analysis regarding floating interest instruments

The Company uses IRS transactions to hedge the variable Dollar interest risk. As December 31 2015 and 2014, the carrying value and fair value of the transactions were immaterial.

Note 28 - Financial Instruments (cont'd)

28.2 Interest rate risk (cont'd)

28.2.4 Sensitivity analysis regarding floating interest instruments

Changes in the absolute interest rate in respect of all assets and liabilities other than financial derivatives as at the reporting date will increase (decrease) equity and income for the subsequent period by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

	December 31, 2015				
	2% increase	1% increase	Income (expense) relating to floating interest	1% decrease	2% decrease
	NIS millions				
Total income (expense)	4	2	(5)	(1)	(3)

	December 31, 2014				
	2% increase	1% increase	Income (expense) relating to floating interest	1% decrease	2% decrease
	NIS millions				
Total income (expense)	10	5	(1)	(5)	(10)

<u>Additional information:</u>
Most of the Company's variable interest rate income is linked to the Euro, Dollar and Shekel. The Company's liabilities at variable interest rates are linked to the Dollar and Shekel interest rates.

Note 28 - Financial Instruments (cont'd)

28.3 Commodity risk

The Group companies use derivative financial instruments in order to reduce the exposure to risks arising from unusual changes in the prices of raw materials required for production purposes (green coffee, cocoa, corn, sugar and crude oil) or materials and cost influenced by commodity prices (crude oil, corn).

28.3.1 Following is an itemization of the Group's material derivative financial instruments (stock exchange derivatives)

			December 31 2015	
		Exercise/expiry date	Face value	Carrying amount and fair value
			NIS millions	
Green coffee	Contracts purchased, net	March 2016 – September 2016	170	(4)
Green coffee	Buy Call	March 2016 – July 2016	37	-
Green coffee	Sell Call	May 2016	(6)	-
Green coffee	Sell Put	March 2016 – July 2016	(44)	(2)
				(6)

			December 31 2014	
		Exercise/expiry date	Face value	Carrying amount and fair value
			NIS millions	
Green coffee	Contracts purchased, net	March 2015 – September 2015	177	(16)
Green coffee	Buy Call	March 2015 – July 2015	92	(1)
Green coffee	Sell Call	March 2015 – July 2015	(103)	1
Green coffee	Sell Put	March 2015 – July 2015	(83)	(3)
				(19)

Note 28 - Financial Instruments (cont'd)

28.3 Commodity risk (cont'd)

28.3.2 Sensitivity analysis – forward transactions and options

Any increase (decrease) in the prices of the essential commodities will increase (decrease) equity and income for the period, in respect of forward transactions and options, by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

	December 31, 2015				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
	NIS millions				
Arabica	6	3	(1)	(3)	(7)
Robusta	13	6	(5)	(7)	(13)
Total	19	9	(6)	(10)	(20)

	December 31, 2014				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
	NIS millions				
Arabica	9	5	(12)	(5)	(10)
Robusta	12	6	(7)	(6)	(13)
Total	21	11	(19)	(11)	(23)

28.4 Foreign currency risk

28.4.1 The Group uses derivatives (OTC) in order to hedge part of its foreign currency risk. As at December 31, 2015 the carrying amount and fair value of derivative financial instruments of the Group (foreign currency), net amounted to approximately NIS 4 million (December 31, 2014: NIS 18 million)

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.2 Sensitivity analysis regarding financial assets (liabilities)

Following is a sensitivity analysis relating to the Group's material derivative instruments (foreign currency – OTC) as at December 31. Any change in the exchange rates of the major currencies as at December 31 will increase (decrease) equity and income for the period by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

	December 31, 2015				
	10% increase	5% increase	Carrying amount and fair value	5% decrease	10% decrease
NIS/USD exchange rate	4.2922	4.0971	3.9020	3.7069	3.5118
Total NIS/USD derivatives	8	5	4	(5)	(11)

	December 31, 2014				
	10% increase	5% increase	Carrying amount and fair value	5% decrease	10% decrease
NIS/USD exchange rate	4.2779	4.0835	3.8890	3.6946	3.5001
Total NIS/USD derivatives	5	3	16	(7)	(12)

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.3 Statement of financial position according to linkage bases

The Group's exposure to CPI and foreign currency risk, not including risk associated with financial derivatives, is as follows:

	December 31, 2015							
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non-financial	Total
	NIS millions							
Cash and cash equivalents	-	322	92	86	2	58	-	**560**
Securities and deposits	25	31	4	-	-	-	-	**60**
Trade receivables	-	623	24	2	132	145	-	**926**
Other receivables and debit balances (1)	-	20	62	8	2	1	75	**168**
Other investments and long-term debit balances	-	79	69	50	-	10	-	**208**
Current maturities of debentures	(178)	-	-	-	-	-	-	**(178)**
Short-term loans and credit	(4)	(110)	(36)	-	(31)	-	-	**(181)**
Trade payables	-	(473)	(178)	(11)	(7)	(44)	-	**(713)**
Other payables and credit balances (2)	(15)	(338)	(10)	(4)	(29)	(34)	(80)	**(510)**
Debentures	(356)	(478)	-	-	-	-	-	**(834)**
Long-term loans and credit	(468)	(460)	(15)	-	-	-	-	**(943)**
Total	(996)	(784)	12	131	69	136	(5)	**(1,437)**

(1) Excluding derivative financial instruments in the amount of NIS 15 million.
(2) Excluding derivative financial instruments in the amount of NIS 21 million.

Note 28 - Financial Instruments (cont’d)

28.4 Foreign currency risk (cont'd)

28.4.3 Statement of financial position according to linkage bases (cont'd)

	December 31, 2014							
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non-financial	Total
	NIS millions							
Cash and cash equivalents	-	504	89	106	4	64	-	**767**
Securities and deposits	63	45	9	-	-	4	-	**121**
Trade receivables	-	579	27	5	107	186	3	**907**
Other receivables and debit balances*(1)	-	1	108	36	-	5	79	**229**
Other investments and long-term debit balances	-	48	97	90	-	6	4	**245**
Current maturities of debentures	(179)	-	-	-	-	-	-	**(179)**
Short-term loans and credit	(4)	(94)	(50)	-	(2)	-	-	**(150)**
Trade payables	-	(539)	(215)	(26)	(6)	(60)	-	**(846)**
Other payables and credit balances* (2)	(18)	(364)	(11)	(8)	(37)	(33)	(88)	**(559)**
Debentures	(540)	(480)	-	-	-	-	-	**(1,020)**
Long-term loans and credit	(475)	(519)	(51)	-	-	-	-	**(1,045)**
Total	(1,153)	(819)	3	203	66	172	2	**1,530**

* Reclassified to match current period

(2) Excluding derivative financial instruments in the amount of NIS 27 million.
(2) Excluding derivative financial instruments in the amount of NIS 37 million.

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.4 Sensitivity analysis regarding financial assets (liabilities)

Any change in the exchange rates of the major currencies as at December 31 in regard to the currency risk arising from financial items denominated in foreign currency, which is not the functional currency of the Company and its subsidiaries, will increase (decrease) equity (the equity attributable to all shareholders of the Company) in the following amounts:

	December 31, 2015				
	NIS million				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	4.29	4.10	3.90	3.69	3.50
Effect in NIS millions	2	1	24	(1)	(2)
RUB/USD exchange rate	81.54	77.83	74.12	70.42	66.71
Effect in NIS millions	(11)	(6)	(113)	6	11
UAH/USD exchange rate	26.50	25.30	24.09	22.89	21.68
Effect in NIS millions	(3)	(2)	(34)	2	3

	December 31, 2014				
	NIS million				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	4.28	4.08	3.89	3.69	3.50
Effect in NIS millions	8	4	81	(4)	(8)
RUB/USD exchange rate	65.60	62.52	59.54	56.57	53.59
Effect in NIS millions	(9)	(4)	(90)	4	9
UAH/USD exchange rate	17.35	16.56	15.77	14.98	14.19
Effect in NIS millions	(3)	(2)	(34)	2	3

28.5 CPI risk

28.5.1 The Company uses CPI futures for varying periods to partly hedge the index risk arising from the excess of liabilities.

Note 28 - Financial Instruments (cont'd)

28.5 CPI risk (cont'd)

28.5.2 Sensitivity analysis – CPI futures contracts

Any increase (decrease) in the anticipated CPI in relation to the anticipated index inherent in the fair value of each of the CPI futures will increase (decrease) shareholders' equity (the equity attributable to all of the Company's shareholders) and income for the period in respect of these contracts by the amounts presented below. This analysis was performed assuming that all the other variables remain constant and disregards tax effects.

	December 31, 2015				
	2% increase	1% increase	Fair value and carrying amount	1% decrease	2% decrease
			NIS millions		
CPI futures	14	7	(34)	(7)	(14)

	December 31, 2014				
	2% increase	1% increase	Fair value and carrying amount	1% decrease	2% decrease
			NIS millions		
CPI futures	21	10	(27)	(10)	(21)

28.6 Liquidity risk

The Company's liabilities mainly derive from credit that was raised by issuing debentures (Series B and Series D) and loans from banks and others. In addition to these liabilities, the Company has unsecured credit lines from banks. Over the years the Company's business operations have generated positive cash flows that enable it to meet the financial obligations it has undertaken. However, should the Company require any sources of financing in addition to those generated by its business operations the Company will be able to use, *inter alia*, the additional credit lines available to it. Following is an analysis of the contractual repayment dates of financial liabilities, including interest payments, but not including the effect of setoff agreements. This analysis is based on indices known as at the reporting date, such as the CPI, foreign currency exchange rates and interest rates.

Note 28 - Financial Instruments (cont'd)

28.6 Liquidity risk (cont'd)

		December 31, 2015							
	Note	**Carrying amount**	**Contractual cash flow**	**2015**	**2016**	**2017**	**2018**	**2018**	**2020 and thereafter**
		NIS millions							
Trade payables	17	713	713	713	-	-	-	-	-
Derivatives	18,21	45	45	21	24	-	-	-	-
Redeemable preferred shares (1)	18	13	13	13	-	-	-	-	-
Other payables (2)	18	497	465	465	-	-	-	-	-
Debentures Series B	20	534	568	197	189	182	-	-	-
Debentures Series D	20	478	588	21	39	47	46	77	358
Dollar loan from banks	20	22	22	22	-	-	-	-	-
Shekel loan from banks	20	100	129	7	6	6	55	27	28
Shekel loan from banks	20	102	121	4	5	4	54	27	27
Shekel loan from banks	20	93	97	49	48	-	-	-	-
Shekel loans from others	20	369	440	17	17	16	102	99	189
Shekel loan from others	20	250	324	26	25	24	24	67	158
Dollar loans from banks	20	28	29	13	16	-	-	-	-
Dollar loan from others	20	2	2	1	1	-	-	-	-
Ruble loan from banks	20	31	31	31	-	-	-	-	-
Loans from banks and others	20	121	127	55	38	27	7	-	-
Finance lease	20	6	9	-	-	-	1	1	7
		3,404	3,723	1,655	408	306	289	298	767

(1) The preferred shares are redeemable immediately.
(2) The carrying amount includes accrued expenses in respect of interest.

Note 28 - Financial Instruments (cont'd)

28.6 Liquidity risk (cont'd)

	December 31, 2014								
	Note	**Carrying amount**	**Contractual cash flow**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020 and thereafter**
		NIS millions							
Trade payables	17	846	846	846	-	-	-	-	-
Derivatives*	18	60	60	37	8	15	-	-	-
Redeemable preferred shares (1)	18	13	13	13	-	-	-	-	-
Other payables (2)	18	546	512	512	-	-	-	-	-
Debentures Series B	20.1	719	779	206	198	191	184	-	-
Debentures Series D	20.1	480	609	21	21	39	47	46	435
Dollar loan from banks	20.1	38	38	16	22	-	-	-	-
Shekel loan from banks	20.1	100	135	6	6	6	6	55	56
Shekel loan from banks	20.1	103	127	4	4	4	4	55	56
Shekel loan from banks	20.1	139	147	50	49	48	-	-	-
Shekel loans from others	20.1	375	461	17	17	17	17	103	290
Shekel loan from others	20.1	261	350	26	26	25	24	24	225
Dollar loans from banks	20.1	60	60	34	13	13	-	-	-
Dollar loan from others	20.1	3	3	2	1	-	-	-	-
Ruble loan from banks	20.1	3	3	3	-	-	-	-	-
Loans from banks and others	20.1	113	121	40	35	26	17	3	-
		3,859	4,264	1,833	400	384	299	286	1,062

(1) The preferred shares are redeemable immediately; however, the Company does not expect redemption in the short term.
(2) The carrying amount includes accrued expenses in respect of interest.

Note 28 - Financial Instruments (cont'd)

28.7 Fair value of financial instruments

28.7.1 Fair value

The carrying amount of cash and cash equivalents, short and long-term investments, trade receivables, other receivables and debit balances, trade payables and other payables and credit balances is the same as or proximate to their fair value.

The fair value of financial liabilities, which are not presented in the financial statements at fair value or proximate thereto, together with their carrying amounts presented in the statement of financial position, is as follows:

	December 31, 2015		December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS millions			
Debentures Series B (1)	544	562	731	771
Debentures Series D (1)	483	537	485	535

The fair value is based on the prices of the Tel Aviv Stock Exchange, i.e. The carrying amount includes interest accrued on Series B debentures as at December 31, 2015 and December 31, 2014 in the amount of NIS 9 million and NIS 12 million, respectively, and on Series D debentures as at December 31, 2015 and December 31, 2014 in the amount of NIS 5 million and NIS 5 million, respectively.

28.7.2 Fair value hierarchy

28.7.2.1 Derivatives – fair value valuation technique

Forward contracts – fair value is estimated by discounting the difference between the forward price quoted in the contract and the current forward price for the remaining term of the contract until the maturity date, using the appropriate market interest rates applying to similar instruments.

Foreign currency options – fair value is determined according to the Black & Scholes model.

28.7.2.2 Fair value hierarchy of financial instruments measured at fair value

	December 31, 2015			December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	NIS millions					
Financial assets (liabilities)						
Marketable securities	45	-	-	98	-	-
Trade receivables- derivatives	9	6	-	10	17	-
Trade payables- derivatives	(9)	(36)	-	(33)	(27)	-
Available-for-sale financial asset	26	-	-	23	-	-
Option to purchase shares (1)	-	-	5	-	-	-
	71	(30)	5	98	(10)	-

(1) 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 companies volatility. The revaluation is included in the statement of income under financing income. (For further information, see Note 12.6).

Note 29 - Sales

	For the year ended December 31		
	2015	2014	2013
		NIS millions	
Sales of manufactured products	4,245	4,470	4,656
Sales of other products	602	635	678
Other income (1)	336	310	271
	5,183	5,415	5,605

(1) Other income includes mainly income from providing services for water purification devices and royalty income.

Note 30 - Cost of Sales

30.1 By components

	For the year ended December 31		
	2015	2014	2013
		NIS millions	
Materials consumed (1)	2,570	2,587	2,670
Wages, salaries and related expenses	384	396	401
Depreciation and amortization	106	107	116
Other manufacturing expenses	188	202	211
Change in provision for warranty	2	4	3
	3,250	3,296	3,401
Valuation of balance of commodity hedging transactions as at the end of the year	(22)	22	(12)
	3,228	3,318	3,389

(1) In 2015, including a net loss of NIS 21 million (2014 and 2013: NIS 35 million and NIS 23 million, respectively) in respect of inventory impairment.

Note 30 - Cost of Sales (cont'd)

32.2 By source of income

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Manufactured products	2,868	2,904	2,958
Other products	257	270	334
Other income (1)	125	122	109
	3,250	3,296	3,401
Valuation of balance of commodity hedging transactions as at the end of the year	(22)	22	(12)
	3,228	3,318	3,389

(1) Costs in respect of other income include costs of services for water purification devices.

Note 31 - Selling and Marketing Expenses

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Salaries and related expenses	523	544	544
Advertising	201	312	331
Doubtful and bad debts	17	4	8
Transport expenses	208	212	219
Maintenance expenses	158	154	143
Depreciation and amortization	58	52	51
Reimbursement of expenses by equity-accounted investees	(38)	(33)	(32)
Other	71	73	77
	1,198	1,318	1,341

Note 32 - General and Administrative Expenses

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Salaries and related expenses (1)	207	212	227
Depreciation and amortization	24	23	18
Contributions	6	8	8
Consulting and professional fees	56	59	67
Maintenance expenses	30	23	24
Reimbursement of expenses by joint ventures	(9)	(2)	(4)
Other	15	16	6
	329	339	346
(1) Less:			
Salaries and related expenses capitalized to software for self-use	6	6	5

Note 33 - Other Income (Expenses), Net

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Other income			
Gain on sale of fixed assets and investment property, net	1	-	22
Dividend income on available-for-sale financial assets	1	2	2
Restructuring income	6	-	-
Cancelation of held for sale assets Impairment	4	-	-
Other income	4	2	1
Total other income	16	4	25
Other expenses			
Impairment loss on investment property	-	-	(4)
Restructuring expenses	(15)	(17)	(66)
Expenses of establishment and purchase of operations	(10)	(17)	(3)
Loss on fixed assets, deferred expenses and assets held for sale, net (1)	(4)	(41)	-
Impairment loss on intangible assets(2)	(18)	(32)	-
Impairment of investments in investees	-	(1)	(36)
Other expenses	(10)	(10)	(10)
Total other expenses	(57)	(118)	(119)
Other income (expenses), net	(41)	(114)	(94)

(1) In March 2014 the Promotion of Competition in the Food Sector Law, 2014 was published in the Official Gazette. Most of the sections of the law took effect on January 15, 2015. The law determines, inter alia, prohibitions and limitations on actions and arrangements between food suppliers and retailers. In 2014, among other things, a decrement of approximately NIS 30 million was recognized in respect of deferred expenses.

(2) See Note 15.3 for information on impairment.

Note 34 - Financing Expenses, Net

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Financing income:			
Interest income	12	14	22
Net gain on derivative financial instruments measured at fair value through profit or loss	-	19	-
Net gain deriving from changes in exchange rates	-	6	-
Linkage differences to the CPI in Israel, net	9	1	-
Total financing income	21	40	22
Financing expenses:			
Net loss on derivative financial instruments measured at fair value through profit or loss	(8)	-	-
Interest expenses	(112)	(107)	(103)
Net loss deriving from changes in exchange rates	(1)	-	(6)
Other	(1)	-	-
Linkage differences to the CPI in Israel, net	-	-	(27)
Total financing expenses	(122)	(107)	(136)
Financing expenses, net	(101)	(67)	(114)

Note 35 - Taxes on Income

35.1 Information on the tax environment in which the Group companies in Israel operate

35.1.1 Corporate tax

- The following tax rates are relevant to the Company in 2013-2015:

  2013 - 25%

  2014 - 26.5%

  2015 - 26.5%

  On January 5, 2014 the Knesset passed Amendment 216 to the Income Tax Ordinance, 2016 (hereinafter: the “Amendment”) which determined, *inter alia*, that the corporate tax rate would be lowered by 1.5% from 2016 onwards, to 25%. Had this legislation been completed by December 31, 2015, the change in the financial statements of December 31, 2015 would have been a reduction in the deferred tax liability balance of about 9 Million NIS opposite deferred tax income.

  Current taxes for the reporting periods were calculated according to the tax rates presented above.

Note 35 - Taxes on Income (cont'd)

35.1 Information on the tax environment in which the Group companies in Israel operate (cont'd)

35.1.1 Corporate tax (cont'd)

- On February 4, 2010 Amendment 174 to the Income Tax Ordinance (New Version), 1961 (hereinafter: the "Ordinance") was published in the Official Gazette, in which section 87a to the Ordinance was added. This section determines a temporary order pursuant to which Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" published by the Israel Accounting Standards Board will not apply to the determination of taxable income for the 2007, 2008, and 2009 tax years, even if this standard was applied in the financial statements (hereinafter: the "Temporary Order"). On January 12, 2012 Amendment 188 to the Ordinance was published, which amends the Temporary Order, in such manner that Amendment 29 will also not apply to the determination of taxable income in the 2010 and 2011 tax years. On July 31, 2014 Amendment 202 to the Ordinance was published, which extends the validity of the Temporary Order with respect to the 2012 and 2013 tax years, retroactively from January 1, 2012.

35.1.2 Benefits under laws for the encouragement of capital investments

In accordance with the Law for the Encouragement of Capital Investments, 1959 and the Law for the Encouragement of Capital Investments in Agriculture, 1980 (hereinafter: the "Capital Investment Encouragement Laws") some of the Group's production facilities were granted the status of an "approved enterprise", which entitles them to investment grants or tax benefits ("alternative benefits track"). The benefits are contingent upon fulfillment of the terms prescribed in the Capital Investment Encouragement Laws and their related regulations, and in the deeds of approval under which the investments in the approved enterprises were made. The main customary conditions in the deeds of approval are: the minimal percentage of the investments in fixed assets by paid-up share capital; keeping of proper books of account in the double entry system; execution of the plan in a timely manner, as stipulated in the deed of approval; operation of the assets of the approved enterprise for a period of no less than 7 years from the date they were purchased by the Company; increase of the employee headcount or of exports. Failure to comply with these terms is liable to lead to the benefits being revoked and refunded plus the higher of arrears interest or linkage differentials. To date, the relevant companies have complied with the conditions.

Note 35 - Taxes on Income (cont'd)

35.1 Information on the tax environment in which the Group companies in Israel operate (cont'd)

35.1.2 Benefits under laws for the encouragement of capital investments (cont'd)

A. Amendment of the Law for Encouragement of Capital Investments, 1959

According to a legal opinion received by the Company, some of the plants of companies in the Group fulfill the definition of a “competitive industrial plant” as this term is defined in the law, and as such, these companies are entitled to tax benefits pursuant to the provisions of the law from 2011 and thereafter. Accordingly, the tax rate that will apply to the taxable income of those companies thanks to the preferred plant is 10% (for 2011-2012) and 7% (for 2013). It is noted that on August 5, 2013 the Knesset passed the Law for the Change of National Priorities (Legislative Amendments for Achieving Budget Objectives for the Years 2013 and 2014), 2013, which determines that the law was amended retrospectively with respect to 2012. As it is not presently possible to estimate the outcome of the discussions and/or proceedings which will take place with the tax authorities on the subject, and noting that the tax authority's position differs, the relevant subsidiaries adopted a conservative approach and recorded their tax expenses in their financial statements in accordance with the corporate tax rate in the relevant year and paid the advance payments arising from this calculation. During December 2015 part of the group companies were reimbursed for advanced payment made in these years in the total sum of 53 million NIS. During January 2016 the companies reimbursed the mentioned amount to the tax authorities due to the above mentioned.
Income tax returns for 2011, 2013 and 2014 were filed according to the tax rates defined in the Encouragement Laws.

B. The temporary order for distribution of exempt profits

On November 5, 2012 Amendment No. 69 and a temporary order relating to the Encouragement of Capital Investments Law, 1959 (hereinafter: the “Temporary Order”) were enacted, proposing an arrangement for payment of reduced tax by companies that had received an exemption from corporate tax by virtue of the said law. The Temporary Order determined that companies choosing to apply the Temporary Order will be entitled to benefit from a tax discount for “unfreezing” the exempt profits (hereinafter: “Advantageous Corporate Tax”). In the course of 2013 all Group companies to which the provisions of this law are relevant decided to apply the Temporary Order and to unfreeze the balance of accumulated exempt profits in the Group, in an amount of approximately NIS 203 million. The Advantageous Tax rate in respect of the unfrozen profits is 10%. Accordingly, the Group recognized current tax expenses during the reporting period in respect of payment of Advantageous Corporate Tax in the amount of approximately NIS 20 million. According to the Company’s decision and the Temporary Order, the Company is obligated to invest a total of approximately NIS 15 million in an industrial plant (as defined in the Temporary Order) by the end of 2017. As at the reporting date, the Company is in compliance with this obligation.

Note 35 - Taxes on Income (cont'd)

35.1 Information on the tax environment in which the Group companies in Israel operate (cont'd)

35.1.3 Benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company and part of the Group companies (including Strauss Health Ltd., Strauss Frito-Lay Ltd., Uri Horazo Yotvata Dairies Ltd., Strauss Fresh Foods Ltd.) are "industrial companies" as defined in the Law for the Encouragement of Industry (Taxes), 1969. In accordance with this status they are entitled to benefits, the principal ones being as follows:

a. Higher rates of depreciation.
b. Amortization of issuance expenses of shares listed for trading on the Stock Exchange in three equal annual portions commencing in the year the shares were listed for trading.
c. Amortization of patents and knowhow used for the plant's development over an 8-year period.
d. The possibility of filing consolidated tax returns by companies with one production line.

The Company and certain subsidiaries submit a consolidated tax return to the tax authorities under the Encouragement of Industries (Taxes) Law, 1969.

35.1.4 House property company

The Company and one of the subsidiaries, which is a "house property" company within the meaning thereof in section 64 of the Income Tax Ordinance, file consolidated reports for tax purposes in the reporting period.

35.2 Information on the tax environment in which the Group companies outside of Israel operate

The companies incorporated outside of Israel are assessed according to the tax laws in their countries of domicile.

The principal tax rates applicable to the business operations of these companies are as follows: Romania – 16%; Poland – 19%; Serbia – 15% (until 31 December 2012 – 10%); The Netherlands – 25%; Switzerland – 9%; Ukraine – 18% (until December 31, 2013 the tax rate was 19%); Russia –20%; UK – 20%; USA – approximately 43%; China – up to 25%.

The Group companies in the coffee business are held by Strauss Coffee (incorporated in the Netherlands). There is a double taxation treaty between Israel and the Netherlands. Furthermore, there are double taxation treaties between the other countries in which the Group operates and the Netherlands. The treaties prescribe the rules according to which the tax liability is divided between each country and the Netherlands. Payment of a dividend by Strauss Coffee is subject to corporate tax in Israel; a credit is awarded against this liability in respect of tax withheld in the Netherlands. In addition, corporate tax paid in foreign countries can be credited against tax payable in Israel under the "indirect credit" mechanism, in accordance with the rules and restrictions stipulated in the provisions of the Israeli law. The Company has created a tax reserve in respect of the additional tax that may be imposed on the Company as a result of the distribution of a dividend.

Note 35 - Taxes on Income (cont'd)

35.3 Tax benefits in the countries where the Group companies outside of Israel operate

In respect of its operations in Serbia, the Company is eligible for a reduced corporate tax rate of 2% (in lieu of 15%) due to its investments in productive assets at the plant and the employment of workers on the required scale, until the 2017 tax year.

35.4 Final tax assessments

The company and its major subsidiaries in Israel were issued with final tax assessments or self-assessments that are considered final (subject to the dates of submission of the tax returns and extension of the period of limitations according to the law) up to an including the 2010 tax year. Final tax assessments were issued for the Group companies outside of Israel as follows: For Strauss Poland up to and including the 2005 tax year; for Strauss Coffee in Holland up to and including the 2008 tax year; for Strauss Romania up to and including the 2004 tax year; for Strauss Ukraine up to and including the 2009 tax year; for Strauss Switzerland up to and including the 2012 tax year; for S.E. USA for the years 2007, 2009; for the Strauss Adriatic companies. Final tax assessments have not yet been issued.

35.5 Carryforward tax losses

The Group has carry forward tax losses from operations transferred to the subsequent year in the amount of NIS 509 million (2014: NIS 467 million). Deferred taxes were not recorded in respect of losses in the amount of NIS 467 million (2014: NIS 351 million).

35.6 Transfer prices

In November 2006 a general provision and regulations were published, allowing for intervention in determining the price and terms of international transactions between related parties. The regulations define principles for examining the market value of international transactions between related parties, and prescribe reporting requirements regarding such transactions. The Company examines these transfer prices from time to time, and performs surveys to the extent required according to the regulations.

35.7 Disputed tax assessments

In the reporting period the Company and a number of subsidiaries in Israel were issued with tax assessments for the 2011-2013 tax years, pursuant whereto they are required to pay an amount of approximately NIS 64 million (including interest and linkage differentials) in excess of the amount included in current tax payments in respect of those years. The Company and the subsidiaries reject the demand by the tax authorities and have filed an objection against the assessments; additionally, Uri Horazo Yotvata Dairies Ltd. has filed an appeal against an order issued to it in respect of 2011 regarding the implementation of the Encouragement of Capital Investments Law as set forth in section 35.1.3 above, through its tax consultants. Company management estimates that the existing provisions in the books of the Company and the subsidiaries are sufficient.

Note 35 - Taxes on Income (cont'd)

35.8 Composition of income tax expense

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Current taxes	111	134	152
Deferred taxes	41	13	13
Taxes in respect of prior years	(13)	(3)	(4)
Effect of changes in tax rates	-	-	4
	139	144	165

35.9 Reconciliation between the theoretical tax on pre-tax income and the tax expenses recorded in the Company's books:

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Income before taxes on income	484	478	496
Principal tax rate	26.5%	26.5%	25%
Taxes on income at the principal tax rate	128	127	124
Effect of change in tax rates	-	-	4
Tax in respect of rapped profits	-	-	20
Tax expenses on foreign dividend	16	20	5
Permanent differences, net	21	17	28
Temporary differences (losses utilized) in which respect deferred taxes were not recorded	-	(3)	3
Share of profits of equity-accounted investees, in which respect deferred taxes were not recorded	(28)	(29)	(27)
Impairment losses in which respect deferred taxes were not recorded	5	6	9
Net differences resulting from differences in tax rates abroad	11	10	3
Taxes in respect of prior years	(13)	(3)	(4)
Differences resulting from benefits and reduced tax rates	(1)	(1)	-
Taxes on income in the statement of income	139	144	165
Effective tax rate	28.7%	30.1%	33.3%

Note 35 - Taxes on Income (cont'd)

35.10 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2014	Decrease (increase) in deferred tax expense in statement of income	Changes in deferred taxes recognized directly in equity	Balance as at December 31, 2014	Decrease (increase) in deferred tax expense in statement of income	Changes in deferred taxes recognize d directly in equity	Balance as at December 31, 2015
Deferred taxes in respect of:							
Provision for doubtful debts	8	(3)	-	5	8	-	13
						-	
Provision for vacation and convalescence	10	2	-	12	-	-	12
Tax losses and deductions	16	-	11	27	(6)	(10)	11
Employee severance benefits	7	(2)	-	5	-	1	6
Inventory adjustments	1	1	(1)	1	(1)	-	-
Other temporary differences	19	(3)	(1)	15	(7)	-	8
Fixed assets, other assets and deferred expenses	(191)	(5)	(3)	(199)	(19)	7	(211)
Hedging transactions	3	6	(2)	7	-	-	7
Differences arising from investment in subsidiaries and in equity-accounted investees	(7)	(9)	-	(16)	(16)	-	(32)
	(134)	(13)	4	(143)	(41)	(2)	(186)
	9%-43%			9%-43%			9%-43%

Note 36 - Basic and Diluted Earnings per Share

The basic earnings per share as at December 31, 2015 were calculated by dividing the income attributable to the ordinary shareholders in the amount of NIS 257 million (2014 and 2013: NIS 235 million and NIS 234 million, respectively) by the weighted average number of ordinary shares, as follows:

Weighted average number of ordinary shares:

	For the year ended December 31		
	2015	2014	2013
		NIS millions	
Balance as at January 1	107.9	107.5	107.2
With the addition of options exercised into weighted shares during the period	0.2	0.1	0.2
Less treasury shares	(0.9)	(0.9)	(0.9)
Weighted average number of ordinary shares used in the calculation of basic earnings per share as at December 31	107.2	106.7	106.5

The diluted earnings per share as at December 31, 2015, 2014 and 2013 were calculated by dividing the income attributable to the ordinary shareholders in the calculation of the basic earnings per share by the weighted average number of ordinary shares outstanding, after adjustment in respect of all potentially dilutive ordinary shares, as follows:

Weighted average of ordinary shares (diluted):

	For the year ended December 31		
	2015	2014	2013
		NIS millions	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	107.2	106.7	106.5
Effect of share options	0.5	0.8	0.8
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	107.7	107.5	107.3

For the purpose of calculating the dilutive effect of share options, the average market value of the Company's shares was based on market price quotations during the period in which the options were outstanding.

On December 31, 2015, 2,633 thousand option warrants (2014 and 2013: 1580 thousand and 275 thousand, respectively) were excluded from the calculation of the diluted weighted average number of ordinary shares as their effect would have been anti-dilutive.

Note 37 - Balances and Transactions with Interested and Related Parties

37.1 Identity of interested and related parties

The Company's interested and related parties are the parent company, related parties of the parent company, jointly controlled companies (see Note 12), and members of the board of directors and senior management, who are the Company's key management personnel.

37.2 Transactions with members of senior management

37.2.1 In addition to salaries, the members of senior management participate in the options plan of the Company. For information on the allotment of options to executives in 2015, see Note 23.

The benefits awarded to members of senior management are as follows:

	For the year ended December 31					
	2015		2014		2013	
	Number of people	NIS millions	Number of people	NIS millions	Number of people	NIS millions
Short-term benefits	8	20	9	21	9	28
Post-employment benefits	8	1	8	1	9	2
Share-based payment	8	9	8	10	9	11
		30		32		41

37.2.2 The benefits awarded to members of the board of directors are as follows:

	For the year ended December 31					
	2015		2014		2013	
	Number of people	NIS millions	Number of people	NIS millions	Number of people	NIS millions
Directors not employed	11	3	11	3	11	3
Employed directors	1	3	1	4	1	4
	12	6	12	7	12	7

Expenses related to senior management benefits were included in the general and administrative expenses in the profit and loss report. As of December 31, 2015 there is a balance of 1 Million NIS for directors' salaries similar to the 31 December, 2014 balance.

37.2.3 See Notes 24.1.3.1 and 24.4.2 for information on a deed of undertaking to indemnify officers and a directors and officers liability policy.

Note 37 - Balances and Transactions with Interested and Related Parties (cont'd)

37.3 Transactions with the parent company and its investees

37.3.1 The prices and credit terms of transactions with related parties are determined under standard commercial terms and conditions.

37.4 Balances and transactions with interested and related parties

	The parent company and its related parties	Equity-accounted investees	Total
		NIS millions	
As at December 31, 2015:			
Current assets from interested parties presented under trade and other receivables	-	35	35
Long-term assets from interested parties presented under investments and long-term debit balances	-	68	68
Current liabilities to interested parties presented under trade and other payables	(4)	(7)	(11)
As at December 31, 2014:			
Current assets from interested parties presented under trade and other receivables	-	34	34
Long-term assets from interested parties presented under investments and long-term debit balances	-	93	93
Current liabilities to interested parties presented under trade and other payables	(5)	(34)	(39)

Note 37 - Balances and Transactions with Interested and Related Parties (cont'd)

37.5 Balances and transactions with interested and related parties (cont'd)

	The parent company and its related parties (1)	Equity-accounted investees	Total
	NIS millions		
For the year ended December 31, 2015:			
Sales	-	14	14
Purchases	-	(9)	(9)
Selling, general and administrative income (expenses)	(17)	46	29
Financing income, net	-	4	4
For the year ended December 31, 2014:			
Sales	2	35	37
Purchases	(16)	(34)	(50)
Selling, general and administrative income (expenses)	(21)	38	17
Financing income, net	-	5	5
For the year ended December 31, 2013:			
Sales	34	18	52
Purchases	(19)	(35)	(54)
Selling, general and administrative income (expenses)	(26)	37	11
Financing income, net	-	6	6

(1) Prices and credit terms for transactions with interested are under customary commercial conditions. 2015 amounts mainly includes payment of rent to Rav Etgar Ltd. in the amount of NIS 5 million (2014: NIS 5 million, 2013: NIS 5 million) and purchase of advertising services from Reshet Noga Ltd. in the amount of NIS 12 million (2014: NIS 16 million, 2013: NIS 22 million). In 2014 purchases from Ramat Hagolan Dairies amounting to NIS 16 million were included (2013: NIS 18 million). In 2013 sales of raw materials to Strauss Ice Cream Ltd. amounting to NIS 29 million were included.

Note 38 - Events after the Statement of Financial Position Date

38.1 For information on the conclusion of legal proceedings in class actions and on a monetary suit and a motion for class certification accepted after the statement of financial position date, see Note 24.1.2.

38.2 On February, 2016 a subsidiary, "Strauss coffee B.V." distributed a dividend to shareholders in a way of capital reduction. 22 Million NIS were paid to owners of rights that do not confer control

38.2 In March 2016 Três Corações acquired the operation attributed to the retail coffee brands of the coffee company Cia Iguaçu. The agreement between the companies includes the acquisition of the retail coffee brands (Iguaçu, Cruzeiro, Amigo), as well as accompanying Cia Iguaçu products, in South America, including Brazil. The agreement is subject to approval by the regulatory authorities in Brazil.

Strauss Group Ltd.
Annex "B"

Separate Financial Information As At December 31, 2015

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Information Pertaining To Financial Position

	Additional information	December 31 2015	December 31 2014
		NIS millions	
Current assets			
Cash and cash equivalents	3	232	374
Securities and deposits	4	30	79
Trade receivables		180	149
Income tax receivables		4	18
Other receivables and debit balances		28	39
Investee receivables		330	119
Inventory		142	142
Assets held for sale		62	36
Total current assets		1,008	956
Investments and non-current assets			
Investments in investees		1,565	2,012
Other investments and long-term debit balances	5	618	633
Fixed assets		959	851
Intangible assets		56	60
Investment property		-	23
Total investments and non-current assets		3,198	3,579
Total assets		4,206	4,535

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

Date of approval of the separate financial information: March 20, 2016

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

Information Pertaining To Financial Position (cont'd)

	Additional information	December 31 2015	December 31 2014
		NIS millions	
Current liabilities			
Current maturities of debentures	6	178	179
Short-term credit and current maturities of long-term loans and other long term liabilities	6	37	30
Trade payables		203	203
Other payables and credit balances		202	205
Investee payables		115	145
Provisions		6	5
Total current liabilities		741	767
Non-current liabilities			
Debentures	6	834	1,020
Long-term loans and other long term liabilities	6	812	847
Long-term payables and credit balances		32	22
Employee benefits, net		23	21
Deferred tax liabilities	8	59	35
Total non-current liabilities		1,760	1,945
Total equity attributable to the Company's shareholders		1,705	1,823
Total liabilities and equity		4,206	4,535

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

Information Pertaining To Statements Of Income

	Additional information	2015	2014	2013
		For the year ended December 31 NIS millions		
Sales		904	828	831
Cost of sales		555	484	461
Gross profit		349	344	370
Selling and marketing expenses		226	207	219
General and administrative expenses		36	34	44
		262	241	263
Operating profit before other expenses		87	103	107
Other income		5	2	
Other expenses		(18)	(40)	(23)
Other expenses, net		(13)	(38)	(23)
Operating profit		74	65	84
Financing income		36	45	39
Financing expenses		(99)	(92)	(141)
Financing expenses, net		(63)	(47)	(102)
profit (loss) before taxes on income		11	18	(18)
Taxes on income	8	(28)	(37)	(27)
Loss after taxes on income		(17)	(19)	(45)
Income from investees		274	254	279
Income for the year attributable to the shareholders of the Company		257	235	234

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

Information Pertaining To Comprehensive Income

	For the year ended December 31		
	2015	**2014**	**2013**
	NIS millions		
Income for the period attributable to the shareholders of the Company	257	235	234
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:			
Other comprehensive loss from investees	(289)	(169)	(204)
Total other comprehensive loss items that will be transferred to profit or loss, net of tax	(289)	(169)	(204)
Other comprehensive loss items that will not be transferred to profit or loss in subsequent periods:			
Changes in employee benefits, net	-	(5)	(1)
Total other comprehensive loss items that will not be transferred to profit or loss, net of tax	-	(5)	(1)
Comprehensive income for the period attributable to the shareholders of the Company	(32)	61	29

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

Information Pertaining To Cash Flows

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Cash flows from operating activities			
Income for the year attributable to the shareholders of the Company	257	235	234
Adjustments:			
Depreciation	46	37	37
Amortization of intangible assets and deferred expenses	18	16	15
Other expenses (income), net	(4)	14	4
Expenses in respect of share-based payment	12	16	13
Share in gain of investees	(274)	(254)	(279)
Financing expenses, net	63	47	102
Income tax expense	28	37	27
Change in inventory	12	4	(24)
Change in trade and other receivables	24	20	(4)
Change in investee receivables	(118)	(38)	(4)
Change in long-term receivables	(7)	(37)	18
Change in trade and other payables	(51)	9	33
Change in investee payables	(30)	(80)	(81)
Change in employee benefits	1	(1)	-
Interest paid	(89)	(81)	(77)
Interest received	20	20	10
Income tax received (paid), net	16	(41)	(13)
Net cash flows from (used in) operating activities	(76)	(77)	11
Cash flows from investing activities			
Sale (purchase) of marketable securities and deposits, net	49	125	(33)
Proceeds from sale of fixed and other assets	4	38	-
Acquisition of fixed assets	(90)	(249)	(221)
Investment in intangible assets and deferred expenses	(13)	(13)	(11)
Repayment of deposits and long-term loans	5	4	7
Long-term loans granted	(3)	(3)	(5)
Dividends from investees	340	303	362
Cash received in respect of investing activities with investees	35	55	54
Cash paid in respect of investing activities with investees	(82)	(63)	(81)
Net cash flows from investing activities	245	197	72
Cash flows from financing activities			
Repayment of debentures and long-term loans	(211)	(245)	(191)
Proceeds from the exercise of stock options	-	1	-
Proceeds from the issue of debentures	-	237	247
Dividends paid	(100)	-	(157)
Change in jointly controlled entity payables	-	(64)	(48)
Net cash flows from financing activities	(311)	(71)	(149)
Net increase (decrease) in cash and cash equivalents	(142)	49	(66)
Cash and cash equivalents as at January 1	374	325	391
Cash and cash equivalents as at December 31	232	374	325

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

Note 1 – Reporting Rules and Policies

1.1 General

This report contains financial information from the consolidated financial statements of Strauss Group Ltd. (hereinafter: the "Company") as at December 31, 2015 (hereinafter: the "Consolidated Financial Statements" or "Consolidated Statements"), attributed to the Company itself (hereinafter: the "Separate Financial Information"), presented pursuant to Regulation 9C and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970 with respect to the separate financial information of the corporation.

The Separate Financial Information should be read in conjunction with the Consolidated Statements.

In this Separate Financial Information – investees – subsidiaries and joint ventures.

1.2 Accounting policies

The Company's Separate Financial Information was prepared in accordance with the accounting policies applied in the Consolidated Financial Statements, including the method in which the data in the Consolidated Financial Statements of the Company were classified, *mutatis mutandis* as a result of the following:

1.2.1 Assets and liabilities included in the Consolidated Statements, attributable to the Company itself as parent company

The amounts of assets and liabilities included in the statements of financial position, attributable to the Company itself as parent company, reflect the assets and liabilities contained in the consolidated statements of financial position, not including amounts of assets and liabilities in respect of investees, plus or minus, as the case may be, intercompany balances that were eliminated in the framework of the Consolidated Statements.

Additionally, this information includes information relating to the net amount, based on the consolidated statements of financial position, attributable to the controlling shareholders of the Company, of the amount of assets less the amount of liabilities, which in the consolidated statements of financial position represent financial information relating to investees, including goodwill.

As a result of this presentation, the equity attributable to the controlling shareholders of the Company is equal to the equity of the Company as derived from the Separate Financial Information.

1.2.2 Income and expenses included in the Consolidated Statements, attributable to the Company itself as parent company

The amounts of income and expenses included in the financial statements, segmented between profit or loss and other comprehensive income, attributable to the Company itself as parent company, reflect the income and expenses contained in the consolidated statements of income and the consolidated statements of comprehensive income, not including amounts of income and expenses in respect of investees, plus or minus, as the case may be, intercompany income and expenses that were eliminated in the framework of the Consolidated Financial Statements.

Note 1 - Reporting Rules and Policies (cont'd)

1.2 Accounting policies (cont'd)

1.2.2 Income and expenses included in the Consolidated Statements, attributable to the Company itself as parent company (cont'd)

Additionally, this information includes information relating to the net amount, based on the consolidated statements of financial position, attributable to the controlling shareholders of the Company, of the amount of income less the amount of expenses, which in the consolidated statements of financial position represent the results of operations in respect of investees, including goodwill impairment or cancellation. These data are presented, broken down according to profit or loss and other comprehensive income.

Unrealized income and expenses deriving from intra-group transactions between the Company and its investees were presented as part of the balance in respect of investees and the income in respect of investees.

As a result of this presentation, the total income for the period attributable to the shareholders of the Company and the total comprehensive income for the year attributable to the shareholders of the Company, on the basis of the Consolidated Financial Statements, are equal to the total income for the year attributable to the shareholders of the Company and the total other comprehensive income for the year attributable to the shareholders of the Company, respectively, as these are derived from the Separate Financial Information.

1.2.3 Cash flows included in the Consolidated Statements, attributable to the Company itself as parent company

This information presents cash flows included in the Consolidated Financial Statements attributable to the Company itself as parent company, which are taken from the consolidated statements of cash flows (i.e. the balances remaining after the elimination of intercompany cash flows in the Consolidated Statements), segmented between cash flows from operating activities, cash flows from investing activities and cash flows from financing activities, accompanied by an itemization of the components of each. Cash flows from operating activities, investing activities and financing activities in respect of transactions with investees are presented separately, on a net basis, as part of the above activities.

These amounts reflect the cash flows included in the Consolidated Financial Statements, not including cash flows in respect of investees.

The Notes presented below also include disclosures relating to other material information in accordance with the disclosure requirements presented in Regulation 9C and as set forth in the Addendum, subject to clarifications by the ISA staff, to the extent that such information was not included in the Consolidated Statements in a manner that expressly refers to the Company as parent company.

Note 2 - Material Events during the Reported Period

On December 31, 2014 Fresh Foods Ltd. and the Company notified the Tax Authority about the merger of Fresh Foods Ltd with and in the Company, without charges in accordance with the provisions of Part E2 of the Income Tax Ordinance (New Version), 1961.

On June 30, 2015 Fresh Foods Ltd. was merged into the company.

Following the transaction, the Company recognized the following amounts:

	Fresh Foods Merger NIS millions Unaudited
Current assets	64
Noncurrent assets	90
Current liabilities	(52)
Non-current liabilities	(7)
Identified assets and liabilities, net	95
Investment in merged subsidiary	95

Note 3 – Cash and Cash Equivalents

	As at December 31	
	2015	**2014**
	NIS millions	
Cash and bank balances	25	9
Deposits	207	365
	232	374

Note 4 – Securities and Deposits

	As at December 31	
	2015	**2014**
	NIS millions	
Deposits and non-marketable securities -		
Shekel deposit (Interest rate of 1.49%)	14	20
Marketable securities -		
Government debentures	10	28
Corporate debentures	6	31
	16	59
	30	79

Note 5 – Other Investments and Long-Term Debit Balances

4.1 Itemization of long-term loans and capital notes and terms and conditions thereof:

	As at December 31		
	2015	2014	
	NIS millions		
Preferred shares of an investee	276	276	
Loans to investees	231	219	Dollar-denominated and bearing 6.5%-9.2% interest
Capital notes to investees	24	3	Unlinked and interest-free
Capital notes to investees	94	89	Dollar-denominated and interest-free
Capital notes to investees	90	54	Unlinked and bearing 6% interest
Loans to employees	4	3	Bearing 4.07% interest (2014: 4.31%)
Other	9	7	
	728	651	
Less current maturities	110	18	
	618	633	

Note 6 – Loans and other liabilities

Information on material loans:

December 31, 2015

Type	Loan date	Original loan amount NIS millions	Currency	Linkage base	Nominal Interest (%)	Redemption year	Face value NIS millions	Book value NIS millions
Debentures Series B	February 2007	770	NIS	CPI	4.1	2016-2018	446	534
Debentures Series D	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	465	478
Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	102
Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Loans from others	January 2011	300	NIS	Unlinked	5.82	2016-2022	250	250
Loans from others	April 2012	372	NIS	CPI	3.55	2016-2012	361	369

December 31, 2014

Type	Loan date	Original loan amount NIS millions	Currency	Linkage base	Nominal Interest (%)	Redemption year	Face value NIS millions	Book value NIS millions
Debentures Series B	February 2007	770	NIS	CPI	4.1	2015-2018	595	719
Debentures Series D	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	465	480
Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	103
Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Loans from others	January 2011	300	NIS	Unlinked	5.82	2015-2022	261	261
Loans from others	April 2012	372	NIS	CPI	3.55	2015-2012	364	375

Note 7 – Additional Information on Financial Assets and Liabilities

For a description of the risks to which the Company is exposed deriving from the use of financial instruments and in regard to the policy for managing the Company's risks, see Note 28 to the Consolidated Financial Statements.

7.1 Commodity price risk

For information on exposure to risks related to the price of commodities – cocoa and sugar, see Note 28.3 to the Consolidated Financial Statements.

7.2 Foreign exchange risk

7.2.1 Statement of financial position according to linkage basis

The Company's foreign exchange risk, based on carrying amounts, is as follows:

	December 31, 2015			
	NIS millions			
	NIS linked	NIS unlinked	Dollar	Total
Current maturities of debentures	178	-	-	178
Short-term loans and credit	4	11	22	37
Debentures	356	478	-	834
Long-term loans	467	345	-	812
Total	1,005	834	22	1,861

	December 31, 2014			
	NIS millions			
	NIS linked	NIS unlinked	Dollar	Total
Current maturities of debentures	179	-	-	179
Short-term loans and credit	4	11	15	30
Debentures	540	480	-	1,020
Long-term loans	479	346	22	847
Total	1,202	837	37	2,076

Note 7 – Additional Information on Financial Assets and Liabilities (cont'd)

7.2 Foreign exchange risk (cont'd)

7.2.2 Sensitivity analysis regarding financial assets (liabilities)

Following is a sensitivity analysis of the derivatives (Foreign exchange - OTC) of the Group as of December 31, 2015 and of December 31, 2014. Any change in the exchange rates of the major currencies as at December 31 would increase (decrease) shareholders' equity (the equity attributable to all of the shareholders of the Company) and income for the period by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

	December 31, 2015				
	10% increase	5% increase	Exchange rate / carrying amount	5% decrease	10% decrease
			NIS millions		
NIS/USD exchange rate	4.2922	4.0971	3.902	3.7069	3.5118
Effect (in NIS millions)	4	2	3	(2)	(5)

	December 31, 2014				
	10% increase	5% increase	Exchange rate / carrying amount	5% decrease	10% decrease
			NIS millions		
NIS/USD exchange rate	4.2779	4.0835	3.889	3.6945	3.5001
Effect (in NIS millions)	4.5	2.4	5.3	(2.8)	(5.5)

7.3 CPI risk

For information on the CPI risk, see Note 28.5 to the Consolidated Financial Statements.

7.4 Floating interest rate risk and cash flow sensitivity analysis regarding floating interest instruments

The Company has deposits and floating rate dollar-denominated loan and consequently its financial results (financing expenses) are exposed to changing interest rates.

Changes in the interest rates applying to the above liabilities as at the reporting date would increase (decrease) the equity attributable to the shareholders of the Company and the income for the subsequent period by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

Note 7 – Additional Information on Financial Assets and Liabilities (cont'd)

7.4 Floating interest rate risk and cash flow sensitivity analysis regarding floating interest instruments (cont'd)

	December 31, 2015				
	2% increase	1% increase	Income (expense) relating to floating interest	1% decrease	2% decrease
	NIS millions				
Total income (expense)	3	2	(1)	0	1

	December 31, 2014				
	2% increase	1% increase	Income (expense) relating to floating interest	1% decrease	2% decrease
	NIS millions				
Total income (expense)	7	4	0.1	(4)	(7)

Note 7 – Additional Information on Financial Assets and Liabilities (cont'd)

7.5 Liquidity analysis

Following is an analysis of the contractual repayment dates of financial liabilities, including interest payments, but not including the effect of setoff agreements. This analysis is based on indices known as at the reporting date, such as the CPI, foreign currency exchange rates and interest rates.

	December 31, 2015							
	Carrying amount	Contractual cash flow	2016	2017	2018	2019	2020	2021 and thereafter
	NIS millions							
Trade payables	203	203	203	-	-	-	-	-
Derivatives	35	35	11	24	-	-	-	-
Other payables	191	160	160	-	-	-	-	-
Investee payables	115	115	115	-	-	-	-	-
Debentures Series B	534	568	197	189	182	-	-	-
Debentures Series D	478	588	21	39	47	46	77	358
Dollar loan from banks	22	22	22	-	-	-	-	-
Shekel loans from banks	202	250	11	11	10	109	54	55
Shekel loans from others	619	764	43	42	40	126	166	347
Finance lease	6	9	-	-	-	1	1	7
	2,405	2,714	783	305	279	282	298	767

Note 7 – Additional Information on Financial Assets and Liabilities (cont'd)

7.5 Liquidity analysis (cont'd)

	December 31, 2014							
	Carrying amount	Contractual cash flow	2015	2016	2017	2018	2019	2020 and thereafter
	NIS millions							
Trade payables	203	203	203	-	-	-	-	-
Derivatives	5	5	5	-	-	-	-	-
Other payables	200	200	200	-	-	-	-	-
Investee payables	145	145	145	-	-	-	-	-
Debentures Series B	719	779	206	198	191	184	-	-
Debentures Series D	480	609	21	21	39	47	46	435
Dollar loan from banks	38	38	16	22	-	-	-	-
Shekel loans from banks	203	262	10	10	10	10	110	112
Shekel loans from others	636	811	43	42	42	41	127	516
	2,629	3,052	849	293	282	282	283	1,063

Note 7 – Additional Information on Financial Assets and Liabilities (cont'd)

7.6 Fair value of financial instruments

For information on the fair value of financial instruments, see Note 28.7.1 to the Consolidated Financial Statements.

Note 8 – Information on Taxes on Income

8.1 General

The Company's income is taxed at the ordinary rate. For information on the tax rates applying to the Company and on various benefits and laws for encouragement, see Note 35.1 to the Consolidated Financial Statements. With respect to the tax rate that entered into force in 2016, had the legislation actually been completed by December 31, 2015, the impact on the financial statements as at December 31, 2015 would have been expressed in a decrease in the outstanding balance of deferred tax liabilities in the amount of approximately NIS 5 million, against deferred tax revenue.

8.2 Final tax assessments

The Company has been issued with final tax assessment up to and including the year 2010.

8.3 Disputed tax assessments

In the reporting period the Company received assessments for the 2011-2013 tax years, pursuant whereto it is required to pay an amount of approximately NIS 40 million (including interest and linkage differentials accrued until January 15, 2016) in excess of the amount included in the framework of payments of current taxes in respect of those years. The Company rejects the demand by the tax authorities and has filed an objection against the assessments through its tax consultants. The Company estimates that the existing provisions in the Company's books are sufficient.

8.4 Dividend income from subsidiaries

In the reporting year a dividend was received from overseas subsidiaries, the Company was not recorded tax expenses respect of this income. The Company recorded tax expenses against deferred taxes in the reporting year in respect of dividends not yet paid in an amount of NIS 16 million (2014: NIS 9 million).

Note 8 – Information on Taxes on Income (cont'd)

8.5 Composition of income tax expenses

	For the year ended December 31		
	2015	2014	2013
	NIS millions		
Current tax expenses	(8)	(30)	(23)
Deferred tax expenses, net	(20)	(7)	(3)
Expenses in respect of changes in tax rates	-	-	(1)
Income tax expenses, net	(28)	(37)	(27)

8.6 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2014	Increase (decrease) in deferred tax expense in profit or loss	Balance as at December 31, 2014	Increase (decrease) in deferred tax expense in income statement	Changes recognized in equity	Fresh Foods - Merger	Balance as at December 31, 2015
Deferred taxes in respect of:							
Provision for doubtful debts	6	(3)	3	1	-	-	4
Provision for vacation and convalescence	6	1	7	(2)	-	1	6
Investment in investees	(7)	(9)	(16)	(16)	-	-	(32)
Fixed and intangible assets	(38)	4	(34)	(3)	-	(6)	(43)
Employee benefits	5	-	5	-	1	-	6
	(28)	(7)	(35)	(20)	1	(5)	(59)
	26.5%		26.5%				26.5%

8.7 During 2014 the Company submitted notice of the merger of the subsidiary, Strauss Fresh Foods Ltd., with the Company under section 103B of the Income Tax Ordinance. As at the date of publication of the report, the suspending conditions required for the actual completion of the statutory merger have not yet been fulfilled.

Note 9 – Information on Relationships, Commitments and Significant Transactions with Investees

9.1 Dividends from investees

In the reporting period the Company received dividends from investees in the amount of approximately NIS 340 million.

9.2 For further information on the Company's investment in investees, including loans and guarantees extended to investees, see Notes 6, 12 and 24.3 to the Consolidated Financial Statements.

Note 10 – Claims and Contingent Liabilities

For information on claims filed against the Company and other contingent liabilities, see Note 24.1 to the Consolidated Financial Statements.

Note 11 – Liens

For information on encumbrances, see Notes 24.2.3 and 24.2.4 to the Consolidated Financial Statements.

Note 12 – Events after the Reporting Date

For information on events after the reporting date, see Note 38 to the Consolidated Financial Statements.

STRAUSS GROUP LTD.

ADDITIONAL DETAILS OF THE CORPORATION

Regulation 10A: Condensed Quarterly Statements of Comprehensive Income

	Q1	Q2	Q3	Q4	Total
			NIS millions		
Profit and loss:					
Sales	1,308	1,208	1,365	1,302	5,183
Cost of sales	849	700	888	791	3,228
Gross profit	459	508	477	511	1,955
Selling and marketing expenses	284	323	285	306	1,198
Administrative and general expenses	83	79	75	92	329
Share of profit of equity-accounted investees	49	34	51	64	198
Operating profit before other income (expenses)	141	140	168	177	626
Other income	3	5	2	6	16
Other expenses	(6)	(8)	(16)	(27)	(57)
Other expenses, net	(3)	(3)	(14)	(21)	(41)
Operating profit	138	137	154	156	585
Financing income	24	5	5	12	21
Financing expenses	(35)	(47)	(30)	(35)	(122)
Financing expenses, net[1]	(11)	(42)	(25)	(23)	(101)
Income before taxes on income	127	95	129	133	484
Taxes on income	(36)	(19)	(39)	(45)	(139)
Income for the period	91	76	90	88	345
Attributable to:					
The Company's shareholders	72	52	68	65	257
Non-controlling interests	19	24	22	23	88
Income for the period	91	76	90	88	345
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:					
Foreign currency translation differences	(151)	(48)	(93)	(95)	(387)
Changes in fair value of available-for-sale financial assets, net of tax	6	(2)	1	(2)	3
Total other comprehensive income (loss) items for the year that will be transferred to profit or loss, net of tax	(145)	(50)	(92)	(97)	(384)
Comprehensive income (loss) for the period	(54)	26	(2)	(9)	(39)
Attributable to:					
The Company's shareholders	(37)	9	8	(12)	(32)
Non-controlling interests	(17)	17	(10)	3	(7)
Comprehensive income (loss) for the period	(54)	26	(2)	(9)	(39)

[1] The total sum of financing items for all quarters is not identical to the split of financing items in total for the year as a result of the net presentation of expenses/income from the valuation of financial liabilities.

Regulation 10C: Use of Proceeds from Securities

On June 10, 2014, the Company published a shelf offering report pursuant to which the Company offered the public NIS 245,000,000 par value of debentures (Series D) of the Company, by way of expansion of an existing series. The immediate gross proceeds received by the Company in respect of the Series D debentures amounted to NIS 241 million (hereinafter – the **"Sum Raised"**).

The proceeds of the issue were designated and used for the periodic repayment of a loan, on the following payment dates: July 2014, January 2015 and July 2015, and for the repayment of the Company's Series B debentures and interest on the following payment dates: August 2014, February 2015 and August 2015. The Sum Raised was deposited in Israeli banks until the above payment dates.

Regulation 11: List of Investments in Subsidiaries and in Associated Companies

Following is information on material subsidiaries and related companies of the Company (directly held by the Company) stating the number of shares and their par value held by the Company on the date of the report in each of the companies, their cost, their price in the Company's books, the outstanding balance of Company loans to said companies and particulars of other Company investments therein, and their major conditions [1]:

Company name	Type of share	No. of shares	Total par value of issued and paid-up share capital	Par value of shares held by the Company	% holding in the security	% holding in capital	% holding in voting rights	% holding in power to appoint directors	Value of investment in the Company's separate financial statements as at Dec. 31, 2015 (NIS millions)	Value of loans to the subsidiaries as at Dec. 31, 2015 (NIS millions)
Strauss Frito-Lay Ltd.	Ordinary NIS 1.00	28,775,854	28,775,854	14,387,927	50	50	50	50	52	-
Strauss Coffee B.V.	Ordinary €1	190,600	€190,600	€142,759.4	74.9	74.9	74.9	74.9	1,320	-
SE USA Inc.	Ordinary $US 0.001	1,000	US$ 1	US$ 1	100	100	100	100	202	105
Strauss Health Ltd.	Ordinary NIS 1.00	6,500,000	NIS 6,500,000	NIS 5,200,000	80	80	80	80	137	-
Strauss Water Ltd.	Preferred A NIS 0.01	700,014	NIS 7,000	NIS 7,000	100	100	88	88	(163)	366
	Preferred B NIS 0.01	3,864,042	NIS 38,640	NIS 36,964	95.7	95.7				
	Ordinary NIS 0.01	490,000	NIS 4,900	NIS 505	10.3	10.3				
	Ordinary A NIS 0.01	92,566	NIS 926	NIS 595	64.3	64.3				

(1) For information on additional subsidiaries that are directly or indirectly held by the Company, see Note 6.1 to the Consolidated Financial Statements.

Regulation 12: Changes in Investments in Subsidiaries and Associated Companies

A. Changes in investments made by Strauss Water

Name of the company	Nature of the change	Date of change	Change in %	Cost (consideration) in NIS millions
Strauss Water Hong Kong Trading Company Ltd.	Capital infusion	July - Nov. 2015	–	4
Strauss Water Hong Kong Trading Company Ltd.	Acquisition of an associated company	June 2015	34%	30

B. Changes in the investments made by PepsiCo Strauss Fresh Dips & Spreads International GmbH

Name of the Company	Nature of the change	Date of change	Change in %	Cost (consideration) in NIS million
PepsiCo Strauss Fresh Dips & Spreads Mexico S.de R.L df C.V.	Capital infusion	June – Sep. 2015	-	9

Regulation 13: Income of Subsidiaries and Associated Companies and Revenues from Them as at Balance Sheet Date (NIS Millions)

Following is information on profit (loss) before and after tax of the Company's material subsidiaries and associated companies, held directly by the Company [profit (loss) figures are the consolidated data of these companies], dividends, interest and management fees received by the Company or which it is entitled to receive, as at December 31, 2015:

Name of subsidiary/ associated company	Pre-tax profit (loss)	After-tax profit (loss)	Dividend (1)	Reimbursement of management expenses (2)	Nominal interest expenses	Other comprehensive income (loss)	Total profit (loss)
Strauss Frito-Lay Ltd.	22	16	33	2	-	-	16
Strauss Coffee B.V.	245	199	126	28	-	(389)	(190)
SE USA Inc.	90	61	-	-	(18)	2	63
Strauss Health Ltd.	171	126	180	41	-	3	129
Strauss Water Ltd.	(15)	(20)	-	-	(4)	2	(18)

(1) In February 2016, Strauss Coffee B.V. distributed an additional dividend in the amount of approximately NIS 63 million (the Company's share).

(2) Including management fees.

Regulation 14: List of Loans

Granting of loans is not part of the Company's principal business.

Regulation 20: Trading on the Tel Aviv Stock Exchange (TASE)

In the reporting period, 239,565 Ordinary Shares of NIS 1 par value were listed for trading on TASE, arising from the exercise of option warrants granted to senior employees of the Company.

Trading in the Company's securities was not suspended during the reporting period.

Regulation 21: Payments to Interested Parties and Senior Officers

Details of recipients of remuneration				Remuneration for services (at cost), in NIS thousands excluding share-based payment					
Name	**Title**	**Scope of position**	**Percentage of share capital held, fully diluted (A)**	**Annual gross salary**	**Accompanying benefits (B)**	**Total salary**	**Bonus [as relevant - deferred amount according to the remuneration policy] (C)**	**Management fees / consulting fees / commission / other**	**Total excluding share-based payment**
Ms. Ofra Strauss (1)	Chairperson of the Board of Directors of the Company	100%	--	1,820	660	2,480	749	--	3,229
Mr. Gadi Lesin (2)	Company President and CEO	100%	Fully diluted: 0.49%	1,834	904	2,738	1,137	--	3,875
Mr. Giora Bar-Dea (3)	Deputy CEO	100%	Fully diluted: 0.22%	1,456	666	2,122	607	--	2,729
Mr. Zion Balas (4)	CEO, Strauss Israel	100%	Fully diluted: 0.23%	1,370	782	2,152	485	--	2,637
Mr. Tomer Harpaz (5)	CEO, Strauss Coffee	100%	Fully diluted: 0.24%	1,648	949	2,597	--	--	2,597
Mr. Shahar Florence	EVP Finance	100%	Fully diluted: 0.35%	1,270	912	2,182	465	--	2,647
Remaining directors (6)		--	--	--	--	2,718	--	--	2,718

Details of recipients of remuneration		Remuneration for services (at cost), in NIS thousands		
Name	**Title**	**Total cost of salary**	**Share-based-payment (D)**	**Total salary excluding share-based payment**
Mrs. Ofra Strauss	Chairperson of the Board of Directors of the Company	3,229	--	3,229
Mr. Gadi Lesin	Company President and CEO	3,875	1,607	482 5,
Mr. Giora Bar-Dea	Deputy CEO	2,729	1,161	3,890
Mr. Zion Balas	CEO, Strauss Israel	2,637	1,285	3,922
Mr. Tomer Harpaz	CEO, Strauss Coffee	2,597	1,936	4,533
Mr. Shahar Florence	EVP Finance	2,647	836	3,483

Notes to the table:

(a) Full dilution – assuming full exercise of 3,883,152 option warrants granted to senior employees, theoretically exercisable (as at March 20, 2016) into 3,883,152 Ordinary Shares of the Company, excluding dormant shares. It is noted that in practice, pursuant to the terms of the Company's options, upon exercise of the option warrants the offerees will not be allotted the full number of shares arising from the options, but rather, only the quantity of shares that reflects the amount of the financial benefit inherent in the options, i.e. the difference between the ordinary share price on the exercise date and the original exercise price of the option, adjusted for the distribution of dividends. Therefore, in practice, the quantity of allotted shares arising from the exercise of the options is lower than the quantity indicated above.

(b) Accompanying benefits – regarding the recipients of remuneration specified in the table, who are employed in the Company (including the Chairperson of the Board) – the amount set forth in the "accompanying benefits" column includes wage-related benefits such as car maintenance (including substitute vehicle) (with respect to the Company President and CEO and the Chairperson of the Board, from July 1, 2015, the value of the vehicle is not grossed up for tax purposes, according to a waiver by these officers), telephone, clothing and social benefits at accepted rates. It is noted that Company employees, including officers, are entitled to reimbursement of expenses, according to Company procedure.

(c) Bonus – the amount stated in the "bonus" column is the amount of the bonus for 2015, not including bonus amounts that were paid during 2015 in respect of 2014. In addition, in the event of retirement, the amount specified in this column also includes a retirement/adjustment bonus, as well as bonuses for attaining long-term goals. As a rule, according to the remuneration policy the amount of the bonus paid to officers of the Company includes a portion deferred to the subsequent year when the incentive amount exceeds the salary amount defined as the "target incentive", provided that in the subsequent year the threshold condition for the receipt of the yearly incentive for that year was met. For information on the bonus plan for officers of the Company, see the Remuneration Policy for Officers of the Company (Immediate Reports published by the Company on May 27, 2014 (reference no. 2014-01-074055) and on July 17, 2014 (reference no: 2014-01-092841).

(d) Share-based payment – the amount stated in the "Share-based payment" column is the expense recorded by the Company in 2015, in accordance with IFRS 2, in respect of the options granted.

Additional information:

(1) **Ms. Ofra Strauss** – Ms. Strauss has served as active Chairperson of the Board of Directors of the Company since June 2001. Ms. Strauss is employed under a personal employment agreement. In accordance with the revised employment agreement with Ms. Strauss, which was approved by the general meeting of shareholders of the Company on July 2, 2014, the agreement is for an indefinite period, beginning on June 1, 2014, which will expire when Ofra Strauss' term of office as chairperson ends. However, the continued effectiveness of the agreement is subject to the approval of the Company's competent organs, pursuant to the

provisions of the Companies Law, as worded from time to time. The employment agreement may be cancelled by the Chairperson on the one hand and by the Company in a board resolution on the other, subject to three months' advance notice (which may be shortened at the Company's initiative or with its consent) and in accordance with the provisions of the remuneration policy. It is noted that Ms. Strauss is not entitled to an adjustment period.

As active Chairperson of the Board, Ms. Strauss is responsible for the management of the Board of Directors, and in the framework of the Board of Directors' work, for development the Company's strategy and supervision of the performance of the CEO and senior management of the Company (GMT – Group Management Team). Ms. Strauss does not engage in the day-to-day management of the Company, and the managers subordinated to the CEO do not report to her and are not subordinate to her, but rather to the CEO. Furthermore, Ms. Strauss does not fill additional positions in the Company, other than serving on the boards of the Company's subsidiaries. The Board of Directors of the Company is responsible for maintaining the separation between the roles of the Chairperson of the Board and the Company CEO.

Ms. Strauss's wage component includes a monthly salary of NIS 151,674 (gross), linked to economy-wide cost-of-living increments that will be paid under expansion orders, following the July 1, 2015 waiver of salary linkage to the CPI; and also accompanying benefits, as specified in note (b) above.

Ms. Strauss is entitled to an annual bonus that is calculated on the basis of financial goals only, without a discretionary bonus, in respect of each calendar year, as set forth in the remuneration policy.

The Chairperson of the Board is entitled to insurance coverage under the Company's D&O liability insurance or any other insurance coverage that applies to officers of the Company. She is entitled to a letter of undertaking to indemnity in the form of the letter of undertaking to indemnity given to directors and officers, which is in place in the Company (see Immediate Reports dated May 27, 2014, June 17, 2014 and July 2, 2014 (reference no. 2014-01-074055, reference no. 2014-01-092841 and reference no. 2014-01-105546, respectively); and she is also entitled to a letter of exemption in the form given to officers of the Company who are not among the controlling shareholders or their relatives (see Immediate Reports dated June 9, 2015 (reference no. 2015-01-043815 and reference no. 2015-01-043824) and dated July 14, 2015 (reference no. 2015-01-072546)).

For further information on the aforesaid employment agreement, see the Company's Immediate Reports dated May 27, 2014 (reference no. 2014-01-074055) and July 17, 2014 (reference no: 2014-01-092841).

The amount of the bonus paid to Ms. Strauss for 2015 is approximately NIS 749 thousand for the accomplishment of financial goals only, with a score of 1.98. The score for the accomplishment of financial targets is derived from sales (non-GAAP) of NIS 7,642 million, representing a score of 2 of the target, non-GAAP operating profit (adjusted as specified in the remuneration policy) of NIS 677 million, rated 1.1 of the target, non-GAAP net profit (adjusted as per the remuneration policy) attributable to the Company's shareholders, pro forma, of NIS 306 million, representing a score of 2.1 of the target, and cash flows from non-GAAP operating activities amounting to NIS 507 million, representing a score of 2.8 of the target.

It is noted that in light of the accomplishment of the threshold conditions for receipt of the annual incentive for 2015, according to the provisions of the remuneration policy, shortly after the publication of the annual financial statements for 2015, Ms. Strauss will be paid the deferred bonus in respect of 2014 in the amount of approx. NIS 83 thousand.

(2) **Mr. Gadi Lesin** – Mr. Lesin has served as President and CEO of the Company since July 2009 (before then, he served as CEO of Strauss Israel from September 2007). Mr. Lesin's employment is for an indefinite period and may be terminated with 90 days' advance written notice to the other party (with an option to shorten the notice period at the Company's initiative or with its consent). The employer-employee relationship will survive the end of the above advance notice period, and the Company will continue to pay Mr. Lesin his salary and accompanying benefits (including social benefits) for a further 12 months in the event of dismissal, and for a further 6 months in the event of resignation, other than in circumstances where severance pay may be denied by law.

Mr. Lesin's wage component includes a monthly salary of NIS 152,868 (gross), linked to economy-wide cost-of-living increments that will be paid under expansion orders, following the July 1, 2015 waiver of salary linkage to the CPI; and also accompanying benefits, as specified in note (b) above.

The amount of the bonus payable to Mr. Lesin in respect of 2015 is approximately NIS 1,137 thousand. The calculated incentive component for the accomplishment of financial goals only, as described in par. (1) above, is NIS 755 thousand.

It is noted that in light of the accomplishment of the threshold conditions for receipt of the annual incentive for 2015, according to the provisions of the remuneration policy, shortly after the publication of the annual financial statements for 2015, Mr. Lesin will be paid the deferred bonus in respect of 2014 in the amount of approximately NIS 386 thousand.

On or about the date of the report, Mr. Lesin holds a total of 545,595 option warrants (non-marketable) of the Company, their exercise price being NIS 35.86, linked to the Consumer Price Index of August 2012. Mr. Lesin's entitlement to receive the option warrants will be established in several tranches in the years 2014, 2015, 2016 and 2017, and he is entitled to exercise each of the tranches until September 15, 2020.

(3) **Mr. Giora Bar-Dea** – Mr. Bar-Dea has served as Deputy CEO of the Company since August 1, 2014 (before then, he served as CEO of Obela). Mr. Bar-Dea’s employment as Deputy CEO of the Company is for an indefinite period and may be terminated by either party with three months' advance notice to the other party (with an option to shorten the notice period at the Company's initiative or with its consent). The employer-employee relationship will survive the end of the above advance notice period (other than in circumstances where severance pay may be

denied by law), and the Company will continue to pay Mr. Bar-Dea his salary and accompanying benefits (except for those relating to actual work and excluding the yearly incentive and equity-based compensation) for a further six months.

Mr. Bar-Dea's wage component as Deputy CEO includes a monthly salary of NIS 121,339 (gross), linked to economy-wide cost-of-living increments that will be paid under expansion orders, following the July 1, 2015 waiver of salary linkage to the CPI; and also accompanying benefits, as specified in note (b) above.

The amount of the bonus payable to Mr. Bar-Dea in respect of 2015 is approximately NIS 607 thousand. The calculated incentive component for the accomplishment of financial goals as described in par. (1) above and for the accomplishment of a score of 2.87 for functional targets according to the formula in clause 11 of the Company's remuneration policy, is NIS 538 thousand.

It is noted that in light of the accomplishment of the threshold conditions for receipt of the annual incentive for 2015, according to the provisions of the remuneration policy, shortly after the publication of the annual financial statements for 2015, Mr. Bar-Dea will be paid the deferred bonus in respect of 2014 in the amount of approximately NIS 36 thousand.

On or about the date of the report, Mr. Bar-Dea holds a total of 240,000 non-marketable option warrants of the Company, their exercise price being NIS 70.13. Mr. Bar-Dea's entitlement to receive the option warrants will be established in three equal tranches of 80,000 option warrants each, on the following dates: August 19, 2016, August 19, 2017 and August 19, 2018.

(4) **Mr. Zion Balas** – Mr. Balas has served as CEO of Strauss Israel since June 2009 (before then, he served as CEO of the Group’s Sales Division from 2004). Mr. Balas's employment is for an indefinite period and may be terminated with three months' advance notice to the other party (with an option to shorten the notice period at the Company's initiative or with its consent). The employer-employee relationship will survive the end of the above advance notice period,and the Company will continue to pay Mr. Balas his salary and accompanying benefits (including social benefits) for a further six months, other than in circumstances where severance pay may be denied by law.

Mr. Balas's wage component includes a monthly salary of NIS 114,142 (gross), linked to economy-wide cost-of-living increments that will be paid under expansion orders, following the July 1, 2015 waiver of salary linkage to the CPI; and also accompanying benefits, as specified in note (b) above.

The amount of the bonus payable to Mr. Balas in respect of 2015 is approximately NIS 485 thousand. The calculated incentive component, amounting to NIS 369 thousand, is for the accomplishment of 50% of the Company's financial goals as described in par. (1) above and for the accomplishment of 50% of Strauss Israel's financial goals (the score for the accomplishment of Strauss Israel's financial goals is derived from sales amounting to NIS 3,515 million, representing a score of 1.8 of the target), operating profit (adjusted as specified in the remuneration policy) of NIS 257 million, representing a score of 0 of the target, cash flows from operating activities (adjusted as specified in the remuneration policy) of NIS 179 million, representing a score of 0 of the target, 31.72% market share in relevant categories, which represents a score of 1.2 of the target, gross profit margin (adjusted as specified in the remuneration policy) amounting to 38.4%, representing a score of 1.8 of the target, and for a score of 2.77 in the accomplishment of functional targets, according to the formula in clause 11 of the Company's remuneration policy.

As at the date of the report, Mr. Balas holds a total of 255,000 non-marketable option warrants of the Company, as follows: (1) 55,000 option warrants at an exercise price of NIS 39.2, linked to the CPI for the month of June 2012. Mr. Balas's entitlement to the option warrants was established on July 15, 2015; (2) 200,000 option warrants at an exercise price of NIS 67.14. Mr. Balas is entitled to receive the options in three tranches of 33.33% on the following dates: March 25, 2016, March 25, 2017 and March 25, 2018.

(5) **Mr. Tomer Harpaz** - Mr. Harpaz has served as CEO of the coffee company since June 2014 (before then, he served as the Company's Senior Vice President, Business Development & Strategy from July 2010, and from January 2014, also as temporary CEO of the coffee company).

Mr. Harpaz's employment as CEO of the coffee company is for an indefinite period, and may be terminated with advance notice via registered mail; Mr. Harpaz is committed to a four-month advance notice period and Strauss Coffee is obligated to eight months' advance notice.

In 2015, Mr. Harpaz's wage component as CEO of the coffee company included a monthly salary of €30,833 (approximately NIS 133,074), gross. Furthermore, Mr. Harpaz is entitled to the accepted social benefits and conditions for senior officers in Strauss Coffee (pension, health insurance, sick leave, leave, car and reimbursement of expenses) as well as additional benefits according to Strauss Coffee's overseas employment policy for expatriates, including a relocation bonus of $7,500 that was received in 2014, reimbursement of school fees for children up to the age of five years, of up to €15,000 per year, home leave every 12 months and an adjustment period of 6 months (provided that the early notice period plus the adjustment period do not exceed 6 months).

It is noted that in 2015, Mr. Harpaz was paid severance pay in respect of the termination of his employment with the Company, in the amount of approximately NIS 52,000.

It is understood that the Board of Directors of Strauss Coffee may approve a bonus of up to 1.5 monthly salaries for Mr. Harpaz.

On or about the reporting date, Mr. Harpaz holds 1,912 non-marketable option warrants of Strauss Coffee, exercisable into 1,912 Strauss Coffee shares (approximately 1% of Strauss Coffee's share capital) at an exercise price of €4,489. Approximately 20% had vested on the grant date (June 2015), and the remainder will vest in four equal tranches in the month of January in the years 2016-2019. It is noted that in a specific case of the acquisition of TPG by the Company, options of the Company of equal value may be received. For information on Strauss Coffee's option plan, see Note 23.4 to the Financial Statements of the Company as at December 31, 2015. Additionally, on the date of the report Mr. Harpaz holds 300,000 non-marketable option warrants of the Company granted to him in respect of having served as Senior VP, Business Development & Strategy of the Company, as follows: (1) 100,000 options warrants at an exercise price of NIS 39.2, which, as at the date of this report, have vested in full; (2) 200,000 option warrants at an exercise price of NIS 67.14, which will vest on March 25, 2016, March 25, 2017 and March 25, 2018 (approximately one-third on each of said dates).

(6) **Mr. Shahar Florence** - Mr. Florence has served as CFO of Strauss Group since November 1, 2008. Mr. Florence's employment is for an indefinite period and may be terminated with at least 90 days' advance written notice by either party to the other party. The employer-employee relationship will survive the end of the above advance notice period, and the Company will continue to pay Mr. Florence his salary and accompanying benefits (including social benefits) for a further 6 months, other than in circumstances where severance pay may be denied by law.

Mr. Florence's wage component includes a monthly salary of NIS 105,849 (gross), linked to economy-wide cost-of-living increments that will be paid under expansion orders, following the July 1, 2015 waiver of salary linkage to the CPI; and also accompanying benefits, as specified in note (b) above.

The amount of the bonus payable to Mr. Florence in respect of 2015 is approximately NIS 465 thousand for the accomplishment of financial goals as described in par. (1) above and for a score of 3.89 in the accomplishment of financial targets according to the formula set forth in clause 11 of the Company's remuneration policy.

It is noted that in light of the accomplishment of the threshold conditions for receipt of the annual incentive for 2015, according to the provisions of the remuneration policy, shortly after the publication of the annual financial statements for 2015, Mr. Florence will be paid the deferred bonus in respect of 2014 in the amount of approximately NIS 225 thousand.

On or about the date of the report, Mr. Florence holds a total of 392,350 non-marketable option warrants of the Company, as follows: (1) 110,000 option warrants at an exercise price of NIS 54.52, linked to the CPI for the month of February 2011. Mr. Florence's entitlement to the option warrants was fully established on April 11, 2014; (2) 82,350 option warrants at an exercise price of NIS 35.86, linked to the CPI for the month of August 2012, entitlement to which was established on September 16, 2014 and September 16, 2015; (3) 200,000 option warrants at an exercise price of NIS 61.68. Mr. Florence's entitlement to these option warrants will vest in three equal tranches of 33.33% on March 22, 2017, March 22, 2018 and March 22, 2019.

Shortly before the date of the report, Mr. Florence is holding a total of 392,350 non-negotiable option warrants of the Company, as specified hereunder: (1) 110,000 option warrants according to an exercise price of NIS 54.52, linked to the Consumer Price Index for the month of February 2011. The entitlement of Mr. Florentz to the consolidation of receipt of these option warrants is in two equal quotas of 55,000 each, upon the following dates: April 11, 2013 and April 11, 2014; (2) 82,350 option warrants according to an exercise price of NIS 35.86, linked to the Consumer Price Index for the month of August 2012, the entitlement thereto was consolidated on September 16, 2014 and September 16, 2015; (3) 200,000 option warrants according to an exercise price of NIS 61.68. The entitlement of Mr. Florentz to the consolidation of these option warrants is in three quotas of approx. 33.33% upon the following dates: March 22, 2017, March 22, 2018 and March 22, 2019.

(7) Payments to the other directors include the total payments received by all the directors of the Company, with the exception of Ms. Ofra Strauss.

(8) For the exemption, indemnification and insurance of directors and officers of the Company see Note 24 to the Financial Statements of the Company, sections 1.2.1 and 4.2 of the Note, and also Regulation 29A below.

Regulation 21A: Corporate Control

The controlling shareholders of the Company are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: **"Strauss Holdings"**) and a direct holding of 21,882 Ordinary Shares of the Company, and Ms. Ofra Strauss, who is deemed to hold the shares of the Company jointly with Mr. Michael Strauss. For information on the holdings in Strauss Holdings, see section 1.3 of the Description of the Company's Business Affairs.

Regulation 22: Transactions with a Controlling Shareholder

Following is information, to the best of the Company's knowledge, on each transaction with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest (each such transaction in which the Company or its subsidiary or related company are a party thereto), which was entered into in 2015 or at a date subsequent to the reporting year until the date of filing of this report or which is still in force on the date of publication of this report. See also Note 37to the Financial Statements of the Company as at December 31, 2015. It is noted that said transactions are approved by the Company's Audit Committee each year in accordance with the procedure adopted by the Company.

Transactions Listed in Section 270(4) of the Companies Law

a. Employment agreement with Ofra Strauss, Chairperson of the Board of Directors – for information, see Regulation 21 in this chapter.

b. Directors' fees - Adi Strauss – on May 26, 2014, the Board of Directors of the Company resolved, in accordance with the Relief Regulations, to approve that Mr. Adi Strauss will be entitled to the maximum permitted directors' fee in accordance with the Second and Third Schedules of the Companies Regulations (Rules regarding Fees and Expenses for External Directors), 2000, taking into account the Company's ranking. For additional details, see Immediate Report dated May 27, 2014 (reference no. 2014-01-074040). In addition, Mr. Adi Strauss was given a letter of undertaking to indemnity in the form of the letter of undertaking to the indemnification of directors and officers that is in place in the Company (see Immediate Reports dated May 27, 2014, June 17, 2014 and July 2, 2014 (reference no. 2014-01-074055, reference no. 2014-01-092841 and reference no. 2014-01-105546, respectively)); he is also included as a beneficiary under the Company's current policy for directors and officers liability insurance (see Immediate Report dated May 27, 2014 (reference no. 2014-01-074040);

and was also given a letter of exemption in the form identical to the letter that was given to officers of the Company, who are not among the controlling shareholders or their relatives (see Immediate Reports dated June 9, 2015 (reference no. 2015-01-043815 and reference no. 2015-01-043824) and July 14, 2015 (reference no. 2015-01-072546)).

c. Undertakings to indemnification and grant of a right to use the name "Strauss" in accordance with the merger transaction with Strauss – for information, see section 26.1 in the chapter "Description of the Company's Business Affairs". As stated in that section, members of the Strauss family have undertaken not to compete against the Company and not to use the Strauss brand in specific areas and during specific periods, as set forth in said section. To the best of the Company's knowledge, members of the Strauss family are in compliance with the above undertakings.

Transactions that Are Not Listed in Section 270(4) of the Companies Law

a. In accordance with the resolution of the Company's Board of Directors, dated February 21, 2011, guidelines and rules were determined for the classification of a transaction of the Company or of a consolidated company with an interested party thereof, as a negligible transaction, as stipulated in Regulation 41(a)(6)(a) of the Securities Regulations (Annual Financial Statements), 2010, and as a transaction which is not negligible and is not extraordinary, as defined in the Companies Law. It was determined that these rules and guidelines will also serve to examine the scope of disclosure in the Periodic Report and in prospectuses (including shelf offering reports) with respect to a transaction of the Company, a corporation under its control or a related company, with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest; and also to review the need to issue an Immediate Report with respect to such transaction of the Company. The guidelines include, *inter alia*, instructions regarding transactions of the same type, which are not interdependent, that are executed frequently and repeatedly every period, interconnected or interdependent transactions and multiannual transactions.

b. In 2015, no transactions were executed and as at the date of this report, there are no transactions still in effect with the controlling shareholder or in which the controlling shareholder has a personal interest, which are not enumerated in Section 270(4) of the Companies Law and which are not negligible transactions, save for the transactions specified hereunder.

Purchase of advertising time – the Group purchases advertising time through a media company on Reshet, a TV franchiser under the Second Authority for Television and Radio Law, 1990. To the best of the Company's knowledge, Mr. Michael Strauss and Mrs. Raya Ben-Dror indirectly hold 16% of Reshet's share capital, cumulatively. The purchase of advertising time is made in the ordinary course of business, on market terms and prices, and as part of the purchase of advertising time from other commercial broadcasting entities (such as Keshet, Channel 10 and Channel 24) according to rating considerations and the Group's marketing needs.

c. Following are transactions with the controlling shareholder or in which the controlling shareholder has a personal interest, classified by the Company as negligible in accordance with the aforementioned resolutions, taking into account the Company's nature as one of the largest industrial companies in the market, with extensive operations in Israel and overseas, the amount its assets, the diversity of the Company's business activity, the nature of transactions executed by it, and the extent of their cumulative impact on the Company's operations and its results:

1. Rental of the distribution center in Petach Tikva – for details on the rental of the distribution center in Petach Tikva under a lease agreement between Strauss Marketing and Rav Etgar Ltd. (which, to best of the Company's knowledge, is controlled by the controlling shareholders of the Company) that expired on December 31, 2015, in consideration for immaterial rental fees, see Note 37.3 to the Financial Statements of the Company as at December 31, 2015.

2. Sale of food products to restaurants in the Adi's Group – the Company, from time to time, in the ordinary course of business and under customary market conditions, sells food products to companies of Adi's Group, which, to the best of the Company's knowledge, is controlled by relatives of the controlling shareholders of the Company.

3. Sale of food products to Strauss Holdings Ltd. – the Company, from time to time, in the ordinary course of business and under customary market conditions, sells food products to Strauss Holdings Ltd., a controlling shareholder of the Company.

4. Payment to restaurants in the Adi's Group for hospitality – the Company, from time to time, in the ordinary course of business and according to customary market conditions, entertains at restaurants in the Adi's Group, which, to the best of the Company's knowledge, is controlled by relatives of the controlling shareholders of the Company.

d. From time to time, the Group makes contributions to organizations or entities, including such where the controlling shareholders or their relatives are connected to the recipient of the contribution. For additional details, see the section on contributions in the Board of Director's Report, Part B below.

Regulation 24: **Holdings of Interested Parties and Senior Officers**

For information on the holdings of interested parties and senior officers, see the Company's Immediate Report dated March 5, 2015 (reference no. 2015-01-044800).

Following is information, to the best of the Company's knowledge, with respect to shares and other securities held by each of the interested parties in the Company, on or about the date of the report:

Name of interested party	ID/co. no.	No. of security on TASE	No. of shares/ debentures	% holding in voting rights	% holding in capital	% holding in voting rights (full dilution)	% holding in capital (full dilution)
Strauss Holdings Ltd.	510039829	746016	69,300,492	64.57%	64.57%	62.32%	62.32%
Strauss Michael	9144767	746016	21,882	0.02%	0.02%	0.02%	0.02%
Strauss Group Ltd.	520003781	746016	*867,940	0%	0%	0%	0%
Gadi Lesin	022848352	7460165	545,595	0%	0%	0.49%	0.49%
Migdal Insurance & Financial Holdings Ltd. – profit participant	520029984	746016	4,350,811	4.05%	4.05%	3.91%	3.91%
Migdal Insurance & Financial Holdings Ltd. – profit participant	520029984	7460140	4,739,672	0%	0%	0%	0%
Migdal Insurance & Financial Holdings Ltd. – Pension and Provident Funds	520029984	746016	3,257,215	3.03%	3.03%	2.93%	2.93%
Migdal Insurance & Financial Holdings Ltd. – Pension and Provident Funds	520029984	7460140	409,091	0%	0%	0%	0%
Migdal Insurance & Financial Holdings Ltd. – Mutual Funds and Capital Markets	520029984	746016	206,074	0.24%	0.24%	0.23%	0.23%
Migdal Insurance & Financial Holdings Ltd. – Mutual Funds and Capital Markets	520029984	7460140	4,140,135	0%	0%	0%	0%
Migdal Insurance & Financial Holdings Ltd. – Mutual Funds and Capital Markets	520029984	7460363	12,216,234	0%	0%	0%	0%

Migdal Insurance & Financial Holdings Ltd. – Nostro	520029984	746016	209,352	0.20%	0.20%	0.19%	0.19%
Migdal Insurance & Financial Holdings Ltd. – Nostro	520029984	7460140	2,740,444	0%	0%	0%	0%
Michael Avner	65261398	7460165	250,000	0%	0%	0.22%	0.22%
Giora Bar-Dea	51921195	7460165	240,000	0%	0%	0.22%	0.22%
Nurit Tal Shamir	058786245	7460165	305,000	0%	0%	0.27%	0.27%
Shahar Florence	059764407	7460165	392,350	0%	0%	0.35%	0.35%
Zion Balas	059167858	7460165	255,000	0%	0%	0.23%	0.23%
Ronen Zohar	058102138	7460165	100,000	0%	0%	0.09%	0.09%
Tomer Harpaz	25257304	7460165	268,709	0%	0%	0.24%	0.24%
Shali Shalit	055430821	7460165	17,500	0%	0%	0.02%	0.02%
				72.11%	**72.11%**	**71.73%**	**71.73%**

* Dormant shares

It is noted that on February 1, 2016, the Company executed a partial redemption of its Debentures (Series B). For further details, see Immediate Report dated February 2, 2016 (reference no. 2016-01-021358).

Regulation 24A: Registered Capital, Issued Capital and Convertible Securities

For details, see Notes 26.1.1, 26.1.2, 26.2 and 23 to the Financial Statements of the Company as at December 31, 2015 and the definition of "full dilution" in Regulation 21 above.

Regulation 24B: Shareholder Register

For details on the Company's shareholder register, see the Company's Immediate Report dated February 3, 2016 (reference no. 2016-01-022756).

Regulation 25A: Registered Office

Address: 49 Hasivim St., Petach Tikva 49517
Tel: 03-6752499, Fax: 03-6752279
Email address: mike.avner@strauss-group.com

Regulation 26: Directors of the Company

Following are the details of directors of the Company serving on the Board of Directors as of the date of the report:

Director's name	**Ofra Strauss, Chairperson of the Board**	**Adi Strauss**	**Ran Midyan**	**Ronit Haimovitch**	**Dr. Michael Anghel (external director)**	**Prof. Arie Ovadia**
Identity no.	56616584	022889323	023831837	56417843	01136563	78284338
Date of birth	August 22, 1960	February 27, 1967	July 15, 1968	May 12, 1960	January 13, 1939	December 25, 1948
Address for service of judicial documents	31 Hamatsbiim St., Tel Aviv	37 Havradim St., Ganei Yehuda	3 Hamelech Koresh St., Tel Aviv	3 Nissim Aloni St., Tel Aviv	4 Efter St., Tel Aviv, 69362	11a Hashomer St., Raanana
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Commencement of term of office	February 1996	August 2011	November 2004	August 2003	June 2008	June 1997
Education	LL.B. in Law – Tel Aviv University	English Studies - Cambridge, England; Business Administration, Sheffield University, England	BA in Cinema and Television – Tel Aviv University	BA in Economics and Management – Technion and MA in Economics - Technion	BA in Economics – the Hebrew University of Jerusalem; MA in Financing, Columbia University, New York, US, and Ph.D. in Financing – Columbia University, New York, US	Ph.D. in Economics – Wharton University (Pennsylvania, US); MBA in Finance and Accounting – Tel Aviv University
Occupation in the last five years	Chairman of the Board of Directors from June 2001	Business manager	Active manager at Namaskara Ltd.	CEO of Strauss Investments (1993) Ltd.	Director in various companies	Business consultant to companies; lecturer at the College of Management
Family relations with another interested party	Michael Strauss's daughter; the sister of Adi Strauss and Irit Strauss; Raya Ben-Dror's niece ; the cousin of Ran Midyan and Gil Midyan	Michael Strauss's son; the brother of Ofra Strauss and Irit Strauss; Raya Ben-Dror's nephew; the cousin of Ran Midyan and Gil Midyan	Michael Strauss's nephew; Raya Ben-Dror's son, Gil Midyan's brother and the cousin of Ofra Strauss, Adi Strauss and Irit Strauss	None	None	None

Director's name	Ofra Strauss, Chairperson of the Board	Adi Strauss	Ran Midyan	Ronit Haimovitch	Dr. Michael Anghel (external director)	Prof. Arie Ovadia
Position in the Company, subsidiary, related company or in an interested party of the Company	Chairperson of the Board of Directors of the Company	Director of Strauss Holdings Ltd., director of Max Brenner; director of Strauss Health	None	An employee of a related company of the controlling shareholder of the Company – CEO of Strauss Investments (1993) Ltd.; a director in Strauss Holdings Ltd.	None	None
Additional corporations in which he/she serves as a director	Strauss Holdings Ltd.; investee companies and related companies of the Company	Strauss Holdings Ltd.; Adi's Investments Ltd.; Adi's Lifestyle Ltd.; Adi's Montefiore Ltd.; Adi's Herbert Samuel Ltd.; Adi's Ahad Haam Ltd.; Adi's Alma Ltd.; Adi's Marina Ltd.; Idan Marina Ltd.; Marina H. Hotel Management Ltd.; Adi's Assets Ltd.; Adi's Hospitality Ltd.;	Namaskara Ltd.; Strauss Holdings Ltd.;	Strauss Holdings Ltd.; Rav Etgar Ltd.; Reshet-Noga Ltd.; Hashachar Haole Holdings Ltd., Hashachar Haole, Consulting and Investment Management Ltd.; Pistacia Path Ltd.; Acro Real Estate Development Ltd., Acro Afeka General Partner Ltd., Acro Z.A.R. Projects Ltd., Acro Israel Ltd., Acro Auctions Ltd., Acro Herzliya General Partner Ltd., Or Mania Ltd.; Alaska Advisors S.A.; Perl Properties Holding Inc.; Emanate Technology & Trade Ltd.; Deep Blue Yachting Ltd.; Ocean Blue Holdings Ltd.; Ocean Blue Yachting Ltd.	Partner Communications Ltd.; Evogene Ltd.; Orbotech Ltd.; Dan Hotels Ltd.; Lahav Executive Education, Tel Aviv University; BioLineRX Ltd.; Lumus Ltd.	Aenetz Consultants Ltd.; Bazan – Oil Refineries Ltd.; Giron Ltd.; Israel Petrochemical Enterprises Ltd.; Destiny Investments Ltd.; Compugen Ltd.; Elrom Ltd.; Elron Electronic Industries Ltd.

Director's name	Ofra Strauss, Chairperson of the Board	Adi Strauss	Ran Midyan	Ronit Haimovitch	Dr. Michael Anghel (external director)	Prof. Arie Ovadia
Membership on committee/s of the Board of Directors	Chairperson of the *ad hoc* Investments, Mergers & Acquisitions Committee	None	None	The *ad hoc* Investments, Mergers & Acquisitions Committee	Chairman of the Audit Committee; Financial Statements Review Committee; Remuneration & Human Resources Committee; *ad hoc* Investments, Mergers & Acquisitions Committee	Financial Statements Review Committee; Remuneration & Human Resources Committee; *ad hoc* Investments, Mergers & Acquisitions Committee
Does the Company view him/her as having accounting and financial expertise, for purposes of compliance with the minimum number of such directors determined by the Board of Directors	No	No	No	Yes	Yes	Yes

Director's name	David Mosevics	Meir Shanie	Dalya Lev (independent)[2]	Prof. Dafna Schwartz (external director)	Akiva Mozes (independent)[3]	Galia Maor
Identity no.	007130271	8409732	007555337	50172667	006255046	01154780
Date of birth	July 26, 1946	September 8, 1945	August 2, 1947	August 22, 1950	February 22, 1947	February 11, 1943
Address for service of judicial documents	3 Daniel Frisch St., Tel Aviv 64731	28 Hanof St., Savion 56540	16 Bnei Moshe St., Tel Aviv, 62308	4 Hasavion St., Kiryat Hahagana, Rehovot, 76568	17 Nissim Aloni St. Tel Aviv	10 Haparsa St., Ramat Gan, 5242550
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Commencement of term of office	December 1977	September 1997	June 2008	June 2008	June 2008	June 2008
Education	LL.B. – Hebrew University	BA in Economics and Accounting – Tel Aviv University; MBA – Tel Aviv University; qualified accountant	Accounting – Hebrew University of Jerusalem; LL.M. – Bar Ilan University; ISMP – Harvard University	BA in Economics – Tel Aviv University; MA in Agricultural Economics and Administration – the Hebrew University; Ph.D. in Economics – the Hebrew University	BA in Economics and Political Science – the Hebrew University of Jerusalem; MBA – Hebrew University of Jerusalem	MBA – the Hebrew University of Jerusalem; BA in Economics and Statistics – the Hebrew University of Jerusalem
Occupation in the last five years	An attorney in a private practice	Self employed	BelGal Ltd. Investments, Real Estate and Management Services; member of the Board of Trustees of Ben Gurion University and Tel Aviv University; director of companies	Director of different companies; business economics consultant; Head of the "Entrepreneurship and Hi-tech Management" stream, Department of Business Administration; Manager, Bengis Center for Entrepreneurship and Innovation, Guilford Glazer Faculty of Management Faculty, Ben Gurion University;	Chairman of the Board of Oil Refineries Ltd.; CEO of Israel Chemicals Ltd.; Chairman of the Association of Publicly Traded Companies; Representative of the Public at the National Labor Court; Chairman of the Agriculture Committee of the International Fertilizer Industry Association (IFA); member of the Management Board of the IFA;	President and CEO of Bank Leumi le-Israel; Chairperson, Leumi Private Bank Switzerland

[2] The Company deems that the conditions for Ms. Dalya Lev's eligibility as an independent director, as defined in the Companies Law, 1999, are met.

[3]. The Company deems that the conditions for Mr. Akiva Mozes' eligibility as an independent director, as defined in the Companies Law, 1999, are met.

Director's name	David Mosevics	Meir Shanie	Dalya Lev (independent)	Prof. Dafna Schwartz (external director)	Akiva Mozes (independent)	Galia Maor
				Member of the National Council for Research & Development; Member of the Board of Trustees of Achva Acadmic College; Member of the EU Expert Group on "Policy Relevant Research on Entrepreneurship and SME's"	Chairman of the Friends of the Soroka Medical Center in Beersheba; Member of the Board of Trustees of the Ben Gurion University; Member of the Board of Trustees of the Shenkar College of Engineering and Design; Member of the Academic Industrial Advisory Board of the Jordan Valley College; member of the Advisory Committee of the Supervisor of Banks in matters pertaining to banking affairs.	
Family relations with another interested party	None	None	None	None	None	None
Position in the Company, subsidiary, related company or in an interested party of the Company	None	None	None	None	None	None
Additional corporations in which he/she serves as a director	None	Sano Intertrans Ltd.; Shani-Aharoni Investments Ltd.; family-owned companies, Delek San Ltd.; Fidel	BelGal Ltd.; Paz Oil Company Ltd.; the First International Bank of Israel Ltd.	Bank Hapoalim Ltd.	TKGML Moz Management 2012 Ltd.; A.A. Moz Investments 2012 Ltd.; Evogene Ltd., Member of the Tel Aviv University Management Committee; Eucalyptus Industries Ltd.; Ein Shemer Rubber Industries Agricultural Coop Society Ltd.; Advisory Council for Trilantic Capital Partners Europe	Equity One Inc.; Teva Pharmaceutical Industries Ltd.; Aphelion G.I. Ltd.; Frihalion G.I. Ltd.

Director's name	David Mosevics	Meir Shanie	Dalya Lev (independent)	Prof. Dafna Schwartz (external director)	Akiva Mozes (independent)	Galia Maor
Membership on committee/s of the Board of Directors	Audit Committee	Financial Statements Review Committee; *ad hoc* Investments, Mergers & Acquisitions Committee	Financial Statements Review Committee; Audit Committee; *ad hoc* Investments, Mergers & Acquisitions Committee	Chair of the Remuneration & Human Resources Committee; Chair of the Financial Statements Review Committee	The *ad hoc* Investments, Mergers & Acquisitions Committee	The *ad hoc* Investments, Mergers & Acquisitions Committee
Does the Company view him/her as having accounting and financial expertise, for purposes of compliance with the minimum number of such directors determined by the Board of Directors	No	Yes	Yes	Yes	Yes	Yes

Regulation 26A: Senior Officers

Following are the details of senior officers of the Company as at the date of the report:

Officer's name	Gadi Lesin, CEO	Giora Bar-Dea	Michael Avner	Nurit Tal Shamir	Shahar Florence	Zion Balas
Identity no.	022848352	51921195	65261398	058786245	059764407	59167858
Date of birth	April 19, 1967	May 4, 1953	December 6, 1955	August 5, 1964	August 20, 1965	November 28, 1964
Commencement of term of office	July 2009	July 2011	April 1994	October 2007	November 2008	June 2009
Position in the Company	President and CEO of the Group	Deputy CEO	Senior Vice President, CLO and Company Secretary	VP Human Resources of the Group	CFO of the Group	CEO, Strauss Israel
Position in the Company, subsidiary, related company or in an interested party of the Company	Director of subsidiaries of the Company	Director of subsidiaries of the Company	Chairman of the Executive Board of Max Brenner, alternate director of subsidiaries	Director of subsidiaries of the Company	Director of subsidiaries of the Company	Director of subsidiaries of the Company
Education	MBA – Ben Gurion University; BA in Business Administration, College of Management, Tel Aviv	BA in Humanities, Tel Aviv University; graduate of the Advanced Management Program (AMP) of the Business Administration, Harvard Business School	LL.B. – Tel Aviv University	BA in Educational Psychology, Sociology – Hebrew University of Jerusalem; MA in Behavioral Sciences – Technion, Haifa	BA in Accounting and Economics – Tel Aviv University	BA and MA in Industrial and Management Engineering – Technion, Haifa
Occupation in the last five years	President and CEO of the Group since July 1, 2009	CEO of Obela, 2011-2014	Senior VP, CLO and Company Secretary	VP Human Resources of the Group since October 1, 2007	CFO of the Group since November 3, 2008	CEO of Strauss Israel since June 15, 2009
Family relations with another interested party	None	None	None	None	None	None

Officer's name	Tomer Harpaz	Yaniv Reuven	Ronen Zohar	Shali (Tal Dina) Shoval Shalit	Shlomo Ben Shimol
Identity no.	25257304	024216160	56216013	055430821	1230878-9
Date of birth	February 28, 1973	January 30, 1969	February 9, 1960	April 17, 1959	July 2, 1956
Commencement of term of office	July 19, 2010	January 6, 2015	April 1, 2015	August 1, 2014	1999
Position in the Company	CEO of Strauss Coffee B.V.	Controller	CEO of Strauss Water	CEO of Sabra Dipping Company	Internal auditor
Position in the Company, subsidiary, related company or in an interested party of the Company	Director of subsidiaries of the Company,	None	None	None	None
Education	LL.B. University of East Anglia, Norwich; Postgraduate Diploma in Business Administration, Hull University, London, England	BA in Business Administration, College of Management, Tel Aviv	BA in Food Sciences, the Hebrew University, Jerusalem	BA in Industrial Engineering and Management – Tel Aviv University; MBA in Philosophy – Tel Aviv University	BA in Economics and Accounting - Tel Aviv University; qualified accountant and internal auditor (CIA)
Occupation in the last five years	2010-2014 VP Business Development & Strategy, Strauss Group; 2006-2014, chairman of Re:Bar	2013 – controller, Soda Stream Group; 2010-2013, controller, Better Place Group	CEO of Sabra Dipping Company	2013-2014, VP Marketing, Sabra Dipping Company; 2009-2013, CEO, Strauss Frito-Lay	A partner in the accounting firm of Deloitte, Brightman Almagor Zohar & Co.
Family relations with another interested party	None	None	None	None	None

Regulation 26B: Independent Authorized Signatories in the Company

The Company does not have independent authorized signatories.

Regulation 27: The Company's Accountants
Somekh Chaikin, 17 Ha'arba'ah St., Millennium Tower, Tel Aviv 64739

Regulation 28: Changes in the Memorandum or Articles of Association in the Reporting Year

In 2015, the Company's Articles of Association were amended such that articles 170 and 171 were added, whereby the Company is entitled to give its officers letters of exemption with respect to the breach of the duty of care toward the Company, provided that the exemption granted, if granted, shall not apply to a resolution adopted by an officer or to a transaction approved by him, in the approval of which the controlling shareholder or any officer in the Company had a personal interest. For further details, see Immediate Reports dated June 9, 2015 (reference no. 2015-01-043815 and reference no. 2015-01-043824) and July 14, 2015 (reference no. 2015-01-072546 and 2015-01-072549).

Regulation 29:

a. **Recommendations and Resolutions of the Board of Directors that Do Not Require the Approval of the General Meeting**

On November 23, 2015, the Board of Directors of the Company resolved to distribute a cash dividend of approximately NIS 0.93 per each Ordinary Share of NIS 1 par value each; and in total – NIS 100 million. The dividend was distributed on December 10, 2015. For further details, see Immediate Report dated December 2, 2015 (reference no. 2015-01-171099) and Note 26.3 to the Financial Statements of the Company as at December 31, 2015.

b. **Resolution of an Extraordinary General Meeting**

On July 14, 2015, the general meeting of shareholders of the Company approved, *inter alia*, the amendment of the Articles of Association of the Company such that the Articles will allow for the grant of letters of exemption from liability and an undertaking to indemnify directors and officers serving in the Company, including those who are among the controlling shareholders of the Company and their relatives (hereinafter in this Regulation: **"Letter of Exemption"**); amendment of the remuneration policy of the Company, whereby it will allow for the grant of such Letters of Exemption; and also the grant of letters of exemption from liability and an undertaking to indemnify directors and officers serving in the Company, including those who are among the controlling shareholders and their relatives and including the CEO of the Company. For further details, see Immediate Report with respect to the convening of an extraordinary annual general meeting, dated June 9, 2015, and an Immediate Report with respect to the results of the meeting, dated July 14, 2015 (reference no. 2015-01-043824 and 2015-01-072546, respectively).

Regulation 29A: Company Resolutions

Exemption, insurance or an undertaking to indemnify an officer

(1) As at the date of this report, the deeds of undertaking to indemnify all directors serving in the Company are in effect and are worded in accordance with the resolution of the extraordinary general meeting of the Company of June 6, 2011 (reference no. 2011-01-177714). It is noted that upon the re-appointment of directors, the Company, for caution's sake, approves the continued validity of the undertakings to indemnification, in accordance with the aforementioned resolution. For details on the undertaking to indemnity, exemption and insurance of directors and officers granted to Ms. Ofra Strauss and Mr. Adi Strauss, see Regulation 22 above.

(2) On September 9, 2013, the Company's remuneration policy was approved, pursuant to which officers of the Company shall, subject to the provisions of the Companies Law and the Company's Articles of Association, be entitled to insurance coverage in the framework of officers' liability insurance, including claims-made insurance, run-off insurance, or any other insurance coverage applying to the officers of the Company in accordance with the decisions of the competent organs of the Company.

It was further determined that according to the principles set forth in the resolution of the extraordinary general meeting of shareholders of the Company of July 7, 2012 (as specified below), the insurance coverage limit for officers of the Company will not exceed US$200 (two hundred) million and the annual premium will not exceed US$250 (two hundred and fifty) thousand (or any other amount if and to the extent it is determined in a proper resolution of the general meeting of the shareholders of the Company) (for the Company's remuneration policy, see Immediate Reports published by the Company on May 27, 2014 (reference no. 2014-01-074055) and on July 17, 2014 (reference no. 2014-01-092841)).

(3) Pursuant to the resolution of the general meeting of the Company of July 17, 2012 (as set forth in the Company's reports dated June 24, 2012 and July 17, 2012, reference no. 2012-01-164121 and 2012-01-187101, respectively), the Company's purchase, from time to time, of liability insurance policies for directors and officers serving in the Company and its subsidiaries (who are not among the controlling shareholders or their relatives), a basic policy for the Company (which does not include Strauss Coffee B.V.), a basic policy for Strauss Coffee B.V. and an umbrella policy with liability insurance applying over and above the liability limits of the two said policies, was approved in advance, for several insurance periods until September 30, 2017. The above engagement is subject to the insurance coverage limit not exceeding US$200 million, the annual premium not exceeding US$250 thousand and to no material differences existing between the terms and conditions of the engagement and the policy that was approved for the period until September 30, 2013 (as stated in the Company's above reports). It was further stipulated that the specific amounts and terms of each insurance policy purchased as aforesaid shall be determined and approved by the Company CEO. See also Note 24.4.2 to the Financial Statements of the Company as at December 2015, in part C above.

(4) For details on the grant of Letters of Exemption to officers of the Company, see Regulation 29 above.

Strauss Group Ltd.

Names of signatories and their positions:

Ofra Strauss, Chairperson of the Board of Directors
Gadi Lesin, Company CEO

Date: March 20, 2016

Corporate Governance Questionnaire[1]

Independence of the Board of Directors			
		Correct	**Incorrect**
1.	Throughout the reported year, two or more external directors held office in the corporation. In this question, a "correct" answer could be marked, if the time period in which there were no two outside directors, holding office in the corporation, does not exceed 90 days, as stated in Section 363.a(b)(10) of the Companies Law. However, in any (correct/incorrect) answer, state the time period (in days) in which two or more outside directors did not hold office in the corporation during the reported year (including a period approved retroactively, while distinguishing between different directors): Director A: Prof. Daphna Schwartz Director B: Dr. Michael Engel Number of external directors holding office in the corporation as of the date of release of this Questionnaire: 2	____√____	____________
2.	The rate[2] of independent directors[3] holding office in the corporation as of the date of release of this Questionnaire: /12 The rate of independent directors, stated in the Articles of Association[4] of the corporation[5]: _____. X Irrelevant (no provisions was stated in the Articles).	_____	______

1. Published within the framework of legislative proposals for improvement of statements on March 16, 2014.
2. In this Questionnaire "**rate**" – certain number out of all of the directors. Thus, e.g. 3/8.
3. Including outside directors, as defined in the Companies Law.
4. In this matter– "articles" including according to a specific law provision applying to the corporation (e.g. for a banking corporation – guidelines of the supervisor of the banks).
5. A debenture company is not required to fill in this section.

3.	In the reported year, an examination was held vis-à-vis the external directors (and the independent directors) and it had been found that in the reported year they complied with the provision of Section 240(b) and (f) of the Companies Law regarding the absence of a linkage of the external (and independent) directors holding office in the corporation, and that they also fulfilled the conditions required for holding office as an external (or independent) director.	√	
4.	All of the directors who held office in the corporation during the reported year do not, directly or indirectly, report[6] to the CEO (excluding a director who is a representative of the company's employees, if there is an employee representative body in the corporation). If your answer is "incorrect", (i.e., the director reports to the CEO as aforesaid) - the number of directors not complying with the aforesaid restriction shall be stated: ______.	√	
5.	All of the directors, who notified of the existence of a personal interest they have in the approval of a transaction on the meeting's agenda, were not present fort the deliberations and did not participate in a vote as aforesaid (other than a deliberation and/or vote in circumstances as stated in Section 278(b) of the Companies Law): If your answer is "incorrect" – Was this for the purpose of the presentation of a specific issue by him/her pursuant to the provisions of the last part of Section 278(a): ____Yes ____ No. (kindly mark X in the appropriate box) State the number of meetings in which such directors were present at the deliberation and/or participated in the vote, other than in circumstances as provided in Subsection a. : ____________.	√	

6 Regarding this question – the mere holding of office as a director in a held corporation which is controlled by the corporation, shall not be deemed as "reporting", conversely, a director's office in a corporation acting as an officer (other than a director) and/or employee in the held corporation which is controlled by the corporation, shall be deemed as "reporting" for purposes of this question.

6.	The controlling shareholder (including his relative and/or anyone on his behalf), who is not a director or a senior officer of the corporation, was not present in the board meetings held in the reported year. If your answer is "incorrect" (i.e., the controlling shareholder and/or his relative and/or anyone on his behalf who is not a board member and/or a senior officer of the corporation attended such board meetings) - the following details regarding the attendance of the additional person in such board meetings shall be stated: Identity: ______________________. Position in the corporation (if any): ______________ Details of the linkage to the controlling shareholder (if the person present is not the controlling shareholder himself): ______________ Was it for the purpose of the presentation of a certain matter by him: _?_ Yes _?_ No (kindly *mark x in the appropriate box)* The rate of his attendance[7] at board meetings held in the reported year for the purpose of presentation of a specific issue by him: ___________, Other presence: ___________. □ Irrelevant (the corporation does not have a controlling shareholder).	√	

Qualification and Capabilities of the Directors

			Correct	Incorrect
7.	In the corporation's articles of association there is no provision limiting the possibility to immediately terminate the office of all of the directors of the corporation, who are not external directors (in this regard - a determination by a regular majority is not deemed a limitation).[8] If your answer is "incorrect" (i.e., such limitation exists), the following shall be stated -		√	
	a.	The time period prescribed in the articles of association for the office of a director: ______.		
	b.	The required majority prescribed in the articles of association for the termination of office of the directors: ______.		
	c.	The lawful quorum at the general meeting prescribed in the articles of association for the termination of office of the directors: ______.		
	d.	The majority required for amending these provisions in the articles of association: ______.		

[7] While separating the controlling shareholders and his relative and/or another on his behalf.

[8] A debenture company is not required to fill in this section.

8.	The corporation has a training plan for new directors, in the field of the corporation's business and in the field of the law applicable to the corporation and the directors, as well as a continuing plan for the training of serving directors, which is adjusted, *inter alia*, to the position held by the director in the corporation. If your answer is "correct" - state whether the plan was implemented in the reported year: _?_ Yes __?_ No (kindly mark x in the appropriate box)		√	
9.	a.	The corporation prescribed a required minimal number of directors on the board who must have accounting and financial expertise. If your answer is "correct" the minimal number prescribed will be stated: 3	√	________
	b.	Number of directors holding office in the corporation during the reported year: Having accounting and financial qualification[9]: 8. Having professional qualification:[10] 10 In the event of changes in the number of directors, as stated in the reported year, the datum of the lowest figure (with the exception of a time period of 60 days from occurrence of the change) or directors of any kind serving during the reported year.		
10.	a.	Throughout the reported year, the composition of the board included members of both genders. If your answer is "incorrect" - the time period (in days) in which the aforesaid was not met shall be stated: ______. *In this question, you may answer "correct" if the time period in which directors of both genders did not hold office does not exceed 60 days. However, in any answer (correct/incorrect), state the time period (in days) in which directors of both genders did not hold office in the corporation: ______.*	√	
	b.	Number of directors of each gender holding office on the board of the corporation as of the release date of this questionnaire: Men: 7, Women: 5	________	_______

[9] Following an evaluation of the board, according to the provisions of the Company's Regulations (Conditions and Tests for a Director Having a Financial and Accounting Expertise and a Director having Professional Qualifications), 2005.

[10] See Footnote 9.

Board Meetings (and Convening of a General Meeting)								
							Correct	Incorrect
11.	a.	Number of board meetings held during each quarter in the reported year: Q1: (2015) 1 Q2: 3 Q3: 2 Q4: 4					______	______
	b.	Alongside each of the names of the directors holding office in the corporation during the reported year, state their participation rate[11] in the board meetings (in this subsection - including meetings of the board committees of which they are members, and as stated below) held during the reported year (in reference to his term of office): (Additional lines should be added according to the number of directors). **[For examination]**					______	______
		Name of the Director	Participation Rate in the **Board** Meetings	Participation Rate in the **Audit Committee**[12] meetings	Participation Rate in the meetings of the **Financial Statements Review Committee**[13]	Participation Rate in the **Remuneration Committee**[14] meetings	Participation rate in meetings of **other board committees of which he is a member** (while stating the name of the committee)	
		Ofra Strauss	10/10				The ad hoc Committee on Investments, Purchases and Mergers – 4/4	

[11] See Footnote 2.
[12]. In respect of a director who is a member of this committee.
[13]. In respect of a director who is a member of this committee.
[14]. In respect of a director who is a member of this committee.

	Adi Strauss	10/10				The ad hoc Committee on Investments, Purchases and Mergers – 3/4		
	Ran Midyan	5/10						
	Ronit Haimovitch	9/10				The ad hoc Committee on Investments, Purchases and Mergers – 3/4		
	Meir Shani	10/10		4/4				
	David Moshevitz	9/10	3/4					
	Micha Engel	10/10	4/4	4/4	12/12			
	Daphna Schwartz	10/10	4/4	4/4	12/12			
	Dalia Lev	10/10	3/4	4/4		The ad hoc Committee on Investments, Purchases and Mergers – 4/4		
	Akiva Mozes	10/10				The ad hoc Committee on Investments, Purchases and Mergers – 4/4		
	Arie Ovadia	9/10		3/4	11/12	The ad hoc Committee on Investments, Purchases and Mergers – 3/4		
	Galia Maor	9/10				The Finance and Investment Committee – 4/4		
12.	In the reported year, the board held at least one discussion regarding the management of the corporation's business by the CEO and the officers reporting to him, in their absence, after they were given opportunity to express their position.						√	

Separation between the Positions of the CEO and the Chairman of the Board				
			Correct	**Incorrect**
13.		Throughout the entire reported year, a chairman of the board held office in the corporation. *In this question, you may answer "correct" if the time period in which a chairman of the board did not hold office in the corporation does not exceed 60 days, as stated in Section 363a(2) of the Companies Law). However, in any (correct/incorrect) answer, state the time period (in days) during which there was no chairman of the board holding office in the corporation as aforesaid: ______.*	√	
14.		Throughout the entire reported year, a CEO held office in the corporation. *In this question, you may answer "correct" if the period of time during which there was no serving CEO at the corporation does not exceed 90 days as specified in Section 363a.(6) of the Companies Law, however, in any (correct/incorrect) answer, the time period (in days) during which there was no CEO holding office in the corporation as aforesaid should be stated: ______.*	√	
15.		In a corporation in which the chairman of the board serves also as the CEO of the corporation and/or exercises his powers, the dual office was approved in accordance with Section 121(c) of the Companies Law.[15] _X__ Irrelevant (insofar as such dual office does not exist in the corporation).		
16.		The CEO is <u>not</u> a relative of the chairman of the board. If your answer is "incorrect" (i.e., the CEO is a relative of the chairman of the board) -	√	
	a.	State the family relation between the parties: ______.	______	______
	b.	The office was approved in accordance with Section 121(c) of the Companies Law[16]: ____Yes ____ No. (Kindly mark X in the appropriate box)	______	______
17.		The controlling shareholder or his relative does <u>not</u> serve as the CEO or as a senior officer in the corporation, other than as a director. _X_ Irrelevant (the corporation does not have a controlling shareholder).	√	

15. In a debenture company – approval according to Section 121(d) of the Company's Law.
16. In a debenture company – approval according to Section 121(d) of the Company's Law.

The Audit Committee				
			Correct	Incorrect
18.	The following <u>did not</u> hold office in the audit committee during the reported year -			
	a.	The controlling shareholder or his/her relative. □ Irrelevant (the corporation does not have a controlling shareholder).	√	———
	b.	The chairman of the board.	√	
	c.	A director who is employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled by him/her.	√	
	d.	A director who regularly provides services to the Corporation or to the controlling shareholder of the Corporation or a corporation controlled by him/her.	√	
	e.	A director whose primary livelihood depends on the controlling shareholder. □ Irrelevant (the corporation does not have a controlling shareholder).	√	
19.	No one who is not entitled to be a member of the audit committee, including a controlling shareholder or his relative, was present in the audit committee meetings, other than pursuant to the provisions of Section 115 (e) of the Companies Law.		√	
20.	The lawful quorum for deliberations and adoption of resolutions in all of the audit committee's meetings held during the reported year was a majority of the committee members, where the majority of attendees were independent directors and at least one of them was an external director. If your answer is "incorrect" - state the rate of the meetings in which the said requirement was not met: _______.		√	
21.	In the reported year, the audit committee held at least one meeting in the presence of the internal auditor and the external auditor, and in the absence of officers of the corporation who are not members of the committee, regarding deficiencies in the business management of the Corporation.		√	

22.	In all of the audit committee's meetings in which a person who is not entitled to be a member of the committee was present, it was with the approval of the chairman of the committee and/or at the request of the committee (regarding the general counsel and secretary of the corporation who is not a controlling shareholder or his/her relative).	√	
23.	Arrangements stated by the Audit Committee with respect to the manner of handling of complaints of corporation's employees in connection with deficiency in the management of its business affairs and the protection to be given to the employees who have complained, as stated, which were valid during the reported year.	√	
24.	The audit committee (and/or the financial statements review committee) was satisfied that the scope of work of the external auditor and his fees in the reported year were appropriate for the performance of proper audit and review of the financial statements in the reported year.	√	

Functions of the Financial Statements Review Committee (hereinafter - FSRC) in its Preliminary Work Toward the Approval of the Financial Statements				
			Correct	**Incorrect**
25.	a.	State the time period (in days) prescribed by the board of directors as reasonable time for delivery of the committee's recommendations in contemplation of the board meeting in which the periodic or quarterly reports will be approved: 2 business days.	______	________
	b.	The number of days actually elapsed between the date of delivery of the recommendations to the board and the date of approval of the financial statements: Q1 statement (2015): 6 Q2 statement: 1 Q3 statement: 3 Annual statement: 4	_______	________
	c.	The number of days elapsed between the date of delivery of the draft financial statements to the directors and the date of deliberation approval of the financial statements by the board: Q1 statement (2015): 12 Q2 statement: 10 Q3 statement: 8 Annual statement: 11		
26.	The Corporation's external auditor was invited to all of the FSRC and board meetings in which the financial statements of the corporation referring to periods included in the reported year were discussed.		√	

	If your answer is "incorrect" - state the rate of his participation: _______.			
27.	All of the conditions specified below were fulfilled at the FSRC throughout the entire reported year and until the release of the annual statement:		______	________
	a.	The number of its members was not less than three (on the date of the discussion at the FSRC and approval of the statements as aforesaid).	√	
	b.	All of the conditions specified in Section 115 (b) and (c) of the Companies Law (in respect of the office of audit committee members) were fulfilled.	√	
	c.	The chairman of the FSRC is an external director.	√	
	d.	All of its members are directors and most of its members are independent directors.	√	
	e.	All of its members have the ability to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	√	
	f.	The members of the FSRC provided a statement prior to their appointment.	√	
	g.	The legal quorum for discussion and decision making on the FSRC was the majority of its members provided that most of those present were independent directors including at least one outside director.	√	
	If your answer is "incorrect" in respect of one or more of the subsections of this question, state in respect of which report (periodic/quarterly) such condition was not fulfilled: ___________			

The Remuneration Committee				
			Correct	Incorrect
28.	The Committee in the reported period consisted of at least three members and external directors presentied a majority (upon the discussion date on the Committee). □ Irrelevant (no discussion was held)		√	
29.	The terms of office and employment of all the members of the Remuneration Committee during the reported year are according to the Company's Regulations (Rules in Respect of Remuneration and Expenses of an Outside Director), 2000		√	
30.	The following did not hold office in the audit committee during the reported year -		_______	_______
	a.	The controlling shareholder or his relative. □ Irrelevant (the corporation does not have a controlling shareholder).	√	
	b.	The chairman of the board.	√	
	c.	A director employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled by him.	√	
	d.	A director who regularly provides services to the Corporation or to the controlling shareholder of the Corporation or a corporation controlled by him.	√	
	e.	A director whose primary livelihood depends on the controlling shareholder. □ Irrelevant (the corporation does not have a controlling shareholder).	√	
31.	The controlling shareholder or his/her relative was not present in the reported year in meetings of the Remuneration Committee unless if the chairman of the committee determined that any of them is required in order to present a certain issue.		√	
32.	The Remuneration Committee and the board did not exercise their authorities according to Sections 267a(c), 272(c)(3) and 272 (c1)(1)(c) pursuant to approval of the transaction or the remuneration policy, notwithstanding the objection of the general meeting. If you answered "incorrect" it should be indicated – The type of transaction approved, as stated: _________ The number of times that their authority was exercised during the reported year: ________		√	

Internal Auditor			
		Correct	**Incorrect**
33.	Chairman of the board or the CEO of the corporation is the organizational in charge of the internal auditor in the corporation.	√	
34.	The chairman of the board or the audit committee approved the work plan during the reported year. In addition, the audit items engaged by the internal auditor during the reported year shall be specified: The internal auditing items included a variety of subjects, including cash flows, operation and manufacturing, compliance with regulation and procedures of the company, transactions of purchasing and/or essential investment executed during the reported year, environmental quality and hazardous materials, safety at work, sale and collection layout, purchase and payment layout, drawing a survey of risks for the establishment of a multi annual work plan for the internal auditing, as well as follow up for implementation of the recommendations of the audit. Audits were executed across the group including the headquarters of the group, Strauss Israel, Strauss Water and Strauss Coffee in Israel and in various countries in the world, such as Poland, Serbia, Russia, Germany and Brazil.	√	
35.	The scope of employment of the internal auditor in the corporation during the reported year (in hours[17]): 7,000. During the reported year, a discussion was held (in the audit committee on the board) on the findings of the internal auditor.	______ √	________
36.	The internal auditor is not an interested party of the corporation, a relative thereof, auditing accountant or anyone on its behalf, nor does he maintain essential business connections with the corporation, its controlling shareholder, his relative or corporations under their control.	√	

[17]. Including work hours invested in held corporations and audits outside of Israel, as the case may be.

Transactions with Interested Parties			
		Correct	Incorrect
37.	The controlling shareholder or his relative (including a company controlled by him) is neither employed by the corporation nor provides management services thereto. If you answer is "incorrect" (i.e. the controlling shareholder or his relative is employed by the Corporation or provides management services thereto) the following shall be stated: - The number of relatives (including the controlling shareholder) employed by the corporation (including companies controlled by them and/or management companies): 1 - Have the agreements for such employment and/or management services been approved by the organs specified in the law: _X_ Yes ___ No. (Kindly mark x in the appropriate box) ___ Irrelevant (the corporation does not have a controlling shareholder) _______.		X
38.	According to the best knowledge of the corporation, the controlling shareholder has no additional business affairs in the field of operation of the corporation (in one or more areas). If your answer is "incorrect" – it should be indicated whether an arrangement for the setting bounds of activities between the corporation and the controlling shareholder thereof: ___ Yes ___ No. (Kindly mark x in the appropriate box) ___ Irrelevant (the corporation does not have a controlling shareholder) _______.	√	

Chairman of the Board:
Ofra Strauss

Chairman of the Audit Committee:
Dr. Michael Engel

Chairman of the FSRC:
Prof. Daphna Schwartz

STRAUSS GROUP LTD.

ISOX DECLARATION

Attached hereto is an annual report on the effectiveness of the internal control over the financial reporting and disclosure pursuant to regulation 9B(a) for 2015:

The management, under the supervision of the board of directors of Strauss Group Ltd. (the "Corporation"), is responsible for determining and maintaining proper internal control over the financial reporting and disclosure within the Corporation.

For this purpose, the members of management are:

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

Internal control over the financial reporting and disclosure includes controls and procedures existing within the Corporation, which were planned by or under the supervision of the CEO and the most senior financial officer, or by anyone actually performing such functions, under the supervision of the board of directors of the Corporation, which are designed to provide reasonable level of assurance regarding the reliability of the financial reporting and the preparation of the reports according to the provisions of the law, and to ensure that information which the Corporation is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth in the law.

Internal control includes, *inter alia*, controls and procedures which were planned to ensure that information which the Corporation is required to disclose as aforesaid, is gathered and transferred to the management of the Corporation, including the CEO and the most senior financial officer, or anyone actually performing such functions, in order to enable the timely making of decisions in reference to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide full assurance that misrepresentation or omission of information in the reports is prevented or discovered.

The management, with the supervision of the board of directors, carried out an examination and evaluation of the internal control over financial reporting and disclosure in the corporation, and the effectiveness thereof. The evaluation of the effectiveness of internal control over financial reporting and disclosure carried out by the management with the supervision of the board of directors included: .

Mapping and documentation of the controls and identification of the very material processes in the Company and in the main consolidated companies according to the reporting risks, in respect of each of the Company or the main consolidated companies, as the case may be.

The processes which were defined as very material are: in the Company: revenues from rent in investment property, investment property; in Sonol: the revenues from sales and the trade receivables processes; in Tambour: the revenues from sales and trade receivables, inventory and acquisition processes; in Via Maris: long-term receivables in respect of franchise arrangement.

Examination of the actual performance and documentation of the controls defined in the control processes on the organization level (ELC), the information systems (ITGC), the financial statements preparation process and the processes which were identified as very material to the financial reporting and disclosure.

General evaluation of the internal control effectiveness.

Based on the effectiveness evaluation performed by the management with the supervision of the board of directors as specified above, the board of directors and management of the corporation reached the conclusion that the internal control over the financial reporting and disclosure in the corporation, as of December 31, 2015 is effective.

Attached please find the statements of the CEO and the CFO, who is responsible for the financial reporting in the Company.

Date: March 20, 2016

Statement of Managers:

Statement of CEO pursuant to Regulation 9B(d)(1):

I, Gadi Lesin, represent that:

(1) I have reviewed the periodic report of Strauss Group Ltd. (the "Corporation") for the year 2015 (the "Reports").

(2) To my knowledge, the Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which are required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, from all material respects, the financial condition, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate.

(4) I have disclosed to the Corporation's auditor and to the Corporation's board of directors and the Audit and Financial Statement Committees, based on my most current assessment of the internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and -

b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in the internal control over the financial reporting and the disclosure;

(5) I, either alone or jointly with others in the Corporation:

a. Have determined controls and procedures, or confirmed the determination and existence, of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -

b. Have determined controls and procedures or confirmed the determination and existence, of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of the financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

c. Have evaluated the effectiveness of the internal control over the financial reporting and disclosure and presented in this report the conclusions of the board of directors and the management pertaining to the effectiveness of the internal control as aforesaid as of the date of the Reports.

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

March 20, 2016

____

Gadi Lesin, President & CEO

Statement of Managers:

Statement of the most senior financial officer pursuant to Regulation 9B(d)(2):

I, Shahar Florence, represent that:

(1) I have reviewed the Financial Statements and other financial information included in the reports of Strauss Group Ltd. (the "Corporation") for year 2015 (the "Reports");

(2) To my knowledge, the Financial Statements and the other financial information included in the Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which are required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, from all material respects, the financial condition, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate;

(4) I have disclosed to the Corporation's auditor and to the Corporation's board of directors and the Audit and Financial Statement Committees, based on my most current assessment of the internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure insofar as it relates to the Financial Statements and the other information included in the Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and -

b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in the internal control over the financial reporting and the disclosure;

(5) I, either alone or jointly with others in the Corporation:

a. Have determined controls and procedures, or confirmed the determination and existence of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, insofar that it is relevant to the financial statements and other financial information included in the Reports, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -

b. Have determined controls and procedures or confirmed the determination and existence, of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of the financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP;

c. Have evaluated the effectiveness of the internal control over the financial reporting and disclosure, insofar that it refers to the financial statements and the other financial information included in the Reports, as of the date of the Reports. My conclusions in respect of my evaluation as aforesaid were presented to the board of directors and the management and are incorporated in this Report.

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

March 20, 2016

____

Shahar Florence, EVP & CFO;

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS OF A

MATERIAL JOINT VENTURE

Três Corações Alimentos S.A.

Consolidated financial statements as of and for the years ended 31 December 2015 and 2014 and independent auditors’ report on consolidated financial statements

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To Directors and Shareholders of
Três Corações Alimentos S.A.
Fortaleza - CE

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Três Corações Alimentos S.A. and its subsidiaries, which comprise the consolidated statements of financial position as of 31 December 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with international and Brazilian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the consolidated financial position of Três Corações Alimentos S.A. as of 31 December 2015, and its financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Fortaleza, 4 March 2016

KPMG Auditores Independentes
CRC 2SP014428/O-6

João Alberto da Silva Neto
Accountant CRC RS-048980/O-0 T-CE

Três Corações Alimentos S.A.

Consolidated statements of financial position as of 31 December 2015 and 2014

(In thousand of Brazilian Reais)

Assets	**Note**	**2015**	**2014**
Current			
Cash and cash equivalents	6	159.996	87.775
Deposits	7	3.478	4.529
Trade receivables	8	304.652	287.513
Inventories	9	277.283	236.803
Recoverable taxes	10	18.813	22.318
Income tax receivable		6.594	5.215
Other current assets	11	14.117	14.690
		784.933	658.843
Non-current			
Judicial deposits	20	15.404	14.390
Other non-current assets	11	10.135	4.215
Deferred tax assets	21	23.324	17.149
Fixed assets	13	231.134	211.218
Intangible assets	14	195.219	192.136
		475.216	439.108
		1.260.149	1.097.951

Liabilities	**Note**	**2015**	**2014**
Current			
Short term loans	15	194.222	281.034
Trade payables	16	101.180	78.991
Income tax payables		1.056	1.081
Employees and other payroll related liabilities	17	40.481	39.886
Proposed dividends	22.d	100.001	69.096
Payable taxes	18	16.371	16.139
Other current liabilities	19	23.239	27.828
		476.550	514.055
Non-current			
Long term loans	15	184.567	81.820
Other non-current liabilities	19	-	3.023
Proposed dividends	22.d	34.548	-
Deferred tax liabilities	21	11.424	16.288
Provision for legal proceedings	20	20.688	17.308
		251.227	118.439
Equity			
Share capital	22.a	272.370	271.669
Translation reserve	22.b	(105.500)	(68.574)
Retained earnings	22.e	365.502	262.362
		532.372	465.457
		1.260.149	1.097.951

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

Três Corações Alimentos S.A.

Consolidated statements of income

Years ended 31 December 2015 e 2014

(In thousand of Brazilian Reais)

	Note	2015	2014 (Reclassified)
Revenue	23	2.540.123	2.352.499
Cost of sales	24	(1.800.565)	(1.638.231)
Gross profit		739.558	714.268
Selling and marketing expenses	25	(437.813)	(431.387)
General and administrative expenses	26	(82.127)	(67.041)
Other income (expenses), net		(1.007)	(380)
Operating profit		218.611	215.460
Finance income	27	8.320	7.124
Finance expenses	27	(40.896)	(22.682)
Profit before income tax		186.035	199.902
Income tax expenses	21	(14.015)	(17.789)
Profit for the year		172.020	182.113

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

Três Corações Alimentos S.A.

Consolidated statements of comprehensive income

Years ended 31 December 2015 e 2014

(In thousand of Brazilian Reais)

	Note	2015	2014
Profit for the year		172.020	182.113
Foreign currency translation differences	22.b	(36.926)	(18.186)
Comprehensive income for the year		135.094	163.927

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

Três Corações Alimentos S.A.

Consolidated statements of changes in equity

Years ended 31 December 2015 e 2014

(In thousand of Brazilian Reais)

		Retained earnings						
	Share capital	**Legal reserve**	**Tax incentives**	**Profit to distribute**	**Translation adjustments**	**Dividends**	**Accumulated profit**	**Total**
Balance as of 31 December 2013	271.669	14.862	75.346	61.928	(50.388)	-	-	373.417
Dividends distributed relative to 2013	-	-	-	(2.791)	-	-	-	(2.791)
Profit for the year	-	-	-	-	-	-	182.113	182.113
Other comprehensive loss:								
Foreign currency translation differences	-	-	-	-	(18.186)	-	-	(18.186)
Total other comprehensive loss:	-	-	-	-	(18.186)	-	182.113	163.927
Internal equity changes								
State VAT and Federal tax incentives	-	-	40.321	-	-	-	(40.321)	-
Profit destination:								
Legal reserve	-	9.164	-	-	-	-	(9.164)	-
Dividends proposed	-	-	-	-	-	-	(69.096)	(69.096)
Reserve for profit to be distributed	-	-	-	63.532	-	-	(63.532)	-
	-	9.164	40.321	63.532	-	-	(182.113)	(69.096)
Balance as of 31 December 2014	271.669	24.026	115.667	122.669	(68.574)	-	-	465.457
Dividends distributed relative to 2014	-	-	-	(2.726)	-	-	-	(2.726)
Profit for the year	-	-	-	-	-	-	172.020	172.020
Other comprehensive loss:								
Foreign currency translation differences	-	-	-	-	(36.926)	-	-	(36.926)
Total other comprehensive loss:	-	-	-	-	(36.926)	-	172.020	135.094
Internal equity changes								
Capitalization of tax incentive	701	-	(701)	-	-	-	-	-
State VAT and Federal tax incentives	-	-	42.816	-	-	-	(42.816)	-
Profit destination:								
Legal reserve	-	8.690	-	-	-	-	(8.690)	-
Dividends proposed	-	-	-	-	-	-	(65.453)	(65.453)
Reserve for profit to be distributed	-	-	-	55.061	-	-	(55.061)	-
	701	8.690	42.115	55.061	-	-	(172.020)	(65.453)
Balance as of 31 December 2015	272.370	32.716	157.782	175.004	(105.500)	-	-	532.372

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

Três Corações Alimentos S.A.

Consolidated statements of cash flows

Years ended 31 December 2015 e 2014

(In thousand of Brazilian Reais)

	2015	2014 (Reclassified)
Cash flows from operating activities		
Profit for the year	172.020	182.113
Adjustments for:		
Depreciation and amortization	25.962	21.333
Provision for legal proceedings	3.380	2.217
Other expenses, net	1.007	380
Financing expenses, net	32.576	15.558
Income tax expenses	14.015	17.789
Interest paid, net	(15.952)	(13.296)
Income tax paid	(26.458)	(28.989)
	206.550	197.105
Change in:		
Trade receivables	(4.921)	(27.553)
Inventories	(41.740)	(22.206)
Recoverable and payable taxes, net	3.727	6.777
Derivatives, net	-	(10.998)
Judicial deposits	(1.014)	2.668
Trade payables	27.325	21.788
Employees and other payroll related liabilities	588	8.383
Other current and non-current assets and liabilities	(12.283)	19
Net cash flows provided by operating activities	178.232	175.983
Cash flows from investing activities		
Change in deposits	1.796	17.141
Payment for acquisition of operations	(1.980)	(26.703)
Proceeds from sales of fixed assets	5.647	2.562
Acquisition of fixed assets	(44.029)	(49.907)
Investments in intangible assets	(6.151)	(5.220)
Long-term loans to related parties	-	379
Net cash flows used in investing activities	(44.717)	(61.748)
Cash flows from financing activities		
Proceeds from loans	314.957	513.693
Repayment of loans	(373.525)	(512.391)
Dividend paid	(2.726)	(64.714)
Net cash flows used in financing activities	(61.294)	(63.412)
Net increase in cash and cash equivalents	72.221	50.823
Net increase in cash and cash equivalents		
Cash and cash equivalents as of beginning of year	87.775	36.952
Cash and cash equivalents as of end of year	159.996	87.775
	72.221	50.823

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

Notes to the consolidated financial statements

(In thousand of Brazilian Reais)

1 General information

Três Corações Alimentos S.A. and its controlled entities are an industrial and commercial group of companies, which operates in Brazil, in producing and selling branded coffee products, multibeverage single portion capsules and machines, powdered juices, chocolate drinks and corn meal products. The Group is also active in green coffee exports and operation of cafeterias.

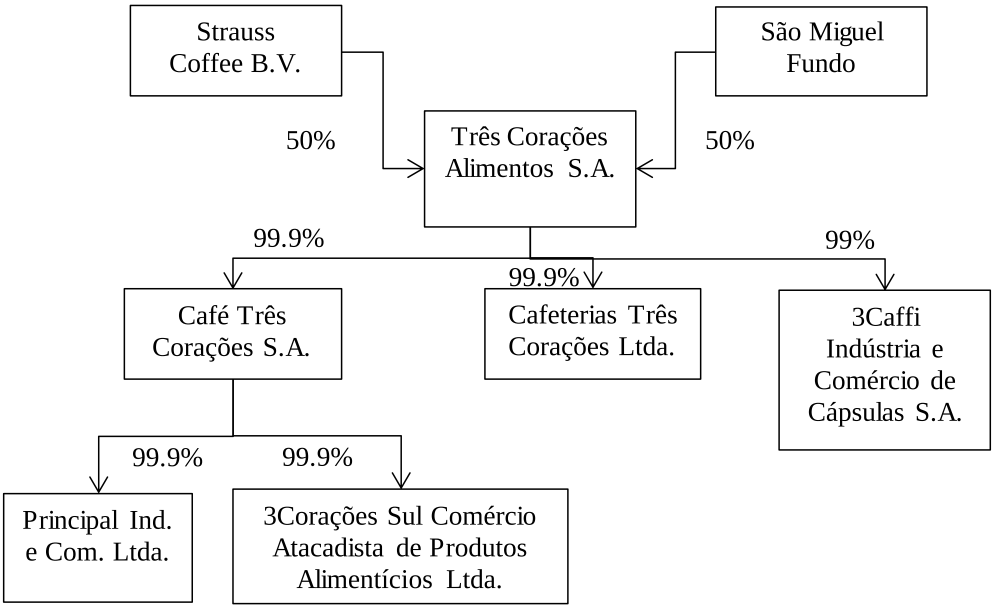
The Company controls the entities Cafeterias Três Corações Ltda., 3Caffi Indústria e Comércio de Cápsulas S.A. and Café Três Corações S.A., which controls the entities 3Corações Sul Comércio Atacadista de Produtos Alimentícios Ltda. (former Polo Participações Ltda.) and Principal Comércio e Indústria de Café Ltda., all together referred to as "the Group".

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

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

The Group's industrial facilities are located in the states of Ceará, Rio Grande do Norte, Minas Gerais and Rio de Janeiro, and its distribution centers are located in all states of Brazil. In addition to that, the Group owns green coffee processing plants in the states of Minas Gerais and Bahia. Part of the facilities used by the Group is leased from one of its related parties, Três Corações Imóveis Armazéns Gerais e Serviços Ltda., which is not consolidated in this report, since it is not part of the Group structure presented below. Três Corações Imóveis Armazéns Gerais e Serviços Ltda. is owned by São Miguel Holding e Investimentos S.A. (50%) and Strauss Coffee B.V. (50%).

In December 2014 the controlled entity Café Três Corações S.A. acquired the entity Polo Participações Ltda. and in December 2015 the Company acquired the entity now constituted as Cafeterias Três Corações Ltda. (Note 2). As of 31 December 2015, the Group had the following structure:



2 Business combination

(i) 3Corações Sul Comércio Atacadista de Produtos Alimentícios Ltda.

In December 2014, the controlled entity Café Três Corações S.A. obtained control over the entity 3Corações Sul Comércio Atacadista de Produtos Alimentícios Ltda. ("3Corações Sul", former Polo Participações), through the purchase of 99.9% of its shares from third parties.

The entity purchased owns the brands Itamaraty and Londrina, amongst others, and its purchase will allow the Group to increase its market share, mainly of roasted and ground coffee in South of Brazil.

a. Consideration transferred

The acquisition value was R$ 31,631, as follows:

- R$ 26,703 paid in December 2014;
- R$ 1,928 paid in March 2015, with interest; and
- R$ 3,000 to be paid in December 2016, with interest.

The amount to be paid, including interests, is presented as other liabilities (Note 19).

b. Assets transferred and liabilities incurred

There were no liabilities incurred in the business combination and in the opinion of the Company´s legal advisers there were also no contingent liabilities. All identifiable assets transferred, already including independent fair value assessment of the purchase price allocation, are listed below:

	Note	Before independent valuation	Fair value adjusment	After independent valuation
		R$		
Fixed assets:				
Machinery and equipment	13	751	-	751
Intangible assets:				
Brands and trademarks	14	701	1,099	1,800
List of customers	14	-	5,600	5,600
Net identifiable assets		1,452	6,699	8,151

Brands and trademarks fair value was assessed based on Relief from Royalty method, according to which the amount allocated is calculated using a royalty percentage for companies with similar activities applied to the expected net revenue.

List of customers fair value was calculated based on Multi-period Excess Earning method, according to which the amount allocated is a result of the estimated cash flows from the list of existing customers at the acquisition date.

c. Goodwill

	Before independent valuation	Fair value adjusment	After independent valuation
	R$		
Acquisition cost:			
Consideration transferred, paid or to be paid	31,631	-	31,631
Net identifiable assets	(1,452)	(6,699)	(8,151)
Goodwill (Note 13)	30,179	(6,699)	23,480

(ii) Cafeterias Três Corações Ltda.

In December 2015, the Company obtained control over the entity Cafeterias Três Corações Ltda. ("Cafeteria", former Cafeterias Lima Ltda. - ME), through the purchase of 99.9% of its shares from third parties.

The entity purchased owns two cafeterias in Northeast of Brazil.

a. Consideration transferred

The acquisition value was R$ 100, to be paid in February 2016. After the acquisition, still in December 2015, the Company further increased its equity investment, captalizing prior advances already paid to the Cafeteria, in the amount of R$ 1,187.

The amount to be paid is presented as other liabilities (Note 19).

b. Assets transferred and liabilities incurred

All identifiable assets transferred and liabilities assumed, are listed below:

	Note	**R$**
Current assets:		
Cash and cash equivalents		10
Accounts receivable		21
Inventories		38
Other current assets		2
Fixed assets:		
Furnishing and other equipment	13	68
Current liabilities:		
Employees and other payroll related liabilities		(7)
Payable taxes		(10)
Other current liabilities		(29)
Net identifiable assets		93

There is no fair value assessment for the identifiable assets and liabilities assumed, once the acquisition involves related parties businesses.

c. Goodwill

	R$
Acquisition cost	
Consideration transferred, including capitalization of prior advance payments of R$ 1,187	1,287
Net identifiable assets	(93)
Goodwill (Note 14)	1,194

Considering the history of past losses accumulated by the Cafeteria, all Goodwill identified as a result of the acquisition was provisioned and charged to the statement of income as other expenses.

3 Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were approved by management for issuance on 4 March 2016.

b. Basis of measurement

These consolidated financial statements have been prepared based on the historical cost, except for derivative financial instruments measured at fair value through profit and loss.

For further information regarding the measurement of these assets and liabilities, see Note 5 regarding significant accounting policies.

c. Functional currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"), which, in accordance with IAS 21 - Effects of Changes in Foreign Exchange Rates - is the Brazilian Real (R$), except for the export business of green coffee, of which the functional currency is the United States Dollar. The Group presents its financial statements in Brazilian Real, which is the presentation currency.

d. Use of judgments and estimates

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or both in the period of the revision and in future periods, if the revision affects both the current and future periods.

In preparing these consolidated financial statements, significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2014.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the years ended 31 December 2015 and 2014 is included in the following notes:

- **Note 8 -** Provision for doubtful accounts;
- **Note 13 -** Usefull life of fixed asset items;
- **Note 14 -** impairment test: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- **Note 20 -** recognition and measurement of provisions for legal proceedings: key assumptions about the likelihood and magnitude of an outflow of resources.

- **Note 21 -** recognition of deferred tax assets: availability of future taxable profits against which tax loss carryforwards can be used;

- **Note 28 -** Financial instrument measurements;

- Measurement of fair values

  Fair values have been determined for measurement and/or disclosure purposes based on the methods described in Note 28. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

e. Derivatives

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

For further information regarding the fair value hierarchy, see Note 28 on financial instruments.

4 Reclassification

(i) Reclassification of 2014 exchange rate variation gains and losses

Exchange rate variations gains and losses were presented separately in the 2014 statements of income according to their nature, as finance income and finance expenses, respectively.

When preparing these 2015 consolidated financial statements, Management decided to present exchange rate variation in its net position, as finance income if positive or finance expense if negative. Management understands that the net presentation is more understandable and relevant for the users of financial information. The reclassification effect in the statements of income of 2014 is presented below:

	Originally presented 2014	**Exchange rate variation reclassification**	**Reclassified 2014**
Finance income	75,859	(68,735)	7,124
Finance expenses	(91,417)	68,735	(22,682)
Finance expenses, net	(15,558)	-	(15,558)

(ii) Reclassification of fixed assets acquired in 2014 through loans and borrowings

Fixed assets purchased through loans and borrowings were presented in the 2014 financial statements as a cash outflow in the cash flow from investment activities, while a cash inflow was presented as cash flow from financing activities, following the new loan or borrowing contracted.

When preparing these 2015 consolidated financial statements, Management decided to treat these acquisitions as non-cash activities, once the funds rased with the loan or borrowing are directly transferred by the banks to the supplier. The reclassification effect in the statement of cash flows of 2014 is presented below:

	Originally presented 2014	**Fixed assets purchased through loans and borrowings reclassification**	**Reclassified 2014**
Cash flows from investing activities			
Change in deposits	17,141	-	17,141
Payment for acquisition of operations	(26,703)	-	(26,703)
Proceeds from sales of fixed assets	2,562	-	2,562
Acquisitions of fixed assets	(56,235)	6,328	(49,907)
Investments in intangible assets	(5,220)	-	(5,220)
Long-term loans to related parties	379	-	379
Net cash flows used in investing activities	(68,076)	6,328	(61,748)
Cash flows from financing activities			
Proceeds from loans	524,727	(11,034)	513,693
Repayment of loans	(517,097)	4,706	(512,391)
Dividend paid	(64,714)	-	(64,714)
Net cash flows used in financing activities	(57,084)	(6,328)	(63,412)

5 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently within the Group entities.

a. Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method - i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The consideration transferred does not include (this means it is net of) amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or in other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as a bargain purchase gain.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iii) Loss of control

When applicable, upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary.

In case of loss of control, the retained interest would be accounted for based on the level of influence retained by the Company in the relevant entity.

(iv) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currency are translated into the functional currency of the Group according to the exchange rate in effect on the date of the transaction. Exchange rate differences arising upon the settlement of monetary items or upon reporting monetary items at exchange rates different from that by which they were initially recorded during the period, or reported in previous financial statements, are charged to specific income or expense items according to the nature of the monetary item (exchange rate differences in respect of trade receivables are recognized in revenues, exchange rate differences in respect of trade payables are recognized in the cost of sales, exchange rate differences in respect of foreign currency loans are recognized in financing costs, etc.).

Monetary assets and liabilities are translated using the exchange rate at the date of the statement of financial position.

(ii) Foreign operations

The assets and liabilities derived from foreign operations, including goodwill and fair value adjustments arising on acquisition, if applicable, are translated to Brazilian reals using the exchange rates at the reporting date. Income and expenses of foreign operations are translated to Brazilian reals using the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When applicable, when the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered part of the net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

c. Financial instruments

c.1 Non-derivative financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Non-derivative financial assets and financial liabilities - Recognition and derecognition
The Group initially recognizes loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

A financial instrument is recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the assets. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

Non-derivative financial assets - Measurement

(i) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits that can be withdrawn immediately. Cash equivalents also include short-term deposits where the deposit period on the day of deposit does not exceed three months, and form an integral part of the Group's cash management.

(iii) Loans and receivables

Loans and other receivables which are not quoted in an active market are non-derivative financial instruments, that are measured at amortized cost using the effective interest method, less any impairment losses (see Note 5.g).

Should it become applicable, non-current receivables would be stated at their present value. The interest rate used in order to calculate the present value is composed of the time value of the receivable according to the currency of the receivable, plus the specific risk component of each customer. Income in respect of interest is recorded over the period of the receivable as financial income.

Non-derivative financial liabilities - Measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

c.2 Derivative financial instruments

The Group routinely uses derivative financial instruments in order to hedge against risks relating to prices of commodities and against foreign currency risks arising from its operating, financing and investing activities. The derivative financial instruments are comprised mainly of forward transactions and options on currencies and of forward transactions and options on commodities. Nonetheless, derivatives not considered accounting hedges are accounted for as financial assets/liabilities and are presented at fair value through profit and loss as follows:

- Derivative financial instruments are recognized at fair value both initially and subsequent to initial recognition, and are stated at fair value according to the market value of registered instruments and the stated market value of forward currency contracts.

- Changes in fair value are recognized as income or expense as incurred. Gains and losses on commodity forward transactions are presented under cost of sales whereas other gains and losses are presented under financing costs.

d. Inventories

Inventory is measured at the lower of the weighted average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Inventory includes certain spare parts and maintenance equipment which will be used up within one year.

Provision for slow-moving or obsolete inventory is recorded when deemed necessary by management.

The cost of finished goods and work in progress comprises raw materials, direct labor, other direct cost and related production overheads (based on normal operating capacity).

e. Fixed assets

Recognition and measurement

Fixed assets are measured at cost, less accumulated depreciation (see below) and impairment losses (see Note 5.g).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located (when the Group has an obligation to dismantle and remove the asset or to restore the site), and, when applicable, capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of a fixed asset item are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", if relevant, in profit or loss.

Subsequent expenditures
Improvements and enhancements are added to the cost of the assets, whereas maintenance and repairs are charged to expense as incurred.

Leasehold improvements
The construction costs on leased property, which will be transferred to the lessor's ownership at the end of the rental period, are amortized over the expected rental period on a straight-line basis.

Depreciation
Depreciation is recognized as an expense on a straight-line basis over the estimated useful lives of each component of an item of fixed assets, other than land that is not depreciated.

The principal depreciation rates for the reporting periods are as follows:

	%	
Buildings	2-3	
Machinery and equipment	7-10	
Vehicles	16-20	
Furnishing and other equipment	12	
Leasehold improvements	10-100	(over the shorter of the expected lease period or the estimated useful life of the asset)

Depreciation methods, useful lives and residual values are reassessed on every balance sheet date and the rates used for tax purposes may differ from the above rates.

In case of changes in the useful lives as a result of its reassessment, the new useful life is applied prospectively.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

f. Intangible assets and Goodwill

Goodwill
Goodwill arises on the acquisition of subsidiaries and jointly controlled entities, and is presented as part of intangible assets. In subsequent periods, goodwill is measured at cost, less accumulated impairment losses. See also Note 5.g.

Other intangible assets
The intangible assets include brands, trademarks, computer software, distribution networks and non-competition agreements that were acquired as part of business combination.

Amortization
Intangible assets having a finite useful life are measured at cost net of accumulated amortization and impairment losses. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use.

The annual rates of amortization for the reporting periods are as follows (on a straight-line basis):

	%
Computer software	33
Brands and trademarks - specifically those acquired in 3Corações Sul business combination	20
List of customers	10
Other	20

Amortization methods, useful lives and residual values are reassessed on every balance sheet date.

In case of changes in the useful lives as a result of its reassessment, the new useful life is applied prospectively.

Goodwill and brands, except for those brands acquired in 3Corações Sul business combination, which have useful life of 5 years, have an indefinite useful life, and are not amortized for reporting purposes. For tax purposes, Goodwill is amortized, according to Brazilian tax legislation.

The Group examines the useful life of an intangible asset that is not periodically amortized, at least once a year, in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

g. Impairment

Non-financial assets

(i) Timing of impairment testing

The carrying amounts of the Group's non-financial assets (other than inventories and deferred tax assets - see Notes 5.f and 5.l, respectively) are examined on each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For assets, including intangible assets, that have indefinite useful lives, the Group estimates the recoverable amounts at least once a year. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

For the purposes of impairment testing, the goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in the statement of income in accordance with the nature of the item that has been impaired. Impairment losses recognized in respect of cash-generating units (CGU) are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. Goodwill impairment losses are classified as other expenses in the statement of income.

(ii) Calculation of the recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its net selling price (fair value less costs to sell). In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Reversal of impairment

Impairment losses recognized in previous periods are reexamined every reporting period in order to determine whether there are any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only if the carrying amount after the reversal of the impairment loss does not exceed the carrying amount net of depreciation or amortization, that would have been determined if no impairment loss had been recognized. Reversals of impairment losses are included in the statement of income. Impairment losses in respect of goodwill are not reversed.

Non-derivative financial assets

The impairment of financial assets, which are not presented at fair value adjusted through profit and loss, including the trade receivables' balance, is examined when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from such assets.

The financial statements include special provisions in respect of bad debts, which in management opinion, adequately reflect the loss arising from those debts the collection of which is doubtful. Management determination of the adequacy of the provision is based, inter alia, on an evaluation of the risk, by considering the available information on the financial position of the debtors, the volume of their business and an evaluation of the security received from them. Bad debts, which according to management opinion are unlikely to be collected, are written-off from the Group's books.

An impairment loss in respect to the receivables balance, which is measured at amortized cost, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate, and is recognized as selling and marketing expense in the statement of income.

Individually significant receivable balances are tested for impairment on an individual basis. The remaining customer balances are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized, and the reversal is recognized in the statement of income.

h. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. The Group considers the present value of the liability, to be equivalent to the future value, as the differences are not material.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, disclosure is provided of a contingent liability, except when the possibility of the outflow of economic benefits is considered as remote.

i. Government grants

Government grants are recorded in profit or loss when there is reasonable assurance that the subsidy will be received or compensated and the conditions established for the subsidy will be achieved by the Group. Afterwards, the revenue recognized in profit or loss is retained in equity.

The types of government grants received by the Group and their respective tax treatment are described in Note 22.e.

j. Revenue

Goods sold

Revenue from the sales of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized by the Group when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no expected continued management involvement with the goods and the revenue can be measured reliably.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discounts are recognized as a reduction of revenue as the sales are recognized.

k. Financial income and expenses

Financial income comprises interest income on deposits invested, financial income from financial leases, and gains on derivative instruments (other than commodities) that are recognized in the statement of income.

Financial expenses comprise interest expenses on loans and borrowings and foreign currency variation gains and losses, net.

In the cash flow reports, interests received and interests paid are presented as part of cash flows from operating activity. Dividends paid are presented under financing activity.

l. Income tax expenses

Income tax expenses comprise current and deferred tax. Income tax expenses are recognized in the statement of income, unless it relates to a transaction or event recognized directly in equity.

Current tax

Current tax (in Brazil: "IRPJ" and "CSLL") comprises the expected tax payable or receivable on the taxable income or loss for the year and, when applicable, any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date, considering also the effect of government grants as described in Notes 21.c and 22.e.

Deferred tax

Deferred taxes are recognized in relation to temporary differences between accounting balances of assets and liabilities and the corresponding balance amounts used for tax purposes. Deferred income tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for tax loss caryforwards, tax credits and deductible temporary differences to the extent that it is probable that taxable income will be generated in the future. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

m. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9 (2014), Financial instruments (hereinafter - "IFRS 9")

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. No material impact from the adoption is expected. The Company also considers the impact of the remaining phases of IFRS 9 when completed by the IASB.

IFRS 15 Revenue from Contracts with Customers (hereinafter - "IFRS 15")

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

IFRS 15 is applicable for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company is yet to assess IFRS 15´s impact, and at this time, no early application is planned.

Amendments to IAS 1 (2014), Disclosure Initiative

The amendments to IAS 1 address concerns expressed about some of the existing presentation and disclosure requirements in IAS 1 and ensure that entities are able to use judgement when applying these requirements. In addition, the amendments clarify the requirements about information to be presented as other comprehensive income.

Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016, with early application permitted. No material impact from the adoption is expected.

6 Cash and cash equivalents

	R$	
	31/12/2015	**31/12/2014**
Bank balances	67,540	36,524
Cash on hand	51	51
Short term deposits:		
Deposits in banks (*)	92,405	51,200
	159,996	87,775

(*) Refers to short-term deposits, with high liquidity, classified as financial instruments at fair value through profit and loss, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These deposits refer mainly to investments under repurchase agreements, with immediate liquidity, with interest of 93.4% of the Brazilian Interbank Deposit rate (in 2014, 100.9% of the Brazilian Interbank Deposit rate).

7 Deposits

	R$	
	31/12/2015	**31/12/2014**
Deposits with brokers (*)	3,478	4,529
	3,478	4,529

(*) Refers to deposits made as margin requirements, classified as financial instruments at fair value through profit and loss, with brokers responsible for derivative financial instrument operations, especially green coffee sell and buy options.

8 Trade receivables

	R$	
	31/12/2015	**31/12/2014**
National customers:		
Third parties	315,356	287,112
Foreign customers	13,829	18,978
Related parties (Note 12)	1,427	660
	330,612	306,750
Less:		
Provision for discounts (a)	(20,059)	(15,279)
Subtotal	310,553	291,471
Provision for doubtful debt accounts (b)	(5,901)	(3,958)
	304,652	287,513

(a) Refers to discounts calculated based on volume rebates.

(b) Provision calculated based on an assessment of past due receivables, adjusted according to an individual analysis of the main customers with due debts, considering Management knowledge of the market and collection past record.

The aging of trade receivables at the reporting date was

	R$	
	31/12/2015	**31/12/2014**
Not past due	288,904	265,440
Past due 1 to 30 days	13,284	17,909
Past due 31 to 60 days	1,652	3,420
Past due 61 to 90 days	540	593
Past due 91 to 120 days	169	108
More than 120 days	103	43
	304,652	287,513

The movement in the allowance for doubtful debt accounts during the period was

	R$	
	2015	**2014**
Balance at 1 January	(3,958)	(4,613)
Provision in the year	(3,297)	(1,873)
Write-offs	1,354	2,528
Balance at 31 December	(5,901)	(3,958)

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated, and there is a low level of concentration with the biggest customers. The biggest customer represents 5.67% of 2015 gross revenue (4.80% in 2014).

9 Inventories

	R$	
	31/12/2015	**31/12/2014**
Finished goods	175,332	164,619
Work in progress	237	257
Raw material	27,169	25,429
Packaging and other materials	25,590	23,435
Import in progress	12,892	-
Advances to suppliers	22,806	14,964
Other	13,257	8,099
	277,283	236,803
Carrying amount of inventory pledged as security for financial liabilities (including variable lien)	12,322	26,687

In 2015 the write-down of inventory to net realizable value amounted to R$ 1,581 (2014: R$ 2,305), recorded in the statements of income, as cost of sales

Inventory includes spare parts and maintenance equipment, which will be used up within one year.

Inventory balances are presented net of provision for obsolescence.

10 Recoverable taxes

	R$	
	31/12/2015	**31/12/2014**
Tax recoverable:		
State VAT - ICMS	10,191	15,035
Federal VAT - PIS and COFINS	8,548	5,713
Other	74	1,570
Total	18,813	22,318

State VAT recoverable is mainly originated in the factories, where the taxable amount on outputs has decreased due to reduction in the tax rate, and the Company is allowed to accumulate state VAT credits on purchases, the tax rate of which remained unchanged. In addition, there are recoverable state VAT on purchases of fixed assets and imported single-dose machines and capsules.

State VAT accumulated on purchases is used to compensate payable amounts calculated on sales. In case the recoverable amounts are higher than payable amounts, the Company requests restitution or compensations from tax authorities.

Federal VAT recoverable is mainly originated in purchase of green coffee for export activity, once there is no federal VAT on sales, but there is recoverable federal VAT on purchases.

11 Other current and non-current assets

	R$	
	31/12/2015	**31/12/2014**
Assets:		
Advances to suppliers	1,756	2,285
Advances to employees	2,117	1,886
Prepaid expenses	9,439	8,821
Special Bank Deposit for reinvestment	2,772	2,605
Non-current taxes	6,471	1,608
Sundry	1,697	1,700
	24,252	18,905
Current assets	(14,117)	(14,690)
Non-current assets	10,135	4,215

Non-current taxes have increased mainly due to IPI credits accumulated at the Frisco factory. Management had suspended their compensation due to the issue disclosed in Note 20.

12 Related parties

The Group's related parties are the parent companies of 50% shareholding each, related parties of the parent companies, investee companies of both the Group and the parent companies and members of the Board, senior management and their close family members, of both the Group and the parent companies.

The prices and credit terms in respect of transactions with related parties are determined according to customary commercial terms.

	R$	
	31/12/2015	**31/12/2014**
Current assets		
Trade receivables (Note 8)		
Strauss Commodities AG	1,427	660
	1,427	660
Current liabilities		
Trade payables (Note 16)		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	4,268	3,514
	4,268	3,514
Profit or loss		
Revenue		
Strauss Commodities AG	5,203	20,985
	5,203	20,985
Cost of sales		
Strauss Commodities AG	4,439	20,339
	4,439	20,339
Cost of sales		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	1,777	1,785
	1,777	1,785
Sales and general and administrative expenses		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	2,844	2,532
	2,844	2,532

a. Trade receivables, trade payables and sales

Trade receivables, trade payables and sales balances with related parties are due to operations of purchase and sale of goods. Part of the facilities used by the Group is leased from Três Corações Imóveis Armazéns Gerais e Serviços Ltda.

13 Fixed assets

	R$					
Cost	**Land and buildings**	**Machinery and equipment**	**Vehicles**	**Furnishing and other equipment**	**Leasehold improvements**	**Total**
Balances as of 1 January 2014	38,486	153,226	31,228	32,902	22,522	278,364
Additions	7,791	14,410	19,668	11,247	3,361	56,477
Itamaraty acquisition (Note 2)	-	751	-	-	-	751
Disposals	(120)	(2,790)	(1,404)	(1,262)	(777)	(6,353)
Transfer between classes of assets	(209)	164	(1)	(95)	(73)	(214)
Effect of changes in exchange rates	1,656	745	(8)	52	46	2,491
Balances as of 31 December 2014	47,604	166,506	49,483	42,844	25,079	331,516
Additions	3,030	19,254	1,529	11,946	6,573	42,332
Cafeteria acquisition (Note 2)	-	-	-	68	-	68
Disposals	(142)	(6,146)	(714)	(2,238)	(60)	(9,300)
Transfer between classes of assets	33	66	(250)	1,413	54	1,316
Effect of changes in exchange rates	5,613	(1,350)	(124)	(64)	568	4,643
Balances as of 31 December 2015	56,138	178,330	49,924	53,969	32,214	370,575
Accumulated depreciation						
Balances as of 1 January 2014	(6,465)	(57,750)	(20,376)	(16,016)	(3,078)	(103,685)
Additions	(693)	(9,831)	(4,059)	(3,707)	(748)	(19,038)
Disposals	26	1,894	1,277	446	(232)	3,411
Transfer between classes of assets	6	-	1	8	(23)	(8)
Effect of changes in exchange rates	(344)	(537)	9	(42)	(64)	(978)
Balances as of 31 December 2014	(7,470)	(66,224)	(23,148)	(19,311)	(4,145)	(120,298)
Additions	(722)	(11,054)	(5,116)	(4,734)	(930)	(22,556)
Disposals	45	2,781	531	450	33	3,840
Transfer between classes of assets	31	(202)	(165)	309	(373)	(400)
Effect of changes in exchange rates	(1,312)	1,362	109	57	(243)	(27)
Balances as of 31 December 2015	(9,428)	(73,337)	(27,789)	(23,229)	(5,658)	(139,441)
Balance net as of						
31 December 2014	40,134	100,282	26,335	23,533	20,934	211,218
31 December 2015	46,710	104,993	22,135	30,740	26,556	231,134

The cost of significant machine overhauls, which prolongs the useful life of the machine, is capitalized.

Leasehold improvements to leased premises are depreciated over the shorter of the expected lease period or the estimated useful life of the asset.

Fixed assets purchased on credit - The balance of the trade payables due to fixed assets purchased as of 31 December 2015 is R$ 2,106 (R$ 7,242 as of 31 December 2014), and the balance of loans and borrowings due to fixed assets purchased, including interests, as of 31 December 2015 is R$ 30,271 (R$ 26,706 as of 31 December 2014).

In the year ended 31 December 2015, the amount of R$ 1,267, regarding TRES machines lent to customers, was transferred from inventories to fixed assets.

The Group did not lease any land or buildings as of 31 December 2015 or 31 December 2014, except for operational leases with Três Corações Imóveis Armazéns Gerais e Serviços Ltda.

14 Intangible assets and goodwill

	R$				
Cost	**Brands and trademarks (*)**	**Computer software**	**Goodwill**	**Other**	**Total**
Balances as of 1 January 2014	1,497	8,083	152,087	6,267	167,934
Additions	-	5,104	-	116	5,220
Itamaraty acquisition (Note 2)	701	-	30,179	-	30,880
Transfer between classes of assets	-	(281)	-	503	222
Effect of changes in exchange rates	-	3	-	6	9
Balances as of 31 December 2014	2,198	16,245	182,266	6,936	207,645
Additions	-	4,279	14	1,858	6,151
Cafeteria acquisition (Note 2)	-	-	1,194	-	1,194
Provision for impairment (Note 2)	-	-	(1,194)	-	(1,194)
Transfer between classes of assets	1,099	2	(6,699)	5,600	2
Effect of changes in exchange rates	-	(9)	-	(18)	(27)
Balances as of 31 December 2015	3,297	20,517	175,581	14,376	213,771
Accumulated amortization					
Balances as of 1 January 2014	-	(7,149)	-	(6,055)	(13,204)
Additions	-	(2,295)	-	-	(2,295)
Effect of changes in exchange rates	-	-	-	(10)	(10)
Balances as of 31 December 2014	-	(9,444)	-	(6,065)	(15,509)
Additions	(300)	(2,312)	-	(794)	(3,406)
Transfer between classes of assets	-	400	-	(51)	349
Effect of changes in exchange rates	-	-	-	14	14
Balances as of 31 December 2015	(300)	(11,356)	-	(6,896)	(18,552)
Balance net as of					
31 December 2014	2,198	6,801	182,266	871	192,136
31 December 2015	2,997	9,161	175,581	7,480	195,219

(*) Only brands and trademarks acquired as a result of 3Corações Sul acquisition have definite useful life.

Additions to computer software refer to software acquired by the Company for use in automated process and software licenses acquired, such as:

- in 2015, mainly SAP licenses, SAP business planning and consolidation (BPC), success factors used for performance evaluation, EGT-I for process of goods import and export, bank reconciliation and the SAP GRC access control update;

- in 2014, mainly SAP and Microsoft licenses, SAP module TRM phase II implementation, SAP update to version EHP7 and activation of the Business Object (BO) software.

Impairment testing

As of 31 December 2015 intangible assets include an amount of R$ 177,078 that is attributable to brands (except for those acquired in 3Corações Sul business combination) and goodwill, having an indefinite useful life (31 December 2014 - R$ 184,464). These assets were assessed as having an indefinite useful life since according to an analysis of the relevant factors, there is no foreseeable limitation of the period they are expected to generate positive cash flows for the Group.

The relevant factors that were analyzed included, inter alia, the length of time the brand or trademark is anticipated to be used; the existence of legal or contractual restrictions on their use; a review of the typical life cycle of similar branded products; the existence of indicators of changes in life style, competitive environment, market requirements and industry trends, the sales history of products of the same brand and the awareness of the market of the brand name or trademark.

Impairment loss

The Company tests annually the recoverable amounts of goodwill and brands from business combination transactions. Property, plant and equipment and definite life intangible assets that are subject to depreciation and amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Management analyses the business and makes decisions based on two different cash generating units: green coffee and internal market. All goodwill is allocated to the internal market, as there were no acquisitions associated to the green coffee business.

The recoverable amounts of the cash-generating units are based on the calculation of their value in use. These calculations use cash flow projections that are based on the most current three-year strategic operating plans (SOP) of the relevant unit.

The cash flows for remaining periods are calculated using the relevant growth rate, which takes into account the anticipated growth rates of the category, industry, country and population. The estimated long-term growth rate was 3.0% in 2015 and of 3.0% in 2014. The projected cash flows were discounted according to pre-tax discount rates of 9.4% in 2015 and of 7.2% in 2014. Both 2015 and 2014 projected cash flows were prepared without inflation effects.

These discount rates reflect also the risk of the cash-generating units in each relevant year.

In 2015 and 2014, the Group did not recognize any impairment loss from the operation, except for the one mentioned in Note 2 as a result of the Cafeteria acquisition.

15 Short and long term loans

a. Loans schedule

	Annual interest rate		Index	R$	
	31/12/2015	**31/12/2014**		**31/12/2015**	**31/12/2014**
Brazilian reals loans and borrowings					
Loans for acquisition of machines and vehicles	5.41	5.03	TJLP	30,271	25,926
Incentivized loan for projects in development regions (FNE)	7.50	7.50	-	12,298	17,765
Working capital loans	14.68	8.70	CDI	113,374	35,644
Loans for acquisition of green coffee	9.11	6.42	-	59,744	58,178
				215,687	137,513
United States dollar loans and borrowings					
Loans for acquisition of inventories (ACC)	1.28	1.12	-	106,065	101,252
Loans for acquisition of inventories (PPE)	3.15	2.72	-	39,297	72,001
Working capital loans	3.15	3.25	-	17,740	51,308
Loans for acquisition of machines	-	3.18	-	-	780
				163,102	225,341
Total loans and borrowings				378,789	362,854
(-) Current liabilities				(194,222)	(281,034)
(=) Non-current liabilities				184,567	81,820

There are no debt covenants on the Group's loans and borrowings contracts with the banks.

b. Non-current payment schedule

	R$	
	31/12/2015	**31/12/2014**
13 to 24 months	57,964	31,063
25 to 36 months	111,144	35,974
37 to 48 months	4,407	4,828
49 to 60 months	4,037	3,407
Thereafter	7,015	6,548
	184,567	81,820

c. Guarantees

The following liens have been provided as security for the liabilities of the Group:

	R$	
	31/12/2015	**31/12/2014**
Liens registered in favor of the banks	53,506	48,958
Mortgages registered in favor of the banks	29,263	29,263
	82,769	78,221

16 Trade payables

	R$	
	31/12/2015	**31/12/2014**
National suppliers	84,460	75,477
Related party suppliers (Note 12)	4,268	3,514
Foreign suppliers	12,452	-
	101,180	78,991

17 Employees and other payroll related liabilities

	R$	
	31/12/2015	**31/12/2014**
Payroll and related charges	5,861	5,440
Provision for vacation	19,867	17,900
Provision for variable remuneration	7,054	10,597
Other	7,699	5,949
	40,481	39,886

The Group Employees benefits' treatment is in accordance with local legal requirements. These requirements mainly call for and are limited to monthly contributions to Social Security funds (INSS, FGTS). The Group has no obligations under defined benefits or defined contribution plans. The Group offers other short-term benefits to its employees, which are expensed when incurred

18 Payable taxes

	R$	
	31/12/2015	**31/12/2014**
Tax payable:		
State VAT - ICMS	14,202	14,844
Federal VAT - PIS and COFINS	248	109
Other	1,921	1,186
Total	16,371	16,139

19 Other current and non-current liabilities

	R$	
	31/12/2015	**31/12/2014**
Liabilities:		
Advances from customers	1,070	812
Accounts payable for acquisition of operations - Polo	3,424	4,965
Accounts payable for acquisition of operations - Fino Grão	2,498	2,247
Accounts payable for acquisition of operations - Cafeteria	100	-
Other provision - marketing services	10	1,124
Provision for insurance	1,646	192
Payable for acquisition of fixed assets	2,106	7,242
Handling commission	1,632	5,960
Sundry	10,753	8,309
Total	23,239	30,851
Current liabilities	(23,239)	(27,828)
Non-current liabilities	-	3,023

20 Provision for legal proceedings

Based on information from its legal advisors, an analysis of the pending legal proceedings, and previous experience with regards to amounts claimed, the Group recorded provisions for amounts considered sufficient to cover probable losses from current legal actions. The amounts of probable and possible losses with respect to legal and administrative actions against the Group are as follows:

	R$					
	31/12/2015			**31/12/2014**		
	Probable loss	**Possible loss**	**Remote loss**	**Probable loss**	**Possible loss**	**Remote loss**
Labor*	16,541	33,140	76,192	16,262	25,260	63,053
Tax**	3,785	17,727	156,368	253	22,496	133,251
Civil	362	5,720	6,940	793	5,135	5,679
	20,688	56,587	239,500	17,308	52,891	201,983

(*) The Company and its subsidiaries are parties to a number of labor claims filed by former employees and service providers challenging, among other things, unpaid overtime, night shift premiums and risk premiums, employment guarantees, and the reimbursement of withholdings from payroll such as social contributions and trade union charges, among others.

(**) Tax claims details by type are demonstrated in the following table.

	R$					
	31/12/2015			**31/12/2014**		
	Probable loss	**Possible loss**	**Remote loss**	**Probable loss**	**Possible loss**	**Remote loss**
State VAT - ICMS	29	11,544	5,479	128	10,784	5,036
Federal VAT - PIS/COFINS/IPI	3,645	6,057	119,130	104	5,379	95,837
Income taxes (IRPJ/CSLL)	-	-	23,817	-	-	22,063
Social contribution (INSS)	-	-	7,426	-	6,229	10,152
Other	111	126	516	21	104	163
	3,785	17,727	156,368	253	22,496	133,251

The main legal claims are listed below:

- Goodwill amortization - tax authorities claim that the Group does not meet all criteria to deduct Goodwill amortization for tax purposes. The Group and its tax advisors are of the opinion that the Group is entitled to the full tax relief of the Goodwill amortization and there is no need to record any liability. As of 31 December 2015 the amount of the legal claim was R$ 23,817 (R$ 22,063 as of 31 December 2014). The claim amount increased due to interest incurred;

- Investment subsidies - revenues arising from investment subsidies granted by the Government are not subject to taxation, according to Brazilian tax laws. However, tax authorities claim that the tax incentives granted to the Group should not be classified as investment subsidies. In May 2013, the Group had favorable outcome in the first administrative instance, but the Government contested the ruling at the second administrative level, with no final outcome yet. As of 31 December 2015 and as of 31 December, 2014, the amount of legal claim was R$ 12,139;

- Federal VAT (PIS/COFINS) credits - tax authorities claim that the Group (together with most other coffee companies in Brazil) had purchased green coffee from de facto, but not legally constituted companies in order to receive more PIS and COFINS credits and demand the difference between the total credit and the presumed credit, which amounted as of 31 December 2015 to R$ 56,518 (R$ 51,190 as of 31 December, 2014). Part of the total amount, R$ 1,622, had its risk of loss reviewed to probable, and was provisioned in December 2015. Another part of the total amount, R$ 2,592 was classified as possible loss. For the remaining amount, the Group and its tax advisors are of the opinion that there is no need to record any liability. The increase is due to interest incurred.

- Federal excise tax (IPI) - tax authorities claim the tax treatment applied, in respect to federal tax IPI - tax on certain industrialized goods, for powder juice was incorrect. According to the Company's understanding of the regulation, powder juice is a product classified as zero IPI tax. According to tax authorities, the Company should have used tax rates of 27% for the period from January 2011 to December 2011, 20% for the period from January 2012 to May 2012 and 10% since June 2012. The total updated claim, as of 31 December 2015 is R$ 34,039. The Group and its tax advisors are of the opinion that there is no need to record any liability.

The legal claims detailed above, except for the mentioned part of the Federal VAT (PIS/COFINS) claim, are classified as remote loss as of 31 December 2015.

Changes in provision for legal proceedings during the year

	R$	
	2015	**2014**
Balance as of 1 January	17,308	15,091
Provisions made during the year	6,782	6,062
Legal proceedings closed during the year	(3,402)	(3,845)
Balance as of 31 December	20,688	17,308

Judicial deposits

The Group has, as of 31 December 2015, the amount of R$ 15,404 of judicial deposits (R$ 14,390 as of 31 December 2014). These deposits were required by courts associated to various open legal proceedings and comprise a number of individual case deposits of smaller amounts.

21 Income taxes and social contribution

a. Amounts recognized in profit and loss

	R$	
	31/12/2015	**31/12/2014**
Current taxes	25,054	30,880
Deferred taxes	(11,039)	(13,091)
Tax in income statement as of 31 December	14,015	17,789

b. Reconciliation of effective tax rate

	R$	
	31/12/2015	**31/12/2014**
Income before taxes on income	186,035	199,902
Income tax expenses (34%)	63,252	67,967
Adjustments to reconcile to effective tax rate:		
State VAT incentives	(17,484)	(12,729)
Foreign exchange effects of subsidiary	(13,902)	(6,707)
Benefit of Goodwill amortization for tax purposes	(2,959)	(2,959)
Federal incentive - "Exploration profit"	(10,558)	(17,861)
Federal incentive - "Re-investment"	(634)	(1,063)
Benefit of previously unrecognized Carryforward tax losses at subsidiary	(2,031)	(4,004)
Recognition of deferred tax assets on Carryforward tax losses	(9,915)	(5,303)
Incineration of goods and inventory write-offs	4,477	3,362
Other	3,770	(2,914)
Tax in Income Statement	14,016	17,789
Effective tax rate	7.53%	8.90%

c. Deferred income tax assets and liabilities

Temporary differences	Basis	Income tax (*)	Social contribution (9%)	R$ 31/12/2015	R$ 31/12/2014
Provision for legal proceedings	20,688	4,022	1,862	5,884	5,387
Inventory adjustments	3,866	801	348	1,149	2,138
Provision for doubtful debt accounts	5,901	1,060	531	1,591	1,017
Hedging transactions	(1,732)	(330)	(156)	(486)	64
Provision for discounts	20,059	3,837	1,805	5,642	4,683
Provision for variable remuneration	7,054	1,238	635	1,873	3,622
Provision for revenue recognition	1,761	342	158	500	827
Fixed assets revaluation	(3,997)	(999)	(360)	(1,359)	(1,152)
Goodwill amortization	(92,263)	(12,151)	(8,304)	(20,455)	(20,131)
Carryforward tax losses	44,760	11,190	4,028	15,218	5,303
Other	7,502	1,666	677	2,343	(897)
Total net deferred tax	13,599	10,676	1,224	11,900	861
Non-current assets				23,324	17,149
Non-current liabilities				(11,424)	(16,288)

(*) Income tax rate (excluding the Social contribution) is 25%, applicable to all Group's subsidiaries. However, as the Company has tax incentives (see Note 22.e), the Group´s future average income tax rate expected to be applied when the deferred tax is realized or settled, is 13.17%. However, Brazilian law applies specific tax rates to each legal entity within the Group.

In assessing the recoverability of deferred tax assets, management estimates future taxable income and the timing of reversal of the temporary differences. When it is more likely than not that a part or all of the deferred tax assets are not recoverable, such a portion is not recorded by the Company. Under Brazilian tax law, tax loss carry forwards (including those of the Social contribution) do not expire, however, their use is limited to up to 30% of annual taxable income and they do not benefit from any interest or monetary correction.

Considering the occurrence of taxable profit in recent years, the Group assessed the future taxable profits in order to calculate deferred tax asset on accumulated losses. One of the Group subsidiaries, Café Três Corações S.A., has as of 31 December 2015, R$ 44,760 (31 December 2014, R$ 51,010) of accumulated losses. The Group concluded that it is more probable than not that the full amount of R$ 44,760 of accumulated losses will be used in the foreseeable future, which corresponds to a deferred tax asset of R$ 15,218.

Other subsidiaries, 3Corações Sul Comércio Atacadista de Produtos Alimentícios Ltda. and Principal Comércio e Indústria de Café Ltda. have as of 31 December 2015, respectively, R$ 1,534 and R$ 5,454 of accumulated losses. However, due to history of recent losses, it is more probable than not that in the foreseeable future the accumulated losses will not be used.

In November 2013, the Provisional Measure (MP) 627 was enacted by the Brazilian Federal Government, and converted by Congress in May 2014 into Law 12.973/14, introducing changes in the tax rules and eliminating the Transitional Tax System (RTT).

This measure determines the tax treatment under the new Brazilian accounting rules, introduced by Laws 11,638/2007 and 11,941/2008, whose principal purpose was to integrate the existing Brazilian accounting rules with the international financial reporting standards (IFRS). The measure brings, among others, modifications to the determination of the basis of corporate income taxes (IRPJ and CSLL) in relation to goodwill generated on the acquisition of shareholdings in subsidiaries, as well as treatment of goodwill generated in merger and acquisition operations, adjustments to the fair valuation of the investee, and pre-operational expenses and financial leasing.

In accordance with the Law, the new rules were effective for calendar year of 2015, but could be optionally adopted already for the calendar year of 2014, when the Company has concluded that there were no material effects to be recorded.

22 Equity

a. Share capital

As of 31 December 2015 and 2014, Três Corações Alimentos S.A.´s share capital is comprised of the following:

	R$		
Shareholders	**31/12/2015**	**31/12/2014**	**%**
Strauss Coffee B.V.	136,184.9	135,834.5	50%
São Miguel Fundo de Investimento em Participações	136,184.9	135,834.5	50%
	272,369.8	271,669.0	

Share capital as of 31 December 2014 was comprised of 27,166,897,167 shares with a nominal value of R$ 0,01 (one cent) each. On 29 June 2015, an increase in share capital with resources from tax incentive of re-investment, in the amount of R$ 701 took place. As a result, 70,088,254 shares with a nominal value of R$ 0.01 (one cent) were issued.

b. Translation adjustments

Management decided to use two different functional currencies, according to IAS 21 - Effects of changes in foreign exchange rates. For internal market operations, the functional currency is the Brazilian real (R$). For the green coffee export activity, the functional currency is the United States dollar (US$).

Management assessed the Company operations in order to present its green coffee export activity as a "foreign operation", as established by IAS 21 - Effects of changes in foreign exchange rates, and, thereby, could apply separate accounting for the purposes of consolidation.

The main reasons to treat the green coffee export activity as a separated operation were:

- The export activity has its own management, which is considered independent in terms of decisions about green coffee purchases and sales (export entity).

- The exchange rate effects recorded in the translation adjustments arise from the following assets and liabilities, for the years ended on 31 December 2015 and 2014:

	R$		
31/12/2015	**Três Corações Alimentos**	**Café Três Corações**	**Total**
Inventories	-	(641)	(641)
Fixed assets	3,701	915	4,616
Intangible assets	(13)	-	(13)
Trade receivables	-	12,197	12,197
Derivatives	272	473	745
Cost of sales	-	610	610
Loans and borrowings	-	(54,440)	(54,440)
Total	3,960	(40,886)	(36,926)

	R$		
31/12/2014	**Três Corações Alimentos**	**Café Três Corações**	**Total**
Inventories	-	29	29
Fixed assets	1,513	-	1,513
Intangible assets	(1)	-	(1)
Trade receivables	-	9,046	9,046
Derivatives	(59)	117	58
Cost of sales	-	421	421
Loans and borrowings	-	(29,252)	(29,252)
Total	1,453	(19,639)	(18,186)

c. Revaluation reserve (subsidiary)

Created at the subsidiary Café Três Corações S.A., based upon valuation report issued by independent specialists. The revaluation reserve is being realized through depreciation or disposal of the revaluated assets against retained earnings, net of tax effects.

Management decided to maintain the revaluation reserve balance until its full realization, according to Law 11,638/07.

d. Dividends

Dividends are calculated in accordance with the terms agreed upon in the Shareholders´ Agreement, with rate of 35% over net income, adjusted by financial results. This amount is provisioned as proposed dividend in the balance sheet, subject to the approval by the General shareholders meeting.

On 4 May 2015, the dividends related to 2014 profits were approved by the General shareholders´ meeting in the amount of R$ 71,822, which represents additional R$ 2,726 when compared to the original provision, made in December of 2014 based upon Management's proposal at the time. Part of the approved dividends was paid in two installments, in the amount of R$ 1,363 each, in May and June 2015. The remaining amount, R$ 69,096, is expected to be paid, in accordance with the Board recommendation, in two equally divided installments, in

2016 and 2017. Management's proposal for the 2015 profit destination is to pay dividend in the amount of R$ 65,453 in December 2016.

e. Retained earnings

Legal reserve

Created at the rate of 5% on profit for the year, limited to 20% of share capital, as shown below:

	R$	
	31/12/2015	**31/12/2014**
Profit for the year (*)	173,804	183,276
	5%	5%
Legal reserve (*)	8,690	9,164

(*) The reserve is calculated based on Três Corações Alimentos S.A. *per solo* profit above, which is different from the consolidated one due to the elimination of un-realized profit in intercompany transactions, in the amount of R$ 1,785 in 2015. In 2014, the amount of un-realized profit in intercompany transaction eliminated was R$ 1,163.

This reserve can only be used for capital increases or absorption of losses.

Tax incentives reserve

Until 31 December 2007, all amounts of tax incentives were recognized in capital reserve, and starting 1 January 2008, due to changes implemented by Law 11,638/07, were recognized in profit or loss, and then designated to the tax incentives reserve. During the year ended 31 December 2015, the Company received government grants in the amount of R$ 42,816 (R$ 40,321 in the year ended 31 December 2014). The tax incentive reserve cannot be distributed as dividends. If the Company distributes it in the future, the amounts have the following treatment depending on the incentive:

- Federal incentives - the amount of income taxes not paid and distributed as dividends, must be paid as back taxes, as if there was no incentive;
- Other incentives - the amount distributed must be added back to the taxable income used for calculating income tax and social contribution, under a combined rate of up to 34% in the period of the distribution, and will be also subject to PIS and COFINS taxes (currently 9.25%) on the distributed amount.

These government incentives are as follows:

PROVIN - Ceará State

The Government of the State of Ceará, in accordance with the state public policies geared towards promoting the industrial development of Ceará, decided to provide financial assistance for the investments necessary for installation of the industrial unit in the city of Eusébio - CE. The incentive consists of the postponement of payment of the ICMS state VAT tax and the deduction of 56.25% of total sales of vacuum line. The incentive is valid until July 2018. In order to maintain the incentive, the Company committed to: (a) finalize appropriately the investment project; (b) utilize the incentives exclusively for the project; (c) have no overdue tax and labor obligations; (c) keep the headquarters in the State of Ceará and have no changes in the Company's ownership involving third parties for the duration of the incentive contract, currently until July of 2018.

PROADI - Rio Grande do Norte State

The government of the State of Rio Grande do Norte, in the interest of the development of this State, decided to grant financial assistance to the investments necessary for the 3Corações industrial units in the cities of Natal and Mossoró. The benefit consists of the postponement of payment of the tax and the subsequent deduction of up to 75% of ICMS state VAT payable. In order to maintain the incentive, the Company committed to have no overdue tax and labor obligations and keep the plant related to the project in the State of Rio Grande do Norte.

The incentives are valid at least until September 2020 (the Mossoró unit) and March 2023 (the Natal unit).

Other

The Group has received certain tax incentives and special tax regimes also in other Brazilian states.

Federal incentive - "Re-investment"

The Group is allowed to allocate part of its income tax payable to capital investments. The projects associated with these investments are submitted to the authorities' approval.

The allocated amount is recognized in profit or loss at the moment of the Group's decision to proceed, since there is reasonable assurance the grant will be approved.

Federal incentive - "Exploration profit"

The Group benefits from the income tax exemption of 75% of the operating income derived from its main activities at the units of Eusébio (State of Ceará), Natal and Mossoró (State of Rio Grande do Norte).

According to the rules for income tax government grants, until 2007 the amount, for local purposes, was charged directly to capital reserve - investment subsidy. Starting 2008, due to the effects of Law 11,638/07, the amount is charged to profit or loss, and then set aside from profit for the year to retained earnings - tax incentives.

Reserve for profit to be distributed

Management decided to create reserve for profit to be distributed, for the remaining profit after all destinations above.

23 Revenue

	R$	
	2015	**2014**
Gross revenue:		
Products - domestic	2,747,227	2,420,765
Products - foreign	240,329	335,880
Services	429	588
Other	194	740
Taxes on sales	(200,426)	(204,843)
Deductions	(247,630)	(200,631)
	2,540,123	2,352,499

24 Cost of sales by nature

	R$	
	2015	**2014**
According to source		
Cost of sales - domestic	(1,598,694)	(1,309,251)
Cost of sales - foreign	(201,871)	(328,980)
	(1,800,565)	(1,638,231)

	R$	
	2015	**2014**
According to components		
Materials consumed	(1,715,345)	(1,560,528)
Wages, salaries and related expenses	(38,557)	(35,151)
Depreciation and amortization	(10,284)	(9,391)
Services contracted	(10,837)	(10,675)
Maintenance	(6,048)	(5,843)
Other	(19,494)	(16,643)
	(1,800,565)	(1,638,231)

25 Selling and marketing expenses by nature

	R$	
	2015	**2014**
Wages, salaries and related expenses	(190,155)	(170,050)
Depreciation and amortization	(10,952)	(8,509)
Transport expenses	(83,083)	(78,823)
Export expenses	(5,444)	(9,591)
Services contracted	(33,586)	(26,451)
Marketing	(86,679)	(112,812)
Travel expenses	(8,697)	(8,307)
Other	(19,217)	(16,844)
	(437,813)	(431,387)

26 General and administrative expenses by nature

	R$	
	2015	**2014**
Wages, salaries and related expenses	(37,036)	(30,334)
Tax expenses	(5,083)	(4,763)
Depreciation and amortization	(4,726)	(3,433)
Services contracted	(18,198)	(14,108)
Provision for legal proceedings	(3,880)	(2,217)
Travel expenses	(3,242)	(2,903)
Other	(9,962)	(9,283)
	(82,127)	(67,041)

27 Finance expenses, net

	R$	
	2015	**2014 (Reclassified)**
Finance expenses		
Interest expenses	(1,330)	(916)
Interest on loans and borrowings	(19,973)	(14,289)
Exchange rate effect	(16,356)	(3,847)
Other	(3,237)	(3,630)
	(40,896)	(22,682)
Finance income		
Interest income	3,666	2,887
Interest from deposits	4,654	4,237
	8,320	7,124
	(32,576)	(15,558)

28 Financial instruments and risk management

Financial instruments by category

	R$	
	31/12/2015	**31/12/2014**
Financial assets		
Financial instruments at fair value through profit or loss		
Short term deposits - Deposits in banks (Note 6)	92,405	51,200
Deposits with brokers (Note 7)	3,478	4,529
Loans and receivables		
Cash and cash equivalents (Note 6)	67,591	36,575
Trade receivables with third parties (Note 8)	303,225	286,853
Trade receivables with related parties (Note 8)	1,427	660
Other	31,429	29,402
Financial liabilities		
Financial liabilities measured at amortized cost		
Trade payables (Note 16)	101,180	78,991
Loans and borrowings (Note 15)	378,789	362,854
Other	156,718	96,112

Risk management

The Group is exposed to the following risks as a result of using financial instruments:

- Credit risk
- Commodity price risk
- Interest rate risk

- Foreign currency risk
- Liquidity risk
- Capital structure risk.

This note provides information regarding the exposure of the Group to these risks and regarding the policy of the Group for management of such risks.

In the sensitivity analyses, the Group used the following models:

Options - Black & Scholes model, standard deviation and quotations of relevant underlying assets.

Forward transactions sensitivity analyses are determined according to the changes in the price of the relevant underlying asset and interest differences deriving from interest rates and storage costs (for green coffee).

a. Credit risk

Credit risk is the risk of the Group incurring a monetary loss if a customer or counterparty does not meet its contractual obligations, and it derives mainly from debit balances of customers. In order to mitigate this risk, the Group assesses the financial situation of its customers or counterparties, as well as defines credit limits and monitors outstanding debts.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	R$	
	31/12/2015	**31/12/2014**
Cash and cash equivalents (Note 6)	159,996	87,775
Deposits with brokers (Note 7)	3,478	4,529
Trade receivables (Note 8)	304,652	287,513
Other receivables	3,814	3,586
Other	18,176	16,995
	490,116	400,398

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated. The biggest customer represents 5.67% of 2015 gross revenue (4.80% in 2014).

In addition, provision for doubtful debt accounts amounts to R$ 5,901 as of 31 December 2015 (R$ 3,958 as of 31 December 2014), which represents 1.90% (1.36% as of 31 December 2014) of total trade receivables balance, to properly reflect the existing credit risk. Management understands the increase in provision for doubtful debt percentage is a consequence of the economic crisis in Brazil.

b. Commodity price risk

The prices of raw materials used in manufacture (primarily green coffee) of the Group's products are affected, among other things, by uncontrollable factors, such as weather conditions.

Green coffee export business

For its green coffee export activity, the Group covers it fixed future sales agreements by both physical inventory, fixed future purchase agreements and uses financial derivatives to a limited extent. Below is a table with the quantities of bags (60 kg each) which the Group was committed to purchase or sell in the future, as of 31 December 2015 and 2014:

	31/12/2015	**31/12/2014**
Purchase agreements:		
Fixed price	52,800	216,649
Sales agreements:		
Fixed price	101,960	243,560
Price to be fixed	1,920	47,313

Green coffee for the industry (internal market)

For its internal market production the Group principally seeks to manage its industry green coffee price exposure by managing its physical inventory of green coffee, its green coffee future purchases and only uses financial derivatives to a limited extent. When green coffee prices are attractive, the Group typically increases its coverage in advance of any expected price increases. Similarly, when green coffee prices are deemed high, the Group decreases its coverage of green coffee in anticipation of lower prices in the future. The Group coverage can normally range from as low as 2 months to up to 6 months.

Commodity financial derivatives - both green coffee export business and internal market

In prior years, the Group had engaged in future contracts and option contracts for the purchase and sale of commodities.

As of 31 December 2015 and 2014, there were no open derivatives positions and no sensitivity analysis was required. Management has focused its hedging for green coffee prices variations in purchase and sales agreements, presented above.

c. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group does not use derivative financial instrument in order to reduce exposure to risks arising from changes in interest rates.

At the reporting date the interest rate profile of the Group's interest bearing financial instrument was:

	Carrying amount	
	31/12/2015	**31/12/2014**
	R$	
Fixed rate instruments		
Financial liabilities	(158,565)	(181,466)
Variable rate instruments		
Financial assets	95,883	55,729
Financial liabilities	(220,224)	(181,388)
Net exposure	(282,906)	(125,659)

Cash flow sensitivity analysis for variable rate instruments - CDI and TJLP
Changes in the interest rates as of the report date would increase (decrease) equity and the income or loss of the following period by the amounts presented below. This analysis was performed assuming that all the other variables remain the same.

	31 December 2015				
	Decrease of 2%	**Decrease of 1%**	**Annual weighted interest**	**Increase of 1%**	**Increase of 2%**
	R$				
Total	2,487	1,243	(6,958)	(1,243)	(2,487)

	31 December 2014				
	Decrease of 2%	**Decrease of 1%**	**Annual weighted interest**	**Increase of 1%**	**Increase of 2%**
	R$				
Total	2,513	1,257	(2,906)	(1,257)	(2,513)

Fair value sensitivity analysis for fixed rate instruments
Fixed interest assets and liabilities of the Group (such as deposits and loans) are not measured at fair value through profit or loss. Therefore, any change in the interest rate as of the report date would not have an effect on the statement of income.

Inflation rate
Brazilian inflation was 10.67% for the year ended 31 December 2015 as measured by the IPCA consumer price index of the independent Fundação Getúlio Vargas, however Brazilian economy is still not considered as hyperinflationary according to IAS 29 - financial reporting on hyperinflationary economies. Management is aware of the high inflation rate impact in the Group´s financial statements.

d. Foreign currency risk

Exposure to currency risk
The Group's exposure to foreign currency risk was as follows:

	Exposure to US$	
	R$	
	31/12/2015	31/12/2014
Financial liabilities		
Short term loans and credit	(17,740)	(40,135)
Long term loans and credit	-	(11,953)
Total exposure	(17,740)	(52,088)

Sensitivity analysis to currency risk
Any change in the exchange rates of the principal currency, Brazilian Reals, versus foreign exchange rate currencies, mainly United States Dollars, as of 31 December would have increased (decreased) equity and the income or loss by the amounts presented below. This analysis was performed assuming that all the other variables remain the same and disregards use of hedging instruments and tax effects.

The sensitivity analysis relates to foreign currency risk arising from financial items denominated in foreign currency that is not the functional currency of the Group and its investee companies. Therefore, the foreign currency risk arising from the translation of financial statements of foreign operations, which is reflected in a translation reserve, is not included in this sensitivity analysis.

	31 December 2015				
	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
			R$		
Functional currency BRL/USD exchange rate	3,5143	3,7096	3,9048	4,1000	4,2953
Effect in R$ Thousand	1,774	887	(17,740)	(887)	(1,774)

	31 December 2014				
	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
			R$		
Functional currency BRL/USD exchange rate	2,3906	2,5234	2,6562	2,7890	2,9218
Effect in R$ Thousand	5,209	2,604	(52,088)	(2,604)	(5,209)

The Group uses derivative financial instruments in order to reduce exposure to risks arising from changes in foreign currency exchange rates. As of 31 December 2015, the derivative financial instruments of the Group were as follows:

	Currency receivable	**Currency payable**	**Expiration/ Maturity/ sale**	**Face value R$**
Forward currency contracts	US$	R$	Feb/2016	17,010

Presented hereunder is a sensitivity analysis of the Group's derivative instruments (foreign currency) as of 31 December 2015 and 31 December 2014 in R$. Any change in the exchange rates of the principal currency, Brazilian Reals, versus foreign exchange rate currencies, mainly United States Dollars, as of 31 December, would have increased (decreased) the income or loss and the equity by the amounts presented below (in R$). This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

	31 December 2015				
	Decrease of 10%	**Decrease of 5%**	**Exchange rate carrying amount**	**Increase of 5%**	**Increase of 10%**
			R$		
Functional currency BRL/USD exchange rate	3,5143	3,7096	3,9048	4,1000	4,2953
Effect of forwards	(1,660)	(830)	110	830	1,660

	31 December 2014				
	Decrease of 10%	**Decrease of 5%**	**Exchange rate carrying amount**	**Increase of 5%**	**Increase of 10%**
			R$		
Functional currency BRL/USD exchange rate	2,3906	2,5234	2,6562	2,7890	2,9218
Effect of forwards	(2,694)	(1,347)	386	1,347	2,694

e. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The following are the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements. This analysis is based on indices known as of 31 December, such as foreign exchange rates and interest rates.

	31 December 2015							
	Carrying amount	**Contractual cash flow**	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
	R$							
Non-derivative financial liabilities:								
BRL long term loan	145,519	173,731	-	37,506	119,694	4,820	4,330	7,381
BRL credit from bank	70,168	73,206	73,206	-	-	-	-	-
USD long term loan	39,048	40,278	-	40,278	-	-	-	-
USD credit from bank	124,054	125,007	125,007	-	-	-	-	-
Trade payables	101,180	101,180	101,180	-	-	-	-	-
Other payables	62,650	62,650	62,650	-	-	-	-	-
Total	542,713	576,146	362,137	77,784	119,694	4,820	4,330	7,381

	31 December 2014							
	Carrying amount	**Contractual cash flow**	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
	R$							
Non-derivative financial liabilities:								
BRL long term loan	43,305	57,375	-	23,555	12,311	6,195	4,165	11,149
BRL credit from bank	94,208	100,754	100,754	-	-	-	-	-
USD long term loan	38,515	40,692	-	14,097	26,192	403	-	-
USD credit from bank	186,826	191,970	191,970	-	-	-	-	-
Trade payables	78,991	78,991	78,991	-	-	-	-	-
Other payables	66,902	66,902	66,902	-	-	-	-	-
Total	508,747	536,684	438,617	37,652	38,503	6,598	4,165	11,149

f. Capital structure management

Management policy is to maintain a solid capital base in order to maintain investors´ and market trust, as well as to maintain the future development of the business. Management monitors returns on capital, which the Group defines as the relation between operational profit and total equity. Management monitors as well the dividend amounts distributed to the shareholders.

Management seeks to maintain a balanced level of returns to the shareholders with low risk level of net debt and a healthy capital structure.

The Group's equity and working capital versus net debt at the end of each year are presented below:

	R$	
	31/12/2015	**31/12/2014 (Reclassified)**
Debt (Note 15)	378,789	362,854
Less: cash and cash equivalent (Note 6)	(159,996)	(87,775)
Net debt	218,793	275,079
Total equity	532,372	465,457
Equity/net debt ratio as of 31 December	2.43	1.69
Trade receivables (Note 8)	304,652	287,513
Inventories (Note 9)	277,283	236,803
Trade payables (Note 16)	(101,180)	(78,991)
Total working capital	480,755	445,325
Working capital/net debt ratio as of 31 December	2.20	1.62

Fair Value

As of 31 December 2015 and of 2014, the fair value of financial instruments, as well as the carrying amounts presented in the financial statements are identified below:

	R$			
	Carrying amount 31/12/2015	**Fair value 31/12/2015**	**Carrying amount 31/12/2014**	**Fair value 31/12/2014**
Financial assets				
Short term deposits - Deposits in banks (Note 6)	92,405	92,405	51,200	51,200
Deposits with brokers (Note 7)	3,478	3,478	4,529	4,529
Cash and cash equivalents (Note 6)	67,591	67,591	36,575	36,575
Trade receivables with third parties (Note 8)	303,225	303,225	286,853	286,853
Trade receivables with related parties (Note 8)	1,427	1,427	660	660
Other	31,429	31,429	29,402	29,402
Financial liabilities				
Trade payables (Note 16)	101,180	101,180	78,991	78,991
Loans and borrowings (Note 15)	378,789	358,387	362,854	358,571
Other	156,718	156,718	96,112	96,112

The fair value of financial assets and liabilities is determined by reference to price at which they could be exchanged in a current transaction between parties willing to negotiate, and not in a forced sale or liquidation. The following methods and assumptions were used to estimate the fair value:

- Regarding derivative balances, the Group used the fair value reported in the brokers' statements, which is identified in the Fair value hierarchy as the Level 2 of source of information.

- The amounts of deposits presented in the financial statements as cash and cash equivalents are close to its realizable value because the operations are performed at variable interest rate and are immediately convertible to a determined amount of cash.

- The fair value of non-negotiable instruments, bank loans and other debts, as well as other non-current financial liabilities, are estimated using discounted future cash flows at the rates currently available for similar instruments.

Fair value hierarchy

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

- **Level 1:** quoted prices in an active market for identical assets and liabilities;

- **Level 2:** other techniques for which all of the data having a significant effect on the fair value recorded are observable, directly or indirectly;

- The fair value of assets and liabilities that are not quoted in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is considered as valued from Level 3 source of information.

  Specific valuation techniques that might be used to value financial instruments in general include:

(i) Quoted market prices or dealer quotes for similar instruments;

(ii) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

(iii) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

- **Level 3:** inputs for valuing a financial instrument that are not based on observable market data (that is, unobservable inputs). As of 31 December 2015 and 2014, the Group had no financial instruments classified at Level 3.

29 Subsequent event

On 19 January 2016, the Company has obtained favorable outcome in the Board of Tax Appeals (CARF), first administrative instance, on the Goodwill amortization tax claim mentioned in Note 20.

The Government may still contest the outcome at higher instances.

30 Insurance

The Group hires insurance coverage for assets exposed to risks. The Management believes the coverage is in an amount sufficient to cover eventual losses, considering the nature of the Group's activities.

On 31 December 2015, insurance coverage against operational risk comprised R$ 89,414 (R$ 83,776 on 31 December 2014) for material damage, R$ 131,172 (R$ 120,078 on 31 December 2014) for lost profits, R$ 3,500 (R$ 3,500 on 31 December 2014) for civil responsibility and R$ 15,000 (R$ 15,000 on 31 December 2014) for directors and members of the executive team civil responsibility.